

# OCTIUM

**Octium Assurance Aktiengesellschaft**

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

**For the financial year ended 31 December 2022**



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## Executive Summary

Following the introduction of the Solvency II EU regulatory regime on 1st January 2016, companies are required to provide a Solvency and Financial Condition Report (SFCR) providing detailed information in a publicly available document covering governance, business performance, solvency and capital management.

Octium Assurance AG, inclusive its branch Octium Assurance AG (Italian Branch) (“Octium” or the “Company”) – former Credit Suisse Life & Pensions Aktiengesellschaft – is a life insurance company incorporated in Liechtenstein and regulated by the Financial Market Authority of Liechtenstein. The Company was first authorised to write life insurance business in 2001 and holds licences for class I & III (Unit Linked).

Octium offers single premium unit linked life insurance products to High Net Worth (“HNW”) individuals, whereby clients have the flexibility to select from a broad range of investment options in conjunction with their chosen investment advisor or asset manager.

The Company operates cross border into EU markets under the third life directive’s freedom to provide services regime. Octium distributes its products through banks and other suitable intermediaries seeking wealth planning solutions for their clients. All products are offered subject to the local regulatory and tax requirements and in local language. The key markets for the Company are Germany and Italy. The company also accepts applications from other markets provided that it is legally able to do, has a tax compliant product available for clients from that market and that the application is intermediated on a compliant basis, by a regulated distributor.

The Company has had no material changes over the period to its business, performance, systems of governance, risk profile or valuation for solvency purposes. The Company maintains a strong solvency position with a ratio of available assets to solvency requirement of 230% at 31 December 2022. Below is a summary of the business profile, key changes and events in 2022.

### Business and performance

Octium made a profit before tax for the year ended 31 December 2022 of €2.9m (2021: €4.3m). The assets under management decreased to €4.2bn (2021: €5.1bn).

### System of governance

Octium’s Board of Directors (the “Board”) has responsibility for compliance with the regulatory requirements and the governance arrangements. The Company and its BoD have maintained effective governance and controls to manage business activities and risks. The Company continued in 2022 to strengthen its governance and procedures. Going forward internal guidelines will be reviewed in order to align them within Octium Group.

### Risk profile

Octium 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 our 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 our business means that our Solvency Ratio remains resilient to changes in the business. There have been no material changes in Octium’s risk exposures during the year.



## **Valuation for solvency purposes**

Octium continues to manage its balance sheet prudently to ensure its 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 Board ensures that Octium's capital is adequate to cover the expected requirements in the short to medium term.

## **Capital management**

Octium's capital requirements are assessed by its Appointed Actuary ("AA") and the solvency ratio at 31 December 2022 was 230% (2021: 203%). The solvency ratio indicates the amount of capital held relative to regulatory requirements.

## **Other information**

This report has been prepared in accordance with the requirements of the Solvency II Directive as at 31 December 2022. Octium's financial year runs to 31 December each year and it reports its results in EUR. Octium changed the functional currency from CHF to EUR as at 30<sup>th</sup> November 2022.

Octium's financial statements are prepared on the basis of the principles of the Liechtenstein's Person and Companies Act, Insurance Supervision Act (Versicherungsaufsichtsgesetz, "VersAG") and Liechtenstein Insurance Supervision Ordinance (Versicherungsaufsichtsverordnung, "VersAV") in the currently valid versions, including the Solvency II Directive 2009/138/EC, the Commission Delegated Regulation (EU) 2015/35 and the EIOPA Guidelines on Reporting and Public Disclosure EIOPA-BoS- 15/109 EN.



## A. Business and Performance

### A.1. Business

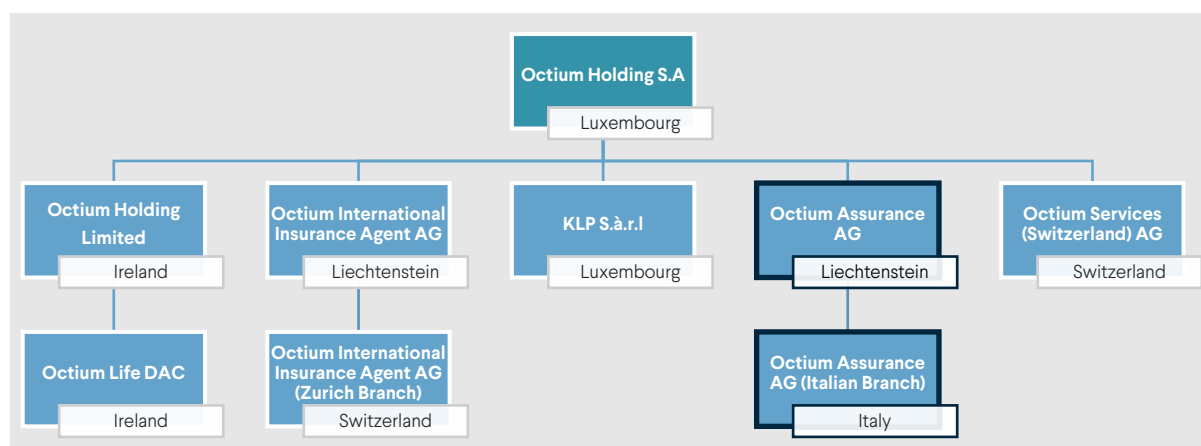
#### A.1.1. Company Information

Octium Assurance AG, Vaduz, is an unquoted, limited company, located in Vaduz, Liechtenstein (Fürstentum Liechtenstein). Under the regime of freedom of establishment Octium operates a branch, Octium Assurance AG (Italian Branch), abbreviated here and in the following as “Octium IB”, domiciled in Milan, Italy.

Name of Company	Octium Assurance Aktiengesellschaft	Registered Address: Austrasse 61 9490 Vaduz LIECHTENSTEIN
Auditors	PricewaterhouseCoopers AG	PricewaterhouseCoopers AG Birchstrasse 160 8050 Zürich SWITZERLAND
Regulatory Supervisor	“Finanzmarktaufsicht Liechtenstein” (FMA)	Landstrasse 109 Postfach 279 9490 Vaduz LIECHTENSTEIN

#### A.1.2. Shareholdings

Octium Holding S.A. is 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 Life”), Octium Assurance AG (“Octium Assurance”) and Octium International Insurance Agent AG (the “Agency” or “OIIA”) belong (collectively referred to as the “Group”).



