

Solvency and Financial Condition Report

IDA INSURANCE LIMITED

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This Solvency and Financial Condition Report (SFCR) has been prepared to allow IDA Insurance Limited ('IDA' or 'the Company') to comply with the Pillar III reporting requirements under Directive 2009/138/EC and associated Regulations ('the Solvency II Directive').

IDA Insurance Limited maintains a robust system of governance which is commensurate to the nature, scale and complexity of the Company's activities and its risk profile. The system of governance revolves around the Board and its Committees – the Investment Committee and Risk and Compliance Committee; with key functions outsourced to external service providers in line with the Company's Outsourcing Policy. The mainstay of the system of governance is the risk management system: which is designed to ensure that all the material risks are identified; and that policies and procedures are in place to assess their potential impact and to adequately report them, so that they can be managed or mitigated.

This financial period is from 1st January 2020 to 31st December 2020 whilst the comparative figures cover a period from 1st July 2018 to 31st December 2019. During the period under review, the Company registered a loss after tax amounting to € 56,788 (Profit after tax for the year ended 31st December 2019: €494,667). Direct premiums written by the Company during this period amounted to € 4,151,875 (18 months ended 31st December 2019 € 8,624,969). Claims performance deteriorated with claims incurred net of reinsurance for the period amounted to €1,285,896 compared to €1,575,220 for the 18 months ended 31st December 2019.

The Directors were actively involved in the implementation of the Solvency II legislation and these are deeply embedded in the Company's operations. Regular monitoring of the Solvency Capital Requirement (SCR) and Minimum Capital Requirements is carried out and a Capital Management Policy is in place to ensure on-going adherence to the requirements. This policy outlines the main drivers of the SCR.

The Company monitors its capital level on a regular basis. The Company complied with the regulatory capital requirement during the years ended 2019 and 2020. No changes were made in the Company's approach to capital management during the period ended 31st December 2020.

Going forward, the Company is expected to continue meeting the Solvency II regulatory capital requirements based on the latest audited SCR calculations as at 31st December 2020 and those resulting from the 2020 Own Risk and Solvency Assessment.

IDA's internal capital target is to hold 140% of its Pillar 1 Minimum Capital Requirement. On an annual basis, the Board considers whether a dividend should be paid to remit any surplus capital to its parent entity.

Section A - Business and Performance

A.1 Business

Legal Form

The Company was incorporated in Malta on 8th July 2005 and is a 100% subsidiary of DAN Europe Foundation, a non-profit Emergency Medical Organisation. DAN Europe (Divers Alert Network Europe) is an international non-profit medical and research organisation founded in 1983, dedicated to the health and safety of the global dive community. DAN helps divers and their families by providing emergency medical assistance, promoting dive safety and conducting vital research. DAN also offers education, products and services to beginners, experts and all kinds of explorers in between. The DAN network protects what good divers value most; the ability to explore hidden worlds in safety.



Registered Office and Registered Number

Registered Office: DAN Building, Sir Ugo Mifsud Street, Ta' Xbiex, Malta

Registration Number: C36602

Regulator

IDA is authorised to carry on business of insurance in in terms of the Insurance Business Act 1998, regulated by the Malta Financial Services Authority. The Regulator can be contacted as follows:

Malta Financial Services Authority,

Triq l-Imdina, Zone 1

Central Business District, Birkirkara,

CBD 1010, Malta

Tel: +356 2144 1155

www.mfsa.com.mt

Insurance and Pensions Supervision Unit

Auditors

The statutory accounts are audited by Deloitte Audit Limited who can be contacted as follows:

Deloitte Audit Limited
 Deloitte Place,
 Triq L-Intornjatur,
 Ctrl. Business Dist.
 Malta, CBD3050
 Partner: Mr Mark Giorgio

Risk Profile

IDA is authorised to offer classes of insurance business namely, accident, sickness, fire and natural forces, other damage to property, general liability, legal expenses and assistance. Furthermore, it is authorised to provide insurance under EU's Freedom to provide services in another Member State in Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Ireland, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom.

This insurance policy is distributed by VING Insurance Brokers Limited ("VING"), a related insurance intermediary incorporated in Malta and authorised by the Malta Financial Services Authority to carry on insurance intermediary activities, on behalf of IDA Insurance Limited.

IDA and VING made a valid notification to the Prudential Regulation Authority ('PRA') in the UK, to continue carrying out business in the UK, under the Temporary Permission Regime (TPR).

The Company is also licenced to provide insurance services in Switzerland through a branch, regulated by Swiss authorities, FINMA.

The main line of insurance classes that is currently provided is namely, accident, general liability, legal expenses and assistance. The principal activity is to underwrite scuba diving risk for the leisure and commercial diving industry. The company offers its policies through the group's online portals.

The Company writes insurance for students, recreational and professional divers. This business is accepted within safe practice guidelines issued by the international recognised diving bodies. The Company insure members of DAN Europe Foundation the majority of who are EU residents. The policies issued are in the EU but provide insurance benefits when diving anywhere in the world.

The salient features of the current policies issued are provided hereunder:

- Sport Member (Sport Bronze, Sport Silver and Sport Gold), which are products suitable for recreational divers;
 - Pro Member (Pro Bronze, Pro Silver and Pro Gold, products which are designed for Professional Divers and Instructors Student Insurance (First level courses, Advanced courses, Speciality courses and Freediving stage), suitable for diving students;
 - Club Member (Club Member and Club Member Plus) products that are designed for dive centres and are intended for both instructors and students;
-

- Family Plans (Family Sport and Family Mix) products, which are suitable for family members, including both recreational and professional divers.

Significant events in the reporting period

The main events for 2020 were the following:

- 1) IDA sustained a significant reduction in Gross Written Premiums due to Covid-19
- 2) IDA Insurance Ltd sold the remaining part of the VIS software to DAN

With a business activity being very dependent on travel, 2020 resulted in a negative impact on the top line as a result of the travel restrictions. Premium reduced substantially when compared to previous years.

Another significant event effecting the results of the Company was the sale of the software .

The 'Software' is further defined as a specific insurance Software developed by Vivieb S.r.l, a software company registered in Italy whereby the main uses of such Software includes a dynamic range of solutions for insurers/insurers brokers across every business channel and product line. It also includes a claims and finance module which provides ample room for rapid change and adaptation as the business grows and develops.

COVID-19 impact

The spread of COVID-19 has severely impacted many local economies around the globe through the year. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to the diving community. The COVID-19 pandemic has resulted in a reduction in premiums written by the Company which were mostly limited to the months in which all diving activities were suspended. The Directors expect that the reduction in written premiums would be

rectified as soon as an adequate number of people/countries become immune to the virus, which is expected to be achieved by use of the vaccine. Clients will renew their policies as soon as diving and travelling activities can be carried out with more ease. As at the date of this report, the Company has not incurred significant claims (medical expenses) arising from COVID-19. The policies written by the company have now been updated to exclude Pandemic Diseases, prior to this such claims were being covered subject that the insured travelled abroad before the Governments issued travel warnings. Such cases have been noted as minimal; moreover, it has been noted that the claims incurred from the impacted period reduced due to the restriction in diving activities. The Directors therefore consider that whilst the Company's profitability have been impacted during 2020 and is expected to be impacted during 2021; when combined with the Company's overall liquidity and solvency position, the Company continues to be a going concern.

A.2 Underwriting Performance

The Company's main products and the ways in which it manages the associated risks are as follows:

Emergency medical, personal accident, repatriation and travel assistance

These policies offer insurance cover for emergency medical, personal accident, repatriation and travel assistance anywhere in the world. As such the claim costs of the insured accident vary depending on the severity of the accident, its location and the quality extent and tariffs of the medical facilities in the accident location.

Civil and professional liability

These policies are occurrence-based wordings. Therefore, the Company is liable to all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract terms. These liability claims also take longer to develop than claims submitted under the Company's Accident programme and as a result, the estimation of claims incurred but not reported and claims incurred but not enough reported is generally subject to a greater degree of uncertainty.

Legal defence

These policies offer legal defence benefits when diving anywhere in the world. As a result, the claim costs of the insured accident vary.

The Company manages these risks by implementing its underwriting and claims management strategy after having obtained and considered expert advice approved by the board. The skills available to the Company to manage the insurance claims issues arising from the insured accidents have been built over many years.

During this financial period, the Company reported gross written premiums of €4,151,875. Claims incurred during the financial period amounted to €1,285,896.

This year, the Company closed the financial year with an underwriting profit of €116,756 broken down as follows:

Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
	Medical expense Insurance	General liability Insurance	Legal expenses Insurance	
Premiums written				
Gross - Direct Business	2,910,026.59	1,008,593.60	233,255.08	4,151,875.27
Gross - Proportional reinsurance accepted	79,466.00	69,147.00	7,638.00	156,251.00
Gross - Non-proportional reinsurance accepted				0.00
Reinsurers' share	1,126,731.00	964,974.00		2,091,705.00
Net	1,862,761.59	112,766.60	240,893.08	2,216,421.27
Premiums earned				
Gross - Direct Business	2,605,368.00	234,105.00	280,356.00	3,119,829.00
Gross - Proportional reinsurance accepted				0.00
Gross - Non-proportional reinsurance accepted				0.00
Reinsurers' share	373,065.00			373,065.00
Net	2,232,303.00	234,105.00	280,356.00	2,746,764.00
Claims incurred				
Gross - Direct Business	1,347,022.00	1,032,247.00	-1,233.00	2,378,036.00
Gross - Proportional reinsurance accepted				0.00
Gross - Non-proportional reinsurance accepted				0.00
Reinsurers' share	786,921.21	305,218.99		1,092,140.20
Net	560,100.79	727,028.01	-1,233.00	1,285,895.80
Changes in other technical provisions				
Gross - Direct Business				0.00
Gross - Proportional reinsurance accepted				0.00
Gross - Non-proportional reinsurance accepted				0.00
Reinsurers' share				0.00
Net	0.00	0.00	0.00	0.00
Expenses incurred	1,293,057.81	461,606.02	137,090.63	1,891,754.46
Other expenses				
Total expenses				1,891,754.46

The primary drivers for the results were the following:

- The Company's Premium decreased month on month as a direct result of Covid-19 restrictions and travel bans. Therefore, the Company wasn't able to meet its projected GWP;
- The loss ratio for the year has worsened when compared to the prior year results; this is mainly due to a one-off large liability loss within the year ending 2020;
- During the period, there was 1 large losses which were reported under Liability which impacted Underwriting Year 2013;
- The total claims paid for the year stood at €2,462,187;
- Total claims outstanding as at year end stood at €2,810,607 whilst the IBNER stood at €441,376 and an IBNR at €79,603. There were no further changes to the commission rate.
- As from the 1st of October 2020, the Company started to retain 100% of the Risk on Accident;
- There were no further changes to the RI structure for Liability during the UW year.

Income Statement – Technical Account

**Statement of Profit or Loss and Other
Comprehensive Income – Technical Account
For the period from 1 January to 31 December 2020**

	Notes	Dec 2020 EUR	Dec 2019 EUR
Earned premiums, net of reinsurance			
Gross premiums written		4,151,875	8,624,969
Outward reinsurance premiums		(2,091,706)	(4,398,704)
Inward reinsurance premium		156,251	459,382
Net premiums written		2,216,420	4,685,647
Change in gross provision for unearned premiums		903,407	(4,998)
Change in provision for unearned premiums, Reinsurer's share		(373,065)	(39,280)
		530,342	(44,278)
Earned premiums net of reinsurance		2,746,762	4,641,369
Profit commission		163,959	262,330
Allocated investment return transferred from the non-technical account		971	126,520
Total technical income		2,911,692	5,029,219
Claims incurred, net of reinsurance			
Claims paid			
- Gross amount		2,462,187	3,658,099
- Reinsurer's share		(1,092,140)	(1,641,369)
		1,370,047	2,016,730
Change in the provision for claims			
- Gross amount		(276,558)	(794,851)
- Reinsurer's share		192,408	353,341
		(84,150)	(441,510)
Claims incurred, net of reinsurance		1,285,897	1,575,220
Net operating expenses		1,509,041	2,363,820
Total technical charges		2,794,937	3,939,040
Balance on the technical account for general business		116,756	1,090,179

A.3 Investment Performance**7. Investment income and charges**

	2020	2019
	EUR	EUR
Investment gains		
Interest income on bank deposits	12,727	-
Interest income on financial assets	88,865	255,919
Realised (loss)/gain on sale of investments	(33,518)	(48,749)
Exchange gain/(loss)	(60,449)	40,404
	7,625	247,574
Analysed between:		
Allocated investment return transferred to the general business technical account	971	126,520
Investment return included in the non-technical account	6,654	121,054
	7,625	247,574

A.4 Performance of other activities

Statement of Profit or Loss and Other Comprehensive Income – Non-Technical Account

For the period from 1 January 2020 to 31 December 2020

	Notes	Dec 2020 EUR	Dec 2019 EUR
Balance on technical account for general business		116,756	1,090,179
Investment income		101,952	296,323
Investment expenses and charges		(93,967)	(48,749)
Allocated investment return transferred to the general business technical account		(971)	(126,520)
Other income		10,924	16,965
Net operating expenses		(382,715)	(490,097)
(Loss)/Profit before tax		(248,381)	738,101
Income tax expense		191,593	(243,434)
(Loss)/Profit for the year		(56,788)	494,667
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Gain/(loss) on available-for-sale financial assets, net of deferred tax		44,315	21,789
Total comprehensive income/(loss) for the year attributable to ordinary shareholders		(12,473)	516,456

A.5 Events after the reporting period

The Company has the intent to purchase VING Insurance Brokers Ltd ("VING") from its parent company being DAN Europe Foundation ("DAN") by mid-year of 2021, for which it has already obtained the "no objection" from the MFSA and such acquisition has also been approved by the Board of Directors of the Company. It shall also be noted that the consideration for the acquisition of VING is expected to be at EUR 1 Million and shall be set off against receivables that the Company currently holds from its parent company DAN.

