Royal Crown Insurance

Solvency and Financial Condition Report 2023

April 2024

Contents

Summary

- **Business and Performance**

Royal Crown Insurance Company Limited (the "Company") is a non-life insurance company that was incorporated in Cyprus on 22 September 1992 as a private limited liability company in accordance with the provisions of the Companies Law, Cap. 113 of Cyprus. Since 1999, the Company has been licensed as a Cypriot private insurance company.

The company's main activity is to provide non-life insurance coverage for both corporate clients and individuals within the Cyprus region only.

Furthermore, the Company expects to remain a healthy and profitable family insurance Company that:

- Continues to have a human face
- Provides a safe and friendly working and cooperative environment for its staff and associates
- Has a genuine interest and cares for its customers, treating their requirements fairly and
- Focuses on quality services

More specifically, the Company has been certified by Lloyds Register Quality Assurance Ltd, for its quality standard ISO 9001-2015, a significant upgrade after its certification for ISO-9001-2008 in 2005. Also, the long-term confidence and loyalty relationships that has been formed with associates, and especially the support and technical expertise of global international reinsurance companies, ensures smooth continuity and development in all operational aspects and the provision of the best quality insurance products in the Cyprus market.

It is worth noting that despite the fierce competition and the uncertainty prevailing in the global economy due to inflation, the Company managed to:

1. Remain profitable, with a profit of €366,762 for the year 2023
2. Achieve a steady gross premium growth of 6%
3. Have a solvency ratio of 163.95%
4. Maintain its share that holds in the insurance market of 2%.

- **System of Governance**

The organizational structure of the Company complies with the regulatory requirements of the Solvency II Directive for the Corporate Governance System.

Below is a summary of the Company's organizational structure, which is analysed in more detail in "Chapter 2. System of Governance" of this report.

- **Board of Directors**: the governing body that defines the Company's strategy and objectives, whose members are elected by shareholders.
- **Company Committees:** The Board has established the following Committees for the more effective organization of the Company:

- **Claims and Reserving Committee:** The Committee reviews policies, procedures and functions of the Claims Department and provides expertise and attention on behalf of the BoD in relation to all matters related to the claims adjustment process.
- **Underwriting Committee:** The Committee reviews and evaluates the Company's policies, guidelines, performance, risk management, processes and procedures relating to the underwriting of insurance and reinsurance risks undertaken by the Company.
- **Audit & Risk Committee:** The Committee shall be accountable to the BoD and shall assist the BoD in meeting its responsibilities in ensuring an effective system of internal control and compliance and for meeting its external financial reporting obligations.

The Claims and Reserving Committee and the Underwriting Committee meet every three months (at the end of each quarter). The Audit & Risk Committee meet every six months or more if the need arises. Minutes are kept for each meeting and are sent to the members of the Board of Directors.

- **Key Functions of the Company:**

- **Internal Audit:** Monitors and records the processes implemented by all departments to ensure the smooth and effective operation of the Company. The Company's Internal Auditor is independent and aims to add value and improve an organization's operations.
- **Actuarial Function:** The Actuarial function is a specialist function that advises the Senior Management of the Company on the calculation of technical provisions and on the technical aspects of risk management and modelling.
- **Risk Management Function (RMF):** Risk management function is responsible for the identification, measurement, management and reporting of risks the undertaking faces or to face.
- **Compliance Function:** The main function of the Compliance Function is the establishment and application of suitable procedures for the purpose of achieving a timely and on-going compliance of the Company with the existing legal and regulatory framework.

- **General Manager**

  The General Manager of the Company is responsible for implementing the Company's strategy as approved by the Board of Directors and setting appropriate targets for all departments of the Company.

- **Company Departments:**

  The main operating departments of the Company are as follows:

- Claims Department
- Underwriting Department
- Finance Department
- Accounting Department
- IT Department
- Business Development Department
- Legal Department

- **Outsourcing**

Company hires a third party to perform tasks, handle operations or provide services for the Company. All the service providers to whom an activity is outsourced are approved organizations with extensive

experience in their field, possessing the appropriate knowledge and skills to adequately perform their duties.
Two of the Key Functions of the Company, actuarial function and risk function, are outsourced.

• Risk Profile

Company uses the standard formula for calculating quantitative risks it is exposed to. The structure the standard formula method is shown in the diagram below:

SCR Solvency Capital Requirements	BSCR Basic Solvency Capital Requirements	Counterparty Risk Market Risk Non-Life Underwritting Non-SLT Health
	Operational Risk	

Solvency Capital requirements (SCR) is composed of the following individual risks:

- Market Risk
- Counterparty Risk
- Underwriting Risk (Non-life Underwriting Risk & Non-SLT Health)
- Operational Risk.

Furthermore, each risk is made up of its own individual risks.

• Valuation for Solvency Purposes

The Company uses the Asset & Liability Valuation Principles as applied under the IFRS Standards, with the following exceptions, as they fall under the Solvency II Directive:

- Intangible assets are valued at zero under SII
- Deferred acquisition cost is valued at zero under SII
- Technical Provisions amount is equal to the sum of the best estimate and the risk margin. The best estimate corresponds to the probability-weighted average of future cash-flows, taking into account the time value of money. The risk margin must ensure that the value of the technical provisions is equivalent to the additional amount that a third-party would expect to take over and meet the Company's insurance obligations.
- The best estimate of Premium provisions also includes the policies that have not yet incepted and the issued policies with uncollected premium. Their premium has been projected together with all other policies and was then removed from the SII balance sheet. Specifically, an amount is subtracted from both "Insurance & intermediaries' receivables" and "Reinsurance payables" of the Company's balance sheet.

• Capital Management

The Company used the Standard Formula method for calculating the Minimum Solvency Capital Requirements (MCR) as well as the Solvency Capital Requirements (SCR).

The threshold of the minimum solvency capital requirements has been determined by the Solvency II Directive to be €4,000,000 while the Solvency Capital Requirements for the year 2023 have been calculated to be €5,539,096.

The results for the financial year 2023 demonstrate the capital adequacy of the Company and its ability to cover all upcoming obligations, with a Solvency Ratio of 163.95% and the Minimum Solvency Ratio stands at 227.04%.

Introduction

Royal Crown Insurance, loyal to the principles of public transparency and providing adequate information regarding its business and financial activities, presents through this report all the necessary information of the Company's financial position as well as all the quantitative and qualitative risks to which the Company is exposed.

The preparation of the "Solvency & Financial Condition Report" is part of the required reports that must be submitted and made public annually, based on the Solvency II Directive.

This report follows the structure of Delegated Regulation (EU) 2015/35 of the European Commission and includes an analysis of the following information:

- Business and Performance
- System of Governance
- Risk Profile
- Valuation for Solvency Purposes
- Capital Management

In case of any modification in the disclosure information by the Supervisory Authority, the structure and content of the SFCR Report may change.

The quantitative and qualitative results disclosed in this report have been audited by the Independent External Auditors of the Company, KPMG Limited, and have been approved by the Board of Directors of the Company on **18/04/2024**.

1. Business and Performance

1.1. Business operations

Royal Crown Insurance is a non-life insurance company that has been active in the Cyprus market for more than forty years. Initially Royal Crown was the local agent for Royal & SunAlliance, of which it is still part of the global network, and since 1999, RCI has been licensed as a purely Cypriot private insurance company.

Royal Crown offers the complete range of non-life insurance products, its flagships having been the original Combined Insurances. The Combined Business and Combined Household Insurance Policies were the first of their type in the market, as the most comprehensive insurance policies that cover all possible risks to which business or home owners or occupiers are exposed to, with the versatility of selecting specific applicable covers and individualized configuration of the policy in accordance with specified needs.

In addition, the Company expects to remain a healthy and profitable family insurance Company focusing on quality services and applicable procedures which have been certified by Lloyds Register Quality Assurance Ltd, for its quality standard ISO 9001-2015, a significant upgrade after its certification for ISO-9001-2008 in 2005. The long-term confidence and loyalty relationships that have been formed with associates, and especially the support and technical expertise of global international reinsurance companies, ensures smooth continuity and development in all operational aspects and the provision of the best quality insurance products in the Cyprus market.

Contact details of the Company

Royal Crown House
20 Mnasiadou street, 1065, Nicosia, Cyprus
Phone: 22 885555 / Fax: 22 670757
E-mail: info@royalcrowninsurance.eu

1.2. Supervisory Authority

Royal Crown Insurance Company Ltd operates under the supervision and control of the Superintendent of Insurance. The Superintendent of Insurance is the competent authority of the insurance sector in the Republic of Cyprus and exercises all the powers granted to him by the Law on Insurance and Reinsurance Services and Other Related Issues of 2016 [Law 38(I) 2016] and by the relevant Regulations, as amended at times, for the purpose of protecting the policyholders and the insurance beneficiaries.

The said legislation regulates the issues relating to the taking-up, pursuit and supervision of insurance and reinsurance services and the taking-up, pursuit and supervision of insurance and reinsurance products distribution business.
The Superintendent of Insurance is the head of the Insurance Companies Control Service (the Service) which at all times acts on behalf of and by order of the Superintendent of Insurance.

Contact details of the Supervisory Authority

Insurance Companies Control Service
P.O. Box 23364, 1682 Nicosia, Cyprus

Phone: 22602990 / Fax: 22302938
E-mail: insurance@mof.gov.cy

1.3. External auditor of the Company

Name and contact details of the external auditor

KPMG Limited
Chartered Accountants & Registered Auditors
14 Esperidon street, 1087, Nicosia, Cyprus
Phone: 22209000

1.4. Holders of qualifying holdings

The Company's shareholders with qualifying holdings are:

- Royal Crown Estates Limited – 44.44%
- Philippos Zachariades – 33.33%
- Andys Polydorou – 16.67%
- Anthie Ph. Zachariadou – 5.56%

1.5. Material lines of business and material geographical areas

Royal Crown Insurance offers non-life insurance coverage for both corporate clients and individuals within the Cyprus region only.

The main product types, but not limited to, for each of the following lines are:

<u>Commercial line:</u>

- **Property Insurance** with our Business Combined Insurance Policy
- **Motor Insurance** with our Commercial Vehicle Insurance Policy
- **Liability Insurance** with our Employer's Liability Insurance Policy, Public Liability Insurance Policy and Professional Indemnity Insurance Policy
- **Technical Insurance** with our Contractor's All Risk Insurance Policy
- **Marine Insurance** with our Marine Insurance Policy

<u>Personal line:</u>

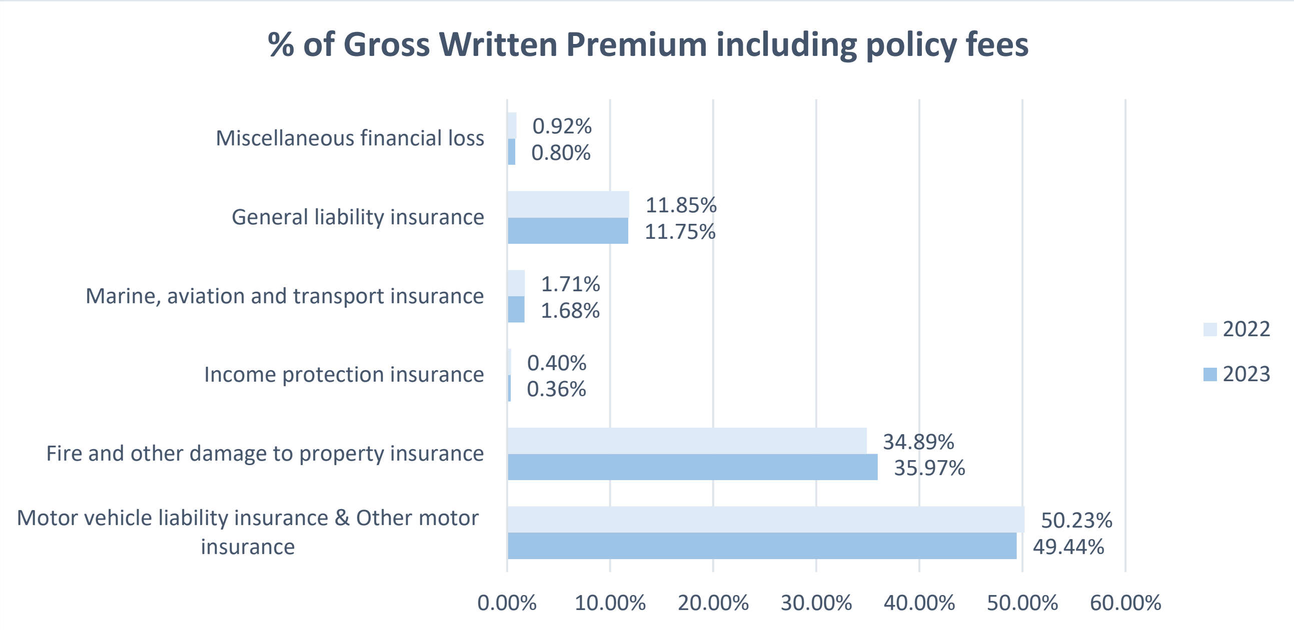
- **Property Insurance** with our Household Comprehensive Insurance Policy, Private Dwelling Insurance Policy and Yacht and Pleasure Craft
- **Personal Insurance** with our Employer's Liability Insurance Policy, Aliens' Hospital Care Insurance Policy, Travel Insurance Policy and Personal Accident Insurance Policy
- **Motor Insurance** with our Comprehensive Insurance Policy and Third-Party Liability Insurance Policy

<u>More specifically, the insurance products of the Company are categorized into six lines of business:</u>

- Motor vehicle liability & Other motor insurance
- Fire and other damage to property insurance
- General Liability insurance
- Marine. Aviation and transport insurance
- Miscellaneous financial loss

- Income Protection insurance (Accident)

As evidently showed below, the Company's top two material lines of business, are the Motor vehicle liability insurance and other motor insurance and the Fire and other property damage insurance, where it comprises 49,44% (2022:50.23%) for the year 2023, 35,97% (2022: 34,89%) for the year 2023, respectively, of the gross written premium of the Company.



