



# SFCR

Solvency and Financial Condition Report  
as of 31 December 2020



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**Note with regard to figures and rounding:**

In general, figures are presented as per thousand USD (kUSD). As a result of the use of automatic calculation aids, calculation differences caused by rounding may occur when adding up rounded amounts and percentages. Unless specified differently, calculations are based on data as per balance sheet date 31 December 2020.

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## List of abbreviations

Adj <sub>DT</sub>	Adjustment term for deferred taxes
Adj <sub>TP</sub>	Adjustment term for technical provisions
AG	Aktiengesellschaft (joint stock corporation)
Art.	Article
BE	Best Estimate
BSCR	Basic solvency capital requirement of Pillar 1
CCL	Cyprus Company Law
cf.	Latin: <i>confer</i>
CoC	Cost of Capital
DR	Delegated Regulation
EC	European Commission
ECB	European Central Bank
e.g.	Latin: <i>exempli gratia</i>
EIOPA	European Insurance and Occupational Pensions Authority from 01 January 2011
EPIFP	Expected Profits Included in Future Premiums
etc.	etcetera
GRAWE	Grazer Wechselseitige Versicherung Aktiengesellschaft
HR	Human Resources
HRG	Homogeneous risk group
i.e.	In other words
IAS/IFRS	International accounting standards in the respective last valid version endorsed by the EU
ICCS	Insurance Companies Control Service
incl.	including
LAW	The Law on Insurance and Reinsurance Business and other Related issues of 2016 and additional Orders and Guidelines issued from the Superintendent.
LoB	Line of Business
Ltd.	Limited
MCR	Minimum capital requirement
OECD	Organisation for Economic Cooperation and Development
ORSA	Own risk and solvency assessment of Pillar 2
Par.	Paragraph
SCR	Solvency capital requirement of Pillar 1
SI	Superintendent of Insurance
TÜV	Technical Inspection Association (German: Technischer Überwachungsverein)
VaR	The Value at Risk (VaR) denotes the threshold value that with the determined probability (=confidence level) is not exceeded within a defined period of time (=holding period).
VaR95	The Value at Risk that denotes the threshold value that is not exceeded within a defined period of time with a 95% probability.

## Summary

Medlife Insurance Ltd. (hereafter referred to as Medlife) is one hundred percent owned by GRAWE Reinsurance Ltd., a 100% subsidiary of Grazer Wechselseitige Versicherung AG. Further, Grazer Wechselseitige Versicherung AG is an Austrian company which has grown since its initial founding by Archduke Johann of Austria in 1828 from its original form as a fire damage insurer into an international group in Central and Eastern Europe which unites insurance undertakings, real estate and financial services under one roof.

Medlife which was founded in 1994 sells only life insurance and accident insurance contracts and its business strategy focuses on reliability and stability, security, independence and honest endeavour for our customers.

### A Business and Results

In the reporting year Medlife generated in life insurance gross premiums written in the total amount of kUSD 36,582 (2019: kUSD 34,347). Premiums written are offset by net claims incurred amounting to kUSD 50,041 (2019: kUSD 56,152). In the reporting year in the individual annual financial statements according to IFRS, a profit before taxes in the amount of kUSD 7,088 (2019: kUSD 8,828) was generated.

The income from investments (incl. liquid funds) in the annual financial statements according to IFRS amounted to kUSD 15,265 (2019: kUSD 16,899). The most important goal in the investment strategy is the continuous ensuring of the ongoing ability to fulfil the obligations from the insurance contracts.

### B System of Governance

The system of governance means the management and control system of Medlife. The organisation, tasks and authorisations of the Governance functions are defined in the company's internal policies. In addition, the system of governance guarantees compliance with the compensation and outsourcing regulations as well as the fit and proper requirements of the Board of Directors and of key function holders.

### C Risk Profile

The risk profile of Medlife remains unchanged in comparison to previous year. The main risk categories for the solvency capital requirement (SCR) according to the Solvency II standard formula are like last year, the market risk and the underwriting risk Life.

Furthermore, the capital requirement of the internal risk view that was determined within the ORSA process is far below the solvency capital requirement according to the standard formula.

### D Valuation for Solvency Purposes

The eligible own funds are determined on the basis of the economic balance sheet as surplus of the assets over liabilities. In the economic balance sheet, the assets and liabilities are set at market values.

This results in a valuation that deviates from the annual financial statements according to IFRS that have been approved and signed by the Board of Directors on the 6 April 2021.

The differences between the technical provisions according to IFRS and the Best Estimates in the economic balance sheet result from the different perspectives and calculation methods. The differences to the calculation in the previous year result in the area of Life risks based on the change in the risk-free interest curve specified by EIOPA and the change in the calculation tool. Due to the high solvency ratio, the use of any LTG transitional measure like volatility and matching adjustments were not considered.

## **E Capital Management**

As at 31 December 2020 the SCR amounted to kUSD 40,109 (2019: kUSD 34,063). The superb own funds with the amount of kUSD 134,315 (2019: kUSD 122,867), make it possible for Medlife to be a strong and reliable partner in years to come and provides the necessary reliability to the existing and future customers.

The SCR ratio, i.e. the comparison of the eligible own funds with the solvency capital requirement based on the calculations of the standard formula is as at 31 December 2020 334.9% (2019: 360.7%). The MCR of Medlife was kUSD 11,031 (2019: kUSD 11,569). The ratio of the eligible own funds to the MCR amounted to 1217.6% (2019: 1062.0%).

The requirements to cover the SCR were constantly fulfilled during the whole reporting period.

## **Statement of the Board of Directors**

The following solvency and financial condition report of Medlife was prepared in all conscience in accordance with the LAW and the corresponding European regulations. It provides the truest possible reflection of the solvency and financial condition and gives a description on the business, the system of governance, the risk profile and the assets, liabilities and own funds as well as the solvency balance sheet.

This report was approved for publication with the resolution by the Board of Directors dated 6 April 2021.

# **A. BUSINESS AND PERFORMANCE**

## **A.1 Business**

### **A.1.1 Business strategy**

The business model of Medlife defines autonomy, independence and the concentration on core customer groups, and thus, the calculation of risk-adequate premiums as well as a service-oriented customer support, as the key factors for success. Within the company, great importance is attributed to external/internal control systems, mutual appreciation, open communication and mutual trust as well as social security.

The business strategy of Medlife focuses on customers from Russia and other Central and Eastern Europe countries. Our target groups are in particular private customers. Through independent brokers just life insurance contracts and permanent accident insurance riders are sold. The majority of our life insurance portfolio includes contracts with guaranteed profit participation. Around 10% of our reserves are attributed to unit-linked business.

With regard to investments, a high importance is attached to security as well as long-term success and profit, in compliance with the legal provisions. This is reflected by our long-term successful and secure-oriented investment strategy, for which market bets in the capital investment area as well as not transparent and complex products are generally renounced. In addition, defined spreads and investment limits exist per asset category.

Based on the above mentioned business principles, the following risk-related principles can be derived for Medlife:

1. Safeguarding the continuance and sustainable prosperity of the company
2. Safeguarding the financial objectives
3. Achievement of the strategic objectives
4. Compliance with the legal provisions
5. Customer oriented service

The risk management and the internal control systems of Medlife are aligned with the strategy of the company and thus ensure that both the financial and the strategic objectives are achieved as well as the legal and Solvency requirements are fulfilled.

### **A.1.2 Ownership structure and group affiliation**

At the top of GRAWE Group and as direct owner of Grazer Wechselseitige Versicherung AG, with shares in the volume of 100% of its capital, there is GRAWE-Vermögensverwaltung, with its registered office in Graz, a mutual insurance association and a mixed financial holding company pursuant to the Austrian Financial Conglomerate Act.

GRAWE Reinsurance Ltd. was founded in 1999 as a reinsurance company and is the direct owner of Medlife, with shares in the volume of 100% of its capital.

Medlife is incorporated entirely into the consolidated annual financial statements of GRAWE-Vermögensverwaltung, 8010 Graz, Herrengasse 18-20.

The following simplified GRAWE Group structure shows the integration of Medlife in the GRAWE Group as of 31 December 2020.



**A.1.2.1 Affiliated undertakings**

As of 31 December 2020 Medlife had no affiliated undertakings.

**A.1.3 Auditor**

The annual financial statements of Medlife are audited by the appointed auditing and tax consulting company, KPMG Ltd., as of the balance sheet reference date 31 December 2020.

**Contact details:**

KPMG Limited  
 14 Esperidon  
 1087 Nicosia  
 Cyprus  
 Tel: +357 22 209 000  
[www.kpmg.com.cy](http://www.kpmg.com.cy)

**A.1.4 Supervisory authority**

The responsible supervisory authority for Medlife is the Superintendent of Insurance (SI) which is also the Head of the Insurance Companies Control Service (ICCS).

**Contact details:**

Insurance Companies Control Service (ICCS)  
 P.O. Box 23364  
 1682 Nicosia  
 Cyprus  
 Tel.: +357 22 602 952  
<http://mof.gov.cy/en/directorates-units/insurance-companies-control-service>



## A.2 Underwriting performance

The following tables provide an overview of the underwriting performance according to the IFRS financial statements.

<b>Gross amount</b>	Premiums written		Earned premiums	
	2020	2019	2020	2019
	kUSD	kUSD	kUSD	kUSD
Life insurance	36,582	34,347	39,040	36,677

As of 31 December 2020 the portfolio of Medlife included 34,914 (2019: 38,497) life insurance contracts.

The following tables show the composition of the premiums written and the earned premiums according to material categories, type of contracts and divided according to contracts with or without profit participation.

<b>Premiums by category</b>	Premiums written		Earned premiums	
	2020	2019	2020	2019
	kUSD	kUSD	kUSD	kUSD
Endowment insurance	26,532	30,365	28,990	32,425
Unit-linked life insurance	10,050	3,982	10,050	4,252
<b>Total</b>	<b>36,582</b>	<b>34,347</b>	<b>39,040</b>	<b>36,677</b>

<b>Premiums by contract</b>	Premiums written		Earned premiums	
	2020	2019	2020	2019
	kUSD	kUSD	kUSD	kUSD
Single premium contracts	7,387	5,318	7,883	5,679
Regular premium contracts	29,195	29,029	31,157	30,998
<b>Total</b>	<b>36,582</b>	<b>34,347</b>	<b>39,040</b>	<b>36,677</b>

<b>Premiums by profit participation</b>	Premiums written		Earned premiums	
	2020	2019	2020	2019
	kUSD	kUSD	kUSD	kUSD
Policies with profit participation	25,614	29,274	27,335	31,260
Policies without profit participation	10,968	5,073	11,705	5,417
<b>Total</b>	<b>36,582</b>	<b>34,347</b>	<b>39,040</b>	<b>36,677</b>

The following table gives an overview of claims incurred, operating expenses and reinsurance balance:

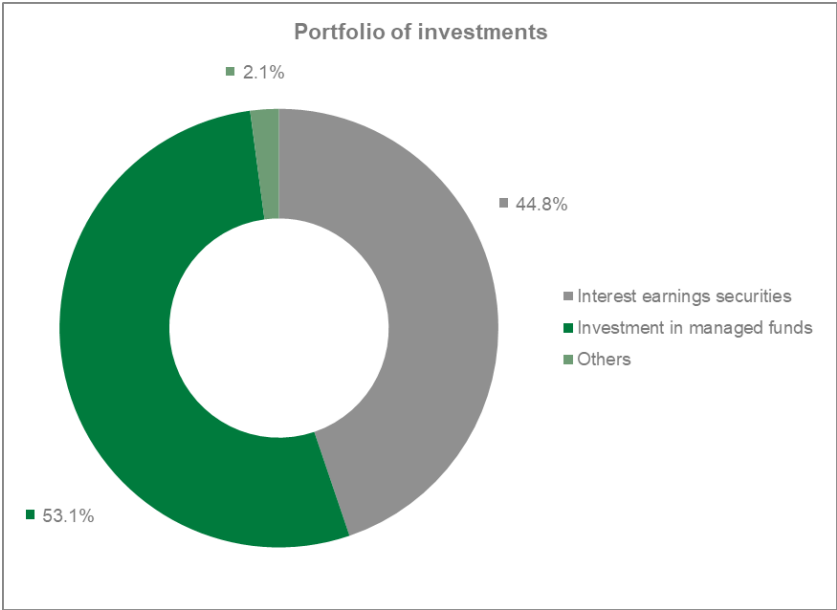
	Net claims incurred		Operating expenses		Reinsurance balance	
	2020	2019	2020	2019	2020	2019
<b>Gross amount</b>	kUSD	kUSD	kUSD	kUSD	kUSD	kUSD
<b>Life insurance</b>	50,041	56,152	8,617	7,792	2	809

### A.3 Investment performance

#### A.3.1 Structure of the investments

In the individual annual financial statements according to IFRS that are set in accordance with Article 2 of the Cyprus Company Law chapter 113, the investments of Medlife (incl. liquid funds) amounted as of 31 December 2020 to kUSD 499,248 (2019: kUSD 492,677).

The total portfolio of the investments at book values according to IFRS/CCL (incl. properties, cash at bank and in hand) is comprised as follows as of 31 December 2020:



The investments as of the reference date 31 December 2020 do not include any investments in securitisations.

With regard to the transfer of the book values in the annual financial statements according to IFRS/CCL at the market values in the economic balance sheet, reference is made to section D.

#### A.3.2 Result of the investment

The net total income incorporates current income from investments, realised profits and losses as well as depreciations from the following investment groups:

Result of the investments	Investment Income and realised Profits		Depreciations and realised Losses		Amortisations		Net Total Income	
	2020	2019	2020	2019	2020	2019	2020	2019
	kUSD	kUSD	kUSD	kUSD	kUSD	kUSD	kUSD	kUSD
Available for sale financial assets securities	8,250	8,861	-16	-18	-49	-37	8,185	8,806
Held to maturity financial assets securities	410	412	0	0	-141	-137	269	275
Available for sale financial assets managed funds	4,478	6,587	0	0	0	0	4,478	6,587
Unit linked investments	2,307	1,213	0	0	0	0	2,307	1,213
Loans and receivables including bank balances	26	18	0	0	0	0	26	18
<b>Total result of the investments</b>	<b>15,471</b>	<b>17,091</b>	<b>-16</b>	<b>-18</b>	<b>-190</b>	<b>-174</b>	<b>15,265</b>	<b>16,899</b>

The investment income decreased from the previous year, which is attributable mainly to the lower dividend income from UCIT funds, among others, the low-interest environment resulted in lower income in the sector of fixed interest-bearing securities. In addition, a decrease in investment income is also due to the decrease of the investment portfolio in general that moves in the same level as the insurance portfolio decrease. Finally, it is noted that unrealised profits from the unit linked investments increase substantially due to the good performance of the equity market at year end.

In the reporting year, the annual financial statements drawn up pursuant to the provisions of the IFRS/CCL include profits or losses that were recognised directly in equity as per the below table:

	2020	2019
	kUSD	kUSD
<b>Income for the year</b>		
<b>Profit for the year</b>	<b>6,602</b>	<b>8,550</b>
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified subsequently to the Income Statement:</i>		
<i>Available-for-sale financial assets</i>		
Net fair value loss on available-for-sale financial assets during the year	23,613	26,932
Net gain transferred to the income statement on sale of available-for-sale financial assets	-1,291	-115
	<b>22,322</b>	<b>26,817</b>
<i>Held-to-maturity investments</i>		
Release of HTM investments revaluation reserve	-97	-99
Other comprehensive loss for the year, net of tax	<b>22,225</b>	<b>26,718</b>
<b>Total comprehensive income for the year</b>	<b>28,827</b>	<b>35,268</b>

## **A.4 Performance of other activities**

All material income and expenses were explained in the previous sections. In addition, there are no other material income and expenses that need to be listed in the reporting year 2020.

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

Any relevant information regarding business and results are incorporated in the previous sections.

## **B. SYSTEM OF GOVERNANCE**

### **B.1 General information on the system of governance**

#### **B.1.1 Appropriateness**

The system of governance of Medlife guarantees a solid and prudent company management and is appropriate to the nature, scope and complexity of the business.

The appropriateness and effectiveness of the internal control systems and of the other components of the system of governance are regularly checked by the Internal Audit department.

#### **B.1.2 Board of Directors and key functions**

##### **B.1.2.1 Board of Directors**

The management of the company lies within the responsibility of the Board of Directors which consists of five Board members (3 executive Board members and 2 non-executive Board members). The company is represented jointly by two members of the Board of Directors.

The allocation of responsibilities within the Board of Directors is defined in the rules of procedures of the company in which also transactions are listed that require the prior approval of the shareholder.

As of 31 December 2020, the Board of Directors of Medlife consisted of:

Dr. Wolfgang Felser (Chairman, non-executive Board member)  
Aristodemos Aristodemou, BA, FCCA (executive Board member)  
Daniela Uhlmann, MA (executive Board member)  
Mag. Peter Hronovsky, MSC MBA (executive Board member)  
Petros Petrides, BSC FCA (non-executive Board member)

Mr. Felser is responsible for the areas of law and HR. Additionally he is the appointed Money Laundering officer and in his role as Chairman also supervising the other members of the Board of Directors.

The responsibilities of Mr. Aristodemou are the areas of accounting, finance and asset management.

Mrs. Uhlmann is responsible for the areas risk management, life insurance and claims, IT services, internal reporting and controlling and project management.

The areas of responsibility of Mr. Hronovsky are marketing and sales. Furthermore, he has the function as the Compliance Officer.

Mr. Petrides is the President of the Audit Committee and is additionally responsible for supervising the executive Board of Directors.

Each member of the Board of Directors has to present the important issues of the areas of responsibility at the Board meetings to make them subject of joint consultation and decision-making. On demand of a Board member, important matters of another area of responsibility shall be dealt with in the overall Board; especially the Chairman can submit questions of any area of responsibility to the Board for resolution.

### **B.1.2.2 Key functions (Governance functions)**

In addition to the Board of Directors, the four Governance functions, namely the Risk Management, Compliance function, Internal Audit function and Actuarial function are set up at Medlife as "key functions".

#### **B.1.2.2.1 Risk Management function**

The Risk Management function draws up and defines the risk strategy and determines risk limits. The Risk Management function analyses risk-relevant data, aggregates risks and highlights risk concentrations. In addition, the Risk Management function prepares a report that gives an overview of the company's overall risk situation (ORSA) and updates the existing risk management policy at least annually.

#### **B.1.2.2.2 Compliance function**

The Compliance function monitors compliance with the external and internal requirements and advises the Board of Directors in particular with regard to compliance with the regulations valid for operating the business. It assesses the compliance risk, the possible effects of changes of the legal environment on the business of Medlife and evaluates the appropriateness of the internal measures of the company to comply with the requirements.

#### **B.1.2.2.3 Internal Audit function**

The Internal Audit function provides independent and objective auditing and advising services. For this purpose, it draws up an annual audit plan on the basis of a risk-weighted audit land map that is to be approved by the Board of Directors.

Based on a risk-based audit approach, the Internal Audit department carries out ongoing and comprehensive audits of the legality, correctness and expediency of the entire business operations and assesses the appropriateness and effectiveness of the internal control systems and other components of the system of governance.

