OCTIUM

Octium Life DAC

Solvency and Financial Condition Report ("SFCR")

For the financial year ended 31 December 2018

Executive Summary

Octium Life DAC ("Octium" or the "Company") is a life insurance company incorporated in Ireland and regulated by the Central Bank of Ireland. Octium formerly UBS International Life Ltd. is owned by the Havilland Group. The Havilland Group acquired the Company from UBS AG in May 2017. Octium provides life products to High Net Worth individuals. Octium distributes its products through banks and other suitable intermediaries seeking wealth planning solutions for their clients.

Octium was authorised to write life insurance business on 1 April 2003 and holds licences for class I (Life cover and life annuities), class III (Unit Linked) and class IV (Capital Redemption). Octium writes Unit Linked policies on a cross border basis under the EU freedom of services legislation, (Article 56 TFEU).

Below is a summary of the business profile, key changes and events in 2018.

Business and performance

Octium made a profit before tax for the year ended 31 December 2018 of €7.7m (2017: €9.7m). The assets under management declined from €4.5bn to €4.1bn.

System of governance

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

Risk profile

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

Valuation for solvency purposes

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

Capital management

Octium's capital requirements are assessed by its Head of Actuarial Function and the solvency ratio at 31 December 2018 was 217% (2017: 169%). The solvency ratio indicates the amount of excess capital relative to regulatory requirements. The main driver for change in Solvency Capital

Requirement (SCR) was a reduction in funds under management due to falling investment markets which significantly reduced the SCR requirement.

Octium plans to make a dividend payment of €4.7m during 2019 and this is reflected in the solvency ratio.

Other information

This report has been prepared in accordance with the requirements of the Solvency II Directive as at 31 December 2018. Octium's financial year runs to 31 December each year and it reports its results in Euro. Octium's financial statements are prepared on the basis of Financial Reporting Standard 102 applicable in the UK and Republic of Ireland (FRS 102).

The acquisition of Octium by the Havilland Group in 2017 did not lead to any significant changes in the business model with continuity of the existing products and the retention of UBS as distributor, asset manager and custodian for the vast majority of the policyholders. Octium continued to add new products and distributors in 2018 albeit with very focussed approach.

In January 2018 Octium implemented the requirements of the EU PRIIPS Directive, a regulation requiring a standardised three-page product information document to be provided to each policyholder prior to entering a contract. Additionally, from October 1st, 2018 the new Insurance Distribution Directive ("IDD") was implemented.

A. Business and Performance

A.1. Business

A.1.1. Company Information

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

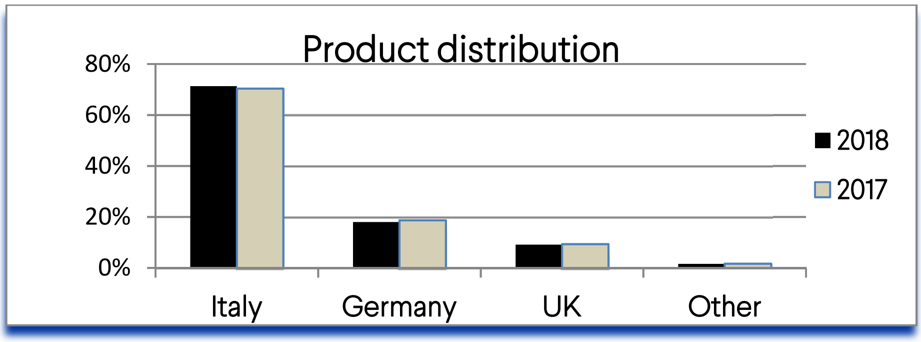
Name of Company	Octium Life DAC	Registered Address: 1st Floor College Park House, South Frederick Street, Dublin 2
Auditors	Deloitte Ireland LLP	Deloitte & Touche House, 29 Earlsfort Terrace Dublin 2 Ireland, D02 AY28
Regulatory Supervisor & Group Supervisor	Central Bank of Ireland	New Wapping Street, North Wall Quay, Dublin 1. Ireland.

A.1.2. Shareholdings

The Company's immediate parent is Octium Holding Limited a wholly owned subsidiary of Octium Holding S.A. (Lux) which in turn is owned by Abbeyview Limited, which is subject to Group supervision by Central Bank of Ireland. The Company's ultimate parent undertaking is Havilland Group (Gue). As at 31 December 2018 Octium does not hold any subsidiaries.

A.1.3. Products

Octium is a leading insurer in the offshore bond market offering products with an open architecture on a freedom of services basis in Germany, Italy, Spain, Turkey and UK. The Company does not offer products with guaranteed investment returns.



A.1.4. Significant events

In 2018 Octium launched new unit-linked product offerings in Italy, Turkey and the UK. To support this expansion Octium signed a number of new distribution agreements with intermediaries reducing our reliance on the UBS distribution network.

A.2. Underwriting Performance

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

Octium has minimal exposure to mortality risk which is limited by product design. Octium's unit linked products offer death benefit which is generally a percentage of the surrender value of the policy. The average death benefit percentage at 31 December 2018 was less than 1% although individual policies can have a death benefit of up to 10%. Octium further reduces its underwriting exposure by reinsuring most of this risk in line with its risk appetite. Octium's maximum exposure is €30k per policy.

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

A.2.1. Overview of accounting profits

Overview of accounting profits	2018 €,000	2017 €,000	Change %
Gross accounting profits	7,670	9,705	-21%
Tax charge	1,026	1,318	-22%
Profit attributable to the shareholder	**6,644**	**8,387**	**-21%**

Overall the profit is lower primarily due to a reduction in asset values driven by negative investment performance during the year and an increase in expenses in support of business development as well as regulatory change.

A.2.2. Risk fees net of reinsurance

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

Risk fees	2018 €,000	2017 €,000	Change %
Risk fees earned	822	736	+12%
Reinsurer's share net of profit share	461	354	+30%
Net Risk fees	**361**	**382**	**-5%**

A.2.3. Premiums written

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

Index-linked and unit-linked insurance	2018 €,000	2017 €,000	Change %
Gross	244,576	247,088	-1%
Reinsurer's share	0	0	
Net Premiums	**244,576**	**247,088**	**-1%**

A.2.4. Death risk benefits net of reinsurance

The table below represents amounts incurred with respect to death risk benefits.

