Nucleus Life AG

Solvency and Financial Condition Report

for the financial year ended 31 December 2022

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Executive Summary

Nucleus Life AG ("the Company") is a life insurance company domiciled in Vaduz, Liechtenstein, and regulated by the Financial Market Authority (FMA) Liechtenstein.

Business and performance

As in the previous year, in this financial year we have focused our activities on existing distributors in Germany and Scandinavia and on the development of new products in markets such as Italy. We expect good new business in all two core markets Germany and Italy. IRC Finance AG will no longer act for in the German market. However, instead of IRC Finance AG, a cooperation with Simtal GmbH in Germany is planned. This measure is intended to generate business in Germany for the 2023 financial year. Growth in new business is also expected in international business.

Nucleus looks back on a rather mixed business year. Gross premium income amounted to CHF 7'812'220 (previous year (PY) 2021: CHF 33'612'190). The ordinary premium income as well as portfolio repurchases and increased expenses in connection with shareholder structure and legal defence costs led to a loss of CHF 1'137'204 (PY CHF 1'396'279).

System of Governance

The Board of the Company considers the system of governance to be adequate and proportionate to the nature, scale and complexity of the risks inherent in its business.

The Company ensures that all persons, who effectively run the Company or fulfill other key functions, are fit to provide sound and prudent management through their professional qualifications, knowledge and experience, and are proper by being of good repute and integrity.

The Company's system of governance has been designed around a Risk Management framework together with the controls and processes. It employs the "three lines of defense" governance model:

- 1st Line of Defence: Management and staff
- 2nd Line of Defence: Risk Management & Compliance (Oversight)
- 3rd Line of Defence: Internal Audit (Assurance)

It performs an Own Risk and Solvency Assessment (ORSA) at least once per year, during which all risks inherent to its business are assessed and the corresponding capital needs determined. As part of the ORSA, "stress scenarios" are considered as well.

Its internal control system consists of four elements:

- Supervisory Board
- Compliance and Risk Management
- Internal Audit
- Controls over Outsourced Activities

The governance structure of the Company has not changed in the year to 31 December 2022. A new Internal Control System software package called GoCompliant has been implemented in 2020, which has since then increased the efficiency and management in order to meet the growing requirements in the area of risk management and ICS.

Risk profile

The Company mainly assumes Deposit-Linked business whereby the policyholder bears the financial risk. In accordance with the Prudent Person principle, the Company only invests policyholder funds in assets and instruments the risks of which it can properly identify, measure, monitor, manage and control. Shareholder assets are only invested in secure, non-volatile assets.

There is also a small amount of (death) risk business with small sums assured in its portfolio.

The key risks the company are exposed to are the following:

- Lapse risk
- Inadequate new business risk
- Currency risk
- Liquidity risk
- Litigation risk
- Operational risk

Based on the latest Board resolution, the accounting is to be changed from CHF to EUR by 31.12.2023. Most policies are in EUR or in another currency, but not CHF. However, the costs of Nucleus Life are in CHF. This can have a strong impact on the balance sheet due to the exchange rate. This measure is intended to prevent this.

For strategic reasons, Nucleus Life will no longer accept large policies (e.g. over EUR 10m). Large policies are to be distributed over policies of EUR 1m each, for example. This measure can prevent large fluctuations in investments for the account and risk of life insurance policyholders due to surrenders.

Valuation for solvency purposes

As at 31 December 2022, the assets and liabilities of Company were as follows:

Balance Sheet	Solvency II value (CHF'000)	Statutory value (CHF'000)
Total assets	**255'247.4**	**256'737.0**
Total technical provisions	242'877.1	242'705.6
Other liabilities	1'986.2	1'986.2
Total liabilities	**244'863.3**	**244'691.8**
Subordinated liabilities	**1'087.3**	
Excess of assets over liabilities (Own Funds)	**11'471.4**	**12'045.3**

Capital management

The objective of Own Funds management is to maintain, at all times, sufficient Own Funds to cover the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") with an appropriate buffer.

The Company’s Solvency II position as at 31 December 2022, and the comparative position as at 31.12.2021, were as follows:

Capital requirements	2022 (CHF '000)	2021 (CHF '000)
Solvency Capital Requirement (SCR)	5’989.2	5’585.6
SCR Ratio	191.5%	185.8%
Minimum Capital Requirement (MCR)	3’653.6	3’833.8
MCR Ratio	304.2%	262.4%

Compared to the previous year’s result, the situation in terms of the MCR Ratio has improved based on the new capital increase of EUR 4 Mio.

Vaduz, 06 April 2023

A. Business and performance

A.1 Business and external environment

A.1.1 Name and legal form of the undertaking

Nucleus Life AG ("the Company") is incorporated in Liechtenstein as a company limited by shares (*Aktiengesellschaft*). Its registered office is at:

Bangarten 10
FL-9490 Vaduz

A.1.2 Name of the responsible Supervisory Authority

The Financial Market Authority Liechtenstein (FMA) is responsible for the financial supervision of the Company. The FMA's address is:

Financial Market Authority Liechtenstein
Landstrasse 109
PO Box 279
FL-9490 Vaduz

A.1.3 Name of the external auditors

The Company's external auditor is BDO (Liechtenstein) AG:

Wuhrstrasse 14
FL-9490 Vaduz

A.1.4 Holders of qualifying holdings in the undertaking

98.30% of the shares of Nucleus Life AG are held by Nucleus Holding II S.C.sp, Luxembourg, and 1.70% by IRC Finance AG, Basel.

There are no other qualifying shareholders with an interest of 10% or more.

A.1.6 Lines of business and geographical areas

The Company is authorised to write the following classes of business:

Class 1. Life Insurance

Class 3. Unit-/Deposit-linked Life Insurance

It is authorised to do business in Liechtenstein, Austria, Belgium, Germany, Ireland, Italy, Norway, Sweden and Switzerland.