### A.1.3. Products

Octium is a leading insurer in the offshore bond market offering unit linked life assurance products with an open architecture on a freedom of services basis with focus on the German and Italian markets. In Belgium it holds a small book of policies written many years ago which is in run-off now.

The main product offering is a portfolio bond, which allows the 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

Octium Group entered into an agreement to buy, subject to regulatory approval the Private Placement Life Insurance business of YouPlus Assurance AG. This acquisition will transform the company to one of Liechtenstein's largest PPLI providers.

## A.2. Underwriting Performance

The Company's financial statements were prepared in accordance with the European Union (Insurance Undertakings: Financial Statements) Regulations 2015 and are based on the principles of the Liechtenstein, Persons and Companies Act (PGR), the Law of 6 December 1995 on the supervision of insurance companies (Insurance Supervision Acts; VersAG) and the associated ordinance (Insurance Supervision Ordinance; VersAV) in the currently valid versions. Octium's products are classified as "insurance-based investment products" under Directive (EU) 2016/97 - Insurance Distributive Directive (IDD). Octium has minimal exposure to mortality risk which is limited by product design and/or reinsurance. 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 2022 was less than 1% although individual policies can have a death benefit of up to 10%. In line with its risk appetite, Octium uses reinsurance to limit its exposure to a maximum of €20,000 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 accounting profits

Overview of accounting profits	2022 €,000	2021 €,000	Change %
Gross accounting profits	2,926	4,308	(32%)
Tax charge	1,749	2,461	(29%)
Profit attributable to the shareholder	1,177	1,846	(79%)

The reduction in profitability is primarily driven by a decrease in administration fees as a result of lower asset values during 2022 compared to 2021 and an increase in operating expenses in support of business development.

### A.2.2. 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.



<b>Risk fees</b>	<b>2022 €,000</b>	<b>2021 €,000</b>	<b>Change %</b>
Risk fees earned	1,391	1,517	(8%)
Reinsurer's share net of profit share	900	977	(8%)
Net Risk fees	492	540	(9%)

### A.2.3. Premiums written

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

<b>Index-linked and unit-linked insurance</b>	<b>2022 €,000</b>	<b>2021 €,000</b>	<b>Change %</b>
Gross	69,661	351,093	(80%)
Reinsurer's share	(927)	(886)	5%
Net Premiums	68,734	350,207	(80%)

### A.2.4. Death risk benefits net of reinsurance

The table below details the death risk benefits incurred.

<b>Death benefits</b>	<b>2022 €000</b>	<b>2021 €,000</b>	<b>Change %</b>
Death risk benefits	498	554	(10%)
Reinsurer's share	360	404	(66%)
Net Death benefits	138	150	(140%)

### A.2.5. Claims incurred

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

<b>Index-linked and unit-linked insurance</b>	<b>2022 €,000</b>	<b>2021 €,000</b>	<b>Change %</b>
Gross claims	434,941	538'954	(19%)
Reinsurer's share	359	482	(25%)
Net claims	434,582	538'473	(19%)

## A.3. Investment Performance

Octium does not provide investment advice. All investments are selected by the policyholder or their intermediary from a pre-approved list of funds or investment managers who are appointed in accordance with a specific investment mandate. The investments selected must be in line with the client's risk profile.

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

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

Asset Type	2022		2021	
	%	€ '000	%	€ '000
Cash and deposits	5%	210,323	11%	551,591
Collective Investment Schemes	63%	2,621,823	62%	3,138,511
Equities	8%	318,981	7%	366,259
Fixed Income Securities	24%	983,621	19%	963,484
Other	1%	41,632	1%	66,680
Total Assets	100%	4,176,380	100%	5,086,526

**A.3.2. 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	2022 € '000	2021 € '000
Interest income/expense - shareholders cash	(225)	(490)
Other investment income, gains and losses	(469,868)	(213)
Investment return	(470,093)	(703)

Asset performance during 2022 followed global market trends, which saw negative performance throughout the year.

**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.

According to Art. 1(2), Decree 209/2002, Italian resident insurance companies (and Italian permanent establishments of non-resident insurance companies) are subject to making advance tax payments based on a tax on mathematical reserves of certain life insurance products. The annual pre-payment is based on the current pre-tax rate of 45bps that potentially increases liquidity/funding needs, hence, interest cost. The Decree also foresees recovery mechanisms (by which corporate tax or capital gains tax of policyholders on policy income can partially be offset) and an additional cap (defined percentage of the mathematical reserves) allowed by the Italian tax authorities. Overall, the balance of the advance tax payments increased to €49.3m (2021: €40.2m) due to an advance payment of €16.7m partially offset by recoveries during 2022. The recovery mechanisms and the cap is explained in more detail in Section E.6. In the Solvency II balance sheet as well as in the statutory balance sheet the balance of the advance tax payments are considered as receivable (trade, not insurance).



The income for the current and previous years is shown below:

#### A.4.1. Other technical income net of reinsurance

Other Technical Income	2022 €'000	2021 €'000
Administration fees	14,650	16,446
Reinsurance premiums, profit share and claims	354	390
Other technical income	15,004	16,836

The reduction in administration fee income relative to 2021 reflects lower asset values during 2022 compared to 2021.

#### A.4.2. Operating expenses

Operating Expenses	2022 €'000	2021 €'000
Acquisition and administration	11,325	8,021
Commission paid	103	223
Death claims	138	150
Operating expenses	11,566	8,394

Operating expenses increased during the year in support of business development.

#### 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. Payments to the Italian Revenue because of the Company becoming a withholding tax agent for substitute tax are recognised as a prepaid tax receivable. All Italian substitute tax on gains due on policies surrendering, or on death, is charged against the receivable.