Death benefits	2018 €,000	2017 €,000	Change %
Death risk benefits	293	151	+94%
Reinsurer's share	245	102	+140%
Net Death benefits	**47**	**49**	**-4%**

A.2.5. Claims incurred

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

Index-linked and unit-linked insurance	2018 €,000	2017 €,000	Change %
Gross claims	327,027	631,583	-48%
Reinsurer's share	0	0	
Net claims	**327,027**	**631,583**	**-48%**

A high proportion of the 2017 claim volume occurred in the first half of the financial year, a period in which the Company was the subject of acquisition discussions. The level of claims in 2018 reflects a more normalised level.

A.3. Investment Performance

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

The unit linked nature of the business means that the impact on profit of investment performance is second order. Octium's main source of income is from administration fees charged on the value of unit linked insurance contracts and therefore Octium is exposed to market risk on unit linked investments to the extent that adverse movements in the value of these assets would reduce the future profitability of the Company through a decline in policy administration fees.

A.3.1. Description of assets

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

Asset Type	2018		2017	
	%	€'000	%	€'000
Cash and deposits	5%	202,524	6%	280,598
Collective Investment Schemes	82%	3,376,577	81%	3,617,640
Equities	3%	129,983	3%	156,336
Fixed Income Securities	9%	364,172	9%	415,759
Other	1%	68,078	1%	62,978
Total Assets	**100.0%**	**4,141,334**	**100.0%**	**4,533,311**

A.3.2. Investment return

Investment income 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	2018 €'000	2017 €'000
Interest income/expense- shareholders cash	(52)	(62)
Other investment income, gains and losses	(257,079)	125,858
Investment return	**(257,131)**	**125,798**

Asset performance during 2018 followed global market trends which saw significant declines, particularly in Q4.

A.4. Performance of Other Activities

Octium's only activity is that of a unit linked life insurance company. Income is mainly in respect of fees charged to the policyholders for policy administration. Fees are charged based on a percentage of the policy value and are therefore 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. Other technical income net of reinsurance

Other Technical Income	2018 €'000	2017 €'000
Administration fees	17,533	18,294
Reinsurance premiums, profit share and claims	(215)	(252)
Retrocessions received	326	468
Other technical income	**17,644**	**18,510**

Administration fee income was down in comparison with 2017 in line with reduced assets under management.

A.4.2. Operating expenses

Operating Expenses	2018 €'000	2017 €'000
Acquisition and administration	6,542	5,145
Commission paid	2,709	2,696
Death claims	293	148
Operating expenses	**9,544**	**7,989**

Net operating expenses increased during the year reflecting investment in business development activities as well as regulatory change and associated costs.

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

As a withholding tax agent for the Italian business, Octium makes advance payments to the Italian tax authorities in respect of policyholder exit tax. Recovery is made against exit tax on chargeable gains. The value of the tax asset is determined by discounting the expected future cash flows of these tax recoveries. The change in value of the tax asset each year gives rise to a gain or charge in Octium's Income Statement. A charge of €379k was recorded in the Company's 2018 Income Statement (2017: €754k charge) due to an expected increase in the recovery period.

A.5. Any other information

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

B. System of Governance

B.1. General Information on the System of Governance

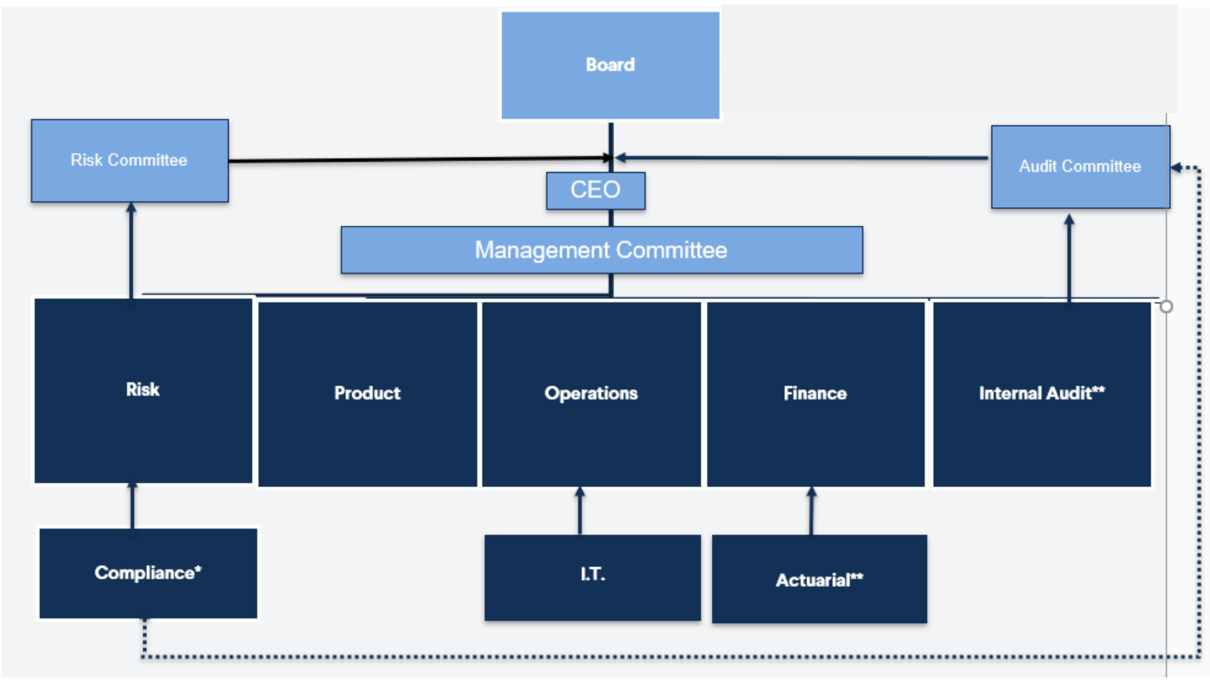
Octium is classified as a medium high-risk firm under the Central Bank of Ireland's risk-based framework known as PRISM and is subject to Corporate Governance Requirements for Insurance Undertakings 2015.

The Board is the supervisory body with responsibility for the overall direction, management and control of Octium. The Board is also responsible for ensuring Octium complies with applicable laws, rules and regulations. The strategy, risk appetite, organisational structures and the system of internal control are proposed by the Management Committee and approved by the Board.

The Board has ultimate responsibility for the success of Octium and for delivering sustainable shareholder value within a framework of prudent and effective controls. It decides on the strategic aims and the necessary financial and human resources upon recommendation of the Chief Executive Officer.

