

## **Octium Holding S.A.**

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

**For the financial year ended 31 December 2021**



## Table of Contents

<b>SUMMARY .....</b>	<b>4</b>
<b>A. BUSINESS AND PERFORMANCE .....</b>	<b>6</b>
A.1. Business .....	6
A.2. Underwriting performance.....	7
A.3. Investment Performance.....	9
A.4. Performance of Other Activities.....	10
A.5. Any other information.....	11
<b>B. SYSTEM OF GOVERNANCE .....</b>	<b>12</b>
B.1. General Information on the system of governance .....	12
B.2. Fit and proper requirements.....	16
B.3. Risk management system including the own risk solvency assessment.....	17
B.4. Internal control system .....	19
B.5. Internal audit function.....	19
B.6. Actuarial function.....	20
B.7. Outsourcing / Key third party agreements .....	20
B.8. Any other information .....	20
<b>C. RISK PROFILE .....</b>	<b>21</b>
C.1. Underwriting risk.....	22
C.2. Market risk.....	23
C.3. Credit risk .....	27
C.4. Liquidity risk.....	27
C.5. Operational risk.....	28
C.6. Other material risks.....	29
C.7. Any other information.....	29
<b>D. VALUATION FOR SOLVENCY PURPOSES .....</b>	<b>30</b>
D.1. Assets .....	30
D.2. Technical Provisions.....	31
D.3. Other Liabilities .....	32
D.4. Alternative Methods for Valuation.....	33
D.5. Any Other Information .....	33
<b>E. CAPITAL MANAGEMENT .....</b>	<b>34</b>
E.1. Own funds.....	34
E.2. Solvency Capital Requirement and Minimum Capital Requirement.....	35



E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.....	35
E.4. Differences between the standard formula and any internal model used.....	35
E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement.....	35
E.6. Any Other Information .....	36
<b>F. APPENDIX: GROUP QUANTITATIVE REPORTING TEMPLATES.....</b>	<b>37</b>
F.1. QRT – S.02.01.02 – Balance Sheet.....	37
F.2. QRT – S.02.01.02 – Balance Sheet (continued).....	38
F.3. QRT – S.05.01.02 – Premiums, claims and expenses by line of business .....	39
F.4. QRT – S.05.02.01 – Premiums, claims and expenses by country .....	40
F.5. QRT – S.23.01.22 – Own Funds.....	41
F.6. QRT – S.25.01.22 – Solvency Capital Requirement – for groups on standard formula.....	42
F.7. QRT – S.32.01.22 – Undertakings in the scope of the group .....	43



## 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 Life”), Octium Assurance AG (“Octium Assurance”), 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 is an independent international insurance group specialising in the design, structuring and distribution of unit-linked life insurance products. Octium Group has policyholder assets worth approximately EUR 10 billion and operates in global markets with a unique offering of unit-linked insurance products for wealth and succession planning.

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 2021.

### A.1.1. Business and performance

The principal activity of the Group is the insurance activity undertaken by Octium Life and Octium Assurance. The Group made a profit before tax for the year ended 31 December 2021 of €1.3m (2020: €3.7m).

On 31 December 2021 Octium Group purchased Credit Suisse Life and Pension AG and renamed the business Octium Assurance AG. The purchase was financed from the Group’s own resources and the issuance of €55.1m debt of which €27.5m is sub-ordinated debt.

The assets under management by the Group increased to €9.5bn reflecting the acquisition of Octium Assurance AG (2020: €4.2bn).

### A.1.2. 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.

### A.1.3. Risk profile

The Group is exposed to risks outlined in section C below. The most significant risks are market and lapse risk. The Group 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.

Notwithstanding the purchase of Octium Assurance AG and the increased scale of the Group, there have been no material changes in risk exposures during the year.

### A.1.4. Solvency and capital management

The Group 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 2021, the Group SCR ratio is 152% (2020: 181%).

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 Life's solvency ratio at 31 December 2021 was 158% (2020: 206%) and Octium Assurance's solvency ratio at 31 December 2021 was 203%. The solvency ratio indicates the amount of capital relative to regulatory requirements.

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

### **A.1.5. Other information**

This report has been prepared in accordance with the requirements of the Solvency II Directive as at 31 December 2021. The Group's and Octium Life's financial year runs to 31 December each year and both report their results in Euro. Octium Assurance reports its results in Swiss Franc. Octium Life's financial statements are prepared on the basis of Financial Reporting Standard 102 applicable in the UK and Republic of Ireland (FRS 102) while Octium Assurance's financial statements 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 Act; VersAG) and the associated ordinance (Insurance Supervision Ordinance; VersAV) in the currently valid versions. The Group's consolidated financial statements are prepared in accordance with Luxembourg Insurance Accounting Law of 8 December 1994, which became effective for the year commencing 1 January 1995.



## 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 Life, Octium Assurance 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 Holding and its subsidiaries form a specialist life assurance group (collectively the “Group” or “Octium Holding”).

The Group is an independent international insurance group specialising in the design, structuring and distribution of unit-linked life insurance products. Octium Group has policyholder assets worth approximately EUR 10 billion and operates in global markets with a unique offering of unit-linked insurance products for wealth and succession planning.

The Group operates the insurance companies Octium Life DAC, Dublin, and Octium Assurance AG, Vaduz, inclusive of its branch Octium Assurance AG (Italian Branch), in Milan, as well as the insurance intermediary Octium International Insurance Agent AG, Vaduz, and its Zurich Branch.