#### A.5. Any other information

All material information regarding the business and performance of the Company has been set out above.



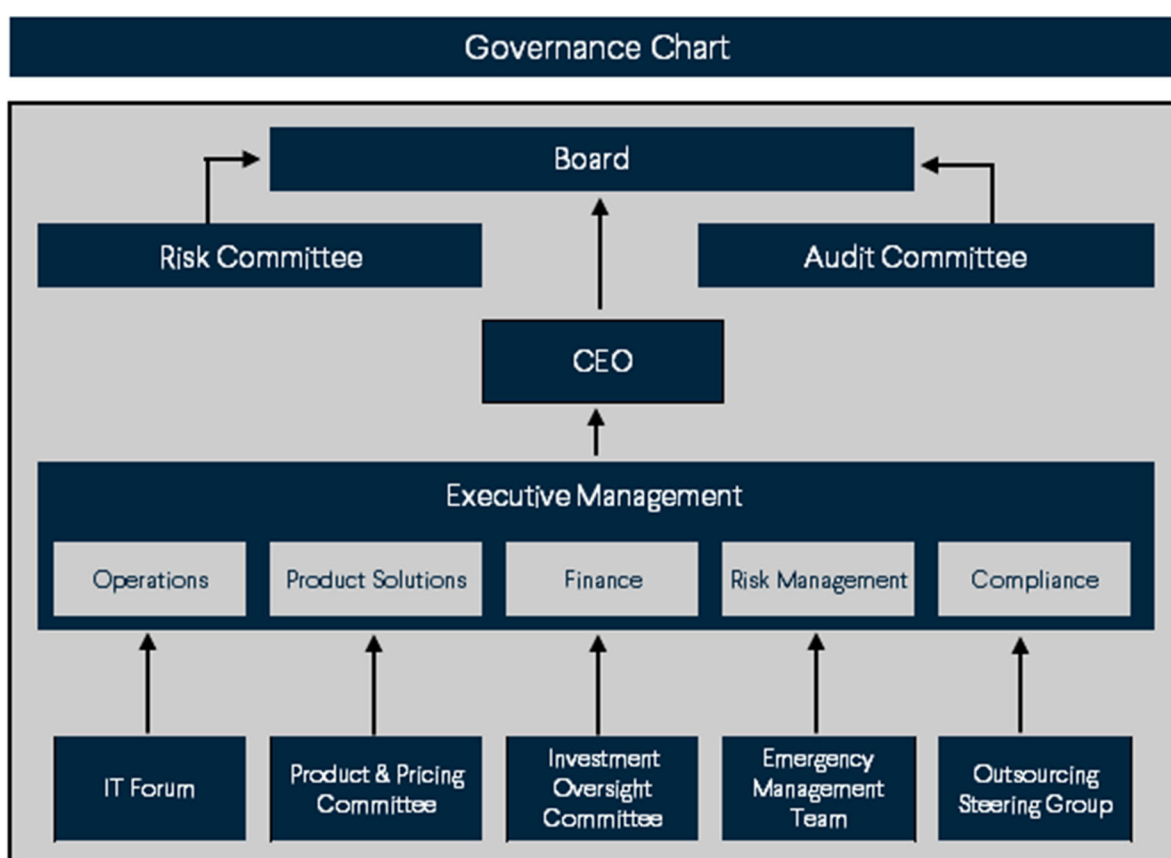
## B. System of Governance

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

Octium is subject to the corporate governance requirements for insurance undertakings. In this context the Board (BoD) is the supervisory body of the company with responsibility for the overall direction, management and for ensuring 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

Octium is committed to high standards of corporate governance. The Octium governance structure comprising the Board, Board Committees, Executive Management, sub committees of the Executive Management and key functions is outlined below:



#### B.1.2. Board of Directors:

At 31 December 2022, the Board comprised of one Executive Director, two Group Non-Executive Directors and two Independent Non-Executive Directors.

BoD Member	Type
Harley Rowland	Chairman, Non-Executive Director
Jean-François Willems	Non-Executive Director



BoD Member	Type
Dara Hurley	Non-Executive Director
Alexander Ospelt	Independent Non-Executive Director
Rainer Marxer	Independent Non-Executive Director

At least annually, the 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 Board Risk Committee and Audit Committee assisted the 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.

#### Audit Committee

The Audit Committee (“AC”) oversees the integrity of the Company’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.

#### Board Risk Committee

The Board Risk Committee (“BRC”) oversees the risk management framework. The Committee provides leadership, direction and oversight of the risk management function and reviews the principal risks and the way they are managed, controlled and mitigated. Its membership consists of three non-executive directors.

### B.1.4. Executive Management

The Executive Management consists of the senior management team and includes the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer. 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

### 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

#### Risk management

The 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 FMA 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 the Executive Management, reports to the Chief Executive Officer and has direct access to the Chair of the Board and Board Risk Committee as required.

## **Compliance**

The 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 reports to the Chief Risk Officer and has direct access to the Chair of the Board and Audit Committee as required.

## **Actuarial**

Please refer to section B.6.



**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 2022.

**B.1.7. Remuneration, Employee Benefits and Practices**

The Board 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.

The Company provides a total remuneration package with the intention of attracting, motivating and retaining people, who believe and live, its culture and values. The package comprises both fixed and variable benefits.

The fixed benefits paid to employees include salary, life cover, permanent health insurance and paid holiday arrangements. Octium also operates a defined contribution pension plan and makes contributions to employee pension funds.

These fixed benefits represent a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable component and to mitigate behaviours which may result in customer detriment.

The Company also provides employees with an annual cash bonus scheme which is not guaranteed, and directly linked to certain Company and individual performance levels being achieved. There is no share or share option scheme in place.

**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 Services Switzerland AG, a related party, and incurred expenses of €2,836k. The Company received financial and IT support services from Octium Life DAC, a related party and incurred expenses €151k.
- The Company received professional services from Octium International Insurance Agent AG, a related party, and incurred expenses of €200k

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

The Company has a Fit and Proper policy in place and is committed to ensuring that Directors, key function holders and senior managers behave with integrity, honesty and skill.