B.1.1. Organisation Structure

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



* Head of Compliance has direct access to the Chair of the Audit Committee as required
** Outsourced Function

B.1.2. Board of Directors:

As at 31 December 2018, the Board comprised of one Executive Director, two Group Non-Executive Directors and two Independent Non-Executive Directors.

Board	
Member	**Type**
Jean- Francois Willems (Chairman)*	Non-Executive Director
Ciaran McGettrick (Risk Committee Chair)	Independent Non-Executive Director
Seamus Hughes (Audit Committee Chair)	Independent Non-Executive Director
Massimoluca Mattioli**	Non-Executive Director
Dara Hurley (CEO)	Executive Director
Brendan McCarthy	(resigned 23 April 2018)

* appointed Chairman 24 April 2018
** appointed 19 February 2018

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

B.1.3. Board Committees

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

B.1.3.1. Audit Committee

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

B.1.3.2. B1.3.2 Risk Committee

The Risk Committee oversee the 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. It's membership consists of three directors all of whom are non-executive directors.

B.1.4. Management Committee

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

- Compliance with regulatory and legal obligations and ensuring there is adequate monitoring and reporting of breaches;
- Financial management and reporting;
- Day to day operations;
- Product development and marketing; and
- Overseeing the services received or provided by Octium and resolving any issues arising.

B.1.5. Independent control functions

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

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

B.1.5.1 Risk Management

The 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 and 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; and
- To facilitate the production of the ORSA report and maintain the record-keeping file.

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

B.1.5.2 Compliance

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

The Head of Compliance provides advice and guidance in all compliance related matters, by identifying and evaluating all compliance risks associated with the Company's 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 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 the Management Committee, reports to the Chief Risk Officer and has direct access to the Chair of the Audit Committee as required.

B1.5.3 Actuarial

Please refer to section B.6

B1.5.4 Internal Audit

Please refer to section B.5

B.1.6. Changes to the System of Governance

The following changes to Octium's system of governance were made during 2018:

B.1.6.1. Board of Directors:

Changes to the membership of Octium's Board of Directors were as follows:

- Massimoluca Mattioli was appointed as a Non-Executive Director in February 2018
- Brendan McCarty resigned, in April 2018, as a Director and Chairman of the Board;
- Jean-Francis Willems was appointed Chairman of the Board of Directors in April 2018;

B.1.6.2. Pre-approved Control Functions (PCF):

The following PCF appointments were made during 2018:

- Eamon Slevin was appointed, to a newly created position, as Chief Operating Officer; and
- Joseph Doran replaced Martin Power as Chief Risk Officer.

B.1.7. Remuneration, Employee Benefits and Practices

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

B.1.7.1. Remuneration Structure

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

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

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

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

B.1.8. Material transactions (with connected persons)

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

B.2. Fit and Proper Requirements

Octium is subject to the Central Bank of Ireland's Fitness and Probity regime. The Company has a Fit and Proper policy in place and is committed to ensuring that Directors, key function holders and senior managers behave with integrity, honesty and skill.

Octium has processes in place to ensure appropriate fit and proper standards are met and maintained, both prior to appointment and on an ongoing basis thereafter. The key elements within the fit and proper framework, which apply to individuals subject to pre-approval by the Central Bank of Ireland, are:

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

Where a regulated function is outsourced, the person within Octium responsible for managing the arrangement will ensure the outsourcing firm carries out and maintains appropriate fit and proper assessments.

Records are maintained, and notifications made to the regulators, as and when required.

B.3. Risk Management System Including the Own Risk Solvency Assessment

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

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

B.3.1. Risk Management Framework

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

B.3.2. Three Lines of Defence

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

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

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

B.3.3. Risk Appetite Statement

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

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

B.3.4. Risk Strategy and Policies

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

B.3.4.1. Monitoring and reporting risks

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

B.3.5. Key Risk Indicators (KRIs)

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

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

B.3.6. 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 register. The nature and root cause of each event is determined, and appropriate action is taken.

B.3.7. Internal Audit Reviews

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

B.3.8. Implementation of the Risk Function

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

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

B.3.9. Independent assurance

Risk, Compliance and Internal and External Auditors provide independent assessment of the risk management system and report directly to the Board.

B.3.10. Own Risk Solvency Assessment ("ORSA")

The ORSA process is a core part of the Risk Management Framework, as it combines key processes across the company: risk management, business planning and capital management.

The ORSA report, which is produced annually, summarises the processes that make up the ORSA, including descriptions of key risks, how they are managed, and how those risks might change in the context of the business plan. It includes both qualitative and quantitative assessments of Octium's risk profile and solvency needs on a forward-looking basis. Results arising from stress and scenario testing undertaken on a range of reasonably foreseeable scenarios and other risk assessment activities are documented within the report along with potential management actions.

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

B.4. Internal Control System

The Internal Control Framework for Octium has the following attributes:

B.4.1. Roles and responsibilities

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

B.4.2. Management integrity

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

B.4.3. Competent personnel

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

B.4.4. Segregation of duties

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

B.4.5. Supervision and review

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

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

Annually, the CRO reviews the entire risk framework taking into consideration changes in Octium's strategy, its operating environment and any emerging risks. Brainstorming sessions are held with the Management Committee to ensure that risks that are identified, managed and aligned with strategy and consider all relevant laws and regulations.
Quarterly self-assessments are conducted by risk owners to identify and manage changes to risks. A risk-rating system is in place to evaluate the impact and probability of the risks identified.

B.4.6. Records maintenance

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

B.4.7. Physical and cyber security

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

B.4.8. Controls over outsourced activities

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

Service providers are also required to certify the Fitness and Probity of its Control Functions, where applicable. Agreements require the outsource provider to immediately report any material incident or exposure. Further details of the controls over outsourced activities can be found in "B.5. Outsourcing/ Key Third Party Arrangements".

B.5. **Internal Audit Function**

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

Audits are conducted within a Board approved 'Internal Audit Charter' 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.

As an independent, objective assurance and consulting activity the Internal Audit function provides analysis and evaluation of the adequacy, effectiveness, efficiency and quality of risk management, internal control and governance systems and processes.

As the Internal Audit function is outsourced to KPMG, regular meetings occur to ensure appropriate oversight of this outsourced service.

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 for 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 Board, on at least an annual basis, of the organisational independence of the Internal Audit Department. This confirmation is undertaken through reporting to the Audit Committee.