A.6 Any other information

COVID-19 impact The spread of COVID-19 has severely impacted many local economies around the globe through the year. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to the diving community. The COVID-19 pandemic has resulted in a reduction in premiums written by the Company which were mostly limited to the months in which all diving activities were suspended. The Directors expect that the reduction in written premiums would be

rectified as soon as an adequate number of people/countries become immune to the virus, which is expected to be achieved by use of the vaccine. Clients will renew their policies as soon as diving and travelling activities can be carried out with more ease. As at the date of this report, the Company has not incurred significant claims (medical expenses) arising from COVID-19. The policies written by the company have now been updated to exclude Pandemic Diseases, prior to this such claims were being covered subject that the insured travelled abroad before the Governments issued travel warnings. Such cases have been noted as minimal; moreover, it has been noted that the claims incurred from the impacted period reduced due to the restriction in diving activities. The Directors therefore consider that whilst the Company's profitability has been impacted during 2020 and is expected to be impacted during 2021; when combined with the Company's overall liquidity and solvency position, the Company continues to be a going concern.

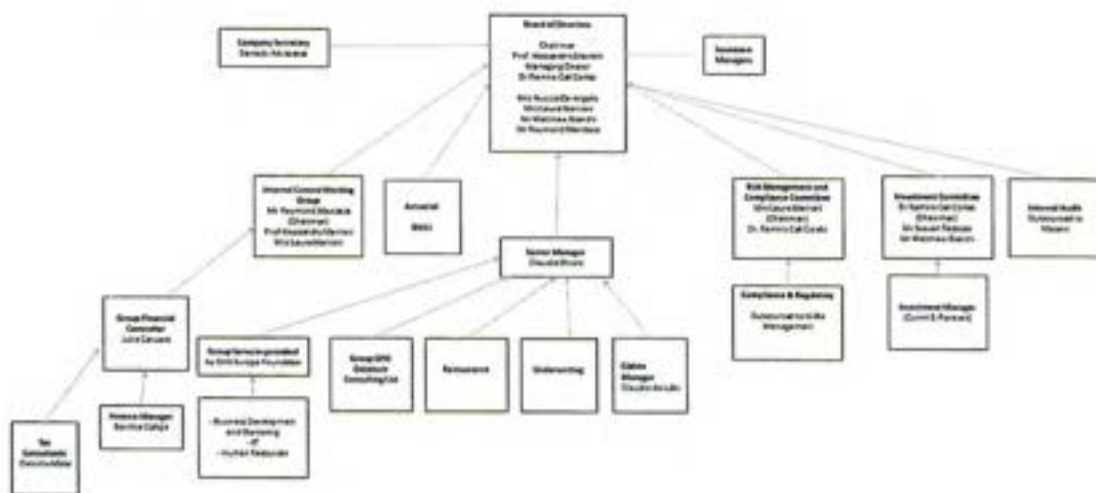
Section B - System of Governance

B.1 General information on the system of governance

The Board of Directors has adopted a supervisory structure to suit the requirements of IDA's operational needs. This structure grants the required flexibility that leads to an efficient decentralisation of selective decision making while ensuring that responsibility for overall governance rests within the Board. The Board and Committees are comprised of a mix of Non- executive Directors and Executive Directors who meet on a regular basis typically on a quarterly basis.

The Managing Director and the Senior Manager assisted by the Insurance Manager oversee all activities undertaken and escalates material matters to the Board.

IDA simplified organisation and governance chart is illustrated below.



B1.1 Board of Directors

The Board of the Company is of sufficient size and expertise to oversee adequately the operations of the Company. The composition of the Board has been designed to ensure:

- that it can adequately discharge its responsibilities and duties;
- that it has a proper understanding of, and competencies to deal with, the current and emerging issues of the business;
- that it can effectively review and assess the performance of outsourced arrangements.

The following were members of the Board at 31st December 2020:

- Prof Alessandro Marroni (Chairman)
- Dr Iro Cali Corleo (Managing Director)
- Dr Filomena de Angelis (Executive Director)
- Ms Laura Marroni (Executive Director)
- Dr Matthew Bianchi (Independent Non-Executive Director)
- Ray Mercieca (Independent Non-Executive Director)

The Board of Directors appoint a Chairman of the Board and determine the period for which he will hold office.

The Board of Directors is made up of mix of individuals who have the necessary skills and expertise in the following areas:

- Market knowledge - the awareness and understanding of the wider business, economic and market environment in which the undertaking operates and the knowledge and needs of policyholders;
- Business strategy and Business model - an appropriately detailed understanding of the undertaking's business strategy and model;
- System of governance - this includes risk management and control, which means the awareness and understanding of the risks the undertaking, is facing and the capability of managing them. Furthermore, the ability to assess the effectiveness of the undertaking's arrangements to deliver effective governance, oversight and controls in the business and, if necessary, oversee changes in these areas;
- Financial and actuarial analysis - the ability to interpret the undertaking'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 - awareness and understanding of the regulatory framework in which the undertaking 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.

The Board of Directors is made up of a mix of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors.

The Roles and Responsibilities of the Board are the following:

- Provide entrepreneurial leadership of IDA within a framework of prudent and effective controls which enable risk to be assessed and managed.
- Set IDA's strategic aims, ensure that the necessary financial resources are in place for the Company to meet its objectives, and review the insurance manager's performance.
- Set IDA's values and standards and ensure that its obligations to its shareholders and others are understood and met.
- Comply with the Memorandum and Articles of Association of the Company.
- Comply with requirements set out in the Maltese Companies Act and Maltese Insurance Business Act (Cap 403) and comply with the General Good Requirements for all classes of business in each country within which IDA is operating.
- Assume responsibility for the day to day conduct of IDA's business. Clearly and appropriately apportion significant responsibilities to the Insurance Manager and other third-party providers.
- Oversee the establishment and maintenance of robust and clearly documented systems and controls in accordance with applicable regulations.
- Review and approve business submitted by the Risk Management & Compliance Committee.
- Oversee the process of outsourcing, and monitor the discharge of the Compliance, Risk Management, Internal Audit and Risk Management functions.
 - Ensure that assets are invested in line with the Prudence, Persons, Principle and in a manner that is appropriate to the nature and duration of the insurance liabilities

Meetings of the Board

1. Meetings of the Board of Directors (BoD) are held no less than four times annually but are also held as frequently as considered appropriate.
2. All meetings of the BoD and any general meeting of the members of the Company are held in Malta unless otherwise resolved by the Directors of the Company.
3. A person is entitled to participate at a meeting of the BoD or at any GM by means of a telephone link provided the other members or directors agree to such participation by telephone. The Chairman of the meeting, in such cases, shall sign on behalf of the person participating by

telephone and shall record the fact that all persons present at the meeting have agreed to such telephone participation.

4. The Chairman or any member of the Board may call meetings of the Board.
5. A minimum of seven days' notice in writing is provided to all directors of a Board meeting. However, the Company recognises that from time to time Board meetings may need to be called at short notice. If a Board meeting is called at short notice all directors must be contacted in writing or by telephone advising them of the meeting and the proposed agenda. Prior approval for the meeting to take place must be obtained from all directors notwithstanding that a director may not be able to attend a meeting called at short notice. Such approval must be documented in the meeting minutes.

Quorum

The quorum for decisions of the Board is three.

Attendance

1. The Chairman presides on each board meeting held.
2. A member of the Board is entitled to appoint an alternate in his stead.
3. The Chairman, at his/her discretion, may invite other executives to attend and be heard at meetings of the Board.

Decisions/noting

1. The directors meet for the dispatch of business, adjourn or otherwise regulate their meetings, as they think fit. Questions arising at any meeting are decided by a 4/5th majority of votes.
2. No advisers are entitled to vote at meetings of the Board.
3. In the case of round robin approvals, a resolution in writing, including through the medium of electronic facsimile, approved by all members, is as valid and effectual as if it had been passed at a Board meeting duly called and constituted.
4. Such a round robin approval is tabled at the next meeting for noting.

Minutes

1. Detailed minutes of all Board meetings are prepared with all decisions, discussions and points for further actions being documented. Abstentions or negative votes are documented in terms acceptable to the abstaining or dissenting person or negative voter. The minutes of meetings provide sufficient detail to evidence appropriate Board attention, the substance of discussions and their outcome and are agreed at the subsequent Board meeting. Minutes also document the attendance or non-attendance of members of the Board.

2. Minutes of all Board meetings are taken by the Company Secretary and are circulated to all directors for review in a reasonable timeframe after each meeting.
3. The final draft of the Board minutes of a meeting are presented to the Board for approval at the next Board meeting. If approved the minutes are signed by the Chairman of the Meeting and kept at the Company's registered address.

Information on Remuneration Policies and Practices

The governance framework includes a Remuneration policy for defining the remuneration practices of the Company designed to support the Company's risk appetite, strategy, objectives and values. The Board of Directors is responsible for the Remuneration Policy and the regular review of the Policy.

The Remuneration Policy applies to all levels of the organisation and categories of employees including Directors. It contains specific arrangements that take into consideration the roles of the members of the Board, persons responsible for key functions, senior management, and personal undertakings that involve significant risk taking and other employees. It further extends to the arrangements with any outsourced parties involved in the distribution of the Company's products.

The Remuneration Policy reflects the Company's objectives for good corporate governance as well as sustained and long-term value creation of the shareholders. The Remuneration Policy does not excessively reward short term profits and discourages incentives to take on risks that are not in line with the Company's risk profile. This can undermine the sound and effective risk management framework, exacerbate excessive risk-taking behaviour and the protection of the policy holders. Hence the performance criteria, including non-financial performance factors such as goals and criteria relating to effective risk management practices are considered.

The salary is made up of a fixed component namely salary and benefits. The fixed component represents a significant and sufficiently proportion of the total remuneration and thus avoids that the employees are any way dependent on the variable component.

Variable components are discretionary and fully flexible as opposed to a contractual entitlement. It is based on performance and are capped at a maximum limit set by the Company. The Company has the right to withhold bonuses where its financial objectives have not been met.

Performance based remuneration is aligned to an assessment of the strategic priorities of the Company which promotes sound risk management, the strengthening of long-term customer relations and the value of the business. Non-financial factors are taken into consideration. Persons responsible for a key function are not eligible for performance-based remuneration.

Currently the Company has no arrangements applicable to supplementary persons or early retirement scheme for members of the Board.

B1.2 Investment Committee

The Company's investments are managed through an Investment Committee which operates within investment parameters set and approved by the Board of Directors. The procedures consider a recommended portfolio structure, asset and counterparty limits as well as currency restrictions.

IDA Investment Committee (IC) has been established as a committee of the Board and is comprised of the Managing Director, an independent non-executive director and an independent investment advisor. A third-party Investment Manager, duly appointed by the Board of Directors also attends every meeting. The quorum for the meeting is two members present in person.

The objectives of the Committee are to:

- (a) Prepare and submit for approval by the Board, and thereafter communicate to the Investment Manager, the basic investment strategy and policy for the Company, after considering the relative recommendations submitted to it by the Investment Manager.

Such recommendations are based on, inter-alia:-

- consideration of the Company's cash flow projections, and forecast assets and liabilities, which the Insurance Manager shall determine in conjunction with the Manager;
 - compliance with relevant statutory and regulatory solvency requirements as agreed with the Insurance Manager;
 - the Company's latest investment strategy and policies, and anticipated market evaluations;
 - the Company's credit, market and liquidity risk policies, and the performance benchmark as recommended by investment manager and approved by the Investment Committee;
 - a considered view of future investment prospects.
- (b) To review the Investments Manager's report of its activity in the preceding period, and to ensure that the actual tactical changes carried out during such period were consistent with approved policy and restrictions and reasonable in the light of short to medium term investment prospects prevailing at the time.
 - (c) Monitor the investment activity and performance of the Investment Manager and their ongoing ability and suitability to provide the appropriate services, and to recommend appropriate action to the Board where necessary.
 - (d) Review and determine any limits, authorities and procedures that are relevant to the effective execution of investment policy, and advise the Board accordingly,

The Board supports the Investment Committee in attaining its objectives, and procures that the responsibilities of the Investment Manager will similarly include providing such support to the Investment Committee in any form that it may be reasonably required.

The investment parameters are documented in the Asset Allocation policy, which are reviewed by the Committee in line with changing market trends and Company needs at every meeting.

- (e) The Committee reviews the performance of the portfolio in line with the investment parameters set out in the Asset Allocation policy

The Investment Committee meets at least every quarter. The Investment Committee meetings may be held via teleconference link and any resolutions or recommendations or decisions of the

Committee in writing signed by all the members of the Investment Committee shall be equivalent to a meeting of the Committee.

A representative from the Insurance Manager and the Group Financial Controller is invited to attend each Meeting.

Any decision in respect of recommendations submitted to the Company by the Investment advisors, require the consent of all the members of the Investment Committee. A written record of such decisions is maintained in relation to each recommendation and maintained in relation to each recommendation and are submitted to the Company, and such records are made available to all members of the Investment Committee.

B1.3 Risk Management & Compliance Committee

The Risk Management & Compliance Committee (RMC) has been established as a committee of the Board and is comprised of an Executive Director who also acts as Chairman and the Managing Director. The Insurance Managers, duly appointed by the Board of Directors also attends every meeting.

The purpose of the Risk Management & Compliance Committee is to have overall responsibility for establishing a strategic approach to Risk Management & Compliance across the organisation, ensuring that the approach is pro-active. The Committee is also responsible for the overall co-ordination of Risk Management & Compliance activity. It ensures that the necessary processes are in place to achieve compliance with statutory requirements and to protect the Company's policyholders, staff and assets. Risk Management & Compliance is an integral part of the Company's strategic and operational objectives.

The Risk Management & Compliance Committee is established in accordance with guidance set out by the Regulator and the obligations under the present corporate governance standards. It is sufficiently robust to evolve in compliance with Solvency II requirements when there are required to be implemented.