Octium 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 the fit and proper framework, which apply to individuals undertaking prescribed control functions as well as those subject to pre-approval by the FMA, 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 (RO) 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 Executive Management to understand, appropriately manage and mitigate the risks associated with Octium's business strategy over the short, medium and longer term.

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

#### **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 company involves taking risk. The 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 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 the Company's 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 Board 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 the Company is maintained, with triggers based upon the risk appetite set by the Board and monitors actual risk exposures against stated risk appetite.

The KRIs are reported quarterly to the Executive Management, Board 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**

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**

Risk, Compliance and Internal Audit 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 Risk Management Framework, as it combines key processes across the Company: risk management, business planning and capital management.

The ORSA report, is produced at least annually, summarises 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. It includes both qualitative and quantitative assessments of Octium's risk profile 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 report along with potential management actions.





The Board directs the ORSA and challenges 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 Board prior to submission to the FMA.

#### **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 Board. The Board directs and controls Octium through policies it approves and monitors performance against those policies. The Executive Management has clear accountability for the implementation of the policies and strategies approved by the Board. 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 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**

Throughout the Company there are several levels of supervision and review:

- The Risk and Audit Committees and the Board itself offer supervision and review.
- Executive Management 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



Executive Management 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 Internal Audit function and Head of Internal Audit have been outsourced to KPMG 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 the Audit Committee.

## B.6. Actuarial function

The requirements of the HoAF are in line with guidance from the FMA 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 Board, 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

The Company proactively manages all outsourcing relationships to ensure they meet the needs of the business and comply with all regulatory obligations. The 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.
- FMA 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.

<b>Key Third Party Agreements 2022</b>			
<b>Service Provided</b>	<b>Suppliers</b>	<b>Responsible</b>	<b>Supplier’s Country</b>
Asset Management	Partner Network	CFO	Germany, Italy, Switzerland, Liechtenstein, Luxembourg, etc.



Policy Admin System	Lifeware	CEO	Switzerland
IT Network and ISO	Ergo	HoIT	Ireland
Internal Audit	KPMG	CFO	Switzerland

## **B.8. Any other information**

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



## C. Risk profile

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

Octium is a manufacturer of unit linked insurance products with no investment guarantees, for High Net Worth individuals. The Company distributes its products through banks and other suitable intermediaries seeking wealth planning solutions for their clients. Octium's risk exposures relate primarily to uncertainty over future revenues and expenses.

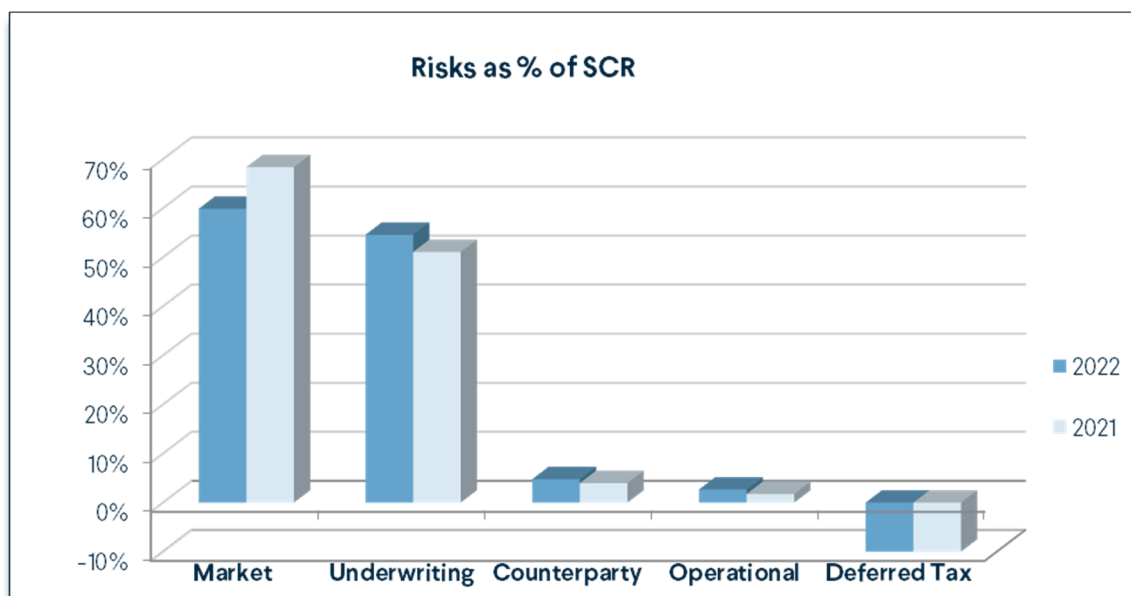
The Octium Board of Directors ("Board") have adopted the Standard Formula, as specified in the Solvency II regulation to assess the risks within the company and determine the level of Solvency Capital Requirement ("SCR").

The table below provides a breakdown of the key components of the Standard Formula calculation. Octium assesses the risks to its capital and profits through its Own Risk and Solvency Assessment (ORSA).

<b>Solvency Capital Requirement</b>	<b>2022 €'000</b>	<b>2021 €'000</b>
Market risk	42,179	63,370
Counterparty risk	3,362	3,707
Underwriting risk	38,445	47,687
Diversification effects	(19,065)	(25,207)
Basic SCR	64,921	89,556
Operational risk	1,873	1,634
Loss-absorbing capacity of Deferred Taxes	(15,423)	(23,384)
Solvency Capital requirement	51,370	67,805

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

Octium’s underwriting risk profile is derived from the Standard Formula allowing for the impact of diversification. At 31 December 2022 the SCR for this module is €38.4m (2021 : € 47.7m) with intra-module diversification of 19.2% (2021: 18.0%) i.e. allowance for diversification between underwriting risks. The key underwriting risks to which Octium is exposed are set out below:

#### Lapse risk

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

#### Expense risk

Expense risk is the risk that future maintenance expenses are higher than levels assumed in the 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 agreed business plan and significant deviations to budget are monitored on a monthly basis by Finance. The Board reviews management accounts quarterly including an assessment of the level of expenses.

