

ANNUAL REPORT 2019

OCTIUM



Octium Life offers agile life insurance products that are in sync with each client's complex needs, ensuring superior wealth planning and protection for individuals and their families.

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2019 HIGHLIGHTS AT A GLANCE

4

Hosted 4 events in Milan, Lugano, London and Crans Montana



209%

209% Solvency Capital Ratio as at 31.12.2019

€4.2bn

We have assets under management of approx. €4.2 billion with policy holders all over the world

15/20

Average of over 20 years experience in Financial Services for Management team. Average experience of over 15 years in Financial Services for all staff

2

2 offices for Octium Group in Dublin and Luxembourg

4

Active Markets

- Italy
- UK
- Turkey
- Spain



CHAIRMAN'S STATEMENT

Growth with Prudence and Responsibility



Jean-François Willems, Chairman

It is with pleasure that we present the third Annual Report of Octium Life DAC. Having moved through the initial transition stage, our focus is now firmly on business development which is manifesting itself in the number of relationships that have been established in the last year. It is evident that there is a demand for an alternative provider, given the ongoing levels of consolidation or closure of Insurance carriers, based in a jurisdiction that is favourable to the wealth management requirements of our target market in the High Net Worth area.

There are a number of factors which are key to attracting new business. Financial security is of paramount importance and Octium continues to maintain a high solvency ratio in parallel with commercial consideration for the pricing of our product in a very competitive manner. We continue to offer our policyholders a wide variety of investment options in order to maximise their performance potential. Octium has traditionally enjoyed a strong reputation for service and our new clients continue to experience the highest level of service regardless of the increased levels of business. Octium continues to be proactive to ensure that this high level of service is maintained.

While embarking on a growth strategy, Octium has been conscious of ensuring the level of control and stability that is critical

for a policyholder to rely on. With that in mind, there continues to be investment in various aspects of the business such as cyber security, regulatory compliance and capital protection. At the same time, when unplanned disruption takes place on a global scale, such as the Coronavirus, there are rigorous plans to mitigate against the inevitable external disturbance.

The past year has seen significant global events impacting the financial environment – Brexit, US/China trade wars, tensions in the Persian Gulf – and 2020 will be no different as we wait to see the outcome that the EU/UK trade discussions, US Presidency elections, climate change activism and health pandemics will have on the financial markets. In a time of considerable change, with constant challenge, Octium is able to provide a safe haven to its policyholders' wealth planning and protection requirements.

Jean-François Willems
Chairman

CHIEF EXECUTIVE'S REVIEW

Solid growth with affirmation of our market position and culture



Dara Hurley, Chief Executive

The financial results for 2019 show a slight increase in profitability compared to the prior year, while reflecting the continued investment in the company to strive for the highest levels of service to be reached for policyholder satisfaction. Octium is viewed as a favourable alternative to existing cross border Insurance carriers with its entrepreneurial approach and continually demonstrates that customer service is at the forefront of its operations.

Assets have increased slightly to €4.2 billion, reflecting the continued increase in new business and low level of lapse rates. Financial stability and security are of paramount importance not only to policyholders, but also to regulators and the Solvency Capital Ratio (SCR) has remained strong at 209% at the end of 2019. Notwithstanding the crowded marketplace into which Octium launched only three years ago, we have forged a number of very strong new relationships which now represent almost 10% of the total assets.

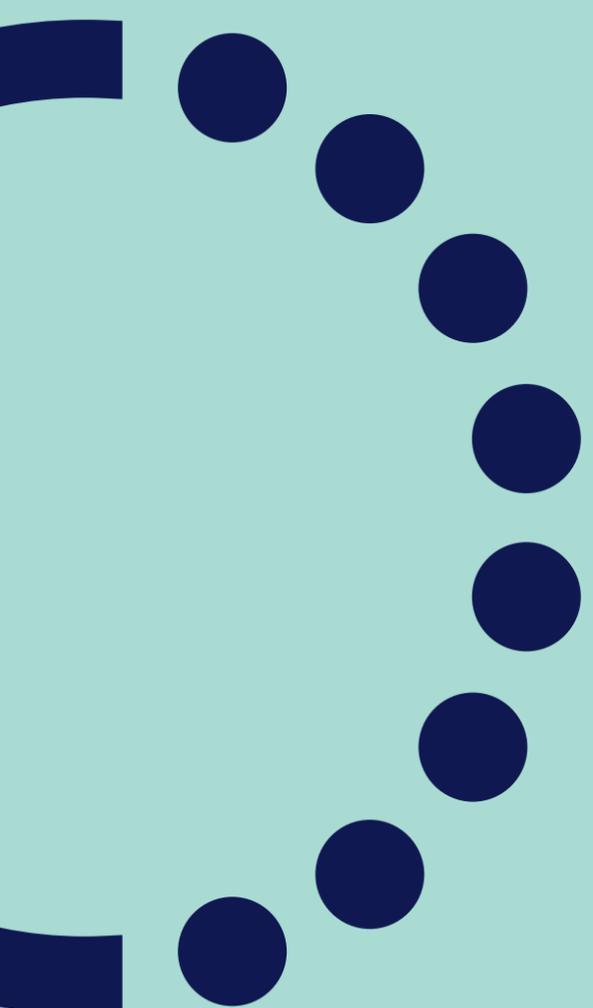
The Board had established a clear strategy to manage transition during the initial period of the Company and is now widening that strategy in order to establish itself as a leading provider in the future. It has incorporated a robust risk management framework in order to manage the risks associated with strategic development, such as growing concerns over continuous developments in cyber risks and once off events such as the Coronavirus.