#### **B.1.2.2.4 Actuarial function**

The Actuarial function carries out coordination, control and consulting tasks. It coordinates the necessary steps to calculate the technical provisions pursuant to the Solvency II regulations and controls the calculation process. In addition, it expresses and explains any concerns with regard to the appropriateness of the technical provisions.

The Actuarial function assesses the sufficiency and the quality of the data that are taken as basis for the calculation of the technical provisions and compares the Best Estimate values with the empirical values.

It provides assistance in the implementation of the risk management system, in particular regarding own risk and solvency assessment.

### **B.1.3 Material changes in the system of governance**

There were no material changes of the system of governance in the reporting period.

### **B.1.4 Compensation policy and compensation practices**

#### **B.1.4.1 Principles of the compensation policy and importance of fixed and variable compensation components**

The principles of the compensation policy are aligned to the corporate strategy, the mission statement of the Group, the goals and values as well as the long-term interests and the permanent performance of Medlife and include measures to avoid conflicts of interest. The compensation policy is in line with the business and risk management strategy of Medlife and its risk profile.

The compensation practices are reconcilable with a solid and effective risk management, conducive to it and do not encourage the taking of risks that exceed the risk tolerance thresholds of Medlife. Within the overall compensation, the ratio between fixed and variable components is appropriate, whereat on the one hand the fixed compensation is high enough that an absolute economic dependence of the employee on the receipt of the variable component is avoided, and on the other hand, a flexible policy with respect to the variable compensation components is possible without restriction and thus, also the granting of a variable compensation can be renounced completely.

The variable compensation of the employees working in the Governance functions (Risk Management, Compliance, Internal Audit and Actuarial function) – if there is any - depends, in any case, on the success of the company and is independent from the direct performance of the operative units and areas for which they are responsible for.

If employees which have a significant impact on the risk profile of Medlife receive a variable compensation amounting to more than 30% of the annual basis compensation (below that level it is not expected that a significant financial incentive which encourages the taking of excessive risks exists), a retention of an adequate percentage of the variable compensation over 3 years will be applicable.

Employees with a significant impact on the risk profile of Medlife are the members of the Board respectively the Heads of the key functions.

The payment of variable compensation components, with the exception of any variable compensation components to be accrued is made entirely in the form of monetary payments.

Voluntary severance/settlement payments are granted only on an exceptional basis and if, only in accordance with the work performed during the overall period of activity.

The persons that are subject to this compensation policy are not allowed to follow personal hedging strategies and to make use of compensations-related and liability-related insurances, which, if applicable, undermine the risk adaptation effects enshrined in the compensation regulations.

#### **B.1.4.2 Individual and collective performance criteria**

At Medlife, the variable compensation components are linked to individual and collective performance criteria.

##### **B.1.4.2.1 Employees without management or profit responsibility**

The so-called "bonus" is a variable compensation component that can be granted for extraordinary performances (e.g. successful project completion) and is paid out as lump sum amount to the employees.

##### **B.1.4.2.2 Executives (including Board of Directors)**

Executives can get a variable compensation in form of an annual bonus. The amount of the variable compensation is by contract limited and may not exceed 25-30% of the annual fixed salary. The performance-related compensation components primarily depend on the earnings and financial position of Medlife and are particularly focused on strengthening the own funds situation and the sustainable safeguarding of the competitiveness.

##### **B.1.4.3 Supplementary pension or early retirement schemes**

There is currently no supplementary pension or early retirement scheme for members of the Board of Directors.

#### **B.1.5 Material transactions**

In the reporting period, there were no material transactions between Medlife and its shareholders, persons who exercise a significant influence over the company, or members of the Board of Directors.

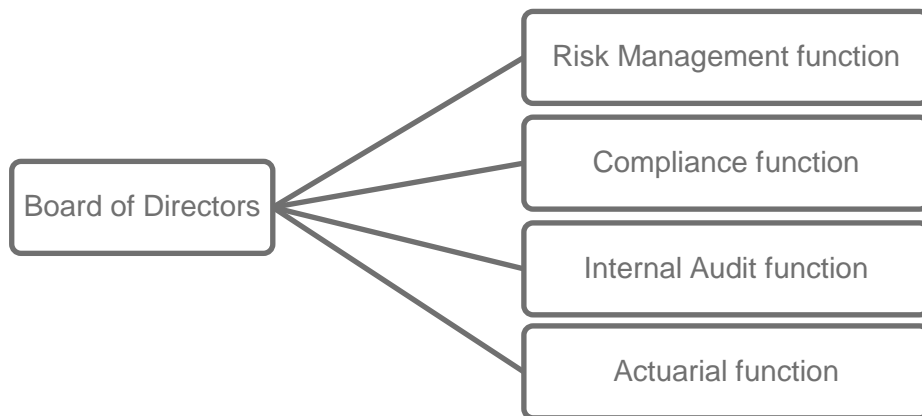
#### **B.1.6 Governance structure**

At Medlife, a Governance function has been set up. Due to the limited size of the company a Governance Committee will be established in the future just if required by law or due to the size of the company.



### B.1.6.1 Organisational integration

In the following, the integration of the system of governance in the business organisation of Medlife is depicted in graphical form:



### B.1.6.2 Authorisations, resources and operational independence

The Heads of the Governance functions have the authorisations and resources required to carry out their respective function. They are appropriate to the nature, scope and complexity of the business of Medlife.

The Heads of the Internal Audit function and Actuarial function are professionally independent and report directly to the Board of Directors. Compliance and Risk Management functions are carried out due to the limited size of the company from two Board members. Conflicts of interest are nevertheless not considered to be relevant as all important decisions are always taken on the level of the overall Board of Directors. For the Actuarial function and Internal Audit function personnel leasing agreements exist with Grazer Wechselseitige Versicherung AG.

All Heads of the Governance functions can only be appointed, re-appointed or dismissed by resolution of the overall Board of Directors.

### B.1.6.3 Reporting and advising

#### B.1.6.3.1 Risk Management function

The reporting differentiates between the standard reporting at defined dates (annually or quarterly) and the ad-hoc reporting.

The standard reporting from the Risk Management function is divided into the risk assessment for the following year carried out once a year as part of the planning process of Medlife (risk assessment) and the quarterly reporting of the risks occurred in the accounting year (risk reporting). The reports are made by the persons responsible for the risk (risk owners) to the risk management. The risk management creates with the information of the risk owners risk reports that are (if material risk occurred) communicated to the Board of Directors.

In addition to the standard reporting, there is also a so-called ad-hoc reporting.

Furthermore, an ORSA report is created at least once a year by order of the Board of Directors and communicated to them for approval. The recipients of the report are, in addition to the Board of Directors, the Governance functions and the supervisory authority.

The Risk Management function advises the Board of Directors on risk-relevant issues and proposes corresponding and cross-departmental measures to limit risks and their monitoring.

#### **B.1.6.3.2 Compliance function**

The reporting obligations of the Compliance function are the responsibility of the compliance officer as well as the compliance contact persons (managers of departments etc.) and incorporate the regular reporting and the ad-hoc reporting. The compliance officer prepares a written report (compliance annual report) to the Board of Directors once a year. In addition, the compliance officer reports to the Board of Directors immediately on important compliance issues (ad-hoc compliance Report).

The reporting from the compliance contact persons is done in the course of the risk management process. In addition, the compliance contact persons report to the compliance officer on a quarterly basis on the compliance risks, compliance measures and the other compliance topics that relate to their area of responsibility. The results are incorporated into the annual report of the compliance officer. Important compliance topics are to be reported to the compliance officer immediately.

The Compliance function advises the Board of Directors in particular with regard to compliance with the regulations valid for the operation of the business and with regard to the implementation of compliance measures.

#### **B.1.6.3.3 Internal Audit function**

Promptly after completion of an audit, the internal audit department creates an audit report on the results of its audit activities. The reports are to be communicated to the overall Board of Directors. The approved audit reports will be distributed to the managers of the audited or affected divisions/departments.

Irrespective of these reports, the Internal Audit function has the obligation to inform the Board of Directors immediately, whenever the continuity, development or the viability of the company may be vulnerable or affected significantly. An immediate reporting is also mandatory, whenever a recorded interference with extensible dimensions must be corrected in time or its extension must be limited.

In the context of consultancy services, the Internal Audit function provides support for projects (in particular consulting regarding the design of internal control systems and implementation of projects) and work flows, in particular in respect of IT-support, in order to ensure compliance and to achieve the implementation of adequate controls.

#### **B.1.6.3.4 Actuarial function**

The Actuarial function draws up a written report to the Board of Directors and to the supervisory authority once a year.

The report documents the tasks carried out by the Actuarial function as well as the generated results and defines any defects clearly and unambiguously and contains recommendations on the elimination of such defects.

According to the LAW the tasks of the Actuarial function are as follows:

- Coordinate the calculation of technical provisions.
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions.
- Assess the sufficiency and quality of the data used in the calculation of technical provisions.
- Compare Best Estimates against experience.
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions.
- Oversee the calculation of technical provisions in the cases set out in section 88.
- Express an opinion on the overall underwriting policy.
- Express an opinion on the adequacy of reinsurance arrangements.
- Contribute to the effective implementation of the risk-management system referred to in section 45, in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in the Sixth Chapter, Sections 4 and 5 of this Part, and to the assessment referred to in section 46.

The Actuarial function submits information about the calculation of the technical provisions to the Board of Directors. These contain an analysis of the reliability and appropriateness of the calculation and of the uncertainty that the estimate of the technical provisions contains.

## **B.2 Fit and proper requirements**

### **B.2.1 Requirements of skills, knowledge and expertise**

#### **B.2.1.1 General**

With regard to the qualification of the members of the Board of Directors and key function holders, the knowledge acquired through theoretical training and practical experience has to be taken into account. Within the Board of Directors, the allocation of responsibilities is fundamental. Regarding key function holders, it has to be taken into account that their requirements are to be applied also to the deputies of the functions (if existent) accordingly proportional to the duration of the representation as well as the nature, extent and complexity of the business activity.

#### **B.2.1.2 Board of Directors**

##### **B.2.1.2.1 Training and professional experience**

Requirements for the professional qualification of Board members: Graduation from relevant professional degree programs/courses and/or external or internal trainings or corresponding education and further training.

At least two board members shall have adequate professional experience as a leader or expert; experience shall be assumed if a managing position for at least three years at GRAWE Group or an insurance or reinsurance undertaking of comparable size and type of business is certified. For further members, experience in other areas which are essential for running the insurance business and a leading position in corresponding companies are sufficient.

### **B.2.1.2.2 Know-How**

Members of the Board of Directors must have know-how in the areas of insurance and financial markets, business strategy and business model, system of governance, financial analysis (accounting) and actuarial analysis as well as supervisory law and regulatory requirements.

In this context the Board of Directors must be considered in its entirety as adequately fit. Individual members with pronounced specialist know-how can compensate – particularly with regard to the allocation of responsibilities - less pronounced know-how of other members in these areas.

### **B.2.1.3 Key function holders**

#### **B.2.1.3.1 Training and professional experience**

The holders of key functions have specific training regarding their field or professional experience. A specialist qualification sufficient for the respective area of responsibility in the areas relevant for insurance and reinsurance companies is usually to be assumed if a relevant degree has been completed and evidence is provided of at least three years of relevant professional experience.

If these requirements are not met, it is to be checked in individual cases whether the respective person has sufficient theoretical and practical knowledge. Herewith, a different relevant training can be seen as sufficient instead of a relevant degree course.

#### **B.2.1.3.2 Know-How**

Detailed knowledge is required for the Heads of a Governance function. This includes know-how in the area of insurance and finance markets, business strategy and business model and the knowledge of the general regulatory conditions according to the respective function.

The Head of the Risk Management function, the Head of the Compliance function and the Head of Internal Audit function must have know-how in the area of the system of governance.

The Head of the Risk Management function and the Head of the Actuarial function have to have knowledge in the areas of financial analysis (accounting) and actuarial analysis (the risk management only to a limited extent).

In addition, the Head of the Actuarial function has the necessary know-how of insurance mathematics and financial mathematics that is appropriate to the nature, scope and complexity of the risks associated with the business of Medlife, as well as relevant experience with regard to applicable professional and other standards.

## **B.2.2 Procedures for the fit and proper evaluation**

### **B.2.2.1 Board of Directors**

The overall Board of Directors is responsible for the fit and proper evaluation of members of the Board of Directors. The responsible Board member for HR can be entrusted with operational tasks such as the obtaining, forwarding and preparing of documents.

The aptitude assessment for new members of the Board of Directors has to be done before they are appointed so that the overall Board of Directors can take the result of the aptitude assessment as a basis for their decision. For the aptitude assessment a detailed CV, qualification certificates (highest qualification) and/or references for relevant professional experience (duration and content) and an actual criminal record certificate have to be submitted. The prospective Board Member must in general fulfil the requirements and attributes required by the current law.

Before the appointment, a hearing can take place during which the members of the Board have the opportunity to also ask verbal questions to the candidate. The notification to the SI is to be made latest immediately after the new Board member has been appointed (but if possible already one month before the appointment).

### **B.2.2.2 Key function holders**

The final decision regarding the appointment of key function holders is taken by the Board of Directors whereas the Board member responsible for HR can refer to other resources and/or departments (e.g. Internal Audit) to assess the specialist aptitude.

The documents and the results of the aptitude assessments will be documented/filed by the Board member responsible for HR.

All potential new employees undergo a multi-stage and structured application procedure, which includes besides psychometric, qualification-diagnostic potential analysis instruments also semi-structured interviews or aspects of assessment procedures.

The aptitude assessment for new key function holders is done in the course of an internal or external recruiting process. For the aptitude assessment a detailed CV, a structured HR questionnaire, qualification certificates (highest qualification) and/or references for relevant professional experience (duration and content) and an actual criminal record certificate have to be submitted. The prospective key function holder must in general fulfil the requirements and attributes required by the current law.

The notification to the SI is to be made immediately after the appointment of the key function holder.

## **B.3 Risk management system**

Risk management refers to all measures regarding the identification and management of risks that Medlife is exposed to and therefore all harmonized and coordinated regulations, measures and procedures for the identification, monitoring and averting of risks.

The task of the risk management is not to prevent risks, but to enter into risks in a conscious and goal-oriented manner and to systematically assess, control and monitor these undertaken risks and to prepare alternative measures in order to promptly counteract any threatening developments.

One goal of risk management is to create a company-wide risk culture, i.e. risk awareness in all decisions and actions in the business procedure. Awareness of risks at all levels of the company is therefore necessary and involves basically all employees. A corresponding information and training is already implemented for new and existing employees within the framework of basic training of Medlife.

### **B.3.1 Risk strategy**

The following risk-related principles of Medlife can be derived based on the business principles explained in section A.1.1:

1. Safeguarding the continuance and sustainable prosperity of the company
2. Safeguarding the financial objectives
3. Achievement of the strategic objectives
4. Compliance with the legal provisions
5. Customer oriented service

The sustainable equipment with own funds and its safeguarding are key factors for ensuring the continuance of the company.

The harmonization of the business strategy and the risk strategy takes place in the course of the annual planning as well as regularly through the calculation of key figures and own funds and according to the Solvency II standard formula.

Furthermore, conclusions with regard to the equipment of own funds are drawn based on the multi-year-planning within the ORSA process, and with scenario analysis it is analysed if the required minimum capital requirement is also ensured for the company in an adverse market environment.

The risk management and the internal control systems of Medlife are aligned with the strategy of the company and thus ensure that both the financial and the strategic objectives are achieved as well as the statutory solvency requirements are fulfilled. These goals can be achieved through mature and functional internal control and risk management systems that are according to the Group standard.

### **B.3.2 Risk management process**

The individual steps of the risk management process are shown in the following chart.



The first step in the risk management process is the **risk identification**. It involves an analysis of the current situation of the risk management by scrutinising critical areas of the company as well as processes and by identifying risks in core processes and finding corresponding measures to mitigate or prevent risks.

The main focus thereby is predominantly on the risks with the potentially greatest financial effects.

At first the identified risks are classified into risk categories and into underlying individual risks. The categorisation simplifies the reconciliation and analysis of the risks as well as their steering.

During the initial identification of the risks of Medlife, clear responsibilities for the risks were defined; whereby the assigned risk owners are responsible for the evaluation and the steering of these risks.

To assess the overall risk profile, a time horizon of one year and beyond that a 3-year risk perspective pursuant to the planning horizon of Medlife is used.

In order to standardise the identification and evaluation of the risks within the individual departments of Medlife, guidelines for the evaluation of potential risks and those that have already occurred will be provided besides a uniform risk list.

The second step in the risk management cycle is the **risk assessment and analysis**. As far as possible, the identified risks are quantified. Qualitative assessments are used for risks that cannot be quantified or are difficult to quantify (such as in the area of operational risks). The assessment of the potential risks is carried out in the form of expert estimations by using risk evaluation matrices based on risk level and probability of occurrence (= risk assessment).

The selection of the risk level and the probability of occurrence results in the expected value of a risk per year. The standard risk assessment of the potential risks is implemented once a year as part of the planning process (third quarter).

In addition, in the risk analysis the materiality of the identified risks is defined and a risk ranking is carried out. In further analyses and in the determination of suitable risk steering measures, it will be especially focused on the material risks of Medlife.

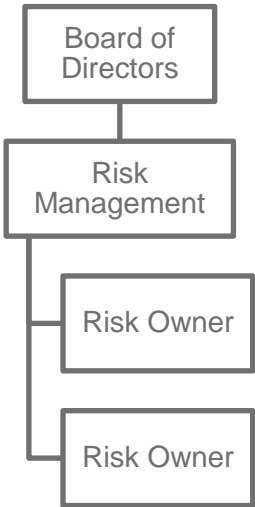
After the risk evaluation and analysis, the **risk steering** follows. During the risk steering, the risk profile, the internal overall solvency needs and the internal defined risk limits will be merged. It is to be ensured that the material risks are subsequently covered with corresponding capital resources. This is ensured by transferring risk-relevant information into corresponding measures (such as a withdrawal from certain business fields or the adaptation of products or the investment portfolio). In doing so the principle of economic efficiency is taken into account.

As part of the **risk reporting** a standard reporting on set dates (i.e. annual, quarterly) or an ad-hoc reporting can take place. Thereby, risks that have occurred and also have been reported within the risk assessment are reported within the standard reporting. In case of a significant change of the risk situation ad-hoc reports are used.

Another step in the risk management process is the **risk monitoring**. The risk monitoring of the identified risks is the responsibility of the defined risk owners and is done on one hand by checking the compliance of risk limits and on the other hand by continuously monitoring the risk indicators. In addition, the effectiveness of the implemented risk-limiting measures and the development of the insurance and capital market are monitored in order to react as quickly as possible to changes.

### B.3.3 Implementation of the Risk Management function

The Risk Management function is organisationally implemented as follows:



The Risk Management function is because of the fact that it is done by a Board member well integrated into the organisational structure and in the decision-making processes of Medlife.



The Risk Management function reports directly to the overall Board of Directors and can only be appointed, re-appointed or dismissed by Board of Directors. For details on the Risk Management function, it is referred to section B.1.

