PROGRESSIVE INSURANCE COMPANY LTD

SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)

Reference Date: 31 December 2016
Submission Date: 20/5/2017

Progressive Insurance Company Ltd Solvency and Financial Condition Report ("SFCR") - (for the financial year ended 31 December 2016)

Contents

Executive Summary

Progressive Insurance Company Ltd ('the Company') is a privately owned General Business Insurance Company licensed in the Republic of Cyprus.

The purpose of this report is to satisfy the public disclosure requirements under the Solvency II Directive and relevant regulations which came into force with effect from 1 January 2016. This report is known as the Solvency and Financial Condition Report ("SFCR") and is the first version of the Solvency and Financial Condition Report ("SFCR") that is required to be published by Progressive Insurance Company Ltd on the Company's public website.

The elements of the disclosure relate to business performance, governance, risk profile, solvency and capital management. The ultimate Administrative Body that has the responsibility for all of these matters is the Company's Board of Directors, with the support of various governance and control functions that it has put in place to monitor and manage the business.

The Company has performed well during the year ended 31 December 2016 and has recorded profits for the year as per the audited financial statements of €104,297 after tax. The profits have been driven from a good underwriting performance while the investment returns are minimal, reflecting the current economic environment.

The Company has maintained an increase in a volume of business by 8,3% compared to the market rate of 4% and it is in the Company’s plans to maintain an increase in the volume of business which exceeds the current insurance market growth rate.

Over the past few years, the respective committees in the Board and the various functions put in place significant measures to strengthen the corporate governance framework, including the risk management function, in readiness for Solvency II. The governance and risk frameworks are detailed further in this report. There have been no significant changes in the reporting period.

The Company has continuously complied with all aspects of the Solvency II regulations from the date of first implementation on 1 January 2016. The Company has own funds of €3.959.248 compared to a Solvency Capital Requirement of €2.630.662. The final amount of the Solvency Capital Requirement of the Company remains subject to supervisory assessment.

The Company's business plans forecast that own funds will continue to exceed the Solvency Capital Requirements (“SCR”) as at 31 December 2017. As already mentioned the Company’s plan is to increase the volume of business particularly in selected profitable lines of business and therefore strengthen further its position on the Solvency Capital Requirement (“SCR”).

The Company is taking very seriously the directive of the Superintendent of Insurance regarding the new regime of the collections of premiums from all the channels of distribution particularly focusing on the intermediaries. This new challenge is the driving force to elevate and improve the Company’s technology infrastructure which is aimed to give the Company a competitive edge.

Takis Haggiandreou Managing Director

A. Business and Performance

A.1 Business

A. 1.1 This report relates to Progressive Insurance Company Ltd, a privately owned General Business Insurance Company licensed in the Republic of Cyprus.

The Company's operating address and registered office is:
Progressive Insurance Company Ltd
44 Kallipoleos Avenue, 1071 Nicosia
P.O. BOX 22111, 1517 Nicosia, Cyprus

A. 1.2 The Company is supervised by The Superintendent of Insurance of Cyprus.
Address:
Ministry of Finance
Insurance Companies Control Service
P.O. Box 23364, 1682 Nicosia
Telephone Number: 22602990
Fax Number: 22302938
E-mail: insurance@mof.gov.cy

A. 1.3 The Company's external auditor is Baker Tilly Klitou & Partners Ltd, Chartered Accountants and Statutory Audit Firm, Corner C Hatzopoulou & 30 Grivas Dighenis Avenue 1066 Nicosia, Cyprus.

A. 1.4 The Company's shareholders are:

• Takis Haggiandreou	42.92%
• Loukia Haggiandreou	42.92%
• Andriana Haggiandreou	8.32%
• Others	5.84%

A. 1.5 The Company does not belong to a group.

A. 1.6 The Company is licensed to operate in the Republic of Cyprus and its operations are conducted within the Republic of Cyprus.
The Company is licensed to transact the following lines of business:

- Income Protection
- Motor Vehicle Liability
- Motor Other
- Marine Aviation and Transport
- Fire and Other Damage to Property
- General Liability
- Credit and Suretyship
- Miscellaneous Financial Loss
- Medical Expenses

A. 1.7 There have been no other significant events that have occurred in the reporting period that have had a material impact on the Company.

A.2 Underwriting Performance

The Company is transacting business in the geographic location of the Republic of Cyprus. The premiums written per line of business are shown in detail in the following table.

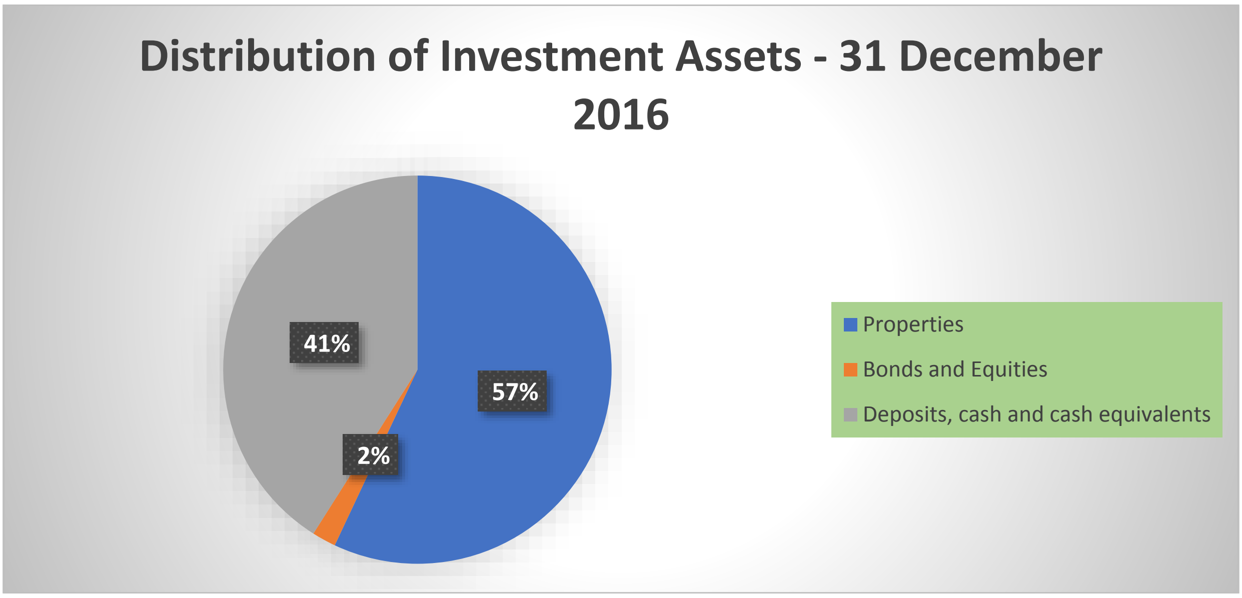
Line of Business	2016	2015
	€	€
Income Protection	**17.009**	17.879
Motor Vehicle Liability	**2.451.222**	2.262.956
Motor Other	**407.346**	349.252
Marine Aviation and Transport	**74.486**	71.106
Fire and Other Damage to Property	**1.014.560**	922.165
General Liability	**535.766**	485.741
Credit and Suretyship	**17.775**	12.658
Miscellaneous Financial Loss	**55.337**	69.950
	4.573.501	4.191.707

Underwriting performance has been positive with technical profits reported in all lines of business excluding Other Motor and Miscellaneous Financial Loss line of businesses. The technical profit reported for the year ended 31 December 2016 in the management accounts was €232.202.

