Octium Holding S.A.

Group Solvency and Financial Condition Report ("Group SFCR")

For the financial year ended 31 December 2020

Table of Contents

Summary

Octium Holding S.A. ("Octium Holding"), a mixed activity insurance holding company incorporated and resident in Luxembourg, is the ultimate parent entity of the insurance group to which Octium Life DAC ("Octium" or "the Company"), Octium International Insurance Agent AG ("OIIA" or the "Agency") and Kaupthing Life & Pension S.A. (a non-regulated dormant company) belong (collectively referred to as the "Group").

The Group provides insurance-based investment products to clients to High Net Worth individuals though Octium Life DAC, a unit-linked life assurance company registered in Ireland and regulated by the Central Bank of Ireland.

Octium Holding is subject to group supervision under Solvency II Regulations and is required to make publicly available an annual report on the solvency and financial condition at the level of the Group (the "Group SFCR").

Below is a summary of the Group's business and risk profile, key changes and events in 2020.

Business and performance

The principal activity of the Group is the insurance activity undertaken by Octium. The Group made an operating profit before tax for the year ended 31 December 2020 of €3.7m (2019: €5.0m), consisting mostly of the profits of Octium. The assets under management remained at €4.2bn.

System of governance

Octium Holding's Board of Directors (the "Group Board") has responsibility for compliance with the regulatory requirements and the governance arrangements applicable at the level of the Group. The Group Board has established effective governance and control systems to manage business activities and risks. There have been no material changes in the system of governance during the year.

Risk profile

The Group is exposed to risks outlined in section C below. The most significant risks are market and lapse risk. Octium has established a robust risk management and internal control system to monitor and manage these risks. Although these risks may impact on future profitability, they do not have a significant impact on the Group's ability to meet payments to clients. Policyholder investments are managed on a unit-linked basis where we ensure we are always able to meet policyholder withdrawal requests. The low-risk nature of the business means that the Group's Solvency Ratio remains resilient to changes in the business. There have been no material changes in risk exposures during the year.

Solvency and capital management

Octium manages its balance sheet prudently to ensure solvency is maintained adequately throughout the business cycle. The company holds sufficient assets to match its policyholder liabilities at all times. Octium is also required to keep a buffer in excess of policyholder liabilities to cover potential losses arising from business risks. The Octium Board ensures that Octium's capital is adequate to cover the expected requirements in the short to medium term.

The Group has eligible own funds in excess of the Group's solvency capital requirement (the "Group SCR"). As at 31 December 2020, the Group SCR ratio is 181% (2019: 189%).

Each subsidiary company holds capital which is sufficient to cover any regulatory requirements together with an additional margin which can absorb adverse future changes. Octium's solvency

ratio at 31 December 2020 was 206% (2019: 209%). The solvency ratio indicates the amount of excess capital relative to regulatory requirements.

The Group does not plan to make a dividend payment to the shareholder during 2021.

Other information

This report has been prepared in accordance with the requirements of the Solvency II Directive as at 31 December 2020. The Group's and Octium's financial year runs to 31 December each year and both report their results in Euro. Octium's financial statements are prepared on the basis of Financial Reporting Standard 102 applicable in the UK and Republic of Ireland (FRS 102). The Group's consolidated financial statements are prepared in accordance with Luxembourg Generally Accepted Accounting Principles.

A. Business and Performance

A.1. Business

A.1.1. Company information

Octium Holding, a mixed activity insurance holding company incorporated and resident in Luxembourg, is the ultimate parent entity of Octium and OIIA for the purposes of group supervision in accordance with Regulation 216(3)(b) of S.I. 485 of 2015 (the "Solvency II Regulations").

Octium is an Irish domiciled and authorised insurance company whose principal activity is the transaction of cross-border life insurance business. The Company was established in 2003 originally as UBS International Life Ltd but its name changed to Octium Life DAC following its acquisition by the Octium Group in May 2017.

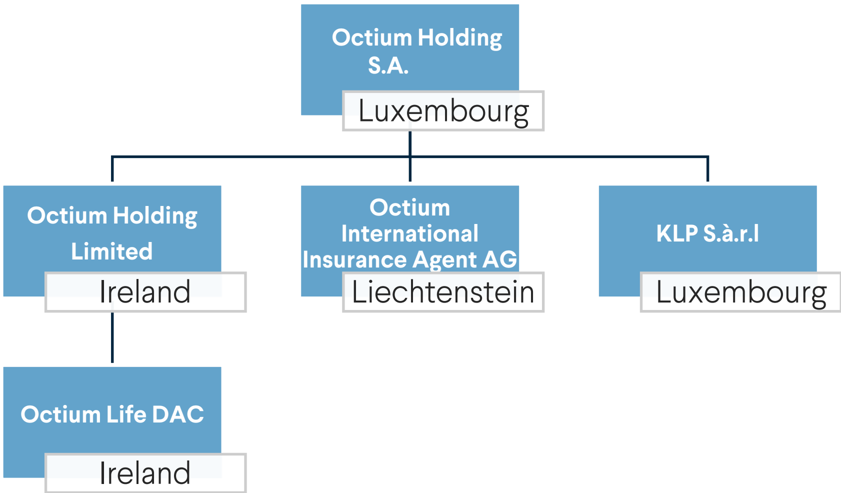
OIIA, a Liechtenstein domiciled company, was incorporated in early 2020 to provide insurance intermediation on behalf of Octium. In September 2020, OIIA was granted a life insurance agent licence by the Liechtenstein Financial Market Authority ("FIMA") for insurance distribution purposes.

KLP S.à.r.l. is a 100% subsidiary of Octium Holding S.A. It is a company incorporated in Luxembourg and is a former life insurance company of Kaupthing Life & Pension S.A., with corresponding license returned in 2015 and is now a non-regulated dormant company.

Name of Company	Octium Holding S.A.	Registered Address: 35 Avenue J. F. Kennedy L-1855 Luxembourg Luxembourg
Group Auditors	Deloitte Ireland LLP	Deloitte & Touche House, 29 Earlsfort Terrace Dublin 2 Ireland, D02 AY28
Regulatory Supervisor of the Group & Octium	Central Bank of Ireland ("CBI")	New Wapping Street, North Wall Quay, Dublin 1. Ireland.

A.1.2. Shareholdings

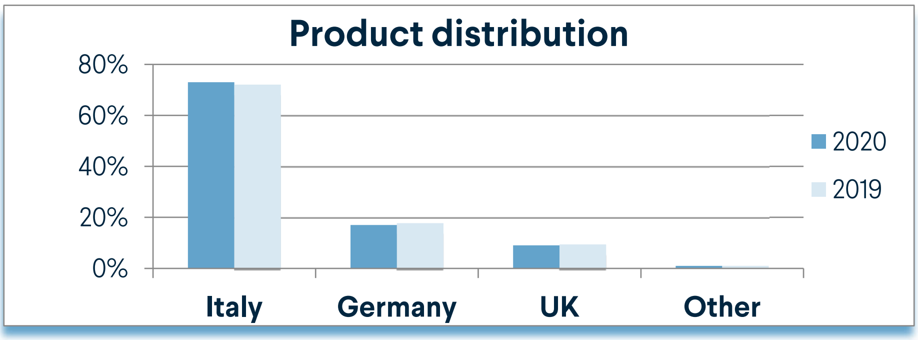
The group structure below shows the entities within the scope of group supervision up to the 31 December 2020 (100% ownership at each level).



The holding companies above are all based in the EU. They have no assets, other than investments in Group companies and small cash deposits to pay administrative expenses, and have no other risk exposures other than a non-subordinated liability (senior debt) issued in Q2 2017 and used to fund the acquisition of Octium. Part of this senior debt was converted into a Tier 1 subordinated liability (sub debt) in Q4 2017.

A.1.3. Products

Octium, as the single insurance manufacturing entity within the Group, offers unit linked life assurance products with an open architecture for residents in Germany, Italy, Spain, Turkey, Greece and the UK. The main product offering is a portfolio bond, which allows policyholders to link to a fund which is managed by their chosen asset manager or investment advisor. The Company does not offer products with guaranteed investment returns.



A.1.4. Significant events

In early 2020, OIIA, a Liechtenstein domiciled company, was incorporated to provide insurance intermediation on behalf of Octium. In September 2020, OIIA was granted a life insurance agent licence by the Liechtenstein Financial Market Authority ("FIMA") for insurance distribution purposes.

Also in September 2020, Octium received approval from the CBI to offer a standard unit linked life assurance product in the Greek market.

There were no other significant events in the holding companies within the Group.

A.2. Underwriting performance

Octium's financial statements are prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015. Under this accounting standard, the majority of Octium's unit linked policies are classified as investment contracts whereby premiums and claims are shown as deposits to and payments from investment contracts.

The underwriting performance of the Group is determined by Octium which has minimal exposure to mortality risk. Octium's unit linked products offer a standard death benefit which is generally a percentage of the surrender value of the policy. The average death benefit percentage at 31 December 2020 was less than 1% although individual policies can have a death benefit of up to 10%. In line with is risk appetite mortality exposure is limited by product design and/or reinsurance to a maximum of €30,000 per life insured.

Accounting profits are largely driven by policy administration fees received, net of commissions and other expenses as well as risk fees net of reinsurance and risk claims. Changes in the value of investments underlying unit linked policies are offset by corresponding changes in the value of technical provisions. Octium has defined accounting profits as a measure of its underwriting performance.

A.2.1. Overview of Octium's accounting profits

Overview of accounting profits	2020 €,000	2019 €,000	Change %
Gross accounting profits	5,926	7,769	-24%
Tax charge	765	856	-11%
Profit attributable to the shareholder	5,161	6,913	-25%

The reduction in profitability is primarily driven by reduced net administration fees.

A.2.2. Octium's risk fees net of reinsurance

Risk fees are the element of policy charges that relate to mortality risk and the payment of death risk benefits. The table below details the risk fees earned net of reinsurance.