The Committee is one the Committees of the Board authorised to make executive decisions regarding the management of risk and compliance with regulations. The Chairman of the Committee reports to the Board at every board meeting and provides an update of the salient matters discussed during the Risk Management & Compliance meetings which are held on a quarterly basis in the same month prior to the Board meeting.

The Committee

1. Agrees, monitors and ratifies the Company's Risk Management & Compliance strategy and policies.
2. The Committee is made aware of all policies approved under the Insurance Financial Risk, Non-Insurance Financial Risk, Non-Financial Risk, Internal Control, Compliance and Outsourcing policies and of any material decisions taken by the Investment Committee or the Internal Control Working Group and ensure the policies are implemented effectively, reviewed, updated and approved;

3. Acts as the Company co-ordinating body on all risk-related policies and procedures in conjunction with other specialist committees or departments;
4. Assists the Board in defining acceptable risk within the organisation and propose the Company's risk appetite statement;
5. Ensures that adequate organisational systems are in place for implementing, monitoring and reviewing assurances on controls;
6. Makes recommendations to the Board on priority risk areas and on the appropriate action required to avoid or mitigate these risks;
7. Oversees, identifies and implements the Risk Management & Compliance action plan and risk registers;
8. Receives information from any director or officer highlighting any "high" risk areas of concern outside the rolling programme of risk register reviews.
9. Reviews and approves the risk registers;
10. Monitors and reviews the Company's internal control framework and monitors the assurances detailed within the document;
11. Designs, manages and implements the Company's insurance and claims, Risk Management & Compliance strategy to assess and anticipate trends and developments and makes recommendations on appropriate actions or improvement;
12. Reviews the Risk Management & Compliance Strategy on an annual basis.
13. Review all documentation is in line with the Company's product governance and oversight arrangements prior to its approval by the Board of Directors.

The Risk Management & Compliance Committee receives reports from the Risk Management Function and Compliance Function at each Committee meeting.

Appointed members are required to attend the Risk Management & Compliance Committee on a regular basis. No more than two meetings should be missed in any one year unless due to extenuating circumstances. Should a Committee member not be able to attend the meeting, the meeting should if possible be postponed to another day provided it is still possible to make it in time to report to the subsequent board meeting.

The effectiveness of the Risk Management & Compliance Committee is monitored through the following:

1. Committee minutes to be monitored by the Board;
 2. Internal audit;
 3. Maintenance of a risk register;
 4. Associated action plans related to the internal controls' framework
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The Secretary of the Committee is a representative from the Insurance Manager who attends all meetings and prepares minutes.

B1.4 Internal Control Working Group

Given the size, the Company is exempt from having an Audit Committee however it has set up an Internal Control Working Group with the following objectives:

1. Monitoring the integrity of the financial statements of the Company, independent auditors qualifications and independence, performance of the Company's independent auditors, appropriateness of the Company's internal data, systems and controls, compliance by the Company with legal and regulatory requirements relating to audit and financial reporting functions and Company's internal audit and risk management functions.
2. Reporting to the Board on the foregoing and to assist the Board in considering and adopting accounting policies.

The Working Group is composed of such Directors as may be recommended to the Board who after considering its Corporate Governance and the requirements and guidelines and obligations under Solvency II has nominated the Chairman of the Company, an independent non-executive director and an executive director.

A representative from the Insurance Manager acts as secretary for the purposes of the Working Group meeting who attends all meetings and prepare minutes.

The quorum for the meeting is one plus the Chairman of the Working Group.

The Working Group Responsibilities are:

- a) To make recommendations to the Board to appoint, dismiss, agree compensation of and oversee the work of the independent auditor in connection with conduct of the audit, issuing an audit report and related work (including liaising between management and the auditor regarding financial reporting), including:
 - Reviewing the experience and qualifications of the independent audit firm and the senior members of the independent auditor team;
 - Obtaining and reviewing a report from the independent auditor at least annually regarding the auditors internal quality-control procedures,
 - Evaluating the performance of the independent auditor;
 - Presenting its conclusions on the preceding point to the Board, taking any actions deemed necessary or desirable by the working group to satisfy itself as to the qualifications, performance and independence of the independent auditor, and making any recommendations to the Board concerning such matters as the working group deems advisable;
 - Meeting with the independent auditor prior to the audit to discuss the planning and staffing of the audit;
 - Receiving direct reports from the independent auditor in connection with conduct of the audit, issuing an audit report and related work;
 - Reviewing and agreeing the independent auditors annual engagement letter (including terms of remuneration); and
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- Assessing the effectiveness of the audit process.
- (b) To receive, and take any appropriate action in relation to, all reports and other communications which the independent auditor is required to make to the working group, including timely reports concerning:
- All critical accounting policies and practices to be used;
 - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company;
 - Ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 - Other material written communications between the independent auditor and the management of the Company, such as any management letter or schedule of unadjusted differences.
- (c) To review and discuss with management and the independent auditor the annual audited financial statements (and where practicable any other material public or regulatory financial statements), including disclosures made in management's discussion and analysis and the audit representation letters, and recommend to the Board whether the audited financial statements should be approved.
- (d) To discuss with management and the independent auditor significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements.
- (e) To discuss with management and the independent auditor the effect of regulatory and accounting initiatives.
- (f) To meet with management, the internal accountants / auditors and the independent auditor separately, quarterly or at such other interval as the working group deems reasonable.
- (g) To monitor the independence of the independent auditor, including:
- Evaluating the independence of the independent auditor, including whether the provision of non-audit services is compatible with maintaining the auditors independence;
 - Approving or disapproving any engagement by the Company or its subsidiaries of the independent auditor to perform any non-audit services, subject to a de minimis threshold of €2,500; and
- (h) To monitor the integrity of the Company's financial and other internal controls.
- (i) To oversee and monitor the documentation the reports and documents produced by the risks management committee.
- (j) To receive from management reports on the effectiveness of the internal control and risk management systems, and the conclusions of any testing carried out by internal and external auditors.
- (k) To review and approve the statements included in the annual report in relation to internal control and the management of risk.
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- (l) To monitor and review the effectiveness of the internal audit function, and to approve the appointment or termination of the internal auditor.
- (m) To review and discuss with management the reserving methodology and process of establishing the Company's reserves, together with internal or external reports or studies.
- (o) To receive reports from the Company's Head of Compliance on compliance related matters including any material compliance breaches.
- (p) To recommend to the Board for adoption a procedure for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting, auditing or other matters.
- (q) To meet at least quarterly.
- (r) To make regular reports to the Board.
- (s) To review and reassess the adequacy of these objectives and its own performance annually and recommend any proposed changes to the Board for approval.
- (t) To provide a statement about its activities for the annual report.

Working Group Authority

- (a) The Working Group has the authority reasonably required to enable it to discharge the Working Group Responsibilities.
- (b) The Working Group has the authority to engage at the Company's expense independent counsel and other advisors as it determines to be reasonable to carry out the Working Group's Responsibilities.
- (c) The Working Group has the authority to require any officer or employee of the Company, of the Company's outside counsel or independent auditor to attend a meeting of the Working Group or to meet with any members of, or consultants to, the Working Group.
- (d) The Working Group may form subcommittees and delegate authority to such subcommittees or an individual member of the Working Group when appropriate.
- (e) The Responsibilities and Authority of the Working Group do not include the obligation to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor, as applicable. It is also not the responsibility of the Internal Controls Working Group to set or determine the adequacy of the Company's reserves.

Managing Director

The Managing Director is empowered to exercise the authority of the Board between board meetings and has delegated authority in all issues, except matters reserved for the Board.

Representatives of all the key functions and businesses that either provides services to, or use, IDA are members of the executive group which provides a forum for ensuring:

- issues are raised, debated and resolved (being escalated to the Board where necessary)
- proposals are discussed and shared across the stakeholder network
- matters to be raised for decision at the Board are communicated and support gained

Related Party Transactions

During the year the Company entered into various transactions which are subject to common control. All transactions are conducted within the normal course of business.

The Company is a subsidiary of the Dan Europe Foundation (the "parent") which holds 99% of the ordinary shares of the Company. The registered address of the Foundation is 26, Fidiel Zarb Street, Gharghur, Malta.

During the course of the year, the Company entered into transactions with related parties as set out below.

During 2020, the Company disposed of intangible assets to a related party for a consideration equal to their net book value of EUR 367,706

All the Company's insurance business is transacted through a licensed broker, which is also a related party, by virtue of common ownership. The transactions with the broker are included with "other related parties", defined below.

The related party transactions in question were:

	Related party activity EUR	2020 Total activity EUR	%	Related party activity EUR	2019 Total activity EUR	%
Other operating income						
Related party transactions with:						
- Other related parties	<u>260,795</u>	<u>263,794</u>	<u>99</u>	<u>346,431</u>	<u>346,431</u>	<u>100</u>
Acquisition costs						
Related party transactions with:						
- Other related parties	<u>540,922</u>	<u>546,120</u>	<u>99</u>	<u>1,142,911</u>	<u>1,144,481</u>	<u>99</u>
Administrative expenses:						
Related party transactions with:						
- Parent company and other related parties	<u>364,905</u>	<u>1,063,985</u>	<u>34</u>	<u>761,885</u>	<u>2,221,486</u>	<u>34</u>

"Other related parties" consist of related parties other than the parent, entities that are controlled or jointly controlled by, directly or indirectly, key management personnel of the Company.

The terms and conditions in respect of the related party balances do not specify the nature of the consideration to be provided in settlement. No guarantees have been given or received. The amounts were unsecured and interest-free. The amounts due from the parent is expected to be extinguished through structured cash settlements over a period of seven years.

Key Functions

The Company complies with the requirements under Solvency II and the Fitness & Probity Standards to ensure that Key Functions are held by persons with the appropriate knowledge, experience and competence. The following Key Functions are outsourced by the Company:

Risk Management Function

Risk management lies at the heart of the Company's business activities. The adopted risk appetite reflects the articulated risk profile set by the Board through its risk-return profiling of the identified key risks.

The Board is assisted by Willis Towers Watson Management (Malta) Limited being the outsourced service provider of this Function in executing the risk management strategy laid down by the Board, in developing a risk management framework of the company's risk appetite, limits and tolerances, in establishing internal risk management structures, and in ensuring that the necessary resources are available and dedicated to achieving the risk management objectives. The Risk Management and Compliance Committee chaired by Mrs Laura Marroni act as oversight.

Furthermore, Willis Towers Watson Management (Malta) Limited also assists the Board and other functions in assessing and defining the risks existing in specific risk areas and from those assessments developing written risk management policies and procedures to manage those risks. It also assists the Board in assessing the company's capacity to absorb risk with due regard to the nature, probability, duration, correlation and potential severity of risks, including looking at risks from different perspectives, such as by territory. It also seeks to identify and assess emerging risks and advise the Board thereon.

Acceptable risk limits for each risk type are determined to facilitate control mechanisms to ensure that limits and procedures are adhered to, and that the company is operating within the risk appetite parameters set by the Board.

As the Company operates in a dynamic business environment it is alert to changes in the Company and in the environment in which it operates and modifies the Risk Management system as necessary.

Compliance Function

The Compliance Function is outsourced to Willis Towers Watson Management (Malta) Limited, with Ms Marie Louise Cassar being the Compliance Officer and the Risk Management & Compliance Committee chaired by Mrs Laura Marroni acting as Board oversight.

The Compliance Officer's role and responsibilities include the following:

- To identify the legal, regulatory and statutory code requirements, under which the undertaking is authorised and licensed to operate;
- to establish and oversee the establishment of controls, policies and procedures, and to work with other business areas within the undertaking in embedding these controls and policies, thus ensuring that adequate record-keeping is evident to comply with the regulatory requirements on a continuous basis;
- to monitor or oversee the monitoring of activities of the firm on a risk basis consistent with the controls and procedures in place and to report to the Board and senior management of the undertaking on same;

- to advise the Board and senior management of the undertaking of new and impending regulations and standards and of the implication for the firm of compliance with these new requirements;
- to assist the Board and the senior management of the undertaking in the design and implementation of controls necessary to meet the standards in this Policy;
- to prepare the Compliance Policy and the Compliance Plan, to implement the Compliance Audit Statement and ensure that they are agreed and approved by the Board on an annual basis;
- to liaise with the Regulator in relation to regulatory reporting and/or regulatory visits or inspections, also in relation to errors or breaches of requirements;
- to make representations to the Regulator and to oversee the development of the necessary procedures or alterations to existing procedures to meet any new regulatory obligations or requirements;
- to report to the Board at each Board meeting/quarterly on the standards of compliance of the Company with its Compliance Obligations and on the findings of the Compliance Audit Statement;
- to ensure that breaches on internal control procedures and systems or conditions of authorisation imposed upon the business of the Company are not permitted and notified to the Board and the persons concerned if identified;
- to notify the MFSA of any breach of the conditions of its authorisation upon becoming aware of such breach;
- to promote a "culture of compliance" by example and by clear and well directed communication within the Company;
- to assess the training needs and agree a training plan with those individuals who require compliance competencies as part of their roles; and
- to review products, procedures and systems on a planned basis from the viewpoint of effective compliance and to advise as to steps necessary to ensure compliance.

Actuarial Function

The Company's Actuarial Function is currently outsourced to BWCI Limited with Profs Alessandro Marroni acting as oversight.

The Actuarial Function is carried out by persons who have an appropriate knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the Company, and who can demonstrate their relevant experience with applicable professional and other standards in line with the Company's Fitness and Probity Policy and the Malta Financial Services Authority's rules and regulations.

Internal Audit Function

The Internal Audit Function is an outsourced service, provided by a third-party audit firm (Mazars Consulting Limited) with Mr Ray Mercieca acting as oversight. The Internal Audit Function's mission is to independently examine and evaluate the functioning effectiveness and efficiency of the Company's internal control system and all other elements of governance.