A.3 Investment Performance

The Company's investments comprise predominantly cash, cash equivalents, government bonds and property. The income on these investments for the year ended 31 December 2016 is €47,852.

The Investment assets held by the Company are as follows:



Investment income comprises, interest and other income receivable, realized gains and losses on investments and unrealized gains and losses. Movements are recognised in the profit and loss account in the period in which they arise. Interest is accounted for on a time proportion basis using the effective interest method.

A.4 Performance of Other Activities

There have been no other significant activities undertaken by the Company other than its insurance and related activities.

A.5 Any Other Information

There are no other material matters in respect to the business or performance of the Company.

B. System of Governance

B.1 General Information on the System of Governance

B.1.1 Overview:

The Company's Board of Directors carry responsibility for the oversight of the business and sets its strategy and risk appetite. With effect from May 2014 the Board consists of six Board members.

<u>Board of Directors:</u>
Takis Haggiandreou (Chairman)
Loukia Haggiandreou
Andreas Erotokritou
George Petrou
Andreas Karavias
George Afxenti Petrou

Company Secretary:
Loukia Haggiandreou

Governance requirements are largely set by regulatory and legal requirements, however the Company also considers any additional measures it considers necessary to manage the risk of the Company and will implement these on a case by case basis.
The Company is committed to high standards of corporate governance. The following Committees and Control Functions have been established by the Board to assist it in fulfilling its obligations and operated throughout the year under review. Each Committee operates under defined terms of reference and reports to the Board.

AUDIT COMMITTEE:
ANDREAS KARAVIAS - CHAIRMAN
TAKIS HAGGIANDREOU
LOUKIA HAGGIANDREOU
GEORGE PETROU
ANDREAS EROTOKRITOU
GEORGE AFXENTI PETROU

RISK & RESERVING COMMITTEE:
ANDREAS KARAVIAS - CHAIRMAN
TAKIS HAGGIANDREOU

REMUNERATION & NOMINATION COMMITTEE:
TAKIS HAGGIANDREOU
GEORGE AFXENTI PETROU
ANDREAS EROTOKRITOU

INVESTMENT COMMITTEE:
GEORGE AFXENTI PETROU
ANDREAS EROTOKRITOU
ANDREAS KARAVIAS

The Audit Committee assists the Board in fulfilling its responsibilities for:

- The integrity of the Company's financial statements;
- The effectiveness of the Company's internal controls;
- The Company's arrangements for its employees to raise concerns, in confidence, about possible wrong-doing in financial reporting or other matters;
- The effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system; and
- Monitoring the effectiveness, independence and objectivity of the external auditor.

The Risk Committee assists the Board in fulfilling its responsibilities for:

- The effectiveness of the Company's risk management systems;
- The implementation of the Company's risk strategy and maintenance thereof;
- The oversight of Solvency II developments;
- The oversight of investment issues;
- The timely reporting of material deviations from defined risk appetite; and
- Monitoring the effectiveness, independence and objectivity of the Risk function.

The Remuneration and Nomination Committee assists the Board in fulfilling its responsibilities for:

- Oversee the definition, implementation and review of (a) the Remuneration practices and policies for the personnel, Senior Management and BoD and (b) the performance assessment of all staff by defining appropriate performance criteria and appraisal process
- Provide input into the formulation of the Company’s HR policies and make recommendations to the BoD
- Monitor the development and approval of detailed risk performance assessment policies across all levels of organization
- Monitor the implementation and effectiveness of, and compliance with, approved remuneration policies and standards as they are applied throughout the Company and the resultant action taken in respect of policy breaches
- Takes responsibility of the process for senior appointments and makes recommendations to the BoD

Additionally, there is an Investment Committee whose duties and responsibilities are primarily to assist the Board and/or the Risk Committee to fulfill its statutory duties and its oversight responsibilities in respect of shareholder funds and technical funds within the overall risk appetite and control framework of the Company.

Independent Control Functions:

The Company has established the four key independent control functions required under the legal requirements - risk management, compliance, actuarial and internal audit. These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board in relation to the Company's control framework.

The members of the control functions are as follows:

<u>RISK MANAGEMENT FUNCTION:</u>
INTERNALLY IN CHARGE: TAKIS HAGGIANDREOU
OUTSOURCING: NUMISMA ADVISORY SERVICES (MARKOS MARKIDES/CHIEF RISK OFFICER)

<u>COMPLIANCE FUNCTION:</u>
LOUKIA HAGGIANDREOU

ACTUARIAL FUNCTION:
INTERNALLY IN CHARGE: LOUKIA HAGGIANDREOU
OUTSOURCING: NUMISMA ADVISORY SERVICES (MARKOS MARKIDES)

INTERNAL AUDIT FUNCTION:
INTERNALLY IN CHARGE: ANDREAS KARAVIAS
OUTSOURCING: ERNST & YOUNG AUDITORS

Chief Risk Officer:

A Chief Risk Officer is appointed, via a formal outsourcing arrangement with the Company, to oversee the implementation of the Company's Risk Management Policy, reporting to the Board Risk Committee and the Company's General Manager. The responsibilities of the Chief Risk Officer include:

- The oversight of the smooth-running of and adherence to the Company's Enterprise Risk Management framework (ERM)
- To be the focal point for risk events reporting and for new and emerging risks, such that these can be assessed and material issues reported to the Board Risk Committee, who will determine whether the issue is of such significance that it needs to be reported to the Company's regulator
- To ensure that the annual 'Own Risk and Solvency Assessment' (ORSA) is prepared and submitted to the Board Risk Committee who engage with the process and recommend outputs to the Board for strategic consideration.

Compliance Officer:

A Compliance Officer is appointed with responsibility for the implementation of the Company's Compliance Policy and effective processes. The Compliance Officer reports to the Board, and raises issues as they arise, to the Company's General Manager. The responsibilities of the Compliance Officer include:

- To report on significant instances of non-compliance to the Board and the Company's management
- To monitor Compliance within the Company and its service providers, making recommendations where change is required
- To monitor regulatory change and to inform the Company and its service providers where such changes have implications for the Company's processes.

Actuarial Function:

The responsibilities of the Actuarial Function under the Solvency II regime are:

- Coordinate the calculation of technical provisions, identify and inconsistency with the requirements of the Solvency II Directive and propose appropriate corrections
- Explain any material effect of changes in data, methodologies or assumptions between valuation dates on the amount of technical provisions
- Assess the consistency of the internal and external data used in the calculation of technical provisions
- Provide recommendations on the internal procedures to improve data quality so as to ensure that the Company complies with Solvency II requirements
- Provide opinion on the underwriting policy, the reinsurance policy and the reinsurance program

- Report annually to the Board of Directors documenting all material tasks and undertaken by the Actuarial Function and their results. Identify any deficiencies and give recommendation as to how such deficiencies could be remedied.

Head of Internal Audit:

The Head of Internal Audit function is outsourced to the Manager of the Group Internal Audit Team. The function provides independent and objective assurance services, via a formal outsourcing arrangement in respect of the Company's processes, as carried out by its service providers with due regard to the adequacy of the governance, risk management and internal control framework. Audits are conducted within a Board approved 'Internal Audit Charter' framework. The Head of Internal Audit reports to the Company's Chairman of the Audit Committee. The Audit Committee oversees the 'risk based' Audit Plan and outcomes thereof.

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. In addition to its regular reporting the Internal Audit Department prepares an annual report for the Audit Committee, which provides a balanced assessment of the effectiveness of the Company's systems of risk management and internal controls, in accordance with the Department's professional accountabilities and statements.

B.1.2 Material Changes in the System of Governance

No material changes in the System of Governance have taken place over the reporting period.