<u>Insurance intermediaries/Clients</u>
The volume of work recorded by the Company is divided as follows:

- premiums written via insurance intermediaries 70%-80%
- premiums written via direct clients 20%-30%

The distribution of insurance premiums by intermediaries and clients is expected to remain at similar levels in the foreseeable future.

1.6. Significant events during the reporting period and up to the date of report

1.6.1 Inflation

In the Eurozone, inflation remains on an upward trajectory, with its spread into the broader economy raising concerns about its persistence at high levels for an extended period. The Company faces the uncertainty prevailing in the global economy and the impacts it has on consumer spending. It has proceeded to assess the potential implications, both on its risk-taking portfolio and on its overall performance.

The management of the Company took measures so as to ensure that the Company's pricing policy and reserving was at the proper levels. Additionally, the Company continued to invest the premiums it collected as per their investment policy.

The Management will continue to monitor the situation and evaluate the need for adjustments to its business strategy plans.

1.6.2 Climate Change assessment

Due to its geographical location, Cyprus is considered to be highly vulnerable to climate change and especially in matters of water, infrastructure and tourism. The effects of climate change, apart from the environmental ones, are social, cultural and economic. The Company, as a General Insurance Company, faces exposure to several of the aforementioned risks.

The company's strategy involves an ongoing effort to understand and assess the risks arising from climate change. This is done to ensure that appropriate measures are taken to mitigate these risks when necessary.

Additionally, the Company has created contingency plans to ensure its smooth operation and has already taken appropriate measures to mitigate any potential impacts it may face from climate change risks.

1.6.3 Risk Identification

The risks associated with Climate Change can be classified into two categories:

Physical risks (i.e., risks arising from the physical effects of climate change) are:

- acute (i.e., arising from particular events) or
- chronic (i.e., arising from long-term climate change)

Transition risks (i.e., risks arising from the rapid transition to a low-carbon climate-resilient economy) relevant to the Company are:

- policy risks (i.e., increased carbon taxes, mapped to market risk via adverse impact on the Company’s investments in carbon-intensive sectors; increased car prices, mapped to increased premiums which may be needed to cover for increased claim costs)
- reputational risks (i.e., client firms struggling to attract and retain customers, employees, business partners and investors because they have a reputation for damaging the climate, mapped to revenues and expenses)
- market sentiment risks (i.e., preferences of consumers and firms shifting towards products and services that are less damaging to the climate, mapped to revenues and expenses)

The above risks in turn affect the quantitative and qualitative risks to which the Company is exposed. More specifically, the Counterparty Default Risk, Market Risk, Liquidity Risk, Operational Risk, Reputational Risk, Political Risks and Strategic Risk.

The Company has assessed all possible risks that it is exposed from Climate Change and are as follows:

Underwriting Risk – Medium Risk

The Company insures risks arising from natural disasters via contracts falling under the Fire, Marine, and Transport lines of business and the Motor Vehicles line of business when comprehensive coverage is provided.

Specifically, the insurance contracts cover losses or damages caused directly by floods, hurricanes, storms, tempests, cyclones, tornadoes, volcanic eruptions, earthquakes, or by any other disturbance of nature.

The gradual increase in temperature increases the risk of wildfires in various areas of Cyprus, especially during the summer months. Additionally, Cyprus is located in a seismic zone, which, combined with the effects of climate change (such as melting ice caps and thermal expansion of oceans), implies an increase in the frequency of seismic activity. Furthermore, the Company assumes natural risks in several cargo transportation contracts by sea and air, where there is also an increased risk of losses or damages that may occur following an extreme weather event.

Moreover, the Company provides liability insurance contracts where, in cases of extreme weather conditions, it may be exposed to the risk of large claims.

The Company estimates that with the increase in the frequency of the above risks, and considering that these risks are long-term, there will be an increase in its obligations to cover future losses arising from the aforementioned natural risks. Consequently, the cost of reinsurance will increase as reinsurers will calculate their losses based on both the Company's portfolio and on the losses, they will generally incur from the consequences of climate change.

Effects on global markets and the banking system: Market Risk, Counterparty Default Risk – Low Risk

Transition risk can cause sharp drop in market prices, interest rates and asset values in some markets. The Company's investment portfolio consists mainly of current accounts and term deposits in banking institutions in Cyprus. The Company does not consider itself to be exposed to any transition risk as most banks have significantly freed their portfolios from carbon exposure while several of them have increased their loan-weighted emissions (ESG, i.e., Environment, Society and Corporate Governance, framework).

Operational Risk – Low Medium Risk

This is the risk of loss arising from weaknesses in the processes, personnel or systems of the Company, as well as from external threats arising from catastrophic events. The Company, within the framework of its business activity, has created emergency plans and has included teleworking as part of its business continuity strategy.

Strategic Risk – Low Risk

The Company has incorporated into its strategic plan the effects of climate change both on its results and on the wider economy in order to limit the negative effects that may exist and are related to climate change.

Reputational Risk – Low Risk

As the range of consumer concerns widens, Company promotes the use of eco-friendly products in the interest of the environment and general welfare.

Political Risks – Low Risk

The migration consequences of climate change as well as the changes in the attitudes of citizens, would lead to an increase to rebellions resulting in violence, injuries and widespread damage and destruction of property. The Company is not exposed to such risks as it has excluded from its contracts the coverage of loss, destruction of property or expenses, injuries arising either due to war, invasion, popular uprising or mutiny.

1.6.4 Russian Invasion of Ukraine

The European Union and its Member States are providing coordinated political, financial, material and humanitarian support to those affected from the Russian invasion of Ukraine. In addition, the majority of EU member states have agreed on a series of sanctions against Russia in response to the invasion of Ukrainian territories. Some of these sanctions imposed by the EU are an airspace ban on all aircraft used by Russian air carriers, a ban on all transactions with the Central Bank of Russia as well as the exclusion of some Russian banks from the SWIFT system. Cyprus has supported the EU sanctions against Russia. The Company continues to observe the situation and assesses all economic, social and political impacts that threaten its results.

1.6.5 Implementation of new International Financial Reporting Standard - IFRS 17

As from 1 January 2023, the Company has implemented the new standard on insurance contracts, IFRS 17. The implementation of the new accounting standard has brought about notable changes in the presentation of our Financial Statements, significantly enhancing transparency in the market.

The Company has made all the necessary changes to the systems and to its existing calculations so as to be in compliance with the new standard. Furthermore, the company has implemented additional accounting controls and all key functions and departments significantly impacted by these changes have been duly informed.

1.7. Underwriting Performance

1.7.1 Gross Written Premiums (excluding policy fees)

The table below shows the gross written premiums of the company excluding policy for the year 2023 compared to the year 2022.

Gross Written Premiums (excluding policy fees)				
LOB	2023	2022	€ increase/decrease compared to previous year	% increase/decrease compared to previous year
Motor vehicle liability insurance & Other motor insurance	5,387,142	5,310,278	76,864	1%
Fire and other damage to property insurance	4,179,308	3,744,493	434,816	12%
Income protection insurance	42,302	42,898	-596	-1%
Marine, aviation and transport insurance	197,309	183,883	13,425	7%
General liability insurance	1,370,921	1,272,323	98,598	8%
Miscellaneous financial loss	93,715	98,282	-4,567	-5%
TOTAL	11,270,697	10,652,157	618,540	6%

The Company presented an increase of 6% (€618,540) in Gross Written Premiums (excluding policy fees) compared to the previous economic year.

The main reason behind this increase relates to a significant increase in the gross written premiums of Fire and other damage insurance (€434.816) and general liability insurance (€98.598). The rise in

Fire and other damage insurance, mainly comes from attracting new customers through various actions, the substantial increase in construction projects in the economy and the higher levels of inflation.

1.7.2 Underwriting performance

The table below shows the underwriting performance breakdowns per LOB as per annual QRTs report.

Underwriting Performance breakdown per LOB 2023 Vs. 2022								
Amounts in EUR (€)	Line of Business → ↓ Year	Accident	Fire	Liability	Marine	Miscellaneous	Motor	Total
Gross Premiums written (including policy fees)	2023	42,610	4,235,338	1,383,402	197,959	93,845	5,822,429	**11,775,583**
	2022	43,226	3,801,090	1,284,768	184,532	98,442	5,612,796	**11,024,854**
Net premiums earned	2023	26,816	1,112,761	1,046,556	76,134	19,348	5,058,242	**7,339,856**
	2022	23,532	918,441	1,040,258	65,140	33,172	4,803,149	**6,883,692**
Net Claims Incurred	2023	546	135,582	304,859	815	0	3,428,355	**3,870,157**
	2022	-44	37,776	101,544	904	0	3,575,753	**3,715,933**
Expenses incurred	2023	-4,855	322,001	427,345	-5,846	9,320	2,249,750	**2,997,715**
	2022	-208	347,645	420,081	21,189	10,981	2,191,843	**2,991,531**
Underwriting Performance	2023	**31,125**	**655,178**	**314,352**	**81,165**	**10,028**	**-619,863**	**471,984**
	2022	**23,784**	**533,020**	**518,633**	**43,047**	**22,191**	**-964,447**	**176,228**

The underwriting performance of the company was improved from the last year. This is mainly due to the rise of the Net Premiums Earned from €6,883,692 (2022) to €7,339,856 (2023).

Even though the LOB of motor remains loss making the underwriting performance of this specific LOB was improved from €964,447 (2022) to €619,863 (2023).

1.7.3 Loss Ratio

The table below shows the % of the company's loss ratio for the year 2023 compared to the year 2022.

Loss Ratio*		
LOB	2023 % Loss Ratio	2022 % Loss Ratio
Motor vehicle liability insurance & Other motor insurance	68%	66%
Fire and other damage to property insurance	12%	15%
Income protection insurance	35%	35%
Marine, aviation and transport insurance	25%	25%
General liability insurance	30%	30%
Miscellaneous financial loss	25%	25%

**LRs are calculated as the last-5-complete-year average of Gross Ultimate Claims Incurred over Gross Earned Premiums, except for some LOBs where adjustments were made to this average to account for outliers in data.*

Overall, the % of loss ratio is steady in all LOB except from fire which has a drop of 3% indicating an improved underwriting performance and motor which has an increase of 2% indicating decline in underwriting performance.

1.8. Investment

1.8.1 Investment Portfolio by asset class

The table below shows the Company's investment portfolio, by asset class, for year 2023 compared to the year 2022.

Investment Portfolio by asset class				
	2023	**2022**	**€ Variance**	**% Variance**
Shares	43,436	24,860	18,576	75%
Bonds	489,000	390,000	99,000	25%
Fair Value through P/L	**532,436**	**414,860**	**117,576**	**28%**
Fixed Deposit	8,223,792	9,531,778	- 1,307,986	-14%
Accrued Interest	56,440	-5,099	61,539	-1207%
Fixed Deposit and Accrued Interest	**8,280,232**	**9,526,679**	**- 1,246,447**	**-13%**
Investment Properties	5,584,872	3,352,872	2,232,000	67%
Total	**14,397,540**	**13,294,411**	**1,103,129**	**8%**

The company has experienced an 8% increase in its investments, primarily driven by the appreciation of its investment properties. The increase in investment property value is attributed to the strategic decision to invest into new investment properties, aiming to capitalize on potential returns considering the sudden shifts in interest rates within banking institutions.

However, it's important to note that the expansion was funded through the utilization of fixed deposits mid-year. Consequently, by the end of December 2023, the company experienced a 14% decrease in the value of its fixed deposits.

The increase of €117,576 of fair value through profit and loss is mainly due to the increase of bond price, reflecting improved activity within the bond market.

Overall, despite the drop in the value of fixed deposits, the fixed deposits remain the foundation of the company's investment portfolio. Also, it is worth noting that the company maintains its fixed deposits across various banking institutions

1.8.2 Investment performance

The table below shows the company's investment performance for the year 2023 compared to the year 2022.

Investment performance				
	2023	**2022**	**€ Variance**	**% Variance**
Rental income from investments properties	18,912	12,306	6,606	54%
Profit/(Loss) from revaluation of Investment property	72,899	15,000	57,899	386%
Income/(Loss) from fixed deposits	37,397	(1,095)	38,492	-3515%
Income from bonds and shares	63,464	23,464	40,000	170%
Profit from revaluation of shares and bonds	117,576	38,799	78,777	203%
TOTAL	**310,248**	**88,474**	**221,774**	**251%**

Overall, the company has an increase of €221,774 in its investment performance compared to prior year, reflecting an important improvement in its income streams.

The main reason for the improvement in its income stream is from the profit from revaluation of shares, bonds and investment properties.

As shown on the table above, the company has a minor increase of €6,606 in rental income from its investment properties and an increase of profit from revaluation of investment properties of €57,899. Also, the income from fixed deposit has increased by €37,492, this increase is due to the rise in interest rates on the company's fixed deposit, which is mainly attributed to inflation.

The income from bonds and shares totals of €63,464, making an increase of €40K from the previous year. In addition, a profit from the revaluation of shares and bonds amounting to €117,576 has been included in the company's total income. This upward trend (share price and inflows) is indicative of enhanced activity within the bond market, as discussed earlier.

1.8.3 Investments in securitisation

Company does not hold any investment in securitisation.