A.2 Underwriting performance

The Company's main markets are International (written according to Liechtenstein law) and Germany, with modest volumes coming from Belgium, Norway and Italy. The Company's gross booked premiums per country in 2022 and the corresponding numbers for 2021 are depicted in the table below.

Booked gross premiums by country	2022	2021
Liechtenstein	-	8'831'023
Germany	3'148'665	22'362'842
Belgium	-	1'326'337
Italy	4'663'554	1'091'988
Total other liabilities	**7'812'219**	**33'612'190**

Financial statements are prepared in accordance with Liechtenstein GAAP. The salient items of the profit and loss for the year ended 31 December 2022 are shown below.

Profit and loss positions	2022	2021
Gross premiums	7'812'220	33'612'190
Gross claims	-6'403'381	-69'817'804
Acquisition costs	-654'144	-1'890'147
Operating expenses	-1'410'621	-1'630'383
Change in technical reserves	31'773'550	-16'440'166
Result	-1'137'204	-1'396'279

Nucleus Life AG looks back on a rather mixed business year. Gross premium income amounted to CHF 7'812'219 (previous year (PY) 2021: CHF 33'612'190). The ordinary premium income as well as portfolio repurchases and increased expenses in connection with shareholder structure and legal defence costs led to a loss of CHF 1'137'204 (PY CHF 1'396'279).

A.3 Investment performance

The Company writes Unit-/Deposit-Linked business and does not provide any asset selection advice. The investments linked to insurance policies are selected by policyholders or their appointed advisers, or, where applicable, by asset managers selected by the policyholders and appointed for this purpose by the Company. Assets and policyholder liabilities are matched at all times.

The following assets* are held to cover technical provisions for linked liabilities.

Asset class*	2022	2021
Equity	180'866'733	212'620'523
Fixed income	29'408'976	24'593'495
Cash, deposits and money market	32'309'561	37'190'915
Property	94'668	73'198
Total	**242'679'938**	**274'478'131**

(*) Excluding assets of policies not yet issued and policies surrendered but not yet paid out.

Where assets are suspended or no market value is available, a fair value is calculated; if this is not possible, the value of the asset is written down to zero.

Investment income comprises dividends, interest and other income receivable, realised gains and losses on investments and unrealised gains and losses. Movements are recognised in the profit and loss account in the period in which they arise.

The Unit-/Deposit-Linked insurance policies are valued by reference to their linked asset values. The performance of the policies therefore depends on the performance of the assets selected and the application of policy related charges in line with the policy contract terms and conditions.

The Company did not make use of securitisation during the course of 2022.

A.4 Performance of other activities

The Company does not pursue any other activities apart from its insurance business. During the reporting year, no extraordinary events (other than mentioned in this report) occurred that had a significant impact on the Company's business.

A.4 Any other information

Expenses can be split into acquisition costs and operating expenses.

Expenses	2022	2021
Acquisition costs	-654'144	-1'890'147
Operating expenses	-1'410'621	-1'630'383

Acquisition costs will continue to vary according to type and size of business written, while expense levels are expected to remain constant.

B. System of governance

The Board of the Company considers the system of governance to be adequate and proportionate to the nature, scale and complexity of the risks inherent in its business.

B.1 General information on the System of Governance

The Company's system of governance has been designed around a Risk Management framework together with the controls and processes.

B.1.1 System of Governance

The Board of Directors and the Management Board, collectively the "AMSB" (Administrative, Management or Supervisory Body) is responsible for the implementation and monitoring of the governance of the Company.

The Company operates an effective governance system which provides for sound and prudent management.

The Board of Directors is, amongst others, responsible for overall monitoring of the adequacy and effectiveness of the risk management system in order to ensure that process used to develop and achieve the strategic objectives of the company is adequately articulated in all strategic plans. The Management Board is responsible for overall implementation of an adequate risk management system and for all decisions considering material risks.

Board of Directors

- Fausto M Ventriglia (Chairman, approved by the FMA on 24.08.2022, entered in the commercial register since 28.10.2022)
- Markus Graf
- Ekaterina Shashkovskaya-Virkus

Committees

Nucleus Life AG is a smaller insurance company in Liechtenstein that offers exclusively unit-linked life insurance, has a clear organisational structure and well-documented work processes. The Board of Directors closely supervises the course of business with ordinary as well as extraordinary Board meetings, whereby accounting aspects such as quarterly and annual financial statements and reporting are discussed in detail and documented in Board minutes. Nucleus Life Ltd fulfils the requirements of Article 347a Paragraph 2 of the Persons and Companies Act (Personen- und Gesellschaftsrecht, PGR) and delegates the duties of the Audit Committee to the Board of Directors as a whole.

Management Board

- Dr Bruno Geissmann (CEO and COO)

B.1.2 Key Functions

The Company has established the four key independent control functions required under the Corporate Governance Requirements for Insurance Undertakings under Solvency II. These functions are responsible for providing oversight of and challenge to the business, and for providing assurance to the Board in relation to the Company's control framework.
The following section provides a summary of the authority, resources and operational independence of the key functions:

Compliance function (Internal Controls) - led by the Head of Compliance

- responsible for the Company's Compliance Policy
- identifies, assesses, monitors and reports the compliance risk exposure
- tracks changes in the environment that could affect the Company's compliance risk, and monitors the appropriateness of the Company's compliance procedures
- inputs into the ORSA process and report

The Compliance function considers and monitors the regulatory environment, financial crime, data protection, and compliance. The findings of the Compliance function are reported to the Management and the Board.

