KLPP Insurance & Reinsurance company Ltd

Solvency & Financial Condition Report 2016

Contents

Summary

This Regular Supervisory Report has been prepared for KLPP Insurance & Reinsurance Company Ltd (hereinafter “KLPP”) in accordance with all applicable laws and regulations. It refers to the financial year ended on 31 December 2016 (“the reference date”).

KLPP is a non-life insurance and reinsurance company registered in Cyprus and supervised by the Superintendent of Insurance. The company was licenced in 30 December 2015 and maintains a strong capital base allowing it to implement a growth strategy whilst offering uncompromised levels of protection to its client base.

The Company’s strategy is to selectively insure and accept reinsurance business, whilst achieving a rate of return that is adequate in relation to the capital employed and the risks assumed. Additionally, the company plans on utilising an existing network of business relations to develop and deliver insurance and reinsurance solutions to targeted clients.

The Company maintains a robust system of governance which, in light of the nature, scale and complexity of the Company’ activities and its risk profile, is deemed to be adequate in ensuring the sound and prudent management of the Company. The system of governance witnessed significant improvements over 2016 following the appointment of new Directors and the implementation of a continuous training and development program for the BOD as well as for our staff. We continue investing heavily on technology and maintain state of the art systems and IT infrastructure.

On 4th November 2016, Standard and Poor's (S&P) Global Ratings assigned to the Company its 'B+' long-term, financial strength and counterparty credit rating, with a stable outlook. in first year of working what exactly confirms financial stability b high level professionalism of management team.

The Company plans to go forward with rating agencies and try to increase the rating, what will allow company to increase activity in reinsurance and insurance market worldwide.

Our risk management policy provides for a thoroughly articulated risk appetite statement and a closely monitored risk management system ensuring that the company is not exposed to any unwanted risks.

Financial performance in 2016 was driven by strong investment performance whereas written premiums were as per the targets set in the initial business plan with nil claims experience. Profit before taxation for the year ended 31 December 2016 was USD 40 702 807.

Market risk, accounts for the most significant portion of the Company’s risk universe. The Company manages its risk exposures through its risk management Policy.

The Company maintains a solid capital position. At the reference date, the Solvency Capital Requirement amounted to USD 33 million and the eligible own funds available to cover this requirement amounted to USD 300 million. As evidenced by the results of the ‘Own Risk and Solvency Assessment’ carried out in 2016, the Company is expected to maintain a robust capital position which is highly resilient to stressed conditions.

This Report, prepared in accordance with the Company’s Disclosure and Reporting Policy, was reviewed and approved by the Board of Directors at a Board meeting held on 10 May 2017.

A. Business Performance

A.1 Business

A.1.1 Name and legal form of undertaking

KLPP Insurance & Reinsurance Company Ltd is a limited liability company incorporated under the laws of Cyprus with company Registration Number: HE 259650

The head office and the decision making centre of the company will be based in Cyprus at 221 Christodoulou Chatzipavlou, CY-3036, Limassol.

A.1.2 Supervisory authority

The Company is authorised and regulated by the Superintendent of Insurance, the contact details of which are shown below:

Superintendent of Insurance

Cyprus Insurance Companies Control Service

Ministry of Finance

P.O. Box 23364, 1682 Nicosia

Cyprus

Telephone: 0035722602990

Fax: 0035722302938

Email: insurance@mof.gov.cy

A.1.3 External Auditors

Its external auditors are KPMG Limited, Certified Public Accountant and Registered Auditor, 14 Esperidon Street 1087 Nicosia Cyprus

A.1.4 Strategy and objectives

The Company's strategy is to selectively insure and accept reinsurance business,, whilst achieving a rate of return that is adequate in relation to the capital employed and the risks assumed. Additionally, the company plans on utilising an existing network of business relations to develop and deliver insurance and reinsurance solutions to targeted clients.

The shareholders having more than 20-year long history in the insurance business, and have a long track record of conservative and profitable businesses that allows to develop within a confident and technical result oriented model with a focus on long term goals rather that short term results.

In terms of geographical expansion, KLPP mainly targets insurance business from the European Union,reinsurance business from Russia and CIS as well as other jurisdictions.

The company looks to utilising the management's long experience and thorough understanding of the insurance business for business where competition is minimal and which has been consistently profitable over the years.

Although the Company is only subject to very limited competition or competitive forces in the acquisition of its business, the external environment in which the Company operates may either cause the Company to re-consider its involvement in a particular business line or present an opportunity to expand an existing business line or to take on an additional business line.

Underwriting profitability is continuously monitored and early signals are provided where corrective action is considered necessary.

Furthermore, KLPP aims at maximising investment income generated from its large capital base by implementing a well-defined and closely monitored investment policy.

The current low interest rate environment remains a challenge for the performance of the investment portfolio and the company continuously researches different asset classes and particular securities in order to meet its target return subject to acceptable risk exposures within its risk appetite.

The Company fully complies with all regulatory requirements at all times and has nil tolerance for any violations of applicable laws and regulations by any of its members of staff.

Furthermore, KLPP currently has the largest capital base amongst Cyprus based insurers and looks into further improving this position over its business planning horizon.