B.1.3 Remuneration, Employee Benefits and Practices

The Company provides a range of benefits to employees, including contractual salary, voluntary health insurance and Provident Fund.

The Company pays contributions based on a percentage of salary into the Company's Provident Fund on behalf of its employees. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognized as an expense when they are due. The assets of the Fund are held separately from the Company in the independent Provident Fund as regulated by the Provident Fund Law. Employees' members of the Provident Fund contribute accordingly to the Fund.
The Company has declared a dividend of €153.102 in the year 2016.
The remuneration of the board as board members is a nominal amount.

B.1.4 Material Transactions

Other than payments and contracted employee salaries and benefits mentioned above, there were no material transactions with the Shareholder, with persons who exercise a significant influence on the undertaking and with members of the administrative, management or supervisory body.

B.2 'Fit and Proper' Requirements

The Company recognizes the value of the fit and proper requirements in that a company run in a fit and proper manner, by fit and proper directors and other individuals holding key functions or roles, will benefit from the knowledge and experience brought to the Company.

For the BoD members (Board of Director's), the Committees and the members of the Control Function, supervisory authority approval is required before an individual commences any such role. The BoD maintains ultimate responsibility to notify the supervisory authority of the key functions identified in the Company, and the individuals that are in scope of the fit and proper requirement, ensure they are fit and proper and seek approval from the Supervisor with regards to the fit and propriety of the individuals identified above. The Company will perform background checks and assess competence to this end.
The Compliance Function has established processes for notifying the Supervisory authority of the above, of any changes to the individuals that hold the Fit and Proper requirements and of any persons replaced because they no longer fulfil the Fit and Proper requirements.
The Compliance Function is committed to provide these notifications in a timely manner and with sufficient information to the supervisor for conducting an assessment.
The Compliance Function has the responsibility for monitoring the regulatory requirements on the fit and proper requirement and informs the BoD and key function holders of any changes to the information that needs to be submitted.
The above identified individuals are required to comply with the requirements set by the supervisory authority and the code of standards defined by the Company, documented in the next sections of this policy. Individuals in scope of the requirement should inform the Human Resources department if their fitness or propriety is adversely affected and Compliance if they believe they have breached any regulatory requirements.
The Company's policies and terms of reference for each of the key functions define the specific Fit and Proper requirements for each function holder.
In accordance with supervisory requirements, the Company requires its Senior Management and holders of key function to be fit and proper, to adhere to the Principles and Code of Ethics and Conduct and achieve competence.

B.2.1 Fitness

In assessing the fitness of a person his/her professional competence and capability are considered.
The assessment of professional competence covers the assessment of the competence in terms of Senior Management and in the area of business activities carried out by the Company (technical competence).
This assessment is based on the person's previous experience, knowledge, and professional qualifications and should demonstrate due skill, care, diligence and compliance with the relevant standards for the area sector they have worked in.
The Company will have regard to whether the person is competent, and demonstrate, through experience and training; they are able to perform the key functions. Any previous dismissal or suspensions from employment, including for drug or alcohol abuses, may also be considered.

All individuals must maintain their competence for the role they fulfil. The HR function is responsible for ensuring that all individuals receive appropriate training for maintaining their competence.

Professional qualifications applicable to each key function are in line with the supervisory authority's requirements.

With regards to the BoD, the collective knowledge, competence and experience of its members, should at a minimum include:

- Market knowledge, i.e. an awareness and understanding of the wider business, economic and market environment in which the Company operates
- Business strategy and business model, i.e. an appropriately detailed understanding of the Company's business strategy and model.
- System of governance, i.e. the awareness and understanding of the risks the Company is facing and the capability of managing them. Furthermore, the ability to assess the effectiveness of the Company's arrangements to deliver effective governance, oversight and controls in the business
- Financial and actuarial analysis, i.e. the ability to interpret the Company's financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information
- Regulatory framework and requirements, i.e. an awareness and understanding of the regulatory framework in which the Company operates, and the regulatory requirements and expectations relevant to it and the capacity to adapt to changes which stem from the regulatory framework without delay
- By collective knowledge the members of the BoD are not each expected to possess expert knowledge, competence and experience within all areas of the undertaking. However, the collective knowledge, competence and experience of the BoD as a whole has to provide for a sound and prudent management of the undertaking
- When changes occur within the BoD, e.g. replacement of one of its members, the undertaking is expected to be able to demonstrate that the collective knowledge of the members of the BoD is maintained on an adequate level so that the sound and prudent management of the undertaking will continue.

B.2.2 Propriety

In assessing the propriety of a person, the Company assesses its honesty, integrity, reputation and financial soundness.

The Company may take into account convictions for criminal offences, adverse findings in civil proceedings, or disciplinary actions by regulators in Cyprus or abroad.

The criteria include an assessment of reasons to believe from past conduct that the person may not discharge their duties in line with applicable rules, regulations and guidelines. Such reasons may arise from criminal antecedents, financial antecedents, and supervisory experience with that person or past business conduct. This approach does not imply that all previous infringements will automatically result in a failure to meet the requirements, but rather than they will be assessed on a case by case basis by the Company before an appointment and application to the supervisory authority is made.

At application, criminal records checks will be performed for approved persons, and other selected roles. Annual criminal records checks of approved persons will not be conducted. Approved persons will self-certify that they remain proper.
The Company requires the following criteria to the 'fit and proper' tests to be met. These are:

- Relevant criminal offences are in particular any offence under the laws governing banking, financial, securities or insurance activity, or concerning securities markets or securities or payment instruments, including but not limited to laws on money laundering, market manipulation, or insider dealing and usury as well as any offences of dishonesty such as fraud or financial crime. Further any other offences under legislation relating to companies, bankruptcy, insolvency, or consumer protection
- Any other criminal offences currently being tried or having been tried in the past will also be considered, as they can cast doubt on the integrity of the person and may mean that the integrity requirements are not met
- Relevant disciplinary or administrative offences are in particular any offences made under an activity of the financial sector, including offences under legislation relating to companies, bankruptcy, insolvency, or consumer protection
- When assessing the propriety of the person other circumstances than court decisions and ongoing judicial proceedings, which may cast doubt on the repute and integrity of the person, will also have to be considered. These could include current investigations or enforcement actions, the imposition of administrative sanctions for non-compliance with provisions governing banking, financial, securities or insurance activity, securities markets, securities or payment instruments or any financial services legislation
- Pending investigations or enforcement actions by any other regulatory or professional body for non-compliance with any relevant provisions could be taken into account
- When assessing the repute and integrity of a person honesty is one of the features to take into consideration. One of the triggers that could put into question this feature is the existence of conflicts of interest. In this regard, consideration should be given to the financial soundness of the person to be assessed in order to assess if it may trigger any dishonest or unprofessional behavior
- Notwithstanding the above, having previous infringements does not automatically result in the person not being assessed as proper for the duties he/she is to perform. It is recognized that, while criminal, disciplinary or administrative convictions or past misconduct are significant factors, the assessment of the fitness and propriety is to be done on a case-by-case basis and that consideration needs to be given to the type of misconduct or conviction, the level of appeal (definitive vs. non-definitive convictions), the lapse of time since the misconduct or conviction, and its severity, as well as the person's subsequent conduct

B.3 Risk Management system including the Own Risk and Solvency Assessment

Risk can be defined as the probability that the outcome of an action (or inaction) or event has negative effects, bringing as a result expected or unexpected losses, or a restriction in the company's ability to implement its business strategy.
Risk is inherent in the Company's business activities and is linked to strategic and capital decisions. The Company aims through appropriate risk management, to achieve its business and financial

strategy without exceeding set risk tolerances and by considering internal constraints (solvency, liquidity) and external constraints set by regulators and other stakeholders.