Risk fees	2020 €,000	2019 €,000	Change %
Risk fees earned	1,027	887	16%
Reinsurer's share net of profit share	427	382	12%
Net Risk fees	600	505	19%

A.2.3. Premiums written by Octium

The table below details the premiums written during the year as reported in QRT S.05.01.

Index-linked and unit-linked insurance	2020 €,000	2019 €,000	Change %
Gross	189,613	145,808	30%
Reinsurer's share	6	0	100%
Net Premiums	189,607	145,808	30%

A.2.4. Octium's death risk benefits net of reinsurance

The table below details the death risk benefits incurred.

Death benefits	2020 €,000	2019 €,000	Change %
Death risk benefits	354	124	186%
Reinsurer's share	286	97	195%
Net Death benefits	68	27	152%

A.2.5. Octium's claims incurred

The table below details total claims incurred as reported in QRT S.05.01.

Index-linked and unit-linked insurance	2020 €,000	2019 €,000	Change %
Gross claims	308,377	343,329	-10%
Reinsurer's share	0	0	0%
Net claims	308,377	343,329	-10%

A.3. Investment Performance

Other than some small cash deposits held by the Agency and holding companies to cover administration expenses the Group's assets consist of Octium's assets.

Octium's main source of income is from administration fees charged on the value of unit linked insurance contracts and therefore the impact on profit of investment performance is second order.

All client investments are selected by the policyholder from a pre-approved list of funds or investment managers who are appointed in accordance with a specific investment mandate. Excess assets above those required to match policyholder unit liabilities are held as cash or high-quality liquid assets.

Octium 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.

A.3.1. Description of Octium's assets

The following investments are held in respect of shareholder and policyholder linked assets.

Asset Type	2020		2019	
	%	€'000	%	€'000
Cash and deposits	5%	208,188	6%	251,851
Collective Investment Schemes	78%	3,259,754	80%	3,389,931
Equities	4%	169,545	3%	143,826
Fixed Income Securities	9%	348,972	9%	377,867
Other	4%	186,634	2%	103,878
Total Assets	100.0%	4,173,094	100.0%	4,267,351

A.3.2. Octium's investment return

Investment return comprises interest, dividends and other income receivable, realised and unrealised gains and losses on investments and is net of related investment management fees and other account-keeping charges.

Investment Return	2020 €'000	2019 €'000
Interest income/expense - shareholders cash	(19)	(15)
Other investment income, gains and losses	79,814	(317,283)
Investment return	79,795	317,268

Asset performance during 2020 followed global market trends, which saw significant losses in the first quarter followed by a market recovery over the following three quarters.

A.4. Performance of Other Activities

Octium's only activity is that of a unit linked life insurance company. Income is primarily derived from the fees charged to the policyholders for policy administration. Fees are charged as a percentage of the policy value and are thus affected by the performance of the underlying assets as well as premium and claim levels. The performance of the policies therefore depends on the performance of the assets selected and the expense relating to asset management, custody of assets and policy administration fees. The income for the current and previous years is shown below:

A.4.1. Octium's other technical income net of reinsurance

Other Technical Income	2020 €'000	2019 €'000
Administration fees	15,735	16,688
Reinsurance premiums, profit share and claims	(136)	(285)
Retrocessions received	-	1
Other technical income	15,599	16,404

The reduction in administration fee income relative to 2019 reflects asset performace during 2020 which saw significant losses in the first quarter followed by a recovery over the following three quarters.

A.4.2. Octium's operating expenses

Operating Expenses	2020 €'000	2019 €'000
Acquisition and administration	7,091	7,272
Commission paid	2,204	2,357
Change in deferred acquisition cost	7	-
Death claims	354	124
Operating expenses	9,655	9,753

Operating expenses reduced marginally during the year.

Group expenses mostly consist of Octium's expenses along with the expenses of OIIA and administation expenses of the holding companies within the Group and interest on the senior debt.

A.4.3. Change in value of the Italian substitute tax asset

As a withholding tax agent for the Italian tax authorities, Octium makes advance payments in respect of Italian policyholder exit tax. Recovery is made when exit taxes are levied on chargeable gains. In Octium's financial statements, the value of this tax asset is determined by discounting the expected future cash flows of these tax recoveries. The change in value of the tax asset each year, as it relates to the impact of discounting, gives rise to a gain or charge in Octium's Income Statement. No gain or loss was recorded in the Company's 2020 Income Statement (2019: €1.1m gain). In the Group's consolidated financial statements the asset is held at cost.

A.5. Any other information

A.5.1. Repayment of non-subordinated debt

During the year Octium Holding S.A. repaid €4.2m of the non-subordinated loan it has with Albany Capital Limited, a related party. The loan balance was €6.9m at 31 December 2020.

A.5.2. Covid 19

Coronavirus ("COVID-19") is a rapidly developing issue which is having significant effects on global economic activity and has created extensive social disruption. Longer term socio-economic implications and the impact on the projected liabilities remain highly uncertain. Key drivers of uncertainty include:

- Public, corporate and government responses to COVID-19, and the extent to which these responses impact global supply chains and economic conditions;
- The impact of restrictions arising from the virus on claim incidence, reporting, investigation and the potential for reporting delays due to operational constraints affecting claims reporting, handling and settlement that may not fully manifest for some time dependent on the post-pandemic reversion to normalised levels of business activity in the affected markets;
- The effectiveness, duration and timing of containment measures in reducing future infection and fatality rates of the virus, the speed and effectiveness of vaccines or treatments and the ability of health systems to cope with potentially large numbers of individuals simultaneously requiring treatment; and
- The impact on assets prices.

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

B. System of Governance

B.1. General Information on the system of governance

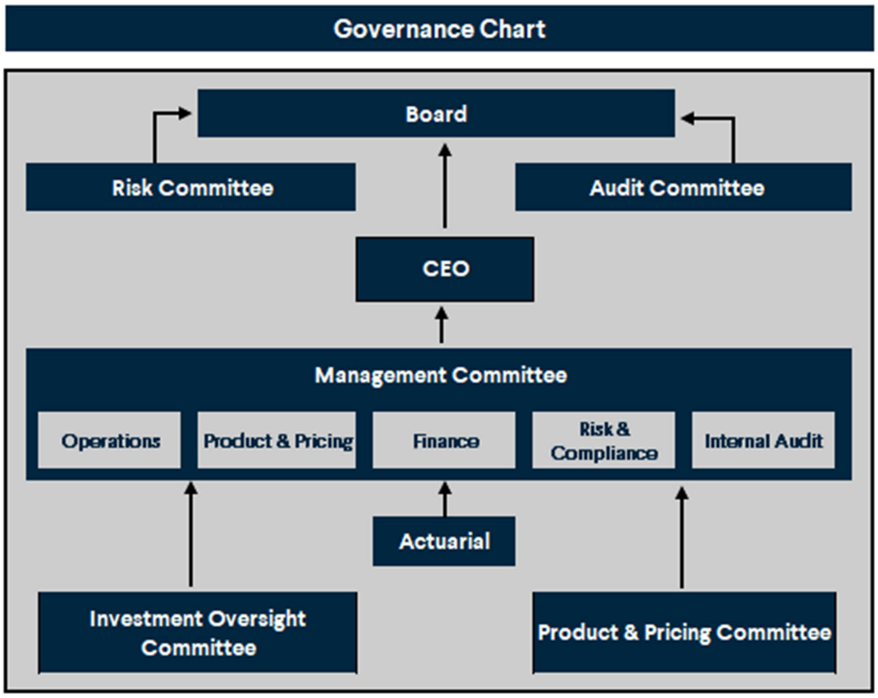
The Group and Octium are committed to high standards of corporate governance. The Group Board is responsible for ensuring that there are adequate mechanisms to monitor, manage and report significant intra-group transactions as well as significant risk concentrations within the Group; that eligible own funds are available in the Group which are always at least equal to the group SCR; that adequate systems and procedures are in place to identify and measure risks at the level of the Group; to ensure that an own risk and solvency assessment is carried out at the level of the Group; and to comply with other group supervision requirements, including regular reporting to the group supervisor. The Group Board has delegated responsibility for day-to-day risk management and reporting requirements applicable at group level to individuals within Octium's Senior Management.

Octium is the sole insurance entity operating within the Group, is classified as a medium low-risk firm under the Central Bank of Ireland's risk-based framework known as PRISM and is subject to the Central Bank of Ireland's Corporate Governance Requirements for Insurance Undertakings 2015. Given the substantive part of the Group is Octium, the Board of Octium have a key role in the maintaining the financial and commercial stability of Group.

Octium's Board of Directors is the supervisory body with responsibility for the overall direction, management and for ensuring the Octium complies with applicable laws, rules and regulations. It decides on the strategic aims and the necessary financial and human resource requirements based on recommendations of the Management Committee and Chief Executive Officer.

B.1.1. Organisation structure

The Octium governance structure comprising the Board, Board Committees, Management Committee, sub committees of the Management Committee and key functions is outlined below:



B.1.2. Board of Directors:

The Group Board is made up of three directors, all resident in Luxembourg.

As at 31 December 2020, Octium's Board comprised of one Executive Director, two Non-Executive Directors and two Independent Non-Executive Directors.

Board Member	Type
Jean- Francois Willems (Chairman)	Non-Executive Director
Ciaran McGettrick*	Independent Non-Executive Director
Joan Collins** (Risk Committee Chair)	Independent Non-Executive Director
Seamus Hughes (Audit Committee Chair)	Independent Non-Executive Director
Massimoluca Mattioli	Non-Executive Director
Dara Hurley (CEO)	Executive Director

** Retired 31 December 2020*

*** Appointed 01 October 2020*

At least annually, the Octium Board reviews its own performance, as well as the performance of its Committees to determine whether they are functioning effectively and efficiently.

B.1.3. Board Committees

The Risk Committee and Audit Committee assisted the Octium Board in discharging its obligations and have operated throughout the year. Both committees operate under defined terms of reference and report at each Board meeting.