The activities of the Internal Audit function are designed to provide advice to management in improving the internal control environment, monitoring the implementation of strategic control initiatives and managements remediation activity. The Internal Audit Function provides a formal report to the Board at least annually. The findings of Internal Audit reviews conducted are discussed

with and challenged by the Board and an action plan is agreed upon to remediate any issues identified, along with a timeline for completion.

B.2 Fit and Proper Requirements

The Company ensures that its Directors and Officers are fit and proper to ensure the sound and prudent management of the undertaking. The Company considers the following as Relevant Persons for the purposes of its Fit and Proper Policy:

- i. The Board of Directors of IDA;
- ii. the Members of the Investment Committee, the Risk & Compliance Committee and the Internal Control Working Group of IDA;
- iii. any advisor of the Board of Directors of IDA;
- iv. the persons who effectively run IDA;
- v. any person performing a key function of IDA including persons performing the function under an outsourcing arrangement; and
- vi. any other personnel of IDA for the time being or from time to time prescribed by regulation or identified by the Board as being subject to fitness and propriety requirements.

The Company considers the key functions to be the following:

- i. Risk Management;
- ii. Compliance;
- iii. Internal Audit;
- iv. Actuarial;
- v. any other key function identified by the Board as important or critical in IDA's system of governance considering the nature, scale and complexity of its business and organisational structure.

The Company's Fit and Proper Policy aims to ensure that no person is appointed to or confirmed in a Relevant Person role unless they have been appropriately assessed by IDA to be fit and proper for the role in accordance with regulatory requirements referenced in the Company's policy. The principles for achieving that objective are:

Fitness:

- i. Every Relevant Person must be fit for their role and responsibilities and hold the qualifications, knowledge and experience relevant and necessary to ensure that the role is managed in a professional manner with the necessary degree of management and technical competence.
- ii. The members of the Board of IDA collectively must possess at least qualification, experience and knowledge:
 - a. of insurance and financial markets relevant to the operations of the Company;
 - b. of the business strategy and business model of IDA;
 - c. of IDA's system of governance;

- d. to perform required financial and actuarial analysis in respect of IDA;
 - e. of the regulatory framework and requirements applicable to the Company; and
 - f. generally to be able to provide for the sound and prudent management of IDA.
- iii. The appointment and continuing engagement of any Relevant Person must comply with the fitness elements as set out within the applicable MFSA rules and guidelines.

Propriety:

- i. The honesty, financial soundness and reputation of every Relevant Person must be assessed by the Company to determine that they are of good repute and integrity, based on relevant evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects, regardless of location but taking account of any applicable period of limitation in respect of any committed offence.
- ii. The appointment and continuing engagement of any Relevant Person must comply with the probity elements of the aforementioned MFSA rules and guidelines.

Each Relevant Person shall complete a Fit & Proper Questionnaire and submit to the Compliance officer.

Board – The Board is responsible for:

- i. The approval and periodic review of this policy;
- ii. overseeing the implementation of this policy;
- iii. establishing the minimum criteria for each Relevant Person, including any minimum qualifications, experience and competencies deemed necessary to fulfil their respective functions.
- iv. establishing who are IDA's Relevant Persons, considering the nature, scale and complexity of the risks inherent in the business, the nature of the relevant function and its organisational structure.
- v. assessing (pre-appointment and at least annually thereafter) the fitness and propriety and approving any new or ongoing appointment of each Relevant Person.
- vi. suggesting the removal of any Relevant Person from their key function role if a material issue arises.
- vii. designating a Relevant Person to have overall responsibility for overseeing any outsourced key function's Relevant Persons and to challenge and monitor the performance and results on a regular basis.

Compliance Officer – The Compliance Officer is responsible for:

- i. Maintaining a Register of IDA's Relevant Persons including evidence of:
 - a. Name;
-

- b. key Function;
 - c. date of appointment;
 - d. date of Board approval of appointment;
 - e. date of National Regulator approval of appointment (where required) or date of notification of appointment to National Regulator;
 - f. board approved minimum criteria for the function and the basis on which the Relevant Person satisfies these;
 - g. date and result of last Board fitness and propriety assessment;
 - h. due date of next Board fitness and propriety assessment;
 - i. date of removal from function;
 - j. date of Board approval for removal from function;
 - k. date of notification to National Regulator of removal from function; and
- any other details considered necessary from time to time to evidence IDA's compliance with this policy and the regulatory requirements;
- ii. ensuring that all notifications required to be made by IDA to the National Regulator in respect of the appointment or removal of a Relevant Person are submitted in the prescribed manner and within the prescribed time limit;
- iii. assisting the Board in the performance and documenting of its pre-appointment and ongoing fitness and propriety assessment of Relevant Persons;
- iv. monitoring and reporting to the Board on the execution and implementation and any identified breaches of this policy;
- v. Ensuring the proper implementation of policies and procedures, so that the management person responsible for IDA's insurance distribution activities (the "relevant person") as well as any employee of the Company directly involved in the carrying out of insurance distribution activities (the "relevant employee") perform their duties adequately in accordance with the requirements of Chapter 7 of the Insurance Distribution Rules;
- vi. Ensuring that the Board of Directors assesses the relevant person's and the relevant employee's knowledge and ability against the requirements set out in Chapter 6 of the Insurance Distribution Rules.

To assist the Board in overseeing the execution and implementation of this policy, the Compliance Officer keeps the report to the Board on the Fitness and Propriety Assessment completed on an annual basis.

The IDA outsourcing model and functional organisation of the Company mean that individuals that head Group functions also have individual accountability for the performance of their functions in respect of services provided to IDA. Accordingly, in addition to Board members, the following individuals had been approved by the MFSA regulatory bodies:

Approved person	Function
Marie Louise Cassar	Designated Compliance Officer – Willis Towers Watson Management (Malta) Limited
Jonathan Kemp	Designated Actuary – BWCI Limited
Mazars Consulting Limited	Internal Audit
Willis Towers Watson – Insurance Managers	Risk Management
Claudia Shranz	Person responsible for distribution

B.3 Risk Management System including ORSA

The Company's Risk Management Function is outsourced to Willis Towers Watson Management (Malta) Limited, subject to the conditions outlined in the Company's Outsourcing Policy.

The Board reviews the composition of its Risk Management Function at least annually.

The acceptance of risk is fundamental to the Company and a core element of the overall strategic objectives as an insurance company.

IDA therefore recognizes the importance of having an effective risk management system embedded throughout all areas of the Company.

The Company's Risk Management System is comprised of the following elements;

- Risk Register
- Risk Appetite Statement (RAS)
- Formal Policy Documents for all key risks
- Own Risk and Solvency Assessment (ORSA)
- Formalised Risk Reporting

Each of the elements of the Risk Management System detailed above contribute to the identification, measurement, monitoring, management and reporting of risks and is intended to work as an integrated system, and therefore each is considered in both in terms of the specific function of the respective element, and in terms of its function within the overall system.

Each element of the system is embedded effectively within the Company and managed by the Risk Management Function with appropriate oversight from the Board.

B3.1 Risk Management Approach

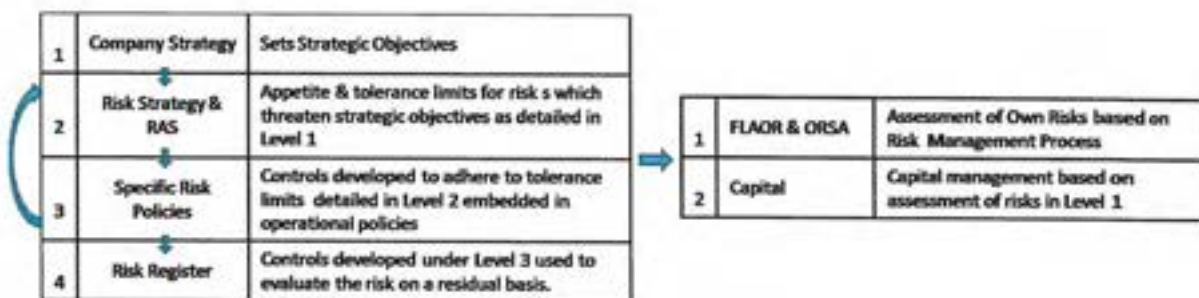
Risk management is the continuous approach and dynamic process that aims to guide the Company to understand, evaluate and assess all of its risk with a view to increasing the successful achievement of its strategic objectives and reducing the likelihood of the unwanted risk.

Risk management is integral to the Company's corporate governance, business strategy and ORSA. The framework consists of an effective program led by senior management, which clearly identifies risk appetite; risk policies, standards, roles and responsibilities for managers and other employees involved in the management of risk.

Thus, the Company's risk management approach is centred on ensuring the inherent risk which the Company faces in the course of its business is appropriately managed to ensure the strategic objectives are achieved.

A direct linkage from strategic to operational levels is established through a cascading of the principles of the hierarchy down to the immediate sub level. This approach also ensures that risk management is appropriately included in the Company's decision-making processes.

The following level hierarchy summarises this approach;



B3.2 Risk Profile

The risk profile of IDA is included in the latest ORSA report. The Company's risk profile is formally reviewed at least annually as part of the Company's ORSA exercise. The Risk Management Function monitors the Company's risk profile and the corresponding risk management arrangements in place on an annual basis and report to the Board on any observed material changes.

B3.3 Risk Function

The Risk Function of the Company is responsible for the operational coordination and application of all Risk Management activities throughout the Company on an ongoing basis.

The Risk Function reports directly to the Board on an annual basis or upon occurrence of an event which could materially impact the Company's risk profile.

The Function is responsible for coordination of all risk management activities throughout the Company. The Function is also responsible for providing the Board with assistance and support in development and implementation of the various risk management arrangements within the Company.

B3.4 Risk Categories & Key Risks

Key risks are considered to be the six risk categories detailed in the Solvency II Directive text together with any other risks evaluated as being key risk through the operation and activity of the Risk Management Function and approved by the Board.

All risks, aside from those which fall within the risk categories prescribed in the Solvency II text, is considered to be a key risk if, on a residual basis, a material level of capital is deemed to be required in order to accept the risk, or if particular controls or risk mitigation techniques specific for the risk in question must be employed.

Each of the key risks is included in the Risk Appetite Statement and is subject to a specific policy document which addresses how the risk is to be managed in line with the hierarchy outlined previously.

The risk categories and key risks to which the Company is exposed is reviewed periodically by the Risk Management Function and at least;

- annually
- on occurrence of an event which could materially affect the Company's risk profile
- on the introduction of material new business
- at the discretion or order of the Board

B3.5 Risk Appetite Statement

The Company has in place a Risk Appetite Statement ("RAS"). The RAS sets out the risk appetite and tolerance levels for all key risks over the planning period of the Company.

The Company considers the RAS to be the primary element of the Risk Management System, directly linking to the overall Company Strategy and determining the levels retained for each key risk, and also influencing the nature of the controls and mitigation techniques employed to ensure that the risk remains within the tolerable range.

The Board is responsible for setting the Company's RAS. The Board periodically reviews the appropriateness and effectiveness of the RAS and will perform a formal review of the RAS at least annually or upon a material change in the Company's risk profile.

The RAS includes both qualitative and quantitative aspects for each key risk and is aligned to the planning period of the Company.

The RAS is included in the decision-making processes of the Company. The Board, before finalizing any material decision which could impact the risk profile of the Company, refer to the RAS for guidance as to the likely effect of the decision on the tolerance levels of the Company.

The RAS is also used to track actual performance against the metrics detailed in the RAS to ensure that no breach in the agreed tolerance levels has occurred.

Monitoring of the actual performance against the metrics identified in the RAS is performed periodically by the Risk Management Function and reported to the Board in line with the reporting trigger system included in the RAS.

B3.6 Risk Policies

The Company holds a formal policy for each key risk included in the RAS. The policies for each specific risk are consistent with the details contained in the RAS relating to the risk in question. The controls, reporting triggers and any other relevant aspects of the management of the risk are appropriately reflected in the policy for the risk.

B3.7 Risk Register

The Company has in place a comprehensive Risk Register to evaluate and assess the risks to which the Company is exposed.

The Risk Register initially assesses the risk universe of the Company on an inherent basis. The controls and risk mitigating techniques employed by the Company and as detailed in the individual risk policies which act on the risk allow for an evaluation of the risk on a residual basis.

If the risk on a residual basis is deemed to potentially require a material level of capital to accommodate the risk, this risk is considered a key risk and is considered for inclusion in the RAS by the Board and a policy developed.

The Risk Management Function is responsible for the ongoing maintenance of the Risk Register. The Risk Register is updated on at least an annual basis and upon the occurrence of an event which may materially impact the Company's risk profile.

A summary of the results of the Risk Register is distributed to the Board upon completion of each review as soon as is practicable and form part of the Risk Management Function's periodic Risk Reporting.

As part of each update, the Risk Register is reviewed by the Risk Management Function to ensure that the Risks included represent all the material risks to which the Company is exposed and that all applicable emerging risks have been appropriately included.

Where an emerging risk has been identified as one which should potentially be included in the Risk Register, the Risk Function will advise the Board of the nature and context of the risk. The Board then shall determine whether the risk in question should be considered as a Key Risk.

B3.8 ORSA

The Company aims to ensure that the Company is appropriately and prudently capitalized in order to accept the risk to which the Company is exposed. In order to ensure this, the Company performs an ORSA at least annually and upon the occurrence of an event which may materially impact the Company's risk profile. The Company maintains separate policies on ORSA and Capital Management.

B3.9 Risk Reporting

The Risk Management Function formally reports to the Board on at least an annual basis. The report contains details of the outcome of the Risk Register review, the results of the comparison of the RAS to actual results and an update on emerging risks.

The Risk Management Function is responsible for the development of the Risk Reports. The Risk Management Function provides a report to the Board based on the occurrence of an event which materially alters the risk profile of the Company or if the tolerance level triggers are detonated.

The Risk Management Function comments on the quality of the data used in the Risk Management System and advise the Board where data quality issues may distort or mislead results.

ORSA Approach

The Board believes the ORSA process to be an important component of the Company's overall Risk Management System.