In addition to the Company, Ireland as a jurisdiction provides political, economic and social stability as a recognised international finance centre. A modern legal and regulatory framework, in harmony with European directives, ensures policyholder assets are held in segregated accounts, while a favourable tax system is supportive of investment performance.

The Company has established a strong cultural tone with an emphasis on the principles of integrity and ethics. This culture permeates through the organisation and manifests itself in a natural environment of diversity, inclusivity and proactivity. The Company is aware of its corporate social responsibility and is focussing on ways in which it can influence sustainable growth with its counterparties with factors such as climate change in mind.

Finally, I would like to take the opportunity to thank all of my colleagues for their dedication in delivering the results for 2019 and to wish our policyholders, counterparties and shareholder every success for 2020.

Dara Hurley
Chief Executive



Directors' Report

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Independent Auditor's Report

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Financial Statements

Directors

Ciarán McGettrick, Independent Non-Executive Director
Dara Hurley, CEO and Executive Director
Jean-François Willems, Non-Executive Director (Belgian)
Seamus Hughes, Independent Non-Executive Director
Massimoluca Mattioli, Non-Executive Director (Italian)

Secretary

Ruth Quinn

Registered Office

1st Floor College Park House
South Frederick Street
Dublin 2

Auditors

Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

Solicitors

A&L Goodbody
North Wall Quay
Dublin 1

Bankers

UBS Switzerland AG, Zurich, Switzerland
UBS Europe SE, Succursale Italia, Milan, Italy
Bank of Ireland, St. Stephen's Green, Dublin 2
Allied Irish Banks, Bankcentre, Ballsbridge, Dublin 4

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The directors present their report and the audited financial statements of Octium Life DAC (the "Company" or "Octium") for the financial year ended 31 December 2019.

Principal Activity

The principal activity of the Company, which is a wholly owned subsidiary undertaking of Octium Holding Limited, is the transaction of cross-border life assurance business.

Results and Dividends

The result for the financial year ended 31 December 2019 is set out on page 18 of the financial statements. A dividend of €4.7m was declared and paid during the financial year (2018: €6.9m).

Corporate Governance

The Company is committed to high standards of corporate governance and is subject to The Corporate Governance Requirements for Insurance Undertakings 2015 ("the Code"), as issued by the Central Bank of Ireland. As Octium is not designated High Impact, it is not required to comply with the additional requirements of the Code.

The following Board-appointed Committees are established to assist it in discharging its obligations and operated throughout the year under review. Each Committee operates under defined terms of reference and reports to the Board at each Board meeting.

- Audit Committee
(Chairman: Seamus Hughes)
- Risk Committee
(Chairman: Ciarán McGettrick)

Review of the Business

The Company is authorised and regulated by the Central Bank of Ireland. On 20 February 2003, the Company received its Class III life assurance licence and commenced trading on 1 April 2003. The Company was granted a Class I licence in November 2005 for the purpose of writing new business in France, commencing in 2006. In addition, the Company also holds a Class VI licence in relation to capital redemption operations.

Key Performance Indicators

	2019 €'000	2018 €'000
Other technical income	16,404	17,644
Net operating expenses	9,753	9,543
Assets held to cover linked liabilities	4,233,604	4,116,062

Other technical income decreased year-on-year, primarily due to lower average asset values during 2019 compared to 2018.

Net operating expenses increased marginally during the financial year.

Assets held to cover linked liabilities have increased relative to the previous financial year-end. These increases occurred due to positive investment performance offset somewhat by net business outflows.

Profit before taxation for 2019 amounted to €7.8m (2018: €7.7m) which includes a valuation gain on the Italian substitute tax asset of €1.1m (2018: €0.4m loss).

Principal Risks and Uncertainties

The Company's risk management policy in relation to financial risks is outlined in note 18 of the financial statements.

The principal risks and uncertainties facing the business are: life insurance business risk, valuation risk, liquidity risk, market risk, reinsurance risk, operational risk and regulatory risk

Life insurance business risk

Mortality risk is largely mitigated by the use of reinsurance. To date, the Company's products typically offer a standard death benefit in addition to the policy value itself. The majority of these benefits are reinsured with Swiss Re Europe S.A. ("Swiss Re"), with the remaining portion borne by the Company.

Valuation risk

This is the risk of incorrect valuation of assets and liabilities. Policyholder liabilities are independently calculated by the Reporting Actuary. Asset valuations are verified through periodic price testing on a sample of securities.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Detailed investment and disinvestment policies and guidelines are in place and updated periodically. Projected cash flows incorporating obligations as a withholding tax agent and actuarial stress testing are part of the Own Risk and Solvency Assessment (ORSA) carried out by the Company. Continuous focus is given to the liquidity position of the Company through updated projections.

Market risk

Shareholders' funds are held in short-term cash deposits with institutions approved by the Board and have limited exposure to credit and interest rate risk. The Company's principal transactions are carried out in Euro and its exposure to foreign exchange risk arises primarily with respect to US Dollar, Swiss Franc and British Pound. Foreign currency balances are converted into Euro periodically to minimise this exposure.

The Company is exposed to market risk on unit-linked investments to the extent that adverse movements in the value of these assets would reduce the future profitability of the Company through a decline in policy administration fees.

Reinsurance risk

Octium ensures reinsurance arrangements are only affected with highly rated companies. Swiss Re is the chosen reinsurer which has a credit rating of A+ (2018: A+), as rated by A.M. Best as at 31 December 2019. Overall, the exposures and amounts involved are not material.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes. Octium has an Operational Risk Framework designed to identify and manage operational risk in the business.