B.3.1 Risk Management Strategy, processes and reporting procedures

The company has in place a Risk Management Framework with the following objectives:

- A clearly defined and well documented risk management strategy that sets the key risk management principles, overall risk appetite and assignment of responsibilities across the Company
- Adequate definition and categorization of the material risks faced by the Company, by type, and the levels of acceptable risk limits for each type of risk
- Appropriate processes and procedures which enable the Company to identify, assess, manage, monitor and report the risks it is or might be exposed to

The Company adopts the following guiding principles as a formal policy for the management of risk:

- The Company's governance structure and risk management framework aims to create and promote a strong risk culture that is embedded in all aspects of the Company's activities.
- The BoD is responsible for overseeing senior management and also for establishing sound business practices and strategic planning. It is therefore of the utmost importance that the BoD in carrying out both its management and supervisory functions has collectively a full understanding of the nature of the business and its associated risks
- The BoD is responsible for setting the Company's risk appetite and risk tolerance at a level which is commensurate with its sound operation and the strategic goals of the Company
- The level of risks that the Company is willing to take is constrained by regulation and supervision.
- Every member of the Company must be fully aware of their responsibilities relating to the identification and reporting of relevant risks.
- New products, markets, and businesses are analysed carefully and the Company makes sure that it possesses adequate internal tools and expertise to understand and monitor the risks associated with them.
- The Company maintains responsibility for activities carried out by third parties and takes all necessary measures to understand the risks arising from such activities and to ensure that these risks are managed in accordance with its defined risk appetite and policies.
- The risk management framework is subject to an independent review by Internal Audit.

B.3.2 Risk Management Cycle

Risk Management in the Company relies on a standardized methodology that follows the stages below for all risks:

- Risk Identification

Risk Identification is the first stage in the risk management process. This is defined as the process followed to identify and record all material risk exposures that arise from Company activities. Risks are identified and registered both formally, through the annual review of the Company's risk register and the ORSA process, and informally as they arise in the course of business.

- Risk Measurement

  The RMF, together with risk owners, has the responsibility to assess whether the risks in the risk universe of the Company are material e.g. their impact on capital or earnings is above the materiality threshold set by the BoD.

  Materiality is usually assigned based on a high level qualitative assessment of risk. Risks that appear material are being considered more carefully in order to measure their impact precisely using qualitative and quantitative techniques.

- Risk Monitoring and Reporting

  The RMF has the responsibility to ensure that all material risk exposures are monitored on an ongoing basis and that any risks that fall outside the approved risk appetite of the Company are identified and appropriately escalated to the Risk and Reserving Committee.

- Risk Mitigation

  The Company has a strong risk controls culture to ensure the mitigation of all risks in its risk universe. Controls are developed and used to safeguard the integrity of the Company's processes and systems.

  Additionally, the RMF evaluates and adopts appropriate risk transfer methods to mitigate its exposure to the identified risks. Such methods may include purchasing reinsurance coverage, using derivatives as hedging instruments.

B.3.3 Implementation/integration into organizational structure and decision-making processes

The risk governance of the Company forms an integral part of the Risk Management Framework and is organised in a way that ensures the establishment of clear responsibility boundaries, the proper segregation of duties and the avoidance of conflicts of interest at all levels, including the BoD, Senior Management, RMF and Business Units.

B.3.4 ORSA (Own Risk and Solvency Assessment) Process

The ORSA (Own Risk and Solvency Assessment) is a component of the overall control system of the Company. This allows the management to take into account all the risks associated with the Company's business strategies and the required level of capital that the Company needs to cover such risks.

Therefore, strategic decisions such as the expansion into new markets, the introduction of new products, etc. are assessed and evaluated in the light of their effect on the Company's risk situation and risk-bearing capacity.

The Company follows the steps below to implement its ORSA:

- ***Define the driving factors before ORSA planning*** - Such factors include the size and complexity of the Company e.g. whether it operates only locally, whether it is a part of a larger group, etc, its importance to the sector, proportionality issues, internal governance issues, Supervisory perceptions about the Company and supervisory expectations in relation to ORSA, whether the group (where applicable) will provide guidance and assistance with respect to ORSA, other project management issues etc.

- ***Identify and classify risks, including governance*** - The Company identifies the material risks facing the organization. This exercise includes risks considered in the SCR formula, as well as risks not included in the standard formula such as liquidity, strategic, business risks, etc. The assessment is done using the impact and probability of the risk occurring. The Company assigns a materiality threshold for this exercise. The risks that exceed the materiality threshold will be the ones where the Company will have to make decisions i.e. mitigate them, transfer them, stop the operation, assign more capital, etc.

- ***Assessment and measurement of material risks through different approaches including stress testing*** - the Company collects data, quantifies and aggregates risks using different approaches. The Company uses this assessment of its risk profile to decide whether there is a need to assign additional capital over and above the SCR, taking into account diversification techniques.

- ***Capital Allocation*** – According to its risk profile, the Company determines the necessary additional capital over and above the SCR.

- ***Prepare capital planning for the next 3-5 years*** – Based on the capital allocation projections, the Company prepares a capital plan for the following 3-5 years. Such plans depend on its strategic objectives and financial projections and assumptions on future economic conditions.

- ***Stress test and decide on actions in case the risks are crystallized*** - The Company applies additional stress and scenario testing to the forward looking capital plan and develops actions that can be taken in unforeseen circumstances in the future. Such actions include measures to improve its internal control system, risk management system and its overall governance.

- ***Communicate and document the results*** – The Company presents the results of the process to Senior Management and the BoD and prepares the ORSA report.

The Company confirms that the above procedure is not independent from the “business as usual’ process of the Company. As a result, the RMF reports the Company’s risks and stress tests and the BoD and Senior Management make decisions upon the results of these procedures. In addition, the Company considers the impact on its capital in its financial projections.

B.4 Internal Control System

B.4.1 Description of Internal Control System

The Company’s Internal Control System (ICS) is the aggregate of control mechanisms and procedures which covers, on an on-going basis, every single activity of the Company and contributes towards the Company’s efficient and sound operation.
The Company provides for an effective Internal Audit Function, which includes an evaluation of the adequacy and effectiveness of the Internal Control System and other elements of the system of governance.

The Internal Control System comprises of every possible preventative or corrective control which aims at achieving the following objectives:

- The consistent application of an operational strategy, through the efficient utilization of all available resources
- The systematic monitoring and management of risks the Company undertakes and the safeguarding of Company's assets
- Ensuring the completeness and reliability of data and information which are necessary for the correct and up-to-date determination of the Company's financial position and the production of reliable financial statements
- Compliance with the legal framework which governs the Company's operations, including every possible internal rule

The Internal Control System operates in multiple levels. One comprises of all the controls which are integrated in the routine operations of the Company, which aim to ensure that procedures are carried out effectively, the assumed risks are managed effectively and the final result of operations is in line (consistent) with the Company's objectives. The responsibility for the completeness, adequacy and effective implementation of controls, lies with the Company's executive officers.
Another level is comprised of the actions of independent staff that have no operational responsibilities and aims to the verification of the adequacy and effectiveness of controls. This level is the responsibility of the Internal Audit team, where through the audit work performed, it assesses the soundness of the Internal Control System.
The Internal Audit provides recommendations for the design and operational improvement of the Internal Control System, arising through audit engagements, as well as through its consulting capacity in the context of participation in standing committees. The two types of consulting engagements provided by the Internal Audit are the following:

- Ad hoc consulting engagements with a specific scope at the specific request of the Senior Management or self-appointed
- Special investigations

In order to assure adequacy of the procedures in place, quality in the provision of consulting and other relevant engagements, as well as independence (in accordance with the Internal Audit Standards), the Internal Audit Function, prior to accepting such engagements, should document in a working paper/ audit program the following information:

- Type of engagement
- Project scope
- Independence evaluation
- Due professional care and objectivity evaluation
- Definition of the risk rating of the project (based on a risk assessment)
- Definition of the collective possession of necessary knowledge and skills to conduct the engagement properly and the value adding which will result from the engagement
- Engagement team members providing the consulting engagements and approval for such participation

The Company's BoD, have the final responsibility for the design, implementation / application and maintenance of the Internal Control System (third level). In this context, the BoD should:

- Ensure to create an internal control environment which recognizes the importance of the Internal Audit Function and to establish an organizational structure which facilitates the effective implementation of ICS
- Clearly define operational targets and policies, which are compatible to the acceptable levels and types of risks and to create a realistic action plan and budget which should be understood by all participants in the implementation process
- Ensure that the Internal Control System is implemented in all operational units

The BoD introduces the Audit Committee in order to provide assistance to the BoD in the performance of specific duties.

B.4.2 Operation of Compliance Function

The Compliance Functions aim is:

- To ensure the Company's continuing compliance in relation to its regulatory and legal obligations consistent with the Company's agreed appetite for regulatory or legal risk;
- To minimize the risks to the Company of material financial loss or damage to reputation arising from the potential failure to comply with regulatory or legal requirements;
- To ensure that the Company's arrangements in relation to compliance are sufficiently robust, proportionate, efficient and effective;
- To ensure that the Company's arrangements in relation to compliance are subject to review at appropriate intervals to ensure their continuing fitness for purpose; and
- In conjunction with the Board, to ensure an organizational culture is in place which promotes a high standard of business integrity and regulatory compliance.

The Compliance key function holder is responsible for the completion of compliance tasks, although the tasks are delegated to the Compliance Officer ('CO'). The key function holder is a Director and, along with the Compliance Officer, has direct access to both the Board and the RAC.

The CO is responsible for identifying and evaluating compliance risk, overseeing the implementation of controls for the risks identified, and monitoring their efficacy through the Compliance Monitoring Program. The CO reports to the key function holder and Board at each meeting and will provide advice to the business when requested. It is acknowledged that these two roles need to be carefully balanced as the different approaches required by the proactive 'trusted advisor' and the more reactive 'independent watchdog' of the business may be at odds. If any conflict of interest should arise, the Compliance Officer shall follow the Company's Conflicts of Interest Policy.

The Compliance Function also liaises with regulatory bodies and authorities and provides updates on changes in legislation and regulatory requirements.

The Board supports the compliance function and shall make available such resource as is necessary, and provide access to all relevant documentation and information from the business, for the Compliance Function fulfil its aims.

B.5 Internal Audit Function

B.5.1 The Internal Audit Function has the following responsibilities:

- To regularly monitor the performance and effectiveness of the Internal Control System and to reliably and frequently update Senior Management on the state of affairs in respect of the audits under way, notably in terms of how correct and consistent the implementation of the policies and procedures adopted by the BoD and/or local Senior Management has been
- To conduct general or sample ex-post audits of the functions and transactions of the Company, in order to verify that all regulations, operational procedures and preventative control mechanisms governing each type of transactions and the safeguarding of assets are stringently applied, and that the Company is in compliance with the Institutional Framework governing its operation
- To evaluate compliance with and the efficiency of risk control / management procedures and to estimate the potential loss (not necessarily quantify, but qualify) that the Company might incur as a result of its exposure to risk
- To evaluate the efficiency of the Company's accounting and information systems, to systematically monitor the implementation of the operational and accounting controls and of the rules applied in the collection, processing, management and secure storing of data and information, to verify the reliability of accounting data and statements produced
- To evaluate the efficiency of the organizational structure and reporting lines, as well as a sound ICS in order to ensure that the segregation of duties and the business continuity operate effectively
- To prepare a report on the outsourcing of activities in accordance with the risk based plan. There should be a list of key outsourced activated and associated risks, where the regulator and the auditor should have the right to review agreements of outsourced activities
- To evaluate the adequacy of mechanisms set by the BoD for the definition of targets and subsequently the evaluation of the extent to which the Company achieves its targets
- To carry out special investigations and special audits in situations where it is possible to relate with suspected fraud. The internal auditor may be asked by Senior Management or the BoD to carry out such investigations. In addition, special investigations should be performed in the case where a Unit is consolidated or in any other instance the Departments/Functions/Units are set for restructuring, expansion, undertaking new /additional tasks and in general where any Department / Function changes its procedures which may have an impact on the current controls of that Unit
- To prepare, at least on an annual basis, a risk assessment and audit plan
- To assess, at least on an annual basis, the need to operate in jurisdictions or through complex structures that reduce transparency ('know your customer principle') and report any weaknesses to the BoD
- To assess the risk management procedures (risk identification and evaluation of the existing mechanisms of identification, measurement, monitoring, analysis, correction, elimination, recording and reporting).
- To assess the data upon which the Company has calculated its Pillar 1 and Pillar 2solvency requirements as well as the data that the actuarial function has used for the valuation of the technical provisions
- To assess the compliance procedures followed by the Company

- To assess the Internal Governance System, as well as the Company's Business Continuity and Disaster Recovery Plans and perform an overall assessment of the Company's readiness in implementing the plan
- To review and provide an independent opinion on the Own Risk and Solvency Assessment (ORSA)
- To report to the Audit Committee in relation to the following matters:
- The responsibilities of the Internal Audit Function and/or emerging methodologies and/or compliance issues which may affect the purpose and scope of the internal audit work
- Providing information on the status and results of the audit activities relating to the defined mission and scope of the Internal Audit Function (to the extent that these can be quantifiable through the use of Key Performance Indicators). An annual report should be prepared and submitted summarizing the Internal Audit Function's the operations
- All major observations emanating from the audits carried out. Such report should be prepared on a quarterly basis and should also be submitted to the General Manager

Preparation of an annual Audit Plan

The Internal Audit Plan (IAP) sets out the scope of work to be undertaken by the IAF.
The internal audit plan generally defines the approximate resources necessary to accomplish the scope of the internal audit activities proposed in the plan. The IAP also provides a basis for the Audit Committee to monitor the IAF's progress and performance.
The IAP may need refinement and modification over time, as various factors associated with the Company's internal and external environment evolve and impact the business. Approval from the audit committee should be obtained for any modifications to the internal audit plan proposed by the IAF.
The long term plan must be in line with the Company's long- term strategy, which is defined in the Company's business plans (where applicable). If for example, the Company intents in the long run, to develop new products and services, to incorporate any subsidiary companies, to proceed to changes in the IT systems to introduce a new technology, should incorporate the audit of these new products, procedures and systems in the long-term audit work plan.

Scope of Reports

The internal audit reports prepared are often the most effective way of communicating with the Company / auditees and demonstrate the value internal audit adds to the organization.
The primary objective of reporting is to effectively communicate the results of the internal audit work, thereby helping to drive changes that contribute to the achievement of organizational objectives. Reporting occurs through formal documentation and respective meetings with the audit committee, Senior Management, process owners, and other stakeholders of the audit process.

B.5.2 Independence of Internal Audit Function

The effectiveness of the Internal Audit Function as an assurance service depends upon its independence from the day-to-day operations of the business, which allows the objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The Head of Internal Audit is required to provide confirmation to the Company's Board, on at least an annual basis, of the independence of the Internal Audit Function, as this Function is outsourced to Ernst & Young.