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

Octium Assurance (formerly Credit Suisse Life and Pensions AG) is a Lichtenstein based insurance company, regulated by the Liechtenstein Financial Market Authority (“FMA”). Octium Assurance offers unit linked insurance products to EU policyholders on a cross border basis under the freedom of services legislation and through its Italian Branch under the freedom of establishment legislation.

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 license by the FMA for insurance distribution purposes.

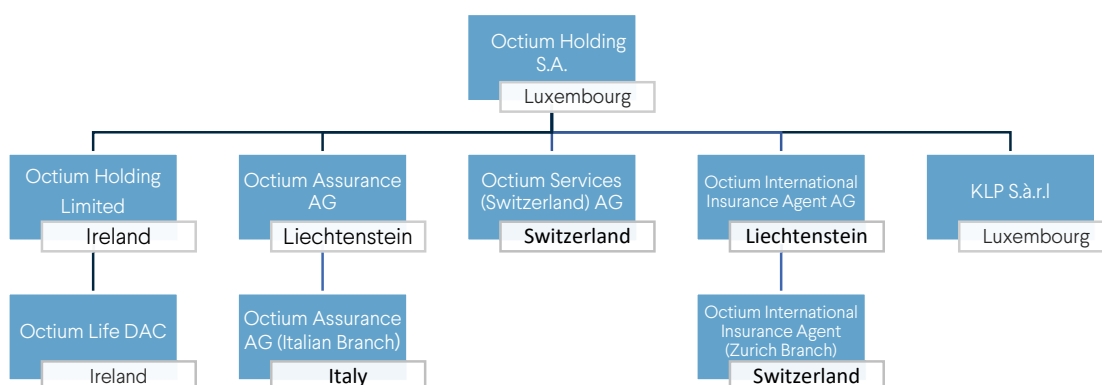
KLP S.à.r.l. is a 100% subsidiary of Octium Holding S.A. It is a company incorporated in Luxembourg and is a former life insurance company of Kaupthing Life & Pension S.A., with corresponding license returned in 2015 and is now a non-regulated dormant company.

Name of Company	Octium Holding S.A.	Registered Address: 35 Avenue J. F. Kennedy L-1855 Luxembourg Luxembourg
Group Auditors (SII)	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 2021 (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) used to fund the acquisition of Octium Life and Octium Assurance.

### A.1.3. Products

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 Group does not offer products with guaranteed investment returns.

### A.1.4. Significant events

On 31 December 2021 the Octium Group purchased Credit Suisse Life and Pension AG and renamed the business Octium Assurance AG. The purchase was financed from the Group's own resources and the issuance of €27.6m senior debt and €27.5m sub-ordinated debt. The enlarged Group including Octium Assurance AG will be a significant force in the cross-border life insurance market with close to €10bn in assets.

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

## A.2. Underwriting performance

Octium Holding's financial statements are prepared in accordance with the Luxembourg Insurance Accounting Law of 8 December 1994, which became effective for the year commencing 1 January 1995. Under this accounting standard, the majority of Octium Life's and Octium Assurance's unit linked policies are classified as investment contracts whereby premiums and claims are shown as deposits to and payments from investment contracts.

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. The Group has defined accounting profits as an appropriate measure of its underwriting performance.



**A.2.1. Overview of Octium Group's accounting profits**

Overview of accounting profits	2021 €,000	2020 €,000	Change %
Gross accounting profits	2,004	3,668	(45%)
Tax charge	690	770	(11%)
Profit attributable to the shareholder	1,320	2,898	(54%)

The decrease in profitability is driven primarily by an increase in operating expenses in support of business development.

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	2021 €,000	2020 €,000	Change %
Risk fees earned	1,160	1,027	13%
Reinsurer's share net of profit share	602	427	41%
Net Risk fees	558	600	(7%)

**A.2.2. Premiums written by Octium Group**

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

Index-linked and unit-linked insurance	2021 €,000	2020 €,000	Change %
Gross	317,834	189,607	68%
Reinsurer's share	32	0	100%
Net Premiums	317,802	189,607	68%

**A.2.3. Octium Group's death risk benefits net of reinsurance**

The table below details the death risk benefits incurred.

Death benefits	2021 €,000	2020 €,000	Change %
Death risk benefits	419	354	19%
Reinsurer's share	359	286	26%
Net Death benefits	60	68	(12%)

**A.2.4. Octium Group's claims incurred**

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





Index-linked and unit-linked insurance	2021 €'000	2020 €'000	Change %
Gross claims	251,969	308,377	(18%)
Reinsurer's share	0	0	0%
Net claims	251,969	308,377	(18%)

### 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 Life's and Octium Assurance's assets.

Octium Life's and Octium Assurance'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 Group's assets

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

Asset Type	2021		2020	
	%	€'000	%	€'000
Cash and deposits	9%	861,741	5%	208,188
Collective Investment Schemes	69%	6,677,127	78%	3,259,754
Equities	6%	585,754	4%	169,545
Fixed Income Securities	13%	1,303,816	9%	348,972
Other	3%	268,274	4%	186,634
Total Assets	100.0%	9,696,712	100.0%	4,173,094

#### A.3.2. Octium Group'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	2021 €'000	2020 €'000
Interest income/expense - shareholders cash	(21)	(19)
Other investment income, gains and losses	362,482	79,814
Investment return	362,461	79,795



Asset performance during 2021 followed global market trends, which saw positive performance throughout the year.