Regulatory risk

Regulatory risk is the risk of financial loss due to regulatory fines or penalties, restriction or suspension of business, or costs of mandatory corrective action, incurred by not adhering to applicable laws, rules, regulations and accounting standards, local or international best practice (including ethical standards), and Octium's own internal standards and policies. Octium has a Risk Management Framework which is designed to identify and manage these risks.

Subsequent Events

The recent outbreak of Covid-19 has been declared a global pandemic by the World Health Organisation and is having a significant adverse impact on global economic activity and financial markets. The expected impact on Octium's business is uncertain and is likely to remain uncertain for a number of months.

The most immediate impact will be on the Company's profitability as a result of falling markets impacting fee revenue and a significant reduction of economic activity reducing new business levels, particularly in Octium's main market Italy. The extent of the impact will depend on how long the outbreak lasts and market developments. The impact on Octium's life insurance risk is not expected to be material due to the low levels of risk in the product design and the reinsurance programme put in place by the Company.

Octium's capital position remains strong and well within its targeted range. The Company is well capitalised to withstand severe but plausible events and similar stresses and scenarios are tested as part of the annual ORSA process.

The Company continues to closely monitor the situation to ensure it is well positioned to respond appropriately as required.

A dividend of €5m was declared on 24th March 2020. There were no other significant events affecting the Company since 31 December 2019.

Directors' and Company Secretary's Interests

The directors who served during the financial year were as follows (all directors served for the entire financial year unless otherwise noted on page 7):

Ciarán McGettrick
Dara Hurley
Jean-François Willems
Seamus Hughes
Massimoluca Mattioli

Company secretary:
Ruth Quinn

The directors and the company secretary did not have any disclosable interest in the shares of the Company, or any other group company, at the beginning of the financial period, or at the date of appointment to the Board if later, and end of the financial period or at any time during the financial period.

Political Donations

The Company did not make any political donations during 2019 (2018: €nil).

Own Shares

There were no shares of the Company held by the Company at any point during the financial year.

Accounting Records

The measures that the directors have taken to secure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014, with regard to the keeping of accounting records, include the provision of appropriate resources to maintain adequate accounting records, including the appointment of personnel with appropriate qualifications, experience and expertise.

The Company's accounting records are maintained at the Company's registered office at 1st Floor College Park House, South Frederick Street, Dublin 2.

Going Concern

The directors have reasonable expectations that Octium Life DAC has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements.

Auditors

The independent auditors Deloitte Ireland LLP, Chartered Accountants and statutory audit firm, have signified their willingness to continue in office in accordance with the provisions of Section 383(2) of the Companies Act 2014.

Statement on Relevant Audit Information

So far as the directors are aware, there is no relevant audit information of which the Company's statutory auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

On behalf of the directors



Seamus Hughes
Director



Dara Hurley
Director

24th March 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with the Companies Act 2014.

Irish company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts, issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in Ireland. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the end of the financial year, and the profit or loss of the company for the financial year, and otherwise comply with the Companies Act 2014.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and reasons for any material departure from those standards;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCTIUM LIFE DAC

Report on the Audit of the Financial Statements

Opinion on the financial statements of Octium Life DAC (the 'company')

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2019 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Income Statement
- the Statement of Financial Position
- the Statement of Changes in Equity
- the Statement of Cash Flows; and
- the related notes 1 to 25, including a summary of significant accounting policies as set out in note 1.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that the non-audit services prohibited by IAASA's Ethical Standard were not provided and that we remained independent of the company in conducting the audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Assets Held to Cover Linked Liabilities

Key audit matter description



Assets are held by the company to match the Technical Provisions for Linked Liabilities and therefore the valuation of these assets has been identified as a key audit matter. As a result, and given the significant portfolio held, a significant portion of audit effort was directed towards the audit of the investments balance.

Assets held to cover linked liabilities amounted to €4.2 billion as at 31 December 2019.

Refer to the accounting policy on page 22 and the disclosure in notes 10 and 19 of the financial statements.

How the scope of our audit responded to the key audit matter



We designed our audit procedures to address the key audit matter described above in relation to the valuation of the Assets Held to Cover Linked Liabilities. Procedures included the following:

We obtained an understanding of valuation and reconciliation process for investments and assessed the design and implementation of the relevant controls identified within.

We performed substantive procedures over the valuation of the assets by independently obtaining prices from pricing services and comparing to valuation included in the financial statements. Where independent prices were not available we obtained details of management's pricing and evaluated for sufficiency and appropriateness.

We considered if the company's valuation policy for investments is accordance with the relevant financial reporting framework and also tested the disclosures made in respect of the valuation of investments to ensure compliance with the requirements set out within.

Revenue recognition: Policy Administration Fees

Key audit matter description



ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The primary sources of revenue in the company is recurring policy administration fees, included within other technical income.

Policy Administration fees amounted to €16.7 million for the financial year ended 31 December 2019.

Refer to the accounting policy on page 24 and the disclosure in note 3 of the financial statements

How the scope of our audit responded to the key audit matter



The procedures performed to address the key audit matter of the revenue recognition of fee income included the following:

We obtained an understanding of the process over the calculation of the policy administration fee income and assessed the design and implementation of the relevant controls identified within.

We assessed the accounting policies regarding revenue recognition for compliance with the relevant financial reporting framework.

We re-calculated the fee income for a sample of policies using rates as set out in the product technical specifications or communications provided to the policyholder.