B.1.3.1 Audit Committee

The Audit Committee oversees the integrity of the Octium's financial statements and regulatory reports, the effectiveness of its internal and external audit functions, its reporting procedures, its risk management framework, its compliance with legal and regulatory requirements and its system of internal controls. Its membership consists of three non-executive directors.

B.1.3.2 Risk Committee

The Risk Committee oversees Octium's risk management framework. The Committee provides leadership, direction and oversight of the risk management function and reviews the principle risks and the way they are managed, controlled and mitigated. Its membership consists of three non-executive directors.

B.1.4. Management Committee

The Octium Management Committee consists of the senior management team and includes the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Compliance and Head of Product Development. The Committee has responsibility for:

- Day to day management of operations
- Implementation of policies and strategy approved by the Board
- Compliance with regulatory and legal obligations and ensuring there is adequate monitoring and reporting of breaches
- Financial management and reporting

- Product development and marketing

Octium's Chief Financial Officer is responsible of monitoring compliance with group capital requirements and group supervisory reporting and is also responsible for group financial management.

B.1.5. Independent control functions

Octium has established four key independent control functions, who are responsible for providing oversight of and challenge to the business and for providing assurance to the Board on matters relating to the risk management framework and system of internal controls.

1. Risk Management
2. Compliance
3. Actuarial
4. Internal Audit

B.1.5.1. Risk management

The Octium Risk Management function, which is under the direct responsibility of the Chief Risk Officer, is charged with the oversight, review and supervision of the identification, measurement, management, reporting and monitoring of the risks to which the business is exposed. The responsibilities of the Chief Risk Officer include:

- To develop and maintain an effective risk management framework that meets the needs of the Company and is aligned with CBI expectations;
- To facilitate the setting of Risk Appetites by the Board;
- To develop and maintain appropriate risk policies and procedures that are consistent with the Company's Risk Appetite Statement;
- To develop and maintain a risk register;
- To monitor the impact of emerging issues and how they are managed within the business;
- To ensure a comprehensive understanding of how risks affecting the Company are being managed and monitored and to communicate this appropriately;
- To liaise with Head of Actuarial Function to review the outputs from the risk management framework and to ensure the universe of risks is adequately reflected within capital models;
- To promptly inform the Board and CEO of any material risk limit breach;
- To assess the capital model and provide input into the current and projected future solvency position;
- To facilitate the production of the ORSA report and maintain the record-keeping file.

The Chief Risk Officer is a member of Octium's Management Committee, reports to the Octium's Chief Executive Officer and has direct access to the Chair of Octium's Board and Risk Committee as required.

B.1.5.2. Compliance

The Octium Compliance function, which is under the direct responsibility of the Head of Compliance, is charged with oversight and implementation of the Company's Compliance Policy which aims to ensure Octium complies with all applicable laws, rules and regulations, and conducts its activities in compliance with those laws, rules and regulations.

The Head of Compliance provides advice and guidance in all compliance related matters, by identifying and evaluating all compliance risks associated with the Company's present and future business activities including new products and new business relationships.

The Head of Compliance responsibilities include:

- The design, implementation and execution of a risk-based compliance monitoring plan including reporting and escalation of issues to the Board, Audit or Management Committee as appropriate.
- Assisting in identifying the legal regulatory and code requirements which Octium is required to comply with and advising on new relevant regulations and standards.
- Maintaining a record of all material compliance obligations, together with details of how, when and by whom these are met and of any breaches that have been notified.
- Acting as Money Laundering Reporting Officer (MLRO) and in that capacity, the filing of Suspicious Activity Reports with the proper authorities in accordance with legislation and Octium Anti Money-Laundering Policies and Procedures ("AML Procedures").
- Reviewing staff training processes to ensure appropriate compliance competencies; and
- Promoting a culture of compliance across the company.

The Head of Compliance is a member of Octium's Management Committee, reports to Octium's Chief Risk Officer and has direct access to the Chair of Octium's Board and Audit Committee as required.

B.1.5.3. Actuarial

Please refer to section B.6

B.1.5.4. Internal audit

Please refer to section B.5

B.1.6. Changes to the system of governance

No changes to Octium's system of governance were implemented during 2020.

There were no changes to the Group system of governance.

B.1.7. Remuneration, Employee Benefits and Practices

The Board of Octium have approved a Remuneration Policy to ensure employee remuneration is aligned with the Company's long-term business strategy, its business objectives, its risk appetite and values. The remuneration structure is designed to promote sound and effective risk management and does not encourage risk-taking beyond risk tolerance limits set out in the Board approved Risk Appetite Statement.

B.1.8. Material transactions (with connected persons)

There have been no material transactions with the shareholder, persons who exercise a significant influence on the undertaking or with members of the Board, other than:

- The Company received professional services from Octium Holding S.A, a related party, and incurred expenses of €120k
- The Company also incurred ;expenses of €75k payable to Octium Holding S.A for its share of group statutory and regulatory reporting expenses;
- The Company provided financial and IT support services to Octium International Insurance Agent AG, a related party and received €28k;
- The Company received professional services from Octium International Insurance Agent AG, a related party, and incurred expenses of €53k.

In May 2017, Octium Holding S.A. issued a non-subordinated loan to fund the acquisition of Octium; in December 2017 part of that loan was converted into a Tier 1 subordinated loan. The holder of both the non-subordinated and subordinated loan is Albany Capital Limited, a connected undertaking. During the year Octium Holding S.A. repaid €4.2m of the non-subordinated loan. The balances on the non-subordinated loan and the subordinated loan at 31 December 2020 were €6.9m and €40m respectively.

There is a loan facility provided by Octium Holding S.A. to the Agency, of which €602k was drawn down in 2020.

B.2. Fit and proper requirements

The Group is committed to ensuring that all members of its Boards, key function holders and other senior individuals within the Group, behave with integrity, honesty and skill. This commitment is documented in the Octium's Fit and Proper policy. The Group has processes in place to ensure appropriate fit and proper standards are met and maintained, both prior to appointment and on an ongoing basis thereafter.

The key elements within Octium's fit and proper framework, which apply to individuals undertaking prescribed control functions as well as those subject to pre-approval by the Central Bank of Ireland, are:

- A pre-appointment assessment, including an appraisal of the individual's knowledge; professional experience and qualifications; technical capability; prior business conduct and financial judgement; character, honesty and integrity;
- A job description, detailing the significant requirements of the role;
- A probationary period and an appropriate induction programme;
- An annual attestation confirming their continued ability to meet fitness and probity requirements.

Where a regulated function is outsourced, the responsible officer within Octium responsible for managing the arrangement ensures the outsourcing firm carries out and maintains appropriate fit and proper assessments. Records are maintained, and notifications are made to the regulators, as and when required.

B.3. Risk management system including the own risk solvency assessment

Octium's Risk Management System has been developed to enable the Board and Management to understand, appropriately manage and mitigate the risks associated with Octium's objectives over the short, medium and longer term.

The Risk Committee receives regular reporting from the CRO in relation to the outcome of the periodic risk assessments undertaken by Management.

B.3.1. Risk management framework

Octium's Risk Management Framework seeks to identify, assess, manage, and report on the risks arising from the pursuit of business objectives. It comprises the entirety of systems, controls, processes and reports used to manage risk and is based on the classic "three lines of defence model". Risk management seeks not to eliminate risk but to manage it to acceptable levels.

B.3.2. Three lines of defence

Within Octium, the first line is responsible for day-to-day operations and identifying and managing the risks that arise from those operations. The second line acts as a "critical friend" overseeing risk management activities and providing advice on the management of risk. The third line provides independent assurance that the risks are being managed appropriately.

The model's strength is the clear segregation between "doing", "overseeing" and "independent review". This ensures the appropriate level of perspective and challenge is brought to the management and control of risk. It also facilitates consistency in risk assessments and formalises independent review and assessment of risk and control matters.

Where a function is outsourced, first line risk management is carried out by the outsourced provider, with the Company providing oversight.

B.3.3. Risk appetite statement

By its nature the business of the Group involves taking risk. Octium's Risk Appetite Statement (RAS) is the Board's articulation of the level of risk it is prepared to tolerate in pursuit of business objectives and provides the context for all risk management activities.

The RAS is owned by the Octium Board and reviewed annually or more frequently if there is a significant change to the business strategy or external business environment.

B.3.4. Risk strategy and policies

Octium's suite of risk policies set out its approach to risk management and how particular risks are identified, assessed, managed, and monitored. The policies clearly state the controls, procedures, limits, tolerances, and escalation procedures to ensure risks are managed within risk appetite. Risk policies are reviewed annually by the Octium Risk Committee and any significant changes are approved by the Board.

B.3.5. Monitoring and reporting risks

Individuals who own or are responsible for managing processes, controls, projects or relationships have a responsibility for risk monitoring and reporting, using a variety of tools such as analysis of management information, communication and relationship management meetings to do so.

B.3.6. Key Risk Indicators

A suite of Key Risk Indicators (KRIs) covering the key risks faced by Octium is maintained, with triggers based upon the risk appetite set by the Octium Board and monitors actual risk exposures against stated risk appetite.

The KRIs are reported quarterly to Octium's Management Committee, Risk Committee and the Board with a narrative providing detail in relation to any changing risks particularly those nearing risk appetite or which have breached appetite.

B.3.7. Loss event reporting

Data relating to loss events and near misses (events where no loss actually occurred but there was the potential for a loss) is recorded in the risk event log. The nature and root cause of each event is determined, and appropriate action is taken.

B.3.8. Internal audit reviews

The Octium Internal Audit performs reviews on areas of key risk within the business, providing reports on the design adequacy and operational effectiveness of controls and compliance with internal policies and external regulation/legislation. The Internal Audit function is outsourced to KPMG and is independent of business operations and decisions. Internal Audit reviews are planned on a prioritised basis, ensuring that all key areas of risk are covered on a rolling basis.