B.6 Actuarial Function

The Actuarial Function provides advice to the Senior Management and the BoD on the valuation of the technical provisions, data quality, overall underwriting policy and the reinsurance arrangements contributing to the effective implementation of the risk-management system.
A review of the ACF should be performed at least on an annual basis to ensure that the policies and procedures reflect the latest legal and regulatory requirements.
The Actuarial Function reports to the CEO / General Manager, and where necessary, cooperates with other functions to carry out its role. The Actuarial Function also has a reporting line to the BoD, through which it is possible to escalate issues and act independently from the management.
The Board is responsible for the oversight and monitoring of the activities of the Actuarial Function.

B.7 Outsourcing

Outsourcing is the use of a third party (either an affiliated entity within the same group or an external entity) to perform activities on a continuing basis that would normally be undertaken by the company. The third party to whom an activity is outsourced is a 'service provider'.

The Company shall ensure that an outsourcing arrangement shall not diminish the company's ability to fulfil its obligations to customers or its regulator, nor impede effective supervision by its regulator (should it be regulated).

Fundamental responsibilities such as the setting of strategies and policies, the oversight of the operation of the company's processes, and the final responsibility for customers, shall not be outsourced.

The Company considers outsourcing where they believe that there is an advantage to the company and customer by using a service provider e.g. access to specialist resource, provision of services in the same jurisdiction as the customer, cost benefits.

The Company is reliant on a number of material service providers; due to the risk this presents, the Company has an outsourcing policy which describes how it takes the decision to outsource, how a service provider is selected, and how the relationship is defined, managed and monitored. The Company takes a risk based approach to all of these activities.

Outsourced Function or Activity	Description of outsourced service	Jurisdiction	Service Provider
Risk Management Function	Risk Management Services	Cyprus	Numisma Advisory Services
Actuarial Function	Actuarial Services	Cyprus	Numisma Advisory Services
Internal Audit Function	Internal Audit Services	Cyprus	Ernst & Young
Road Assistance/ Motor Accident Handling	Road Assistance/ Claims Handling Services	Cyprus	ODYKY
System Maintenance and Support	System Maintenance and Support Services	Cyprus	NETU Cyprus– Accounting System
System Maintenance and Support	System Maintenance and Support Services	Cyprus	EMERALD – Insurance System
System Maintenance and Support	System Maintenance and Support Services	Cyprus	EBOSS - Payroll

B.8 Adequacy of the System of Governance

The Company has assessed its corporate governance system and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of the Company.

B.9 Any other information

There is no other material information regarding the system of governance.

C. Risk Profile

C.1 Underwriting and Reserving Risk

"The risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions". Underwriting risk and Reserving risk includes the fluctuations in the timing, frequency and severity of insured events, with relation to the Company's expectations at the time of underwriting. This risk can also refer to fluctuations in the timing and amount of claims settlements.

C.1.1 Principles of Underwriting and Reserving Risk Management

- The BoD defines and reviews the underwriting strategy of the Company, taking into account the financial environment and macroeconomic factors, the Company's solvency position and the material risks that the Company is exposed to

- The BoD sets the Underwriting and Reserving risk appetite and the Risk And Reserving Committee defines risk acceptance limits for all types of insurance risks that relate to its business activities
- The Company considers the concentrations in its insurance lines of business and takes appropriate mitigating action
- The Company considers the Underwriting and Reserving risks of all new product approvals
- The Company checks the adequacy of its claims management procedures, including the extent to which they cover the overall cycle of claims
- Effective procedures and information systems are put in place for the identification, measurement, monitoring, control and submission of reports with regards to the Company's exposure to Underwriting and Reserving risk.
- The Senior Management assesses and measures, where possible, the effectiveness of the risk-mitigating techniques applied, for each type of Underwriting and Reserving risk, according to the Solvency II requirements
- The Internal Audit function undertakes independent periodic evaluation of the procedures applied for managing Underwriting and Reserving Risk

The Non-Life underwriting and reserving risk for 31/12/2016 is:

Description	Amount
SCR Premium & Reserve	1,239,493
SCR Catastrophe	349,496
SCR Lapse	-
Diversification	-219,650
SCR Non-Life Underwriting	1,369,339

The Health Underwriting and Reserving risk for 31/12/2016 is:

Description	Amount
SCR Premium & Reserve	707
SCR Catastrophe	11,989
SCR Lapse	-
Diversification	-338
SCR Non-Life Underwriting	12,358

C.2 Market Risk

"The risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments."

Principles of Investment Risk Management

- The BoD defines and reviews the Investment Strategy of the Company, taking into account the financial environment and macroeconomic factors, the Company's solvency position and the material risks that the Company is exposed to
- The Investment Committee takes the necessary measures to ensure that its investments take into account the nature of the Company's business, its approved risk limits, its solvency position and its long-term risk exposure
- The BoD sets the investment risk appetite and the Investment Committee defines risk limits for all types of investment risks that relate to its investment activities
- In accordance with the "Prudent Person" Principle, the Investment Committee is responsible for adhering to the following investment principles:
- All investment activity within the Company is driven by the size nature and term of its liabilities and by the Company's overall risk appetite and solvency levels
- The overall policy objective is to adequately fund the Company's technical reserves and solvency margin and to contribute to the growth of surplus for the benefit of the shareholders
- The Company does not engage in speculative investments or other high risk investment activities including gains trading and short-selling
- All investments must qualify under the EU regulations and Cyprus Insurance regulations
- The Company's investment strategy is aligned with Asset Liability Risk and Liquidity Risk management i.e. the Company holds assets with sufficient values and enough liquidity to meet all liabilities and enable payments as they fall due
- Investment activities follow appropriate procedures and constraints so that the Company's shareholders and policyholders are not exposed to undue risk
- Investments are sufficiently diversified across asset classes and instruments
- The Company does not invest in complex instruments or markets where the risks cannot be sufficiently understood, measured and managed by the Company's Investment and Risk professionals
- Outsourcing of investment activities to third-party asset managers should adhere to the above principles and be safeguarded though appropriate contracts and investment statements.
- The Investment Committee in cooperation with the RMF assesses and measures, where possible, the effectiveness of the risk-mitigating techniques applied, for each type of investment risk, according to the Solvency II requirements
- Effective procedures and information systems are put in place for the measurement, monitoring, control and submission of reports with regards to the Company's exposure to the various market risks. The information systems need to be appropriately specialized to be able to respond to the requirements and complexity of the Company's activities. Relevant reports are submitted promptly to the BoD, Senior Management and all other relevant functions or Committees
- The Internal Audit function undertakes independent periodic evaluation of the procedures applied for managing investment risk.

The company has an SCR Market Risk of €1 million comprising of the components in Table 1.

The main market risk faced by the company with regards to Market risk is that of commercial property devaluation.

Description	Amount
Interest	2,724
Equity	55,252
Property	898,280
Spread	57,178
Currency	9,664
Concentration	288,230
Diversification	-294,173
SCR Market	**1,017,155**

Table 1- Market Risk components

C.3 Credit Risk

"The risk of loss, or of adverse change in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurers are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations."