B.6. **Actuarial Function**

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

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

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

B.7. Outsourcing / Key Third Party Agreements

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

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

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

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

Key Third Party Agreements 2018			
Service Provided	**Supplier**	**Responsible**	**Supplier's Country**
Asset Management	UBS	CFO	Germany, Italy, Switzerland
	Non-UBS Asset Managers		Italy, Luxembourg, Switzerland
IT- Life Admin System	Lifeware	COO	Switzerland
IT -Network and BCP	Ergo	COO	Ireland
Actuarial	KPMG	CFO	Ireland
Internal Audit			

B.8. Any Other Information

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

C. Risk profile

Octium's strategy is to provide unit linked products to High Net Worth customers. Octium operates a low risk model where most of the risk is assumed by the policyholders.

Overall responsibility for risk exposure is vested in the Board. To support it in this role, a risk management framework is in place comprising risk identification, risk assessment, control and reporting processes. The Board has established the Audit and Risk Committees with defined terms of reference to assist in the risk management process.

Management objectives and risk policies

Octium's risk management objective is to protect the key resources at its disposal:

1. Policyholders' assets.
2. Shareholders' assets.
3. Capital and profits.
4. Reputation.

Policyholders' assets - Prudent Person Principle

The majority of the assets on Octium's balance sheet are held in respect of unit linked contracts where the policyholder or their financial advisor has selected the assets to be linked to their policies.

The policyholder bears the financial risks of the funds and investments they select for inclusion in their policy.

The policyholder's assets are managed by prudently selecting asset managers and funds suitable for policyholders.

Each fund at launch has a fully documented set of rules that specify how assets are to be invested within each fund to support the policyholder benefits. Fund managers are subject to rigorous due diligence prior to business being placed with them. Review meetings are held with Fund managers to discuss fund performance, investment strategies and risk management.

Both the Finance and Product Development & Marketing teams monitor funds and assets managers. Any investment mandates or limit breaches are escalated for resolution to ensure investments always lie within the parameters set.

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

Shareholders' Assets

The shareholders' assets are invested in short-term cash deposits with a number of highly-rated Irish domiciled banks as well as with UBS Group banks. These deposits bear a small amount of counterparty risk.

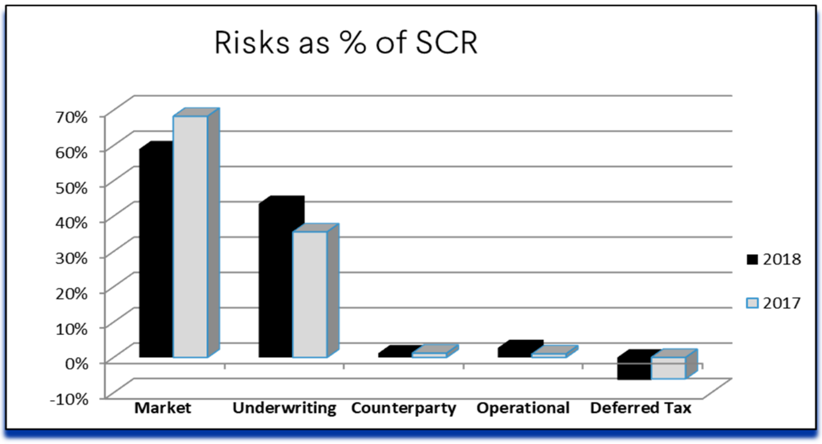
A significant part of shareholders' funds is held in the Italian substitute tax asset which arises as a result of Octium acting as a withholding tax agent for Italian capital gains tax.

Capital and profits

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

Solvency Capital Requirement	2018 €'000	2017 €'000
Market risk	35,580	55,069
Counterparty risk	719	985
Underwriting risk	26,238	28,667
Diversification effects	(13,101)	(16,267)
Basic SCR	49,436	68,454
Operational risk	1,625	822
Deferred tax adjustment	(3,836)	(4,878)
Solvency Capital requirement	**47,225**	**64,398**

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



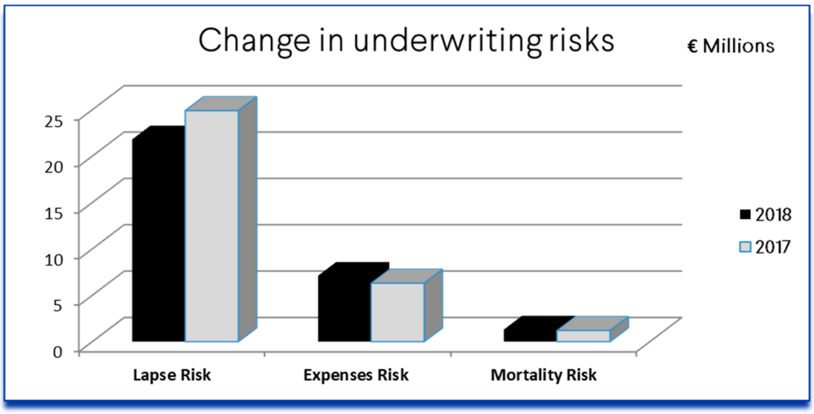
Reputation

The reputation of Octium is managed by having good governance structures and effective risk management and reporting. Octium adopts a risk culture that demands compliance with regulations, company standards and fair treatment of customers.

C.1. Underwriting Risk

The unit-linked nature of products offered is designed to mitigate the impact of underwriting risks on Octium's business hence there were deemed to be no material risk concentrations of underwriting risks as of 31 December 2018 (2017: None).

The table below shows the impact of insurance risks on the Solvency Capital Requirement (SCR).



C.1.1. Lapse Risk

The primary risk is a mass lapse risk which would reduce the assets and the income. A secondary risk arising from a mass lapse risk is the expenses per policy would increase giving rise to expense risk. Lapse rates are monitored and regularly reported. To mitigate lapse risk product pricing includes a reasonable assumption verified by external actuaries to allow for surrenders.

C.1.2. Expense Risk

Expense risk can arise through mis-estimation, higher than expected inflation, lower volumes of business than expected, expense overruns, regulatory change and changes in mix of business.

Expenses are managed in line with the agreed business plan and significant deviations to budget are monitored on a monthly basis by Finance. The Board reviews management accounts quarterly including an assessment of the level of expenses. To mitigate this risk contracts with distributors explicitly clarify the pricing of services. Expense risk is also factored into product pricing.

Stress and scenario testing conducted as part of the ORSA showed that the Company is resilient to stresses of lapse and expense risks.