The overall Board of Directors is responsible for the implementation of an appropriate risk management system.

The responsibilities in the risk management process are regulated as follows:

The evaluation, steering and monitoring of the individual risks are done by the **Risk Owners**. The identification and evaluation of the risks in connection with reserving is the responsibility of the **Actuarial function**. The latter also audits the appropriateness of the methods used.

As already stated in B.1.2.2, the risks related to compliance are identified and assessed by the **Compliance function**.

The **Internal Audit** creates a risk-oriented audit plan and assesses the effectiveness of the risk management system during its audits.

The **responsible Board member for HR** implements the compensation policy that, among others together with the risk strategy serves the goal of guaranteeing a prudent management of the company and strengthening the effectiveness of the risk management.

The **Risk Management** function is responsible for the coordination and the support of the risk owners and the merging of the results in order to determine the overall risk profile of Medlife.

With regard to the main tasks and responsibilities of the Risk Management function, it is referred to section B.1.2.2.1. The authorisations, resources and operational independence are described in section B.1.6.2.

The reporting lines start on the one hand from the Risk Owners to the Risk Management and on the other hand from the Risk Management function to the overall Board of Directors. The reporting and advising by the Risk Management function are depicted in section B.1.6.3.1.

### **B.3.4 Risk management for users of Internal Models**

For the calculation of the solvency capital requirement according to Solvency II (Pillar 1), Medlife only uses the standard formula.

### **B.3.5 Own risk and solvency assessment**

The main goal of the own risk and solvency assessment (in brief ORSA) is the calculation of the real risk and solvency situation of the company according to the solvency requirements (Solvency II), whereby both the strategic, financial and technical goals of the business strategy and the risk limits of the risk strategy are taken into account.

Therefore, any material risk of Medlife is taken into account, no matter if it can be quantified or not.

The ORSA links the risk management system with the company control and forms a linkage between the areas capital requirement, supervision and internal control as well as disclosure.

This is done in compliance with the business strategy, taking into account the risk and capital management strategy. In the process, a forward-looking, future-oriented perspective is also taken into account in order to be able to include potential future risks in the overall risk analysis.

In the course of the review of the risk-bearing capacity, the internal solvency ratio is determined by comparing the overall solvency needs (= internal solvency capital requirement) and available own funds.

The ORSA is a fundamental control instrument for the Board of Directors and a central source of information for the key functions of Medlife as well as for the SI.

The ORSA process is configured taking into account the nature, scope and complexity of the risks of Medlife.

In addition, there is a comparison between the results of the calculation of the solvency capital requirements according to Solvency II (SCR of Pillar 1) and the results of the calculation from the company-internal view as well as an assessment of a continuous compliance of the SCR and MCR and an assessment whether the requirements of the calculations of technical provisions are satisfying.

### **B.3.5.1 Description of the ORSA process**

The ORSA process of Medlife starts with the definition of the risk strategy. This must be done in accordance with the business strategy. In addition, the risk limits and the risk appetite are defined and already available limits are reviewed.

Within the calculation of the risk-bearing capacity, the overall solvency need is compared with the available own funds according to Pillar 1. The own funds are classified according to their quality into the so-called Tier categories 1 to 3, whereby Medlife only has own funds of the highest quality (therefore Tier 1). This results into an internal solvency ratio for a year.

The future perspective matters fundamentally in the ORSA process. The results of the 1-year and 3-year perspective are summarised in the ORSA report. However, the results influence the business and risk strategy and can, if applicable, result in an adjustment of the business and risk strategy.

Another part of the ORSA report considers the review of the appropriateness of the SCR calculations and/or SCR assumptions. This is also done in the course of the ORSA process by comparing the results of Pillar 1 and Pillar 2. In addition, the compliance with regulations regarding technical provisions is checked in the course of the ORSA process and explained in the ORSA report.

The underlying assumptions for the ORSA risk evaluations and risk calculations as well as the results and findings from the ORSA process and from the SCR calculation are summarised in the ORSA report and discussed and approved by the Board of Directors. These assumptions, results and findings are incorporated into management decisions and can result in adjustments of the business and risk strategy. After approval of the ORSA report by the Board of Directors, this report is sent to the SI within two weeks.

A key point of the ORSA process - particularly when determining the overall solvency needs - is the assurance of the data quality. In Medlife, this is ensured through uniform systems within

GRAWE Group by using automatic or largely automatic interfaces, exact definitions of the individual data and audit-proof of the data but also by having close collaboration between the Governance functions and any other areas affected by the ORSA process.

### **B.3.5.2 Organisational structure and decision-making processes in the ORSA**

The overall responsibility for an effective ORSA process lies within the overall Board of Directors. There is an ongoing reporting to the Board of Directors, assumptions about the planning figures for the business planning requirements for pillar 2 are discussed/agreed with them. This means that the Board of Directors has to be able to relate to the assumptions of the ORSA calculations, to scrutinise the results and consequently to derive management decisions. These in turn are incorporated into the ORSA process as a new basis. In addition, the Board of Directors can decide to conduct an ad-hoc ORSA in the case of a significant change of the risk situation or the risk profile.

The risk management function coordinates and implements the ORSA process. With regard to the organisational structure and decision-making processes of the Risk Management function, reference is made to the section B.3.3.

### **B.3.5.3 Frequency of the ORSA**

As a standard procedure, the ORSA process is carried out once a year, taking into account the planning cycle of Medlife. The ORSA report is approved by the Board of Directors. The findings from the ORSA report are incorporated in turn into the business and risk strategy and in the decisions by the Board of Directors.

If significant changes result in the risk profile and/or in the available own funds of Medlife, an ad-hoc ORSA (= not a regular ORSA) will be launched directly. Such changes can be triggered by internal decisions and factors (such as a fundamental change in the investment or in the reinsurance policy, the commencement or termination of a fundamental business field or the purchase or sale of a fundamental strategic investment) or also by external factors.

### **B.3.5.4 Determination of the overall solvency needs**

The risk profile of Medlife is derived from the risk evaluations of the risk assessment in the risk management process (cf. section B.3.2). In addition, the results of the SCR calculations according to the standard formula are analysed.

For the determination of the internal overall solvency needs, own internal methods are developed on the basis of "Value at Risk" calculations with a confidence level of 95% for one year (in brief: "VaR95") for the largest risk positions (from the risk assessment and/or from the SCR calculation) and/or internal stress tests and scenario analyses are carried out.

The largest risk position in Medlife is the market risks for which therefore "VaR95" calculations have been carried out. The remaining risks are predominantly evaluated using expert estimations. It should be noted that all material risks are included in the calculation of the overall solvency need, including those that are not taken into account in the standard formula. In addition, risks that are not adequately depicted in the standard formula such as the risk-free assessment of OECD government bonds are replaced with an evaluation in line with risk.

The overall solvency needs from the company-internal risk view result from the aggregation of the material risks determined. The risks are aggregated in the ORSA process, taking into account the correlation matrices of the standard formula of Pillar 1.

The projection of the overall solvency needs for Medlife is done based on the existing 3-year planning in the form of IFRS planning and represents a market value planning.

### **B.3.5.5 Interaction between capital management and risk management**

As already explained in section B.3.5.1, in the calculation of the risk-bearing capacity, the overall solvency needs determined are compared with the available own funds as of the defined reference date. In addition to the quantity of the own funds, their quality and volatility (Tiering) are also relevant. Medlife has currently only own funds of the best tier category (Tier 1) and the goal of Medlife is as well to only have Tier 1 equity in the future.

In addition, it is ensured that there are realistic plans in increasing of own funds. This is done through a mid-term capital management plan that is set up annually, including forecast for the own funds and capital requirements. In the capital management plans the information from the risk management system and the ORSA report are to be taken into account. In addition, there is a detailed annual plan for the following year that includes the eligible own funds and the own funds requirement. This detailed plan is submitted to the overall Board of Directors along with the ORSA report.

If the forecasts reveal that the solvency ratio of Medlife threatens to fall below the internally defined threshold, a corresponding capital measure plan has to be developed.

## **B.4 Internal control system**

### **B.4.1 Description**

The overall Board of Directors is responsible for setting up, monitoring and adapting an appropriate and effective internal control system on an ongoing basis that guarantees compliance with the valid legal and administrative regulations of Medlife, the effectiveness and efficiency of the business activities with regard to the company goals and the availability and reliability of financial and non-financial information.

The internal control system is based on the "three lines of defence" concept.

The first line of defence is formed by the risk owners (sales, underwriting, claims handling, etc.). They take the immediate operational decisions to control risks in order to comply with the set goals and limits. The second line of defence is formed by the Risk Management function, the Compliance function and the Actuarial function. The third line of defence consists of the Internal Audit function that audits and evaluates the effectiveness and efficiency of the internal control system on an ongoing basis and assists in the further development of effective controls in particular through follow-up audits.

The internal control system incorporates, among others, administrative and accounting procedures, an internal control framework, an appropriate notification and reporting system on all levels of Medlife as well as a Compliance function.

The centralised documentation of the fundamental core processes, including the described checks, the coordination, checks of completeness for the updating and development of the internal control system is the responsibility of the qualified department.

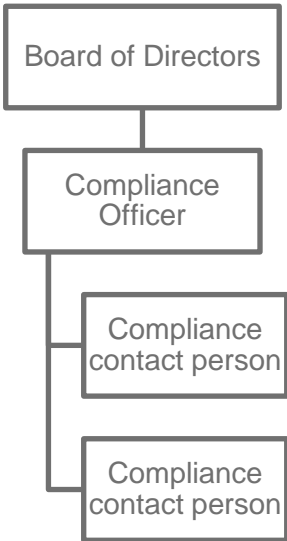
The Risk Management department initiates the process of describing the core processes and supports the employees in the preparation of manuals for describing the processes. Through allocation of the documented activities to specific roles, the responsibility for carrying out the controls is clearly defined.

The risks identified in the processes, the corresponding controls, IT systems, roles and documents are managed in uniform "pool models" in order to gain a better overview on the one hand and to standardise terms on the other.

The internal control system of Medlife consists of a large number of controls, where the most important ones are signing regulations, a consistent four eye principle, an adequate separation of functions, a limit setting and internal guidelines.

### B.4.2 Implementation of the Compliance function

The Compliance function is part of the internal control system and in Medlife exercised within the framework of a decentralised compliance organisation that can be depicted as follows:



The overall Board of Directors ensures an appropriate organisation of the Compliance function. In this process, it pays attention to the Compliance function being sufficiently resourced. The overall Board of Directors is responsible for the implementation of the compliance requirements pursuant to Solvency II and decides on compliance-relevant measures and orders.

The Compliance Officer is the responsible Head of the Compliance function. He reports directly to the overall Board of Directors, is independent and free of instruction with regard to his field of expertise. In the event of absence of the Compliance Officer, his tasks and authorisations will be carried out by his deputy.

The Compliance contact persons carry out the Compliance function for their respective corporate area and ensure that all relevant compliance topics are covered.

Besides the Compliance function according to Solvency II, the prevention of money laundering and the financing of terrorism are other compliance areas. The various compliance areas are set up horizontally in their relationship to each other. Based on general governance requirements, the compliance areas coordinate their activities with one another and an exchange of information takes place between them.

With regard to the main tasks and responsibilities of the Compliance function, reference is made to section B.1.2.2.2. The authorisations, resources and operational independence are described in section B.1.6.2.

The reporting and advising by the Compliance function are depicted in section B.1.6.3.2.

## **B.5 Internal Audit function**

### **B.5.1 Implementation of the Internal Audit function**

In Medlife, the Internal Audit function has been set up to carry out and to report directly to the overall Board of Directors which ensures an appropriate organisation and set up of the Internal Audit. It decides which measures are to be taken based on the findings by the Internal Audit and ensures that these measures are implemented.

The Head of the Internal Audit has to carry out the tasks of planning, controlling, monitoring and representing externally the Internal Audit.

With regard to the main tasks and responsibilities of the Internal Audit function, reference is made to section B.1.2.2.3. The authorisations, resources and operational independence are described in section B.1.6.2.

The reporting and advising by the Internal Audit is explained in section B.1.6.3.3.

### **B.5.2 Objectivity and independence**

The Internal Audit carries out its tasks autonomously, independently, objectively, impartially and above all process-independently. The employees of the Internal Audit are not subject to instruction from any other department when carrying out the audit, the reporting and the evaluation of the audit results. The Internal Audit is not influenced when determining the scope of the audit, the executing of the order and during the reporting.

The members of the Internal Audit proceed in an impartial and unbiased manner when carrying out their audit work. The prohibition of self-auditing is complied with and conflicts of interest that occur are disclosed.

## **B.6 Actuarial function**

The Actuarial function at Medlife reports directly to the overall Board of Directors and is independent in its subject matter. The Board of Directors ensures an appropriate organisation and set up of the Actuarial function. It decides which recommendations from the Actuarial function are to be complied with to eliminate deficiencies, and ensures that these recommendations are implemented.

In his absence, the Head of the Actuarial function is represented by his deputy.

With regard to the main tasks and responsibilities of the Actuarial function, reference is made to section B.1.2.2.4. The authorisations, resources and operational independence are described in section B.1.6.2.

The reporting and advising by the Actuarial function are depicted in section B.1.6.3.4.

## **B.7 Outsourcing**

### **B.7.1 Outsourcing policy**

Outsourcing within Medlife is defined as follows:

An outsourcing can be a simple outsourcing or an outsourcing of a critical or important operational function or activity (hereinafter also: "critical outsourcing").

A critical or important operational function or activity is a function or activity with which Medlife cannot continue its business activity without any material impairment, or perform continuously and satisfactory service to contractual partners, policy holders and beneficiaries or meet material governance requirements or material requirements on the measures to prevent money laundering and terrorist financing.

An outsourcing of a critical or important operational function or activity results in requirements that have to be met additionally to the requirements of a simple outsourcing. The obligations of Medlife regarding outsourcing therefore depend on whether a simple outsourcing or a critical outsourcing exists. At any rate, including intra-group outsourcing, Medlife remains responsible for the fulfilment of all requirements under supervision law.

Medlife does not carry out the outsourcing of a critical or important operational function or activity if this means a material impairment of the quality of its system of governance or an undue increase of the operational risk.

Furthermore, such an outsourcing may not jeopardise the monitoring of the compliance with the regulations valid for the operation of the contract insurance by the SI or the permanent and defect-free provision of the service to the policyholders and beneficiaries.

Regarding each outsourcing, it is regulated in the corresponding outsourcing contract that the service provider collaborates with the SI with regard to the outsourced task and that Medlife, its auditors for the annual financial statements and the SI have access to the data and the business premises of the service provider with regard to the outsourced task.

### **B.7.2 Outsourcing of critical or important operational functions or activities**

Medlife has outsourced as of 31 December 2020 just two critical or important operational functions or activities, namely the Asset management and IT services, to its mother company Grazer Wechselseitige Versicherung AG.

### **B.8 Any other information**

Any important information regarding the governance system is described in the relevant section.



## C. RISK PROFILE

A risk profile is the entirety of all risks that a company is exposed to on a certain reference date, taking into account the business planning horizon. The conditions under which the existence of Medlife could be at risk can be derived from it.

In order to illustrate the risk profile of Medlife, all risks entered into as well as potential risks are recorded individually and on aggregated basis, whereby the implemented risk mitigation techniques and other measures are taken into consideration.

To determine the risk profile, the largest risk positions from the internal risk assessment - cf. sections B.3.2 and B.3.5.1 - are analysed and prioritised. In addition, the results from the calculations of the statutory solvency capital requirement (SCR) are analysed.

To limit the risks, Medlife has defined internal risk limits. These are the limits that the company has imposed upon itself when entering risks. The compliance with the limits is on one hand attained by a well-functioning internal control system and on the other hand by efficient risk mitigation techniques.

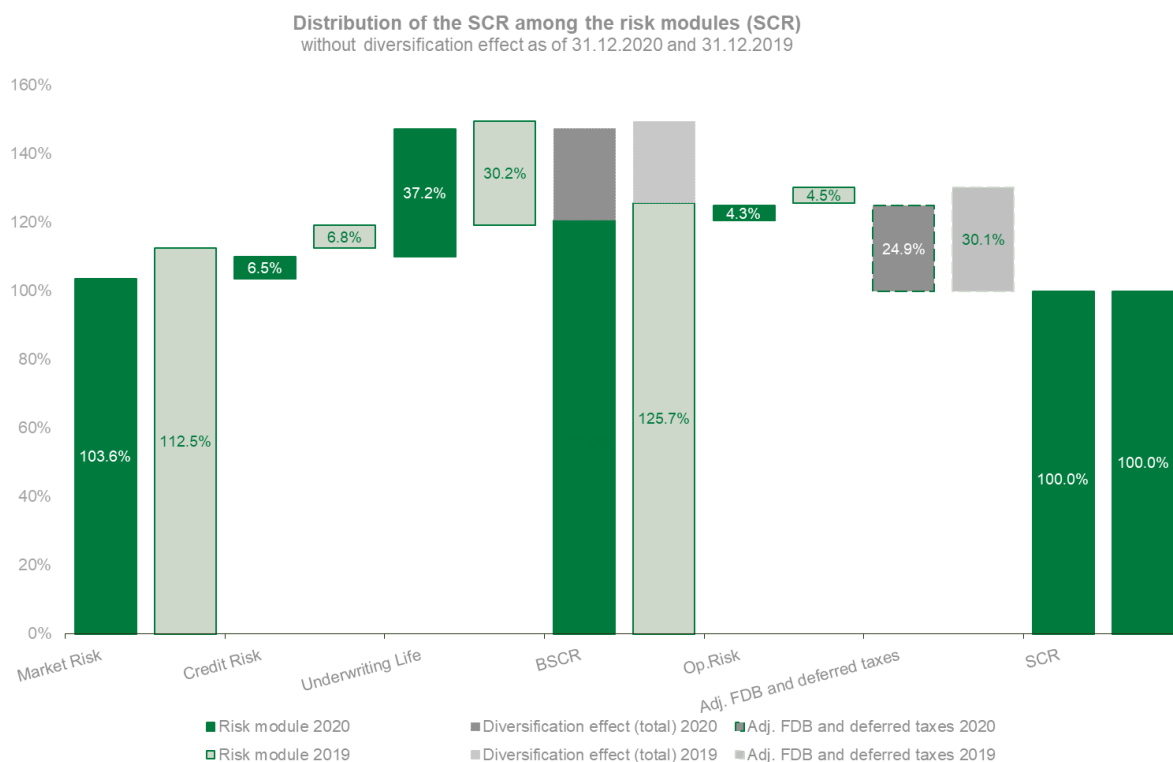
In case this internal limit is breached, an escalation process is started in which it is precisely defined who has to be informed and what measures have to be taken in order to reduce the risk again as quickly as possible.

The database for the determination of the risk profile of Medlife is the result of the determination of the internal overall solvency needs and the result of the calculation of the solvency capital requirement (SCR) of the standard formula as of 31 December 2020. With regard to the calculation of the solvency capital requirement, reference is made to the statements in section E.2.

Medlife does not transfer any risks to special-purpose vehicles and does not hold any participation in such either. There are no off-balance-sheet positions as of the reference date 31 December 2020.