IDA's ORSA approach is based on recognized Enterprise Risk Management principles and considers the Company's risk, controls and capital in a coordinated and holistic manner, building upon the strength of the risk management arrangements in place within the Company.

The Board is satisfied that the Company's ORSA approach is commensurate with the nature, scale and complexity of the Company's operations.

The risk profile of IDA can be found in the Company Strategy section of the latest ORSA report and is updated at least on an annual basis.

The Board is satisfied that they have a strong understanding of the risks to which the Company is exposed and that the controls and risk mitigation techniques in place provide appropriate protection to the Company's strategic objectives.

Based on this, the Board is satisfied that they can assess the range within which risk is expected to materialize with an adequate level of confidence. This assessment can be made for each material risk to which the Company is exposed allowing the Company to assess the range within which the risk is likely to fall with an appropriate level of confidence on a risk-by-risk basis. This risk range can then be used as a basis for profiling each material risk that the Company is exposed to over the planning period. This will provide an 'expected' risk assessment under normal business conditions.

The assessment made for a given risk is corroborated by the observed actual results of how IDA has managed this risk over the preceding periods. The findings of the Risk Management Function as documented in the reports produced by the function serves to corroborate the basis for risk assessments made.

An appropriate level of stress test is applied to the overall risk assessment process. The stress test should adversely affect the outcome of the risk profiled on an expected basis. An overall 'risk capital' amount can then be determined for each material risk individually and for the Company's overall business over the planning period. The Board believes that this approach focuses on the risks assumed by the Company, the effectiveness of the controls and risk mitigation techniques employed and the resultant level of capital held by the Company for each of these risks on an individual and aggregated level, and therefore directly links the risk profile, tolerance limits and overall capital and solvency needs of the Company in line with ORSA requirements.

B.4 Internal Control System

IDA utilises the internal control system that comprises three lines of defence, comprising primary risk owners (first line), independent risk management and control functions (second line) and an independent internal audit (third line). This structure is consistent with IDA's risk management structure and the IDA Board considers it appropriate to the management of the IDA risks.

- First line: The majority of IDA's employees comprise the first line of defence.
- Second line: The insurance managers as the Risk Management and Compliance function holders comprise the second line of defence. The managers provide independent oversight of the activities performed within the first line. The Investment Committee is the second line of defence for investments.
- Third line: The third line of defence comprises the Internal Audit function. Senior managers are attendees of risk governance committees.

The Company is fully committed to compliance with the requirements of the MFSA and all applicable legislation and regulations (collectively known as the Company's "Compliance Obligations"). The Board of Directors is fully committed to ensuring that the Company's activities remain within the boundaries of these "Compliance Obligations".

In order to demonstrate the Company's ongoing commitment to compliance, a submission is made by the appointed Compliance Officer to the Board of Directors at each Board meeting. This reporting activity addresses how the Company is achieving full compliance, if there are any breaches and how such breaches are being rectified.

In terms of the Compliance Policy

- The Company has appropriate policies and procedures as are required to ensure that it can meet its Compliance Obligations;
- the Company prepares on an annual basis an appropriate Compliance Plan, in order to set the compliance objectives and detailing the actions to be taken by the Compliance Function;
- a program of monitoring is implemented to assess the Company's fulfilment of its Compliance Obligations;
- the Company maintains/retains documentary evidence to support the conclusions reached regarding the status of its Compliance.

In assessing the requirements

- All the legal, regulatory and statutory code requirements underlying the Compliance Obligations and under which the Company is authorised and licensed to operate are identified on an annual basis as being the Compliance Universe for the Company and included into the annual Compliance Plan of the undertaking;
- the Compliance Universe of the Company is updated according to any new legislation, regulations, standards or guidelines enacted or introduced during the year;
- the detailed requirements of the Company's Compliance Obligations are monitored and documented into the Compliance Audit Statement in order to identify the current state/method of compliance and any deficiencies; and
- any identified deficiencies or breaches are brought to the attention of the Board of Directors and a relevant action plan is prepared, thus identifying the specific actions to be taken, the relevant owner and a reasonable timeframe for completion.

Policies and procedures in support of the Company's Compliance Obligations are documented and the Company ensures that these policies and procedures are "fit for purpose" and are appropriate and proportioned to the nature, scale and complexity of the business of the undertaking; and once adopted, are reviewed annually.

Prior to being adopted, all policies and procedures are approved by the Board and all relevant Personnel are made familiar with the Company's policies and procedures to ensure the effective performance of their roles in accordance with the Company's Compliance Obligations. The Company ensures that Risk Based ongoing monitoring and oversight procedures are implemented to enable it to clearly demonstrate the fulfilment of its Compliance obligations.

Individuals whose role requires them to have compliance competencies are made aware of and receive appropriate training in respect of the requirements of the Company's Compliance Obligations.

B.5 Internal audit Function

Internal audit primarily provides an independent and objective opinion to the Board and Management of the Company, and to its supervisory authority as necessary, on the functioning, adequacy and effectiveness of the company's system of governance, internal controls and risk management framework, and on compliance with the Company's established policies and procedures, internal strategies and reporting requirements. The Internal Audit findings are also of benefit to line management in the audited areas.

Internal Audit is independent of the organisational and operational activities which it audits to ensure that the judgements essential to its proper conduct and impartial advice to management are objective and unbiased. The Company commits itself to ensuring that the Internal Audit Function is not subject to influence from the Board of Directors that can impair its operational independence and impartiality. Given the size of the Company, the Internal Audit Function reports on a regular basis directly to the Board of Directors. It is free to express its opinions and to disclose its findings and appraisals to the whole Board.

Under the authority conferred on it by the Board of Directors, Internal Audit has UNRESTRICTED ACCESS to all records, including management information and Board and Board committees minutes, assets, third party service providers (TPSP) and their premises and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities, by direct communication with all members of staff of TPSPs.

By order of the Board of Directors all business units are obliged to inform the internal audit function when control deficiencies are recognised, losses are sustained or there is a definite suspicion concerning irregularities.

Internal Audit is required to operate to the standards of the International Institute of Internal Auditors or similar standards. It fulfils its role by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations that management have put in place to:

- establish, and monitor the achievement of, the company's objectives;
 - identify, assess and manage the risks to achieving the organisation's objectives;
 - ensure the economical, effective and efficient use of resources;
 - ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
 - safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
-

- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

In order to support this role the Internal Audit Function is required to maintain an audit strategy in line with the best practice guidance issued by the International Institute of Internal Auditors or any guidance issued by EIOPA or local regulators that is more specific to the internal auditing of insurers.

Reporting

Following an audit, once reports have been agreed and finalised with line managers of the audited unit, a copy of the final report is copied to the following:

- TPSPs responsible for the area in question;
- Members of the Board of Directors.

These written reports are issued regardless of whether material shortcomings have been found. The Board, supported by the Management, determines what actions are to be taken with respect to each of the internal audit finds and recommendations and ensures that these actions are carried out.

The Internal Auditor is required to submit an annual report to the Board, providing the Internal Audit's (IA) overall opinion on corporate governance, risk management and control within the Company, (including any branches, agencies and TPSPs) and any major shortcomings with regard to the compliance with internal policies, procedures and processes. This report includes recommendations on how to remedy inadequacies, including the envisaged period of time to remedy such shortcomings, and also addresses how past points of criticism and past recommendations have been followed up.

The internal audit function prepares an audit plan setting out the audit work to be undertaken in the upcoming business year(s). The audit plan is based on a methodical risk analysis, taking into account all activities and the complete system of governance, as well as expected developments of activities and innovations. On the basis of the result of this risk analysis, a detailed plan for the upcoming year, with an outline place for the following 3 years, is established.

The plan allows for the review, within a reasonable period of time based on the audit cycle principle, of all significant activities, taking into consideration how often important areas of the company require scrutiny.

During the course of the year the detailed plan is varied as necessary to take account of altered circumstances and new or emerging risks, with the approval of the Board.

The IA can be outsourced to a specialised TPSP or to the Internal Audit function of the Group. The Board will need to ensure that the TPSP or Group have the resources necessary for the delivery of the IA service for the year(s) ahead.

The Board of Directors is entitled to instruct the Internal Audit Function to perform any other special tasks as deemed appropriate.

B.6 Actuarial function

IDA outsources the Actuarial Function to take advantage of external expertise. This critical operational service is outsourced to BWCI Limited. BWCI carries out the duties of the Actuarial

Function as required by the Solvency II Directive. These services are outlined below as per the Solvency II Directive and are explained in more detail:

- a. coordinate the calculation of technical provisions;
- b. ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- c. assess the sufficiency and quality of the data used in the calculation of technical provisions;
- d. compare best estimates against experience;
- e. inform the Board of the reliability and adequacy of the calculation of technical provisions;
- f. oversee the calculation of technical provisions;
- g. express an opinion on the overall underwriting policy;
- h. express an opinion on the adequacy of reinsurance arrangements;
- i. contribute to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements, and to the Own Risk and Solvency Assessment.
- j. Carry out the risk modelling underlying the calculation of the capital requirements, the financial and solvency projections in the context of the Own Risk and Solvency Assessment;
 - Perform the calculation of SCR and MCR
 - Carry out investigations in relation to the claims experience and the expenses of the company
- k. Attend Board of Directors meetings as required by the Company
- l. Liaise with the Company's auditors as necessary
- m. Prepare the pillar 3 reports relating to the Actuarial function

B6.1 Calculation of Technical Provisions

The frequency of the valuation is quarterly for all reserves and all classes of business.

The scope of Engagement also includes active participation and mediation with the Malta Financial Services Authority for any regulatory matters of the company.

The following duties fall within the scope of the Function:

- a) Identification of any sources of deviation from statutory requirements and implementation of any relevant changes in order to ensure that the calculation performed is consistent with those requirements. In particular, BWCI use methodologies that allow a complete analysis regarding those requirements;
- b) Validation of the methodologies used to assess the sufficiency of the technical provisions, including back testing against past experience, giving due considerations to changes over time;
- c) Development of an understanding of the different drivers of risk that affect the level of technical provisions and its structure of dependencies. Furthermore, we will perform any relevant analysis of the internal data and consult relevant market information in order to improve this understanding;
- d) Coordination of the assessment and validation of internal data to determine the level of compliance according to the standards for data quality and, if necessary, recommend the implementation of improvements in the internal procedures that are considered relevant;

- e) Comparison and validation of technical provisions based on experience and identification of solutions on how to deal with any material differences detected, which may imply revisions of assumptions and/or methodologies;
- f) High level analysis of movement between successive valuations.

B6.2 Calculation of SCR and MCR

The actuarial function is responsible for the calculation of the SCR and the MCR. The frequency of the calculation will be quarterly.

A management report on the process and results is prepared at least quarterly, covering:

- a) The revised balance sheet of the company pinpointing the valuation adjustments to assets and liabilities due to the differences in the valuation principles;
- b) Summary of the indicative results of the stress test regarding the calculation of the MCR and the SCR;
- c) Analysis of capital requirement, including capital requirements per type of risk and simulations to assess how capital requirements vary with different strategic options;
- d) Interpretation of results, identifying any particular issues with the EIOPA methodology;
- e) A comparison of results with the ones under the existing solvency capital methodology, highlighting key differences;
- f) Identification of areas for improvement in the process and methodology and suggestions of methods to improve.
- g) Prepare the required input into the ORSA if the risk profile and/or the business model of the Company changes during a year, requiring an additional SCR calculation and an exceptional ORSA to be carried out during the same year.

B6.3 Issuing an Opinion on the Underwriting Policy

The opinion on the overall underwriting policy covers the following:

- a) whether the underwriting policy is consistent with product pricing;
- b) an opinion on the principal risk factors influencing the profitability of business to be written during the next year, including the potential impact on future profitability of external factors such as inflation, legal risk and changes in the market environment;
- c) an opinion on the likely financial impact of any material planned changes in products' terms and conditions;
- d) the approximate degree of variability surrounding the estimate of expected profitability; and,
- e) the consistency of this approximate degree of variability with the risk appetite of the undertaking.

All information is communicated to the senior management of the Company. The opinions on the underwriting policy and reinsurance arrangements include, when necessary, recommendations regarding the most appropriate strategies to be followed by the company in this matter.

B6.4 Issuing an opinion on the reinsurance arrangements

The opinion of the adequacy of the undertaking's reinsurance arrangements includes the following components:

- a) the consistency of the company's reinsurance arrangements with its risk appetite;
- b) the treatment and effect of reinsurance on the estimation of net technical provisions; and
- c) the effect of reinsurance arrangements on the volatility of the company's financial strength.

The opinion on the adequacy of reinsurance arrangements will include an assessment of how the reinsurance coverage could respond under a number of stress scenarios. These scenarios may include situations such as the following:

- exposure of the undertaking's portfolio of business to catastrophic claims experience,
- aggregations of risks,
- concentrations of reinsurance security and potential reinsurance exhaustion.

B6.5 Contributing to the effective implementation of the risk-management system

BWCI provides guidance and expertise for the implementation of an effective ERM framework. This service encompasses all critical steps of the framework.

The Actuarial Function works closely with the Risk Management Function (RMF) and makes available to it our expertise and experience. The Actuarial Function supports the RMF in meeting the various requirements of its role and be familiar with what is required of it.

The Actuarial Function contributes to the risk modelling underlying the calculation of both the solvency capital requirement and minimum capital requirement. Depending on the complexity of the risk management system, actuarial methods are applied that call for a detailed understanding of statistical methods and the probabilities of insurance risks, such as claims frequencies and severities, understanding and assessing the use of risk mitigation techniques and understanding volatility and adverse deviation.

The Actuarial Function guides the Company on how to reflect business realities in actuarial models and risk management processes, to ensure that the ORSA output is relevant for the business. The Actuarial Function provides the necessary expertise in order to:

- Understand the detailed requirements regarding the ORSA and identify gaps relative to current risk management processes
- Begin to plan how current risk management, financial reporting and modelling Systems will need to change to create an effective ORSA

As part of the ORSA, the Actuarial Function contributes to the assessment of the compliance with the requirements regarding the technical provisions and the analysis of deviations of the company's risk profile from the assumptions underlying the calculation of the solvency capital requirement with the standard formula.