B.3.9. Implementation of the risk function

Octium's Risk Management Policy sets out the roles, responsibilities, tasks and reporting requirements in respect of all risk matters. The principles underlying the Company's approach to risk management are:

- Business risks and the controls used to manage them are owned by the business
- Risk management is responsible for risk strategy, oversight and the governance of risk
- Risks are managed in a proportionate manner
- A "risk aware" culture is fostered at all levels of the Company

B.3.10. Independent assurance

Octium's Risk, Compliance and Internal Audit functions provide independent assessment of the risk management system and report directly to the Board through the relevant committees.

B.3.11. Own Risk Solvency Assessment

The Own Risk Solvency Assessment ("ORSA") process is a core part of the Group's Risk Management Framework, as it combines the key processes of risk management, business planning and capital management.

Individual ORSA reports are produced, at least annually, by the Group and Octium. These reports summarise the processes that make up the ORSA, including descriptions of key risks, how they are managed, and how those risks might change in the context of the business plan. They include both qualitative and quantitative assessments of risk profiles and solvency needs on a forward-looking basis. Results arising from stress and scenario testing undertaken on a range of reasonably foreseeable scenarios and other risk assessment activities are documented within the reports along with potential management actions.

The respective Boards direct the ORSA and challenge its outcomes at various stages of the process. The production of the ORSA report is co-ordinated by the Chief Risk Officer, with significant input from the Head of Actuarial Function and approved by the relevant Board prior to submission to the Central Bank of Ireland.

B.4. Internal control system

The internal control system encompasses the policies, processes and activities that contribute to integrity of financial reporting, the effectiveness of operations and compliance with laws and regulations. The Internal Control Framework for Octium has the following attributes:

B.4.1. Roles and responsibilities

Octium has set out clear roles and responsibilities for each function and the requirement for reporting activities to the Octium Board. The Octium Board directs and controls the Company, through policies it approves and monitors performance against those policies. The Octium Management Committee has clear accountability for the implementation of the policies and strategies. The policy-owners and CEO are responsible for effective communication of the policies.

B.4.2. Management integrity

Management integrity and the moral character of persons of authority, sets the overall tone for the organisation. Management integrity is communicated to Octium employees through employee handbooks, policies, procedural manuals, and meetings. In communicating the strategy and risk management objectives through statements and policies it facilitates training of employees. Management's effective implementation of policies is the most significant indicator of Octium's commitment to a successful internal control system.

B.4.3. Competent personnel

Octium's ability to recruit and retain competent personnel indicates Management's intent to create a stable and reliable environment. In addition, the retention of employees increases the understanding of the strategy, risks and financial information. The retention of experienced and skilled staff enhances the quality, reliability and timeliness of data records from year to year. Competent personnel reduce the risk of a material misstatement in the entity's financial statements.

B.4.4. Segregation of duties

Segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. An effective system of internal control separates authoritative, accounting and custodial functions. For instance, the processing, payment and reporting of claims are segregated.

B.4.5. Supervision and review

Octium employs several levels of supervision and review:

- The Risk and Audit Committees and the Board itself offer supervision and review
- Management Committee meetings where the monitoring of internal controls is a key focus
- The CEO has bi-weekly meetings with the Heads of each function
- The Head of each function delegates tasks, reviews checklists and reports and has frequent meetings with their staff to identify and report on their responsibilities
- Compliance advises the Board on legislative requirements and conducts assessments of the possible impact of any changes to laws applicable to the Company.

Annually, the CRO reviews the entire risk framework taking into consideration changes in Octium's strategy, its operating environment and any emerging risks. Brainstorming sessions are held with the Management Committee to ensure that risks that are identified, managed and aligned with strategy and consider all relevant laws and regulations.

A common risk-rating system is used across the business to evaluate the impact and probability of risks as part of the quarterly risk self-assessment process.

B.4.6. Records maintenance

Maintaining appropriate records ensures that proper documentation exists for each business transaction. Records management involves storing, safeguarding, and eventually destroying tangible and/or electronic records. There are also procedures that deter employees or Management from creating erroneous transactions in the underlying accounting records. A good records management program reduces operating costs, improves efficiency, and minimizes the risk of litigation.

B.4.7. Physical and cyber security

Safeguards prevent unauthorised personnel from accessing valuable Company assets. Safeguards are physical, such as locks on cabinet doors and office doors; Clean Desk procedure (no documents containing personal client data can be left on the employee's desk or can be accessible after working hours); or intangible, such as computer software passwords. In addition, there is an IT strategy that includes the security and protection of Company data and systems from unauthorised access. There are also protocols relating to passing information in and out of Octium system by email.

B.4.8. Controls over outsourced activities

Octium requires that outsourced activities are managed to the same standard as internal activities and employ fit and proper people in its control functions. Octium has established an Outsourcing Policy which is intended to manage the outsourcing arrangements in a prudent manner. For all critically important service providers that are appointed, there is a due diligence and approval process prior to appointment, agreements are entered into which clearly set out the responsibilities of each party and the monitoring of the services to be provided. There is various monitoring of outsourced services which include daily control checks on data received from outsourced activities and reports on business transacted online.

Service providers are also required to certify the Fitness and Probity of their Control Functions, where applicable. Agreements require the outsource provider to immediately report any material incident or exposure. Further details of the controls over outsourced activities can be found in "B.7. Outsourcing/ Key Third Party Arrangements".

B.5. Internal audit function

The Octium Internal Audit function and Head of Internal Audit have been outsourced to KPMG (Ireland) who operate in accordance with the International Standards for the Professional Practice of Internal Auditing and other relevant codes of conduct. The function provides independent and objective assurance services, in respect of Octium's processes, whether carried out by its service providers or by employees of Octium, with due regard to the adequacy of the governance, risk management and internal control framework.

Audits are conducted within a Board approved Internal Audit Policy framework. The Head of Internal Audit reports to the Chair of the Audit Committee. The Audit Committee oversees the 'risk based' Audit Plan and reports and monitors implementation of recommendations.

Internal Audit reports highlight any significant control failings or weaknesses identified and the impact they have had or may have and the actions and timings which Management have agreed to take to rectify them.

The effectiveness of the Internal Audit Function as an assurance service depends upon its independence from the day-to-day operations of the business. The Head of Internal Audit provides an annual confirmation of the organisational independence of the Internal Audit function. This confirmation is undertaken through reporting to Octium's Audit Committee.

B.6. Actuarial function

Within the Group and Octium the Actuarial Function and Head of Actuarial Function ("HoAF") are outsourced to KPMG (Ireland). The requirements of the HoAF are in line with guidance from the Central Bank of Ireland and the Society of Actuaries, and include, but are not limited to, the following matters:

- Coordinating the work of the actuarial function and advising the Board accordingly.
- Coordinating the calculation of the firm's technical provisions.
- Providing an opinion on the Underwriting Policy and reinsurance arrangements.
- The provision of advice and support to Octium on its solvency requirements.
- Contributing to the effective implementation of the risk management process
- Modelling of the SCR and Minimum Capital requirement (MCR); and
- Contributing to the ORSA process.

In addition to the above, the HoAF attends Octium's Board, Risk Committee and Investment Oversight Committee meetings and interacts with the CEO, Finance and the CRO to provide advice and support to the business, consistent with the above requirements.

B.7. Outsourcing / Key third party agreements

Octium Holding outsources all of its activities. Service Level Agreements which set out the roles and responsibilities, policies, and procedures along with relevant KPIs, performance review procedures etc. are generally in place in respect of outsourced arrangements. Activities relating to financial and regulatory reporting for the holding companies are undertaken by the finance function in Octium; other support is provided by Evenfort S.à.r.l., a member of the wider shareholder Group.

Octium outsources a number of activities and proactively manages its outsourcing relationships to ensure they meet the needs of the business and comply with all regulatory obligations. The Octium Board has approved an Outsourcing Policy that requires:

- Prior to entering a new outsourcing arrangement an assessment is completed which considers the materiality of the arrangement and the potential for regulatory, financial, reputational or operational impact;
- A responsible person is appointed for managing/oversight of the outsourced activity;
- An appropriate selection and due diligence process is followed which is documented;
- A suitable management and oversight governance framework is implemented for all material outsourcing arrangements;
- A written contract is in place that contains adequate commercial protection and provides for a termination mechanism;
- Central Bank of Ireland is notified in advance of new appointments or changes to a material outsourcing agreement.

Octium's outsourcing arrangements are subjected to an annual review and risk assessment, and the findings of this report are presented to the Board.

The following is a list of the critical or important operational functions Octium has outsourced together with the jurisdiction in which the third-party service providers of such functions or activities are located.

<table>
<tr><th colspan="4">Key Third Party Agreements 2020</th></tr>
<tr><th>Service Provided</th><th>Supplier</th><th>Responsible</th><th>Supplier's Country</th></tr>
<tr><td rowspan="2">Asset Management</td><td>UBS</td><td rowspan="2">CFO</td><td>Germany, Italy, Switzerland</td></tr>
<tr><td>Non-UBS Asset Managers</td><td>Italy, Luxembourg, Switzerland</td></tr>
<tr><td>IT- Life Admin System</td><td>Lifeware</td><td>CEO</td><td>Switzerland</td></tr>
<tr><td>IT -Network and BCP</td><td>Ergo</td><td>CFO</td><td>Ireland</td></tr>
<tr><td>Actuarial</td><td rowspan="2">KPMG</td><td rowspan="2">CFO</td><td rowspan="2">Ireland</td></tr>
<tr><td>Internal Audit</td></tr>
</table>

B.8. Any other information

All material information regarding the System of Governance of the Group and Octium has been disclosed above.