Risk Management function – performed by an external, independent Risk Officer

- oversees and monitors the effective operation of the risk management system and ORSA
- identifies and assesses emerging risks
- maintains an entity-wide view on risk exposures and the Company's risk profile
- ensures that material risk issues receive sufficient attention at Board level and that the Board plays an active part in setting and reviewing the overall risk-appetite and tolerance limits
- provides detailed reporting on risk exposures and advises on risk-management matters, including strategic affairs such as corporate strategy, mergers and acquisitions, major projects and investments

The Risk Officer prepares a quarterly Risk Assessment Matrix which is presented to Board, giving it information gathered through the risk management process. The risk function maintains independence by carrying out an oversight role in the major processes, allowing for robust challenge of decisions and processes across the business.

Actuarial function - performed by an external actuary

- approves the methodologies and assumptions used for calculating technical provisions, ensuring that they are appropriate for the line of business
- approves the underwriting policy and reinsurance arrangements
- analyses and evaluates data and results and reports to the Board contributes to the risk management system

Under Liechtenstein law, an insurance company is required to have an Appointed Actuary in addition to the Actuarial function required under Solvency II. Considering the size of the Company and the nature of its business, the same actuary performs both roles. Care has been taken ensure that there is no conflict of interest, and that independent checks (4-eyes principle) are at all times ensured. Actuarial matters are discussed on a regular basis, and an annual Actuarial Report is presented to the AMSB.

Internal Audit function - performed by Grant Thornton AG

- evaluates the adequacy and effectiveness of the internal control systems and other elements of governance
- reviews the ORSA process & report
- provides an independent assessment in a report to the AMSB

The Internal Auditor is an experienced auditor from an external organisation, providing the required level of independence. The findings of the Internal Auditor are reported to the AMSB.

All persons are re-assessed on an annual basis to ensure their fit and proper status.

B.1.3 Remuneration System

Salaries and remunerations are consistent with market practice and in line with applicable laws and regulations. There are no defined bonus plans nor share options available to employees or the Management Board. The pension and retirement schemes correspond to market standard for all employees. The Company offers a defined contribution pension plan to its employees, which fulfils the Liechtenstein regulatory and social security requirements.

B.2 Fit and proper requirements

It is a requirement that all Key Function Holders are Fit and Proper. The Company has internal guidelines setting out the requirements for the appointment and ongoing monitoring of the Fit & Proper status of relevant persons. The Company ensures that all persons who effectively run the Company or perform key functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience, and are proper by being of good repute and integrity.

The following persons are checked prior to commencement of their employment contracts:

- Directors
- Management
- Appointed Actuary and Actuarial Function
- Risk Officer
- Compliance Function
- Internal Auditor

Information required and checks performed include the following:

- Interview
- Passport or ID
- CV (educational background, professional qualifications, membership)
- References
- Criminal record check
- Credit check
- Bankruptcy check
- Financial Sanctions & Anti-money Laundering check

Recurring checks are performed on an annual basis.

B.3 Risk management system including the own risk and solvency assessment

Risk Management framework

The Risk Management framework consists of a set of policies covering all the possible risks the Company could face, summarised in the form of a Risk Assessment Matrix, a Risk Appetite Statement and quarterly Risk Management meetings with corresponding minutes.

The main purpose of risk management is to optimise risk and return, thus improving shareholder value.

Risk Appetite Statement

The Risk Appetite Statement is defined by the Board and describes the risk boundaries (and hence the risks) the Company is willing to operate within. Overall, the Company is risk averse, which is reflected in the way it conducts its business.

"Three Lines of Defence" governance model

The risk management system enables the Company to assess, identify, manage, evaluate and prioritize current risks and those risks it might be exposed to in future. The Company's Risk Management system follows the "three lines of defence" principle:

The Risk Management Function is responsible – amongst others – for the identification, analysis and evaluation of risks within the quarterly risk management meetings, which is reviewed, updated and reported every quarter and presented quarterly to the Management and Board of Directors.

B.3.1 Own Risk and Solvency Assessment

The main purpose of the Own Risk and Solvency Assessment ("ORSA") is to ensure that the Company assesses all risks inherent to its business and to determine the corresponding capital needs – or, alternatively, to identify other methods to mitigate specific risks.

The process of the ORSA is performed by the Company based on the Guidelines on ORSA, the internal policies and guidelines and by considering EIOPA's statement based on first experiences.

The ORSA takes a top-down approach, linking business objectives, business risks, business planning and capital planning. It is performed at least once per annum, typically in December based on the financials of the 3rd quarter of the same year. Any sudden, adverse event that may have an impact on the capital of the Company would trigger an immediate ORSA (until now this has not been deemed necessary). Furthermore, any material change in the business plan that may have an impact on the capital of the capital requirements of the Company would require a new ORSA.

As part of the ORSA, "stress scenarios" are considered, as well as the capital needs and/or mitigation measures necessary under such scenarios. The aim of these stress tests is to ensure that the business is robust enough to weather adverse events without detriment to policyholders.

The outcome of the ORSA is presented to the AMSB.

B.4 Internal control system

The purpose of the internal control system (ICS) is to manage or mitigate, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material losses.

The Company is of the opinion that the internal control system is appropriate to the nature, scale and complexity of its business.

Its internal control framework has four elements:

- Supervisory Board

  The Board has overall responsibility for ensuring that an adequate and effective system of internal control is maintained in the Company.

- Compliance and Risk Management functions

  These functions oversee internal controls, including drafting and implementing policies and procedures, and monitoring against compliance with them.

- Internal Audit function

  The Internal Audit function is an external appointment, providing for a layer of independent assurance. The Internal Auditor has full access to all aspects of the business, and provides an annual audit plan which is typically designed to cover areas where a weakness may exist in more detail.

- Controls over Outsourced Activities

  The Company makes extensive use of outsourcing, and therefore pays particular attention to the monitoring of these activities, ensuring that these persons or entities maintain at least the same standards as those of the Company.