#### A.4. Performance of Other Activities

The Group's primary activity is manufacture of unit linked insurance products. 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 Group's other technical income net of reinsurance

Other Technical Income	2021 €'000	2020 €'000
Administration fees	17,119	15,735
Reinsurance premiums, profit share and claims	(243)	(136)
Other technical income	16,875	15,599

The increase in administration fee income relative to 2020 reflects higher asset values during 2021 compared to 2020.

##### A.4.2. Octium Life's operating expenses

Operating Expenses	2021 €'000	2020 €'000
Acquisition and administration	8,599	7,091
Commission paid	2,817	2,204
Change in deferred acquisition cost	15	7
Death claims	419	354
Operating expenses	11,810	9,655

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

Group expenses mostly consist of Octium's expenses along with the expenses of OIIA and administration 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

Octium Life and Octium Assurance act as withholding tax agents for the Italian tax authorities, making advance payments in respect of Italian policyholder exit tax. Recovery is made when exit taxes are levied on chargeable gains. Within the financial statements of Octium Life, the value of this tax asset is determined by discounting the expected future cash flows of these tax recoveries. If there is change in value of the tax asset each year, as it relates to the impact of discounting, this gives rise to a gain or charge in the Income Statement.

In Octium Assurance's financial statements as well as the Group's consolidated financial statements the asset is held at cost.



## **A.5. Any other information**

### **A.5.1. Issue of new debt**

During the year Octium Holding S.A. received €27.6m by way of increasing its non-subordinated loan from Albany Capital Limited, a related party. The loan balance was €35.5m at 31 December 2021.

During the year Octium Holding S.A. received €27.5m by way of increasing its subordinated loan from Albany Capital Limited, a related party. The subordinated loan balance was €67.5m at 31 December 2021.

The debt was issued to fund the acquisition of Octium Assurance.

### **A.5.2. Covid 19**

Despite the negative impact of Covid 19 on society and the economy in terms of global lockdowns and quarantines, reduced economic activity and stock market volatility, the Group's performance continued to meet expectations.



## B. System of Governance

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

The Group Board is 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.

#### B.1.1. Group Executive Committee

The Group Board has established a Group Executive Committee (“Group ExCo”) to whom it has delegated the management of the Octium Group under the leadership of the Group Executive Chairman.

#### Membership

The Group ExCo consists of at least five persons (each an “ExCo Member”), having collective empowerment for the purpose of governing the Octium Group in a compliant way according to their duties.

- The Group ExCo is composed by the following group executive functions:
- Group Executive Chairman (“Group Chairman”)
- Group Chief Executive Officer (“Group CEO”)
- Group Chief Financial Officer (“Group CFO”)
- Group Head of Sales and Business Development (“Group CBDO”)
- Group General Counsel (“Group GC”)

#### Roles and responsibilities

The Group ExCo decides and approves the strategy of the Group and its affiliates, including the business strategy, the risk appetite and the financial objectives, where relevant upon recommendation of the respective affiliates’ CEOs.

In particular, the Group ExCo performs the following:

- Establish, evaluate and approve, on a regular basis, long-range plans and business model for the Group;
- Review, evaluate and approve the Group’s consolidated budget and forecasts;
- Establish, evaluate and approve risk strategy, including risk tolerance and the guiding principles;
- Governing the risk identification, measurement, reporting, management and monitoring; establish, evaluate and approve the principles of an adequate organisation and resource allocation;
- Review and assess the effectiveness of the Group’s practices with respect to its insurance business purpose.

The Group CFO has responsibility for:

- Ensuring compliance with group supervision regulatory and legal obligations;
- Monitoring of the group SCR and solvency ratio;



- Group regulatory reporting;
- Identifying, monitoring, managing and reporting intra-group transactions, including significant and very significant intra-group transactions.

### B.1.2. Subsidiary Governance

Octium Life and Octium Assurance have their own separate boards recognising their obligation to take decisions independently in the interest of their customers and clients, as well as to meet relevant legal and governance responsibilities.

The Board of Directors is the supervisory body with responsibility for the overall direction, management and for ensuring each insurance entity 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.

The membership of each subsidiary board includes independent Non-Executive Directors (“NED”) in compliance with Central Bank of Ireland’s Corporate Governance Requirements for Insurance Undertakings 2015 in relation to the balance of Executive Directors and NEDs on the boards and their committees. The boards have established a number of committees to support their decision making which are independently overseen by the NEDs.

#### Audit Committee

The Audit Committee oversees the integrity of the insurance entity’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.

#### Risk Committee

The Risk Committee oversees insurance entity’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.

The terms of reference for each, of the insurance entity’s board committees are approved by the respective board and updated as necessary. In addition, each committee Chair provides regular reports to the boards on the matters covered at each committee meeting.

### B.1.3. Board of Directors:

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

#### Octium Life

As at 31 December 2021, the Octium Life Board comprised of one Executive Director, two Non-Executive Directors and two Independent Non-Executive Directors.