Neither company-specific parameters, nor the matching adjustment nor the volatility adjustment are applied.

The risk profile from the SCR result as per 31 December 2020 is comprised as follows:



The material risk positions of the SCR calculation are the market risk followed by the underwriting risk Life. The detailed risk values of the SCR calculation can be found in section E.2.

### Impact of the COVID-19 pandemic

Medlife's risk profile has not changed significantly as a result of the COVID-19 pandemic. As in previous years, Medlife's largest risks are market risks and underwriting risk Life. However, the share of market risks in the total SCR decreased compared to the previous year due to an increase in underwriting risk Life. In addition, there was a decrease in the portfolio and a decline in the volume of investments. However, these decreases are not attributable to the COVID-19 pandemic.

### Materiality

At Medlife, risks are classified as material if they have been assessed either in the "critical/red area" within the internal risk assessment or exceeded the threshold of 10% of the SCR on a sub-module basis after taking into account the diversification effect.

These include in any case the market risks as well as underwriting risk Life.

With regard to the assessment of the materiality criteria, it should be noted that individual risks that are not assessed as material can exceed the limit threshold cumulatively.

In order to give a more detailed overview of the risk profile of Medlife, all risks that meet the aforementioned criteria are explained in this report.

### C.1 Underwriting risk

**Underwriting risk** is defined as the risk of loss, or adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

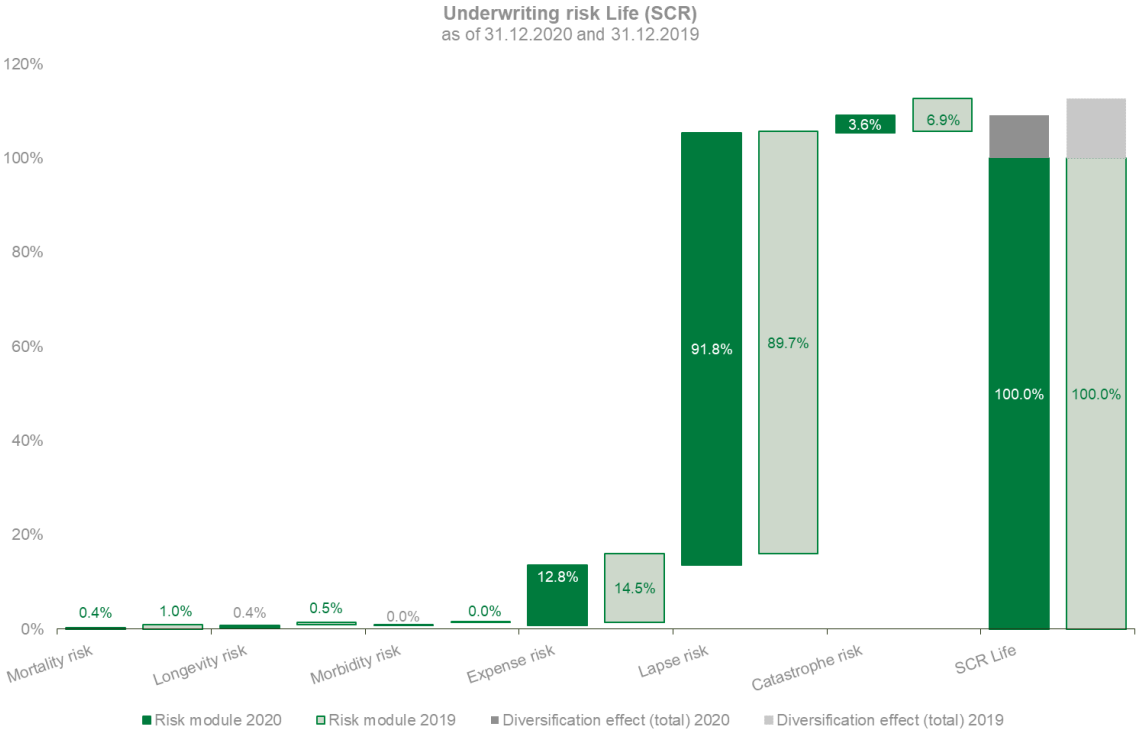
In Medlife just the **lapse risk** is considered material which includes losses due to client behaviour deviating from the Best Estimate assumptions with regard to contract options such as termination/lapse, lump-sum option, waiver of premium, etc.

#### C.1.1 Risk exposure

The risk exposure of Medlife in the **underwriting Life** area, as already depicted in section C, is 37.2% (2019: 30.2%) of the total SCR.

The named risks are calculated on the basis of the so-called Best Estimate approach, which is a specification of the standard formula. The Best Estimate constitutes of the present value, therefore the total value of the future liabilities discounted with an interest curve specified by EIOPA.

This value is determined, by taking into account the value of the assets and comparing them with the liabilities. For a more detailed explanation, reference is made at this point to section D.2.



The largest risk positions in the underwriting risk Life in the standard formula is the lapse risk with a share of 91.8% (2019: 89.7%) of the SCR Life.

The **lapse risk** of Medlife is determined by the scenario lapse decrease (assumption: 50% decrease in the lapse rate).

In 2020, Medlife did not show an increased mortality risk due to COVID-19.

## Prudent Person Principle applied on the coverage of technical provisions

The Prudent Person Principle stipulated in Article 139 of the LAW requires security, quality, liquidity and profitability for all assets as well as a sufficient and adequate coverage of the technical provisions.

**Technical provisions** indicate in the balance sheet of an insurance company future obligations from insurance contracts in accordance with the statutory regulations for valuation. They must be also formed in the annual financial statement, if necessary, in a way to permanently ensure the obligations from insurance contracts.

The assets that are held to cover the technical provisions are invested in the best interest of the policy holders and other beneficiaries. In the **life insurance** area, the concrete investment objective is dependent on the factors like the average actuarial interest rate, required profit participation that is in line with the market, free equity capital in conjunction with the fluctuation of the value of the portfolio resulting from the target return and the structure of the liability side. The goal is e.g. the distribution of a profit participation in the life insurance area that is in line with the market, whilst minimising the investment risk and taking into account the risk-bearing capacity of the company.

The **coverage requirement** comprises of the technical provisions, whereby the coverage requirement within the life insurance is calculated without deduction of reinsurance shares and separately for each group of cover funds. The coverage requirement is determined by the responsible actuary every quarter. The coverage requirement and the list of suitable assets for coverage are forwarded every quarter to the SI via the relevant QRT templates.

The coverage requirement must always be fulfilled by the assets dedicated to the cover funds. The Prudent Person Principle in the area of life insurance is ensured through the measures indicated above.

### C.1.2 Risk concentration

Risk concentrations can jeopardise the solvency or liquidity of the insurance company.

They can, for instance, arise from

- individual counterparties,
- groups of counterparties who are linked to one another.

Being a life insurer almost automatically brings along avoidance of risk concentration in the contract portfolio. Based on the SCR results, no concentrations are discerned in the area of underwriting Life.

### C.1.3 Risk mitigation

In accordance with “Part 1 Definition and introductory provisions” of the LAW **risk mitigation techniques** (including reinsurance) describe all techniques which put insurance and reinsurance companies in the position to transfer a part or all of their risks to another party.

In the case of risk-mitigation techniques, it can be distinguished between insurance-based risk mitigation (such as reinsurance) and financial risk-mitigation (such as financial derivatives).

Medlife uses in the area of underwriting risk reinsurance as a risk-mitigating measure. Thus, peak risks and exposures can be covered or insurance portfolios homogenised.

Derivatives and structured securities serve as **financial risk mitigation instruments**, e.g.:

- interest rate structures (such as interest rate swaps)
- equity structures
- structured loans and
- structured bonds (such as steepener, callables, multiple tranches, reverse convertibles).

Medlife's investment strategy clearly states that such investments should be avoided and no direct investment in such instruments was in place during the year and as at 31 December 2020. Some of the above may be used by the asset managers that are managing the structured funds for protection purposes and never for speculative purposes. The risk thereby lies within the fund management itself and not within Medlife.

#### **C.1.4 Liquidity risk future profits**

The amount of Expected Profits Included in Future Premiums (in short EPIFP) is taken into account in the liquidity management.

The EPIFP is a Tier 1 own funds component (as part of the reconciliation reserve) and amounts to kUSD 1,789 (2019: kUSD 2,222) in the area of life insurance in Medlife as of 31 December 2020.

#### **C.1.5 Risk sensitivity**

Moreover, within the Asset Liability Management interest rate sensitivities as well as their impact on the relevant positions for assets and also for Best Estimates for technical provisions were calculated.

As part of the ORSA process sensitivities were evaluated and resulted in no significant effect.

### **C.2 Market risk**

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

#### **C.2.1 Risk exposure**

In Medlife the market risks are divided into the following sub-risks, which equal the specification of the standard formula:

- interest rate risk,
- equity risk,

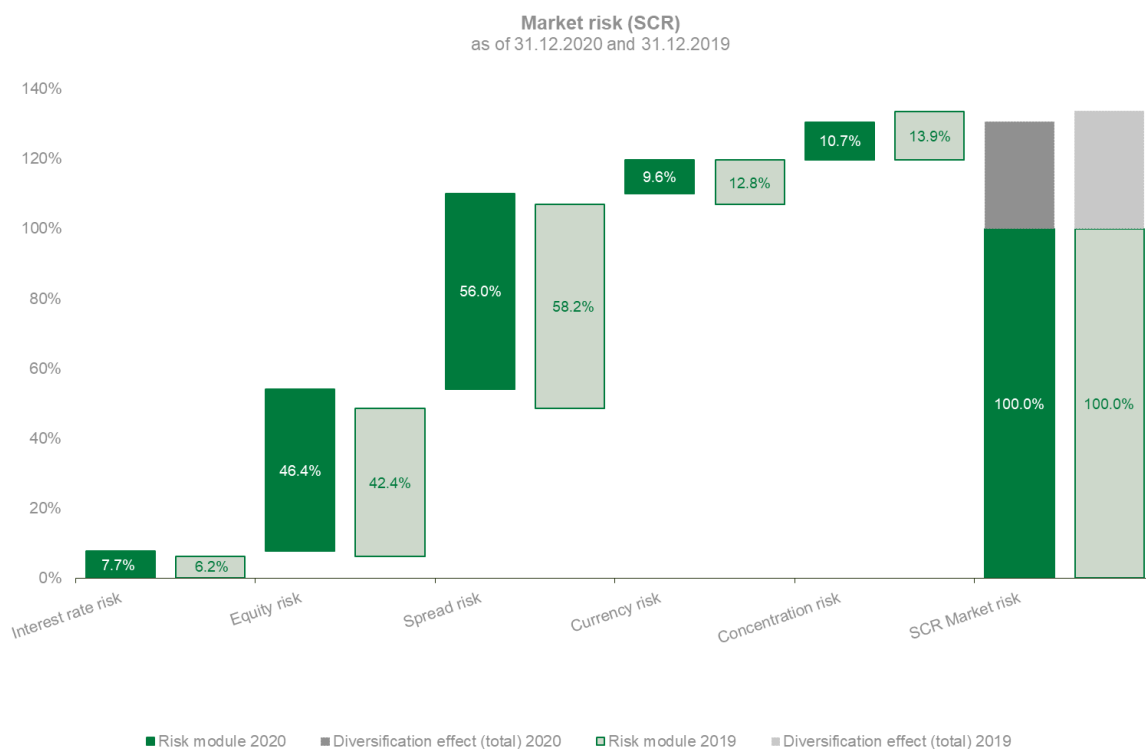
- property risk,
- spread risk,
- currency risk and
- concentration risk.

The market risks of Medlife form the largest risk category.

According to Solvency II all assets are "to be invested in a manner so that security, quality, liquidity and profitability of the entire portfolio are ensured" (Article 139 of the LAW).

In principle there is freedom of investment taking into account the "prudent person" principle for the management of investments, so that attention is paid to the observation and steering of the investment risks.

Only those types of investments, whose opportunities and risks can be understood and assessed adequately, shall be chosen.



In the first half of 2020, the COVID-19 pandemic temporarily led to a volatile capital market in terms of both credit spreads and market values of equities. However, as of 31 December 2020, capital markets showed a clear recovery.

Among the market risks the **spread risk** represents by far the largest risk position in Medlife amounting to 56.0% (2019: 58.2%) of the SCR market. The spread risk includes the sensitivity of the value of assets, liabilities and financial instruments concerning changes in the level or volatility of the credit spreads above the risk-free interest curve. Changes in the credit spreads arise, for example, from a deterioration of the credit worthiness of an issuer of securities. In Medlife, the amount results primarily from the fact that the investments strategy is mainly focussing on the asset category bonds and at the same time participating in funds that are mainly investing in fixed interest bonds. The total exposure in investments sensitive to spread risk as at year end was kUSD 418,537 (2019: kUSD 429,999). Especially in spread risk, the

COVID-19 events showed significant changes in the level and volatility of risk premiums in the first half of 2020. However, in Medlife the market values of bonds hardly decreased due to this effect. The total exposure of bonds rather decreased due to the disposition of bonds as a result of the maturing contract portfolio.

Another material risk position within the market risk of Medlife is the **equity risk** with a share of 46.4% (2019: 42.4%) on the SCR market risk. The equity risk describes the possible volatilities in the stock prices. The total exposure in equity investments that is mainly stemming from funds was kUSD 50,905 (2019: kUSD 43,036). Although the exposure within equity risk was lower than for spread risk, the shock factor of 38.5% (2019: 38.9%) for equity type 1 and 48.5% (2019: 48.9%) for equity type 2 is higher than the average shock factor of 5.6% (2019: 5.3%) that was applied on bonds as of 31 December 2020. Also due to higher market values capturing the recovery of financial markets, the weight of equity risk has slightly increased.

**Currency risk** is the sensitivity of assets, liabilities and financial instruments with regard to changes in the level or in the volatility of the exchange rates. Despite the currency-matched investments in Medlife, the currency risk amounts to 9.6% (2019: 12.8%) of the SCR market risk.

The majority of the foreign currency in Medlife is EUR although some other currencies are included in the fund investments, which are not material amounts. Major driver of this result is the assumption that 45% of the operational expenses in Medlife will be paid in EUR at maturity, although 90% of the premium income is in USD.

The **concentration risk** amounts to 10.7% (2019: 13.9%) of the SCR market risk. Concentration risk occurs due to the existing concentration in the Republic of Italy bonds in USD, which is not excluded from concentration risk due to their USD currency denomination. Besides Republic of Italy there is also a minor concentration exposure in Republic of Poland and ABN AMRO.

The **interest rate risk** results from changes in the market value of interest-bearing financial instruments caused by changes in the interest curve. In addition, also the sensitives of the liabilities are taken into account. The relevant risk-free interest rate curves used for the calculations of the solvency capital requirement for interest rate risk is as per 31 December 2020 at an all-time low. In Medlife the share for interest rate risk amounts to 7.7% (2019: 6.2%) on the SCR market risk. Compared to previous year the interest rate risk increased mainly due to a greater decrease in liabilities compared to assets. This movement widens the gap between asset shock and liability shock.

### **Prudent Person Principle applied on the asset management**

The Prudent Person Principle has always been taken into account in Medlife by only investing in assets whose risks can be properly identified, assessed, monitored, managed and steered. In addition, these risks must be integrated into the reporting system in an appropriate manner and taken into account in the calculation of the overall solvency needs within the ORSA process.

The investment policy of Medlife is based on the goals specified by the Board of Directors with regard to the safety, profitability and liquidity of the invested funds. The primary objective of the capital investment of Medlife is a continuous assurance of the fulfilment of the obligations

arising from insurance contracts. Apart from this, it is another substantial goal in the investment policy of Medlife to achieve appropriate profits for their clients.

Over the long term, established and well-balanced investment products offer the highest degree of security and the most sustainable profit, taking into account the risk/return aspects as well as rating requirements. The balance of the strategic asset allocation goes beyond the statutory specifications and follows the successful and security-oriented strategy in the long term. An essential principle is the broad diversification within the respective asset categories.

By using limit setting and suitable control and reporting processes it is ensured that no unwanted or excessive assumption of risk is possible within the investment process of Medlife and that the investment policy sticks to the described security-oriented principles.

The investment limits are analysed twice a year in the asset allocation meeting with the overall Board of Directors of Medlife and checked for their validity and/or for any need of amendment.

In Medlife, derivatives are only used in order to hedge an existing underlying and only in so far as they help to optimize/increase the investment success (on the asset side or in the context of the Asset Liability Management). The upper threshold for interest and equity structures is defined by the limit setting. Without exception, purely speculative goals are not pursued. In addition, structured products (for interest hedging) are only used under the condition that the value of those securities can be calculated and assessed by the company itself. Structured products are allowed within the limit system if they harmonize the liability side and are within the framework of the strategically selected asset allocation with the goal of cost efficiency and an improvement in the risk profile.

The COVID-19 pandemic did not lead to any significant declines in the market value of Medlife's investments in the 2020 reporting period due to the cautious investment approach and broad diversification.

## **C.2.2 Risk concentration**

A material risk concentration is one that exceeds 10% of the SCR. The overall risk for year 2020 was below 10% so it was not considered material. For further details, refer to section C.2.1.

## **C.2.3 Risk mitigation**

Medlife uses derivatives (incl. structured products) as a risk reduction technique within the market risks. These are so-called foreign currency forwards that are concluded within the investment funds as pure foreign currency hedging transactions.

## **C.2.4 Risk sensitivity**

Within the Asset-Liability-Management Medlife calculates interest rate sensitivities for the Best Estimate of life insurance contracts and investments that are sensitive to interest rate changes.

Therefore, parallel shifts of the yield curve by  $\pm 50\text{bp}$  und  $\pm 100\text{bp}$  as well as a rotation in the yield curve are illustrated. Regarding the rotation of the yield curve a flattening, meaning a



lowering of the long term yield curve (Low for Long) and a lowering of the short term (steeper yield curve). In addition to the steeper yield curve a spread shock for the asset side is applied.

Within this interest rate sensitivity analysis also the sensitivity for technical provisions are tested in regard to a change of assumptions about the extrapolation of the risk-free interest rate curve. Furthermore, it is tested how technical provisions change, if all assumptions about the extrapolation of the risk-free rate are dropped and instead the technical provisions are valued with the Libor/Swap interest rate curve.

The “Double Hit Scenario” including the spread shock has the most negative impact on the own funds of Medlife. Also the scenario of a shift of the interest rate curve by +100bp and +50bp has an adverse influence on the own funds of Medlife. Although both, the market values of fixed income bonds and the technical provisions fall, the drop in technical provisions is lower. A shift of the interest rate yield curve by -50bp or -100bp has a positive impact on the own funds.

## C.3 Credit risk

The **credit risk** (also counterparty default risk) identifies the risk of loss or an adverse change in the financial situation, resulting from fluctuations in the creditworthiness of issuers of securities, counterparties and other debtors against which insurance and reinsurance undertakings have receivables. It occurs in the form of counterparty default risk, spread risk or market risk concentrations.

The possible types of the credit risk in the form of spread risks or market concentrations were already dealt with under section C.2 meaning that in this section solely the counterparty default risk is explained.