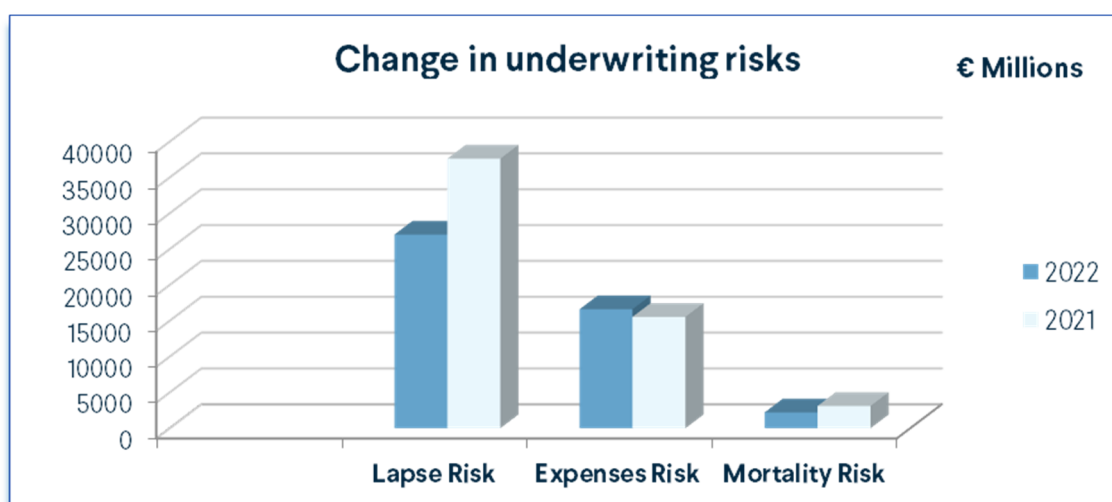
#### Mortality risk

Mortality risk is the risk of loss due to an increase in mortality rates. Octium’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 2022

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





### C.1.3. Mitigating actions and controls

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

- Product design minimises mortality risk.
- Extensive use of reinsurance to limit the Company’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 ORSA demonstrate Octium’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
50% Mass Lapse shock	(34.8%)	(16.8%)	27.6%
Expense shock +20%	31.6%	(8.8%)	(10.4%)
50% permanent increase in mortality	(5.9%)	(2.4%)	4.2%

### 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

Octium’s market risk profile is derived from the standard formula allowing for the impact of diversification. At 31 December 2022 the SCR for this module is €42.2m (2021: €63.4m) with intra-module diversification of 22.6% (2021: 21.5%) i.e. allowance for diversification between market risks.



Octium 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. Octium accepts this risk as an inherent element of its business model. The key market risks to which Octium is exposed are set out below:

## **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. Octium remains exposed to the change in policy administration fee income which is charged as a percentage of asset values.

## **Spread risk**

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

## **Currency risk**

Currency risk is the risk of loss resulting from adverse movements in currency exchange rates. Octium's capital requirement for currency risk reflect 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.

- Octium has an indirect exposure to currency risk to the extent that unit linked assets are denominated in currencies other than EUR - Approximately 44% of assets backing policyholder liabilities are denominated in non-EUR currencies. The Company has also a direct exposure as a result of policy administration fees or expenses being denominated in currencies other than EUR.
- A large portion of expenses are incurred in non-EUR currencies, mainly CHF as Octium is based in Liechtenstein where CHF is the main currency. Octium holds CHF deposits in order to mitigate this currency exposure.

## **Interest rate risk**

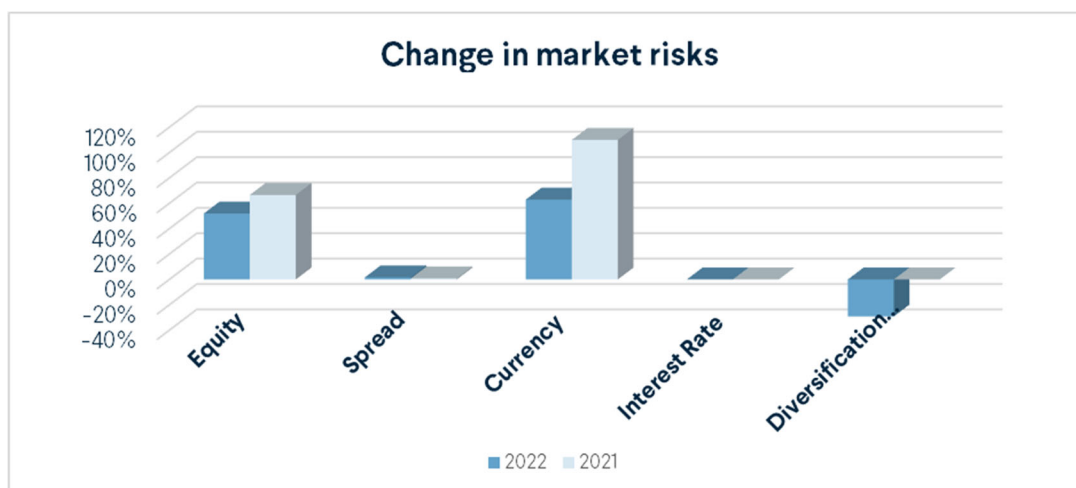
Octium's on-demand cash deposits are valued at par and are therefore unaffected by movements in interest rates. A change in interest rates however does change the interest income generated from these deposits.

### **C.2.2. Changes in market risk during 2022**

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







Octium changed the functional currency during 2022 from CHF to EUR.

### C.2.3. Mitigating actions and controls

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 ORSA demonstrate Octium’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%	(5.4%)	(8.8%)	(3.6%)

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

The ‘prudent person principle’ requires that companies 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 Octium’s balance sheet are held in respect of unit linked contracts where the policyholder bears the market risks of the investments included in 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).