Italian Substitute Tax Asset	
<p>Key audit matter description</p> 	<p>The Italian substitute tax asset is a significant asset on the Balance Sheet of the company and its calculation involves management judgement given the use of a discount rate applied. The company is a withholding tax agent for substitute tax since 2012 whereby it recognises a prepaid tax asset on all contributions to the Italian tax authorities less the tax on gains due on policies surrendering or on death.</p> <p>Italian substitute tax asset amounted to €49.7 million for the financial year ended 31 December 2019.</p> <p>Refer to the accounting policy on page 23 and the disclosure in note 12 of the financial statements.</p>
<p>How the scope of our audit responded to the key audit matter</p> 	<p>The procedures performed to address the key audit matter of the Italian substitute tax asset included the following:</p> <p>We obtained an understanding of process undertaken to calculate the Italian substitute tax asset and assessed the design and implementation of the relevant controls identified within.</p> <p>We audited management's calculation by comparing to the prescribed calculation set out in the legislation, obtaining sufficient and appropriate audit evidence of calculation inputs and challenging the assumptions used including the discount rate.</p> <p>We assessed the appropriateness of the accounting policy considering the requirements set out in the relevant financial reporting framework.</p>

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be €2,400,000, which is approximately 3% of Shareholder's funds. We consider shareholder's funds to be the critical component for calculating materiality as it is placed under scrutiny by local regulators and is therefore a key financial metric regularly assessed by Management and Shareholders. We have considered quantitative and qualitative factors such as the size of the company's recurring policy administration fees which is its principal revenue source, our understanding the company and its environment, history of misstatements, complexity of the company and reliability of control environment therein.

We agreed with the Audit Committee that we would report to them any audit differences in excess of €120,000 as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including the controls operating within the company, and assessing the risks of material misstatement related to the financial statements of the company. The risks of material misstatement that had the greatest effect on our audit are identified as key audit matters in the table above.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 is not a guarantee that an audit conducted in accordance with ISAs (Ireland) 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 these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, 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 accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the company (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may be reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Other matters

We were appointed by the Board of Directors on 8 May 2017 to audit the financial statements for the financial year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ended 31 December 2019.

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISA (Ireland) 260.



Matthew Foley

For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, 29 Earlsfort Terrace, Dublin 2
6th April 2020

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Financial Statements

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

Technical account – Life assurance business

	Notes	2019 €'000	2018 €'000
Investment return	2	317,283	(257,079)
Other technical income, net of reinsurance	3	16,404	17,644
Other income	12	1,133	(379)
Total Technical Income		334,820	(238,814)
Change in other technical provisions, net of reinsurance			
Technical provisions for linked liabilities	14	317,283	(257,079)
Net operating expenses	4	9,753	9,543
Balance on the technical account – life assurance business		7,784	7,722

Non-Technical account

		€'000	€'000
Balance on the technical account – life assurance business		7,784	7,722
Investment expense	5	(15)	(52)
Profit on ordinary activities before taxation	6	7,769	7,670
Taxation on profit on ordinary activities	9	(856)	(1,026)
Profit for the financial year after taxation		6,913	6,644

There are no recognised gains or losses for 2019 or 2018 other than the profit for the financial year after taxation shown above.

All of the amounts above are in respect of continuing operations.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

There are no components of other comprehensive income recognised as a part of total comprehensive income outside the income statement.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

Assets

	Notes	2019 €'000	2018 €'000
Assets held to cover linked liabilities	10	4,233,604	4,116,062
Debtors			
Debtors arising out of direct insurance		17	120
Operations – policyholders			
Other debtors and receivables		222	236
Other assets			
Tangible assets	11	421	502
Italian stamp duty tax asset		1,487	2,644
Italian substitute tax asset	12	49,727	55,130
Cash at bank and in hand		33,741	25,266
Other financial investments		6	5
Total assets		4,319,225	4,199,965

Liabilities

Capital and reserves			
Called up share capital	13	1,000	1,000
Capital contribution		5,000	5,000
Retained earnings		77,360	75,146
Total capital and reserves		83,360	81,146
Technical provisions for linked liabilities			
Technical provisions for life assurance policies where the investment risk is borne by the policyholders	14	4,233,604	4,116,062
Creditors			
Other creditors including taxation and social security	15	129	376
Accruals and deferred income			
Accruals		2,132	2,382
Total liabilities		4,319,225	4,199,965

Approved by the Board of Directors on 24th March 2020 and signed on its behalf by:



Seamus Hughes
Directors



Dara Hurley

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2019

	Share Capital €'000	Capital Contribution €'000	Retained Earnings €'000	Total Equity €'000
At 1 January 2018	1,000	5,000	75,403	81,403
Profit for the financial year	-	-	6,644	6,644
Dividends paid			(6,900)	(6,900)
At 31 December 2018	1,000	5,000	75,146	81,146
Profit for the financial year	-	-	6,913	6,913
Dividends paid	-	-	(4,700)	(4,700)
At 31 December 2019	1,000	5,000	77,360	83,360

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 €'000	2018 €'000
Profit for the year before taxation	7,769	7,670
Adjustments to reconcile profit for the year to net cash flow from operating activities:		
Depreciation of tangible assets	94	89
Italian tax asset discounting	(1,133)	379
Decrease in debtors	118	209
Increase / (Decrease) in creditors	(504)	136
Payments net of recoveries of stamp duty	1,157	(1,132)
Payments net of recoveries of substitute tax	6,536	(6,850)
Fair value gains and losses	(1)	-
<i>Taxation</i>		
Corporation tax paid	(848)	(1,000)
Net cash generated from operating activities	13,188	(499)
<i>Investing activities</i>		
Purchase of tangible assets	(13)	(19)
Purchase of financial investments	-	(5)
Net Cash from investing activities	(13)	(24)
<i>Financing activities</i>		
Payment of dividends	(4,700)	(6,900)
Net Cash from financing activities	(4,700)	(6,900)
Net increase / (decrease) in cash and cash equivalents	8,475	(7,423)
Cash and cash equivalents at the beginning of the year	25,266	32,689
Cash and cash equivalents at the end of the year	33,741	25,266

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2019

1. Accounting Policies

Statement of compliance

Octium Life DAC is a limited liability company incorporated in the Republic of Ireland. The Registered Office is 1st Floor, College Park House, South Frederick Street, Dublin 2.