Board Member	Type
Jean-François Willems (Chairman)	Non-Executive Director
Joan Collins (Risk Committee Chair)	Independent Non-Executive Director
Seamus Hughes (Audit Committee Chair)	Independent Non-Executive Director



Board Member	Type
Massimoluca Mattioli	Non-Executive Director
Dara Hurley (CEO)	Executive Director

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

### Octium Assurance

As of December 2021, the Octium Assurance Board comprised of three Non-Executive Directors, whereof two from Credit Suisse Group and one Independent Non-Executive Director:

BoD Member	Type
Nicolas Vaccaro*	Chairman, Non-Executive Director
Bernhard Felder*	Non-Executive Director
Rainer Marxer	Independent Non-Executive Director

\* Resigned 31 December 2021 due to the new shareholder as of 31 December 2021

Following the change of ownership, the Octium Assurance Board comprised of five Non-Executive Directors, whereof three are from Octium Group and two are independent.:

BoD Member	Type
Harley Rowland	Chairman, Non-Executive Director
Jean-François Willems	Non-Executive Director
Dara Hurley	Non-Executive Director
Alexander Ospelt	Independent Non-Executive Director
Rainer Marxer	Independent Non-Executive Director

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

### B1.2.1 Independent control functions

Each insurance entity 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.1.3.1 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 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 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.1.3.2. Compliance**

The Compliance function, which is under the direct responsibility of the Head of Compliance, is charged with oversight and implementation of the 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 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.1.3.3. Actuarial**

Please refer to section B.6

#### **B.1.3.4. Internal audit**

Please refer to section B.5



**B.1.4. Changes to the system of governance**

There were no changes to the Group system of governance.

**B.1.5. Remuneration, Employee Benefits and Practices**

The Board of each insurance entity 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.1.6. 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:

- Octium Life received professional services from Octium Holding S.A, a related party, and incurred expenses of €120k
- Octium Life received professional services from Octium International Insurance Agent AG, a related party, and incurred expenses of €500k

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.

In December 2021, Octium Holding S.A. issued a non-subordinated of €27.6m and a subordinated loan of €27.5m to fund the acquisition of Octium Assurance AG. The total balances on the non-subordinated loan and the subordinated loan at 31 December 2021 were €35.5m and €67.5m respectively.

There is a loan facility provided by Octium Holding S.A. to the Agency, of which €1.4m was drawn down in 2021 (2020:€0.6m).

**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 Fit and Proper policies of Octium Life and Octium Assurance. 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 fit and proper framework, which apply to individuals undertaking prescribed control functions as well as those subject to pre-approval 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 program;
- An annual attestation confirming their continued ability to meet fitness and probity requirements.

Where a regulated function is outsourced, the responsible officer with 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**

The Group Risk Management Framework has been developed to enable the Board and Management to understand, appropriately manage and mitigate the risks associated with business objectives over the short, medium and longer term.

Risk Committees receives regular reporting from CROs in relation to the outcome of the periodic risk assessments undertaken by Management.

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

The Group 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 each insurance entity, 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 responsible officer with responsible for managing the arrangement providing oversight.

#### **B.3.3. Risk appetite statement**

By its nature the business of the Group involves taking risk. Risk Appetite Statement (RAS) of each insurance entity articulates the level of risk the subsidiary Board is prepared to tolerate in pursuit of business objectives and provides the context for all risk management activities.

The RAS is owned by the insurance entity 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**

A suite of risk policies exist which set out the Group’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 at least annually by the Risk Committee and 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 each insurance entity is maintained, with triggers based upon the risk appetite set by the subsidiary Board to monitor actual risk exposures against stated risk appetite.

The KRIs are reported quarterly to the insurance entity'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 respective Internal Audit functions of Octium Life and Octium Assurance 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 for Octium Life and Octium Assurance 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**

The Risk Management Policy for each insurance entity 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**

Insurance entity's Risk, Compliance and Internal Audit functions provide independent assessment of the risk management system and report directly to the insurance entities' Board through 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 its insurance entities. 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 regulators.

#### **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 each insurance entity has the following attributes:

- The Board directs and controls the company, through policies it approves and monitors performance against those policies. The CEO and executive management team have clear accountability for the implementation of these policies.
- Management of the company is in accordance with the authority delegated by the Board
- Business functions have documented procedures as to how relevant policies are implemented, managed and reported. Control activities are listed which may be preventative or detective in nature and encompass a range of manual and automated activities such as authorisations and approvals.
- There is adequate segregation of duties between functions and within each function to mitigate the risk of loss due to mistakes and inappropriate actions to an acceptable level.
- There are different levels of supervision and review throughout the company.
- Transactions are appropriately recorded to permit the preparation of reliable financial statements.
- Outsourced activities are managed to the same standard as internal activities.

A nominated individual is responsible for oversight of all compliance matters including compliance with laws and regulations. They are responsible for reporting on compliance matters to the Board and/or Audit Committee and for indicating whether appropriate remedial measures have been taken in the event of any deficiencies.

#### **B.5. Internal audit function**

The 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 processes, whether carried out by its service providers or by employees, with due regard to the adequacy of the governance, risk management and internal control framework.

For each insurance entity, 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 Group 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.