C. Risk Profile

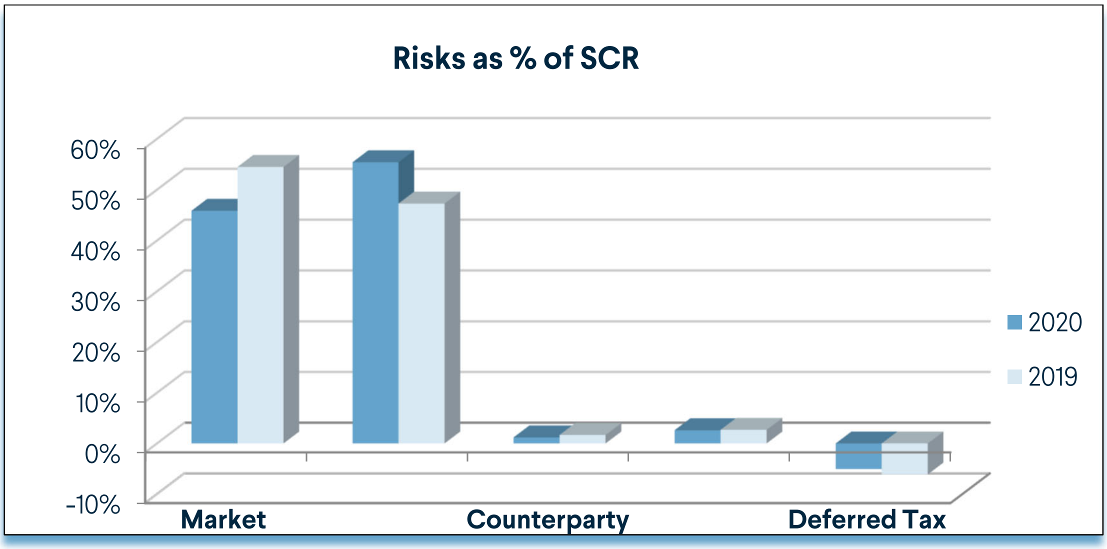
This section sets out the key risks to which the Group is exposed, how they are measured, the risk mitigation techniques employed and any material changes over the reporting period.

The Group's risk exposures relate primarily to uncertainty over the future revenues and expenses of Octium, the sole insurance entity within the Group. Octium manufactures unit linked insurance products with no investment guarantees. Its products are distributed through the Agency, banks and other suitable intermediaries seeking wealth planning solutions for their clients.

The Group Board of Directors has adopted the Standard Formula, as specified in the Solvency II regulation to assess the risks the Group is exposed to and determine the level of Solvency Capital Requirement ("SCR"). The table below provides a breakdown of the key components of the Group's Standard Formula calculation. Risks to capital and profits are assessed through the Group Own Risk and Solvency Assessment (ORSA).

Solvency Capital Requirement	**2020 €'000**	**2019 €'000**
Market risk	30,394	35,606
Counterparty risk	794	1,113
Underwriting risk	36,708	30,900
Diversification effects	(14,451)	(14,601)
Basic SCR	53,445	53,019
Operational risk	2,080	1,822
Loss-absorbing capacity of Deferred Taxes	(3,325)	(3,998)
Solvency Capital requirement	52,200	50,843

The table below shows the main risks having adjusted for the diversification effect on a proportional basis.



C.1. Underwriting risk

Underwriting risk is the risk of loss or adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions.

C.1.1. Risk exposure

The Group's underwriting risk profile is derived from the Standard Formula allowing for the impact of diversification. As at 31 December 2020 the SCR for this module is €36.7m (2019: €30.9m) with intra-module diversification of 13.5% (2019: 14.8%). The key underwriting risks to which the Group is exposed are set out below:

Lapse risk

The primary risk is the risk of lapse rates being higher than expected leading to a loss of future income and potential increase in per policy expenses.

C.1.1.2. Expense risk

Expense risk is the risk that future maintenance expenses are higher than levels assumed in Solvency II balance sheet. Expense risk can arise through mis-estimation, higher than expected inflation, lower volumes of business than expected, expense overruns, regulatory change and changes in the business mix.

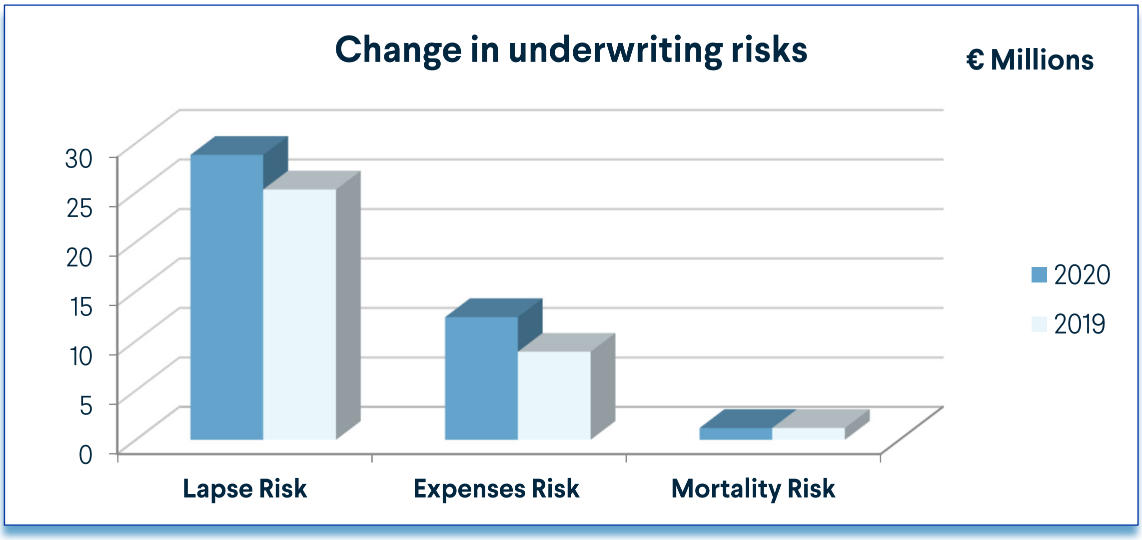
Expenses are managed in line with the Octium's business plan and significant deviations to budget are monitored on a monthly basis by Finance. The Octium Board reviews management accounts quarterly including an assessment of the level of expenses.

C.1.1.3. Mortality risk

Mortality risk is the risk of loss due to an increase in mortality rates. The Group's exposure to mortality risk may result in an increase in death cover payments and a reduction in expected future revenues.

C.1.2. Changes in underwriting risk during 2020

The change in the significant intra-module components of the Group underwriting risk capital requirement is provided in the table below:



C.1.3. Mitigating actions and controls

The Group, through Octium, assesses, monitors and controls underwriting risk through a number of methods:

- Product design minimises mortality risk
- Extensive use of reinsurance limits the Group's mortality exposure
- Lapse risk is mitigated by high quality customer care at commencement and throughout the term of the policy
- Expenses are tightly controlled and managed in line with the business plan
- Quarterly monitoring of experience against stated risk tolerances
- The Own Risk and Solvency Assessment assesses risks under stressed conditions through a range of stress and scenario testing.

C.1.4. Sensitivity and stress testing

Stress and scenario testing conducted as part of the Group ORSA demonstrate the Group's resilience to a range of adverse underwriting stresses. The estimated impact of these sensitivities is shown in the table below:

Sensitivity	Impact on SCR	Impact on Own Funds	% Change in SCR Ratio
Mass Lapse shock +50% lapse event	(50.2%)	(44.5%)	23%
Expense shock +20%	2.8%	(9.7%)	(27%)
Mortality shock +50% permanent increase in mortality rates	(8.5%)	(2.5%)	15%

C.1.5. Risk concentration

There are no material underwriting risk concentrations.

C.2. Market risk

Market risk is the risk of lower returns or losses arising from adverse movements in market prices.

C.2.1. Risk exposure

The Group's market risk profile is derived from the standard formula allowing for the impact of diversification. As at 31 December 2020 the SCR for this module is €30.4m (2019: €35.6m) with intra-module diversification of 19.4% (2019: 25.6%) i.e. allowance for diversification between market risks.

The Group has minimal direct exposure to market risk but retains significant indirect exposure as adverse movements in the value of policyholder assets reduces future policy administration fees. The Group accepts this risk as an inherent element of its business model. The key market risks to which the Group is exposed are set out below:

C.2.1.1. Equity risk

Equity risk relating to unit-linked assets is borne by the policyholder as any change in the value of the assets underlying the policies are offset by corresponding changes in the value of technical provisions. The Group remains exposed to the change in policy administration fee income which is charged as a percentage of asset values.

C.2.1.1. Spread risk

Spread risk relating to unit-linked assets is borne by the policyholder as any change in the value of the assets underlying the policies are offset by corresponding changes in the value of technical provisions. Similar to Equity Risk, the Group's exposure is limited to the extent that policy administration fees which are charged as a percentage of unit linked asset values, are reduced.

C.2.1.3. Currency risk

Currency risk is the risk of loss resulting from adverse movements in currency exchange rates. The Group's capital requirement for currency risk reflects the sensitivity of the values of assets, liabilities and in particular future revenues to changes in the level or in the volatility of currency exchange rates.

- The Group has an indirect exposure to currency risk to the extent that unit linked assets are denominated in currencies other than EUR - Approximately 40% of assets backing policyholder liabilities are denominated in non-EUR currencies of this an immaterial amount of assets are denominated in currencies pegged to the EUR;
- The Group has some direct exposure as a result of policy administration fees or expenses being denominated in currencies other than EUR;
- Some expenses are incurred in non-EUR currencies, in particular CHF as Octium's main IT supplier (policy administration system) is a Swiss-based company.