The Company's financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', FRS 103 Insurance Contracts, issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in Ireland, the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

Basis of preparation

The financial statements are prepared under FRS 102.

The financial statements are prepared in Euro which is the presentational and functional currency of the Company and rounded to the nearest €'000.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the financial year. However, the nature of estimation means that actual outcomes could differ from those estimates. The areas that involve judgements and estimations and that have had the most significant effect on amounts recognised in the financial statements are described in the Investments section below.

Investments

Product Classification

Contracts under which the Company accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder are classified as insurance contracts in accordance with FRS 103 Insurance Contracts.

Insurance risk is significant if, and only if, an insured event could cause the Company to pay significant additional benefits in any scenario. The Company assesses the significance of insurance risk contract by contract. Contracts that qualify as insurance contracts remain insurance contracts until all risks and obligations are extinguished or expired.

Where risk is primarily borne by the policyholder, the contract is deemed to be an investment contract. The majority of contracts issued by the Company are deemed to fall into this category, where the insurance risk remaining with the Company is limited to a small percentage of the value of the units allocated to the policy. When a contract is deemed to contain an investment component and an insurance component Octium's accounting policy is to unbundle the components into the different elements.

In December 2018 the Company launched a new product feature which offers the option of a level of premium protection in the event of death. Because of the potential for significant insurance risk, these contracts are accounted for as insurance contracts when the option is selected.

Valuation of investments and assets held to cover linked liabilities

Investments are valued at the balance sheet date as follows:

- Listed securities are valued at the bid market price;
- Unit trust units are valued at bid price;
- Short term deposits are valued at cost, exclusive of accrued interest.

Derivative financial instruments are valued at market rates ruling at the balance sheet date and the gain or loss on these contracts is recorded in the technical account.

Assets held to cover linked liabilities are held at fair value to back the underlying liabilities to which these relate. See note 19 for details of the policy for classification of investments into the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2019

1. Accounting Policies (continued)

Initial recognition and measurement of financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs.

Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Derecognition of financial assets and financial liabilities

A financial asset or financial liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Technical provision for linked liabilities

Linked liabilities are established by reference to the value of the underlying assets which are held to meet those liabilities.

Unit-linked contracts that are investment contracts (i.e. do not involve the transfer of significant insurance risk) are accounted for by using the 'deposit accounting' basis.

Italian substitute tax asset

Payments to the Italian Revenue as a result of the Company becoming a withholding tax agent for substitute tax are recognised as a prepaid tax asset. All Italian substitute tax on gains due on policies surrendering, or on death from 2016, is charged against the asset. The recoverable amount of this asset is reviewed each year by the Board of Directors and is discounted to reflect a value in use valuation.

The Italian substitute tax asset was initially recognised on 13 November 2012.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash.

Investment return and investment income and expenses

Investment return included in the life assurance business technical account relates to life assurance business and includes dividends, interest, gains and losses on the realisation of investments, unrealised gains and losses and related expenses.

Dividends are included as investment income on the date that the dividend is received. Interest is included on an accruals basis.

Other investment income and expenses are included in the non-technical account.

Other technical income

Other technical income includes recurring policy administration fees, net of reinsurance and retrocession fees, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured, regardless of when the payment is being made. Fees receivable from policyholders on unit-linked investment contracts are recognised as 'Other technical income' in the Technical account - life assurance business and represent the turnover of the Company.

Foreign currencies

Transactions denominated in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling on the balance sheet date.

Non-monetary items denominated in a foreign currency, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Current tax

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

1. Accounting Policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits in the future against which the asset can be offset.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment.

Depreciation is provided on a straight-line basis to write off the cost of the assets over their expected useful lives as follows:

Fixtures and fittings:	10 years or premises lease term if shorter
Computer equipment:	5 years

2. Investment return

	2019 €'000	2018 €'000
Investment performance of assets held to cover linked liabilities	295,442	(255,833)
Foreign currency (loss) on revaluation of assets held to cover linked liabilities from the currency in which the liability arises to Euro	21,841	(1,246)
Total investment return	317,283	(257,079)

3. Other technical income, net of reinsurance

	2019 €'000	2018 €'000
Recurring policy administration fees	16,688	17,533
Retrocessions received	1	326
Reinsurance fees (net of claims)	(285)	(215)
Total other technical income, net of reinsurance	16,404	17,644

4. Net operating expenses

	2019 €'000	2018 €'000
Acquisition and administration costs	7,272	6,542
Death claims paid	124	293
Commissions	2,357	2,709
Total net operating expenses	9,753	9,543

5. Non-technical account – investment income / (expense)

	2019 €'000	2018 €'000
Bank deposit interest	(15)	(52)
Total investment expense	(15)	(52)

6. Profit on ordinary activities before taxation

The profit before taxation is stated after charging:

	2019 €'000	2018 €'000
Auditor's remuneration (including irrecoverable VAT; see note 8)	67	92
Depreciation of tangible assets	94	89

7. Employees and remuneration

The Company had an average of 26 employees during the year (2018: 25).