B.5 Internal audit function

The independent (external) Internal Auditor provides an analysis and evaluation of the adequacy, effectiveness, efficiency and quality of risk management, internal control and governance systems and processes.

The Internal Auditor has full access to all aspects of the Company. Recommendations made during the previous audit are checked and noted in the report of the current audit.

B.6 Actuarial function

The Company has outsourced the Actuarial function to an external actuary; this additional skilled (and independent) resource provides an additional layer of control and confidence.

Due to the size of the Company and the nature of its business, the Actuarial function also acts as Appointed Actuary. Sufficient checks and balances have been built into the processes to ensure that the Actuarial function remains objective and free from the influence of other functions or from the Company's AMSB.

The Actuarial functions drafts an annual Actuarial Report which is presented to the Board and the Regulator.

B.7 Outsourcing

The Company outsources a number of important functions to independent external providers. The rationale behind the decision is that outsourcing, if managed and monitored properly, not only gives the Company access to a wider and better range of skills, but can also be more cost-effective (as opposed to employing permanent staff).

The following functions are outsourced:

- Appointed Actuary
- Actuarial function
- Internal Audit function
- Risk Management function
- Bookkeeping
- Administration of the Italian Group Unit-Linked business

The Compliance function is responsible for evaluating all new outsourcing partners and service providers, as well as monitoring them on an ongoing basis, performing at least annual checks.

B.8 Any other information

No further information is available on the governance system.

C. Risk profile

The Company assumes Unit-/Deposit-Linked business. In the Unit-/Deposit-Linked business, the policyholder bears the financial risk. In accordance with the Prudent Person principle, the Company only invests policyholder funds in assets and instruments the risks of which it can properly identify, measure, monitor, manage and control. Shareholder assets are only invested in secure, non-volatile assets.

The key, significant financial risks to which the Company is exposed are set out below.

C.1 Underwriting risk

Mortality risk

The Company is exposed to the risk of mortality experience being higher than expected, leading to higher than expected death claims.

There is a reinsurance treaty in place with Hannover Re that covers the mortality risk on this business above EUR 10’000, commensurate with the Company’s risk profile and capital.

Lapse risk

The Company is exposed to the risk of surrenders being higher than expected, leading to a loss in fee income.

The Company writes mainly single premium investment business, which typically shows a relatively low and stable lapse rate. The lapse risk is not always easy to manage, as policies are often surrendered for reasons outside of the control of the Company, for example due to poor market performance, or because the policyholder is in need of money.

The risk of one or two very large policies being surrendered for whatever reason, is however a real risk that can result in a not insignificant reduction in fee income. It was, however, assumed that the standard lapse stress scenarios under Solvency II (upward and downward increase of 50%; immediate 40% mass lapse) are adequate, and that no further stress scenarios are required.

C.2 Market risk

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

As the Company writes Unit-/Deposit-Linked business where the investment risk is carried by the policyholders, the key market risk is that of a fall in the value of policyholder assets, resulting in lower fee income.

For strategic reasons, the Company will no longer accept large policies (e.g. over EUR 10m) according to the latest Board resolution. Large policies are to be distributed over policies of EUR 1m each, for example. This measure can prevent large fluctuations in investments for the account and risk of life insurance policyholders due to surrenders.

Price risk

A change in the market value of the Unit-/Deposit-Linked funds would affect the annual management charges accruing to the Company, since these charges are based on the market value of policyholder assets.

Currency risk

Similarly, due to the fact that the annual management charges are deducted from Unit-/ Deposit-Linked contracts in contract currency, a change in foreign exchange rates relative to the Swiss Franc can result in fluctuations in fee income.

The currency risk is a sizeable risk, as the bulk of its fee income is derived in EUR, while almost all of its expenses are in Swiss Franc. This can have a strong impact on the balance sheet due to the exchange rate. The stress tests performed allow for a ±25% change in exchange rates, which is deemed to be adequate.

Based on the latest Board resolution, the accounting is to be changed from CHF to EUR by 31.12.2023. This measure is intended to prevent this risk.

C.3 Credit risk

Credit risk refers to the risk of loss, or of adverse change in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Company is exposed.

Reinsurance counterparties

This is a negligible risk – as mentioned above the mortality risk is limited, while the Company's reinsurer has a strong rating with AA- according to Standard & Poor's.

Banking counterparties

The defaulting of a policyholder custodian bank would not have a direct impact on the financial situation of the Company, as policyholder assets are protected under Liechtenstein law. In addition, policyholder assets are spread across a number of European banks.

C.4 Liquidity risk

Liquidity risk refers to the risk that Company, though solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all cash outflow commitments as they fall due.

Short-term liquidity (cash management) covers the day-to-day cash requirements under normally expected or likely business conditions, while long-term liquidity considers the possibility of various unexpected and potentially adverse business conditions where asset values may not be realisable at current market values.

Short-term liquidity

A liquidity projection is performed at least once per quarter to ensure that an adequate level of assets is available at short notice (within one month) to cover the liquidity requirements for at least 12 months. The projection considers any mismatch between the cash inflows and outflows.

Short-term shock events that may impact short-term liquidity include:

- The surrender of a large contract (or multiple contracts) leading to a sharp reduction in short term cash inflows (bulk lapse)
- Successful legal action by policyholders or other external parties, leading to a sharp increase in short-term cash outflows

Short-term liquidity is therefore considered when investment decisions are taken, as an adequate buffer must be kept to cover any short-term liquidity shortfalls.

Long-term liquidity

Long-term liquidity is a limited risk, as the Company follows a very prudent investment strategy, investing its capital only in high quality and liquid assets.

A key requirement for managing this risk is for the Company to grow (increase in policyholder assets under management) and to keep its expenses under control.