**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.

**B.8. Any other information**

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



## C. Risk Profile

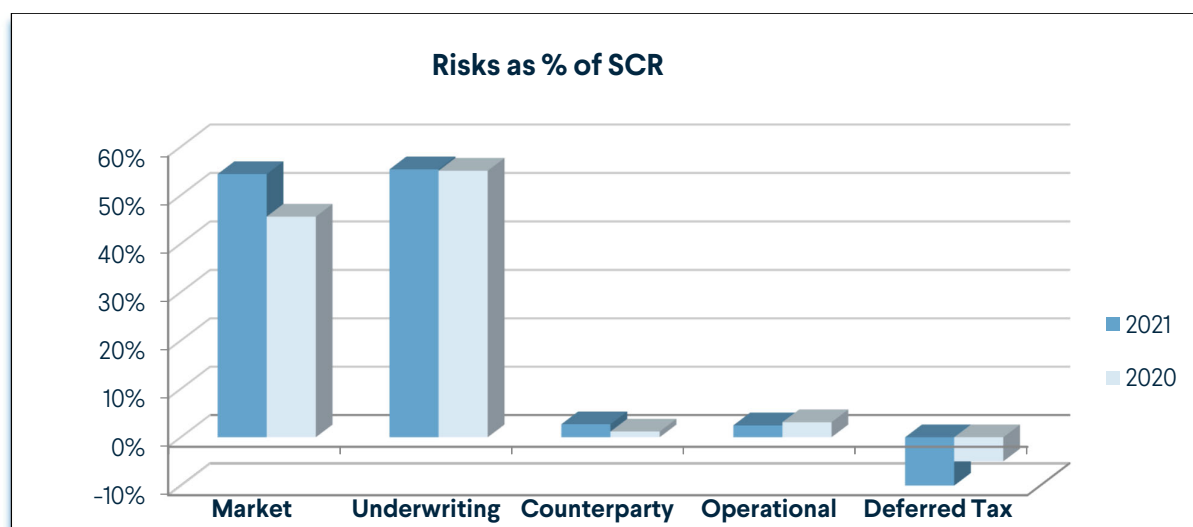
This section sets out the key risks to which the Group is exposed, how they are measured, the risk mitigation techniques employed and any material changes over the reporting period.

The Group's risk exposures relate primarily to uncertainty over the future revenues and expenses of Octium Life and Octium Assurance. Both insurance companies manufacture unit linked insurance products with no investment guarantees. Distribution is provided by 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).

<b>Solvency Capital Requirement</b>	<b>2021 €'000</b>	<b>2020 €'000</b>
Market risk	91,516	30,394
Counterparty risk	4,444	794
Underwriting risk	90,822	36,708
Diversification effects	(41,165)	(14,451)
Basic SCR	145,618	53,445
Operational risk	4,041	2,080
Loss-absorbing capacity of Deferred Taxes	(24,974)	(3,325)
Solvency Capital requirement	124,686	52,200

The substantial increase in Solvency Capital Requirement for 2021 reflects the acquisition of Octium Assurance on 31 December 2022. Notwithstanding the increased size of the Group, the Group risk profile has remained broadly unchanged. The table below compares 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 2021 the SCR for this module is €90.8m (2020: €36.7m) with intra-module diversification of 14.9.5% (2020: 13.5%). The key underwriting risks to which the Group is exposed are set out below:

#### C.1.1.1 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.

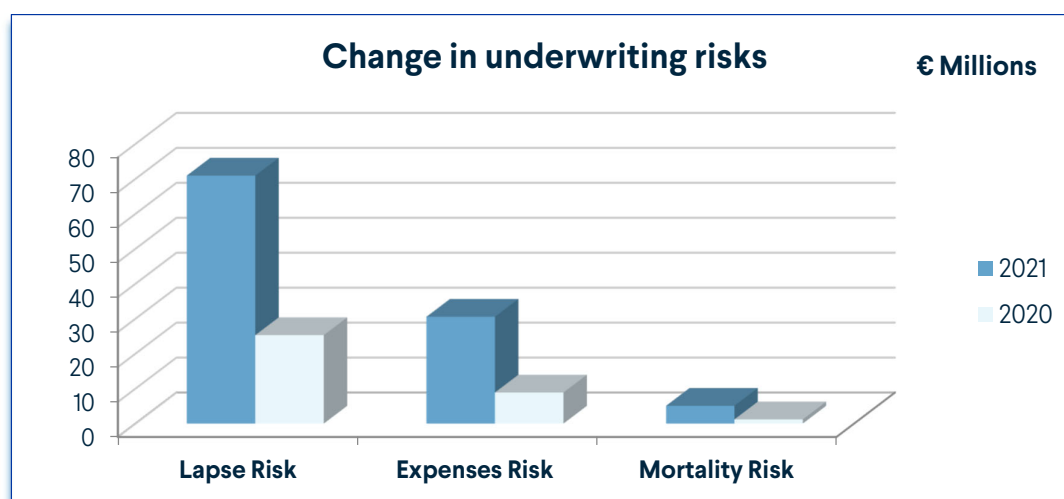
Expenses are managed in line with agreed business plans and significant deviations to budget are monitored monthly. The Boards of Octium Life and Octium Assurance review management accounts quarterly including an assessment of the level of expenses.

#### 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 2021

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



The substantial increase in capital requirement for lapse, expense and mortality risks for 2021 reflects the acquisition of Octium Assurance on 31 December 2021.



**C.1.3. Mitigating actions and controls**

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

- Product design minimises mortality risk
- Extensive use of reinsurance
- 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 business plans
- 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 <sup>1</sup>	Impact on SCR	Impact on Own Funds	Change in SCR Ratio
50% Mass Lapse shock	(36.2%)	(38.3%)	(48%)
Expense shock +20%	2.9%	(8.5%)	(20%)
50% permanent increase in mortality	(8.6%)	(2.5%)	12%

**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 2021 the SCR for this module is €89.2m (2020: €30.4m) with intra-module diversification of 27.5% (2020: 19.4%) 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

<sup>1</sup> Sensitivities applied to Group Balance Sheet as of 30 June 2021



provisions. Like 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 Octium Life's and 46% of Octium Assurance's 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.