(a) Staff costs (including directors' remuneration)

	2019 €'000	2018 €'000
Salaries and bonus	2,390	2,201
Social welfare costs	247	224
Other pension costs	263	172
Employee insurances	116	105
Other personnel costs	17	22
Total	3,033	2,724

(b) Directors' remuneration

	2019 €'000	2018 €'000
Aggregate emoluments in respect of qualifying services	546	621
Aggregate contributions to a retirement benefit scheme in respect of one directors' qualifying services – defined contributions schemes	95	25
Total	641	646

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Only the directors of the Company are considered to meet this definition.

8. Auditor's remuneration

The remuneration of the statutory auditor is analysed as follows (excluding VAT). No tax advisory or other non-audit services were provided:

	2019 €'000	2018 €'000
Audit of financial statements	70	77
Other assurance services	43	25
Total	113	102

9. Taxation

a) Taxation on profit on ordinary activities

	2019 €'000	2018 €'000
Current tax	856	1,026
Tax on profit on ordinary activities	856	1,026

b) Factors affecting current tax charge for the year

	2019 €'000	2018 €'000
Profit on ordinary activities before tax	7,769	7,670
Current tax charge at standard Irish corporation tax rate of 12.5% (2018 – 12.5%)	971	959
Effects of:		
Depreciation for the year in excess of capital allowances	4	4
Income tax payable on health insurance	11	11
Italian substitute tax asset discount	(142)	47
Items not deductible for tax purposes	12	11
Prior year tax	-	(5)
	856	1,026

10. Assets held to cover linked liabilities

	2019 €'000	2018 €'000
Investments designated at fair value through profit or loss		
Investment funds	3,389,931	3,376,577
Equities	143,826	129,983
Fixed income securities	377,867	364,172
Deposits, cash and cash equivalents and others	218,110	177,258
Structured products	103,708	67,962
Derivatives	164	111
	4,233,604	4,116,062

11. Tangible assets

	Computer Equipment €000	Fixtures and Fittings €000	Total €000
Cost:			
At 1 January 2019	196	497	693
Additions	13	-	13
Disposals	-	-	-
As at 31 December 2019	209	497	706
Depreciation and impairment:			
At 1 January 2019	56	136	192
Depreciation	41	53	94
As at 31 December 2019	97	189	286
Carrying amount at 1 January 2019	140	361	501
Carrying amount at 31 December 2019	112	309	421

12. Italian substitute tax asset

	2019 €'000	2018 €'000
Italian substitute tax asset at beginning of the year	55,130	62,720
Recovery through exit taxes	(6,536)	(7,212)
Change in asset discounting	1,133	(379)
Payable in respect of current year	-	-
	49,727	55,130

The key factors which determine the amount of asset discounting are the face value of the asset, the expected timing of the recoveries and the discount rate applied. The decrease in the discount during 2019 was due to a decrease in the expected recovery period mainly due to positive investment performance as well as a decrease in the discount rate. The increase in the discount in 2018 was due to an increase in the expected recovery period mainly due to negative investment performance.

The Company is not required to make a payment in respect of 2019 due to a cap on the overall level of the asset and an offset relating to the payment made 5-years prior.

13. Called up share capital

	2019 €'000	2018 €'000
Authorised, allotted and fully paid: 1,000,000 ordinary shares of €1 each	1,000	1,000

14. Technical provisions for linked liabilities

The technical provisions in respect of linked business are equal to the value of the assets to which the contracts are linked.

	2019 €'000	2018 €'000
At 1 January	4,116,062	4,500,622
Deposits received from policyholders	146,652	240,750
Payments made to policyholders	(329,672)	(350,720)
Fees deducted in respect of management services	(16,721)	(17,510)
Investment return	317,283	(257,079)
At 31 December	4,233,604	4,116,062

The fair value hierarchy of the technical provisions for linked liabilities follows those for the unit linked assets as disclosed in note 19.

15. Other creditors including taxation and social security

	2019 €'000	2018 €'000
Commissions payable	10	157
Corporation tax	33	26
Other	86	193
	129	376

16. Related party transactions

The Company is a wholly owned subsidiary of Octium Holding Limited. Its ultimate parent undertaking is Albany Settlements Limited, a company incorporated in the British Virgin Islands. During the financial year the Company received professional services from Octium Holding S.A, a related party, and incurred expenses of €141k of which €37k was outstanding at 31 December 2019. The Company also incurred expenses of €78k payable to Abbeyview Limited, a related party, for its share of group statutory and regulatory reporting expenses, of which €62k was outstanding at 31 December 2019. There were no other related party transactions during the financial year.

17. Capital management

The Company is regulated by the Central Bank of Ireland (CBI) which sets and monitors regulatory capital requirements in respect of the Company's operations.

The Company is required to hold sufficient capital to meet the Solvency Capital Requirement (SCR) calculated using the Solvency II standard formula. As at 31 December 2019 the Company held capital in excess of its requirement.

	2019 €'000	2018 €'000
Total shareholders' funds	83,360	81,146
Regulatory adjustments:		
Italian substitute tax asset valuation adjustment	-	1,133
Deferred tax liability	(3,998)	(3,836)
Technical Provisions	32,478	29,187
Foreseeable dividends	(5,000)	(4,700)
Reinsurance recoverables	(489)	(382)
Total available capital resources (Solvency II Standard Formula)	106,350	102,548
Solvency Capital Requirement	50,770	47,225
Overall surplus capital over regulatory requirements	55,580	55,323
Ratio of own funds to SCR	209%	217%

The Company's policy is to manage the capital base so as to meet all legal and regulatory requirements relating to the level and type of capital held, and to ensure that capital is managed effectively in order to safeguard the financial soundness and support the strategic objectives of the Company.