C.5 Operational risk

Operational risk is the risk of a change in value due to inadequate or failed internal processes, people or systems, or from external events.

People risk

The Company operates with a very small team of experienced, skilled people. A person leaving or falling ill may therefore have a detrimental impact on the business, in particular over the short term. Because of the limited number of staff and the manual administrative processes, the risk of mistakes, loss of key personnel and loss of data/unclear data records exists.

This risk has been mitigated to some extent by outsourcing services and functions to external consultants, who can provide assistance at short notice. This does, however, remain a real risk, that can only be solved by the appointment of additional people.

Administration risk

As a result of the highly bespoke nature of the Company's products, not all processes can be fully automated, which, if combined with the small staff complement, poses some risk.

All processes and procedures have furthermore been documented in detail.

Misselling risk

Whereas misselling is not a substantial risk when dealing with High Net Worth clients, it can occur in the mass-affluent segment (e.g. pensioners). Great care is therefore taken to make sure that investments are not only assessed in terms of size, but also in terms of the needs and risk profile of the policyholder.

Reputation risk

Any legal or regulatory breach, poor customer service, or local insurer failures can give the Company a bad reputation, effecting its ability to write business or form new business relationships. Whereas the Company takes care to mitigate legal and customer service risks, external risks cannot be managed.

C.6 Other material risks

Litigation risk

A life insurance company focussing on investment business will always be subject to litigation risk – even though the investment risk is supposed to remain with the policyholder. The most typical reasons are poor investment performance or fraudulent activities (e.g. by intermediaries or asset managers).

An incident of fraud dating back to 2015 whereby an external asset manager unlawfully enriched himself with customer funds, became a legal case on 01.03.2019 through the initiation of legal proceedings against Nucleus Life AG on behalf of the policyholder. The current provision amounts to EUR 50'000 to cover the expected costs for the legal case, no further provision is foreseen due to uncertainty according to feedback from BDO. Based on current knowledge the chances of a successful claim appear to be low. The risk still remains that the large claim will materialise in the mid- to long-term. Furthermore, as long as this is not yet settled, NL is exposed to legal costs. A new lawyer from Italy who is expert in that matter has been involved and is completing a comprehensive opinion about all legal claims regarding the Larini case.

The motivation to enter and grow in new markets and product niches can be seen as new compliance risks that may pose additional challenge to the Company going forwards. It is of utmost importance to first get rid of the current legal case in order to be able to enter new markets and to introduce new products.

Outsourcing risk

The outsourcing strategy of the Company actually reduces the people risk described above, as it provides access to a wider range of skills.

On the other hand, outsourcing comes with the risk of failure, non-performance, ineffective management and/or oversight of the outsourcing partner.

C.7 Any other information

No further information is available on the risk profile.

D. Valuation for solvency purposes

D.1 Assets

The following table shows the Company's assets as at 31 December 2022, as well as the corresponding numbers for 2021:

Assets (SII Value)	2022 (CHF '000)	2021 (CHF '000)
Intangible assets	2.6	4.3
Deferred tax assets	-	
Equities	48.8	60.2
Bonds	9'103.7	6'381.1
Collective investments	-	1'002.6
Assets held for index-linked and unit-linked contracts	243'262.8	276'084.4
Insurance and intermediaries receivables	-	0.8
Receivables (trade, not insurance)	22.6	436.7
Cash and cash equivalents	3'037.1	4'535.0
Any other assets, not shown elsewhere	-230.3	-207.7
Total assets	**255'247.4**	**288'297.5**

Intangible assets

Intangible assets are made up only of sophisticated software, and do not include any goodwill such as brands, trademarks or contractual relationships. The stated value, which is well below the estimated market value, is therefore assumed to be fair.

Equities

Listed equities have been valued at market value, while unlisted equities have been valued at net asset value. Equities that cannot be traded at all are valued at zero.

Corporate Bonds

The corporate bond corresponds to the new capital increase of EUR 6 Mio in 2021 and of EUR 4 Mio in 2022.

Assets held for index-linked and unit-linked contracts

The valuations of these assets are mostly provided by the custodian banks where these assets are held. If a custodian bank cannot determine a market value, it would typically value the asset at zero. In rare instances the Company would value an asset based on the NAV on its balance sheet, but if that is not possible it would value it at zero.

The market value of the investments for the account and risk of the policyholders amounted to CHF 242'679'937 (PY CHF 274'478'129). In addition, there is an amount of CHF 554'363 (PY CHF 973'669) for fully repurchased insurance policies that have not been paid out, as well as CHF 28'518 (previous year CHF 655'863) for insurance policies for which the premiums have already been received but which have not yet been policed.

The amount of CHF 242’679’937 corresponds to the capital reported in the allocated accounts as at the balance sheet date. Corresponding technical provisions exist in the same amount.

Reinsurance recoverables

The reinsurance recoverables are revaluated in Solvency II, according to the different methodologies for calculating the Best Estimate of the Liabilities (“BEL”).

Receivables and other assets

The value of these assets is based on the best estimate of the recoverable or realisable value.

Cash and cash equivalents

Valued at the amount held at the period end, translated using the year end exchange rate where appropriate.

D.2 Technical provisions

The technical provisions comprise the BEL and the Risk Margin. The technical provisions as at 31 December 2022 and the corresponding values for 2021 are shown in the table below.

Technical provisions	**2022 (CHF '000)**	**2021 (CHF '000)**
Technical provisions – life (excluding health and index-linked and unit-linked)	-	-
Best estimate	-	-
Risk margin	-	-
Technical provisions – index-linked and unit-linked	242’877.1	274’090.8
Best estimate	242’199.9	273’567.3
Risk margin	677.2	523.5
Total provisions	**242’877.1**	**274’090.8**

D.2.1 Key assumptions

Interest rate and inflation

The risk-free interest rate term structure used for discounting the projected cash flows in the technical calculation is the CHF relevant risk-free structure as provided by European Insurance and Occupational Pensions Authority (“EIOPA”). No volatility nor matching adjustments are applied.