C.1.3. Mortality Risk

The risks that mortality rates are higher than expected giving rise to an increase in death cover payments. The products are designed not to have a significant amount of mortality risk. The amount of death cover is small (average less than 1% of policy surrender value although individual policies can have a death benefit of up to 10%). Octium has a low risk appetite for mortality exposures and monitors this through regular reporting of exposures.

Octium further reduces its underwriting exposure by reinsuring most of this risk in line with its risk appetite. Octium's maximum exposure is €30k per policy.

Higher mortality experience can arise through mis-estimation, adverse trends and risk concentrations (geographic and occupational) to the risk of some kind of catastrophe, for example a pandemic.

Total sums assured risk at 31 December 2018 was €29.5m, €2.6m net of reinsurance (2017: €28.5m, €2.4m net of RI).

C.2. Market Risk

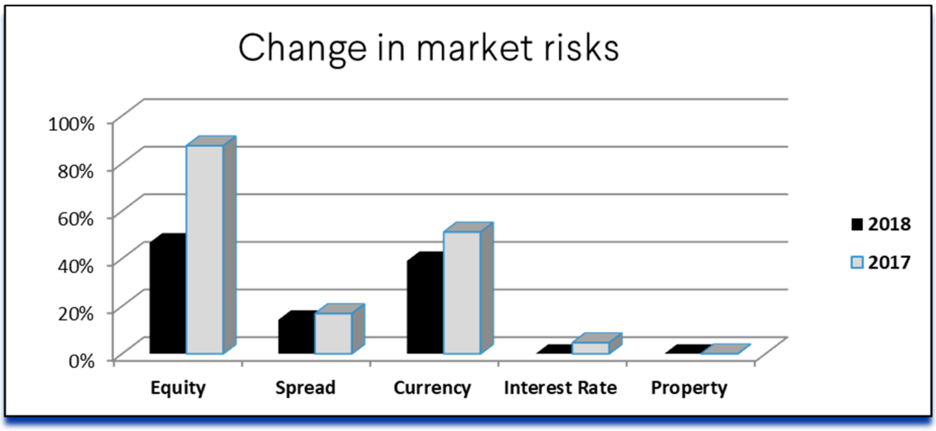
Market risk is the risk of lower returns or losses arising from adverse movements in market prices. Octium has minimal direct exposure to market risk but retains significant indirect exposure as is evidenced by the proportion of the Company's regulatory capital requirement attributable to market risk (57% of undiversified basic SCR as at 31 December 2018).

Market 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. However, Octium is exposed to the extent that adverse movements in the value of policyholder assets reduce policy administration fees and its ability to recover the value of the Italian substitute tax asset. Octium accepts this risk as an inherent element of its business model.

Octium has a low tolerance for market risk (excluding the Italian substitute tax asset) when investing non-unit linked assets which consist primarily of on-demand deposits.

Concentration risk and spread risk are included in the calculation of market risk but they are not significant for Octium.

C.2.1. Market risk sensitivity analysis



Octium's specific sensitivity to movements in equity prices, interest rate and credit spreads is explored as part of the ORSA process. Based on the outcomes of this testing, Octium's SCR tends to move in line with the direction of the stress applied as discussed below.

C.2.2. Price Risk

A decrease in the price of unit linked assets results in a corresponding reduction in policy administration fees which are charged as a percentage of asset values. This is the most significant market risk that Octium's income stream is exposed to, particularly the price risk of equities with 47% of the undiversified market risk SCR attributed to equities as at 31 December 2018 (2017: 54%).

C.2.3. Currency Risk

Octium has an indirect exposure to currency risk to the extent that unit linked assets are denominated in currencies other than EUR. A decrease in the value of the asset currency relative to EUR will result in a decrease in the value of assets in EUR and hence the amount of fees charged on those policies.

Further the Company has some direct exposure as a result of policy administration fees or expenses being denominated in currencies other than EUR.

Policy administration fees are charged in the currency of the underlying policy. At 31 December 2018, approximately 10% of policies (by value) were denominated in non-EUR currencies with GBP-denominated policies accounting for 9% of this and USD-denominated policies making up the balance.

Some expenses are incurred in in non-EUR currencies, in particular Swiss Francs ("CHF") as Octium's main IT supplier (policy administration system) is a Swiss-based company.

Direct currency exposure as at 31 December 2018:

Currency Exposure '000	2018 CHF	2017 CHF	2018 GBP	2017 GBP	2018 USD	2017 USD
Gross assets	954	1,555	327,252	367,834	763,274	60,174
Matching currency liabilities	(1,307)	(1,424)	(327,062)	(367,832)	(63,211)	(59,811)
Uncovered currency liabilities	(353)	131	190	2	63	362
Euro equivalent of exposure	**(314)**	**112**	**211**	**2**	**55**	**302**

Currency risk accounts for 39% of the undiversified market risk SCR as at 31 December 2018 (2017: 31%).

C.2.4. Interest rate risk

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

Similarly, cash deposits held in unit linked assets are held at par value. Interest rate risk is less than 1% of the undiversified market risk SCR as at 31 December 2018 (2017: 2%).

C.3. Credit Risk

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

Credit risk on unit linked assets is borne by the policyholder similar to market risk. Unit linked assets held in cash are largely deposited in UBS Group banks and the credit risk is not material to the value of the assets and therefore to the related fee income.

Octium has an exposure to credit risk in relation to its deposits with credit institutions and amounts receivable under reinsurance arrangements.

While the contractual counterparty to the Italian substitute tax asset is the Italian Tax Authorities, the asset is repaid as a result of retaining capital gains tax applied to relevant policies on surrender or death and is therefore more exposed to market risk, as discussed above, and lapse risk.

Credit risk contributes less than 1% to the undiversified basic SCR as at 31 December 2018 (2017: 1%).

C.3.1. Cash

Octium manages credit risk on its cash reserves by holding them in on-demand deposit accounts across a number of highly-rated Irish and UBS Group banks. Cash balances and the ratings of the counterparty are reviewed on a regular basis to ensure the counterparties remain highly rated and the deposits are sufficiently diversified. The Prudent Person Principle is a fundamental part of the Investment Policy which sets limits on the extent of permissible credit exposure by type of issuer.

The value of cash deposits (excl. unit linked assets) as at 31 December was €25.3m (2017: €32.7m).

C.3.2. Reinsurance

Octium has a reinsurance agreement with Swiss Re Europe S.A. which applies to the mortality risk of its unit linked products. This creates a credit risk exposure to the extent that there are unsettled reinsurance claims or profit-share amounts outstanding, but this risk is relatively immaterial given the limited mortality risk.