1.9 Other material income and expenses

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

1.10. Any other information

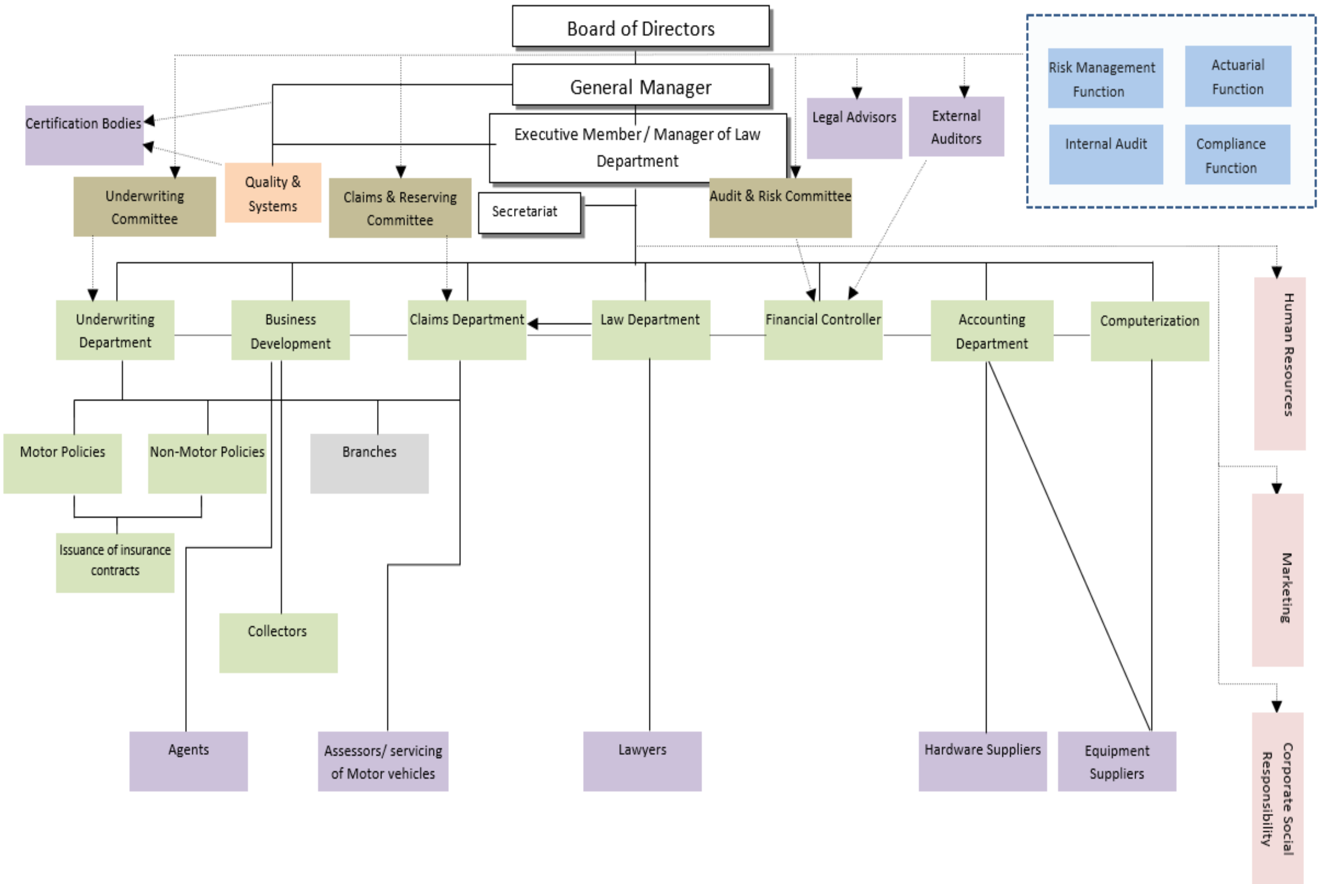
As at 31 December 2023, there is no other material information regarding Business and Performance of the Company.

2. System of Governance

2.1 Organizational Structure

Company has defined an organizational and operational structure that are geared towards supporting its strategic goals and operation.

The organizational structure of the Company is presented in the diagram below:



The organizational structure and reporting lines of the Company are designed to:

- Enable apportionment of responsibilities and clear accountabilities and responsibilities
- Facilitate prompt transfer of information to all persons who need it
- Prevent conflicts of interest, in cases where multiple tasks are performed by the same individual or organizational unit
- Ensure the prudent and effective management of the Company

2.2 Board of Directors

The BoD maintains overall responsibility for the management of the Company, including ultimate oversight of the Company's operations.

2.2.1 Structure of the Board of Directors

The BoD consists by 3 shareholders of the Company and 2 non-executive independent members. The current membership of the Company's BoD presented in the table below:

- Philios Zachariades –Executive – Chairman
- Anthie Zachariadou – Executive

- Andys Polydorou – Non-Executive – Secretary of the BoD
- Costas Melanidis – Non-Executive and Independent
- Kyproulla Karantoni - Non-Executive and Independent

All members of the BoD and Senior Management should fulfil the Fit and Proper requirements in accordance with Article 42 of Solvency II. The compositions and resourcing of the BoD reflects the range of skills, knowledge and experience necessary for the BoD to be effective. Additionally, the objective in determining the BoD composition is to ensure that there is appropriate level of skills and capability. The size and composition of the BoD should facilitate substantive discussions by the whole BoD in which each Director can participate meaningfully.

2.2.2 Board of Director's roles and responsibilities:

- Ultimate authority for the management of the undertaking
- Organize and direct the affairs of the undertaking
- Strategy development, setting of goals and objectives and monitor the reporting of performance
- Appoint committees and delegate authorities to them
- Establish an organizational structure able to support an effective operation of the system of governance
- Determine the remuneration and appointment of Senior Executives
- Oversee the operations of the Company and set the appetite for accepting risk
- Approve the Financial Statements of the Company
- Approves the all the Annual Reports for the economic year (Actuarial Report- AFR, Annual Quantitative Reports-QRTs, Own Risk Solvency Assessment-ORSA, Solvency and Financial Condition Report -SFCR and the Regular Supervisory Report -RSR)

2.3 Management Committees

The Board has established the following Management Committees for the more effective organization of the Company:

<u>Claims & Reserving Committee</u>

The Committee reviews policies, procedures and functions of the Claims Department and provides expertise and attention on behalf of the BoD in relation to all matters related to the claims adjustment process.

<u>Underwriting Committee</u>

The Committee reviews and evaluates the Company's policies, guidelines, performance, risk management, processes and procedures relating to the underwriting of insurance and reinsurance risks undertaken by the Company.

<u>Audit & Risk Committee</u>

The Committee shall be accountable to the BoD and shall assist the BoD in meeting its responsibilities in ensuring an effective system of internal control and compliance and for meeting its external financial reporting obligations.

Company's Committees meet during the year and minutes are kept for each meeting which are also sent to the members of the Board of Directors.

2.4 Key Functions, Roles and Responsibilities

Company has the following key functions that are integrated within the organizational structure:

- Internal Audit
- Actuarial Function
- Risk Management Function
- Compliance Function

2.4.1 Internal Audit Function

The Company's Internal Control System (ICS) is the aggregate of control mechanisms and procedures which covers, on an on-going basis, every single activity of the Company and contributes towards the Company's efficient and sound operation.

Company must provide an effective Internal Audit Function, which will include an evaluation of the adequacy and effectiveness of the Internal Control System and other elements of the system of governance.

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

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

The Company's Internal Auditor is independent and does not have any direct responsibility or authority over the activities that are the subject of audit. The findings of any internal audit carried out are presented and evaluated by the Audit & Risk Committee and by extension by the Company's Board of Directors.

2.4.2 Actuarial Function

The Actuarial function is a specialist function that advises the Senior Management of the Company on the calculation of technical provisions and on the technical aspects of risk management and modelling. At present, Company's Actuarial Function is outsourced to Numisma Group.
The Actuarial function reports to the General Manager, to the Audit & Risk Committee and to the BoD. The Actuarial Function is subject to the audit of the Internal Audit Function regarding the adequacy and effectiveness of its procedures.
The duties of the Actuarial Function include the following:

- Calculates Company's Technical Provisions

- Calculates Best Estimate Liabilities under SII Directive
- Contributes to the submissions of the Annual QRTs templates
- Advises for the completion of the Annual Reports (Own Risk Solvency Assessment /ORSA, Solvency and Financial Condition Report /SFCR Regular Supervisory Report /RSR)

The Actuarial Function submits a report to the Company on an annual basis regarding the results of the calculations and the checks they carried out together with a detailed description of the methodology used.

2.4.3 Risk Management Function

Risk Management Function is responsible for the identification, measurement, management and reporting of risks the Company is exposed to.

The RMF aims at facilitating the implementation of the Risk Management System of the Company. The mission of the RMF is the efficient and effective management of risks in accordance with the risk appetite of the Company. In addition, the role of the Risk Management Function is to fully meet all the requirements under the Solvency II Directive.

The main purpose of the risk management department is to carry out the framework of the Solvency II Directive, which consists of **three Pillars**:

- **Pillar I**: Quantitative requirements - Supervision. It includes the methodology for calculating the company's technical provisions, the presentation of all the assets and liabilities of the Company, the calculation of all the quantitative risks exposed by the Company and therefore the calculation of the Solvency Capital Requirements, which reflects whether the Company is able to cover all its liabilities as well as all the risks it is exposed to. The RMF designs and implements strategies, processes and reporting procedures necessary to identify, measure, monitor and report the risks on an individual and on an aggregate level.
- **Pillar II**: Qualitative requirements - Supervision. Includes all the processes of the Company's System of Governance that ensure the sound and prudent management of the insurance business.
- **Pillar III**: Disclosure of data to supervisors and consumers. It includes all the required financial and qualitative information which are deemed necessary for supervisory authorities and better information for consumers.

Risk Management Function reports to the General Manager and to the Audit & Risk Committee. The RMF is subject to the audit of the Internal Audit Function regarding the adequacy and effectiveness of its control procedures. The RMF is outsourced to Numisma Advisory Services (Numisma).

2.4.4 Compliance Function

Compliance Function is responsible for the establishment and application of suitable procedures for the purpose of achieving a timely and on-going compliance of the Company with the existing legal and regulatory framework. The activities and responsibilities of the Function are approved by the BoD and reviewed annually. The Compliance function is performed by the Company’s Compliance Officer.

Duties of Compliance Function:

- Ensures that the Company fully complies with the current legislative framework.
- The Regulatory Compliance Function reports to the Audit & Risk Committee and the Board of Directors and informs the Company's Management of regulatory compliance issues, as they arise

from the current legislative framework and of any deficiencies in meeting the obligations imposed by it.

- Ensures compliance with deadlines for the fulfilment of obligations provided by the current legislative framework and circulars or requests originating from the regulatory authorities.
- Provides instructions in case of amendments to the current regulatory framework in order to make the appropriate adjustments to the Company's internal procedures
- It has written manuals regarding the procedures that need to be followed in compliance with the regulatory framework as well as ways to control them
- Ensures that the Company's employees are constantly informed about developments in the regulatory framework relevant to their responsibilities

2.5 Fit and Proper Requirements

2.5.1 List of Company's Executives charged with key functions:

Philios Zachariades - General Manager
Anthie Zachariadou - Executive Director/Director of the Legal Department
Athina Pourou - Claims Manager
Xanthos Constantinou - Claims Manager
Herodotos Charalambous - Motor Underwriting Manager
Sophocles Michaelides - Issuance Department Manager
Andreas Kyriakou – Non-Motor Underwriting Manager
Alina Syrimi – Chief Financial Controller/Compliance Officer
Odysseas Constantinides – Internal Auditor
Markos Markides – Actuarial/Risk Manager
Ioulios Theodorides - Manager of Limassol Branch
Michalis Tziortas - Manager of Larnaca Branch

2.5.2 Fitness and Propriety Assessment

2.5.2.1 Fitness

The Company has established processes to ensure that the personnel, at all times fulfil the fit and proper requirements. Board Members are required to fulfil the fit and proper requirements. In assessing fitness, professional competence and capability are considered. This assessment is based on previous experience, knowledge, and professional qualifications and should demonstrate due skill, care, diligence and compliance with the relevant standards for the area sector they have worked in.

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

1 Market knowledge, i.e., an awareness and understanding of the wider business, economic and market environment in which the Company operates
2 Business strategy and business models, i.e., an appropriately detailed understanding of the Company's business strategy and model
3 System of Governance, i.e., the awareness and understanding of the risks the Company is facing and the capability of managing them. Furthermore, the ability to assess the effectiveness of the Company's arrangements to deliver effective governance, oversight and controls in the business

4 Financial and actuarial analysis. i.e., the ability to interpret the Company's financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information

5 Regulatory framework and regulatory requirements, i.e., an awareness and understanding of the regulatory framework in which the Company operates, and the regulatory requirements and expectations relevant to it and the capacity to adapt to changes which stem from the regulatory framework without delay.

2.5.2.2 Propriety

In assessing the propriety of a person, the Company assesses its honesty, integrity, reputation and financial soundness. The BoD may take into account convictions for criminal offences, adverse findings in civil proceedings, or disciplinary actions by regulators in Cyprus or abroad.

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

2.6 Risk Management System (including ORSA)

2.6.1 Description of Risk Management System – Strategy

Risk management is a continuous process that should be used in the implementation of the Company's overall strategy and should allow an appropriate understanding of the nature and significance of the risks to which it is exposed, including to those risks and its ability to mitigate them.

2.6.2 Procedures of the Risk Management System

In order to ensure the appropriate coordination of the Company's aggregate strategy for risk with the policies and procedures implemented by each risk-taking function, the Company has established a Risk Management Policy Framework that sets the overarching principles for the identification, assessment, monitoring and control of risks. This framework undergoes frequent review by the RMF and is adjusted to the overall risk profile and risk appetite of the Company, also taking into account any endogenous or exogenous factors and leading industry practices.