The Company maintains a capital structure with a combination of share capital, capital contributions and retained profits, consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company carries out regular projections of its capital adequacy and these are reviewed by the Board to ensure that satisfactory levels of cover are maintained. Capital adequacy and solvency cover are reported to the Central Bank of Ireland on a quarterly and annual basis.

No instances of non-compliance with solvency capital requirements were reported by the Company to the Central Bank of Ireland during the financial year.

The Company has not substantially changed the approaches adopted to manage its capital from the previous accounting period.

18. Financial risks and risk management

The Company is exposed to a range of risks through its financial assets and its financial liabilities and also in relation to the accounting estimates and judgements it needs to make in the preparation of its financial statements and its regulatory returns.

These risks are described below together with the risk management approaches adopted by the Company. The objective of the risk management approaches described is to operate within the risk appetite of the Company and to safeguard the Company's value and reputation.

Ultimate responsibility for the Company's risk management rests with the directors and the Board is supported by the operation of a number of committees that meet on a regular basis to review and monitor the Company's risk exposures. A number of policy statements have been prepared and approved by the directors which set out parameters and limitations to manage and limit financial risks. The Company has not substantially changed the approaches adopted to manage its financial risks from the previous accounting period.

Risks associated with investment assets and linked liabilities

The Company matches all the liabilities under investment contracts with the underlying assets and the liabilities are valued by reference to these asset values. The market and credit risk relating to policyholder financial assets is borne by policyholders as any change in the value of their assets results in an equivalent change in the amount of the Company's obligation to them. However, the Company does have exposure to persistency and an indirect exposure to market risk in respect of the contracts.

The Company's unit-linked products have offered a minimal death benefit equivalent to a small percentage of the underlying fund value, generally in the range of 0.1% to 5%.

Persistency risk is the risk that the policyholder cancels the contracts, thereby exposing the Company to lower annual management fees than that projected in the product pricing. The Company manages this risk by ensuring that its distributors only sell such policies to customers with a medium to long term investment horizon and through maintaining high levels of customer care. Early redemptions are reviewed and analysed to determine potential trends requiring attention.

Market risk arises for the Company as an adverse impact on the value of the fees earned, from the consequent impact of a loss of fair value resulting from adverse fluctuations in equity prices, interest rates and foreign currencies.

A number of financial risks also arise within the investment contracts and these are carried by the holders of these contracts. These risks are:

- Market risk in respect of fluctuation in interest rates, equity prices and foreign currency rates.
- Credit risk in respect of exposure to counterparties.

These risks are managed on an ongoing basis by the investment managers who are responsible for monitoring the effect of changes in the fair value of the underlying assets.

Risks associated with the investment of own funds

The Company holds other financial assets that are not attributable to investment contracts, as backing for its general solvency requirements and to maintain an effective working capital level.

Octium takes a conservative position with regard to its investment policy relating to shareholder funds. Investments are limited to liquid assets with group companies and financial institutions with high credit ratings.

During the financial year 2019 Octium held short-term deposits with a number of domestic banks as well as with UBS in a number of countries. The main risk that the Company is exposed to for these deposits is credit risk with minimal market risk and liquidity risk.

Credit risk

Credit risk occurs for assets if the counterparty is unable to pay amounts in full when due. The Company reduces credit risk by placing a limit on the amount of cash held with each bank. The Company monitors its risk by monitoring the credit quality of each counterparty. The following table is based on Moody's credit rating of these counterparties.

Credit risk exposure and ratings of cash deposits held at 31 December 2019

	Aa3 €'000	A2 €'000	Total €'000
Cash deposits < 1 month	23,768	9,973	33,741
	23,768	9,973	33,741

Credit risk exposure and ratings of cash deposits held at 31 December 2018

	Aa2 €'000	A2 €'000	Total €'000
Cash deposits < 1 month	20,003	5,264	25,266
	20,003	5,264	25,266

Market risk

Market risk is the risk of change in fair value of a financial instrument due mainly to fluctuations in interest rates, equity prices, and foreign currency rates. The Company's main market risks are interest rate risk and foreign currency risk.

a) Interest rate risk arises primarily from the Company's cash deposits. The change in interest yields is reviewed on a regular basis when the Company prepares projections of its solvency position.

The following deposits are exposed to interest rate risk:

	2019 €'000	2018 €'000
Cash deposits < 1 month	33,741	25,266
	33,741	25,266

The carrying values of these deposits are not impacted by a change in interest rates as they have a term of one week or less and are valued on an accruals basis. The Company's profits will be impacted by interest rate movements. The following table illustrates the annual impact of an increase or decrease of 1.00% in the overall interest rate applied to these deposits.

	2019 €'000	2018 €'000
Increase of 1% in overall rate: Impact on profit before tax	337	253
	2019 €'000	2018 €'000
Decrease of 1% in overall rate: Impact on profit before tax	(337)	(253)

18. Financial risks and risk management (continued)

b) Foreign currency risk can arise due to fluctuations in foreign exchange rates. The Company does not have any significant exposure to such movements as its investments are mainly denominated in Euro

Liquidity risk

Liquidity risk is defined as risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

In managing the Company's assets and liabilities, the Company seeks to ensure that cash is at all times available to settle liabilities as they fall due. Available funds are mainly invested in euro-denominated call or deposit accounts of up to one week's duration. The Company's treasury position is reviewed on a regular basis and cash balances are maintained to meet due liabilities.