Swiss Re Europe S.A. was rated AA- by S&P with a stable outlook on 24 October 2018 and this i risk is further mitigated by quarterly settlement of outstanding amounts.

Outstanding debtor balances are followed up by Octium's Finance team on a regular basis.

C.4. Liquidity Risk

Liquidity risk is the risk that Octium does not have sufficient liquidity to meet its obligations when they fall due or would have to incur excessive costs or trading losses to do so. Octium's objective is to ensure that it has sufficient liquidity to meet the short- and medium-term requirements of the business. Octium maintains a prudent liquidity position to meet these requirements notwithstanding strong projected net cash inflows each year to 2020. Octium held €25.3m in on-demand cash deposits at 31 December 2018 (2017: €32.7m).

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

Liquidity risk is principally managed in the following ways:

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

Octium's projected cash position is expected to improve significantly over the next five years. Octium is expecting to have sufficient cash inflows to meet its liquidity needs even in the event of expected tax recoveries being substantially lower than expected.

Octium's tax asset is expected to reduce by €16m over the next four years. This is primarily due to expected recoveries and restricted tax prepayments due to the tax cap which reduces due to the reducing percentage threshold.

The level of expected profit included in the future premiums within the valuation of technical provisions is zero.

C.5. Operational Risk

Risk identification, measurement, monitoring, managing and reporting is based on the specific risks within the risk categories and these are scored against the Board's set risk appetite. The Risk appetite is reviewed annually by the Board resulting from a review of the outcomes of the Own Risk and Solvency Assessment (ORSA) required annually under Solvency II.

C.5.1. Outsourcing risks

This is the risk that entities providing services to Octium do not perform to the required standards. The risk includes a failure by Octium itself to adequately manage, monitor and oversee those outsourcing arrangements. Given that information technology infrastructure and software, product distribution, investment management and custody are being outsourced this risk could be significant.

The outsourcing of services must not result in a poorer overall quality of service to policyholders or weakened financial controls compared to Octium performing the relevant activities and services in-house. The quality and terms of outsourced services are clearly defined.

Financially, the cost of outsourcing reflects efficiencies in processing and is met from policy margins. The expense should be appropriate for the service being provided.

Octium has agreements and separate service level agreements where appropriate for key outsourced activities. Octium adequately manages monitors and oversees its outsourcing arrangements at its monthly management meeting and at least annually at Board level. A responsible person is assigned to ensure each key outsourced activity is performed to the required standard.

C.5.2. IT and Cyber Security Risk

Octium has recently outsourced its IT services to Ergo.

With the increase of dependence on electronic communications and volume of electronic data storage, there is increasing exposure to cyber security risk of data theft, malicious data and service disruption within the industry.

Some of the key risks associated with a cybersecurity attack are:

1. Disruption to critical infrastructure and damage to service provision to clients;
2. Theft of funds, data and corporate intellectual property;
3. Cost of responding to a breach, legal fees, potential lawsuits, forensics and potential fines;
4. Brand damage, declining public confidence and damage to reputation.

The following are the core elements of the mitigation for cybersecurity risk:

1. Application security;

2. Information and data security; and
3. Network security;
4. Business continuity planning; and
5. End user education.

Our Business Continuity Plan includes a “hot site” which reduces reliance on Ergo, Octium’s’ main IT network provider, and hence concentration risk.

Accountability sits with the Board. IT security is taken seriously, and mitigating measures are in place, together with a fully documented and robustly tested Business Continuity and Disaster Recovery Plan.

C.5.3. Legal risks

Risks connected with existing and possible new legislation concerning the expense of managing claims, the expense in the event of loss, the uncertainty and possible contagion. Each case is managed based on their merit, with due regard for ongoing, as distinct from settlement, expenses, and the implication of the result.

C.5.4. Process execution, delivery and management

The risk of failing to carry out operational processes in a timely, accurate and complete manner and incurring a loss or damage to reputation as a result. There is robust system of internal controls to ensure transactions are processed in an accurate, timely and complete manner.

C.5.5. Financial and regulatory reporting risk

This is the risk that the reports are inaccurate and/or not prepared and submitted on time. There is a robust and stable process for the production of financial and regulatory reporting. The system of internal controls is reviewed by Internal Audit, Risk Management and External Audit. Octium has no appetite for regulatory breaches. There were no breaches of reporting requirements in 2018.

C.6. Other Material Risks

C.6.1. Strategic risks

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

C.6.2. Governance risks

The risk of a failure in oversight or control by Management, most probably as a result of failed processes, structures and information flows at Board and/or Management Committee level and including failure to understand and ensure compliance with relevant legislation, regulation and applicable guidance, potentially resulting in regulatory censure and/or reputational damage.

The processes, structures and information flow demonstrably support sound and prudent management of the business, including compliance with regulation. The primary financial impact of poor governance is increased expense. Other consequences include damage to reputation.

C.6.3. Conduct Risks

Risks connected with the handling of policyholder communications, statements, valuations, and other documents including complaints. This would include risks that the product is not suitable or was sold in an inappropriate manner.

Policyholder relationships are managed with proper regard for the provision of accurate and timely information, having considered the individual circumstances. All communications and sales are conducted by appropriately trained personnel. The personnel have mandatory training programmes which are monitored by the Compliance function. Historically Octium has experienced a very low level of complaints which reflects the effectiveness of the supervisory and review controls over the sales and administration process.

C.6.4. Emerging Risks

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

C.7. Any Other Information

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

D. Valuation for Solvency Purposes

D.1. Assets

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. Octium's financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' issued by the Financial Reporting Council and Irish statute comprising the Companies Act 2014, including the EU (Insurance Undertakings: Financial Statements) Regulations 2015 (the 'Regulations') which cover the format and content of insurance company accounts.

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	2018 €'000	2017 €'000	Valuation Approach	Notes
POLICYHOLDER ASSETS				
Assets held to cover linked liabilities	4,116,062	4,500,622	Fair Value	D1.1
SHAREHOLDER ASSETS				
Cash at bank and in hand	25,266	32,689	Amortised Cost	
Italian substitute tax asset	55,130	62,720	Fair Value	
Other debtors and receivables	3,001	2,078	Fair Value	
Tangible assets	502	572	Amortised Cost	
Other financial investments	5	0		
Total assets per F/S	**4,199,965**	**4,598,682**		
Adjustments for Solvency II:				
Reinsurance recoverables	(382)	3,552	Fair Value	D1.2
Tax asset discounting	1,133	754	Fair Value	D1.3
Total assets per Solvency II	**4,200,716**	**4,602,988**		

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

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

Approximately 35% (2017: 40%) of these assets are valued based on quoted prices obtained from an active market (recognised and active exchange). The remaining assets are mostly held in unlisted funds that are valued based on the NAV produced by the fund manager. Approximately 2% (2017: 2%) of assets are structured products or derivatives which are priced by the issuer or counterparty where the main valuation inputs include risk-free and benchmark interest rates, bond and equity prices, foreign currency exchange rates, asset index prices and expected price volatilities and correlations.