Risk Management relies on a standardised methodology that follows the stages below for all risks:

1 Risk Identification
2 Risk Measurement
3 Risk Monitoring
4 Reporting Risk Mitigation

Risk Identification

Risk Identification is the first stage in the risk management process. Risk identification is the process followed by the Company to identify and record all material risk exposures that arise from its activities. Risks identified and registered both formally, through the annual review of the Company's risk register and the ORSA process, and informally as they arise in the course of business. Risk identification is performed for both existing and emerging risks.

Risk Measurement

The RMF, together with risk owners, has the responsibility to assess whether the risks in the risk universe of the Company are material. Materiality is usually assigned based on a high-level qualitative assessment of risk. Risks that appear material are being considered more carefully in order to measure their impact precisely using qualitative and quantitative techniques. The Company applies consistent sound principles for the development and maintenance of risk and performance measurement methodologies.

Company's quantification techniques focus on the SCR formula, however, additional internally developed methodologies, in the form of stress testing and scenario analysis, are used to estimate whether the solvency requirement for Pillar I risks is adequate and to quantify the exposure to risks that are not covered under Pillar I (e.g., reputational, strategic, liquidity risk).

Risk Monitoring and Reporting

- **Monitoring**

The RMF has the responsibility to ensure that all material risk exposures are monitored on an ongoing basis and that any risks that fall outside the approved risk appetite of the Company are identified and appropriately escalated to the BoD. The Company should report on the risk profile and solvency of the Company to the General Manager, to the Audit & Risk Committee and the BoD on a regular basis. Reporting frequencies should increase during periods of high risk and stress.

- **Reporting**

The RMF, through a set of reports prepared on a regular basis, keeps all interested and involved persons informed of its activities and the findings of the analyses it carries out.
These include, but are not limited to:

- Reports submitted to Senior Management and the BoD which lay out the material risks faced by the Company
- Reports presenting to Senior Management, Audit & Risk Management Committee and the BoD the results of the RMF's assessment of the design and operational effectiveness of the Risk Management System to identify, measure, monitor, manage and report risks that the Company is exposed to
- The results of Company's Pillar I calculations and the Quantitative Reporting Templates (QRTS) under Pillar III are presented to Senior Management and the BoD for review and discussion and are subsequently submitted to the supervisory authorities. These calculations are performed on a quarterly basis and on an annual basis. The annual results and the semi-annual results are presented as well to the Audit & Risk Committee.
- Own Risk Assessment (ORSA) is presented to the Senior Management and to the BoD
- The results of the stress tests and risk assessments conducted, accompanied by a set of recommended mitigating actions and controls, which are presented to General Manager and the BoD

Summarised List of Reports and Templates submitted

To the BoD:

- Annual Quantitative Reporting Templates (QRTS)
- Own Risk Solvency Assessment (ORSA) prior to the end of the economic year
- Solvency and Financial Condition Report (SFCR) by the end of each economic year
- Regular Supervisory Report (RSR) submitted every three years
- Annual National Specific Templates (NSTs)

To Company's General Manager:

- Quarterly Quantitative Reporting Templates (QRTs)
- Quarterly National Specific Templates (NSTs)

Risk Mitigation

The Company has a strong risk controls culture to ensure the mitigation of all risks in its risk universe. Controls are developed and used to safeguard the integrity of the Company's processes and systems. Additionally, the RMF evaluates and adopts appropriate risk transfer methods to mitigate its exposure to the identified risks such as the reinsurance contracts. Unexpected risks exposures are also covered by own funds, in accordance with the Solvency II requirements.

2.7 Own Risk and Solvency Assessment (ORSA)

Own Risk and Solvency Assessment (ORSA) Report is a useful tool for decision-making and strategic analysis. The aim is to estimate the future total needs of the Company for the next three financial years, as well as its capital adequacy through endurance exercises carried out in the next three years. From the results obtained, the Management and the Board of Directors of the Company prepare the short-term and long-term capital management diagram that allows the business strategy of the Company as well as the planning to cover for its upcoming obligations.

2.7.1 ORSA process

The process for implementing and completing the ORSA report is detailed in the following steps:

1. Define the driving factors for the capital planning: Company analyses the economic environment and the insurance industry, in combination with the size, complexity and historical data of the Company in order to determine its capital planning for the next 3 years
2. Identify and classy risks: Company determines the significant risks which faces by taking into account the quantitative risks calculated by the standard formula, as well as various non-quantitative risks such as strategic and reputational risks. The assessment is based on the impact and probability of occurrence of the risk.
3. Assessment and measurement of material risks through different approaches including stress testing: The Company applies various stress tests to its results as well as to the financial years foreseen in order to determine its endurance.
4. Capital Allocation: Using the risk profile, Company determines action plans to deal with unforeseen events in the future and also to design its short-term and long-term capital management chart.

5. Communicate and document the results: The results are presented to the Senior Management and the BoD and prepares the ORSA Report
6. Confirm that the ORSA process is embedded in the decision making of the Company: Company confirms that the ORSA Report is embedded in the decision making of the Company. Decisions are made by the Senior Management and the BoD based on the findings of the Report and any other material information resulting from the key risks and the stress tests.

2.7.2 Integration of the ORSA Report into the organizational structure and decision-making processes

ORSA Report is fully integrated into the organizational structure and decision-making processes of the Company as indicated by the roles and responsibilities of the different bodies and committees.

The roles and responsibilities of the Company's organizational structure as well as their role in decision-making are presented below:

Responsible Body / Function	Responsibility
Board of Directors **Philios Zachariades** Executive – Chairman **Anthie Zachariadou** Executive **Andys Polydorou** Non-Executive – Secretary of the BoD **Costas Melanidis** Non-Executive and Independent **Kyproulla Karantoni** Non-Executive and Independent	• Defines the Company's corporate goals and strategic risks • Approves the budget • Sets Company's risk appetite and risk tolerance • Maintains an organizational structure capable of supporting the effective operation of the Company's governance system • Evaluates and approves the ORSA annual report
Responsible Body / Function	**Responsibility**
Claims & Reserving Committee **Philios Zachariades** President **Anthie Zachariadou** Member	• Evaluates and is informed about the policies and procedures implemented by the Claims Department and evaluates through the ORSA report the impact that outstanding claims have on the Company • Provides guidance regarding the handling of various cases by the Claims Department with a view to smoother (or optimal) operation of the particular department according to the results of ORSA
Underwriting Committee	

Philios Zachariades President **Andreas Kyriakou** Member **Herodotos Charalambous** Member	• Evaluates the risk of insurance premiums and technical provisions for loss insurance (non-life premiums and reserve risk) mentioned in the ORSA report • Oversees and evaluates the policies and practices of the Underwriting Department regarding the assessment of insurance and reinsurance risks • Provides an advisory role in complex cases but also ensures that the Company reduce its exposure to risks
Audit & Risk Committee **Costas Melanidis** President **Kyproulla Karantoni** Member	• Ensures that the Company has an effective internal control system and that it is able to meet all its obligations as defined in the ORSA report • Evaluates the results of quantitative risks and extreme scenarios carried out for the next 3 financial years through the ORSA report
Internal Audit Function **Odysseas Constantinides** Internal Auditor	• Independently reviews the final ORSA report • Certifies that the procedures followed are in accordance with the requirements of the BoD, as defined in the Company's policies • Reviews the Company's risk profile, stress tests and quantitative risks of the Company and confirms their compliance with the policies set by the BoD
Actuarial Function **Numisma Advisory Services** **Markos Markides** Actuarial Manager	• Responsible for the production of the technical provisions as required under the Solvency II Directive • Advise the Company regarding the Company's risk profile
Risk Management Function **Numisma Advisory Services** **Markos Markides** Actuarial Manager	• Identifies and monitors the main risks to which the Company is exposed to regarding the current position of the Company and the forthcoming three economic years • Ensures that all significant risks are monitored on a regular basis • Performs stress tests and analysis of the results through the ORSA report • Defines methods for monitoring and measuring risks • Advises the Company's BoD on mitigation of identified risks
Compliance Function **Alina Syrimi** Financial Controller	• Ensures that the Company fully complies with the current legislative framework. • Ensures the timely submission of the annual ORSA Report
Responsible Body / Function	**Responsibility**

Financial Controller **Alina Syrimi** Financial Controller	• Preparation of financial statements in accordance with IFRS. Cooperation with the accounting department for audit processing. • Defines the income statement, specifying the assumptions and parameters for the next three years • Collaborates with the Company's Risk Management Function to provide data and information required for the preparation of the ORSA report
General Manager **Philios Zachariades** General Manager	• Oversees the efficiency and proper functioning of all departments to comply with policies approved by the Company's BoD • Coordinates and directs all the Company's activities • Coordinates the operation of all Committees and Internal Audit Department
Other Departments Claims Department Underwriting Department Accounting Department Computerization & IT Department Business Development Department Law Department	• Provide data and information required for the preparation of the ORSA report • Provide accurate data in a timely manner • Inform the four main functions of the Company (Internal Audit, Risk Management, Compliance and Actuarial Function) of any facts that will affect the efficiency and conduct of their work

The results of the specific report are presented to the Audit & Risk Committee and the BoD for evaluation and approval. Once approved, it is submitted to the Supervisory Authority within the pre-defined framework.

2.7.3 Capital Requirements

The Company has proceeded with the calculation of projected capital requirements until 2026, using the standard formula and using as a baseline the results until 30/11/2023 (when the ORSA process started).

The resulting projections, which are based on the current global economy condition due to the pressure of the COVID-19 pandemic and the upward trajectory of the inflation due to the Ukraine War, are shown below.

The 2023 results were not available when the 2024-2026 results were projected.

Baseline	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,539,096	5,475,341	5,504,363	5,478,449
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,081,545	9,447,482	9,546,850	9,533,228
IFRS Own Funds	8,628,007	9,492,500	8,920,050	9,447,482	9,546,850	9,533,228
SCR Coverage Ratio	156.31%	174.45%	163.95%	172.55%	173.44%	174.01%
MCR Coverage Ratio	215.70%	237.31%	227.04%	236.19%	238.67%	238.33%

The company estimates that it will achieve a satisfactory level of SCR coverage ratio for the next financial years. From the end of 2023, the company expects to experience a gradual increase in this ratio.

In conclusion, from the above projected results, it is evident that the company is able to cover future needs that may arise from various risk sources. In all future reference periods, the SCR coverage ratio exceeds the minimum solvency threshold of 115% as determined by the Insurance Companies Control Service.

Finally, the company performed a series of stress tests on the forecasts until 2026, the results of which are presented in 'Chapter 3. Risk Profile, Section 3.4 Stress Tests' of this report.

2.7.4 Comparison between forecasted and actual results (QRTs 31/12/2023)

The actual SCR coverage ratio as at 31/12/2023 differs from the projected one within the latest ORSA by 3.67 percentage points. This mainly due to the actual net claim provisions and thus the non-life underwriting risk being significantly higher than projected, and the actual own funds (partly due to the higher net claim provisions) being significantly lower than projected. The actual MCR coverage ratio as at 31/12/2023 differs from the projected one within the latest ORSA by 3.29 percentage points. This mainly due to the actual own funds being significantly lower than projected.

Baseline	2023 actual	2023 projected
SCR	5,539,096	5,496,549
MCR	4,000,000	4,000,000
SII Own Funds	9,081,545	9,213,304
IFRS Own Funds	8,920,050	9,213,304
SCR Coverage Ratio	163.95%	167.62%
MCR Coverage Ratio	227.04%	230.33%

2.8 Internal Operating System

The Company's Internal Operation System complies with the requirements of the international management and quality management standard known as ISO9001:2015, the guidelines of the European Insurance and Occupational Pensions Authority (EIOPA) for the Corporate Governance system as well as with the requirements of the legislation.

The application framework of the Company's Internal Operation System is determined, among other things, through the following:

• Each department has written procedures that must be followed. The head of each department coordinates and ensures that the specific procedures are implemented.

• For any changes that occur, Senior Management of the Company informs the specific department through internal memos.

• The person in charge of each department coordinates and supervises the daily operation of the department and informs the General Manager about events that arise and may affect the smooth operation of his/her department.

2.9 Outsourcing

Outsourcing is a business practice in which a company hires a third party to perform tasks, handle operations or provide services for the Company. The Company has established processes for determining and documenting the outsource function or activity which would ensure the adequacy, competency and capability of the potential service provider. Outsourcing framework is fully embedded into the organizational structure of the Company.

Company has outsourced the:

- Actuarial Function
- Road Assistance and Accident
- Care Services
- Cloud Storage
- Risk Management Function

2.10 Adequacy of the system of governance

The governance structure is adequate to the nature, scale and complexity of the risks inherent in its business. Company intent to continuously improve its compliance and governance systems by ensuring that they are reviewed and evaluated by the BoD.

2.11 Any other information

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

3. Risk Profile

Company's risk management principles are adopted to identify and analyse the risks faced by the Company, to set appropriate risk limits and to monitor the identified risk. Risk management principles and systems are regularly reviewed to reflect changes in the market and the Company's operations.

3.1. Quantitative Risks based on the Standard Formula

The Company uses the standard formula for the calculation of the quantitative risks it is exposed to. The structure of the standard formula method is shown in the diagram below.

SCR Solvency Capital Requirements	BSCR Basci Solvency Capital Requirements	Counterparty Risk Market Risk Non-Life Underwritting Non-SLT Health
	Operational Risk	

The SCR consists of the following risks:

- Market Risk
- Counterparty Risk
- Underwriting Risk (Non-life, Non-SLT Health)
- Operational Risk

The SCR as at 31/12/2023 is €5,539,096 while the SCR as at 31/12/2022 was €5,477,396.

Baseline	2022	2023
SCR	5,477,396	5,539,096

There is an increase of 1.13% in the SCR for the financial year 2023 compared to financial year 2022.