The Company has a minimal exposure to liquidity risk as it maintains a high level of liquid assets to meet its liabilities and ensures that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

For investment contract redemptions, cash paid out is funded by the redemption of the linked assets supporting the contract liability.

Valuation risk

This is the risk of incorrect valuation of assets and liabilities. Liabilities are reviewed on a quarterly basis by the Head of Actuarial Function and are subject to reasonableness and validation checks. Asset valuations are verified through periodic price testing on a sample of securities.

Risks associated with other financial assets

Amounts receivable from debtors are subject to a credit control process.

The balance remaining on the Italian substitute tax asset is recoverable from deductions made from gains made by policyholders on claims.

19. Fair value disclosures

Fair value methodology

For investments carried at fair value, we have categorised the measurement basis into a "fair value hierarchy" as follows:

Unadjusted quoted prices in active markets

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

These are investments whose fair value is determined using observable, unadjusted quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Listed debt and equities securities in active markets and quoted unit trusts in active markets would typically be classified within Level 1 of the fair value hierarchy.

Inputs other than quoted prices included within Level 1 that are observable

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

These are investments whose fair value is determined using inputs other than quoted prices included within Level 1 inputs that are observable, either directly or indirectly through corroboration with market data.

Level 2 inputs include the following:

- Evaluated prices based on a compilation of primary observable market information or a broker quote in a non-active market
- Prices based on a Net Asset Value ("NAV") from a fund manager, other than those considered Level 3 below
- Quoted prices for similar (i.e. not identical) assets in active markets
- Inputs other than quoted prices that are observable for the asset (for example, benchmark yields, base spreads, adjustment for corporate actions and reported trades)

Money market vehicles, unlisted fixed income securities, valued using third-party fair value models, unlisted collective investment vehicles and most derivatives are generally classified within Level 2 of the fair value hierarchy.

19. Fair value disclosures (continued)

Inputs are unobservable (i.e. for which market data is unavailable) for the asset/liability

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

These are investments whose fair value is determined using inputs that are not observable, reflecting assumptions that the market participants may use in pricing an investment. Securities for which no indication or comparables are available and financial information is used to calculate the valuation, would typically be classified within Level 3 of the fair value hierarchy.

Investments which are classified as Level 3 include the following:

- Investment funds which invest in a significant level of Level 3 investments. Valuations are based on the NAV produced by the fund.
- Bonds with hybrid or perpetual features whereby the valuation model includes unobservable inputs such as the timing of conversion and call rights

An analysis of investments according to fair value hierarchy is given below:

	Fair value hierarchy			2019
	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Assets held to cover linked liabilities				
Investment funds	899,292	2,382,152	108,485	3,389,929
Equities	143,412	13	400	143,826
Fixed income securities	270,260	85,535	22,072	377,867
Deposits, cash and cash equivalents and others	218,110	-	-	218,110
Structured products	31,314	71,797	596	103,708
Derivatives	-	164	-	164
	1,562,389	2,539,661	131,554	4,233,604

	Fair value hierarchy			2018
	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Assets held to cover linked liabilities				
Investment funds	748,561	2,628,016	-	3,376,577
Equities	129,980	4	-	129,983
Fixed income securities	358,105	6,067	-	364,172
Deposits, cash and cash equivalents and others	177,258	-	-	177,258
Structured products	-	67,962	-	67,962
Derivatives	-	111	-	111
	1,413,904	2,702,160	-	4,116,063

20. Change of directors

There were no changes in directors during the year.

21. Financial commitments

The Company sub-leases its office under an operating lease. The sub-lease runs until 31 August 2025 and is held with Lantern Structured Asset Management Ltd.

Total future minimum lease payments under the operating lease are as follows:

	2019 €'000	2018 €'000
Less than one year	138	138
Between one and five years	550	550
Over five years	229	367
	917	1,055

The lease payments are charged to the Income Statement over the term of the lease. In 2019, these expenses amounted to €138k (2018: 138k) excluding irrecoverable VAT.

The Company had no other financial commitments at 31 December 2019 (2018: €nil).

22. Contingent liabilities

There were no contingent liabilities at 31 December 2019 (2018: €nil).

23. Dividends

A dividend of €4.7m was declared and paid during the financial year (2018: €6.9m).

24. Subsequent events

The recent outbreak of Covid-19 has been declared a global pandemic by the World Health Organisation and is having a significant adverse impact on global economic activity and financial markets. The expected impact on Octium's business is uncertain and is likely to remain uncertain for a number of months.

The most immediate impact will be on the Company's profitability as a result of falling markets impacting fee revenue and a significant reduction of economic activity reducing new business levels, particularly in Octium's main market Italy. The extent of the impact will depend on how long the outbreak lasts and market developments. The impact on Octium's life insurance risk is not expected to be material due to the low levels of risk in the product design and the reinsurance programme put in place by the Company.

Octium's capital position remains strong and well within its targeted range. The Company is well capitalised to withstand severe but plausible events and similar stresses and scenarios are tested as part of the annual ORSA process.

The Company continues to closely monitor the situation to ensure it is well positioned to respond appropriately as required.

A dividend of €5m was declared on 24th March 2020.

There were no other significant events affecting the Company since 31 December 2019.

25. Approval of financial statements

The Board of Directors approved these financial statements on 24th March 2020.

Octium Life DAC

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