### **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.

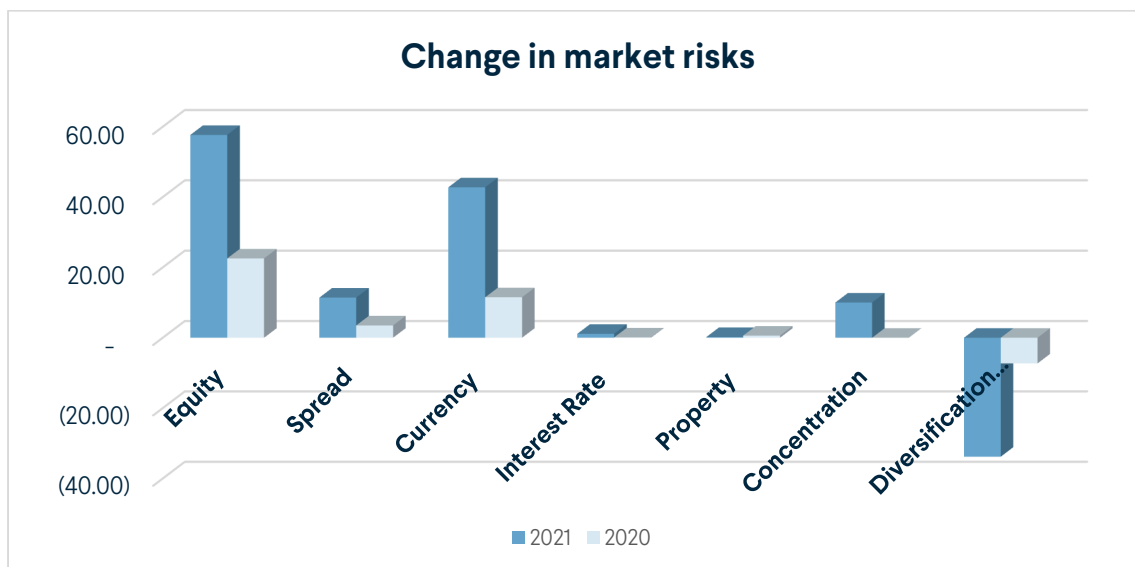
Similarly, cash deposits held in unit linked assets are held at par value.

### **C.2.2. Changes in market risk during 2021**

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







The substantial increase in capital requirement equity spread and currency risks for 2021 reflects the acquisition of Octium Assurance on 31 December 2021.

### C.2.3. Mitigating actions and controls

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

- Insurance subsidiaries comply with S II requirements relating to Prudent Person Principle;
- Investment Oversight Committees 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 <sup>2</sup>	Impact on SCR	Impact on Own Funds	% Change in SCR Ratio
Equity price shock -30%	(25.0%)	(13.6%)	13%

### 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. The Group 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 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 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 Life and Octium Assurance implement 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 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.

Oversight of external funds and Assets Managers is provided by the respective Investment Oversight Committee of Octium Life and/or Octium Assurance. Any investment mandates or limit

<sup>2</sup> Sensitivities applied to Group Balance Sheet as of 30 June 2021



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 respective finance team of Octium Life and Octium Assurance 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 2021 the SCR for this module is €4.1m (2020: €0.8m).

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 2021**

The increase in capital requirement for credit risk reflects the acquisition of Octium Assurance on 31 December 2021. There has been no material change in the nature of the credit risk exposures during 2021.

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

The Group, 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 2021.

### **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 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.

The most significant liquidity risk for the Group is a demand for the immediate repayment of its senior debt, which was €35.5m at 31 December 2021 (2019: €6.9m). However, the holder of the



senior debt is a connected undertaking and whose strategy is the long-term support of the Group. The Group is also required to service annual interest payments of c. €1.3m on its debt arrangements.

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 over the last number of years. Liquidity is projected to remain strong and support the reduction of senior debt 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 2021**

There has been no material change in liquidity risk exposures during 2021.

#### **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 Life held €13.9m in on-demand cash deposits (2020: €26.5m) and €14.5m on 90-day notice (2020: €12m) at 31 December 2021.
- Octium Assurance held €40.7m in on-demand cash deposits at 31 December 2021 and €14.5m term deposit
- Other group entities held a total of €3.2m of on demand cash deposits at 31 December 2021 (2020: €0.5m).

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**

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 2021, the Group's expected profit in future premiums was Nil (2020: 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 2021 the SCR for this module is €4m (2020: €2.1m).

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 2021**

The increase in capital requirement for operational risk reflects the acquisition of Octium Assurance on 31 December 2021. There has been no material change in the nature of the operational risks to which the Group is exposed during 2021.

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

The Group, 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 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. The Group accepts these risks as part of the strategy but is actively seeking new distributors to reduce this reliance. 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	2021 €'000	2020 €'000	Valuation Approach	Notes
POLICYHOLDER ASSETS				
Assets held to cover linked liabilities	9,696,712	4,173,094	Fair Value	D1.1
SHAREHOLDER ASSETS				
Cash at bank and in hand	96,587	38,904	Cost	
Italian substitute tax asset	78,038	43,725	Cost	
Other debtors and receivables	12,514	3,180	Fair Value	
Tangible assets	348	403	Amortised Cost	
Deferred acquisition cost	71	77	Amortised Cost	
Other financial investments	2	3		
Total assets per F/S	9,884,273	4,259,386		
Adjustments for Solvency II:				
Reinsurance recoverables	(17,295)	(1,531)	Fair Value	D1.2
Deferred acquisition cost	(71)	(77)		
Holdings in related undertakings, including participations adjustment	(267)	(308)		
Tangible asset	(14)			
Total assets per Solvency II	9,866,626	4,257,470		

#### 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.

There are investments whose fair value is based on quoted prices obtained from an active market (recognised and active exchange). There are other investment whose price is based on inputs other than quoted prices that are market observable. A small portion of investments are valued 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**

Both Octium Life and Octium Assurance, as an Italian Withholding Tax Agents are 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 is held at cost in the consolidated financial statements. In the Solvency II balance sheet, the asset is held at face value and 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 the Group's technical provisions as at 31 December.