Each risk consists of its own individual risks which are presented below in detail. In addition, there is a reference to the stress scenarios ran during the latest ORSA and also to the Company's management controls for such negative unintended consequences.

3.2. Quantitative risk analysis

3.2.1 Counterparty Default Risk

The Counterparty default risk should reflect possible losses due to unexpected default, or deterioration in the credit standing of the counterparties and any debtors to which insurers are exposed to.

Counterparty Default Risk constitutes 23.73% of the SCR.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Counterparty default risk	1,363,187	1,314,277
Counterparty default risk / SCR	24.89%	23.73%

There is a decrease of 3.59% in the amount of capital requirement for Counterpart Default Risk for the financial year 2023 compared to financial year 2022.

Using a differentiation of exposures according to their characteristics the counterparty default risk is categorised into two components as below:

- **Type 1:** The class of type 1 exposures covers the exposures which may not be diversified and where the counterparty is likely to be rated. Such exposures are in relation to reinsurance arrangements, cash at bank, OSEDA and Cyprus Hire and Rejected Risks Pool balances.
- **Type 2:** The class of type 2 exposures covers the exposure which are usually diversified and where the counterparty is likely to be unrated. Such as exposures are in relation to receivables for intermediaries, debtors, etc.

The largest part of the Counterparty Default Risk capital requirement relates to Type 1 with 64%, with the rest relating to Type 2 with 36% (before diversification).

Company must mitigate the amounts that fall under the two Types of exposure through a closer and deeper evaluation since they significantly affect the Company's solvency ratio.

The Company has identified the main assets that fall under Counterparty Default Risk and significantly affect the Company's solvency ratio:

- Recoverable amounts from Reinsurers
- Intermediaries and Policyholder Debtor Balances
- Cash at bank

<u>Reinsurance Recoverable amounts in technical provisions</u>

The Company controls and evaluates all its reinsurance treaties based on its portfolio of insurance contracts and assesses the exposure resulting from future losses.

The Company's Risk Management Department carries out various scenarios on an annual basis for the evaluation of the Company's reinsurance contracts. In addition, every quarter Company calculates using the standard formula the capital requirements emerged from the reinsurance recoverable amounts.

The reinsurance portfolio should be based on the financial condition of all the reinsurance companies that are held in the treaties with high credit ratings. In addition, the Company should assess the contract costs, the services provided by the reinsurers and assess the relevant risks that the Company has to reinsure.

Furthermore, the Company has spread its large risk exposure to multiple reinsurers to limit each reinsurer's exposure. Risk Management Department has determined limits for monitoring the exposure resulting from the reinsurance treaties which are specified in "Chapter E. Risk Appetite & Limits" of the ORSA report.

<u>Intermediaries and Policyholder Debtor Balances</u>

Company's BoD, in collaboration with the Finance Department, examines on a regular basis the amounts due by intermediaries and individual clients. Where there are delays in the repayment of a contract, the Company contacts the client or the intermediary in order to timely settle the balance amount.

A provision for impairment in the value of a receivable is formed when there are reasonable indications that the Company will not collect all the receivables due according to the original terms. The Company examines whether there are reasonable indications of possible losses in the portfolio of receivables against policyholders.

On December 31, 2017, the Company signed a repayment plan agreement between specific agents in order to comply with the instructions specified in the Insurance Control Service's circular. The agreed contracts are revised wherever necessary. Through those agreements, Company has managed to receive a large amount of the old balances due from its representatives.

Company calculates its exposure to the risk of non-collecting the amount due from the intermediaries and the policyholders. Old balances through the standard formula are subject to a 90% probability of default, since they exceed the permitted credit period (Counterparty Default Risk Type II).

Company reviews on a daily basis the amounts due by both its intermediaries and policyholders. In addition, the old amounts are repaid monthly with a fixed repayment amount, and there is a monthly check by the Company.

<u>Cash at Bank</u>
Company has accounts in various banking institutions in Cyprus. The amount of those accounts constitutes the 18% of the total loss given default that falls under Counterparty Default Risk Type I.

Risk Management Department has determined limits for monitoring the exposure resulting from the cash at bank which are specified in "Chapter E. Risk Appetite & Limits" of the ORSA report.

In addition, the Company tries to mitigate the exposure from the concentration of the amounts in one institution by spreading the amount in various banking institutions. Also, the Company reviews the financial condition and the credit rating of the counterparties. Finally, when the exposure from cash at banks will increase, Company has an alternative strategy to invest in other types of investments (e.g., property, bonds).

3.2.2 Market risk

Market risk arises from the level or volatility of market prices of financial instruments. Exposure to market risk is measured by the impact of movements in the level of financial variables such as stock prices, interest rates, real estate prices and exchange rates.

Market risk constitutes the 52.78% of the SCR.

The structure of the Market Risk is shown in the diagram below:

Market Risk	Property Risk
	Equity Risk
	Spread Risk
	Interest Rate Risk
	Concentration Risk

Baseline	2022	2023
SCR	5,477,396	5,539,096
Market risk	2,747,921	2,923,739
Market risk / SCR	50.17%	52.78%

There is an increase of 6.40% in the amount of capital requirement for Market Risk for the financial year 2023 compared to financial year 2022.

Out of the Market Risk's capital requirements, Property Risk holds the 46%, Concentration Risk holds the 41%, Spread Risk holds the 6%, Equity Risk holds the 5%, and Interest Rate Risk holds the 3% (before diversification).

Risk Management Function assess on a quarterly basis the individual risks that fall under Market Risk and that significantly affect the Company's solvency ratio using the standard formula.

Property Risk

Property Risk arises as a result of sensitivity of assets, liabilities and financial investments to the level or volatility of market prices of property. The property shock is the immediate effect on the net value of asset and liabilities expected in the event of an instantaneous decrease of 25% in the value of property investments. Property Risk constitutes 35.41% of the SCR.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Property risk	1,396,448	1,961,193
Property risk / SCR	25.49%	35.41%

There is a 40.44% increase in capital requirements for this risk for financial year 2023 compared to financial year 2022, mainly due to the purchase in April 2023 of the property on Koumanoudis Street in Nicosia with value €2,237,000 as at 31/12/2023.

Company manages its assets that fall under the Property Risk in order to mitigate the capital requirements that are created. Risk Management Department has determined limits for monitoring the property exposure which are specified in "Chapter E. Risk Appetite & Limits" of the ORSA report.

Equity Risk

This is the risk that may arise from a loss in the value of the equities held by the Company (including convertible securities). Equity Risk consists of two categories (Global equity bucket and other equity bucket). All the stocks and securities held by the Company are included in the first category. The parameters used in the standard formula method are influenced by the global economic conditions.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Equity risk	149,267	215,411
Equity risk / SCR	2.73%	3.89%

The Equity Risk remains at a low level, with capital requirements for it being only 3.89% of the SCR for financial year 2023 compared to 2.73% for financial year 2022, and therefore it is considered insignificant.

Furthermore, limits have been set to manage this risk, which are detailed in the 'Chapter E. Risk Appetite & Limits' of the ORSA report.

Concentration risk

This is the risk arising from a large concentration of investments and includes all of the company's investments in equities, securities, deposits, and property investments. Concentration risk constitutes 31.80% of the SCR.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Concentration risk	2,062,458	1,761,564
Concentration risk / SCR	37.65%	31.80%

There is a 14.59% decrease in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The Company is primarily exposed to this risk via its short-term deposits, capital requirements for which account for 97.76% of the sum of the capital requirements for assets charged under this risk (before being squared, summed, and having their square root taken to arrive at the capital requirement for this risk).

The Risk Management Department, in collaboration with the Company's Management, conducts regular stress tests with the aim of achieving the best possible diversification of investments in order to reduce exposure to specific risks while maintaining the highest possible SCR coverage ratio.

The financial strength and credit-worthiness of counterparties as well as the market values related to the Company's investments are also assessed.

Furthermore, limits have been set to manage this risk, which are detailed in the 'Chapter E. Risk Appetite & Limits' of the ORSA report.

Interest rate risk

This is the risk of loss due to changes in market interest rates. The Company does not have any outstanding loans to banks where an increase in interest rates could significantly impact the amounts owed to them. At the same time, market deposit rates are already particularly low, and any changes in them are not expected to significantly affect the Company's solvency.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Interest rate risk	161,676	119,903
Interest rate risk / SCR	2.95%	2.16%

The Interest Rate Risk remains at a low level, with capital requirements for it being only 2.16% of the SCR for financial year 2023 compared to 2.95% for financial year 2022, and therefore it is considered insignificant.

Spread risk

This is the risk of loss due to the sensitivity of the values of assets and liabilities to changes in the level or volatility of credit spreads relative to the risk-free interest rate structure. All of the Company's short-term deposits are charged under this risk.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Spread risk	346,441	243,048
Spread risk / SCR	6.32%	4.39%

There is a 29.84% decrease in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The sum of capital requirements for this risk which relate to exposures to unrated counterparties amounts to 88.98% of the capital requirement for this risk.

The Company regularly assesses the risks arising from its short-term deposits, aiming for the best possible diversification of these deposits across all banking institutions where it holds accounts. Also, it regularly assesses the financial strength and credit-worthiness of its counterparties.

3.2.3 Non-life Underwriting Risk

This is the risk arising from the underwriting of insurance business. Specifically, the Insurance Risk includes the following risks.

Non-life Underwriting Risk	Premium & Reserve Risk
	Catastrophe Risk
	Lapse Risk

Baseline	2022	2023
SCR	5,477,396	5,539,096
Non-life underwriting risk	2,776,393	2,698,916
Non-life underwriting risk / SCR	50.69%	48.72%

There is a 2.79% decrease in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The Non-life Underwriting Risk remains at a high level, with capital requirements for it being 48.72% of the SCR for financial year 2023 compared to 50.69% for financial year 2022, and therefore it is considered significant.

The Non-life Underwriting Risk consists of the Non-life Premiums & Reserve Risk, which accounts for the largest portion of the capital requirements for the risk at 70%, the Catastrophe Risk at 13%, and the Lapse Risk at 17%.

<u>Non-life premiums & reserve risk</u>

The primary activity of the Company is to undertake the risk of loss for individuals and organisations directly subject to such risk. Such risks relate to property, liability, accidents, and other hazards that may arise from an insured event. Therefore, the Company is exposed to uncertainty regarding the timing, frequency, and severity of claims. This risk arises from contracts to be undertaken during the year, including contracts that are in force but have not yet expired.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Non-life premium and reserve risk	2,558,178	2,477,660
Non-life premium and reserve risk / SCR	46.70%	44.73%

There is a 3.15% decrease in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The underwriting volume charged under this risk arises from the Motor TPL line of business by 56%, the Motor Other line of business by 20%, the Liability line of business by 14% and the rest by 10%.

The Company continuously monitors its premiums and the risks it undertakes, and compares the requirements against existing contracts. Contract revisions, such as increasing premiums, are made where necessary. Additionally, the Company assesses its agents in terms of their monthly production and profitability compared to the production they provide to the Company. Furthermore, the Company aims to increase its underwriting in less risky lines of business, such as the Fire and Liability lines of business.

Finally, the Company actively participates in various committees of the Insurance Association of Cyprus to stay informed about various significant market issues, such as emerging risks or trends that may shape the Company's risk-taking strategy.

The Company takes all necessary measures and controls to be properly informed about the premium and reserve risk it is exposed to. Due to the uncertainty in predicting claims, the final incurred amount may deviate from the initial recorded outstanding amount. As a measure to limit losses due to such deviations in the Motor business, the Company undertakes the following actions:

- Attempts to increase production, particularly through acquiring new clients.
- Stricter assessments in risk underwriting to limit future losses from such deviations.
- Stricter oversight by the Company's management of the entire claims handling process to avoid unnecessary expenses.
- Attempts to reduce claims management time and consequently the cost of claims management.
- Systematic monitoring of outstanding claims.

Additionally, the Company reinsures a significant portion of the risks through proportional or non-proportional reinsurance arrangements to limit its exposure to large losses and protect its capital resources. Moreover, in specific cases, the Company reinsures risks through facultative reinsurance arrangements. Furthermore, limits have been set to manage this risk, which are detailed in the 'Chapter E. Risk Appetite & Limits' of the ORSA report.

Catastrophe Risk

This is the risk of loss arising from adverse changes in the value of insurance liabilities due to extreme or extraordinary events resulting from natural or man-made causes.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Catastrophe risk	432,360	451,508
Catastrophe risk / SCR	7.89%	8.15%

There is a 4.43% increase in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The Company is exposed to natural catastrophe risk arising from earthquakes, as Cyprus is geographically located in a seismic zone. Additionally, the Company is exposed to man-made catastrophe risk arising from Fire insurance, Motor Vehicle insurance, and General Liability insurance. Moreover, the calculation of catastrophe risk includes the capital requirements of the Company for miscellaneous financial loss.

The Company has entered into arrangements with various reputable reinsurers in the global reinsurance industry with investment-grade credit ratings in order to cover catastrophic risks. Through such reinsurance arrangements, the Company aims to strengthen its capital position by transferring risk, with the primary objective of maintaining a low amount of net retention and reinsuring the majority of the risk. For this reason, the Company's exposure to catastrophe risk is low.

The Risk Management Department has set risk limits to control the exposure to each reinsurer, as detailed in the "Chapter E. Risk Appetite & Limits" of the ORSA report.

In cases of large claims, the Company manages them with the experienced consultation of its legal advisors, ensuring that the settlement is as prudent as possible and accurately reflects the Company's exposure to such risks.

Lapse Risk

This is the risk of loss arising from changes in the volatility of contract cancellation frequency or in the premium payment process, such as delays or cessation of premium payments.