The Actuarial Function also expresses an opinion on the following parts of the ORSA process:

- Determine the risks to be included in the ORSA and how these will be quantified
- Set up processes in order to notify the Company whenever the risk profile deviates from the assumptions underlying the SCR
- Introduce a formalised and documented capital monitoring and management process.
- Describe the controls and processes needed to ensure that robust & formalised modelling, monitoring and roll forward tools are in place
- Assist the company in preparing and adequately document a risk based business strategy and a process to ensure that the business strategy is reviewed and updated regularly
- Identify and introduce projections of the business risks which are a key part of any undertaking's financial planning, such as projections of the business plan (capital impact), economic balance sheet and profit and loss account
- Provide the resources and the expertise necessary in order to set up the processes to facilitate a regular assessment of the company's solvency needs and compliance.

B.7 Outsourcing

IDA outsources various activities where the Board believes outsourcing can provide access to superior processes and technical skills than it would achieve on a standalone basis. As a result of these arrangements, IDA has transferred its functional risk exposure but accepts counterparty risk exposure.

The objectives and high-level principles of the outsourcing policy are;

- that the risks associated with outsourcing are appropriately managed and that the Company has adequate measures in place to identify, measure, monitor, manage and report these risks in a timely manner as part of the Company's overall risk management system;
- that outsourced service providers have the appropriate expertise and experience and resources to undertake the outsourced activities to the standards required by the Company;
- that there is no reduction in the Board of Directors' ("the Board"), and where applicable a relevant sub committee's responsibility for, or influence over, key functions of the Company as a result of outsourcing;
- that there is no material impairment of the quality of the Company's System of Governance as a result of outsourcing a key activity or function;
- that the Company's approved policies and procedures are adhered to by the outsourced service provider;
- that there is no material impairment of the Company's ability to fulfil its obligations to stakeholders, nor impede effective supervision by regulators as a result of outsourcing a key activity or function;

- that no material conflicts of interest result from outsourcing a key function or activity;
- that all outsourcing arrangements are supported by appropriately detailed written agreements

The Board is responsible for the approval, application and review of the Outsourcing Policy.

The Board is ultimately responsible for the approval of and termination of all outsourcing arrangements of critical or important functions and activities.

The Board may delegate the on-going monitoring and supervision of outsourcing arrangements to a subcommittee of the Board.

All functions and activities of the Company are eligible to be outsourced provided that each of the objectives detailed above are achieved in each instance.

A service provider may be either an entity from within the Group (Internal Outsourcing) or an entity that is not part of the same (External Outsourcing), provided that the objectives detailed above are achieved in each instance.

Sub-outsourcing is allowable on the condition that the sub-outsourced service provider satisfies the Service Level Agreements requirements and is subject to approval from the Board.

All outsourcing relationships must be governed by written contracts in accordance with specific Service Level Agreement requirements.

Critical or important functions or activities include key functions of the Company's System of Governance and all functions and activities within the Company that are fundamental to carry out its core business.

The Board decides whether arrangements with third parties are deemed to fall within the scope of this Outsourcing Policy. The provision of services which do not form part of the Company's core activities need not be included within the scope of the policy.

Upon agreement by the Board to outsource a critical or important function, formal 'requests for proposal' ('RFP') should be sent to at least three potential providers where possible. The RFP shall specify the information required to allow the Board to evaluate the service provider based on the evaluation rationale detailed below.

The appointment of a service provider is subject to the following:

- An evaluation process must be undertaken prior to any decision on appointments.
- The evaluation process must include an assessment of the service provider's control framework, covering performance standards, policies, procedures, compliance, reporting, monitoring processes and BCP.
- The evaluation should also address other issues, such as business strategy, reputation, experience with the proposed outsourced activities and potential conflict of interest where the service provider is related to the Company or has arrangements with competitors.

- The Board may delegate the execution of the evaluation process to a subcommittee, function or Company representative provided no material conflict of interest arises from such delegation.
- The risks associated with the outsourcing of the activity or function, shall be considered and included in the evaluation process.
- The evaluation process should be appropriately documented with results presented to the Board for consideration.
- All decisions in relation to approval of outsourcing rest with the Board of Directors only.
- The Board shall ensure prior to appointment of a service provider that the service provider has checked the fitness and propriety of the key persons working on the function or performing the activity.
- The Board shall ensure that the outsourced service provider adheres to the Company's policies and that the effectiveness of the Company's system of governance is not lessened or compromised by the outsourcing arrangements.

This adherence to the Companies policies shall contribute to the evaluation process of the service provider as outlined in the following section.

- The Board shall review the performance of service providers acting in an outsource capacity on a periodic basis and at least annually.
- The Company shall ask each Critical Outsourced Function to complete a questionnaire to assess the continued appropriateness of its outsourcing arrangements.
- The Board may delegate the responsibility for the performance evaluation to a subcommittee, function, Company representative or Group subject to conflict of interest considerations. The Board retains ultimate responsibility for all decisions in relation to outsourcing arrangements.
- The performance of the service provider will be based on a comparison of the actual performance of the service provider in comparison with the required performance as per the agreed Service Level Agreement ('SLA').
- The review shall also consider the requirement for the function or activity to be outsourced for the short, medium and long term.
- The review process shall be adequately documented with results communicated to the Board for consideration.
- All decisions and actions points arising from the Board's considerations of the Company's outsourcing arrangements shall be appropriately actioned and documented.

Outsourcing risk shall be monitored by the Risk Management Function periodically in line with the Company's overall risk management arrangements and procedures, be present in the Company's Risk Appetite and Risk Register as required.

The results of the assessment of the risks associated with outsourcing shall be documented and reported to the Board at least annually.

The following risks and related mitigations available should at least be considered as part of this process:

- The financial, reputational, and operational impact on the Company of the failure of a service provider to adequately perform the activity;
- The financial, reputational, and operational impact on the Company of service provider failure;
- The risk associated with increased considerations in Business Continuity Planning (BCP);

Consideration should be given as to whether all the risks associated with the outsourcing of an activity or functions are included in the Company's Risk Management System.

All outsourcing arrangements deemed within scope of the Company's Outsourcing policy must be undertaken using a written, legally binding Service Level Agreements ("SLA"). The SLA must document all components of the outsourcing arrangement between the parties.

The agreement shall have a termination clause.

The SLA shall specify the content, frequency and format of the service being provided.

The SLA shall specifically cover any subcontracting by the service provider, including any specific rules or limitations to such arrangements. The same terms that apply to the service provider, as outlined in the SLA, should apply to sub-contractors or outsourcing arrangements by the primary service provider.

The SLA shall include clauses enabling the Company to access documentation related to the outsourcing arrangement, and to conduct on-site visits to the service provider. This should include arrangements for the Company to meet directly with the service provider, and for the service provider to cooperate with the Company's requests for information and assistance. The regulatory and supervisory authority and the external auditor of the Company shall also have effective access to all information relating to the outsourced functions and activities, including carrying out on-site inspections at the business premises of the service provider. The regulatory and supervisory authority may also address questions directly to the service provider, to which the service provider shall reply.

The SLA shall require the service provider to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements.

With respect to default arrangements, the SLA shall clearly specify what constitutes a default event, identify how these are to be rectified and specify any indemnity provisions.

The circumstances that would lead to a termination of the outsourcing arrangement should be clearly specified in the SLA. It should set out possible reasons for terminating the arrangement and procedures to be followed in the event of termination, including notice periods, the rights and responsibilities of the respective parties and transition arrangements. The latter would address access to, and ownership of, documents, records, software and hardware. Termination clauses should also specify the time period over which the business activity continues to be undertaken by the service provider and its role in transitional arrangements. The service provider can only terminate the SLA

with a period sufficiently long to enable the Company to find alternate solutions or service providers and without detriment to the continuity and quality of its provision of service to the policyholders.

The designated subcommittee/function/representative shall report on the performance of the various outsourced service providers against the agreed SLA as appropriate, and the finding will be documented appropriately.

The Risk Management Function shall report at least annually to the Board on the assessment of the risks associated with the outsourcing of the various functions as part of the overall risk monitoring and reporting arrangements of the Company.

B.8 Any other information

There are no other information to report on.

Section C – Risk Profile

The Company operates a low-risk business model that is supported by a robust risk management framework that ensures risks are well understood and controlled. This is facilitated by daily systematic quantification of all risks and a culture that promotes the importance of risk management. Integral to this is a thorough understanding and articulation of the Company's risk exposures. Determining the prevailing risk landscape within the Company allows Management, the Risk & Compliance Committee and the Board to assess the appetite for each emerging risk and to ensure that all are quantifiable and managed consistently with our appetite to risk.

An overview of the principal risks associated with the business including an outline of how they are each managed is provided below.

C.1 Underwriting Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random, unknown and unpredictable.

As its primary insurance activity the Company assumes risks relating to underwater diving activity. The Company is therefore exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The terms and conditions of the insurance contracts it issues set out the basis for the determination of the company's liability should the insured event occur. Through its insurance and investment activity the Company also has exposure to market and financial risk.

The Company also faces risks that the actual claims are significantly different to the amounts included within the technical provisions. This could occur because the frequency of severity of claims is greater or lower than estimated. The insurance risks are further mitigated through strict underwriting criteria, the utilising of actuarial review and the use of reinsurance.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

Since its establishment, the Company has developed its own underwriting criteria and strategy which have evolved in line with the technical underwriting discipline of its international treaty reinsurers. The Company reinsures part of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the Company's net exposure.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions, if any, for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers' on an ongoing basis and reviews its reinsurance arrangements annually. The Company utilises a reinsurance agreement with non-affiliated reinsurers to control its exposure to losses resulting from one occurrence and for the accumulation of net losses arising out of one occurrence.

C.2 Market Risk**C2.1 Interest Rate Risk**

The Company is exposed to cash flow interest rate risk on debts instruments carrying a floating interest rate and to fair value interest rate risk on debt instruments carrying a fixed interest rate. Investments in equity instruments are not exposed to interest rate risk. Approximately 92% (2019: 97%) of the Company's debt instruments and cash and cash equivalents bear fixed interest rates.

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by restructuring its financing structure and by maintaining an appropriate mix between fixed and floating rate borrowings.

Should market prices at the end of the reporting period increase/decrease by 10%, with all other variables held constant, the impact on the Company's other comprehensive income would be +/- EUR432,381 in 2019 (2019: +/- EUR435,343).

C2.2 Counterparty Default Risk

The Group utilises reinsurance to manage efficiently insurance risk. The Group is therefore exposed to the failure of these counterparties. The exposure is reduced as the counterparties are diversified and also their credit riskiness is managed by ensuring A+ or above credit rating.

C.3 Credit Risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- Cash and cash equivalents
- Reinsurer's share of technical provisions
- Insurance and Other Receivables
- Loans and receivables
- Available-for-sale investments

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk subject in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. The Company manages its credit risk arising through its reinsurance arrangements by using "A" rated reinsurers or reinsurers that are part of an "A" rated group. When selecting a reinsurer the Company considers their relative security. The security of the reinsurer is assessed from public rating information and from internal investigations.

The Company is exposed to contract holders and insurance intermediaries for insurance premium due. Insurance receivables are presented net of any allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience,

is evidence of a reduction in the recoverability of the cash flows. Credit risk with respect to insurance receivables is limited as insurance receivables are due from related parties.

The Company's investments are managed through an investment committee which operates within investment parameters set and approved by the Board of Directors. The procedures consider a recommended portfolio structure, asset and counterparty limits as well as currency restrictions.

Loans and receivables are term deposits held with quality financial institutions.

Available-for-sale investments comprise locally and foreign quoted bonds, locally and foreign quoted equities as well as an exchange traded fund. Quoted investments are acquired after assessing the quality of the relevant investments.

C.4 Liquidity Risk

A lack of liquidity within the business may both prevent the Company from being able to pay its obligations as amounts fall due. Such outcomes will clearly limit the ability of IDA to continue as a going concern and write new business.

The Company has to meet daily calls on its cash resources, notably from claims arising on its insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due. The Company manages this risk by adhering to its investment policy ensuring that an adequate amount of funds are invested in highly liquid investments.

Furthermore, the Company's Liquidity Policy requires sufficiently liquid assets to be held in order to meet outflows in extreme market. The liquidity buffer exists; ongoing monitoring also allows mitigating actions to be taken at an early stage if required.

C.5 Operational Risk

The Company is exposed to operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In particular, this includes the failure of key outsourcing arrangements, business disruption, fraud and loss of key management.

This definition also includes legal risk and reputational risk, as the Company considers reputational risk critical and therefore has adopted this broad definition of operational risk.

The process through which the Company's operational risk universe is determined and subsequent estimates of frequency and severity are assessed is captured in the Operational Risk Policy document. This process safeguards the ongoing improvement of the control environment and ensures that operational risk is identifiable and mitigated.

The Company is reliant on the use of external parties to provide some services, and thus is therefore exposed to the potential failure of these outsourcing partners. All high value functions are managed in-house in order to mitigate this risk and to ensure direct oversight so that should an outsourced partner fail, the service can be shifted with applicable continuity.

C.6 Other material risks**C6.1 Regulatory Risk**

A change in the regulatory, legal or political environment may have consequences on the Company's Business Model, operations and financials. The Company is subject to financial regulation in Malta and is required to comply with capital adequacy requirements.

Although the Solvency II regime has now been implemented, it remains subject to future amendments to improve its operation and to better align approaches across Europe. The Company maintains ongoing dialogue with the Regulator in order to ensure ongoing compliance and the ability to react quickly to any unanticipated changes.

Investment of Assets in accordance with the Prudent Person Principle

The Company invests its assets in a manner to ensure the quality of security, performance and its convertibility into cash for its life and non-life portfolio of investments.