<b>Technical Provisions</b>	<b>2021 €'000</b>	<b>2020 €'000</b>
BEL	9,384,361	4,089,099
Risk Margin	48,660	15,923
Technical provisions	9,433,022	4,105,022

The key sources of uncertainty for the Group are investment performance and policyholder behaviour assumptions. The non-unit BEL (negative liability) has increased during 2021 primarily due to the acquisition of Octium Assurance, positive investment performance and net business inflow in Octium Life increasing funds under management, as well as a reduced expense BEL due to an increased yield curve.

**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. The Group 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 2021. 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 the Group 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>2021 €'000</b>	<b>2020 €'000</b>
Technical provisions per F/S	9,696,712	4,173,094
Solvency II adjustments		
Provisions other than Technical Provisions	(166,730)	(39,862)
BEL	(145,620)	(44,132)
Risk Margin	48,660	15,923
Solvency II Technical Provisions	9,433,022	4,105,022

### D.3. Other Liabilities

#### D.3.1. Other Liabilities

These comprise of payments due to the Group'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.





<b>Other Liabilities</b>	<b>2021 €'000</b>	<b>2019 €'000</b>
Creditors arising from insurance	168,090	40,102
Senior Loan	35,587	6,924
Subordinated loan	67,500	40,000
Other creditors	496	104
Accruals	20,943	7,274
Deferred tax	19,351	3,325
Other Liabilities	311,968	97,729

### **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 2021 or 31 December 2020.

### **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. The subordinated debt issued in December 2021 is treated as Tier 1 subordinated debt.

Analysis of Own Funds	2021 €'000			2020 €'000		
	Tier 1	Tier 2	Total	Tier 1	Tier 2	Total
Share Capital	31		31	31		31
Subordinated Liabilities	67,500		67,500	40,000		40,000
Subordinated Liabilities – SCR tiering restrictions	(37,088)	37,088	(-)	(26,320)	26,108	(213)
Reconciliation Reserve	121,615		121,615	54,688		54,688
<b>Own Funds Available to meet SCR</b>	<b>152,058</b>	<b>37,088</b>	<b>189,146</b>	<b>68,399</b>	<b>26,108</b>	<b>94,506</b>
Subordinated Liabilities – MCR tiering restrictions		(25,866)	(25,866)		(21,408)	(21,408)
<b>Own Funds Available to meet MCR</b>	<b>152,058</b>	<b>11,222</b>	<b>163,280</b>	<b>68,398</b>	<b>4,699</b>	<b>73,098</b>

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.

The decrease in Group own funds available to meet SCR from 31 December 2020 to 31 December 2021 is mainly as a result of the acquisition of Octium Assurance and the related funding structure.



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

Reconciliation of Equity to Own Funds	2021 €'000	2020 €'000
Total Equity per F/S	61,307	31,443
Solvency II BEL	145,620	44,133
Solvency II Risk Margin	(48,660)	(15,923)
Deferred Tax Liability	(19,342)	(3,325)
Reinsurance Recoverables	(17,295)	(1,531)
Other		-
<b>Excess of Assets over Liabilities</b>	<b>121,646</b>	<b>54,719</b>
Subordinated Liabilities	67,500	40,000
<b>Own Funds (excluding tiering restrictions)</b>	<b>189,146</b>	<b>94,719</b>

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 2021 are €123.4m and €55.5m respectively (2019: €52.0m and €23.5m).

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

Solvency Capital Requirement	2021 €'000	2020 €'000
Market Risk	91,516	30,394
Counterparty Risk	4,444	794
Underwriting Risk	90,822	36,708
Diversification Effects	(41,165)	(14,451)
<b>Basic SCR</b>	<b>145,618</b>	<b>53,445</b>
Operational Risk	4,041	2,080
Loss-absorbing capacity of Deferred Taxes	(24,973)	(3,325)
<b>Solvency Capital Requirement</b>	<b>124,686</b>	<b>52,200</b>

The SCR increased during 2021 due primarily to the acquisition of Octium Assurance AG and the related funding structure.

### 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

		<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	308
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	38,679
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	0
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	38,677
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	9,696,712
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:	-17,295
R0340	Life index-linked and unit-linked	-17,295
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	4,326
R0370	Reinsurance receivables	59
R0380	Receivables (trade, not insurance)	1,346
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	57,819
R0420	Any other assets, not elsewhere shown	84,674
R0500	<b>Total assets</b>	<b>9,866,626</b>



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

	C0010
<b>Liabilities</b>	
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	9,433,022
TP calculated as a whole	0
Best Estimate	9,384,362
Risk margin	48,660
Contingent liabilities	0
Provisions other than technical provisions	168,090
Pension benefit obligations	0
Deposits from reinsurers	0
Deferred tax liabilities	19,342
Derivatives	0
Debts owed to credit institutions	0
Financial liabilities other than debts owed to credit institutions	35,587
Insurance & intermediaries payables	301
Reinsurance payables	195
Payables (trade, not insurance)	20,943
Subordinated liabilities	67,500
Subordinated liabilities not in Basic Own Funds	0
Subordinated liabilities in Basic Own Funds	67,500
Any other liabilities, not elsewhere shown	0
<b>Total liabilities</b>	<b>9,744,980</b>
<b>Excess of assets over liabilities</b>	<b>121,646</b>