The standard formula used to calculate this risk involves assessing the impact of an increase in the cancellation rates to 40% on the Company's technical provisions.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Lapse risk	651,244	618,179
Lapse risk / SCR	11.89%	11.16%

There is a 5.08% decrease in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The Company continuously monitors cancellation rates for all its business, and assess the reasons for non-renewal and for cancellations of insurance contracts. The Company manages to maintain cancellation rates at low levels.

3.2.4 Non-SLT Health Underwriting Risk

This is the risk arising from the underwriting of insurance business. Specifically, the Insurance Risk includes the following risks.

Non-SLT Health Underwriting Risk	Premium & Reserve Risk
	Catastrophe Risk
	Lapse Risk

Baseline	2022	2023
SCR	5,477,396	5,539,096
Non-SLT health underwriting risk	6,333	7,279
Non-SLT health underwriting risk / SCR	0.12%	0.13%

There is a 14.94% increase in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The Non-SLT Health Underwriting Risk remains at an immaterial level, with capital requirements for it being 0.13% of the SCR for financial year 2023 compared to 0.12% for financial year 2022.

3.2.5 Operational Risk

This is the risk of loss arising from weaknesses in the processes, personnel or systems of the Company, as well as from external threats arising from catastrophic events.

The main operational risks to which the Company is exposed include the following:

- Company Personnel: Risk of not recruiting personnel with the appropriate skills, or lack of provision of suitable training and continuous professional development, leading to low levels of productivity and increased levels of errors.
- Company Systems: Risk of failure of IT systems and infrastructure, leading to data reporting errors and affecting decision-making.
- Cybersecurity: Risk of inadequate security of systems leading to financial losses, disruptions, or damage to the Company's reputation.
- Policies and Procedures: Risk of inadequate policies and procedures, leading to deficiencies in monitoring or timely identification of operational risks.
- External Partners: Risk of external partners not providing the agreed services to the desired standards, leading to incorrect financial results or reduced profitability.

The Company uses the standard formula to calculate the capital requirements for this risk. The standard formula takes into accounts the premiums and technical provisions for the valuation period.

Baseline	2022	2023
SCR	5,477,396	5,539,096
Operational risk	319,574	343,994
Operational risk / SCR	5.83%	6.21%

There is a 7.64% increase in capital requirements for this risk for financial year 2023 compared to financial year 2022.

The Operational Risk remains at a low level, with capital requirements for it being 6.21% of the SCR for financial year 2023 compared to 5.83% for financial year 2022.

To address these risks, the Company develops organisational structures for managing operational risk, defines the roles, responsibilities, and relationships of relevant departments and committees, and enhances internal control over the Company's activities. Additionally, the Company supports the continuous professional development of its personnel through their participation in various work-related seminars. Furthermore, it ensures that contingency plans are in place to secure the continuity of the Company's operational activities under any circumstances.

Moreover, the Company has established a business continuity plan in case of unexpected events threatening its smooth operation, such as the recent COVID-19 pandemic. Specifically, it has formulated a new working model, which it will implement when necessary, featuring rotating staff schedules and remote work options. The Company is obligated to continually reassess its contingency plans, identify any weaknesses and deficiencies, so that in the event of a resurgence of the pandemic or in another unforeseen event, it can safely continue its operational activities.

3.2.6 Liquidity risk

This is the risk arising when the Company does not have sufficient liquid assets or assets which can immediately be liquidated to meet its obligations.

Liquidity risk is one of the most significant risks which the Company faces, especially now that inflation is heavily impacting the economy. The Company identifies its liquidity levels through systematic controls. Specifically, comparisons are performed between the amounts of impending obligations of the Company and the receivable amounts from agents and clients and recoverable amounts from reinsurers.

During each audit, it is assessed whether the Company's liquidity is sufficient to cover its impending obligations. If deemed necessary, the Company reassesses its liquidity management plans. No liquidity issues were identified in any of the latest audits.

Additional measures to ensure the Company's sufficient liquidity are:

- limiting operational expenses
- systematic monitoring of premium collections
- allocating the Company's investments based on limits set by the Risk Management Department.
- It is estimated that in the event of a significant event where the Company faces a large number of claims (e.g., earthquake), the Company is prepared to meet the substantial amount expected from the claims through its reinsurance arrangements.

3.3 Non-quantitative risks

The main non-quantitative risks to which the Company is exposed are: Strategic Risk, Reputational Risk, Compliance Risk, and new information and communication technology risk.

3.3.1 Strategic risk

This is the risk of adverse effects on the Company's capital and profitability arising from management decisions or decisions of the Board of Directors, changes in the economic environment, inadequate or incomplete decisions, or failures to adapt to changes in the insurance industry.

The Company utilises SWOT analysis (outlined in the ORSA report) to examine the internal and external environments in which it operates and thus manage the Strategic Risk it faces. The Company focuses on the following four specific areas to achieve its set objectives:

- <u>Advantages</u>: Characteristics of the Company that give it an advantage over competitors.
- <u>Weaknesses</u>: Characteristics of the Company that put it at a disadvantage compared to competitors.

- Opportunities: Elements in the environment in which the Company operates which the Company could exploit for its benefit.
- Threats: Elements in the environment in which the Company operates which could pose problems for the Company.

Additionally, limits have been set to manage Strategic Risk, which are detailed in the "Chapter E. Risk Appetite & Limits" of the ORSA report.

3.3.2 Reputational risk

This is the risk of loss due to a negative perception of the Company's image among customers, shareholders, or regulatory authorities.

The Company's Board of Directors seeks to mitigate such risk by considering customer complaints and monitoring the company's reputation through market research. Additionally, internal audits are performed for the Company's Advertising and Promotion Department.

3.3.3 Compliance Risk

This is the risk of loss due to a failure of the Company to comply with the applicable legal and regulatory framework.

Ensuring regulatory compliance is one of the main priorities of the Company's Board of Directors. In this context, the Chief Financial Officer has been appointed by the Company's Board of Directors as the responsible person to ensure the Company's full compliance with the relevant legal and regulatory framework, aiming to avoid risks and other legal consequences for the Company and its employees.

Specifically, the Compliance Officer informs the Company's management about regulatory compliance issues as they arise from the applicable legal framework and about any failure in meeting the obligations it imposes. The Compliance Officer also ensures compliance with deadlines for fulfilling obligations as required by the applicable legal framework.

3.3.4 New information and communication technology risk

New information and communication technologies can be employed by the Company to survive the fierce competition it faces.

However, the continuous use of such technologies carries various risks that can threaten the smooth operation of the Company and the availability of its systems, and that can impose significant burdens on its financial results and reputation. The Company has included in its Risk Management Framework the identification, assessment and management of risks arising from digital technology.

To address this risk, the Company takes appropriate measures, including installing security systems on various websites related to its partners and customers, creating an encrypted connection between the web server and the visitor's browser, installing antivirus software on all personal computers and servers of the Company to prevent unwanted interventions in the Company's files and limit threats from computer viruses. Additionally, continuous training of the Company's personnel and intermediaries are conducted for the safe use of the internet.

3.4 Stress tests

Below are the stress tests that have been performed as part of the ORSA for the projected financial years 2023 (actual results not available at the time of the ORSA), 2024, 2025, and 2026.

Scenario 1 – The Company has proceeded with performing a more adverse scenario. Specifically, it has further increased the amount of outstanding claims under the Motor Vehicles business due to the further rise in claim costs and the frequency of claims related to electric vehicles. This is because the historical data for this type of vehicle is not as extensive as it is for vehicles with internal combustion engines, which does not allow for equally accurate estimates of claim costs and claim frequency.

Scenario 1	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,484,601	5,511,558	5,485,284
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	9,396,213	9,441,534	9,425,899
IFRS Own Funds	8,628,007	9,492,500	9,213,304	9,396,213	9,441,534	9,425,899
SCR Coverage Ratio	156.31%	174.45%	167.62%	171.32%	171.30%	171.84%
compared to the baseline			0.00%	-1.23%	-2.14%	-2.17%
MCR Coverage Ratio	215.70%	237.31%	230.33%	234.91%	236.04%	235.65%
compared to the baseline			0.00%	-1.28%	-2.63%	-2.68%

Scenario 2 – For the financial year 2024, the Company predicts a major earthquake in the Limassol district. In addition to the material damages, it will have to compensate policyholders for under the Fire and Motor Vehicle business, it will also incur total damage to building which it owns and which houses its branch in Limassol. Therefore, for the years 2025 and 2026, it will incur the expenses of temporarily moving its operations in a new location and reconstructing the aforementioned building.

Scenario 2	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,609,825	5,459,367	5,437,806
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	7,983,003	8,751,046	8,543,307
IFRS Own Funds	8,628,007	9,492,500	9,213,304	7,983,003	8,751,046	8,543,307
SCR Coverage Ratio	156.31%	174.45%	167.62%	142.30%	160.29%	157.11%
compared to the baseline			0.00%	-30.24%	-13.15%	-16.90%
MCR Coverage Ratio	215.70%	237.31%	230.33%	199.58%	218.78%	213.58%
compared to the baseline			0.00%	-36.61%	-19.90%	-24.75%

Scenario 3 – For the financial year 2024, the Company predicts extreme weather phenomena affecting Central Europe, causing significant losses to its reinsurers. It is estimated that these extreme weather phenomena will also reach Cyprus in 2024. A windstorm will cause extensive damage in a specific area, resulting in, among other things, a large claim under the Employer's Liability business and increased claims under the Fire line of business.

Scenario 3	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,666,509	5,482,521	5,452,448
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	9,171,733	9,358,114	9,263,138
IFRS Own Funds	8,628,007	9,492,500	9,213,304	9,171,733	9,358,114	9,263,138
SCR Coverage Ratio	156.31%	174.45%	167.62%	161.86%	170.69%	169.89%
compared to the baseline			0.00%	-10.69%	-2.75%	-4.12%
MCR Coverage Ratio	215.70%	237.31%	230.33%	229.29%	233.95%	231.58%
compared to the baseline			0.00%	-6.89%	-4.72%	-6.75%

Scenario 4 – A loss of 10% in the financial year 2024, a loss of 15% in 2025, and a loss of 20% in 2026 in the recoverable amounts from reinsurance contracts (technical provisions). The Company has also predicted a reduction in the amounts in its bank accounts, in the event of losses in recoverable amounts from its reinsurers, as it will need to bear the losses itself to cover its obligations. Additionally, the credit rating of the Company's largest reinsurer has been downgraded by one step for the next three years.

Scenario 4	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,646,045	5,673,321	5,641,725
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	9,365,289	9,401,780	9,325,781
IFRS Own Funds	8,628,007	9,492,500	9,213,304	9,365,289	9,401,780	9,325,781
SCR Coverage Ratio	156.31%	174.45%	167.62%	165.87%	165.72%	165.30%
compared to the baseline			0.00%	-6.67%	-7.72%	-8.71%
MCR Coverage Ratio	215.70%	237.31%	230.33%	234.13%	235.04%	233.14%
compared to the baseline			0.00%	-2.05%	-3.63%	-5.19%

Scenario 5 – A decrease of 2.5% in 2024, a further decrease of 5% in 2025, and a further decrease of 7.5% in 2026 in the value of properties for own use and investment properties (land and buildings).

Scenario 5	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,449,304	5,430,102	5,338,054
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	9,240,053	8,945,585	8,386,716
IFRS Own Funds	8,628,007	9,492,500	9,213,304	9,240,053	8,945,585	8,386,716
SCR Coverage Ratio	156.31%	174.45%	167.62%	169.56%	164.74%	157.11%
compared to the baseline			0.00%	-2.98%	-8.70%	-16.90%
MCR Coverage Ratio	215.70%	237.31%	230.33%	231.00%	223.64%	209.67%
compared to the baseline			0.00%	-5.19%	-15.03%	-28.66%

Scenario 6 – A loss of 10% in deposits each year from one of the Company's largest counterparties (Bank of Cyprus), with a simultaneous downgrade of its credit rating from Baa3 to B.

Scenario 6	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,665,391	5,745,878	5,701,130
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	9,332,326	9,328,133	9,221,304
IFRS Own Funds	8,628,007	9,492,500	9,213,304	9,332,326	9,328,133	9,221,304
SCR Coverage Ratio	156.31%	174.45%	167.62%	164.73%	162.34%	161.75%
compared to the baseline			0.00%	-7.82%	-11.10%	-12.27%
MCR Coverage Ratio	215.70%	237.31%	230.33%	233.31%	233.20%	230.53%
compared to the baseline			0.00%	-2.88%	-5.47%	-7.80%

Scenario 7 – Loss of deposits from the largest counterparty (CDB Bank) of the Company, with the first €100,000 covered.

Scenario 7	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,312,761	5,345,382	5,338,648
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	7,518,387	7,621,579	7,707,959
IFRS Own Funds	8,628,007	9,492,500	9,213,304	7,518,387	7,621,579	7,707,959
SCR Coverage Ratio	156.31%	174.45%	167.62%	141.52%	142.58%	144.38%
compared to the baseline			0.00%	-31.03%	-30.86%	-29.63%
MCR Coverage Ratio	215.70%	237.31%	230.33%	187.96%	190.54%	192.70%
compared to the baseline			0.00%	-48.23%	-48.13%	-45.63%

Scenario 8 – Reverse Stress Test - Extreme stress test with a combination of events. Specifically, the following assumptions have been used: an increase in outstanding claims, a decrease in the value of properties, loss of deposits from the largest counterparty of the Company, and a downgrade of the credit rating of the largest reinsurer of the Company by one step.