The Investment Committee takes investment decisions based on Prudent Person Principle in the interest of policyholders and shareholders. The Committee manages the investments through an investment policy approved by the Board. The strategy allows instruments, within the tolerance levels, that can be identifiable, measured and monitored. The Committee ensures that the assets of the Company are held with a Custodian of good repute.

In particular, the Company invests in a prudent manner, in securities

- In countries with a stable outlook
- Which are sufficiently liquid
- Of high and good quality
- Not subordinate; and
- Not in government securities in countries included in the 'blacklist' of the Financial Action Task Force (FATF)

C.7 Any other information

There are no other information to report on.

Section D - Valuation for Solvency Purposes

D.1 Valuation of Assets

The valuation and measurement bases of assets under the International Financial Reporting Standards ("IFRS") and Solvency II Directive with the valuation and recognition for material classes is as follows:

D.1.1 Investments (other than assets held for index-linked and unit-linked contracts)

IFRS

The Company's investments are classified into the following categories – loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the Company may not recover substantially all of its initial investment other than because of credit deterioration. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the Company or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at their fair value.

Solvency II

All investments must be measured at fair value on the Solvency II balance sheet, regardless of the accounting portfolio under which they are classified. As the assets are reported on a fair value basis for IFRS and Solvency II, the only difference is the inclusion of the accrued interest received in the investments in bonds as required for Solvency II purposes.

D.1.2 Intangible asset

IFRS

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite.

Solvency II

For Solvency II balance sheet, intangible asset has been set to zero since these assets cannot be sold separately hence they have a zero-market value.

D.1.3. Plant and equipment**IFRS**

The Company's plant and equipment relates to the computer equipment acquired during the year. Plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The Company's plant and equipment relates to the computer equipment acquired during the year.

Solvency II

For Solvency II balance sheet, plant and equipment should be revalued at fair value. Since the amount of the plant and equipment is not material, the carrying value of the computer equipment as at balance sheet date was deemed to approximate its fair value.

D.1.4 Deferred acquisition costs**IFRS**

Acquisition costs comprise all direct and indirect costs arising from entering into general insurance contracts. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent those acquisition costs incurred in respect of unearned premiums existing at the end of each reporting period.

Solvency II

There is no concept of Deferred acquisition costs in Solvency II hence the account has nil value per Solvency II balance sheet.

D.1.5 Deferred tax asset**IFRS**

Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also dealt with in other comprehensive income or in equity, as appropriate.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off its current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Solvency II

Assets and liabilities are measured on an economic basis under Solvency II. This creates a difference in valuation as compared with IFRS. As a consequence a further profit/ loss can arise as compared with the accounting basis, with an associated deferred tax liability/ deferred tax asset.

Deferred tax assets with a value of EUR 607,231 have been recognised.

EUR 502,652 of the deferred tax asset is expected to be utilised with reference to probable future taxable profit. As at 31 December 2020 there are no deferred tax liabilities.

The net deferred tax assets are available as basic own-fund items classified as Tier 3 in accordance with Article 76(a)(iii) of the Delegated Regulations. EUR 306,640 is recognised as eligible own funds after applying the eligibility limits set out in Article 82 of the Delegated Regulations. However, as at 31 December 2020 the MCR is greater than the SCR. The solvency of the Company is therefore driven by the relationship between the MCR and the total eligible own funds to meet the MCR. Tier 3 own funds items, such as deferred tax assets, do not contribute to total eligible own funds to meet the MCR and as such do not currently affect the solvency of the Company.

Future taxable profit has been projected based on the Company's ORSA, which based on a 3 year budgeting exercise that projects income statements and balance sheets. Future levels of new business, claims, expenses, reserves and investment income are predicted. The process currently assumes a continuation of the IFRS 4 approach for the calculation of taxable profits.

D.1.6 Cash and cash equivalents**IFRS**

Cash and cash equivalents comprise of cash balances and term deposits with an originating maturity of three months or less.

Solvency II

There are no differences between the recognition and valuation for cash and cash equivalent for Solvency II and IFRS balance sheet.

D.1.7 Reinsurance recoverables**IFRS**

Reinsurance assets consist of receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting period. Such assets are deemed as being impaired if objective evidence exists, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Solvency II

On a Solvency II valuation, these reinsurance recoverables are valued on a best estimate basis.

D.1.8 Receivables**IFRS**

Receivables are stated at their nominal value unless the effect of discounting is material, in which case receivables are measured at amortised cost using the effective interest method.

Solvency II

There are no differences between the recognition and valuation for receivables for Solvency II and IFRS balance sheet except for the accrued interest receivable which are reported as part of the investments for Solvency II purposes.

D.1.9 Inventories

None held at year end.

D.1.10 Leases

None held at year end.

D.1.11 Related undertakings

These are covered under investments

Summary of Differences between IFRS and Solvency II valuation

	Solvency II value	Statutory accounts value
Goodwill		
Deferred acquisition costs		260,984.00
Intangible assets		
Deferred tax assets	502,652.32	69,023.00
Pension benefit surplus		
Property, plant & equipment held for own use	219.77	220.00
Investments (other than assets held for index-linked and unit-linked contracts)	5,668,728.05	6,073,054.03
Property (other than for own use)	0.00	
Holdings in related undertakings, including participations	0.00	
Equities	313,335.39	313,335.39
Equities - listed	313,335.39	313,335.39
Equities - unlisted		
Bonds	4,367,034.24	4,325,034.15
Government Bonds	191,403.00	190,790.60
Corporate Bonds	4,175,631.24	4,134,243.55
Structured notes	0.00	
Collateralised securities	0.00	
Collective Investments Undertakings	88,352.14	88,352.14
Derivatives		
Deposits other than cash equivalents	900,006.28	1,346,332.34
Other investments	0.00	
Assets held for index-linked and unit-linked contracts		
Loans and mortgages	0.00	0.00
Loans on policies	0.00	
Loans and mortgages to individuals		
Other loans and mortgages		
Reinsurance recoverables from:	1,819,689.34	2,307,894.40
Non-life and health similar to non-life	1,819,689.34	2,307,894.40
Non-life excluding health	1,402,147.18	1,350,032.37
Health similar to non-life	417,542.16	957,862.03
Life and health similar to life, excluding index-linked and unit-linked	0.00	0.00
Health similar to life		
Life excluding health and index-linked and unit-linked		
Life index-linked and unit-linked		
Deposits to cedants	0.00	
Insurance and intermediaries receivables	2,271,594.51	2,271,594.51
Reinsurance receivables	1,149,459.12	1,149,459.12
Receivables (trade, not insurance)	115,497.12	115,497.12
Own shares (held directly)		
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00	
Cash and cash equivalents	1,250,721.56	803,196.00
Any other assets, not elsewhere shown	0.00	43,215.82
Total assets	12,778,561.79	13,094,138.00

Differences exist for Reinsurance Recoverables, Deferred Acquisition Cost and Investments as described in detail below:

- Reinsurance recoverables**
 Reinsurance Recoverables represent the amounts expected to be received from reinsurers in respect of outstanding, incurred but not reported and future claims in respect of existing

policies. They are calculated as the difference between Gross and Net provisions. On a solvency II valuation these are valued on a best estimate basis.

- **Deferred Acquisition Cost (DAC)**

There is no concept of Deferred Acquisition Costs in Solvency II. The premium provision only allows for future expense cash flows. For those policies already in-force, initial expenses such as up-front commission occurred in the past and so not been allowed in the premium provision.

- **Investments**

Within IFRS the accrued interest is not taken into consideration as part of the value of investments. Whereas within Solvency II figures it is being taken into consideration as part of bonds.

The classification of Term deposits is different under Solvency II. These are considered as Cash and Cash equivalents whereas within IFRS these are classified as Investments.

D.2 Valuation of Technical Provisions

This section includes discussion of the technical provision valuations using Solvency II criterion including qualitative explanations for the main differences arising from their valuations using Solvency II and IFRS accounting.

Under IFRS accounting technical provisions are considered to be current in nature. The technical provisions are based on case by case estimates supplemented with additional provisions for incurred but not reported reserves ("IBNR") incurred but not enough reported ("IBNER") in those instances where the ultimate cost determined by the estimation techniques is higher. In addition, allowance is made for unexpired risks. The process used to calculate the 'ultimate cost' is by a continuous review and updating of its estimates arising from reported and unreported losses and establishes resulting provisions and adequate amounts recoverable under reinsurance. Adjustments from this review are reflected in the statement of comprehensive income. The process relies on the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for developing expectations of future events that are deemed to be reasonable in the circumstances.

The presence of claims which have been incurred but not reported is inherently uncertain, as is the outcome of claims notified and outstanding. Accordingly the directors have made estimates of the company's ultimate liabilities based on their knowledge and understanding of the business. The ultimate liability will vary as a result of subsequent events and may result in significant adjustments to the amounts recognised. A key variable in the estimation methodology applied is the initial loss ratio estimate.

The table below shows the IFRS results compared to Solvency II.

	Solvency II value	Statutory accounts value
	C0010	C0020
Liabilities		
Technical provisions - non-life	5,949,211.89	5,459,459.72
Technical provisions - non-life (excluding health)	3,636,726.46	3,344,302.74
TP calculated as a whole	0.00	
Best Estimate	3,450,917.11	
Risk margin	185,809.35	
Technical provisions - health (similar to non-life)	2,312,485.43	2,115,156.98
TP calculated as a whole	0.00	
Best Estimate	2,279,781.39	
Risk margin	32,704.04	
Technical provisions - life (excluding index-linked and unit-linked)	0.00	0.00
Technical provisions - health (similar to life)	0.00	
TP calculated as a whole		
Best Estimate		
Risk margin		
Technical provisions - life (excluding health and index-linked and unit-linked)	0.00	
TP calculated as a whole		
Best Estimate		
Risk margin		
Technical provisions - index-linked and unit-linked	0.00	
TP calculated as a whole		
Best Estimate		
Risk margin		
Other technical provisions		
Contingent liabilities		
Provisions other than technical provisions		
Pension benefit obligations		
Deposits from reinsurers		
Deferred tax liabilities		
Derivatives		
Debts owed to credit institutions	354,679.22	354,679.22
Debts owed to credit institutions resident domestically	354,679.22	
Debts owed to credit institutions resident in the euro area other than domestic		
Debts owed to credit institutions resident in rest of the world		
Financial liabilities other than debts owed to credit institutions	0.00	
Debts owed to non-credit institutions	0.00	
Debts owed to non-credit institutions resident domestically		
Debts owed to non-credit institutions resident in the euro area other than domestic		
Debts owed to non-credit institutions resident in rest of the world		
Other financial liabilities (debt securities issued)		
Insurance & intermediaries payables	466,984.63	466,984.63
Reinsurance payables		
Payables (trade, not insurance)	349,870.00	349,870.00
Subordinated liabilities	0.00	0.00
Subordinated liabilities not in BOF		
Subordinated liabilities in BOF	0.00	
Any other liabilities, not elsewhere shown	147,587.00	147,587.00
Total liabilities	7,268,332.74	6,778,580.57

D.2.1 Methodology and Assumptions used in the Valuation of Technical Provision for Solvency II Purposes

The calculation of Technical Provision under Solvency II includes changes to the calculation of provisions for claims outstanding and premium provisions. It also introduced the calculation of a risk margin that is not considered under IFRS.

D.2.1.1 Premium Provision

The calculation of the best estimate of the premium provision relates to all future claim payments expected to arise from future events (post the valuation date) that are insured under the insurer's existing policies that have not yet expired and to all expenses associated with these policies.

Premium provision is determined on a prospective basis taking into account the expected cash-in and cash-out flows and time value of money. The expected cash flows for claims were determined by applying an appropriate prospective claims ratio to the Unearned Premium Reserve ("UPR"). An overall expense provision has been calculated separately and apportioned between the premium provision and claims provision.

On the basis of the data analysis, this methodology and its underlying model and assumptions are deemed to be realistic for each line of business. The conditions rendering this method valid are met; namely:

- It can be expected that the claims ratio, remains stable over the run-off period of the premium provision,
- A reliable estimate of the claims ratio can be made,
- The unearned premium provision is an adequate exposure measure for estimating future claims during the unexpired risk period.

For the purpose of this valuation we have assumed that "Expenses", under the Premium Provision, include all expense items, except acquisition costs which are allocated to each line of business by the company.

The difference between the Premium Provision and the current UPR represents an expected source of profits (losses if negative) that are expected to emerge during the remaining duration of unexpired policies. (The cost of commission is not taken into account).

D.2.1.2 Claims Provision

The provision for claims outstanding relates to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not. Thus, the components of the Claims Provision are the Case by Case Estimates (OSLR), the IBNR, the IBNER and the reserve for associated expenses. Under Solvency II, the reserves are discounted to allow for the time value of money.

D.2.1.2a Incurred but not enough Reported (IBNER)

This reserve captures the expected inadequacy of case estimates of outstanding claims. The methods used to calculate this reserve are the average cost per claim and the Bornhuetter-Ferguson method on incurred claims. The Bornhuetter-Ferguson method estimates ultimate losses from which incurred claims are subtracted to estimate the sum of IBNR and IBNER. The IBNER was determined by subtracting the IBNR calculation from the total reserve.

D.2.1.2b Incurred But Not Reported Claims (IBNR)

The Delay Method (average Cost per Claim) was applied. Nil claims have been excluded for the purpose of the calculation of the IBNR.

D.2.1.2c Large Losses

Large losses usually exhibit a development pattern different to that of additional claims. Thus, including them in the valuation exercise would distort the results. The threshold for large claims in

the valuation of 31 December 2020 was €200k which was determined following a thorough review of the data and identification of claims which follow an irregular pattern with respect to the pattern of the aggregate claims pool. The €200k represents the mid-point of the retention of the company on liability claims, hence any development above this amount will be ceded to reinsurer.