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 Investment Oversight Committee monitors external funds and Assets Managers. Any investment mandate 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**

Octium's credit risk profile is derived from the Standard Formula allowing for the impact of diversification. As at 31 December 2022 the SCR for this module is €3.4m (2021: €3.7m).

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 2022**

There has been no material change in credit risk exposures during 2022.

### **C.3.3. Mitigating actions and controls**

The Company 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 2022.

### **C.3.5. Risk concentrations**

The Company 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 Octium does not have sufficient liquidity to meet its obligations when they fall due or would have to incur excessive costs or trading losses to do so.

### C.4.1. Risk exposure

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.

In the past, the requirements of the Italian substitute tax have been one of the most significant strains on the business liquidity. However, given a reducing cap and the 5-year roll-over relief which became effective in 2016, there has been a significant reduction in the annual requirements over the last number of years. Liquidity is projected to remain strong and support the payment of dividends over the business planning period.

However, if the level of funds under management from Italian tax residents were to increase by 10% say (through higher new business volumes or investment returns) then the ITWA cap would also increase by the same percentage leading to additional liquidity requirements.

### C.4.2. Changes in liquidity risk exposure during 2022

There has been no material change in liquidity risk exposures during 2022.

### C.4.3. Mitigating actions and controls

Octium's objective is to ensure that it has sufficient liquidity to meet the short- and medium-term requirements of the business. Octium maintains a prudent liquidity position to meet these requirements. Octium held €30.7m in on-demand cash deposits at 31 December 2022 (2021: €40.5m) and €14.1m on 90-day notice (2021: €14.5m).

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

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

### C.4.5. Expected profit included in future premiums

As of 31 December 2022, the Company's expected profit in future premiums was Nil (2021: 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**

Octium's operational risk profile is derived from the standard formula allowing for the impact of diversification. As at 31 December 2022 the SCR for this module is €1.9m (2021: €1.6m).

The primary operational risks 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 2022**

There has been no material change in operational risk exposures during 2022.

### **C.5.3. Mitigating actions and controls**

The Company 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 custodian failure 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 Company 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 Credit Suisse 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 Credit Suisse. 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 Octium's risk profile has been set out above.



## D. Valuation for Solvency Purposes

### D.1. Assets

Solvency II regulation requires the valuation of assets for solvency purposes to be on a market consistent fair value basis. In general, this is determined in accordance with the financial statements. Octium's financial statements have been prepared in accordance with the principles of the Liechtenstein, Persons and Companies Act (PGR), the Law of 6 December 1995 on the supervision of insurance companies (Insurance Supervision Act; VersAG) and the associated ordinance (Insurance Supervision Ordinance; VersAV) in the currently valid versions.

The financial statements of the Company are prepared in EUR which is the presentational and functional currency. 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	2022 €'000	2021 €'000	Valuation Approach	Notes
POLICYHOLDER ASSETS				
Assets held to cover linked liabilities	4,176,380	5,086,526	Fair Value	D1.1
SHAREHOLDER ASSETS				
Cash at bank and in hand	30,729	40,708	Cost	
Italian substitute tax asset	49,345	40,245	Fair Value	
Other debtors and receivables	9,050	8,312	Cost	
Tangible assets	537	59	Amortised Cost	
Other financial investments	14,053	14,508		
Total assets per F/S	4,279,527	5,190,372		
Adjustments for Solvency II:				
Reinsurance recoverables	(12,670)	(15,8236)	Fair Value	D1.2
Property, plant & equipment held for own use	-	14	Amortised Cost	D1.3
Total assets per Solvency II	4,267,394	5,174,535		

#### 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.

A large portion of Octium's assets are valued based on quoted prices obtained from an active market (recognised and active exchange). There are some assets which are priced based on inputs other than quoted prices that are market observable. There are also some assets which 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 Octium's financial statements for future 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.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.

<b>Technical Provisions</b>	<b>2022 €000</b>	<b>2021 €'000</b>
BEL	4,070,819	4,886,273
Risk Margin	23,206	27,850
Technical provisions	4,094,025	4,914,124

The key sources of uncertainty for Octium are investment performance and policyholder behaviour assumptions. The BEL has decreased during 2022 mainly due to market developments and a decrease in policyholder contracts.

**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 2022. 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.

<b>Reconciliation of Technical Provisions</b>	<b>2022 €'000</b>	<b>2021 €'000</b>
Technical provisions per F/S	4,135,910	4,986,254
Solvency II adjustments		
BEL	(65,091)	(99,980)
Risk Margin	23,206	27,850
Solvency II Technical Provisions	4,094,025	4,914,124

### **D.3. Other Liabilities**

#### **D.3.1. Other Liabilities**

These comprise of payments due to policyholders and intermediaries, 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.

<b>Other Liabilities</b>	<b>2022 €'000</b>	<b>2021 €'000</b>
Provisions other than technical provisions	205	613
Insurance & intermediaries payables	40,608	100,308
Other payables	3,280	4,506
Deferred tax	10,363	17,288
Other Liabilities	54,547	122,716

#### **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.

Octium had no contingent liabilities at 31 December 2022 or 31 December 2021.



#### **D.4. Alternative Methods for Valuation**

Octium does not 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 has a formal Capital Management Policy in place, which is approved by the Board and subject to review on at least an annual basis. The purpose of the policy is to provide a framework which will ensure that Octium, at all times, complies with the legal and regulatory requirements relating to the level and type of own funds held, and to ensure that own funds are managed effectively and efficiently in order to safeguard the financial soundness and support the strategic objectives of Octium.

Octium is a single shareholder entity whose shares are fully paid up. It has no debt financing and does not have any plans to raise debt or issue new shares in the short or medium term. Own fund items (other than the value arising from the existing policies and the Italian tax assets) are invested in bank deposits according to a Board approved Liquidity Policy.

Octium is at all times required to have own funds equal to at least 100% of its Own Solvency Needs (OSN), being the aggregate of the Solvency Capital Requirement (SCR) and any additional capital needs determined by the Board. Octium sets internal target capital levels above the level of OSN to ensure timely action can be taken to address a deteriorating capital position.