C.2.1.4. Interest rate risk

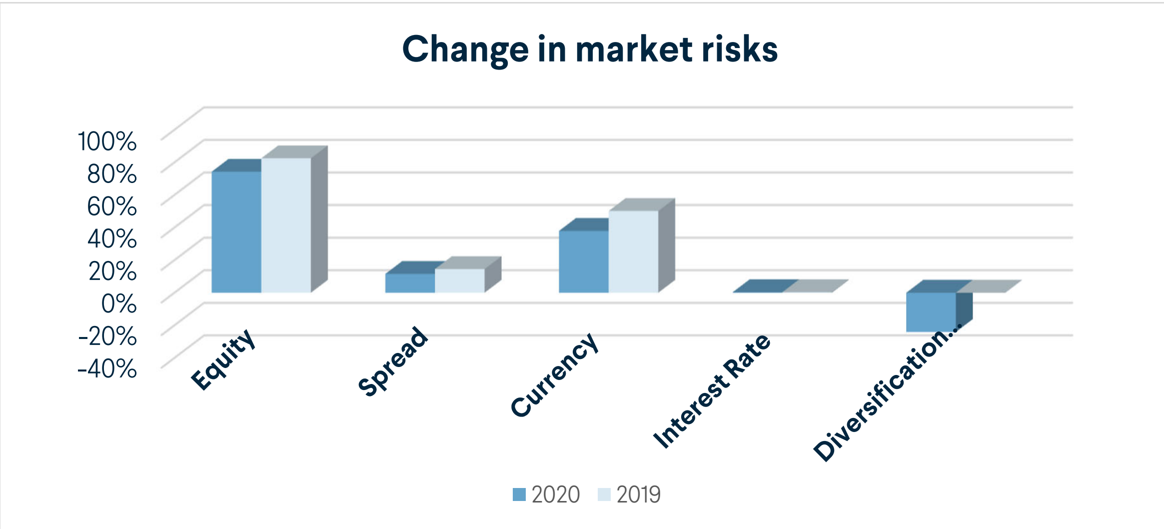
The Group's senior and sub debt is valued on an accruals basis and therefore their values are unaffected by changes in interest rates. The senior loan is on demand subject to 90 days' notice and the lender may increase interest rates which would increase the future cost of the debt. The sub debt, which is undated, is referenced to the EUR 5Y swap rate.

Octium's on-demand cash deposits are valued at par and are therefore unaffected by movements in interest rates. A change in interest rates however does change the interest income generated from these deposits.

Similarly, cash deposits held in unit linked assets are held at par value.

C.2.2. Changes in market risk during 2020

The change in the significant intra-module components of the market risk capital requirement is provided in the table below:



C.2.3. Mitigating actions and controls

The Group, through Octium, assesses, monitors and controls market risk through a number of methods:

- Complies with the Solvency II requirements relating to Prudent Person Principle;
- Investment Oversight Committee oversees the investment of unit linked funds to ensure they are invested prudently and in a manner to ensure their security, quality and liquidity;
- Investment policy imposes close matching of assets to insurance liabilities;
- The Own Risk and Solvency Assessment aims to assess risks under stressed conditions through a range of stress and scenario testing.

C.2.4. Sensitivities and stress testing

Stress and scenario testing conducted as part of the Group ORSA demonstrate the Group's resilience to a significant market stress. The estimated impact on the of the sensitivity explored is detailed in the table below:

Sensitivity	Impact on SCR	Impact on Own Funds	% Change in SCR Ratio
Equity price shock -30%	(10.9%)	(10.3%)	1%

C.2.5. Investment of assets in accordance with the prudent person principle

The 'prudent person principle' requires insurance companies to only invest in assets and instruments whose risks they can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs. Octium considers these requirements before any investment in new assets or instruments.

The majority of the assets on the Group SII balance sheet are held in respect of Octium unit linked contracts where the policyholder bears the market risks of the investments associated with their policy. In fact, assets are selected:

- directly by the policyholder (in policies where this option is available and the policyholder chooses to do so) or
- by the Asset Manager of the mandate(s) underlying the policy (mandate(s) underlying Octium policies are also chosen by the policyholder at the moment of subscription of a policy contract).

In order to mitigate as much as possible risks associated with investments, Octium implements investment monitoring processes in accordance with Solvency II prudent person principle and prudently selects asset managers and external funds suitable for policyholders.

Each external fund, before on-boarding is analysed to verify its compliance with Octium investment rules. Asset Managers are also subject to rigorous due diligence prior to business being placed with them. Asset Managers are issued with a fully documented set of rules and parameters specifying how assets are to be invested within each mandate and what assets are allowed in Octium's portfolios in order to support the policyholder benefits.

The Octium Investment Oversight Committee monitors external funds and Assets Managers. Any investment mandates or limit breaches are escalated for resolution to ensure investments always lie within the parameters set. Additional controls are in place to monitor assets liquidity and quality of their valuation processes.

The Finance team must be comfortable that well defined and appropriate valuation methods have been developed for those instruments where external pricing information is not readily available.

C.2.6. Risk concentrations

There are no material market risk concentrations.

C.3. Credit risk

Credit risk is the risk of lower returns or loss if another party fails to perform its financial obligations.

C.3.1. Risk exposure

The Group's credit risk profile is derived from the Standard Formula allowing for the impact of diversification. As at 31 December 2020 the SCR for this module is €0.8mm (2019: €1.1m).

Similar to market risk, credit risk on unit linked assets is borne by the policyholder. In addition, the Company has an exposure to credit risk in relation to its deposits with credit institutions, the Italian Tax Authorities and amounts receivable under reinsurance arrangements.

C.3.2. Changes in credit risk during 2020

There has been no material change in credit risk exposures during 2020.

C.3.3. Mitigating actions and controls

The Group, through Octium, monitors and controls credit risk using the following methods:

- Credit risk policy imposing principles and requirements for credit risk management and Investment Policy imposing credit ratings limits for investment counterparties and concentration limits to avoid overexposure to any investment counterparty;
- Regular monitoring of exposures relative to credit risk limits;
- Quarterly settlement of outstanding reinsurance balances.

C.3.4. Sensitivities and stress testing

No credit risk sensitivity or stress testing was completed during 2020.

C.3.5. Risk concentrations

The Group transfers its mortality risk to a single reinsurance company. In certain extreme circumstances this may result in a significant exposure.

C.4. Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient liquidity to meet their obligations when they fall due or would have to incur excessive costs or trading losses to do so.

C.4.1. Risk exposure

The most significant liquidity risk for the Group is a demand for the immediate repayment of its senior debt, which was €6.9m at 31 December 2020 (2019: €11.1m). However, the holder of the senior debt is a connected undertaking and whose strategy is the long-term support of the Group.

The Group has sufficient liquid reserves at 31 December 2020 to meet a demand for repayment should it arise, although it would subsequently be less resilient to a liquidity stress event.

The Group also has to pay interest on the debt arrangements as they fall due; given the levels of interest rates on the debt arrangements with annual interest of c. €1.5m., this is not a material exposure at this stage.

The liquidity risk associated with unit linked assets is borne by the policyholder as policy contracts are linked to the liquidity of the underlying assets as well as the value.

Historically the requirements of the Italian substitute tax have been one of the most significant strains on Octium's liquidity. However, given a reducing cap and the 5-year roll-over relief which became effective in 2016, there is a significant reduction in the annual requirements going forward and consequently liquidity is projected to improve from this source over the next number of years.

C.4.2. Changes in liquidity risk exposure during 2019

There has been no material change in liquidity risk exposures during 2020.

C.4.3. Mitigating actions and controls

The Group's objective is to ensure that it has sufficient liquidity to meet the short- and medium-term requirements of the business. As such, Octium maintains a prudent liquidity position to meet these requirements. Octium held €26.5m in on-demand cash deposits at 31 December 2020 (2019: €33.7m) and €12m on 90-day notice (2019: Nil). Other group entities held a total of €0.5m in on demand cash deposits at 31 December 2020 (2019: €0.3m).

Liquidity risk is principally managed in the following ways:

- Assets of a suitable marketability are held to meet liabilities as they fall due;
- Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term;
- A liquidity buffer is maintained to cover unforeseen events;
- Ongoing monitoring allows mitigating actions to be taken at an early stage if required.

C.4.4. Sensitivities and stress testing

The Group's projected cash position before dividends is expected to improve significantly over the next five years. As part of the Group ORSA the cashflow of the business was subjected to a range of adverse but plausible scenarios. In all cases the Group had sufficient cash inflows to meet its liquidity requirements at all times.

C.4.5. Expected profit included in future premiums

As of 31 December 2020, the Group's expected profit in future premiums was Nil (2019: Nil).

C.4.6. Risk concentrations

There are no material liquidity risk concentrations.

C.5. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external causes (deliberate, accidental, or natural).

C.5.1. Risk exposure

The Group's operational risk profile is derived from the standard formula allowing for the impact of diversification. As at 31 December 2020 the SCR for this module is €2.1m (2019: €1.8m).

The primary operational risk exposures identified within the business include: Key person risk, system failure including business continuity risk, fraud risk, IT and cyber security, legal and compliance risk, governance failure, outsourcing and adequacy of resourcing.

C.5.2. Changes in operational risk during 2020

There has been no material change in operational risk exposures during 2020.

C.5.3. Mitigating actions and controls

The Group, through Octium, monitors and reports operational risks using the following methods:

- A robust framework for the oversight and management of operational processes and material outsourcing arrangements;
- Regular Risk and Control Self-Assessment process;
- Incident management process, root cause analysis and learning from adverse experience;
- Oversight exercised by Internal Audit, Compliance and Risk functions;
- Emerging risk workshops are held as required.

C.5.4. Sensitivity and stress testing

The impact of a cyber-attack disabling the policy administration system of Octium was considered as part of the annual stress and scenario testing program. In this scenario event drivers and likely responses were documented, and an assessment of the adequacy of actions and plans was completed.

C.5.5. Risk concentration

There are no material operational risk concentrations.

C.6. Other material risks

C.6.1. Strategic risk

The risk of loss or other adverse impact on the Group arising from failing to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years.

Octium prepares and approves an annual plan and budget and performance is monitored against this plan throughout the year. Octium is significantly dependent on UBS for distribution of its products, bringing concentration risk. Octium accepts these risks as part of the strategy but is actively seeking new distributors to reduce this reliance on UBS. The financial impact of these risks materialising is lower profit and reduced solvency. Octium monitors key metrics such as lapses, claims and new business.

C.6.2. Emerging risks

Octium holds workshops with business units as and when new risks arise to analyse these risks and their potential impact on the business.

C.7. Any other information

All material information regarding the Group’s risk profile has been set out above.