D.2.1.3 Risk Margin

The Risk Margin is designed to ensure that the value of technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the Company's insurance obligations. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the Company's reinsurance obligations over the lifetime thereof. This rate, called the Cost-of-Capital, is prescribed by EIOPA and currently stands at 6%.

The method used is method 2 as specified in Guideline 61 of the EIOPA guidelines on the valuation of technical provisions. More specifically, for each solvency II line of business a proportional method (based on the development of the best estimate) was used to estimate the future SCR.

For Legal Expenses and General Liability, the risk margin is allocated to the individual lines of business using the simplification outlined in Guideline 63 of the EIOPA guidelines on the valuation of technical provisions. Specifically the risk margin has been allocated to these individual line in proportion to their best estimate liabilities. This simplification is not required for Medical Expenses as the SCR and Risk Margin are calculated separately for this line of business.

D.2.1.4 Gross-to-Net Adjustment

Reinsurance Recoverables represent the amounts expected to be received from reinsurers in respect of outstanding, incurred but not reported and future claims in respect of existing policies. They are calculated as the difference between Gross and Net provisions. The Company has proportional reinsurance arrangements for the Medical Expense line of business.

For the General Liability line of business the Company has non-proportional reinsurance. The reinsurance recoverable was determined as the reinsurers' share of current outstanding large losses which have exceeded the reinsurance deductible.

There is no reinsurance in place for the Legal Expenses line of business.

D.2.1.5 Discounting

The reserve payment pattern for each line of business has been derived using the historical payment pattern as derived by the paid claims triangles. The euro risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA, has been used for discounting. As expected, the impact of discounting was very small due to the short-term nature of the business and the low interest rates.

D.2.2 Level of Uncertainty Associated with the Value of Technical Provisions

Management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are continually evaluated and reviewed and are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. As a result, actual results may differ from estimates.

Any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumption concerning the future, and other key sources of estimation uncertainty, at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Ultimate claims, when fully settled, will turn out to be different from the best estimates. This uncertainty results from a number of sources and is normal for any actuarial investigation. Some of the sources contributing to uncertainty include:

- The inherent uncertainty in the process of statistical estimation
- The extent to which past development patterns are an indication of likely future development patterns
- Uncertainty in the level of future claims inflation
- Uncertainty with regard to claim propensity and severity

The variability of reserve estimates was quantified using statistical techniques, based on the historical development claims.

In addition to the above, a number of methods have been used to calculate the reserve (i.e. the Bornhuetter Ferguson method and the Average Cost per Claim). With the methods, consideration has been given to events not in data (ENIDs).

Solvency II technical provisions are calculated on a best estimate basis. The COVID-19 pandemic has introduced an additional level of uncertainty in setting best estimate assumptions. In some cases claims experience over the 12 months to 31 December 2020 appears to have been materially different than prior periods. As yet, it is unclear whether patterns seen during 2020 will be repeated in 2021. The overall approach has been to set assumptions based on long term trends.

D.2.3 Additional Disclosures

Solvency II requires insurers to consider all possible future cash-flows in their assessment of Best Estimate Liabilities. Some events may not appear either within the data of the insurer at all or at a frequency or severity that represents the underlying risks. These events are described as events not in data (ENIDs).

With the exception of the General Liability policy, no explicit allowance has been made for ENIDs. This is reasonable given the nature of the benefits payable under the policies and the potential materiality.

For the General Liability policy, for reasons noted above, it is appropriate to include a provision for ENIDs. To allow for this, the best estimate loss ratio assumption was increased by 18% to 23%.

The Company does not use the matching adjustment, the volatility adjustment, extrapolation of the risk-free rate, the transitional risk-free interest rate-term structure or the transitional deduction in calculating its technical provisions. Neither does it use economic scenario generator.

The euro risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA, has been used for discounting.

D.2.4 Summary of Differences between Solvency II Valuation and IFRS Valuation

The main valuation principles of Solvency II leading to differences from reserves shown in the IFRS financial statements are:

- Removal of any implicit or explicit margin for prudence
- Allowance for time value of money through the discounting of future cash flows
- Allowance is possible for negative IBNER where it is expected that there will be a favourable development of case-by-case reserves
- In the calculation of the Premium Provision under Solvency II, an insurer may take credit for profits embedded in unexpired policies. Under IFRS valuation basis this is disallowed and any profits embedded in the UPR may not be recognised until the expiry of these contracts. An Additional Unexpired Risk Reserve (AURR) is mandatory only where it is positive but not when it is negative.
- The UPR/URR only allows for policies in force at the valuation date. The Premium Provision needs to include all policies that the insurer is obligated to, at the valuation date, including policies that have not yet inceptioned.
- There is no concept of risk margin under the current IFRS valuation
- Increase in overhead expense reserves under Solvency II to fully allow for duration of the liability reserves. No such reserves exist under IFRS.

In addition to differences streaming from requirements to value in line with gross liabilities, there are also differences in requirements specific to the valuation of reinsurance. These include the requirement to allow for expected non-payment due to default or dispute.

D.3 Valuation of Other Liabilities

The valuation of other liabilities of the Company other than technical provision for Solvency II and IFRS balance sheets are described as follows:

D.3.1 Bank overdrafts

IFRS

Bank overdrafts are repayable on demand and form an integral part of the Company's cash management.

Solvency II

There are no differences between the recognition and valuation for bank overdrafts for Solvency II and IFRS balance sheet.

D.3.2 Payables

IFRS

Trade payables are classified with current liabilities and are stated at their nominal value. Current liabilities approximated their fair values due to the short term maturities of liabilities. Payables comprise (a) Insurance and intermediaries payable, and (b) Payables (trade, not insurance).

Solvency II

There are no differences between the recognition and valuation for payables for Solvency II and IFRS balance sheet.

Summary of Differences between IFRS and Solvency II valuation

Debts owed to credit institutions	354,679.22	354,679.22
<i>Debts owed to credit institutions resident domestically</i>	354,679.22	
<i>Debts owed to credit institutions resident in the euro area other than domestic</i>		
<i>Debts owed to credit institutions resident in rest of the world</i>		
Financial liabilities other than debts owed to credit institutions	0.00	
<i>Debts owed to non-credit institutions</i>	0.00	
<i>Debts owed to non-credit institutions resident domestically</i>		
<i>Debts owed to non-credit institutions resident in the euro area other than domestic</i>		
<i>Debts owed to non-credit institutions resident in rest of the world</i>		
<i>Other financial liabilities (debt securities issued)</i>		
Insurance & intermediaries payables	466,984.63	466,984.63
Reinsurance payables		
Payables (trade, not insurance)	349,870.00	349,870.00
Subordinated liabilities	0.00	0.00
<i>Subordinated liabilities not in BOP</i>		
<i>Subordinated liabilities in BOP</i>	0.00	
Any other liabilities, not elsewhere shown	147,587.00	147,587.00
Total liabilities	7,268,332.74	6,778,580.57

There are no valuation differences for other liabilities other technical provision between the accounting criteria and the solvency II criteria.

D.4 Alternative Methods of Valuation

The Company does not make use of an internal model, of undertaking specific parameters to calculate the SCR. No matching adjustment is applied to the relevant risk free interest term structure.

D.5 Any Other Material Information

There is no other material information that has not already been disclosed in the sections above.

Section E – Capital Management

E.1 Own Funds

IDA has three components of own funds, two of which are tier 1 basic own funds; ordinary share capital, and retained earnings. One of which is tier 3 own funds; Deferred tax asset.

IDA's ordinary shares have full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

E.1.1 Analysis of Significant Changes of each Tier over the Reporting Period

Basic own funds movement

Own Funds	Share Capital (Tier 1)	Surplus Fund/Rec Res (Tier 1)	Deferred Tax asset (Tier 3)	Total
	€'000	€'000	€'000	
Basic own funds at 31 December 2019	5,850	(392)	314	5,772
Movement in surplus fund		-450		-450
Movement in Deferred tax asset			188	188
Basic own funds at 31 December 2020	5,850	-842	502	5,510

The movement of the reconciliation reserve during the year is as follows:

Reconciliation reserve	€'000
Balance as at 31 December 2019	-392
Movement during the year	-450
Balance as at 31 December 2020	-842

E.1.2 Material Differences between Equity as shown in the IFRS financial statements and the Excess of Assets over Liabilities under Solvency Purposes

The following table shows the comparisons and movement in the IFRS and Solvency II valuation of assets, liabilities and own funds.

Reconciliation between IFRS and Solvency II Valuations	€'000
Excess assets over liabilities as per Solvency II	5,510
Adjustments arising from Solvency II	
- Difference in valuation of assets	316
- Difference in valuation of technical provisions	490
Equity as per IFRS	6,316

The movement in the valuation of assets and liabilities, as explained in Section D, arises from the differences between the IFRS and Solvency II principles as explained below:

- DAC is only included under IFRS
- Net Technical provision including risk margin making allowance of the time value of money

E.1.3 Eligible Amount of Own Funds to Cover the SCR and MCR

The MCR and SCR were calculated using the standard formula, and the eligible own fund are shown in the table below:

Eligible Own Funds €'000	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
Total eligible own funds to meet the SCR	5,314	5,007	-	-	307
Total eligible own funds to meet the MCR	5,007	5,007	-	-	-
SCR	2,044	-	-	-	-
MCR	3,700	-	-	-	-
Ratio of eligible own funds to the SCR	260%				
Ratio of eligible own funds to the MCR	136%				

E.2 Capital Objectives and Policies

The Company's objectives when managing capital are:

- To comply with the obligations to maintain positive solvency position based on the regulatory requirements of the insurance market where the Company operates;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The Company's Directors manage the Company's capital structure and make adjustments to it, in the light of changes in economic conditions. The capital requirement of the Company is maintained in accordance with regulatory solvency and capital requirements of the insurance market in which it operates.

The Company is financed by shareholders' total equity. The capital structure is reviewed on an ongoing basis. Based on recommendations of the Directors, the Company balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt.

As of 1 January 2016, the Solvency II Directive (2009/138/EC) came into force, introducing new risk-based, regulatory requirements that ascertain the level of the required regulatory capital to be held on the basis of the risks that the Company is or can be exposed to. Solvency II also sets out the approach to be undertaken in order to establish the amount of Solvency II own funds, namely by converting the

Statement of Financial Position from an IFRS perspective to one where assets and liabilities are measured in line with their underlying economic value.

The Company's internal capital target is to hold the higher of 1.4 times the pillar 1 requirement or the requirement identified during the ORSA process plus a board approved buffer. On an annual basis, and having regard to the results of stress tests applied to projections over the three year planning period, the Board will consider whether a dividend should be paid to remit any surplus capital above this target to the Foundation.

The Directors were actively involved in the implementation of the Solvency II regulations, which are also highly embedded in the Company's operations. Regular monitoring of the Solvency Capital Requirement ('SCR') and the Minimum Capital Requirement ('MCR') is considered crucial. To this effect, a Capital Management Policy, outlining the main drivers of the SCR, was put in place to address the procedures and controls in this regard. In the case of any identified breaches with the SCR and MCR, the Directors have put in place a capital plan aimed at ensuring that the Company will restore its level of own funds to one which covers both the SCR and MCR.

E.3 SCR and MCR

E.3.1 Solvency Capital Requirements Split by Risk Modules

The table below sets out the risk modules making up the solvency capital requirement of the Company.

	Net solvency capital requirement	Gross solvency capital requirement
Market risk	1,144,299.06	1,144,299.06
Counterparty default risk	519,901.28	519,901.28
Life underwriting risk		
Health underwriting risk	391,027.36	391,027.36
Non-life underwriting risk	657,466.02	657,466.02
Diversification	-840,341.42	-840,341.42
Intangible asset risk		0.00
Basic Solvency Capital Requirement	1,872,352.31	1,872,352.31
Calculation of Solvency Capital Requirement	C0100	
Adjustment due to RFF/MAP nSCR aggregation		
Operational risk	171,920.95	
Loss-absorbing capacity of technical provisions	0.00	
Loss-absorbing capacity of deferred taxes		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC		
Solvency Capital Requirement excluding capital add-on	2,044,273.27	
Capital add-ons already set		
Solvency capital requirement	2,044,273.27	

E.3.2 Input used for MCR calculation and material changes to MCR and SCR

The MCR was calculated based in the standard formula.

In addition to the above, the table below shows a comparison between the SCR as at 31st December 2019 and 31st December 2020

Solvency capital requirement	2020 €'000	2019 €'000
Market risk	1,144	1,089
Counterparty risk	520	399
Life underwriting risk	-	-
Health underwriting risk	391	207
Non Life underwriting risk	658	562
Diversification effects	- 840	- 643
Basic SCR	1,873	1,614
Operational risk	171	176
Adjustments	-	-
SCR	2,044	1,790
MCR	3,700	3,700
Basic own funds (Assets-Liabilities)	5,510	5,772
Own Funds in excess of Solvency Capital requirement	3,466	3,857
Solvency Ratio	260%	320%

The MCR did not change over the period and remained at the level of the absolute MCR (AMCR) of EUR 3,700,000.

The most material movements are listed below:

-The increase in the Counterparty Default Risk (i.e. from €399k in 2019 to €520k in 2020) is mainly attributed to the increase of the Insurance & intermediaries' receivables that have been outstanding for more than 3 months

-The increase in the Health underwriting risk and Non-Life underwriting risk in 2020 is mainly attributed to the increase in the respective premium and reserve risk sub-modules, which in turn are due to higher premium and reserve volume measures for the majority of lines of business.

E.4 Use of the duration-based equity risk sub-module in the calculation of the SCR

Duration-based equity risk sub-module is not used in the Company's SCR calculation.

E.5 Differences between the standard formula and any internal model used

As at 31st December 2020, the Company used solely the standard formula for its SCR calculation.

E.6 Non-Compliance with MCR and SCR during the period

The Company was compliant at all times with the MCR and SCR requirements during the reporting period.

E.7 Any Other Material Information

The Company currently makes no allowance for LACDT within the calculation of the SCR.