### C.3.1 Risk exposure

The counterparty default risk at Medlife primarily relates to the possible loss of deposits at commercial banks (predominantly Group-internal) or the default by reinsurance partners.

The counterparty default risk of the standard formula is around 6.5% (2019: 6.8%) of the total SCR without taking into account the diversification effect and thus plays a subordinated role in the risk profile of Medlife.

A major part of the bank deposits lies within Group-internal banks. The whole reinsurance of the insurance subsidiaries is done within the Group. As a result of the good solvency capital base both at Medlife and at the GRAWE Group, the probability of default can be very well assessed and is thus minimised.

In the selection of the reinsurance partners, a minimum rating of A- according to Standard & Poor's and/or Moody's or, in case of long processing time contracts, a minimum rating of A+ are aspired. If reinsurance contracts are concluded, they are only placed within the Group, whereby these companies do not have any rating but an excellent equivalent solvency ratio (above 300%). Thus, the risk of default is very low.

With regard to banks, business relationships are entered primarily with banks with a minimum rating of A according to Standard & Poor's and/or Moody's. If there is no rating available of

one of the mentioned rating agencies, an internal evaluation of the business partner is carried out by in-depth analysis. Results from other rating agencies, annual reports, market experience, or other sources of information can be the basis for this.

In order to reduce the counterparty default risk, in addition to the guidelines attention is paid to the solvency and also a sufficient diversification of counterparties.

The measures taken mean that the COVID-19 events have not led to any increase in counterparty default risk.

### **C.3.2 Risk concentration**

For commercial banks, there is also an allocation over several banks; however, the short-term investment of liquid funds fluctuates over time due to liquidity requirements and availability and is also dependent on the respective bank conditions. The defined limits per commercial bank also apply for Group-internal banks and are complied with in any case.

### **C.3.3 Risk mitigation**

In the area of counterparty default risk, no risk mitigation techniques are applied beyond the internal risk-minimising measures such as strict selection at the reinsurance partner and commercial banks as well as diversification of the business partners.

### **C.3.4 Risk sensitivity**

For the assessment of the risk sensitivity of the counterparty default risk, following scenarios are used to quantify the credit risk and to analyse the impact of the risk on the overall situation of the company:

- Shock of the probabilities of default or downgrade of the ratings
- Complete default of a reinsurer (if available)
- Complete default of a bank

The results show that the impact on own funds and capital requirements is not significant.

## **C.4 Liquidity risk**

The **liquidity risk** is the risk of losses arising from an actual or expected inability of the company to cover its financial obligations at the time of maturity.

According to “Part 1 Definition and introductory provisions” of the LAW on insurance and reinsurance business and other related issues of 2019, the liquidity risk designates the risk that the insurance and reinsurance undertakings are not able to realize investments and other assets in order to settle their financial obligations when they fall due.

The most common causes that can lead to the liquidity risk are:

- reduction in the value or in the usability of assets,
- the increase in the mismatch of maturities of assets and liabilities,

- the financial strength of the company and the perception of the markets that depend on a series of parameters (e.g. risk profile, solvency ratio, profitability, expected future trends, ratings, etc.) or
- an insufficient liquidity ratio of the company.

#### **C.4.1 Risk exposure**

The liquidity risk pursuant to the definition above is not explicitly depicted per se in the standard formula; nevertheless, the assessment of the liquidity risk in the risk management process and in the ORSA process is important. In particular, the occurrence of a material risk (e.g. in the case of natural catastrophes) could result in a liquidity shortage.

In the wake of the COVID-19 pandemic, particular attention is being paid to liquidity risk, although no liquidity bottlenecks have occurred at any time.

At Medlife, a weekly cash flow report is created. This approach ensures that there is no liquidity shortage even with short-term unexpected and/or unplanned claims payments or other payment outflows.

Should there actually be an increased need for cash and liquidity in the short term, Medlife would be in a position to sell securities (of a good rating) at short notice (e.g. within a day) in order to generate the necessary liquid funds. Approx. 96% of the bond portfolio of Medlife consists of bonds of a good rating above BBB-. The investment grade rating allowable in Medlife according to the internal Limit System is at the moment at BB+.

Especially for the financial assets held for unit-linked contracts, the liquidity of these funds is to be ensured. Medlife ensures that all funds of the unit-linked life insurance are liquid in sufficient volume within the potentially necessary period.

For the said reasons, the liquidity risk was rated at zero at Medlife.

#### **C.4.2 Risk concentration**

No risk concentration was identified at Medlife with regard to the liquidity risk.

#### **C.4.3 Risk mitigation**

In the liquidity risk area, no risk-mitigation techniques are applied besides the internal risk-minimising measures such as regular cash flow reports and a cash flow planning.

#### **C.4.4 Risk sensitivity**

The liquidity risk has a strong connection to other risks. For this reason, any increased liquidity need has already been assessed with other scenarios. Further details can be found in section C.2.5.

Moreover, a stress test that included material scenarios like increase of mortality, decrease of lapse rates, mass lapse event of 40% of advantageous contracts etc. is carried out in the course of the ORSA process in order to analyse the effect of this scenarios on the risk profile

of the company. The comparison of the unexpected liquidity need with the available liquidity reserves shows no material impact on the overall liquidity of Medlife.

## **C.5 Operational risk**

The operational risk is the risk of loss that arises from the inappropriateness or the failure of internal processes, employees, systems or through external events. Legal risks are also included. The typical representatives of the operational risk include causes of business interruptions as the result of e.g. fire or flooding events or IT failures that make an uninterrupted continuation of the business operations difficult or impossible. In addition, however, they also include damage caused by conscious fraud, errors in daily work processes or also risks that arise from human errors.

The operational risks are in general more difficult to identify and evaluate than other risks, meaning that Medlife places a special focus on the possible different characteristics and takes these into account in a comprehensive manner.

### **C.5.1 Risk exposure**

The operational risk of Medlife is calculated according to the standard formula, based on premiums collected and amounts to 4.3% (2019: 4.5%) of the SCR.

Particularly in the area of operational risks, the focus is not on quantification but on the development of suitable measures for the early identification of the risks and on the avoidance and reduction of its consequences (cf. section C.5.3)

If there are complaints from customers, these will be recorded and processed as quickly as possible according to internal defined regulations.

### **C.5.2 Risk concentration**

In the operational risks, risk concentrations could occur in the areas outsourced by Medlife (e.g. in the case of an IT failure).

### **C.5.3 Risk mitigation**

The potential operational risks can be reduced through suitable contingency plans such as the GRAWE IT Contingency Plan, Business Continuity Plan, etc.

The IT contingency management of GRAWE has been implemented many years ago. In addition, there has been TÜV certification of the data centre of GRAWE since 2012. If an emergency occurs, an efficient staff and crisis management can thus be ensured.

Another central focus of the GRAWE IT contingency management is on the IT data security in order to ensure that no loss or misuse of critical data can occur. For this reason, there is a consistent system of security redundancies so that with minor failures of an IT system a smooth operation is ensured.

The Business Continuity Plan of Medlife aims to ensure the upholding or restoration of the orderly business operations after an incident.

Anti-fraud measures and a well-functioning internal control system are other risk-mitigating measures within the operational risks.

In the cash-equivalent area of Medlife, there are strict internal regulations and control procedures.

The effectiveness of the contingency plans is checked at regular intervals. The effectiveness of the internal control systems is regularly checked by the Internal Audit department of Medlife in the course of the respective audits.

These risk-mitigating measures led to very low operational risks in the past at Medlife.

As of March 2020, targeted business continuity measures were implemented in the wake of the COVID-19 pandemic, such as the short-term establishment of home office work options, functioning communications, or the establishment of appropriate protective measures against COVID-19, so that smooth business operations could be maintained even during all previous lockdowns.

#### **C.5.4 Risk sensitivity**

To assess the risk sensitivity of the operational risks of Medlife, scenarios for identified critical processes were defined in the contingency plans.

In the process, the worst-case scenarios are selected whose occurrence appears plausible for Medlife. The potential scenarios include the failure of the IT over a lengthy period of time and the loss of the headquarters in Graz (e.g. due to a fire). It was ensured in the existing contingency plans that the effects (e.g. loss of several persons over a lengthy period of time or restricted access possibilities to the business premises) are taken into account accordingly.

The appropriateness of the scenarios and their underlying assumptions are checked jointly with the contingency plans at least once a year and the results are taken into account appropriately in the assessment of the risk-bearing capacity.

### **C.6 Other fundamental risks**

In Medlife, the following other risks were identified that are being continuously monitored:

- Strategic risks,
- Reputation risks,
- Risk from the asset liability management
- Pandemic risk.

The named risks are not explicitly taken into account in the standard formula. Within the ORSA process, however, none of the named risks proved to be material.

Newly occurring risks and changes in the risk profile of Medlife are quickly identified through the quarterly reporting based on the ad-hoc risk reports of the risk owners with regard to risks

that have occurred or potential risks so that, if necessary, it is possible to react in a timely manner (e.g. in the form of risk-mitigation measures). A change in the risk profile can influence both the business strategy and the risk strategy.

### C.6.1 Risk exposure

An explicit quantitative assessment by strategic or reputational risks is difficult, because they have mostly a quantitative impact in one or more other risk modules. Therefore, the assessment of strategic risks and reputational risks is made in the course of the annual risk assessment via assessment matrix. These are non-material risks.

The Asset Liability Management is assessed in the course of stress tests (cf. section C.2.5). The results show that Medlife also has sufficient own funds in extreme scenarios on the financial market.

The impact of the COVID-19 pandemic was considered individually in the ORSA process in 2020. These effects have already been explained separately in the individual risk categories. In summary, it can be said that with regard to Medlife's business performance and products, no defaults or clustered cancellations above a normal level have occurred to date. It goes without saying that Medlife's customers have been supported during the Corona crisis. These measures include, for example, the deferral of premium payments or lowering the interest charged for policy loans from 7% to 4%.

A sustainability strategy was drawn up for Medlife in 2020. The information required under the Regulation on sustainability-related disclosure requirements in the financial services sector (EU) 2019/2088 was published on Medlife's website by 10 March 2021.

### C.6.2 Risk concentration

No risk concentrations are detected in the category "other fundamental risks".

### C.6.3 Risk mitigation

With the strategic and reputation risks, the focus is placed on the risk mitigation using contingency plans and other measures.

Through detailed risk analyses before strategically relevant business decisions, Medlife counters **strategic risks** beforehand.

The reputation risk is monitored through the depiction of the most important risks and respective risks of Medlife within the framework of the internal control system, whereby specifically the interaction with other risks is monitored as a reputation risk is frequently a trigger for the realisation of other risks. Potential reputation risks (among others also specific individual cases), countermeasures in the area of external communication and the next steps when an emergency occurs are discussed within the Board of Directors.

### C.6.4 Risk sensitivity

For strategically wide-reaching decisions applicable scenario assessments are performed.

## C.7 Any other information

The adjustment term deferred taxes in Medlife amounts as at 31 December 2020 kUSD -830 (2019: kUSD -2.420). The decrease in the adjustment term can be mainly attributed to the fact that Best Estimates in Solvency II are discounted with the EIOPA risk free curve, which dropped at year end to ultra-low levels. Although in total Best Estimates decreased, the lower risk free curve had an increasing effect on Best Estimates but does not directly affect the IFRS reserves. Therefore, Best Estimate Life converged towards the IFRS amount and hence reduced the deferred tax liability, which is used for the determination of the adjustment term deferred taxes.

## D. VALUATION FOR SOLVENCY PURPOSES

The valuation of the assets and liabilities in the solvency balance sheet is based on the economic value. Paragraphs 1 and 2 of Article 9 of the Delegated Regulation for Solvency II are the basis for assets and liabilities being valued according to International Financial Reporting Standards (IFRS) unless other regulations apply.

As a general rule, the economic value thus corresponds to the market value pursuant to IFRS as adopted by the Commission in accordance with Regulation (EC) No 1606/2002 unless other provisions apply.

Pursuant to the Article 77 of the LAW, insurance and reinsurance companies have to value their assets and liabilities for the determination of the values in the economic balance sheet as follows:

The assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

The liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The valuation of the assets and liabilities of Medlife is based on the going-concern basis pursuant to Article 7 of the Delegated Regulation. The technical provisions are calculated pursuant to the regulations for technical provisions (Article 76 to 86 of the Solvency II Directive 2009/138/EC).

The values in the annual financial statements are determined according to IFRS as adopted by the European Union and the requirements of the Cyprus Companies Law, chapter 113.

Hereinafter the economic balance sheet of Medlife as it is illustrated in the reporting table S.02.01 as of 31 December 2020 can be found. Only assets and other liabilities are applied that are used in the Solvency II balance template according to the technical operating standards for operations, formats and templates for the report of solvency and financial condition. Within the section D.1 and D.3 fundamentals, methods and relevant assumptions, that are the basics for the valuation of solvency purposes, are described for all relevant assets and other liabilities.

Moreover, for these positions quantitative and qualitative descriptions for possible relevant differences in fundamentals, methods and relevant assumptions between the valuation for solvency purposes and the valuation according to IFRS/law are illustrated.

The economic balance sheet of Medlife as of 31 December 2020 is as follows in the reporting table S.02.01:



## Economic Balance Sheet

		2020	2019
		kUSD	kUSD
<b>Assets</b>			
Goodwill	R0010	0	0
Deferred acquisition costs	R0020	0	0
Intangible assets	R0030	0	0
Deferred tax assets	R0040	10	0
Pension benefit surplus	R0050	0	0
Property, plant & equipment held for own use	R0060	295	349
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	470,924	475,974
Property (other than for own use)	R0080	0	0
Holdings in related undertakings, including participations	R0090	0	0
Equities	R0100	4	7
Equities - listed	R0110	4	7
Equities - unlisted	R0120	0	0
Bonds	R0130	226,503	250,105
Government Bonds	R0140	78,699	108,273
Corporate Bonds	R0150	147,805	141,831
Structured notes	R0160	0	0
Collateralised securities	R0170	0	0
Collective Investments Undertakings	R0180	244,416	225,863
Derivatives	R0190	0	0
Deposits other than cash equivalents	R0200	0	0
Other investments	R0210	0	0
Assets held for index-linked and unit-linked contracts	R0220	21,142	12,081
Loans and mortgages	R0230	411	336
Loans on policies	R0240	411	336
Loans and mortgages to individuals	R0250	0	0
Other loans and mortgages	R0260	0	0
Reinsurance recoverables from:	R0270	0	0
Non-Life and Health similar to non-life	R0280	0	0
Non-Life excluding Health	R0290	0	0
Health similar to Non-life	R0300	0	0
Life and health similar to Life, excluding health and index-linked and unit-linked	R0310	0	0
Health similar to Life	R0320	0	0
Life excluding Health and index-linked and unit-linked	R0330	0	0
Life index-linked and unit-linked	R0340	0	0
Deposits to cedants	R0350	0	0
Insurance and intermediaries receivables	R0360	2,011	2,440
Reinsurance receivables	R0370	0	524
Receivables (trade, not insurance)	R0380	473	275
Own shares (held directly)	R0390	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0	0
Cash and cash equivalents	R0410	9,706	7,218
Any other assets, not elsewhere shown	R0420	21	19
<b>Total assets</b>	R0500	<b>504,991</b>	<b>499,216</b>

		2020	2019
		kUSD	kUSD
<b>Liabilities</b>			
Technical provisions – Non-life	R0510	0	0
Technical provisions – Non-life (excluding health)	R0520	0	0
Technical provisions calculated as a whole	R0530	0	0
Best Estimate	R0540	0	0
Risk margin	R0550	0	0
Technical provisions - health (similar to Non-life)	R0560	0	0
Technical provisions calculated as a whole	R0570	0	0
Best Estimate	R0580	0	0
Risk margin	R0590	0	0
Technical provisions - Life (excluding index-linked and unit-linked)	R0600	317,509	325,446
Technical provisions - Health (similar to Life)	R0610	0	0
Technical provisions calculated as a whole	R0620	0	0
Best Estimate	R0630	0	0
Risk margin	R0640	0	0
Technical provisions – Life (excluding health and index-linked and unit-linked)	R0650	317,509	325,446
Technical provisions calculated as a whole	R0660	0	0
Best Estimate	R0670	312,164	321,368
Risk margin	R0680	5,345	4,078
Technical provisions – index-linked and unit-linked	R0690	17,144	11,026
Technical provisions calculated as a whole	R0700	0	0
Best Estimate	R0710	16,568	10,645
Risk margin	R0720	577	381
Other technical provisions	R0730	0	0
Contingent liabilities	R0740	0	0
Provisions other than technical provisions	R0750	197	236
Pension benefit obligations	R0760	0	0
Deposits from reinsurers	R0770	0	0
Deferred tax liabilities	R0780	840	2,420
Derivatives	R0790	0	0
Debts owed to credit institutions	R0800	0	0
Financial liabilities other than debts owed to credit institutions	R0810	0	0
Insurance & intermediaries payables	R0820	27,396	27,890
Reinsurance payables	R0830	2	43
Payables (trade, not insurance)	R0840	7,587	9,288
Subordinated liabilities	R0850	0	0
Subordinated liabilities not in Basic Own Funds	R0860	0	0
Subordinated liabilities in Basic Own Funds	R0870	0	0
Any other liabilities, not elsewhere shown	R0880	0	0
<b>Total liabilities</b>	R0900	<b>370,677</b>	<b>376,349</b>
<b>Excess of assets over liabilities</b>	R1000	<b>134,315</b>	<b>122,867</b>

# D.1 Assets

## D.1.1 Explanation of the valuation differences per category of asset

### D.1.1.1 Intangible assets

Currently, a purchased goodwill or deferred conclusion costs are not applied neither in the annual financial statements according to IFRS nor in the economic balance sheet of Medlife.

Other intangible assets are valued at kUSD 0 in the economic balance sheet while in the financial statements prepared under IFRS there is an amount shown for kUSD 77. The amount represents licences and software development and implementation costs that will be used in the future to facilitate the company’s reporting under IFRS17.

### D.1.1.2 Deferred tax assets

The deferred tax assets in the economic balance sheet amount to kUSD 10 and in contrast to the financial statements under IFRS the amount shown is 0.

Further explanations can be found in section D.1.2.2.

In the economic balance sheet, a tax rate of 12.5% for the determination of the deferred taxes was applied in the reporting year in Medlife. There was no deferred tax asset amount reported in the IFRS financial statements of Medlife as at 31 December 2020.

### D.1.1.3 Property, plant and equipment

Property, plant and equipment are presented at cost net of accumulated depreciation and any possible impairment. Depreciation on property, plant and equipment is calculated on a monthly basis using the straight-line method over their estimated useful lives using the rates shown in the table below:

	Annual %
Buildings	3
Furniture and equipment	20-25
Equipment & Leasehold improvements	25
Computer software	25
Motor vehicles	20

No depreciation is provided on land. The assets residual values and useful life are reviewed, and adjusted if appropriate, at each reporting date.

The depreciation provision is recognized in the administration expenses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined

as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Property, plant and equipment for own use is calculated according to the description above and the value was kUSD 295 in both, the annual financial statements under IFRS and the economic balance sheet reported under Solvency II.