Principles of Credit Risk Management

- The Board of Directors takes the necessary measures to ensure that its exposures to credit risk take into account the nature of its business, its approved risk limits, its solvency position and its long-term risk exposure
- The Board of Directors sets the credit risk appetite and defines risk limits for all types of credit risk that relate to the Company's activities
- The Senior Management sets criteria for evaluating existing and potential counterparties. The criteria take account of the financial standing, overall performance and reputation of the said counterparty in order to determine its solvency and minimize the credit risk arising from the possibility that the counterparty does not meet its obligations towards the Company and establishes limits for each counterparty. The RMF monitors compliance with the limits on an ongoing basis.
- The Senior Management examines the adequacy of existing provisions for bad debts and evaluates the need for further provisions, taking into account potential future changes in market conditions and providing the capability for assessing the exposure to credit risks in times of crisis
- The Company makes sure that there are sufficient internal controls in place with regards to the procedures for credit risk, including:
- The recording and reporting of information on compliance with established limits and exceptions from limits, policies and procedures, granted for specific counterparties / issuers
- Prompt corrective action to take care of problematic credit risk exposures and exposures that require special handling for recovery

- The Company assesses and measures, where possible, the effectiveness of the risk-mitigating techniques applied, for each type of credit risk, according to the Solvency II requirements
- The impact of credit risk is considered in all new product development
- The Internal Audit function undertakes independent periodic evaluation of the procedures applied for managing credit

The company's counterparty default risk comes mainly from the amounts that are to be recovered from Reinsurance companies, bank deposits and premium receivables. The total SCR for counterparty default risk is €900 thousand.

C.4 Liquidity Risk

"The risk that the Company is unable to realize investments and other assets in order to settle its financial obligations when they fall due".

Principles of Liquidity Risk Management

- The BoD defines and reviews the liquidity risk framework of the Company, taking into account the external and internal financial factors, the Company's solvency and funding sources and the material risks that the Company is exposed to
- The BoD sets the liquidity risk appetite and the Risk and Reserving Committee defines risk acceptance limits for all types of liquidity risks that relate to its business activities
- The risk management framework sets operational standards for the management of liquidity risk, including appropriate policies, procedures and resources for the control and mitigation of liquidity risk
- The Company maintains a reserve of liquid assets (in connection with cash flows), which can be liquidated immediately without causing material capital losses
- The Company has a Contingency funding plan for coping with situations of liquidity crises in order to ensure the ability to promptly fund part or all of the Company's operations, at a reasonable cost
- Through its Contingency Funding plan the Company examines access to funding sources and tests alternative scenarios with relation to funding needs
- The Senior Management allocates responsibility for the identification, measurement, control and mitigation of liquidity risk, sets out the liquidity tolerance risks and describe the reporting lines and obligations with regards to this type of risk
- The Company considers the liquidity risk of new products
- The Internal Audit function undertakes independent periodic evaluation of the procedures applied for managing liquidity risk

The company does not project future premiums in its Technical Provisions as its policies are invoiced in advanced and already accounted for in the financial statements. Hence, the expected profit included in the future premiums in accordance with Article 260(2) is 0 (zero).

C.5 Operational Risk

“The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.” It includes legal and compliance risk, which can be defined as the risk of loss arising from non-compliance with laws and regulations, contracts, established practices or codes of conduct, but excludes strategic and reputational risks.”

Principles of Operational Risk Management

- The BoD defines and reviews the operational risk management framework of the Company, taking into account the financial environment and macroeconomic factors, the Company’s solvency position and the material risks that the Company is exposed to
- The BoD takes the necessary measures to ensure that its exposure to operational risk take into account the nature of its business, its approved risk limits, its solvency position and its long-term risk exposure
- The BoD sets the operational risk appetite and through the Risk and Reserving Committee it defines risk limits/ controls for all types of operational risk that relate to its activities
- The operational risk management framework focuses on the Company’s business activities and procedures, and plays both a preventive as well as a corrective role
- The operational risk management framework, including the relevant control and mitigating strategies, undergoes periodic revisions and is readjusted according to the Company’s risk appetite and overall risk profile
- Effective procedures and information systems are put in place for the identification, measurement, monitoring, control and submission of reports with regards to the Company’s exposure to the various operational risks. Relevant reports are submitted promptly to the BoD, Senior Management and all other relevant functions or Committees
- The Senior Management assesses and measures, where possible, the effectiveness of the risk-mitigating techniques applied, for each type of operational risk, according to the Solvency II requirements
- The Senior Management examines the correlation and interaction between operational risk and other risks in its risk framework
- The Company has in place contingency and business continuity plans to ensure their ability to operate on an ongoing basis and limit losses in the event of a severe business disruption.
- The Company also ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures.
- The Internal Audit function undertakes independent periodic evaluation of the procedures applied for managing operational risk

The company has an Operational Risk SCR of €133 thousand.

C.6 Other material risks

Concentration Risk

"This is caused when all risk exposures (arising from credit risk, market risk etc.) have a loss potential which is large enough to threaten the solvency or the financial position of the Company".

Principles of Concentration Risk Management

- The BoD defines and reviews the concentration risk framework of the Company, taking into account the financial environment and macroeconomic factors, the Company's solvency and liquidity position and the material risks that the Company is exposed to
- The BoD sets the concentration risk appetite and the Risk and Reserving Committee defines risk acceptance limits for all types of concentration risks that relate to its business activities
- The Senior Management must establish policies and procedures for the management of concentration risk, to ensure that the sources of concentration risks are thoroughly understood by all management and staff and that concentration risks are identified promptly, quantified properly, monitored continuously and controlled / mitigated satisfactorily
- The Senior Management places particular importance on the appearance of emerging sources of concentration risk and strives to take all necessary measures to identify them as promptly as possible, so that it can plan effective mitigating actions
- The RMF assesses and measures, where possible, the effectiveness of the risk-mitigating techniques applied, for concentration risk, according to the Solvency II requirements
- The Senior Management considers the concentration risk of new products
- The Internal Audit function undertakes independent periodic evaluation of the procedures applied for managing concentration risk

The company's concentration risk comes mainly from immovable property and bank deposits. The total SCR for concentration risk is €288 thousand.

C.7 Any other information

The company has no off-balance sheet positions and has not transferred risk to special purpose vehicles.

D. Valuation for solvency purposes

D.1 Assets

D.1.1 & D.1.2 Solvency II valuation for each material class of asset Investments in Government Bonds and Equities

As at 31 December 2016 the Company had €120.396 invested in Government Bonds and Equities. The fair value for the Cyprus Government Bonds has been determined in accordance with generally accepted pricing models. The valuation method used is based on a discounted cash flow analysis using the yields to maturity of other Cyprus Government Bonds that are traded in international

markets. The approximation of the yield to maturity was interpolated based on the available maturities. The higher the discount rates used the lower the fair value of the Investments.
The fair value of equities are traded in active markets and are listed in a stock exchange based on quoted market prices at the statement of financial position date. The quoted market price used for equities held by the Company is the current closing price.
There are no differences between Solvency II valuation and IFRS valuation of government bonds and equities. However, in Solvency II government bonds includes the amount of accrued interest receivable whereas in IFRS this amount is included in other receivables.

Insurance and intermediaries receivables

Insurance and intermediaries receivable balances represent premiums owed from policyholders and intermediaries. As at 31 December 2016 the Company had a total of €1.332.542 of outstanding premiums. Outstanding premiums are valued at fair value and due to the short-term nature of the receivable no adjustments to valuation are required. There are no differences between Solvency II valuation and IFRS valuation of receivables.