The expense inflation rate (fixed rate) is in line with the EIOPA report on the calculation of the UFR for 2022.

Lapse assumptions

The lapse assumption is based on a lapse analysis of the actual lapse experience of the Company, considering lapses by number of policies as well as lapses weighted for policy size.

Expenses

For 2022, the expense analysis and future modelling of expenses have been reviewed and updated entirely. Expenses are now split into fix overheads and variable expenses, varying with the number of policies in-force. The projection term is 40 years, taking into account "going concern" assumptions for new business according to budget planning as well as further expense and lapse assumptions.

D.2.2 Technical provision calculation methodology

The technical provisions represent a realistic estimate of the Company's future obligations with an allowance for some deviation for plausible changes in estimation in the form of the risk margin. They are not expected to be sufficient to meet the Company's obligations in all scenarios.

Best Estimate Liabilities

The BEL for index-linked and unit-linked contracts is equal to the value of the underlying assets, less the present value of future profits over the projection term.

Risk Margin

The Risk Margin is an addition to the BEL to ensure that the technical provisions as a whole are equivalent to the amount that another insurer would require to take over the business and meet the insurance obligations. The Risk Margin is calculated as the amount of capital needed to support the Solvency Capital Requirement over the lifetime of the business at the prescribed cost of capital rate of 6% per annum.

D.3 Other liabilities

The table below summarises the other liabilities of the Company as at 31.12.2022, as well as the corresponding values for 2021:

Other liabilities	2022 (CHF '000)	2021 (CHF '000)
Other liabilities	656.7	3'467.0
Subordinated liabilities	1'087.3	1'087.4
Provisions other than technical provisions	51.8	51.8
Deferred tax liabilities	-	
Accruals	190.4	307.8
Total other liabilities	**1'986.2**	**4'914.0**

As in 2021, the provision of CHF 50'000 under "Provisions other than technical provisions" has been made to cover the expected costs related to a legal case.

No adjustment is required to these valuations for the valuation for solvency purposes as the amounts held under IFRS measurement principles are deemed to be approximations of fair value.

D.4 Alternative methods for valuation

The Company has not applied any alternative valuation methods.

D.5 Any other information

There are no other remarks on the valuation for solvency purposes not already mentioned above.

E. Capital management

E.1 Own funds

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") with an appropriate buffer.

The Company performs an Own Risk and Solvency Assessment ("ORSA") exercise at least annually, or when the risk profile of the Company changes. The ORSA exercise incorporates the business planning process covering a three-year time horizon.

The Company's own funds as at 31.12.2022 as well as the corresponding values for 2021 are shown below:

Own funds	2022 (CHF '000)	2021 (CHF '000)
Ordinary share capital	17'790.9	13'790.9
Share premium account	0.0	0.0
Organisation fund (capital contributions)	3'400.0	3'400.0
Reconciliation reserve	-10'806.8	-7'898.2
Subordinated liabilities	1'087.3	1'087.4
Net deferred tax assets	0.0	
Total own funds	**11'471.4**	**10'380.1**

The Company's own funds are primarily invested in cash deposits at banks and fix interest funds. Except for the new subordinated liabilities (which are Tier 2), the rest of the own funds are classified as Tier 1 unrestricted funds and is therefore available to cover the SCR and MCR.

The following table reconciles the differences (reconciliation reserve) between the equity in the financial statements and the excess of the assets over liabilities as calculated for solvency purposes:

Own funds reconciliation	2022 (CHF '000)	2021 (CHF '000)
Equity in financial statements	12'045.3	9'182.5
Subordinated liabilities	1'087.3	1'087.4
Difference in asset values	-1'489.7	-228.1
Difference in technical provisions	-171.5	338.3
Difference in other liabilities	0.0	
Solvency II - Own Funds	**11'471.4**	**10'380.1**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Company uses EIOPA's Solvency II Standard Formula. It does not use Company specific parameters and does not use simplified calculations in its computations.

The Company's SCR and MCR (as well as the corresponding ratios) as at 31 December 2022, and the numbers for 2021, are shown in the table below.

The individual components of the SCR are shown in the Annex.

Capital requirements	2022 (CHF '000)	2021 (CHF '000)
Solvency Capital Requirement (SCR)	5'989.2	5'585.6
SCR Ratio	191.5%	185.8%
Minimum Capital Requirement (MCR)	3'653.6	3'833.8
MCR Ratio	304.2%	262.4%

It can be seen that with the capital increase both the SCR ratio as well as the MCR ratio increased substantially.

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

This was not applied as the shares are mainly found in the unit-linked investments and this was not assessed as significant.

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

No internal model was applied.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The company complies with the MCR and SCR requirement.

E.6 Any other information

The Company has no other events that need to be mentioned here.

Annex: Quantitative Reporting templates

This annex contains the quantitative reporting templates ("QRT") as required by the regulator for the reporting date 31st December 2022. The following report sheets contain cell coordinates in the form of row and column location of a data point in a certain table, such as RO010 and C0020. With these cell coordinates in combination with the spreadsheet notation (such as S.02.01.01), the interested reader can learn the exact requirements of the individual contents according to the Commission Implementing Regulation (EU) 2015/2452.

The following templates are disclosed:

- Solvency II Balance Sheet (S.02.01.02)
- Premiums, claims and expenses by line of business (S.05.01.01)
- Premiums, claims and expenses by country (S.05.02.01)
- Life and Health Technical Provisions (S.12.01.02)
- Own funds (S.23.01.01)
- Solvency Capital Requirement (S.25.01.01 and S.28.01.01)

The following QRTs are not disclosed in the scope of this report:

- QRT S.25.02.21: Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

  The Company uses only the standard formula to calculate the solvency capital requirement. This QRT is only to be disclosed by insurance companies that are also using a partial internal model.