#### **D.1.1.4 Equities, bonds and investment funds other than assets held for index-linked funds**

Shares, bonds and investment funds that are not held within the framework of unit and index-linked life insurance are valued in the annual financial statements according to market values as these are described in the current IFRS.

The economic value of these assets corresponds to the fair value of the asset to be applied at the time of the valuation. To determine the fair value, the valuation hierarchy defined in section D.1.2.1 is applied.

There were no material valuation differences regarding equities, bonds and collective investment undertakings between the value in the economic balance sheet and the market value according to IFRS as of the reference date 31 December 2020. The only difference came from Held to Maturity bonds held in accordance with the relevant IFRS in the financial statements that were by kUSD -752 less than what was reported in the economic value balance sheet as per Solvency II. The total investments in the financial statements are kUSD 488,729 and in the economic value balance sheet kUSD 489,481.

#### **D.1.1.5 Assets held for unit-linked contracts**

Assets held for unit-linked contracts are valued at market values. With regard to the valuation approaches of the economic balance sheet compared to the valuation approach in the annual financial statements according to IFRS, there are no valuation differences.

The proportionate interest in the assets held for unit-linked contracts (assets held for unit-linked funds) will be indicated for purposes of calculating the solvency requirement in accordance with their commercial content in this position of the economic balance sheet.

Assets held for unit-linked contracts including cash at bank that are assigned to the unit-linked life insurance amount to kUSD 21,142 in the economic balance. In the balance according to IFRS as of 31 December 2020 the amount was shown without cash at bank at kUSD 20,700.

#### **D.1.1.6 Loans and mortgages**

Loans, mortgage receivables and advance payments on policies are considered at market values. For reasons of proportionality, the value in the economic balance sheet corresponds to the book value in the annual financial statements according to IFRS and the amount is kUSD 411.

#### **D.1.1.7 Reinsurance recoverables**

For the valuation according to IFRS the nominal value of the contractual claims to reinsurers are taken into account.

As of 31 December 2020 the demandable amount coming from reinsurance contracts in the economic balance is kUSD 0. In comparison to that in the balance in accordance with the IFRS the amount of kUSD 0 was shown.

#### **D.1.1.8 Receivables from insurance and intermediaries**

Receivables towards policy holders and receivables to insurance brokers are indicated under this item. Commission advances are only included in the receivables towards insurance brokers if there is actually an entitlement to reclaim them.

Receivables in the economic balance sheet are valued with the economic value. In the process, it is assumed that all receivables have a term of up to 12 months. The consideration of these short-term receivables is done at the nominal value less individual and general valuation allowances and therefore corresponds to the amount in the financial statements under IFRS.

#### **D.1.1.9 Receivables (trade not insurance)**

The receivables, trade not insurance primarily include receivables towards affiliated companies. In addition, receivables towards other insurance companies that do not originate from the reinsurance and receivables, trade not insurance towards suppliers as well as receivables towards tax and levies' authorities are indicated under this item.

Receivables in the economic balance sheet are valued with the economic value. In the process, it is assumed that all receivables have a term of up to 12 months. These short-term receivables are considered with the nominal value less individual and general value adjustments; this corresponds to the approach in the annual financial statements according to IFRS.

#### **D.1.1.10 Amounts due in respect of own fund items or initial fund called up but not yet paid in**

A requested but not yet paid-up part of the share capital is neither indicated in the economic balance sheet, nor in the annual financial statements according to IFRS as of 31 December 2020 of Medlife.

#### **D.1.1.11 Cash and cash equivalents**

The item includes domestic cash and deposits at banks. Foreign cash (currencies) and deposits at banks in foreign currency will be converted at the ECB reference exchange rate as of the balance sheet reference date.

The liquid funds are valued at the nominal value in the annual financial statements according to IFRS. This value corresponds to the present value pursuant to the IAS. There are thus no

differences between the approach of the economic balance sheet and the book value in the annual financial statements according to IFRS.

As of 31 December 2020 cash and cash equivalents amounted to kUSD 9,706 in the economic balance as well as in the balance according to IFRS, although here the amount is by kUSD 442 higher (at kUSD 10,148) as explained in section D.1.1.5.

#### **D.1.1.12 Any other assets, not elsewhere shown**

This item includes the offsetting item between the departments, accruals and deferrals. The other assets in the economic balance sheet are valued at the economic value. For reasons of proportionality, the book value of the economic balance sheet corresponds to the book value in the annual financial statements according to IFRS and amounts to kUSD 21 as of 31 December 2020. The accrued interests from securities are assigned in the economic balance sheet to the market value of the investments for which it is incurred and displayed in the corresponding balance sheet position of the economic balance sheet.

### **D.1.2 Assessments that can fundamentally influence the valuation approaches**

#### **D.1.2.1 Valuation models of financial assets**

The fair value of shares, investment funds that are not held for unit-linked life insurance, other non-fixed-interest-bearing securities, bonds and other fixed-interest-bearing securities corresponds to the book value or a stock exchange/market value.

##### **D.1.2.1.1 Listed prices on an active market (Level I)**

Financial assets are valued based on the market prices that are listed on active markets for same assets.

#### **Definition of an active market**

An active market is considered as a market on which business transactions take place with assets in sufficient frequency and volume so that price information is available on a continuous basis. If a financial instrument is managed on a recognised market/stock exchange, it is called a listed financial instrument. Regular transactions between independent contractual partners are not required for this but a low trading volume, a low number of transactions and the expansion of the bid-ask spread generally indicates the lack of an active market.

Another characteristic of liquidity is the volume of the issue. It can be usually assumed that under prevalent market conditions benchmark issues (from a volume of around EUR 500 million) can be seen as liquid.

In the valuation, Medlife fundamentally assumes that sovereign bonds in the respective country currency can be seen as liquid.

#### **Price sources to determine the listed market prices**

The price sources of the market prices are defined by the Asset Management department, transferred to their system and continually updated.

Securities whose valuation prices can be found in the Bloomberg information system will be rated at this price if it concerns liquid market prices. With investment funds, the valuation is done by the fund management program of Security KAG that is continually updated based on the current price information.

#### **D.1.2.1.2 Valuation methods based on verifiable market data (Level II)**

In cases where there is no listing on a stock exchange or a market cannot be considered as active due to limited activity of the market, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences are used to determine the fair value of a security.

#### **D.1.2.1.3 Model valuations (Level III)**

In cases in which neither listed prices on an active market (Level I) nor verifiable market data (Level II) are available, to determine the fair value of a security valuation models are used that are based on assumptions and estimates.

Medlife applies valuation procedures that are appropriate for the respective circumstance and for which sufficient data are available to measure the fair value to be applied, whereby in compliance with IFRS 13 the use of relevant verifiable input factors is maximised and that of non-verifiable input factors minimised.

If the most important parameters of the model (e.g. interest curves, credit spreads...) can be monitored on the market, the security to be valued will be valued on the basis of these methods.

The goal when using a valuation method is to determine the price at which under current market conditions on the valuation reference date an orderly business transaction could take place between two independent market participants when the asset would be sold or the liability transferred.

The following three valuation methods are in compliance with Art. 10 Par. 7 of the LAW:

- **Market-based approach** - uses prices and other relevant information that are generated by market transactions and include identical or comparable assets, liabilities or a group of assets or liabilities (e.g. a business operation)
- **Cost-based approach** - reflects the amount that would currently be required in order to replace the service capacity of an asset (current replacement costs)
- **Income-based approach** - converts future amounts (payment streams or costs and earnings) into a single current (discounted) amount that reflects the current market expectations with regard to these future amounts (cash value method)

Non-verifiable input factors are used to calculate the fair value to be applied if relevant verifiable input factors are not available. A company develops non-verifiable input factors using the information that is available in the best possible form in this circumstance which may include the company's own data. In the process, all available information about the assumptions made by market participants is to be taken into account.

If non-verifiable input factors are used, the company's own data must be adjusted.

#### **D.1.2.1.4 Value reductions of financial assets**

Medlife checks at least on each report reference date whether there are objective indications for a value reduction in an asset. All assets are assessed for specific value reductions.

Indications of a need for a value reduction can be, e.g.:

- Payment arrears
- Failed redevelopment measures
- Threat of insolvency and over indebtedness
- Deferment or waiver of payment obligations of the borrower
- Opening of insolvency proceedings

#### **D.1.2.2 Deferred tax**

The deferred tax equals the expected future tax profits (deferred tax assets) or tax payments (deferred tax liability). The evaluation of deferred taxes is based on the difference between the value of each individual asset and each individual liability in the economic balance sheet and in the fiscal balance sheet. The temporary differences determined in such a way are multiplied with the individual corporate tax rate. There is no discounting of the deferred taxes.

Permanent differences between the economic balance sheet and the fiscal balance sheet do not trigger any tax deferrals pursuant to IAS 12.

A positive value may only be assigned to deferred tax assets if it is probable that there will be taxable profits in future against which the deferred tax claim can be offset, whereby all legal and administrative regulations regarding temporal restrictions for the carry forward of not yet used tax credits or the carry forward of not yet used fiscal losses are taken into account.

Deferred tax assets and liabilities in Cyprus are offset when there is a legal enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The deferred tax assets are indicated under the item "Deferred tax assets" of the assets in the economic balance sheet and the deferred tax liabilities under the item "Deferred tax liability". There is no netting with the posted deferred tax liabilities in the economic balance sheet.

In the economic balance a tax rate of 12.5% was applied for the valuation of deferred taxes for Medlife. As indicated in section D.1.1.2 a deferred tax asset of kUSD 10 was created as at 31 December 2020 due to the fact that the specific intangible assets cannot be sold separately. Regarding deferred tax liabilities please refer to section D.3.1.2.

## **D.2 Technical provisions**

The technical provisions represent all current claims from policy holders against the insurance company. For balance purposes, they are calculated based on actuarial principles. The technical provisions under Solvency II consist of the Best Estimate and the Risk Margin. The calculation of the risk margin is explained in section D.2.6.



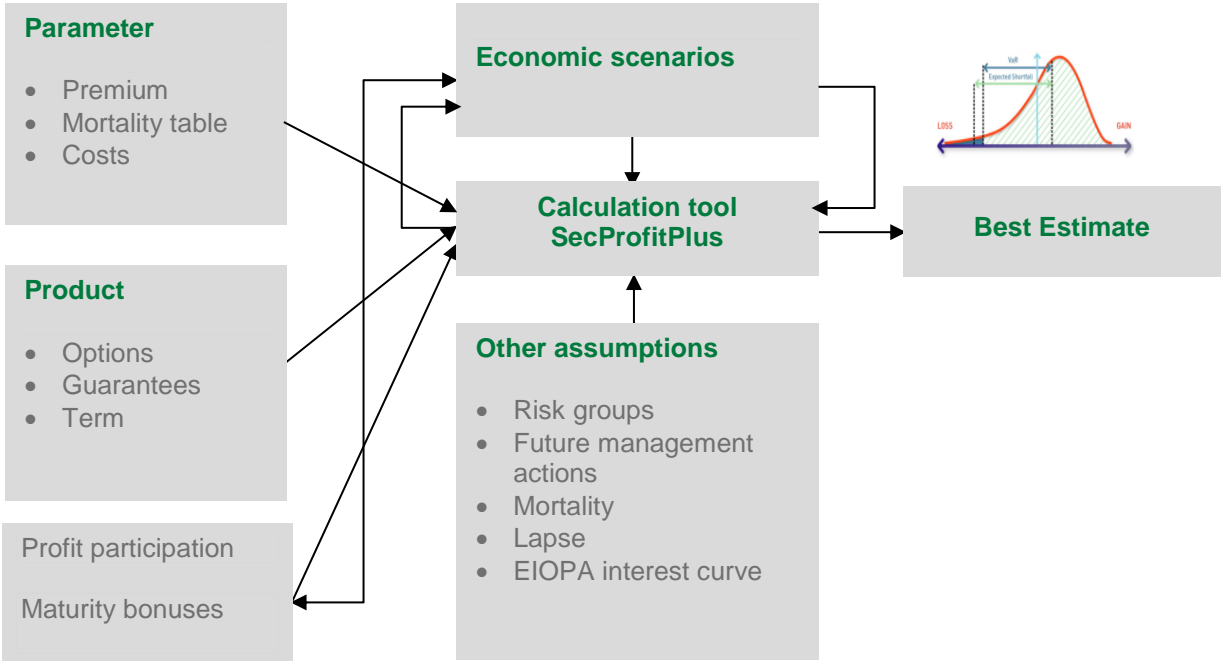
### D.2.1 Life

The Best Estimate in Life can only be calculated by using simulations as contracts have a long term character and depend on the capital market. Basis for the calculation is the current state of all life insurance contracts. For the calculation of a market value, calculation bases of second order that do not include any safety margins are used instead of calculation bases of first order (such as mortality tables or actuarial interest rates).

The tariff characteristics according to the contracts such as actuarial interest, profit participation and the underlying calculation bases are considered per contract. For the determination of the provisions for future profit participation, future capital earnings are modelled based on stochastic modelling. With these new target values, a scenario generator simulates economic scenarios by taking into account the asset side that results into different pay-outs of the profit participation depending on different economic developments of the income statement and the future management actions . The average of the present values of all scenarios equals the Best Estimate.

The future management actions that are in line with the most recent business practice and business strategy determine the distribution and subsequent allocation of the profit participation to the policy holder.

In this way, the long-term development of the technical provisions is determined in the life area. The Best Estimate in Life is assessed by the simulation-oriented calculation program SecProfitPlus.



### D.2.1.1 Value of the technical provisions according to LOBs

As stated in section D.2 the technical provisions under Solvency II comprise of a Best Estimate and a risk margin.

LoB	Type of insurance	Gross Best Estimate		Risk Margin		Technical Provisions	
		2020	2019	2020	2019	2020	2019
		kUSD	kUSD	kUSD	kUSD	kUSD	kUSD
30	Insurance with profit participation	313,516	322,775	5,084	3,639	318,600	326,414
31	Index-linked and unit-linked insurance	16,568	10,645	577	381	17,144	11,026
32	Other life insurance	-1,353	-1,407	261	439	-1,091	-968
<b>Total Life</b>		<b>328,731</b>	<b>332,013</b>	<b>5,922</b>	<b>4,459</b>	<b>334,653</b>	<b>336,472</b>

The table shows separately for each Line of Business (LoB) the gross Best Estimate, the risk margin and as a result the technical provisions for 2020. The decrease of the gross Best Estimate for LoB 30 was mainly due to a maturing portfolio. Whereas the increase of the gross Best Estimate in LoB 31 resulted from an increase in new business. Details on the risk margin can be found in section D.2.6.

The Best Estimate is calculated as the difference between future expected cash outflows (benefits) and future expected cash inflows (e.g. premium and investment results of the reserve). In the calculation of future expected cash inflows, premium level remains as contracted with the client.

In the calculation of future expected cash outflows, the amount of benefit payment remains as contracted as well, but the probability of benefit payment is adapted to real mortality rates. If benefit payments over the remaining period are less probable, future expected cash outflows decrease. As a result, the cash inflow exceeds the cash outflow. Consequently, the deduction of the cash inflows from the cash outflows results in a negative value. This negative value means that in the given situation the expected future returns exceed the expected future benefits. In this case Medlife has profitable divisions like the LoB 32.

As the Best Estimate includes also the claims regulation costs and the future costs for the insurance operations, there can also be a positive result in certain divisions which means that the future expenses exceed the declining premium income. In many cases, this results from the reinsurance.

### D.2.2 Description of the amounts that can be collected from reinsurance contracts (reinsurance recoverables)

In general, the reinsurance recoverables are calculated as difference between the gross and the net result for the Best Estimate Life. This is the amount that the insurance company pays to the reinsurer since in this case the reinsurer acts as an insurer where the insurance coverage is received by paying a premium.

In Medlife, there are no relevant reinsurance contracts and hence the gross result equals the net result.

LoB	Type of insurance	Gross Best Estimate		Net Best Estimate		Reinsurance Recoverables	
		2020	2019	2020	2019	2020	2019
		kUSD	kUSD	kUSD	kUSD	kUSD	kUSD
30	Insurance with profit participation	313,516	322,775	313,516	322,775	0	0
31	Index-linked and unit-linked insurance	16,568	10,645	16,568	10,645	0	0
32	Other life insurance	-1,353	-1,407	-1,353	-1,407	0	0
<b>Total Life</b>		<b>328,731</b>	<b>332,013</b>	<b>328,731</b>	<b>332,013</b>	<b>0</b>	<b>0</b>

### D.2.3 Description of the uncertainty level in Life

The calculation program SecProfitPlus is separated into two parts, the deterministic part to deal with the guaranteed cash flows and the stochastic part to simulate the future discretionary benefits (FDB).

The deterministic calculation is based on the book value of cash flows, it applies the parameter of second order and discounts the weighted cash flows to the balance sheet reference date. The calculation bases of second order are obtained with statistical methods.

For the description of the degree of uncertainty, a differentiation is to be made between the two components in deterministic and stochastic part:

#### a) Deterministic part

The Best Estimate is calculated from the following three main parameters:

1. Contractual cash flow,
2. Probability,
3. Discount factor.

While the contractual cash flows are determined by the nature of the contractual terms and the discount rate is by definition determined by a fixed specification, the uncertainty is influenced exclusively by the calculation bases of second order. In this way, the deterministic Best Estimate depends on the uncertainty of the calculation bases of second order.

#### b) Simulated part

The simulated part of the Best Estimate is additionally dependent on the financial result, the future management actions and the type of the simulated economic scenarios. As a result of the required market consistency, the scope for deviations is on average extremely low as long as the risk parameters (volatility) of the modelled assets are realistic. The formulation of the future management actions has the greatest influence on the result as the cumulative effect of future actions and omissions has a big impact on the cash flow of the future profits.

## D.2.4 Qualitative and quantitative explanation of the valuation differences per LOB, differences in the basics, methods and assumptions used

The most fundamental differences to the book values that are shown in section D.3.1.2 result from the market-consistent evaluation of the Solvency II reserves pursuant to the principles of orderly accounting (= book value according to IFRS) and according to the fair value principle (= market value).

The valuation is done according to the hierarchy of the Regulation (EU) No. 1126/2008 pursuant to the fair value principle. Differences in the valuation and in the results are based on fundamentally different assumptions between the book value according to IFRS and the economic value.