Deposits, Cash and cash equivalents

As at 31 December 2016, the Company had €2.290.816 held as deposits, cash and cash equivalents in Cyprus and Switzerland bank accounts. The Cypriot bank accounts are held in Euro and US Dollars. The Switzerland bank account is held in Euro. The funds held in US Dollars are translated into Euro at the period end for reporting purposes.
Deposits, cash and cash equivalents are valued at fair value by the relevant financial institution, and the Company receives monthly statements at the period end to confirm the balances held.
There are no differences between Solvency II valuation and IFRS valuation of deposits, cash and cash equivalents. However, in Solvency II 'Deposits, cash and cash equivalents' includes the amount of accrued interest receivable whereas in IFRS this amount is included in other receivables.

Properties

As at 31 December 2016, the Company had €3.179.472 held as properties. The accounting policy of the Company in relation to property held for own use and for property held for investment requires their measurement at fair value. The fair value of property is determined by qualified valuers using various valuation methods and assumptions that are mainly based on market conditions existing at each statement of financial position date. The fair value of property was estimated based of the fair value of the specific assets held. There are no differences between Solvency II valuation and IFRS valuation of properties.

D.2 Technical provisions

The valuation of insurance and reinsurance obligations relates only to the existing insurance business. The technical provisions comprise the best estimate of liabilities and risk margin for each line of business according to articles 75 to 86 of the Solvency II Directive. The results are shown next to the previous year’s results for comparability purposes. (See Table 2)

	31/12/2016			31/12/2015	% Change
Line Of Business	B.E.	R.M	Total	Total	
Motor, third party liability	2,076,912	215,946	2,292,857	2,139,214	7.2%
Motor, other classes	420,678	48,959	469,637	439,651	6.8%
Marine, aviation and transport	8,844	248	9,092	3,035	199.6%
Fire and other damage to property	352,806	11,698	364,504	530,371	-31.3%
Third-party liability	400,868	35,261	436,129	409,423	6.5%
Credit and suretyship	204,549	6,838	211,387	215,589	-1.9%
Miscellaneous non-life insurance	8,830	274	9,104	19,252	-52.7%
Health (short-term)	11,357	268	11,625	6,553	77.4%
Total	**3,484,844**	**319,492**	**3,804,335**	**3,763,088**	**1.1%**

Table 2 - Gross Technical Provisions per Line of Business

The technical provisions of the company are adequate and calculated on a prudent manner. The techniques and methods used in deriving those Technical Provisions, as well as the data on which these techniques were applied are adequately following Solvency II regulations and guidelines.

Technical provisions	31/12/2016	31/12/2015	% Change
Best estimate	3,484,844	3,477,508	0.2%
Risk margin	319,492	285,579	11.9%
Best Estimate + Risk Margin	3,804,335	3,763,088	1.1%
Reinsurance Recoverables	739,632	806,405	-8.3%
Net Technical Provisions	3,064,703	2,956,683	3.7%

Table 3 - Technical Provisions Summary

Best Estimate:

The best estimate corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant EIOPA risk-free interest rate term structure.

The calculation of the best estimate is based on up-to-date information, using realistic assumptions and is performed using adequate actuarial and statistical methods. The cash-flow projection used in the calculation of the best estimate takes into account all the cash flows required to settle the insurance and reinsurance obligations over the lifetime thereof.

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. The choice of the method to calculate the best estimate should be proportionate to the nature, scale and complexity of the risks supported by the Company.

Risk Margin:

The calculation of the risk margin is based on a projection of the Solvency Capital Requirement that takes the risk mitigation of reinsurance contracts and special purpose vehicles into account. The calculation of the risk margin must be based on the assumption that the whole portfolio of insurance and reinsurance obligations of the Company (original Company) is taken over by another insurance or reinsurance undertaking (reference undertaking) and as described in the applicable Technical Specifications for Solvency II.

The company uses the following simplified calculation in order to calculate the Risk Margin.

- The future SCR_{health}, $SCR_{non\text{-}life}$, $SCR_{counterparty}$, SCR_{market}, and $SCR_{operational}$ are projected yearly as a proportion of the future PV of Technical Provisions.
- The LAC of TP is set to 0
- Using Solvency II relevant correlation matrices the Basic SCR and SCR for the reference undertaking are estimated.
- The total Risk Margin is calculated using $RM = \sum_{t\geq 0} CoC \cdot SCR_{RU}(t)/(1 + r_{t+1})^{t+1}$
- The total Risk Margin is allocated to the Lines of Business proportional to the Technical Provisions.

  The matching adjustment referred to in Article 77b of Directive 2009/138/EC was not applied by the company.

  The volatility adjustment referred to in Article 77d of Directive 2009/138/EC was not applied by the company.

  The transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC was not applied by the company.

The transitional deduction referred to in Article 308d of Directive 2009/138/EC was not applied by the company.

D.3 Other Liabilities

D.3.1 & D.3.2 Solvency II valuation for each material class of other liabilities

Technical Provisions

As at 31 December 2016 the technical provisions of the Company as per Solvency II is €3,804,335. The technical reserves as per the IFRS at the reporting day is €4.131.795. The difference between Solvency II and IFRS is derived from the different approach of the two methods and is mainly due to the best estimate and risk margin calculation used in Solvency II.

Reinsurance payables

As at 31 December 2016, the balance owed to reinsurers was €386.609.

Reinsurance payables relate to balances owed to reinsurers. The amounts payable are calculated in accordance with reinsurance agreements. The timing of expected economic outflows to settle the liability with each reinsurer is contractually based, and within the normal course of business. There are no differences between Solvency II valuation and IFRS valuation of Reinsurance payables.

Other Liabilities

As at 31 December 2016, the balance was €273.056.
Other Liabilities relate to balances payable by the Company and are mostly expenses, taxes and fees which fall due within the next financial year. There are no differences between Solvency II valuation and IFRS valuation of Other Liabilities.

D.4 Alternative Methods for Valuation

The Company does not use any alternative methods for valuation.

D.5 Any Other Information

Not applicable for the Company.

E. Capital Management

E.1 Own funds

E.1.1

The Company undertakes an Own Risk and Solvency Assessment (ORSA) exercise at least annually or when the risk profile of the Company changes. The ORSA exercise incorporates the business planning process which is typically considered over a three-year time horizon. There are no significant changes since 1st January 2016.

E.1.2

The Company classifieds its own funds as tier 1, tier 2 or tier 3 depending on the characteristics of the capital. Tier 1 capital is the best form of capital for all purposes.

OWN FUNDS	Tier	€	%
Ordinary Share Capital	1	1.710.000	43,19
Reconciliation Reserve	1	2.249.248	56,81
Total Basic Own Funds	1	3.959.248	100,00

E.1.3

All the Company funds may be used towards meeting the minimum capital requirement, as all own funds are classified as tier.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Minimum Capital Requirement ("MCR") before applying the Absolute Minimum Capital Requirement ("AMCR") is €0.7 million and which becomes €3.7 million after applying the AMCR.

Description	Amount
MCR	**3,700,000**
AMCR	3,700,000
MCR combined	**657,666**
MCR floor	657,666
MCR cap	1,183,798
MCR linear	520,604
SCR	2,630,662
MCR linear, non-life	520,604

Below, the table presents the SCR, split by risk modules. The EIOPA's Solvency II Standard Formula is used for all risk modules with no simplified calculations and not using any undertaking-specific parameters.

Description	Amount
SCR	**2,630,662**
SCR operational	132,932
Loss Absorbing Capacity of Technical Provisions and Deferred Taxes	0
BSCR	**2,497,730**
SCR Market	1,017,155
SCR Counterparty default	932,402
SCR Life underwriting	-
SCR Health underwriting	12,358
SCR Non-Life underwriting	1,369,339
SCR Intangible asset	-

Appendix 1: Relevant Tables regarding the SFCR as per the regulatory requirements are found in Appendix1 at the end of this report.