- QRT S.25.03.21: Solvency Capital Requirement - for undertakings on Full Internal Models

  The Company uses only the standard formula to calculate the solvency capital requirement. This QRT is only to be disclosed by insurance companies that are using a full internal model.

Balance Sheet (S.02.01.02.01)

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	2'593.30
Deferred tax assets	R0040	-
Pension benefit surplus	R0050	-
Property, plant & equipment held for own use	R0060	4'118.05
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	9'152'560.07
Property (other than for own use)	R0080	-
Holdings in related undertakings, including participations	R0090	-
Equities	R0100	48'832.47
Equities - listed	R0110	-
Equities - unlisted	R0120	48'832.47
Bonds	R0130	9'103'727.60
Government Bonds	R0140	-
Corporate Bonds	R0150	9'103'727.60
Structured notes	R0160	-
Collateralised securities	R0170	-
Collective Investments Undertakings	R0180	-
Derivatives	R0190	-
Deposits other than cash equivalents	R0200	-
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	243'262'818.11
Loans and mortgages	R0230	-
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	-
Reinsurance recoverables from:	R0270	-242'799.39
Non-life and health similar to non-life	R0280	-
Non-life excluding health	R0290	-
Health similar to non-life	R0300	-
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	18'179.86
Health similar to life	R0320	-
Life excluding health and index-linked and unit-linked	R0330	18'179.86
Life index-linked and unit-linked	R0340	-260'979.25
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	-
Reinsurance receivables	R0370	-
Receivables (trade, not insurance)	R0380	22'649.33
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	3'037'063.27
Any other assets, not elsewhere shown	R0420	8'357.05
Total assets	R0500	255'247'359.79

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	–
Technical provisions – non-life (excluding health)	R0520	–
Technical provisions calculated as a whole	R0530	–
Best Estimate	R0540	–
Risk margin	R0550	–
Technical provisions - health (similar to non-life)	R0560	–
Technical provisions calculated as a whole	R0570	–
Best Estimate	R0580	–
Risk margin	R0590	–
Technical provisions - life (excluding index-linked and unit-linked)	R0600	–
Technical provisions - health (similar to life)	R0610	–
Technical provisions calculated as a whole	R0620	–
Best Estimate	R0630	–
Risk margin	R0640	–
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	–
Technical provisions calculated as a whole	R0660	–
Best Estimate	R0670	–
Risk margin	R0680	–
Technical provisions – index-linked and unit-linked	R0690	242'877'080.84
Technical provisions calculated as a whole	R0700	–
Best Estimate	R0710	242'199'893.27
Risk margin	R0720	677'187.57
Other technical provisions	R0730	
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	51'800.00
Pension benefit obligations	R0760	–
Deposits from reinsurers	R0770	–
Deferred tax liabilities	R0780	–
Derivatives	R0790	–
Debts owed to credit institutions	R0800	–
Financial liabilities other than debts owed to credit institutions	R0810	–
Insurance & intermediaries payables	R0820	586'154.59
Reinsurance payables	R0830	–
Payables (trade, not insurance)	R0840	70'548.24
Subordinated liabilities	R0850	1'087'278.53
Subordinated liabilities not in Basic Own Funds	R0860	–
Subordinated liabilities in Basic Own Funds	R0870	1'087'278.53
Any other liabilities, not elsewhere shown	R0880	190'412.40
Total liabilities	R0900	244'863'274.60
Excess of assets over liabilities	R1000	10'384'085.19

Premiums, claims and expenses by line of business (S.05.01.01.02)

		Line of Business for: life insurance obligations		Total
		Index-linked and unit-linked insurance	Other life insurance	
		C0230	C0240	C0300
Premiums written				
Gross	R1410	7'812'219.83	-	7'812'219.83
Reinsurers' share	R1420	71'175.76	-	71'175.76
Net	R1500	7'741'044.07	-	7'741'044.07
Premiums earned				
Gross	R1510	7'812'219.83	-	7'812'219.83
Reinsurers' share	R1520	71'175.76	-	71'175.76
Net	R1600	7'741'044.07	-	7'741'044.07
Claims incurred				
Gross	R1610	6'403'380.99	-	6'403'380.99
Reinsurers' share	R1620	-	-	-
Net	R1700	6'403'380.99	-	6'403'380.99
Changes in other technical provisions				
Gross	R1710	-31'798'192.15	24'564.80	-31'773'627.35
Reinsurers' share	R1720	-77.01	-	-77.01
Net	R1800	-31'798'115.14	24'564.80	-31'773'550.34
Expenses incurred	R1900	2'064'765.55	-	2'064'765.55
Administrative expenses				
Gross	R1910	1'410'621.31	-	1'410'621.31
Reinsurers' share	R1920	-	-	-
Net	R2000	1'410'621.31	-	1'410'621.31
Investment management expenses				
Other expenses	R2500			-
Total expenses	R2600			2'064'765.55

Premiums, claims and expenses by country (S.05.02.01.04)