The fundamental differences are listed in the table below:

	<b>IFRS</b>	<b>Solvency II</b>
<b>Addressees</b>	creditor protection	supervisory authority, other insurance undertakings, rating agencies, customers
<b>Valuation technical provisions general</b>	use of relevant IFRS and IAS to value at fair value	market-consistent valuation
	standards based assumptions	realistic assumption
	creation of hidden reserves where permitted by IAS	disclosure of hidden reserves
	accounting and valuation options as per appropriate IFRS and IAS	defined in guidelines and technical specifications
	according to IAS 39 Financial Instruments measurement and recognition	fair value and time value
	no counterparty default	probability of the counterparty default is considered
	behaviour of the policy holder is not considered	behaviour of the policy holder is considered
	no preview on the economic development	economic development is anticipated
	future management actions are applied once	future management actions are adapted gradually to the simulation path
<b>Claims Reserves</b>	valuation of the payments to the policy holders according to reasonable commercial assessment and in accordance to IFRS 4	market-consistent valuation
	principle of prudence and case-by-case assessment and according to IFRS 4	principle of expected value and actuarial calculation of the final result of claims

	net view in self retention and in accordance with IFRS 4	gross view without deduction of reinsurance recoverable and net view after reinsurance
	discounting with the actuarial interest rate and in accordance with IFRS 4	discounting with the risk-free interest rate
<b>Life Reserves</b>	actuarially calculated value of the obligations including declared and allocated profit shares and in accordance with IFRS 4	all probability weighted cash flows including future surplus participation
	use of an actuarial interest rate taking into account the maximum interest rate regulation and in accordance with IFRS 4	use of an interest rate curve with upward and downward shocks published by EIOPA

#### **D.2.4.1 Relevant changes in the assumptions for the calculation of technical reserves**

Throughout the year 2020, the calculation software SecProfitPlus was revised. The most important changes compared to the previous year in the calculation program SePP were:

- Single Bond Simulation
- Improvement in the consideration of management fees

Following changes in assumptions of the valuation have been adapted:

- Annual update of mortality rates of second order;
- Annual update of expense factors;
- Annual update of lapse and waiver of premium probabilities;
- Increase of data granularity and data quality adjustment in determining expense factors.

#### **D.2.4.2 Calculation bases of second order**

The fundamental drivers for the difference between book value and market value in life insurance are the calculation bases of second order. Calculation bases of first order are those calculation bases that are determined in a very cautious way as they are used for example for the valuation of cover funds. In contrast to those cautiously selected calculation bases of first order, the more realistic calculation bases are described as calculation bases of second order.

These relate to the following parameters:

- Risk-free interest curve
- Cancellation probability
- Premium exemption probability
- Mortality
- Costs.

The risk-free interest curve (without volatility adjustment) specified by EIOPA and relevant for the balance sheet reference data is applied. This has a big impact especially for technical provisions in Life. Further calculation bases are derived from company's internal data.

#### **D.2.4.3 Description matching adjustment and portfolio**

Due to the high solvency ratio, the use of a LTG measure was not considered.

#### **D.2.4.4 Statement on the use of the volatility adjustment**

Due to the high solvency ratio, the use of the volatility adjustment was not considered.

#### **D.2.4.5 Statement on the use of the risk-free transfer interest rate**

Due to the high solvency ratio, the use of a risk-free transfer interest rate was not considered.

### **D.2.5 Significant simplifications and description of the level of uncertainty in calculating the technical provisions**

The technical provisions were calculated pursuant to the regulations for technical provisions (Articles 76 to 86 of the Solvency II Directive 2009/138/EC). The behaviour of the policy holders is taken into consideration in the form of probabilities for lapses and premium exemptions according to calculation bases of second order.

#### **D.2.6 Calculation of the risk margin**

In addition to the Best Estimate, the technical provisions also include the risk margin. The calculation of the risk margin is done in accordance with the standard model by the cost-of-capital (CoC) approach. The consideration of this approach is that the total portfolio is transferred to a reference company that invests without risk and handles this portfolio.

The costs for holding solvency capital for risks that exist despite risk-free investment are depicted by the risk margin. The cost of capital rate specified in the Solvency II standard model is 6%. Besides the underwriting risk, also the unavoidable market risk, the credit risk as well as the operational risk have to be included in the calculation.

The used method corresponds regarding the content to simplification no. 1 of EIOPA guidelines for the assessment of technical provisions (EIOPA-BoS-14/166 DE).

## D.3 Other liabilities

### D.3.1 Explanation of the valuation differences per category of liability

#### D.3.1.1 Provisions other than technical provisions

In IAS 37.36, the IFRS standardises the consideration of the provisions with the most probable value or with the expected value pursuant to IAS 37.39. From the current perspective, no fundamental deviations to the book value according to IFRS result in this position; therefore, the approach in the annual financial statements according to IFRS corresponds to the valuation approach in the economic balance sheet.

#### D.3.1.2 Deferred tax liabilities

The deferred tax liabilities are indicated under the item "Deferred tax liabilities" of the liabilities in the economic balance sheet. There is no netting with the posted deferred tax assets in the economic balance sheet.

The tax rate used is again 12.5% and the amount reported is kUSD 840 and is derived from the below differences in liabilities between the economic balance sheet values and the annual financial statements under IFRS values.

<b>Technical Liabilities</b>	<b>Economic Balance Sheet</b>	<b>Financial Statements IFRS</b>	<b>Deferred Liability Tax Rate 12.5%</b>
	<b>kUSD</b>	<b>kUSD</b>	<b>kUSD</b>
Best Estimate Life	312,164	315,416	407
Risk margin Life	5,345	5,401	7
Best Estimate & Risk margin (unit-linked)	17,144	20,556	426
<b>Total</b>			<b>840</b>

#### D.3.1.3 Insurance & intermediaries' payables

Liabilities from advance payments on premiums by the policy holders and liabilities towards brokers are indicated under this position. The value of the economic balance sheet corresponds to the book value in the annual financial statements according to IFRS.

#### D.3.1.4 Payables (trade, not insurance)

Other liabilities are valued with the repayment amount. There are no differences between the approach of the economic balance sheet and the book value in the annual financial statements according to IFRS.

### **D.3.1.5 Reinsurance payables**

Reinsurance payables are the liabilities to be settled and resulting from the invoicing for the reinsurance ceded.

An offsetting with receivables is only to be done if this offsetting is legally permissible on the reference date for the invoicing; an offsetting with custodian account receivables is, however, not permitted under any circumstances.

There are no differences between the approach of the economic balance sheet and the book value in the annual financial statements according to IFRS.

## **D.3.2 Assessments that can fundamentally influence the valuation approaches**

### **D.3.2.1 Liabilities from leasing agreements**

Liabilities from leasing agreements are not posted in the completed financial year - neither in the annual financial statements according to IFRS nor in the economic balance sheet.

### **D.3.2.2 Deferred taxes**

The risk-mitigating effect of deferred taxes (ability of deferred taxes to compensate for losses [Adj<sub>DT</sub>]) in the economic balance sheet is based on deferred tax liabilities possibly being reduced or deferred taxed assets being increased in the event of loss.

Pursuant to Art. 207 Par. 1 of the Delegated Regulation, the ability of the deferred taxes to compensate for losses corresponds to the total from the basic capital requirement (BSCR), the adjustment of the ability to compensate for losses through the technical provisions (Adj<sub>TP</sub>) and the capital requirement for the operational risk, multiplied with the individual corporate tax rate.

The amount of the ability of deferred taxes to compensate for losses is limited to the lower value of the amount determined pursuant to Art. 207 and/or the amount of the netted deferred tax liabilities indicated in the economic balance sheet and is taken into account as a deduction item from the SCR. Further explanations are made in section D.1.2.2.

### **D.3.2.3 Payables (trade, not insurance)**

The item "Payables (trade, not insurance)" includes a liability to the holding company regarding interim dividend of kUSD 7,000 and kUSD 297 to GRAWE AG. Corporation taxes in the amount of kUSD 187 and the remaining consist of smaller amounts regarding liability to suppliers and other wage related expenses.

### **D.3.2.4 Reinsurance payables**

Reinsurance payables are the liabilities to be settled and resulting from the invoicing for the reinsurance submitted.



An offsetting with receivables is only to be done if this offsetting is legally permissible on the reference date for the invoicing; an offsetting with custodian account receivables is, however, not permitted under any circumstances.

## **D.4 Alternative methods of valuation**

Pursuant to Art. 9 Par. 4 of the Delegated Regulation (EU) 2015/35, the use of deviating methods for valuation is permissible if the methods used:

- (1) are also applied within the framework of the creation of the annual financial statements or of the consolidated statements,
- (2) the valuation method complies with Article 75 of the Solvency II Directive,
- (3) the company does not value this asset or this liability according to IFRS,
- (4) a valuation of the assets and liabilities pursuant to IFRS entails costs for the company that based on its administrative costs would be disproportionate overall.

### **D.4.1 Alternative price determination for securities**

The market price for securities for which no market price of a liquid market is available is determined via the risk-free interest curve and a supplement.

The following hierarchy is complied with to determine the supplement:

- a) use of a liquid security of the same debtor of the same credit rating,
- b) use of credit default swaps,
- c) determination of credit supplements at banks who carry out primary issues for various issuers (of varying credit ratings),
- d) determination of a credit spread for equivalent securities.

The valuation hierarchy of financial assets is explained in section D.1.2.1.

Private placements are regularly checked for liquidity and value of the prices and if there is illiquidity priced with alternative valuation methods.

## **D.5 Any other information**

### **D.5.1 Currency conversion**

Assets, reserves and liabilities in foreign currency will be converted into USD at the ECB reference rate as of the balance sheet date.

### **D.5.2 Materiality**

The principle of proportionality and materiality is implemented pursuant to Art. 9 Par. 4 of the Delegated Regulation 2015/35 in accordance with the nature, scope and complexity of the company. With regard to the determination of the materiality threshold in the valuation of the assets and liabilities in the economic balance sheet, reference is made to the definition of the IAS 8.5.

## E. CAPITAL MANAGEMENT

### E.1 Own funds

Under Solvency II, the own funds requirement of an insurance company is oriented to the latter's actual risk profile (cf. statements in section C). The higher the risks that an insurance company is exposed to, the higher the solvency capital requirement (SCR) or the minimum capital requirement (MCR) that the company has to cover with creditable own funds.

The determination of the own funds that can be taken into consideration to cover SCR and MCR is based on a three-phase procedure:

In a first step, the own funds in the economic balance sheet are calculated as the surplus of the assets over the liabilities. This surplus is indicated in the depiction of the economic balance sheet in section D. The economic valuation of the assets and liabilities, however, deviates from the valuation according to existing IFRS accounting regulations (cf. statements in section D).

The own funds indicated in the economic balance sheet are described as basic own funds.

The basic own funds can also include so-called subordinated liabilities. The capital management guidelines of Medlife currently do not make provision for the issue of such liabilities. Supplementary own funds can be requested from the shareholders to compensate for losses, but are not included in the economic balance sheet and may only be taken into account after approval from the financial market supervisory authority. The taking out of supplementary own funds is not envisaged in the valid capital management guideline of Medlife.

In a second step, the own funds components are allocated to three categories ("Tiers") as these can compensate for losses in varying degrees in accordance with their availability and term.

In its economic balance sheet, Medlife only indicates own funds components that have an indefinite term, are free of encumbrances and are permanently available and thus can be classified as Tier 1 capital.

Finally, if applicable, there will be a limitation of the offset ability of Tier 1, Tier 2 and Tier 3 capital as individual own funds components do not have full ability to compensate for losses in an emergency.

In the internal capital management guideline, Medlife has formulated the goal of only holding basic own funds of Tier 1 quality.

In order to achieve this goal, in particular the following rules are to be complied with in the case of capital measures:

- Only ordinary shares may be issued. In the process, the statutory provisions valid for the share issue are to be complied with.
- It is to be ensured that all own funds components are fully paid up at all times or are covered by assets with value.

- It is to be ensured that the own funds components are not encumbered by the existence of agreements or associated transactions or as the result of a group structure via which the effectiveness as capital is undermined.
- Neither subordinated liabilities may be issued.
- No treasury stock may be held.

No corporate action is planned in for the financial years until 2022.

The annual general meeting of Medlife is responsible for the decision taking regarding dividend payments. The Board of Directors has to submit to the annual general meeting a proposal for the dividend payment. The approved final dividend for the year 2020 amounts to kUSD 7,000.

The proposal is to be developed with regard to commercial and strategic interests of all stakeholders (in particular but not solely of the shareholders) but must at any rate take into account the following aspects:

- The statutory provisions, in particular the provisions under company law and supervisory law regarding the dividend payments;
- The resourcing at any time of the company with sufficient own funds to meet the capital requirements as of 31 December of the last financial year;
- Key business events since 31 December of the last financial year for which a negative influence on the own funds and the fulfilment of the capital requirements is expected;
- The detailed planning for the ongoing financial year and the resulting forecast of the own funds and of the capital requirements;
- The medium-term capital management plan and the resulting forecast of the own funds and of the capital requirements.

With the proposal to the annual general meeting, the Board of Directors has to ensure that as a result of the dividend payment neither the current nor the forecasted solvency ratio falls below 150%.

### **E.1.1. Own funds according to IFRS**

As of 31 December 2020 the paid-up capital of Medlife consists of 8,850,000 (2019: 8,850,000) units of shares with a nominal value of 1.71 EUR (2019: 1.71 EUR) each. The company does not hold any treasury stock at all.

### **E.1.2. Own funds pursuant to Solvency II**

The own funds resulting from the economic balance sheet as of 31 December 2020 are comprised of the positions depicted in the overview listed below.

Medlife does not have any subordinated liabilities or any supplementary own funds during 2020.

The total own funds therefore correspond to the total of the basic own funds.

Based on these characteristics, the basic own funds of Medlife are to be classified solely as Tier 1 pursuant to Art. 69 to Art. 71 of the Delegated Regulation.

They can be offset in an unlimited amount to cover SCR and MCR.

	<b>Total</b>	<b>of which Tier 1</b>	<b>Total</b>	<b>of which Tier 1</b>
	<b>2020</b>	<b>unlimited</b>	<b>2019</b>	<b>unlimited</b>
	<b>kUSD</b>	<b>2020</b>	<b>kUSD</b>	<b>2019</b>
		<b>kUSD</b>		<b>kUSD</b>
Paid-up share capital	15,018	15,018	15,018	15,018
Capital reserves	23	23	23	23
Reconciliation reserve	119,273	119,273	107,826	107,826
<b>Total of the basic own funds</b>	<b>134,314</b>	<b>134,314</b>	<b>122,867</b>	<b>122,867</b>

The reconciliation reserve corresponds to the total surplus of the assets over the liabilities less the items named in Art. 70 Par. 1 of the Delegated Regulation.

The reconciliation reserve of Medlife is therefore calculated as follows:

	<b>2020</b>	<b>2019</b>
	<b>kUSD</b>	<b>kUSD</b>
<b>Reconciliation reserve</b>		
<b>Surplus of the assets over the liabilities</b>	<b>134,314</b>	<b>122,867</b>
Paid-up share capital	15,018	15,018
Capital reserves	23	23
<b>Other basic own funds</b>	<b>-15,041</b>	<b>-15,041</b>
<b>Reconciliation reserve</b>	<b>119,273</b>	<b>107,826</b>

### E.1.3. Explanation of the differences in valuation

The differences in valuation between the own funds of the economic balance sheet and the own funds according to IFRS are comprised of the following positions:

	<b>2020</b>	<b>2019</b>
	kUSD	kUSD
<b>Difference in valuation</b>		
Difference in the valuation of assets	685	-10
add: difference in the valuation of technical provisions	6,720	19,361
less: difference in the valuation of other liabilities	-840	-2,420
Total amount of the reserves from the annual financial statements	112,708	90,895
Contingency Reserve, not included in the own funds according to IFRS, therefore deduction	0	0
<b>Reserves from the annual financial statements, adjusted to reflect the valuation differences from Solvency II</b>	<b>119,273</b>	<b>107,826</b>
Surplus of the assets over the liabilities that can be assigned to the other basic own funds	15,041	15,041
<b>Surplus of the assets over the liabilities</b>	<b>134,314</b>	<b>122,867</b>

The difference in the valuation of the assets results from the market values applied in the economic balance sheet exceeding overall the book values in the balance sheet according to IFRS.

With the technical provisions, the Best Estimate overall is substantially below the book values in the IFRS balance sheet.

The differences in the valuation of other liabilities results from the carrying of deferred taxes as liabilities.

#### **E.1.4. Deferred Taxes**

As at 31 December 2020 deferred tax assets (DTA) amount to kUSD 10 and deferred tax liabilities (DTL) are kUSD 840. The net deferred tax liabilities, which result from the difference between deferred tax assets and deferred tax liabilities, amount to kUSD -830. This value results primarily from Best Estimates Life.

Furthermore, no Tier 3 capital from net deferred tax assets is reported in Medlife's own funds.

## **E.2 SCR and MCR**

Medlife calculates the solvency capital requirement (SCR) with the Solvency II standard formula.

This is intended to reflect a capital need that makes it possible for the company to compensate for unforeseen losses in the next year.

The SCR is calibrated in such a way that it corresponds to a Value at Risk of the basic own funds at a confidence level of 99.5% over a period of one year or to put it another way, a "1-in-200"-year ruin event is simulated.

The calibration guarantees that all quantifiable risks that an insurance company is exposed to are taken into consideration.

When applying the standard formula, Medlife does not use neither simplifications for individual modules nor sub-modules or company-specific parameters nor the matching adjustment. No use was made of the application of the volatility adjustment either.

As of 31 December 2020, the SCR of Medlife was kUSD 40,109 (2019: kUSD 34,063) and, based on risk modules, is comprised as follows:

		2020	Share on SCR	2019	Share on SCR
<b>Market risk</b>	Interest rate risk	3,208	8.0%	2,360	6.9%
	Equity risk	19,285	48.1%	16,262	47.7%
	Property risk	60	0.1%	62	0.2%
	Spread risk	23,264	58.0%	22,319	65.5%
	Concentration risk	4,444	11.1%	5,311	15.6%
	Currency risk	4,009	10.0%	4,898	14.4%
	Diversification	-12,711	-31.7%	-12,896	-37.9%
	<b>TOTAL</b>	<b>41,560</b>	<b>103.6%</b>	<b>38,316</b>	<b>112.5%</b>
<b>Counterparty default risk</b>		<b>2,602</b>	<b>6.5%</b>	<b>2,321</b>	<b>6.8%</b>
<b>Life underwriting risk</b>	Mortality risk	60	0.2%	104	0.3%
	Longevity risk	57	0.1%	50	0.1%
	Disability risk	1	0.0%	1	0.0%
	Lapse risk	13,700	34.2%	9,217	27.1%
	Cost risk	1,907	4.8%	1,495	4.4%
	Revision risk	0	0.0%	0	0.0%
	Catastrophe risk	542	1.4%	705	2.1%
	Diversification	-1,350	-3.4%	-1,295	-3.8%
<b>TOTAL</b>	<b>14,916</b>	<b>37.2%</b>	<b>10,278</b>	<b>30.2%</b>	
<b>Basic SCR (BSCR)</b>		<b>48,373</b>	<b>120.6%</b>	<b>42,807</b>	<b>125.7%</b>
<b>Operational risk</b>		<b>1,725</b>	<b>4.3%</b>	<b>1,521</b>	<b>4.5%</b>
Adjustments technical provisions (Adj <sub>TP</sub> )		-9,159	-22.8%	-7,845	-23.0%
Adjustments deferred taxes (Adj <sub>DT</sub> )		-830	-2.1%	-2,420	-7.1%
<b>Adjustments (Adjustment term)</b>		<b>-9,990</b>	<b>-24.9%</b>	<b>-10,265</b>	<b>-30.1%</b>
<b>SCR (capital requirement)</b>		<b>40,109</b>	<b>100.0%</b>	<b>34,063</b>	<b>100.0%</b>

The ratio of the eligible own funds to the SCR (solvency ratio) was 334.9% (2019: 360.7%) as of the reporting reference date 31 December 2020. The own funds were sufficiently fulfilled in the whole reporting period. The material changes of the risk sub modules have been stressed out in section C.