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.

No Policyholders' Funds are valued using significant unobservable inputs.

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. In 2018 the presentation of the reinsurance recoverable was changed to be net of reinsurance premiums. The amount reported for 2017 represents the present value of expected reinsured death benefits with reinsurance premiums included in technical provisions.

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

D.1.3. Withholding Tax Asset

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

D.2. Technical Provisions

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

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

Technical Provisions	2018 €'000	2017 €'000
BEL	4,047,805	4,398,700
Risk Margin	9,447	8,546
Technical provisions	**4,057,252**	**4,407,246**

The key sources of uncertainty for Octium are investment performance and policyholder behaviour assumptions. The non-unit BEL (negative liability) has reduced during 2018 primarily due to negative investment returns reducing funds under management. This in turn reduces the present value of future fee income and increases the reserving on the Italian tax asset.

D.2.1. Best Estimate Liabilities (BEL)

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

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

The calculations have been performed on a best estimate basis in accordance with the Solvency II Directive. The underlying policyholder behaviour assumptions are based on Policyholder behaviour experience (e.g. surrenders/lapses, fund choices). Economic assumptions have been set consistent with economic conditions prevailing at 31 December 2018. The calculations do not make any allowance for transitional measures or assumed management actions.

D.2.2. Risk Margin

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

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

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

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

Reconciliation of Technical Provisions	2018 €'000	2017 €'000
Technical provisions per F/S	**4,116,062**	**4,500,622**
Solvency II adjustments		
-Provisions other than Technical Provisions	(29,622)	(58,661)
-BEL	(38,634)	(43,261)
-Risk Margin	9,447	8,546
Solvency II Technical Provisions	**4,057,252**	**4,407,246**

D.3. Other Liabilities

D.3.1. Other Liabilities

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

Other Liabilities	2018 €'000	2017 €'000
Creditors arising from insurance	29,622	58,661
Other creditors	376	14,402
Accruals	2,382	2,256
Deferred tax	3,836	4,878
Other Liabilities	**36,216**	**80,197**

D.3.2. Contingent liabilities

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

Octium had no contingent liabilities at 31 December 2018 or 31 December 2017.

D.4. Alternative Methods for Valuation

Octium does not use any alternative methods for valuation other than those discussed above where the accounting basis differs from those prescribed under Solvency II.

D.5. Any Other Information

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

E. Capital management

E.1. Own funds

E.1.1. Policies and Processes

Octium has a formal Capital Management Policy in place, which is approved by the Board and subject to review on at least an annual basis. The purpose of the policy is to provide a framework which will ensure that Octium, at all times, complies with the legal and regulatory requirements relating to the level and type of own funds held, and to ensure that own funds are managed effectively and efficiently in order to safeguard the financial soundness and support the strategic objectives of Octium.

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

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

E.1.2. Analysis of Own Funds

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

Analysis of Own Funds	2018 €'000	2017 €'000
Share Capital	1,000	1,000
Capital Contribution	5,000	5,000
Reconciliation Reserve	96,548	102,646
Own Funds Available to meet SCR	**102,548**	**108,646**

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

The eligible amount of own funds available to cover the OSN, SCR and MCR at 31 December 2018 was €102.5m (2017: €108.6m). This is comprised entirely of Tier 1 Basic Own Funds and is net of foreseeable dividend of €4.7m expected to be paid in 2019.

The reduction in own funds from 31 December 2017 to 31 December 2018 is a result of:

- Increase of €1.9m in respect of accounting profits net of foreseeable dividend for 2018;
- €9.1m decrease as a result of increases in the Company's net technical provisions (including movement in reinsurance recoverables, risk margin and tax asset accounting/Solvency II valuation differences); and
- €1.0m increase as a result of a decrease in the level of deferred tax liability;

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

Reconciliation of Equity to Own Funds	2018 €'000	2017 €'000
Total Equity per F/S	81,146	81,402
Solvency II BEL	38,634	43,261
Solvency II Risk Margin	(9,447)	(8.546)
Deferred Tax Liability	(3,836)	(4,878)
Reinsurance Recoverables	(382)	3,552
Tax Asset Discounting	1,133	754
Excess of Assets over Liabilities	**107,248**	**115,546**
Foreseeable Dividends	(4,700)	(6,900)
Own Funds	**102,548**	**108,646**

Octium'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 amount of Octium's SCR and MCR at 31 December 2018 are €47.2m and €21.3m respectively (2017: €64.4m and €29.0m).

The table below shows the components of the SCR (using the Standard Formula) at 31 December 2018:

Solvency Capital Requirement	2018 €'000	2017 €'000
Market Risk	35,580	55,069
Counterparty Risk	719	985
Underwriting Risk	26,238	28,667
Diversification Effects	(13,101)	(16,267)
Basic SCR	**49,436**	**68,454**
Operational Risk	1,625	822
Loss-absorbing capacity of Deferred Taxes	(3,836)	(4,878)
Solvency Capital Requirement	**47,225**	**64,398**

The SCR decreased 2018 largely due to significantly reduced market risk driven by the negative performance of investment markets over the year. This has resulted in a reduced level of own funds with less sensitivity to SCR shocks combined with less severe shocks reflecting the recent market performance.

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

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

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

Octium does not use an internal model.