		Home country	Total Top 5 and home country	Country (by amount of gross premiums written) - life obligations	Country (by amount of gross premiums written) - life obligations
		C0220	C0280	C0230	C0230
Country	R0010			ITALY	GERMANY
Premiums written					
Gross	R1410	-	7'812'219.83	4'663'554.40	3'148'665.43
Reinsurers' share	R1420	-	71'175.76	39'662.33	26'778.59
Net	R1500	-	7'741'044.07	4'623'892.07	3'121'886.84
Premiums earned					
Gross	R1510	-	7'812'219.83	4'663'554.40	3'148'665.43
Reinsurers' share	R1520	-	71'175.76	39'662.33	26'778.59
Net	R1600	-	7'741'044.07	4'623'892.07	3'121'886.84
Claims incurred					
Gross	R1610	100'000.00	1'150'772.91	140'565.21	910'207.70
Reinsurers' share	R1620	-	-	-	-
Net	R1700	100'000.00	1'150'772.91	140'565.21	910'207.70
Changes in other technical provisions					
Gross	R1710	-	-31'773'627.35	-18'982'133.39	-12'816'058.76
Reinsurers' share	R1720	-	-77.01	-14'710.09	-9'931.72
Net	R1800	-	-31'773'550.34	-18'967'423.31	-12'806'127.03
Expenses incurred	R1900	-	1'410'621.31	842'079.38	568'541.93
Other expenses	R2500		-		
Total expenses	R2600		1'410'621.31		

Life & Health Technical Provisions (S.12.01.01.01)

		Index-linked and unit-linked insurance			Other life insurance			Total (Life other than health insurance, including Unit-Linked)
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	
		C0030	C0040	C0050	C0060	C0070	C0080	C0150
Technical provisions calculated as a whole	R0010	-			-			-
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	R0020	-			-			-
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	R0030		242'199'893.27	-		-	-	242'199'893.27
Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0040		-260'979.25	-		18'179.86	-	-242'799.39
Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses	R0050		-260'979.25	-		18'179.86	-	-242'799.39
Recoverables from SPV before adjustment for expected losses	R0060		-	-		-	-	-
Recoverables from Finite Re before adjustment for expected losses	R0070		-	-		-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		-260'979.25	-		18'179.86	-	-242'799.39
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		242'460'872.52	-		-18'179.86	-	242'442'692.66
Risk Margin	R0100	677'187.57			-			677'187.57
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole	R0110	-			-			-
Best estimate	R0120		-	-		-	-	-
Risk margin	R0130	-			-			-
Technical provisions - total	R0200	242'877'080.84			-			242'877'080.84

Own funds (S.23.01.01.01 and S.23.01.01.02)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	17'790'910.00	17'790'910.00		-	
Share premium account related to ordinary share capital	R0030	-	-		-	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	3'400'000.00	3'400'000.00		-	
Subordinated mutual member accounts	R0050	-		-	-	-
Surplus funds	R0070	-	-			
Preference shares	R0090	-		-	-	-
Share premium account related to preference shares	R0110	-		-	-	-
Reconciliation reserve	R0130	-10'806'824.81	-10'806'824.81			
Subordinated liabilities	R0140	1'087'278.53		-	1'087'278.53	-
An amount equal to the value of net deferred tax assets	R0160	-				-
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	-				
Deductions						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	-
Total basic own funds after deductions	R0290	11'471'363.72	10'384'085.19	-	1'087'278.53	-
Ancillary own funds						
Total available own funds to meet the SCR	R0500	11'471'363.72	10'384'085.19	-	1'087'278.53	-
Total available own funds to meet the MCR	R0510	11'471'363.72	10'384'085.19	-	1'087'278.53	
Total eligible own funds to meet the SCR	R0540	11'471'363.72	10'384'085.19	-	1'087'278.53	-
Total eligible own funds to meet the MCR	R0550	11'114'798.19	10'384'085.19	-	730'713.00	
SCR	R0580	5'989'173.00				
MCR	R0600	3'653'565.00				
Ratio of Eligible own funds to SCR	R0620	191.54%				
Ratio of Eligible own funds to MCR	R0640	304.22%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	10'384'085.19
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and charges	R0720	-
Other basic own fund items	R0730	21'190'910.00
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced fu	R0740	-
Reconciliation reserve	R0760	-10'806'824.81
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	-
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	-
Total Expected profits included in future premiums (EPIFP)	R0790	-

Solvency Capital Requirement (S.25.01.01.01 and S.25.01.01.02)

		Net solvency capital requirement	Gross solvency capital requirement
		C0030	C0040
Market risk	R0010	5'132'515.46	5'132'515.46
Counterparty default risk	R0020	103'514.07	103'514.07
Life underwriting risk	R0030	1'611'895.53	1'611'895.53
Health underwriting risk	R0040	-	-
Non-life underwriting risk	R0050	-	-
Diversification	R0060	-1'065'430.06	-1'065'430.06
Intangible asset risk	R0070	2'075.00	2'075.00
Basic Solvency Capital Requirement	R0100	5'784'570.00	5'784'570.00

		Value
		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	-
Operational risk	R0130	204'603.00
Loss-absorbing capacity of technical provisions	R0140	-
Loss-absorbing capacity of deferred taxes	R0150	-
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-
Solvency Capital Requirement excluding capital add-on	R0200	5'989'173.00
Capital add-on already set	R0210	-
Solvency capital requirement	R0220	5'989'173.00
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	-
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	-
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	-
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	-
Diversification effects due to RFF nSCR aggregation for article 304	R0440	-
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	R0450	4 - No adjustment
Net future discretionary benefits	R0460	-

Overall MCR calculation (S.28.01.01.05)

		C0040
MCR_L Result	R0200	1'700'777.31

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	-	
Obligations with profit participation - future discretionary benefits	R0220	-	
Index-linked and unit-linked insurance obligations	R0230	242'460'872.52	
Other life (re)insurance and health (re)insurance obligations	R0240	-	
Total capital at risk for all life (re)insurance obligations	R0250		5'073'151.72

		C0070
Linear MCR	R0300	1'700'777.31
SCR	R0310	5'989'173.00
MCR cap	R0320	2'695'127.85
MCR floor	R0330	1'497'293.25
Combined MCR	R0340	1'700'777.31
Absolute floor of the MCR	R0350	3'653'565.00
Minimum Capital Requirement	R0400	3'653'565.00