The minimum capital requirement (MCR) constitutes the minimum volume of capital that the insurance company must hold at any time in order to be able to continue its business activities further.

The MCR is calculated in a three-stage procedure in accordance with the Solvency II calculation regulations:

The linear MCR is calculated based on the Article 251 of the Delegated Regulation and as a function between the net Best Estimates of the guaranteed part, the future discretionary benefits (FDB), the unit linked part and the other life technical reserves and the capital at risk multiplied with specific factors.

For the linear MCR calculated in Step 1, it is checked whether it is between 25% and 45% of the SCR. If this is the case, the linear MCR is then used further for the third step of the calculations. If, however, the linear MCR is below 25%, 25% of the SCR will then be applied in Step 3. If it is over 45%, 45% of the SCR will then be included in the calculations of Step 3.

It is checked whether the value from Step 2 has an absolute lower threshold stipulated by the LAW. If this is the case, then the result from step 2 corresponds to the MCR. If the calculation result from step 2 results in a lower value than the absolute lower threshold, the MCR will be increased to this lower threshold.

The MCR of Medlife corresponds to the linear MCR. As of the reporting reference date 31 December 2020, the MCR of Medlife was kUSD 11,031 (2019: kUSD 11,569). The ratio of the eligible own funds to the MCR amounted to 1217.6% (2019: 1062.0%).

#### **Adjustment Term Deferred Taxes**

The amount of adjustment term deferred taxes in Medlife is kUSD -830, which constitutes mainly from deferred tax liabilities. Deferred tax liabilities in Medlife result from Best Estimate Life.

Currently the SCR is subject to supervisory assessment.

### **E.3 Use of the duration-based equity-risk sub-module in the calculation of the SCR**

Not relevant.

### **E.4 Differences between the standard formula and any internal models used**

Not relevant.

### **E.5 Non-compliance with the MCR and SCR**

Not relevant.

### **E.6 Any other information**

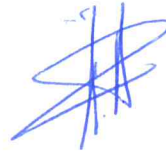
Any relevant information was mentioned in the previous sections.

Nicosia, 6 April 2021

**The Board of Directors**



Dr. Wolfgang Felser



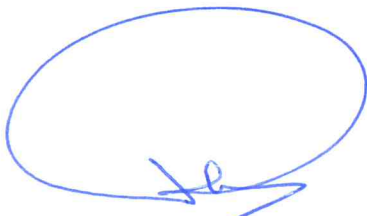
Aristodemos Aristodemou, BA, FCCA



Daniela Uhlmann, MA



Mag. Peter Hronovsky, MSC MBA



Petros Petrides, BSC FCA



# Annex

## Annex I

### S.02.01.02

#### Balance sheet

	Solvency II value	
	C0010	
<b>Assets</b>	<b>R0030</b>	
Intangible assets	<b>R0040</b>	9,572
Deferred tax assets	<b>R0050</b>	
Pension benefit surplus	<b>R0060</b>	294,850
Property, plant & equipment held for own use	<b>R0070</b>	470,923,947
Investments (other than assets held for index-linked and unit-linked contracts)	<b>R0080</b>	
Property (other than for own use)	<b>R0090</b>	
Holdings in related undertakings, including participations	<b>R0100</b>	4,367
Equities	<b>R0110</b>	4,367
Equities - listed	<b>R0120</b>	
Equities - unlisted	<b>R0130</b>	226,503,215
Bonds	<b>R0140</b>	78,698,687
Government Bonds	<b>R0150</b>	147,804,527
Corporate Bonds	<b>R0160</b>	
Structured notes	<b>R0170</b>	
Collateralised securities	<b>R0180</b>	244,416,365
Collective Investments Undertakings	<b>R0190</b>	
Derivatives	<b>R0200</b>	
Deposits other than cash equivalents	<b>R0210</b>	
Other investments	<b>R0220</b>	21,141,618
Assets held for index-linked and unit-linked contracts	<b>R0230</b>	410,593
Loans and mortgages	<b>R0240</b>	410,593
Loans on policies	<b>R0250</b>	
Loans and mortgages to individuals	<b>R0260</b>	
Other loans and mortgages	<b>R0270</b>	0
Reinsurance recoverables from:	<b>R0280</b>	
Non-life and health similar to non-life	<b>R0290</b>	
Non-life excluding health	<b>R0300</b>	
Health similar to non-life	<b>R0310</b>	0
Life and health similar to life, excluding health and index-linked and unit-linked	<b>R0320</b>	
Health similar to life	<b>R0330</b>	0
Life excluding health and index-linked and unit-linked	<b>R0340</b>	0
Life index-linked and unit-linked	<b>R0350</b>	
Deposits to cedants	<b>R0360</b>	2,011,093
Insurance and intermediaries receivables	<b>R0370</b>	0
Reinsurance receivables	<b>R0380</b>	472,696
Receivables (trade, not insurance)	<b>R0390</b>	
Own shares (held directly)	<b>R0400</b>	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	<b>R0410</b>	9,705,990
Cash and cash equivalents	<b>R0420</b>	20,702
Any other assets, not elsewhere shown	<b>R0500</b>	504,991,060
<b>Total assets</b>		

	Solvency II value	
	C0010	
<b>Liabilities</b>	<b>R0510</b>	
Technical provisions – non-life	<b>R0520</b>	
Technical provisions – non-life (excluding health)	<b>R0530</b>	
Technical provisions calculated as a whole	<b>R0540</b>	
Best Estimate	<b>R0550</b>	
Risk margin	<b>R0560</b>	
Technical provisions - health (similar to non-life)	<b>R0570</b>	
Technical provisions calculated as a whole	<b>R0580</b>	
Best Estimate	<b>R0590</b>	
Risk margin	<b>R0600</b>	317,509,011
Technical provisions - life (excluding index-linked and unit-linked)	<b>R0610</b>	
Technical provisions - health (similar to life)	<b>R0620</b>	
Technical provisions calculated as a whole	<b>R0630</b>	
Best Estimate	<b>R0640</b>	
Risk margin	<b>R0650</b>	317,509,011
Technical provisions – life (excluding health and index-linked and unit-linked)	<b>R0660</b>	
Technical provisions calculated as a whole	<b>R0670</b>	312,163,655
Best Estimate	<b>R0680</b>	5,345,356
Risk margin	<b>R0690</b>	17,144,446
Technical provisions – index-linked and unit-linked	<b>R0700</b>	
Technical provisions calculated as a whole	<b>R0710</b>	16,567,761
Best Estimate	<b>R0720</b>	576,685
Risk margin	<b>R0740</b>	
Contingent liabilities	<b>R0750</b>	197,359
Provisions other than technical provisions	<b>R0760</b>	
Pension benefit obligations	<b>R0770</b>	
Deposits from reinsurers	<b>R0780</b>	840,025
Deferred tax liabilities	<b>R0790</b>	
Derivatives	<b>R0800</b>	
Debts owed to credit institutions	<b>R0810</b>	
Financial liabilities other than debts owed to credit institutions	<b>R0820</b>	27,396,477
Insurance & intermediaries payables	<b>R0830</b>	2,147
Reinsurance payables	<b>R0840</b>	7,587,043
Payables (trade, not insurance)	<b>R0850</b>	
Subordinated liabilities	<b>R0860</b>	
Subordinated liabilities not in Basic Own Funds	<b>R0870</b>	
Subordinated liabilities in Basic Own Funds	<b>R0880</b>	
Any other liabilities, not elsewhere shown	<b>R0900</b>	370,676,508
<b>Total liabilities</b>	<b>R1000</b>	134,314,553
<b>Excess of assets over liabilities</b>		

Annex I

S.05.01.02

Premiums, claims and expenses by line of business

	Line of Business for: life insurance obligations						Life reinsurance obligations		Total
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
<b>Premiums written</b>									
Gross	R1410	-	25,613,718	10,050,121	917,809				36,581,648
Reinsurers' share	R1420	-			2,147				2,147
Net	R1500		25,613,718	10,050,121	915,662				36,579,501
<b>Premiums earned</b>									
Gross	R1510	-	27,997,131	10,050,121	992,787				39,040,039
Reinsurers' share	R1520	-			2,147				2,147
Net	R1600		27,997,131	10,050,121	990,640				39,037,892
<b>Claims incurred</b>									
Gross	R1610	-	52,055,294	720,032	109,320				52,884,646
Reinsurers' share	R1620	-							
Net	R1700		52,055,294	720,032	109,320				52,884,646
<b>Changes in other technical provisions</b>									
Gross	R1710	-	24,329,666	-8,412,220	336,455				16,253,901
Reinsurers' share	R1720	-							
Net	R1800		24,329,666	-8,412,220	336,455				16,253,901
<b>Expenses incurred</b>	R1900		4,178,958	4,192,809	245,459				8,617,225
<b>Other expenses</b>	R2500								
<b>Total expenses</b>	R2600								8,617,225

Annex I

S.05.02.01

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	<b>R1400</b>	<del>C0150</del>	RU	BY	KZ			<del>C0210</del>
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
<b>Premiums written</b>								
Gross	<b>R1410</b>	-	28,830,679	3,945,096	2,040,000			36,581,648
Reinsurers' share	<b>R1420</b>	-	1,575	256	195			2,147
Net	<b>R1500</b>		28,829,104	3,944,840	2,039,805			36,579,501
<b>Premiums earned</b>								
Gross	<b>R1510</b>	-	30,768,183	4,210,218	2,177,094			39,040,039
Reinsurers' share	<b>R1520</b>	-	1,575	256	195			2,147
Net	<b>R1600</b>		30,766,608	4,209,962	2,176,899			39,037,892
<b>Claims incurred</b>								
Gross	<b>R1610</b>	-	38,458,598	3,409,729	5,675,776			52,884,646
Reinsurers' share	<b>R1620</b>	-						
Net	<b>R1700</b>		38,458,598	3,409,729	5,675,776			52,884,646
<b>Changes in other technical provisions</b>								
Gross	<b>R1710</b>	-	12,289,162	1,725,326	974,893			16,253,901
Reinsurers' share	<b>R1720</b>	-						
Net	<b>R1800</b>		12,289,162	1,725,326	974,893			16,253,901
<b>Expenses incurred</b>	<b>R1900</b>	-	6,515,265	914,705	516,853			8,617,225
<b>Other expenses</b>	<b>R2500</b>	<del>C0220</del>	<del>C0230</del>	<del>C0240</del>	<del>C0250</del>	<del>C0260</del>	<del>C0270</del>	
<b>Total expenses</b>	<b>R2600</b>	<del>C0220</del>	<del>C0230</del>	<del>C0240</del>	<del>C0250</del>	<del>C0260</del>	<del>C0270</del>	8,617,225

**Annex I**  
**S.12.01.02**  
**Life and Health SLT Technical Provisions**

	Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees				Contracts with options or guarantees
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
<b>Technical provisions calculated as a whole</b>	<b>R0010</b>									
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	<b>R0020</b>									
<b>Technical provisions calculated as a sum of BE and RM</b>										
<b>Best Estimate</b>										
<b>Gross Best Estimate</b>	<b>R0030</b>	313,516,210		16,567,761			-1,352,555			328,731,416
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0080</b>									
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	<b>R0090</b>	313,516,210		16,567,761			-1,352,555			328,731,416
<b>Risk Margin</b>	<b>R0100</b>	5,084,081	576,685		261,275					5,922,041
<b>Amount of the transitional on Technical Provisions</b>										
Technical Provisions calculated as a whole	<b>R0110</b>									
Best estimate	<b>R0120</b>									
Risk margin	<b>R0130</b>									
<b>Technical provisions - total</b>	<b>R0200</b>	318,600,290	17,144,446		-1,091,279					334,653,457

Annex I  
S.23.01.01  
Own funds

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35**

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	R0010	15,018,221	15,018,221		
Share premium account related to ordinary share capital	R0030	23,100	23,100		
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040				
Subordinated mutual member accounts	R0050				
Surplus funds	R0070				
Preference shares	R0090				
Share premium account related to preference shares	R0110				
Reconciliation reserve	R0130	119,273,232	119,273,232		
Subordinated liabilities	R0140				
An amount equal to the value of net deferred tax assets	R0160	-			0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180				

**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**

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220				
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**Deductions**

Deductions for participations in financial and credit institutions	R0230				
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**Total basic own funds after deductions**

	R0290	134,314,553	134,314,553		0
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**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand	R0300				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310				
Unpaid and uncalled preference shares callable on demand	R0320				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370				
Other ancillary own funds	R0390				

**Total ancillary own funds**

	R0400				
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**Available and eligible own funds**

Total available own funds to meet the SCR	R0500	134,314,553	134,314,553	0	0
Total available own funds to meet the MCR	R0510	134,314,553	134,314,553	0	0
Total eligible own funds to meet the SCR	R0540	134,314,553	134,314,553	0	0
Total eligible own funds to meet the MCR	R0550	134,314,553	134,314,553	0	0

**SCR**

	R0580	40,108,651			
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**MCR**

	R0600	11,030,788			
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**Ratio of Eligible own funds to SCR**

	R0620	334.88%			
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**Ratio of Eligible own funds to MCR**

	R0640	1,217.63%			
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**Reconciliation reserve**

	C0060				
Excess of assets over liabilities	R0700	134,314,553			
Own shares (held directly and indirectly)	R0710				
Foreseeable dividends, distributions and charges	R0720	0			
Other basic own fund items	R0730	15,041,321			
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740				

**Reconciliation reserve**

	R0760	119,273,232			
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**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business	R0770	1,788,896			
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Expected profits included in future premiums (EPIFP) - Non- life business	R0780	0			
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<b>Total Expected profits included in future premiums (EPIFP)</b>	R0790	1,788,896			
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**Annex I**

**S.25.01.21**

**Solvency Capital Requirement - for undertakings on Standard Formula**

Market risk  
 Counterparty default risk  
 Life underwriting risk  
 Health underwriting risk  
 Non-life underwriting risk  
 Diversification  
 Intangible asset risk  
**Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

Operational risk  
 Loss-absorbing capacity of technical provisions  
 Loss-absorbing capacity of deferred taxes  
 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

**Solvency Capital Requirement excluding capital add-on**

Capital add-on already set

**Solvency capital requirement**

**Other information on SCR**

Capital requirement for duration-based equity risk sub-module  
 Total amount of Notional Solvency Capital Requirements for remaining part  
 Total amount of Notional Solvency Capital Requirements for ring fenced funds  
 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios  
 Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
<b>R0010</b>	41,559,810		
<b>R0020</b>	2,602,346		
<b>R0030</b>	14,916,362		
<b>R0040</b>	-		
<b>R0050</b>	-		
<b>R0060</b>	-10,705,656		
<b>R0070</b>	-		
<b>R0100</b>	48,372,862		

**C0100**

<b>R0130</b>	1,725,321
<b>R0140</b>	-9,159,078
<b>R0150</b>	-830,453
<b>R0160</b>	-
<b>R0200</b>	40,108,651
<b>R0210</b>	-
<b>R0220</b>	40,108,651
<b>R0400</b>	-
<b>R0410</b>	-
<b>R0420</b>	-
<b>R0430</b>	-
<b>R0440</b>	-

**Annex I**

**S.28.01.01**

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

**Linear formula component for life insurance and reinsurance obligations**

	<b>C0040</b>
MCR <sub>L</sub> Result	<b>R0200</b> 11,030,788

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	<b>C0050</b>	<b>C0060</b>
Obligations with profit participation - guaranteed benefits	<b>R0210</b> 302,585,304	<del>                    </del>
Obligations with profit participation - future discretionary benefits	<b>R0220</b> 10,930,906	<del>                    </del>
Index-linked and unit-linked insurance obligations	<b>R0230</b> 16,567,761	<del>                    </del>
Other life (re)insurance and health (re)insurance obligations	<b>R0240</b> -	<del>                    </del>
Total capital at risk for all life (re)insurance obligations	<b>R0250</b> <del>                    </del>	410,805,976

**Overall MCR calculation**

	<b>C0070</b>
Linear MCR	<b>R0300</b> 11,030,788
SCR	<b>R0310</b> 40,108,651
MCR cap	<b>R0320</b> 18,048,893
MCR floor	<b>R0330</b> 10,027,163
Combined MCR	<b>R0340</b> 11,030,788
Absolute floor of the MCR	<b>R0350</b> 4,540,270
	<b>C0070</b>
<b>Minimum Capital Requirement</b>	<b>R0400</b> 11,030,788



# Glossary

**Base point:**

100 base points correspond to 1% and depict the change on financial markets.

**Bid-ask spread:**

The bid-ask spread is the difference between the price (bid) that a buyer is willing to pay for an asset and the price (ask) that a seller is willing to accept to sell. The wider this spread gets, the less a market is considered as liquid and active in regards to the traded security.

**Correlation:**

Measurement for the linear relationship between two variables.

**Credit spread:**

Credit spread in finance denotes the difference in profit between an interest-bearing asset and a risk-free reference interest rate of the same term.

It is intended to show the additional risk premium that an investor receives if he does not wish to invest without risk

**Derivatives:**

Derivatives are instruments of futures trading and financial instruments whose value is derived from the development of the value of one or more basic values (underlyings). The value of the derivative is oriented to the value of the underlying, in positive or negative dependency.

**Diversification effect:**

Reduction of the risk potential through diversification that results from the fact that the negative result of a risk can be compensated by the more favourable result of another risk if these risks are not fully correlated.

**Investment grade:**

An investment grade is the description for or an achievable status of companies or securities that have a good rating and thus have "investment quality". A minimum rating for investment grade is a rating of BBB (Standard & Poor's) or Baa (Moody's). Investments below this threshold are described as non-investment grade as they are mostly of a speculative nature and associated with higher risk.

**Scenario analyses:**

Analyses of the effects of a combination of different events

**SCR ratio:**

The SCR ratio constitutes the ratio of the own funds to the regulatory solvency capital requirement pursuant to Solvency II.

**Solvency:**

Own funds of an insurance company

**Value at Risk:**

The Value at Risk is a recognised key ratio to evaluate risks. A Value at Risk of EUR 1 million with a confidence level of 95% and with a holding period of 1 year means that the potential loss within 1 year will not exceed the amount of EUR 1 million with a probability of 95%.

# Independent Auditor's Report



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## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE BOARD OF DIRECTORS OF**

### **MEDLIFE INSURANCE 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 2015/2452 of 2 December 2015, of Medlife Insurance Limited (the "Company"), prepared as at 31 December 2020:

- S.02.01.02 - Balance sheet
- S.12.01.02 – Life and Health SLT 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".

In our opinion, the information in the relevant QRTs of the Solvency and Financial Condition Report as at 31 December 2020 is prepared, in all material respects, in accordance with the Insurance and Reinsurance Services and other Related Issues Law of 2016, the Commission Delegated Regulation (EU) 2015/35, 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").

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## **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' Code of Ethics for Professional Accountants (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 2015/2452 of 2 December 2015):

- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country

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

6 April 2021