Scenario 8	2022	09/2023	2023	2024	2025	2026
SCR	5,477,395	5,441,535	5,496,549	5,390,007	5,307,817	5,195,173
MCR	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
SII Own Funds	8,561,948	9,492,500	9,213,304	6,543,208	5,620,900	4,787,560
IFRS Own Funds	8,628,007	9,492,500	9,213,304	6,543,208	5,620,900	4,787,560
SCR Coverage Ratio	156.31%	174.45%	167.62%	121.40%	105.90%	92.15%
compared to the baseline			0.00%	-51.15%	-67.54%	-81.86%
MCR Coverage Ratio	215.70%	237.31%	230.33%	163.58%	140.52%	119.69%
compared to the baseline			0.00%	-72.61%	-98.15%	-118.64%

Assessing the results arising from the above stress tests, in all cases except for the Reverse Stress Test, the Company exhibits a SCR coverage ratio above 115%. Nevertheless, all stress tests serve as a significant risk management tool and are utilised to alert the Company regarding the negative unforeseen impacts that may occur.

4. Valuation for Solvency purposes

4.1. Information regarding the valuation of assets for Solvency purposes

Below is a statement of all the assets of the Company as they were valued as at 31 December 2023 under the Solvency II (SII) basis and, in a comparable format (which is different than the reported format), under the IFRS basis.

Item	SII BS	IFRS BS
Assets	**23,252,159**	**28,386,248**
Deferred acquisition costs	0	1,041,976
Intangible assets	0	65,890
Deferred tax assets	0	0
Property, plant & equipment held for own use	2,259,898	2,259,898
Investments (other than assets held for index-linked and unit-linked funds)	14,397,539	14,397,539
Reinsurance recoverable	1,550,317	4,217,545
Insurance & intermediary receivables	1,864,826	3,223,821
Reinsurance receivables	499,903	499,903
Receivables (trade, not insurance)	330,045	330,045
Cash and cash equivalents	2,349,631	2,349,631
Any other assets, not elsewhere shown	0	0

The Company's assets are accounted for based on the historical cost principle, except for land and buildings, investment properties, and investments at fair value through profit or loss, which are presented at fair value.

4.1.1 Investment properties

Investments properties are held by the Company for long-term rental income and/or capital appreciation and are not used by the Company. Investment properties are presented at fair value, which represents the freely marketable value determined annually by external independent valuators. Changes in fair value amounts are recorded in the income statement.

For Solvency II purposes, the value of Investment Properties remains the same.

4.1.2 Property, plant and equipment

Assets used in the Company's operations are initially recognised at cost and are subsequently assessed at their estimated fair value, net of accumulated depreciation. The fair value is based on the market value presented in reports prepared by independent professional appraisers at regular intervals. Facilities and equipment are presented at cost less accumulated depreciation.

For Solvency II purposes, the calculation basis remains the same, except for electronic computer programs, which, as intangible assets, are valued at zero.

As a lessee, the Company has identified items in its balance sheet, increasing its assets and liabilities, taking into account the International Accounting Standard IFRS 16 for leases of properties. Specifically, the Company recognises a right-of-use asset for the right to use the underlying leased asset and a lease liability representing the Company's obligation for lease payments.

The value of the right-of-use asset under Solvency II remains the same.

4.1.3 Investment in stocks and securities

For listed securities, fair value is considered to be the current bid price on the stock exchange where the investments are traded. For example, the value of investments as of the financial statement date (31/12/2023) is the value at which the particular investment was traded on the stock exchange on that date. If there was no trading on that specific date, the closest trading date is taken into account.

There is no difference in the valuation of investments for Solvency II purposes.

4.1.4 Deferred acquisition costs

Expenses incurred for the issuance of insurance policies are deferred until the point at which they are recoverable. These expenses relate to the acquisition or renewal of insurance contracts and can be carried forward to subsequent years. The acquisition costs related to premiums, which are entered into during the fiscal year but pertain to a subsequent fiscal year, are calculated on a compatible basis with the methodology used for unearned premiums.

For IFRS purposes, after the implementation of IFRS17 deferred acquisition costs are included as a negative amount within the Liability for Remaining Coverage.

For Solvency II purposes, the valuation of acquisition costs does not align with the timing of cash flows related to acquisition costs for the calculation of technical provisions under Solvency II. As a result, the value of acquisition costs is zero.

4.1.5 Insurance & intermediary receivables, and Receivables (trade, not insurance)

Amounts owed by agents and individual clients are presented based on their nominal values as of the financial position statement date, less the provision for specific and general provisions for doubtful receivables, which is considered their fair value.

A provision for impairment of a receivable is recognised when there is objective evidence that the Company will not be able to collect all the receivables due under the contract and in accordance with the original terms.

Since January 1, 2018, the Company has implemented a new credit policy for the collection of premiums in accordance with the Insurance Commissioner's Guidelines published in March 2017. Under the new credit policy, premiums not paid within the specified timeframe are not renewed, and insurance contracts entered into after January 1, 2018, for which policyholders do not meet the contractual repayment terms, are cancelled.

Based on the guidelines of the Insurance Commissioner, as described above, the Company is responsible for collecting premiums directly from its clients. Any premiums collected by agents or other intermediaries must be transferred to the Company within seven days of actual receipt.

Regarding the outstanding amounts from agents, there are balances owed by only two agents of the Company who have contracts with the Company for regular repayment. Part of the remaining balances is covered by mortgaged real estate with an estimated value greater than the outstanding amount. During 2023, an extension of the repayment period for the two contracts was signed until the full settlement of the owed amount.

For Solvency II purposes, there is a proportional adjustment to these outstanding balances. The technical provisions related to premiums are calculated on contract-specific estimates. The best estimate of technical provisions relates to future payments of outstanding receivables, administrative expenses, and the expenses of all contracts in force. Additionally, the best estimate includes insurance contracts that have been issued but have not yet commenced or have been issued with unpaid premiums. These premiums are included in the best estimate of premiums but are deducted from the Company's financial position (balance sheet). An amount of €1,358,995 is deducted from the IFRS figure to arrive at the Solvency II figure for this asset.

The Company's share of profit or loss from the Cyprus Hire Risk Pool, a public use cooperative of insurers, is calculated based on the amount of premiums the Company collects in the Motor Vehicles sector as a proportion of the total premiums in the entire market for this sector. This is recognised in the income statement based on the annual financial statements of the cooperative.

The value of these assets does not differ for Solvency II purposes.

4.1.6 Cash and cash equivalents and Deposits

This category consists of cash in hand and at bank, plus deposits.

For the purposes of Solvency II and comparability of IFRS with SII, accrued interest from deposits is included within deposits. For the preparation of the annual financial statements, accrued interest is presented separately as other receivables.

The value of all the assets remains the same under the Solvency II balance sheet.

4.1.7 Reinsurance recoverables

This asset includes recoveries due from reinsures.

The difference in the value of this asset between the IFRS and Solvency II bases is due to the difference between the method in calculating them.

The Company reinsures its business, and this reduces the technical provision by lowering the best estimate liabilities and consequently reducing the capital requirements, through building the reinsurance recoveries as an asset.

The table below shows a summary of the reinsurance recoveries on various segments written by the Company inclusive of the reinsurance default adjustments:

	€ Reinsurance BE Liabilities 31/12/2023	€ Reinsurance Premium Provisions 31/12/2023	€ Reinsurance Claim Provisions 31/12/2023
Medical expense insurance	0	0	0
Income protection insurance	3,455	3,455	0
Motor vehicle liability insurance	1,540,307	-197,561	1,737,868
Other motor insurance	-91,036	-110,681	19,646
Marine, aviation and transport insurance	14,576	7,427	7,149
Fire and other damage to property insurance	245,381	-151,007	396,388
General liability insurance	-144,678	-186,358	41,681
Credit and suretyship insurance	0	0	0
Miscellaneous financial loss	-17,687	-17,687	0

Total	**1,550,318**	**-652,413**	**2,202,731**

The Reinsurance asset overall result ties back to the reinsurance assets as summarised in the asset section:

Assets	**€** **SII** **31/12/2023**
Reinsurance shares of TPs - non-life excluding health	1,546,862
Reinsurance shares of TPs - health similar to non-life	3,455

4.2. Information on the Valuation of Technical Provisions and Other Liabilities

Below is a statement of all the liabilities of the Company as they were valued as at 31 December 2023 under the Solvency II (SII) basis and, in a comparable format (which is different than the reported format), under the IFRS basis.

Item	**SII BS**	**IFRS BS**
Liabilities	**14,170,614**	**19,466,198**
Technical provisions – non-life	11,015,724	15,208,732
Provisions other than technical provisions	0	580,757
Deferred tax liabilities	521,567	498,496
Financial liabilities other than debts owed to credit institutions	203,033	203,033
Insurance & intermediaries payables	999,190	999,190
Reinsurance payables	901,650	1,446,540
Payables (trade, not insurance)	332,863	332,863
Any other liabilities, not elsewhere shown	196,587	196,587

4.2.1 Technical Provisions

The technical provision (gross) as at the valuation date for the Company are shown in the table below:

Line of Business	**€** **SII Best Estimate Liability** **31/12/2023**	**€** **SII Risk Margin** **31/12/2023**	**€** **SII Technical Provisions** **31/12/2023**
Medical expense insurance	0	0	0
Income protection insurance	12,811	1,144	13,955
Motor vehicle liability insurance	7,282,994	318,851	7,601,845
Other motor insurance	1,666,034	111,864	1,777,898
Marine, aviation and transport insurance	31,768	3,407	35,175
Fire and other damage to property insurance	594,448	52,124	646,572
General liability insurance	873,323	80,910	954,233
Credit and suretyship insurance	0	0	0
Miscellaneous financial loss	-17,110	3,156	-13,954
Total	**10,444,270**	**571,456**	**11,015,724**

The tables that follow show a comparison between the liabilities as calculated for IFRS and SII purposes:

	€ SII 31/12/2023	€ IFRS 31/12/2023
Technical Provisions (gross)	11,015,724	11,535,531
TP calculated as a whole	0	0
Best Estimate	10,444,268	0
Risk margin	571,456	0

The material differences between the valuation of technical provisions for Solvency II purposes and those used for financial statements are as follows:

1. The Liability for Remaining Coverage does not exist for Solvency II purposes and is replaced by the best estimate of the premium provision.
2. The liabilities from insurance contracts in financial statements are discounted using risk-free rates plus a volatility adjustment as opposed to those used for Solvency II purposes where future cash flows are discounted using risk-free rates without such adjustment.
3. The non-financial risk adjustment is calculated for the purposes of financial statements only and is not included in Solvency II.
4. The risk margin is calculated for Solvency II purposes only and is not included in financial statements.

The technical provisions are taken as the sum of Best Estimate Liability (BEL) and Risk Margin (RM). These items are further explained below.

Best Estimate Liability (BEL)

The BEL calculation corresponds to the probability weighted average of future cash-flows taking account of the time value of money. The cash flows that make up the BEL components as at the valuation date is the total of the Claim Provisions reserves and the Premium Provisions.

Claim Provisions account for claims that have already incurred up to the valuation date and Premium Provisions account for future claims and expenses that are expected to arise given the in-force portfolio of the Company. The Company consistently closes its accounts on the last working day before Christmas, which is usually on the 23rd of December of any given year. Given this, any claim received between that date and 31st of December is considered to be part of the following valuation year. However, as this is consistently applied every year, the IBNR part of Claim Provisions appropriately accounts for these claims.

The time value of money is allowed by discounting using the risk-free yield curve for EUR (€) published by EIOPA.

Risk Margin (RM)

The risk margin is calculated by projecting the solvency capital requirement (SCR) for the run-off of existing business for 'non-hedgeable' risks. A prescribed cost of capital charge of 6% is applied and the result is then discounted at the risk-free rate to determine the risk margin.

The value of the RM is calculated in total and is then allocated to the lines of business (SII segments) based on the BEL requirement of each line.

4.2.2 Deferred Taxation

The Company has made a full provision for deferred taxation on all temporary differences between the net accounting value of its assets and liabilities and their tax values. Deferred taxation is calculated based on the tax rates expected to apply in the future.

Deferred taxation arising from the revaluation of properties, investments in properties, and temporary differences resulting from disparities between depreciations and capital allowances is transferred to the revaluation reserve and profit reserve, respectively. The reversal of the provision for deferred taxation is recognised in the statement of profit and loss or in the revaluation reserve, depending on where the initial provision was recognised.

There is no significant difference in the valuation of the above for Solvency II purposes.

4.2.3 Reinsurance Payables

For Solvency II purposes, an actuarial adjustment is made to the Reinsurance Payables, as the best estimate of unearned premiums includes contracts that have been issued but have not yet commenced or have been issued with uncollected premiums. These premiums are included in the best estimate of premiums. An amount of €544,890 is deducted from the IFRS figure to arrive at the Solvency II figure for this liability.

4.2.4 Taxation

The taxation presented as an expense in the income statement includes a provision for taxes on taxable income for the year based on the legislation and tax rates applicable in Cyprus.

There is no significant difference in the valuation of the above for Solvency II purposes.

5. Capital Management

5.1. Own Funds

Own Funds as at the valuation date are €9,081,545. The total amount of own funds is classified as Tier 1 capital and is broken down as follows:

	€ Basic Own Funds 31/12/2023
Ordinary share capital (net of own shares)	5,000,001
Other reserves from accounting balance sheet	3,920,049
Reconciliation reserve	144,385
Expected profit in future premiums	17,110
Total Basic own funds	**9,081,545**

The total amount of Own Funds is used to support the SCR and the MCR.

The differences between equity in financial statements and excess of assets over liabilities as calculated for solvency purposes is fully explained by the Reconciliation reserve.

There were no basic own-fund items subject to transitional arrangements.

There were no ancillary Own Funds.

There were no deductions from Own Funds.

The capital adequacy of the Company, as well as the proper classification of equity, are monitored both through the preparation of audited financial statements and through the calculation of quarterly and annual capital requirements and own funds eligible to cover such requirements. Additionally, the Company performs various stress tests to assess the adequacy of its capital. If the level of capital is not adequate, then the Company will increase its capital to cover its risks and obligations.