D. Valuation for Solvency Purposes

D.1. Assets

The valuation of assets for solvency purposes is required to be on a market consistent fair value basis. In general, this is determined in accordance with the financial statements. The Group's consolidated financial statements have been prepared in accordance with Luxembourg Generally Accepted Accounting Principles.

Certain assets are measured and presented to comply with Solvency II principles and differ from the measurement and presentation in the financial statements.

Reconciliation of assets in F/S to Solvency II	2020 €'000	2019 €'000	Valuation Approach	Notes
POLICYHOLDER ASSETS				
Assets held to cover linked liabilities	4,173,094	4,233,604	Fair Value	D1.1
SHAREHOLDER ASSETS				
Cash at bank and in hand	38,904	33,994	Cost	
Italian substitute tax asset	43,725	49,727	Fair Value	
Other debtors and receivables	3,180	1,763	Fair Value	
Tangible assets	403	425	Amortised Cost	
Deferred acquisition cost	77	-	Amortised Cost	
Other financial investments	3	6		
Total assets per F/S	4,259,386	4,319,519		
Adjustments for Solvency II:				
Reinsurance recoverables	(1,531)	(489)	Fair Value	D1.2
Tax asset discounting	-	-	Fair Value	D1.3
Deferred acquisition cost	(77)			
Holdings in related undertakings, including participations adjustment	(308)	-		
Total assets per Solvency II	4,257,470	4,319,030		

D.1.1. Assets held for index-linked and unit-linked contracts

Unit linked assets are measured at fair value for Solvency II purposes as well as in Octium's financial statements.

Approximately 35% (2019: 37%) of these assets are valued based on quoted prices obtained from an active market (recognised and active exchange). Approximately 61% (2019: 60%) are priced based on inputs other than quoted prices that are market observable. Approximately 4% of assets (2019: 3%) are priced based on inputs which are unobservable in the marketplace.

The objective of the valuation techniques applied is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

D.1.2. Reinsurance recoverables

This amount represents the reinsurers' share of technical provisions net of reinsurance premiums. Recoverables are valued using the Solvency II criteria which take into account the expected cash flows from recoveries net of reinsurance premiums, discounted according to the risk-free rate curve. The result is a negative asset representing the present value of reinsurance.

No provision is required in the Group's consolidated financial statements for benefits paid above the value of unit linked assets in the case of death as the amounts, net of reinsurance, are immaterial and there are sufficient profits arising from the policies to cover any costs.

D.1.3. Withholding Tax Asset

Octium, as an Italian Withholding Tax Agent is required to make an annual tax prepayment to the Italian Tax Authorities of 0.45% of the Italian assets under administration at 31 December, subject to relief in the form of a cap on the overall level of the asset and an offset mechanism which compares payments five years prior to current year recoveries. Contributions to the Italian Revenue are recognised as a tax prepayment asset. Recovery of the asset is through future policyholder exit tax on chargeable gains, the amount and timing of which is dependent on the level of unrealised gains or losses that exist at policy level. This asset has been discounted in the statutory financial statements to arrive at a value-in-use valuation. In the Solvency II balance sheet, the asset is held at face value and the discounting is applied using the Solvency II criteria within Best Estimate Liabilities element of technical provisions.

D.2. Technical Provisions

The technical provisions have been calculated as the sum of a best estimate plus a risk margin in accordance with Articles 75 to 86 of the Solvency II Directive. They represent a realistic estimate of the company's future obligations with an allowance for some deviation for plausible changes in estimation in the form of the risk margin.

The table below sets out the components of Octium's technical provisions as at 31 December.

Technical Provisions	2020 €'000	2019 €'000
BEL	4,089,099	4,145,287
Risk Margin	15,923	10,595
Technical provisions	4,105,022	4,155,882

The key sources of uncertainty for Octium are investment performance and policyholder behaviour assumptions. The non-unit BEL (negative liability) has increased during 2020 primarily due to net business outflow decreasing funds under management.

D.2.1. Best Estimate Liabilities (BEL)

The BEL represents unit linked liabilities less the projected future surplus arising from fees from the existing policies. The BEL is calculated as the discounted value of projected monthly cashflows involved in fulfilling the liabilities under the in-force business. Octium matches all liabilities under unit linked policies with the underlying assets and the policies are valued by reference to the market value of those assets.

The main assumption in calculating the future surplus from the unit linked policies is regarding the level and duration of future expenses and policy lapse rates.

The calculations have been performed on a best estimate basis in accordance with the Solvency II Directive. The underlying policyholder behaviour assumptions are based on policyholder behaviour experience (e.g. surrenders/lapses, fund choices). Economic assumptions have been set consistent with economic conditions prevailing at 31 December 2020. The calculations do not make any allowance for transitional measures or assumed management actions.

D.2.2. Risk Margin

The Risk Margin is an addition to the BEL to ensure that the technical provisions are equivalent to the amount that an insurance undertaking would be expected to be paid in order to take over the insurance liabilities and administer the payment of these obligations as they fall due. The risk margin is calculated as the amount of capital needed to support the SCR over the lifetime of the business.

In calculating the technical provisions Octium does not apply the following:

1. Matching adjustment referred to in Article 77b of Directive 2009/138/EC.
2. Volatility adjustment referred to in Article 77d of Directive 2009/138/EC.
3. Transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.
4. Transitional deduction referred to in Article 308d of Directive 2009/138/EC.

The difference between financial statements and the Solvency II valuation of technical provisions is set out in the table below.

Reconciliation of Technical Provisions	2020 €'000	2019 €'000
Technical provisions per F/S	4,173,094	4,233,604
Solvency II adjustments		
Provisions other than Technical Provisions	(39,862)	(45,243)
BEL	(44,132)	(43,074)
Risk Margin	15,923	10,595
Solvency II Technical Provisions	4,105,022	4,155,882

D.3. Other Liabilities

D.3.1. Other Liabilities

These comprise of payments due to Octium's policyholders and intermediaries, the senior and subordinated debt issued by Octium Holding S.A., other creditors such as tax and social insurance and accruals for expenses incurred prior to year-end. No adjustment is required to these valuations for solvency purposes as the amounts held under accounting principles are deemed to be approximations of fair value.

Other Liabilities	2020 €'000	2019 €'000
Creditors arising from insurance	40,102	45,243
Senior Loan	6,924	11,108
Subordinated loan	40,000	40,000
Other creditors	104	154
Accruals	7,274	6,105
Deferred tax	3,325	3,998
Other Liabilities	97,729	106,608

D.3.2. Contingent liabilities

For the valuation for solvency purposes, material contingent liabilities must be recognised as liabilities, unlike accounting principles under which they are only recognised if the payment of a liability is probable (more likely than not) and can be estimated reliably. Under Solvency II valuation principles, contingent liabilities are valued on the expected present value of future cash flows required to settle the liabilities over their lifetimes.

The Group had no contingent liabilities at 31 December 2020 or 31 December 2019.

D.4. Alternative Methods for Valuation

Neither the Group nor Octium use any alternative methods for valuation other than those discussed above where the accounting basis differs from those prescribed under Solvency II.

D.5. Any Other Information

All material information regarding valuation for solvency purposes is set out above.

E. Capital Management

E.1. Own funds

E.1.1. Policies and Processes

Octium Holding S.A. is a single shareholder entity whose shares are fully paid up. The Group's own fund items (other than the value arising from the existing policies and the Italian tax assets) are invested in bank deposits.

The Group is at all times required to have own funds available at group level equal to at least 100% of the Group SCR. The Group sets internal target capital levels above the level of the Group SCR to ensure timely action can be taken to address a deteriorating capital position.

E.1.2. Analysis of Own Funds

Group own funds are comprised of paid-in ordinary share capital, a paid-up subordinated loan and the reconciliation reserve, as detailed in the table below.

Octium Holding S.A. issued a non-subordinated loan to a connected undertaking in May 2017. In December 2017, part of the non-subordinated debt was converted into Tier 1 subordinated debt. However, due to Solvency II limits, not all of available Tier 1 sub-debt is eligible to cover the Group SCR and Minimum Consolidated Group SCR.

Analysis of Own Funds	2020 €'000			2019 €'000		
	Tier 1	Tier 2	Total	Tier 1	Tier 2	Total
Share Capital	31		31	31		31
Subordinated Liabilities	40,000		40,000	40,000		40,000
Subordinated Liabilities – SCR tiering restrictions	(26,320)	26,108	(213)	(25,865)	25,422	(443)
Reconciliation Reserve	54,688		54,688	56,508		56,508
Own Funds Available to meet SCR	**68,399**	**26,108**	**94,506**	**70,674**	**25,422**	**96,096**
Subordinated Liabilities – MCR tiering restrictions		(21,408)	(21,408)		(20,846)	(20,846)
Own Funds Available to meet MCR	**68,398**	**4,699**	**73,098**	**70,674**	**4,576**	**75,250**

The reconciliation reserve is made up of retained earnings as per the consolidated balance sheet and the projected future surplus arising from fees from the existing policies (i.e. technical provisions excluding unit reserves) net of deferred tax liabilities. A reconciliation between equity as shown in the financial statements and the Solvency II excess of assets over liabilities is shown below.

There are no restrictions to the fungibility and transferability of the related undertaking's own funds within the Group.

Octium's own funds available to cover the Overall Solvency Needs ("OSN"), SCR and MCR at 31 December 2020 was €106.8m (2019: €106.4m). This is comprised entirely of Tier 1 Basic Own Funds.

The decrease in Group own funds available to meet SCR from 31 December 2019 to 31 December 2020 is a result of:

- Increase of €2.9m in respect of accounting profits;
- Increase of €0.2m due to change in tiering restrictions on subordinated liabilities;
- €5.3m decrease as a result of increases in the Group's net technical provisions:
    - €2.1m increase due to changes to the portfolio in terms of funds under management and the underlying portfolio of policyholders;
    - Assumption changes had a net zero impact with increased expense assumptions and a reduced yield curve increasing technical provisions and lower lapse, mortality and fund management charge assumptions reducing technical provisions;
    - €3.3m increase due to model updates.
- €0.7m increase as a result of a decrease in the level of deferred tax liability.