#### E.1.2. Analysis of Own Funds

Own funds are comprised of paid-in ordinary share capital, a paid-up irrevocable capital contribution and a reconciliation reserve, as detailed in the table below.

<b>Analysis of Own Funds</b>	<b>2022 €'000</b>	<b>2021 €'000</b>
Share Capital	10,084	10,084
Reconciliation Reserve	107,829	127,737
Own Funds Available to meet SCR	117,913	137,821

The reconciliation reserve is made up of retained earnings as per the financial statements 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.

The eligible amount of own funds available to cover the OSN, SCR and MCR at 31 December 2022 was €117.9m (2021: €137.8m). This is comprised entirely of Tier 1 Basic Own Funds.

The decrease in own funds from 31 December 2022 to 31 December 2021 is mainly a result of a lower present value of future profits due to less fees which is driven by a lower amount of policyholder assets.



## E.1.3. Reconciliation of equity in the Financial Statements and Own Funds

Reconciliation of Equity to Own Funds	2022 €'000	2021 €'000
Total Equity per F/S	99,400	100,524
Solvency II BEL	65,782	100,248
Solvency II Risk Margin	(23,206)	(27,850)
Deferred Tax Liability	(10,363)	(17,288)
Reinsurance Recoverables	(12,670)	(15,961)
SII Adjustment property, plant & equipment held for own use	-	(14)
Excess of Assets over Liabilities	118,913	139,659
Foreseeable Dividends	(1,000)	(1,838)
Own Funds	117,913	137,821

Octium's own Ifunds 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 amount of Octium's SCR and MCR at 31 December 2022 are €51.4m and €23.1m respectively (2021: €67.8m and €30.5m).

The table below shows the components of the SCR (using the Standard Formula) at 31 December for 2021 and 2022:

Solvency Capital Requirement	2022 €'000	2021 €'000
Market risk	42,179	63,370
Counterparty risk	3,362	3,707
Underwriting risk	38,445	47,687
Diversification effects	(19,065)	(25,207)
Basic SCR	64,921	89,556
Operational risk	1,873	1,634
Loss-absorbing capacity of Deferred Taxes	(15,423)	(23,384)
Solvency Capital requirement	51,370	67,805

The SCR decreased during 2022 due to a decrease in funds under management, assumption changes, model changes and the change in reporting currency from CHF to EUR.



**E.3. Use of the duration-based equity risk sub-module in the calculation of the SCR**

Octium 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**

Octium does not use an internal model.

**E.5. Non-compliance with the MCR and non-compliance with the SCR**

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

**E.6. Any other Information**

Octium 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.

Octium's Italy Branch is, according to Art. 1(2) of Decree Law 209, from 24 September 2002 and as amended from time to time, required to yearly pay Tax on technical Reserves (TotR) up to a cap with a current rate of 45 bps. This 'tax credit' can be (partially) offset by:

- i. Ordinary recovery: As TotR basically is an advance payment by Octium, it can be offset with any payment of Tax on Policy Income Octium does on behalf of the policyholders (PH) following full or partial redemption of any life insurance policy. Process-wise, Octium withholds such amounts from the (taxable) sum paid to the PH in order to offset it in the subsequent month with the TotR previously paid. TotR is based on previous year-end's statutory technical reserves, due end of June the following year.
- ii. Further recovery: In case the aggregated amount of TotR exceeds that aggregate amount of Tax on Policy Income paid in the 5th year following that year, this amount, the "Qualified Surplus", is eligible to further recovery, i.e. can be offset either with income taxes, social security charges and other taxes paid by Octium Assurance AG (Italian Branch) (including TotR, Ruling 146/E of 16 April 2008), or, transferred to a controlled company.



## F. Appendix: Annual Quantitative Reporting Templates

### F.1. QRT – S02.01.01 – Balance Sheet Information

		<b>Solvency II value</b>
		C0010
	<b>Assets</b>	
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	537
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	14,053
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	0
R0130	Bonds	0
R0140	Government Bonds	0
R0150	Corporate Bonds	0
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	2
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	14,053
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	4,176,380
R0230	Loans and mortgages	0
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	0
R0270	Reinsurance recoverables from:	12,133
R0280	Non-life and health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	12,133
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,583
R0370	Reinsurance receivables	100
R0380	Receivables (trade, not insurance)	49,367
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	30,728
R0420	Any other assets, not elsewhere shown	4,777
R0500	<b>Total assets</b>	<b>4,267,394</b>



## F.2. QRT – S02.01.01 – Balance Sheet Information (continued)

<b>Liabilities</b>		C0010
R0510	Technical provisions – non-life	0
R0520	Technical provisions – non-life (excluding health)	0
R0560	Technical provisions - health (similar to non-life)	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	Technical provisions - health (similar to life)	0
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	4,094,024
R0700	TP calculated as a whole	690
R0710	Best Estimate	4,070,128
R0720	Risk margin	23,205
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	205
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	10,363
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	40,607
R0830	Reinsurance payables	226
R0840	Payables (trade, not insurance)	2,473
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	<b>Total liabilities</b>	<b>4,148,482</b>
R1000	<b>Excess of assets over liabilities</b>	<b>118,913</b>



## F.3. QRT – S05.01.01 – Premiums, Claims and Expenses by Line of Business

		Line of Business for: <b>life insurance obligations</b>	<b>Total</b>
		Index-linked and unit-linked insurance	
		C0230	C0300
<b>Premiums written</b>			
R1410	Gross	69,661	69,661
R1420	Reinsurers' share	927	927
R1500	Net	68,734	68,734
<b>Premiums earned</b>			
R1510	Gross	69,661	69,661
R1520	Reinsurers' share	927	927
R1600	Net	68,734	68,734
<b>Claims incurred</b>			
R1610	Gross	434,941	434,941
R1620	Reinsurers' share	359	359
R1700	Net	434,582	434,582
<b>Changes in other technical provisions</b>			
R1710	Gross	0	0
R1720	Reinsurers' share	0	0
R1800	Net	0	0
R1900	<b>Expenses incurred</b>	43,391	43,391
R2500	<b>Other expenses</b>		
R2600	<b>Total expenses</b>		43,391