E.5. Non-compliance with the 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

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

F. Appendix: Annual Quantitative Reporting Templates

F.1. QRT – P02.01.02 – Balance Sheet Information

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	502
R0070	Investments (other than assets held for index-linked and unit-linked	5
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	3
R0140	Government Bonds	0
R0150	Corporate Bonds	0
R0160	Structured notes	3
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	2
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	4,116,062
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:	-382
R0280	Non-life and health similar to non-life	0
R0290	Non-life excluding health	0
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	-382
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	357
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
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	25,266
R0420	Any other assets, not elsewhere shown	58,907
R0500	**Total assets**	4,200,716

F.2. QRT – P02.01.02 – Balance Sheet Information (continued)

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	0
R0520	Technical provisions – non-life (excluding health)	0
R0530	TP calculated as a whole	0
R0540	Best Estimate	0
R0550	Risk margin	0
R0560	Technical provisions - health (similar to non-life)	0
R0570	TP calculated as a whole	0
R0580	Best Estimate	0
R0590	Risk margin	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions – life (excluding health and index-linked and unit-	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	4,057,252
R0700	TP calculated as a whole	0
R0710	Best Estimate	4,047,805
R0720	Risk margin	9,447
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	29,622
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	3,836
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	376
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	2,382
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	4,093,468
R1000	**Excess of assets over liabilities**	107,248

F.3. QRT – S05.01.02 – Premiums, Claims and Expenses by Line of Business

		Line of Business for: **life insurance obligations** — Index-linked and unit-linked insurance	**Total**
		C0230	C0300
	Premiums written		
R1410	Gross	244,576	244,576
R1420	Reinsurers' share	0	0
R1500	Net	244,576	244,576
	Premiums earned		
R1510	Gross	244,576	244,576
R1520	Reinsurers' share	0	0
R1600	Net	244,576	244,576
	Claims incurred		
R1610	Gross	327,027	327,027
R1620	Reinsurers' share	0	0
R1700	Net	327,027	327,027
	Changes in other technical provisions		
R1710	Gross	0	0
R1720	Reinsurers' share	0	0
R1800	Net	0	0
R1900	**Expenses incurred**	7,447	7,447
R2500	**Other expenses**		2,096
R2600	**Total expenses**		9,543

F.4. QRT – S05.02.02 – Premiums, Claims and Expenses by Country (Annual)

		Home Country	**Top 5 countries (by amount of gross premiums written) - life obligations**	**Total Top 5 and home country**
		C0150	C0160	C0210
R1400			IT	
		C0220	C0230	C0280
	Premiums written			
R1410	Gross	186,455	58,121	244,576
R1420	Reinsurers' share	0	0	0
R1500	Net	186,455	58,121	244,576
	Premiums earned			
R1510	Gross	186,455	58,121	244,576
R1520	Reinsurers' share	0	0	0
R1600	Net	186,455	58,121	244,576
	Claims incurred			
R1610	Gross	211,527	113,181	324,709
R1620	Reinsurers' share	0	0	0
R1700	Net	211,527	113,181	324,709
	Changes in other technical provisions			
R1710	Gross	0	0	0
R1720	Reinsurers' share	0	0	0
R1800	Net	0	0	0
R1900	**Expenses incurred**	4,152	2,815	6,967
R2500	**Other expenses**			2,088
R2600	**Total expenses**			9,055

F.5. QRT – S12.01.02 – Information on Technical Provisions

		Insurance with profit participation	Risk Margin	Index-linked and unit-linked insurance		Total (Life other than health insurance, including Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees	
		C0020	C0030	C0040	C0050	C0150
R0010	**Technical provisions calculated as a whole**	0	0			0
R0020	**Total Recoverables from reinsurance/SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0			0
	Technical provisions calculated as a sum of BE and RM					
	Best Estimate					
R0030	**Gross Best Estimate**	0		4,047,805	0	4,047,805
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		-382	0	-382
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	0		4,048,187	0	4,048,187
R0100	**Risk Margin**	0	9,447			9,447
	Amount of the transitional on Technical Provisions					
R0110	Technical Provisions calculated as a whole	0	0			0
R0120	Best estimate	0		0	0	0
R0130	Risk margin	0	0			0
R0200	**Technical provisions - total**	0	4,057,252			4,057,252

F.6. QRT – S23.01.01 – Own Funds

		Total	Tier 1 - unrestricted
		C0010	C0020
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of		
R0010	Ordinary share capital (gross of own shares)	1,000	1,000
R0030	Share premium account related to ordinary share capital	0	0
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0
R0050	Subordinated mutual member accounts	0	
R0070	Surplus funds	0	0
R0090	Preference shares	0	
R0110	Share premium account related to preference shares	0	
R0130	Reconciliation reserve	96,548	96,548
R0140	Subordinated liabilities	0	
R0160	An amount equal to the value of net deferred tax assets	0	
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	5,000	5,000
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds		
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	
	Deductions		
R0230	Deductions for participations in financial and credit institutions	0	0
R0290	**Total basic own funds after deductions**	102,548	102,548
	Ancillary own funds		
R0300	Unpaid and uncalled ordinary share capital callable on demand	0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0	
R0320	Unpaid and uncalled preference shares callable on demand	0	
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0	
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0	
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0	
R0390	Other ancillary own funds	0	
R0400	**Total ancillary own funds**	0	
	Available and eligible own funds		
R0500	Total available own funds to meet the SCR	102,548	102,548
R0510	Total available own funds to meet the MCR	102,548	102,548
R0540	Total eligible own funds to meet the SCR	102,548	102,548
R0550	Total eligible own funds to meet the MCR	102,548	102,548
R0580	**SCR**	47,225	
R0600	**MCR**	21,251	
R0620	**Ratio of Eligible own funds to SCR**	2.1715	
R0640	**Ratio of Eligible own funds to MCR**	4.8255	

		C0060	
	Reconciliation reserve		
R0700	Excess of assets over liabilities	107,248	
R0710	Own shares (held directly and indirectly)	0	
R0720	Foreseeable dividends, distributions and charges	4,700	
R0730	Other basic own fund items	6,000	
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0	
R0760	**Reconciliation reserve**	96,548	
	Expected profits		
R0770	Expected profits included in future premiums (EPIFP) - Life business	0	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0	

F.7. QRT – S25.01.21 – Solvency Capital Requirement (Annual)

		Gross solvency capital requirement
		C0110
R0010	Market risk	35,580
R0020	Counterparty default risk	719
R0030	Life underwriting risk	26,238
R0040	Health underwriting risk	0
R0050	Non-life underwriting risk	0
R0060	Diversification	-13,101
R0070	Intangible asset risk	0
R0100	**Basic Solvency Capital Requirement**	49,436

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,625
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-3,836
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	47,225
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	47,225
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCRL Result	28,339

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	4,048,187	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		2,602

	Overall MCR calculation	C0070
R0300	Linear MCR	28,339
R0310	SCR	47,225
R0320	MCR cap	21,251
R0330	MCR floor	11,806
R0340	Combined MCR	21,251
R0350	Absolute floor of the MCR	3,700

		C0070
R0400	**Minimum Capital Requirement**	21,251