E.1.3. Reconciliation of equity in the Financial Statements and Own Funds (excluding tiering restrictions)

Reconciliation of Equity to Own Funds	2020 €'000	2019 €'000
Total Equity per F/S	31,443	28,548
Solvency II BEL	44,133	43,073
Solvency II Risk Margin	(15,923)	(10,595)
Deferred Tax Liability	(3,325)	(3,998)
Reinsurance Recoverables	(1,531)	(489)
Tax Asset Discounting	-	-
Deferred acquisition cost	(77)	-
Excess of Assets over Liabilities	54,719	56,539
Subordinated Liabilities	40,000	40,000
Own Funds (excluding tiering restrictions)	94,719	96,539

The Group's own funds bear the following features:

1. They are not subject to transitional arrangements.
2. No deductions have been applied to own funds.
3. There are no ancillary own funds.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

The Group calculates its solvency capital requirement using the consolidation-based method (Method 1). The amount of Group's SCR and MCR at 31 December 2020 are €52.0m and €23.5m respectively (2019: €50.8m and €22.9m).

The table below shows the components of the SCR (using the Standard Formula) at 31 December:

Solvency Capital Requirement	2020 €'000	2019 €'000
Market Risk	30,394	35,606
Counterparty Risk	794	1,113
Underwriting Risk	36,708	30,900
Diversification Effects	(14,451)	(14,601)
Basic SCR	**53,445**	**53,019**
Operational Risk	2,080	1,822
Loss-absorbing capacity of Deferred Taxes	(3,325)	(3,998)
Solvency Capital Requirement	**52,200**	**50,843**

The SCR increased during 2020 due primarily to assumption changes with lower lapse, mortality and fund management charge assumptions increasing capital requirements, somewhat offset by a lower yield curve. This increase was offset partially by changes in risk profile of funds under management, particularly equity and currency risk.

E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Group has not opted to use the duration-based equity risk sub-module, of the Solvency II regulations

E.4. Differences between the standard formula and any internal model used

The Group does not use an internal model.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

There was no breach of the Solvency Capital Requirement (and hence the Minimum Capital Requirement) over the reporting period.

E.6. Any Other Information

The Group uses EIOPA's Solvency II Standard Formula. It does not use specific parameters and does not use simplified calculations in its computation of capital requirements.

F. Appendix: Group Quantitative Reporting Templates

F.1. QRT – S.02.01.02 – Balance Sheet

	Solvency II value
Assets	C0010
Property, plant & equipment held for own use	380
Investments (other than assets held for index-linked and unit-linked contracts)	40
Property (other than for own use)	0
Holdings in related undertakings, including participations	37
Equities	0
Bonds	1
Government Bonds	0
Corporate Bonds	0
Structured notes	1
Collateralised securities	0
Collective Investments Undertakings	2
Derivatives	0
Deposits other than cash equivalents	12,104
Other investments	0
Assets held for index-linked and unit-linked contracts	4,173,094
Loans and mortgages	0
Loans on policies	0
Loans and mortgages to individuals	0
Other loans and mortgages	0
Reinsurance recoverables from:	-1,531
Non-life and health similar to non-life	0
Non-life excluding health	0
Health similar to non-life	0
Life and health similar to life, excluding health and index-linked and unit-linked	0
Health similar to life	0
Life excluding health and index-linked and unit-linked	0
Life index-linked and unit-linked	-1,531
Deposits to cedants	0
Insurance and intermediaries receivables	52
Reinsurance receivables	0
Receivables (trade, not insurance)	95
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	26,482
Any other assets, not elsewhere shown	46,753
Total assets	4,257,470

F.2. QRT – S.02.01.02 – Balance Sheet (continued)

Liabilities	C0010
Technical provisions – non-life	0
Technical provisions – non-life (excluding health)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - health (similar to non-life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding index-linked and unit-linked)	0
Technical provisions - health (similar to life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions – life (excluding health and index-linked and unit-linked)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions – index-linked and unit-linked	4,105,022
TP calculated as a whole	0
Best Estimate	4,089,099
Risk margin	15,923
Contingent liabilities	0
Provisions other than technical provisions	40,102
Pension benefit obligations	0
Deposits from reinsurers	0
Deferred tax liabilities	3,325
Derivatives	0
Debts owed to credit institutions	0
Financial liabilities other than debts owed to credit institutions	6,924
Insurance & intermediaries payables	104
Reinsurance payables	0
Payables (trade, not insurance)	7,274
Subordinated liabilities	40,000
Subordinated liabilities not in Basic Own Funds	0
Subordinated liabilities in Basic Own Funds	40,000
Any other liabilities, not elsewhere shown	0
Total liabilities	4,202,751
Excess of assets over liabilities	54,719

F.3. QRT – S.05.01.02 – Premiums, claims and expenses by line of business

		Line of Business for: **life insurance obligations** — Index-linked and unit-linked insurance	**Total**
		C0230	C0300
	Premiums written		
R1410	Gross	189,613	189,613
R1420	Reinsurers' share	6	6
R1500	Net	189,607	189,607
	Premiums earned		
R1510	Gross	189,613	189,613
R1520	Reinsurers' share	6	6
R1600	Net	189,607	189,607
	Claims incurred		
R1610	Gross	308,377	308,377
R1620	Reinsurers' share	0	0
R1700	Net	308,377	308,377
	Changes in other technical provisions		
R1710	Gross	0	0
R1720	Reinsurers' share	0	0
R1800	Net	0	0
R1900	**Expenses incurred**	7,441	7,441
R2500	**Other expenses**		2,215
R2600	**Total expenses**		9,655

F.4. QRT – S.05.02.01 – Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations	Total Top 5 and home country
		C0150	C0160	C0210
R1400			IT	
		C0220	C0230	C0280
	Premiums written			
R1410	Gross	147,943	41,662	189,606
R1420	Reinsurers' share	0	0	0
R1500	Net	147,943	41,662	189,606
	Premiums earned			
R1510	Gross	0	0	0
R1520	Reinsurers' share	0	0	0
R1600	Net	0	0	0
	Claims incurred			
R1610	Gross	251,503	56,874	308,377
R1620	Reinsurers' share	0	0	0
R1700	Net	251,503	56,874	308,377
	Changes in other technical provisions			
R1710	Gross	0	0	0
R1720	Reinsurers' share	0	0	0
R1800	Net	0	0	0
R1900	**Expenses incurred**	4,948	2,074	7,022
R2500	**Other expenses**			2,206
R2600	**Total expenses**			9,227

F.5. QRT – S.23.01.22 – Own Funds

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2
Ordinary share capital (gross of own shares)	31	31		0
Reconciliation reserve	54,688	54,688		
Subordinated liabilities	40,000		40,000	0
Deductions				
Total deductions	0	0	0	0
Total basic own funds after deductions	94,719	54,719	40,000	0
Ancillary own funds				
Total ancillary own funds	0			0
Own funds of other financial sectors				
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	94,719	54,719	40,000	0
Total available own funds to meet the minimum consolidated group SCR	94,719	54,719	40,000	0
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	94,506	54,719	13,680	26,108
Total eligible own funds to meet the minimum consolidated group SCR	73,098	54,719	13,680	4,699
Consolidated Group SCR				
Minimum consolidated Group SCR	23,497			
Ratio of Eligible own funds to Minimum Consolidated Group SCR	3.1110			
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	94,506	54,719	13,680	26,108
Group SCR	52,200			
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	1.8103			
Reconciliation reserve	C0060			
Excess of assets over liabilities	54,719			
Other basic own fund items	31			
Reconciliation reserve before deduction for participations	54,688			
Total Expected profits included in future premiums (EPIFP)	0	-		

F.6. QRT – S.25.01.22 – Solvency Capital Requirement – for groups on standard formula

	Gross solvency capital requirement
	C0110
Market risk	30,394
Counterparty default risk	794
Life underwriting risk	36,708
Health underwriting risk	0
Non-life underwriting risk	0
Diversification	-14,451
Intangible asset risk	0
Basic Solvency Capital Requirement	53,445

Calculation of Solvency Capital Requirement	C0100
Operational risk	2,080
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	-3,325
Solvency capital requirement excluding capital add-on	52,200
Capital add-on already set	0
Solvency capital requirement	52,200
Other information on SCR	-
Minimum consolidated group solvency capital requirement	23,497
Information on other entities	-
Capital requirement for other financial sectors (Non-insurance capital requirements)	0
Overall SCR	-
SCR for undertakings included via D and A	0
Solvency capital requirement	52,200

F.7. QRT – S.32.01.22 – Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking
C0010	C0020	C0030	C0040	C0050
LU	549300X6ZVC40AF52Q63	LEI	Octium Holding S.A.	5
IE	549300B5M7Z8CX8LRX97IE00002	SC	Octium Holding Limited	5
IE	52990020O5TKOTGS9Z42	LEI	Octium Life DAC	1
LU	549300B5M7Z8CX8LRX97LU00001LU 00001	SC	KLP S.a.r.l.	99
LI	549300OHH5P7XWOLBL80	LEI	Octium_International_Insurance_Services_AG	99

Legal form	Category (mutual/non mutual)	Supervisory Authority
C0060	C0070	C0080
Société anonyme	2	
Company limited by shares	2	
Company limited by shares	2	Central Bank of Ireland
Société à responsabilité limitée	2	
Company limited by shares	2	FMA Liechenstein

Criteria of influence					
% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation
C0180	C0190	C0200	C0210	C0220	C0230
1.0000	0.5100	1.0000		1	1.0000
1.0000	0.5100	1.0000		1	1.0000
1.0000	0.5100	1.0000		1	1.0000
1.0000	0.5100	1.0000		1	1.0000

Inclusion in the scope of Group supervision		Group solvency calculation
YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0240	C0250	C0260
1		1
1		1
1		1
1		1
1		1