## F.4. QRT – S05.02.01 – Premiums, Claims and Expenses by Country (Annual)

	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
	<b>Premiums written</b>		
R1410	Gross	0	60,947
R1420	Reinsurers' share	0	158
R1500	Net	0	60,788
	<b>Premiums earned</b>		
R1510	Gross	0	60,947
R1520	Reinsurers' share	0	158
R1600	Net	0	60,788
	<b>Claims incurred</b>		
R1610	Gross	0	299,148
R1620	Reinsurers' share	0	73
R1700	Net	0	299,075
	<b>Changes in other technical provisions</b>		
R1710	Gross	0	0
R1720	Reinsurers' share	0	0
R1800	Net	0	0
R1900	<b>Expenses incurred</b>	0	37,964
R2500	<b>Other expenses</b>		0
R2600	<b>Total expenses</b>		43,391



## F.5. QRT – S12.01.01 – Information on Technical Provisions

		Index-linked and unit-linked insurance		Total (Life other than health insurance, including Unit-Linked)
			Contracts without options and guarantees	
		C0030	C0040	C0150
R0010	<b>Technical provisions calculated as a whole</b>	690		690
R0020	<b>Total Recoverables from reinsurance/SPV and Finite Re</b> after the adjustment for expected losses due to counterparty default associated to TP as a whole	566		566
	<b>Technical provisions calculated as a sum of BE and RM</b>			
	<b>Best Estimate</b>			
R0030	<b>Gross Best Estimate</b>		4,070,128	4,070,128
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		-12,699	-12,699
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re - total		4,082,827	4,082,827
R0100	<b>Risk Margin</b>	23,205		23,205
	<b>Amount of the transitional on Technical Provisions</b>			
R0110	Technical Provisions calculated as a whole	0		0
R0120	Best estimate		0	0
R0130	Risk margin	0		0
R0200	<b>Technical provisions - total</b>	4,094,024		4,094,024





## F.6. QRT – S.23.01.01 – Own Funds

		Total	Tier 1 - unrestricted
	<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35</b>		
R0010	Ordinary share capital (gross of own shares)	10,084	10,084
R0030	Share premium account related to ordinary share capital	0	0
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0
R0050	Subordinated mutual member accounts	0	
R0070	Surplus funds	0	0
R0090	Preference shares	0	
R0110	Share premium account related to preference shares	0	
R0130	Reconciliation reserve	107,829	107,829
R0140	Subordinated liabilities	0	
R0160	An amount equal to the value of net deferred tax assets	0	
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above		
	<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>		
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	
	<b>Deductions</b>		
R0230	Deductions for participations in financial and credit institutions	0	0
R0290	<b>Total basic own funds after deductions</b>	117,913	117,913
	<b>Ancillary own funds</b>		
R0400	<b>Total ancillary own funds</b>	0	
	<b>Available and eligible own funds</b>		
R0500	Total available own funds to meet the SCR	117,913	117,913
R0510	Total available own funds to meet the MCR	117,913	117,913
R0540	Total eligible own funds to meet the SCR	117,913	117,913
R0550	Total eligible own funds to meet the MCR	117,913	117,913
R0580	<b>SCR</b>	51,370	
R0600	<b>MCR</b>	23,116	
R0620	<b>Ratio of Eligible own funds to SCR</b>	229.54%	
R0640	<b>Ratio of Eligible own funds to MCR</b>	510.08%	
	<b>Reconciliation reserve</b>		
R0700	Excess of assets over liabilities	118,913	-
R0710	Own shares (held directly and indirectly)	0	-
R0720	Foreseeable dividends, distributions and charges	1,000	-
R0730	Other basic own fund items	10,084	-
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0	-
R0760	<b>Reconciliation reserve</b>	107,829	-
	<b>Expected profits</b>		
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>	0	-



## F.7. QRT – S25.01.01 – Solvency Capital Requirement (Annual)

		<b>Gross solvency capital requirement</b>
		C0110
R0010	Market risk	42,178
R0020	Counterparty default risk	3,362
R0030	Life underwriting risk	38,444
R0040	Health underwriting risk	0
R0050	Non-life underwriting risk	0
R0060	Diversification	-19,065
R0070	Intangible asset risk	0
R0100	<b>Basic Solvency Capital Requirement</b>	<b>64,920</b>

		C0100
<b>Calculation of Solvency Capital Requirement</b>		
R0130	Operational risk	1,872
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-15,423
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	<b>Solvency capital requirement excluding capital add-on</b>	<b>51,370</b>
R0210	Capital add-on already set	0
R0220	<b>Solvency capital requirement</b>	<b>51,370</b>
<b>Other information on SCR</b>		
		-

		Yes/No
		C0109
<b>Approach to tax rate</b>		
R0590	Approach based on average tax rate	No

		LAC DT
		C0130
R0600	DTA	-
R0610	DTA carry forward	-
R0620	DTA due to deductible temporary differences	-
R0630	DTL	-
R0640	LAC DT	-15,423
R0650	LAC DT justified by reversion of deferred tax liabilities	-15,423
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0



## F.8. QRT – S28.01.01 – Minimum Capital Requirement

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

		C0040		
R0200	MCRL Result	28,627	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060	
R0210	Obligations with profit participation - guaranteed benefits		0	
R0220	Obligations with profit participation - future discretionary benefits		0	
R0230	Index-linked and unit-linked insurance obligations		4,082,952	
R0240	Other life (re)insurance and health (re)insurance obligations		0	
R0250	Total capital at risk for all life (re)insurance obligations			67,596

### Overall MCR calculation

		C0070
R0300	Linear MCR	28,627
R0310	SCR	51,370
R0320	MCR cap	23,116
R0330	MCR floor	12,842
R0340	Combined MCR	23,116
R0350	Absolute floor of the MCR	3,700

### Minimum Capital Requirement

		C0070
R0400	Minimum Capital Requirement	23,116