5.2. Solvency Capital Requirement and Minimum Capital Requirement

The SCR of the Company as at the valuation date was €5,539,096.

The MCR of the Company as at the valuation date was €4 million.

The Company is not making any simplified calculations.

The Company does not use undertaking-specific parameters.

The results based on the standard formula of SII are shown below including the results of the MCR and SCR coverage ratios for the current and the previous valuation dates:

	€ 31/12/2023	€ 31/12/2022
Market Risk (diversified)	**2,923,739**	**2,747,921**
Property Risk	1,961,193	1,396,448
Equity Risk	215,411	149,267
Spread Risk	243,048	346,441
Concentration Risk	1,761,564	2,062,458
Currency Risk	0	0
Interest Rate Risk	119,903	161,176
Counterparty Default Risk (diversified)	**1,314,277**	**1,363,187**
Health Underwriting Risk (diversified)	**7,279**	**6,333**
Non-life Underwriting Risk (diversified)	**2,698,916**	**2,776,393**
Premium & Reserves Risk	2,477,660	2,558,178
Catastrophe Risk	451,508	432,360
Lapse Risk	618,179	651,244
Diversification (BSCR)	**-1,749,109**	**-1,736,012**
BSCR (diversified)	**5,195,102**	**5,157,822**
Operational Risk	**343,994**	**319,574**
SCR	**5,539,096**	**5,477,396**
MCR	**4,000,000**	**4,000,000**
Own Funds eligible to cover the SCR and MCR	**9,081,545**	**8,561,950**
SCR coverage ratio	**163.95%**	**156.31%**
MCR coverage ratio	**227.04%**	**214.05%**

5.3. Use of the duration-based Equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable.

5.4. Differences between the Standard Formula and internal model

The Company did not use an internal model for the calculation of the Solvency Capital Requirement.

5.5. Non-Compliance with the Minimum Capital Requirement and Solvency Capital Requirement

There was no breach of the Minimum Capital Requirements or Solvency Capital Requirements during the reporting period.

5.6. Any other information

The policy of the Board of Directors is to maintain a strong capital base to ensure the confidence of the market investors and the Insurance Companies Control Service and to be able to support the future growth of the Company's operations.

The Board of Directors also monitors the capital performance, which is determined as the profit for the year attributable to Equity.

KPMG

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF ROYAL CROWN INSURANCE COMPANY LIMITED

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following Solvency II Quantitative Reporting Templates ("QRTs") contained in Annex I to Commission Implementing Regulation (EU) No 2023/895 of 4th April 2023, of Royal Crown Insurance Company Limited (the "Company"), prepared as at 31 December 2023:

- S.02.01.02 – Balance sheet
- S.17.01.02 – Non-Life Technical Provisions
- S.23.01.01 – Own funds
- S.25.01.21 – Solvency Capital Requirement – for undertakings on Standard Formula
- S.28.01.01 – Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

The above QRTs are collectively referred to for the remainder of this report as "the relevant QRTs of the Solvency and Financial Condition Report", as attached.

In our opinion, the information in the relevant QRTs of the Solvency and Financial Condition Report as at 31 December 2023 is prepared, in all material respects, in accordance with the Insurance and Reinsurance Services and other Related Issues Law of 2016 as amended, the Commission Delegated Regulation (EU) 2015/35 as amended, the Commission Delegated Regulation (EU) 2016/467, the relevant EU Commission's Implementing Regulations and the relevant Orders of the Superintendent of Insurance (collectively "the Framework").

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant QRTs of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the relevant QRTs of the Solvency and Financial Condition Report in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter
We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of preparation. The Solvency and Financial Condition Report is prepared in compliance with the Framework, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other information
The Board of Directors is responsible for the Other information. The Other information comprises certain narrative sections and certain QRTs of the Solvency and Financial Condition Report as listed below:

Narrative sections:

- Business and performance
- Valuation for solvency purposes
- Capital management

QRTs (contained in Annex I to Commission Implementing Regulation (EU) No 2023/895 of 4th April 2023):

- S.05.01.02 – Premiums, claims and expenses by line of business
- S.04.05.21 – Premiums, claims and expenses by country
- S.19.01.21 – Non-Life insurance claims

Our opinion on the relevant QRTs of the Solvency and Financial Condition Report does not cover the Other information listed above and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Solvency and Financial Condition Report
The Board of Directors is responsible for the preparation of the Solvency and Financial Condition Report in accordance with the Framework.

The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

In preparing the Solvency and Financial Condition Report, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the relevant QRTs of the Solvency and Financial Condition Report

Our objectives are to obtain reasonable assurance about whether the relevant QRTs of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Solvency and Financial Condition Report.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the relevant QRTs of the Solvency and Financial Condition Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of the basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Solvency and Financial Condition Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter
Our report is intended solely for the Board of Directors of the Company and should not be used by any other parties. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

KPMG Limited

KPMG Limited
Certified Public Accountants and Registered Auditors

14 Esperidon Street
1087 Nicosia
Cyprus

18 April 2024

Royal Crown

Solvency and Financial Condition Report

Disclosures

31 December

2023

(Monetary amounts in EUR thousands)

KPMG Limited

General information

Undertaking name	Royal Crown Insurance Company Limited
Undertaking identification code	213800OEXQ1KPSBJXC52
Type of code of undertaking	LEI
Type of undertaking	Non-Life insurance undertakings
Country of authorisation	CY
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	EUR
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.04.05.21 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations
S.05.01.02 - Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

KPMG Limited

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	2,260
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	14,398
R0080	*Property (other than for own use)*	5,585
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	43
R0110	*Equities - listed*	43
R0120	*Equities - unlisted*	0
R0130	*Bonds*	489
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	489
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	8,280
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	1,550
R0280	*Non-life and health similar to non-life*	1,550
R0290	*Non-life excluding health*	1,547
R0300	*Health similar to non-life*	3
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	1,865
R0370	Reinsurance receivables	500
R0380	Receivables (trade, not insurance)	330
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	2,350
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	23,252

KPMG Limited

S.02.01.02

Balance sheet

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions - non-life	11,016
R0520	*Technical provisions - non-life (excluding health)*	11,002
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	10,431
R0550	*Risk margin*	570
R0560	*Technical provisions - health (similar to non-life)*	14
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	13
R0590	*Risk margin*	1
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	522
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	203
R0820	Insurance & intermediaries payables	999
R0830	Reinsurance payables	902
R0840	Payables (trade, not insurance)	333
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	197
R0900	**Total liabilities**	14,171
R1000	**Excess of assets over liabilities**	9,082

KPMG Limited

S.04.05.21

Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

		Home Country	Top 5 countries (by amount of gross premiums written): non-life				
R0010							
		C0010	C0020	C0021	C0022	C0023	C0024
	Premiums written (gross)						
R0020	Gross Written Premium (direct)	11,776					
R0021	Gross Written Premium (proportional reinsurance)	0					
R0022	Gross Written Premium (non-proportional reinsurance)	0					
	Premiums earned (gross)						
R0030	Gross Earned Premium (direct)	11,466					
R0031	Gross Earned Premium (proportional reinsurance)	0					
R0032	Gross Earned Premium (non-proportional reinsurance)	0					
	Claims incurred (gross)						
R0040	Claims incurred (direct)	4,616					
R0041	Claims incurred (proportional reinsurance)	0					
R0042	Claims incurred (non-proportional reinsurance)	0					
	Expenses incurred (gross)						
R0050	Gross Expenses Incurred (direct)	2,998					
R0051	Gross Expenses Incurred (proportional reinsurance)						
R0052	Gross Expenses Incurred (non-proportional reinsurance)						

KPMG Limited

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	0	43		3,639	2,183	198	4,235	1,383	0			94					11,776
Gross - Proportional reinsurance accepted	R0120	0	0		0	0	0	0	0	0			0					0
Gross - Non-proportional reinsurance accepted	R0130																	0
Reinsurers' share	R0140	0	17		459	275	121	3,002	307	0			58					4,240
Net	R0200	0	25		3,180	1,908	77	1,233	1,077	0			36					7,536
Premiums earned																		
Gross - Direct Business	R0210	0	44		3,614	2,169	192	3,993	1,358	0			96					11,466
Gross - Proportional reinsurance accepted	R0220	0	0		0	0	0	0	0	0			0					0
Gross - Non-proportional reinsurance accepted	R0230																	0
Reinsurers' share	R0240	0	17		453	272	116	2,880	311	0			77					4,127
Net	R0300	0	27		3,161	1,897	76	1,113	1,047	0			19					7,340
Claims incurred																		
Gross - Direct Business	R0310	0	1		2,260	1,274	9	770	302	0			0					4,616
Gross - Proportional reinsurance accepted	R0320	0	0		0	0	0	0	0	0			0					0
Gross - Non-proportional reinsurance accepted	R0330																	0
Reinsurers' share	R0340	0	1		80	26	8	634	-3	0			0					746
Net	R0400	0	1		2,180	1,248	1	136	305	0			0					3,870
Expenses incurred	R0550	0	-5		1,420	829	-6	322	427	0			9					2,998
Balance - other technical expenses/income	R1210																	0
Total technical expenses	R1300																	2,998

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Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0		0	0	0	0	0	0			0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0		0	0	0	0	0	0			0					0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	0	13		1,152	892	20	77	-37	0			-17					2,099
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	3		-198	-111	7	-151	-186	0			-18					-652
R0150	**Net Best Estimate of Premium Provisions**	0	9		1,349	1,003	13	228	149	0			1					2,751
	Claims provisions																	
R0160	Gross	0	0		6,131	774	12	518	910	0			0					8,346
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0		1,738	20	7	396	42	0			0					2,203
R0250	**Net Best Estimate of Claims Provisions**	0	0		4,393	755	5	121	869	0			0					6,143
R0260	**Total best estimate - gross**	0	13		7,283	1,666	32	594	873	0			-17					10,444
R0270	**Total best estimate - net**	0	9		5,743	1,757	17	349	1,018	0			1					8,894
R0280	**Risk margin**	0	1		319	112	3	52	81	0			3					571
R0320	**Technical provisions - total**	0	14		7,602	1,778	35	647	954	0			-14					11,016
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	0	3		1,540	-91	15	245	-145	0			-18					1,550
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	0	11		6,062	1,869	21	401	1,099	0			4					9,465

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Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Accident Year

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Gross Claims Paid (non-cumulative)

(absolute amount)

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											151	151	151
R0160	-9	2,132	940	229	22	292	9	12	221	49	244		244	4,150
R0170	-8	2,028	960	68	65	89	1,048	378	71	74			74	4,781
R0180	-7	2,152	860	111	111	3	33	74	102				102	3,445
R0190	-6	2,319	1,003	98	63	23	28	72					72	3,607
R0200	-5	2,148	987	235	81	11	12						12	3,474
R0210	-4	2,352	1,194	120	72	21							21	3,759
R0220	-3	1,726	770	44	74								74	2,614
R0230	-2	2,003	1,202	71									71	3,276
R0240	-1	2,126	937										937	3,062
R0250	0	2,191											2,191	2,191
R0260												Total	3,950	34,512

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											993	949
R0160	-9	0	0	678	742	601	545	592	485	470	259		236
R0170	-8	0	917	774	917	1,042	805	672	555	530			481
R0180	-7	1,901	942	757	587	467	473	425	477				434
R0190	-6	1,995	925	765	702	603	578	521					479
R0200	-5	2,033	815	495	365	347	363						331
R0210	-4	2,304	995	786	2,150	2,084							1,895
R0220	-3	1,461	478	379	252								230
R0230	-2	1,949	568	323									301
R0240	-1	2,048	708										652
R0250	0	2,530											2,357
R0260												Total	8,346

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Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	5,000	5,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	4,082	4,082			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	9,082	9,082	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	9,082	9,082	0	0	0
R0510	Total available own funds to meet the MCR	9,082	9,082	0	0	
R0540	Total eligible own funds to meet the SCR	9,082	9,082	0	0	0
R0550	Total eligible own funds to meet the MCR	9,082	9,082	0	0	
R0580	**SCR**	5,539				
R0600	**MCR**	4,000				
R0620	**Ratio of Eligible own funds to SCR**	163.95%				
R0640	**Ratio of Eligible own funds to MCR**	227.04%				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	9,082
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	5,000
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	4,082
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	2,924		
R0020	Counterparty default risk	1,314		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	7		
R0050	Non-life underwriting risk	2,699		
R0060	Diversification	-1,749		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	5,195		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	344
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	5,539
R0210	Capital add-ons already set	0
R0211	*of which, capital add-ons already set - Article 37 (1) Type a*	0
R0212	*of which, capital add-ons already set - Article 37 (1) Type b*	0
R0213	*of which, capital add-ons already set - Article 37 (1) Type c*	0
R0214	*of which, capital add-ons already set - Article 37 (1) Type d*	0
R0220	**Solvency capital requirement**	5,539
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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

		LAC DT
	Calculation of loss absorbing capacity of deferred taxes	C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	1,454

		Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	9	25
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	5,743	3,180
R0060	Other motor insurance and proportional reinsurance	1,757	1,908
R0070	Marine, aviation and transport insurance and proportional reinsurance	17	77
R0080	Fire and other damage to property insurance and proportional reinsurance	349	1,233
R0090	General liability insurance and proportional reinsurance	1,018	1,077
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	1	36
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCR_L Result	0

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

Overall MCR calculation

		C0070
R0300	Linear MCR	1,454
R0310	SCR	5,539
R0320	MCR cap	2,493
R0330	MCR floor	1,385
R0340	Combined MCR	1,454
R0350	Absolute floor of the MCR	4,000
R0400	**Minimum Capital Requirement**	4,000

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