## F.3. QRT – S.05.01.02 – 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>		
Gross	317,834	317,834
Reinsurers' share	32	32
Net	317,802	317,802
<b>Premiums earned</b>		
Gross	317,834	317,834
Reinsurers' share	32	32
Net	317,802	317,802
<b>Claims incurred</b>		
Gross	251,969	251,969
Reinsurers' share	0	0
Net	251,969	251,969
<b>Changes in other technical provisions</b>		
Gross	0	0
Reinsurers' share	0	0
Net	0	0
<b>Expenses incurred</b>	9,481	9,481
<b>Other expenses</b>		2,352
<b>Total expenses</b>		11,834



G.05.02.01 - Premiums, claims and expenses by country

Contents



Microsoft Excel-based  
Solvency II reporting solution

	<b>Home Country</b>	<b>Top 5 countries (by amount of gross premiums written) - life obligations</b>	<b>Total Top 5 and home country</b>		
	C0150	C0160	C0210		
R1400		IT			
	C0220	C0230	C0280		
	<b>Premiums written</b>				
R1410	Gross	185,123	132,711	317,834	
R1420	Reinsurers' share	0	0	0	
R1500	Net	185,123	132,711	317,834	
	<b>Premiums earned</b>				
R1510	Gross	0	0	0	
R1520	Reinsurers' share	0	0	0	
R1600	Net	0	0	0	
	<b>Claims incurred</b>				
R1610	Gross	161,838	84,997	246,835	
R1620	Reinsurers' share	0	0	0	
R1700	Net	161,838	84,997	246,835	
	<b>Changes in other technical provisions</b>				
R1710	Gross	0	0	0	
R1720	Reinsurers' share	0	0	0	
R1800	Net	0	0	0	
R1900	<b>Expenses incurred</b>	5,232	3,775	9,007	
R2500	<b>Other expenses</b>			2,307	
R2600	<b>Total expenses</b>			11,314	





## F.5. QRT – S.23.01.22 – Own Funds

**Basic own funds before deduction for participations in other financial sector**

Ordinary share capital (gross of own shares)

Reconciliation reserve

Subordinated liabilities

**Total basic own funds after deductions**

Own funds aggregated when using the D&amp;A and a combination of method net of IGT

Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&amp;A )

Total available own funds to meet the minimum consolidated group SCR

Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&amp;A )

Total eligible own funds to meet the minimum consolidated group SCR

**Consolidated Group SCR****Minimum consolidated Group SCR****Ratio of Eligible own funds to Minimum Consolidated Group SCR****Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A )****Group SCR****Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A****Reconciliation reserve**

Excess of assets over liabilities

Other basic own fund items

**Reconciliation reserve before deduction for participations**

Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2
31	31		0
121,615	121,615		
67,500		67,500	0
189,146	121,646	67,500	0
0	0	0	0
189,146	121,646	67,500	0
189,146	121,646	67,500	0
189,146	121,646	30,412	37,088
163,280	121,646	30,412	11,222
56,109			
2.9101			
189,146	121,646	30,412	37,088
124,686			
1.5170			
	C0060		
121,646			
31			
121,615			



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

		<b>Gross solvency capital requirement</b>
		C0110
R0010	Market risk	91,516
R0020	Counterparty default risk	4,444
R0030	Life underwriting risk	90,822
R0040	Health underwriting risk	0
R0050	Non-life underwriting risk	0
R0060	Diversification	-41,165
R0070	Intangible asset risk	0
R0100	<b>Basic Solvency Capital Requirement</b>	145,618
<b>Calculation of Solvency Capital Requirement</b>		C0100
R0130	Operational risk	4,041
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-24,974
R0200	<b>Solvency capital requirement excluding capital add-on</b>	124,686
R0210	Capital add-on already set	0
R0220	<b>Solvency capital requirement</b>	124,686
<b>Other information on SCR</b>		-
R0470	Minimum consolidated group solvency capital requirement	56,109
<b>Information on other entities</b>		-
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0570	<b>Solvency capital requirement</b>	124,686



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

C0010	C0020	C0030	C0040	C0050
LU	549300X6ZVC40AF52Q63	LEI	Octium Holding S.A.	5
IE	549300B5M7Z8CX8LRX97IE00002	SC	Octium Holding Limited	5
IE	5299002005TKOTGS9Z42	LEI	Octium Life DAC	1
LU	549300B5M7Z8CX8LRX97LU00001LU00001	SC	KLP S.a.r.l.	99
LI	549300OHH5P7XWOLBL80	LEI	Octium_International_Insurance_Services_AG	99
LI	529900RUSOZI16ZVXH02	LEI	Octium Assurance AG	1
IT	549300B5M7Z8CX8LRX97LU00002LU00002	SC	Octium Services AG	99

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 Liechtenstein
Company limited by shares	2	FMA Liechtenstein
Company limited by shares	2	

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
1.0000	0.5100	1.0000		1	1.0000
1.0000	0.5100	1.0000		1	1.0000

C0240	C0250	C0260
1		1
1		1
1		1
1		1
1		1
1		1
1		1