KLPP Insurance & Reinsurance Company has a license to carry on insurance in the following lines of business:

- Goods in Transit
- Fire and Natural forces
- Other Damage to Property
- General Liability
- Credit
- Suretyship
- Miscellaneous financial loss

A.2 Underwriting performance

A.2.1 Underwriting Results

The Company's underwriting income and expenses consist mainly of insurance/reinsurance premiums written, gross claims incurred, and operating expenses.

As shown in the financial statements, the Company registered an underwriting result of USD 47,428 in 2016. The components of the 2016 result are shown below:

Gross Written Premium	650,021
Gross Earned Premium	47,428
Gross Claims Incurred	0
Underwriting result	**47,428**

Gross Written Premiums by line of business during 2016 were as follows:

Line of Business	Gross Written Premium
Marine, aviation and transport insurance – Direct Insurance	2,115
Fire and other damage to property insurance - Direct Insurance	3,955

Fire and other damage to property insurance – Proportional reinsurance accepted	9,341
General liability insurance – Direct Insurance	595,112
General liability insurance – Proportional Reinsurance	1,250
Property - Accepted non-proportional reinsurance	38,249

As previously mentioned, the company had nil paid claims during 2016. Furthermore, it is noted that all policies issued were within the company's risk tolerance limits and therefore there was no reinsurance cover during the year.

A.2.2 *Underwriting Projections*

The Company forecasts its underwriting result by quantifying the outcome of its strategy and business plan which are reviewed at least on an annual basis. The forecasted GWP are estimated as follows with 2016 presented for comparison

	2016	**2017**	**2018**
Gross Written Premium	650,012	1,170,000	2,500,000

The average forecasted claims ratio is prudently forecasted at 50% although experience up to date has been well below this threshold.

Volatility of the loss ratio is mitigated through reinsurance/retrocession which mostly takes place on a facultative basis and is aimed to protect from large one-off events, outside the normal range of expected results for these lines of business.

Currently, most of the markets of interest of the company are in ultimate lack of reinsurers that targets middle segment due to the fact that all major specialist reinsurers have seized their operations due to corporate reasons opening unprecedented opportunities for a highly capitalized and experienced reinsurance company that is aware of most current developments on the market and market needs.

The main aim is to get the profit from insurance operations and to build up well-balanced insurance portfolio taking into account statistic research and loss ratio accordingly to licensed lines of business & to provide with our high-quality services through complex approach to insured accounts and minimal timeframe for claims settlement.

The general assumption underlying projections is that the Company does not currently foresee any significant changes in the Company's strategy, operations and in its internal or external environment.

A.3 Investment Performance

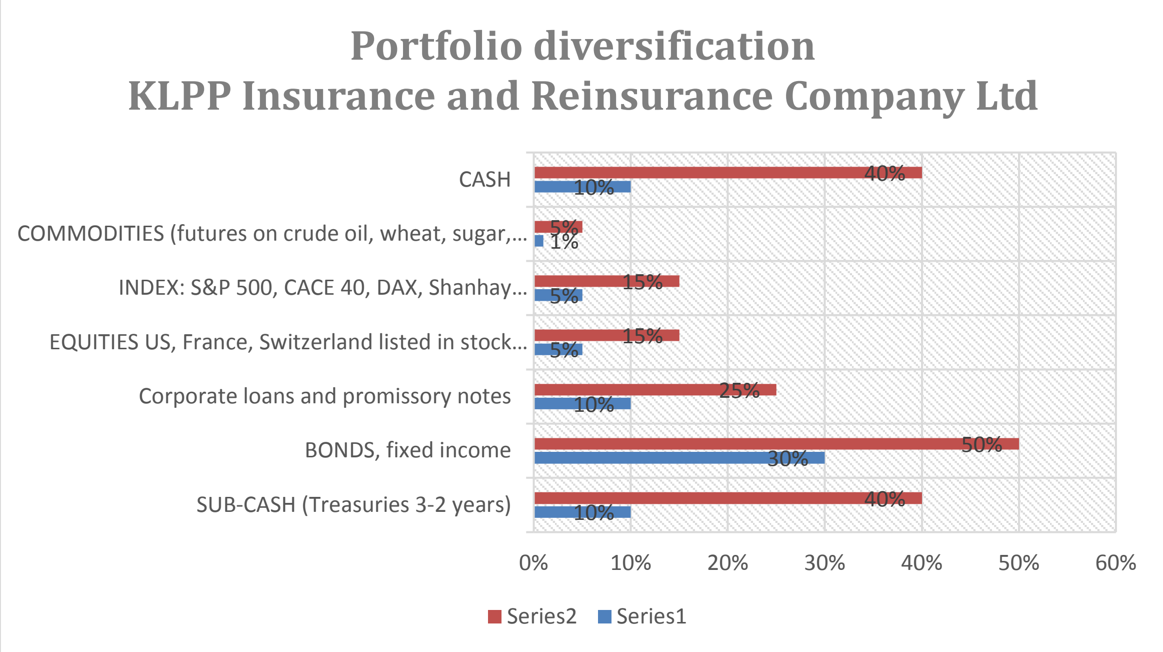
The investment strategy of the company is to maintain a conservative investment portfolio with high quality and liquidity of investments and with the objective to generate a satisfactory rate of return.

The basic principles of investment policy for management are Liquidity, recoverability, profitability.

The Company manages its investments in accordance with the Prudent Person Principle and has put in place a framework for monitoring performance and investment risk exposures. In particular, indicators have been developed to help monitor the security, quality, liquidity and profitability of the entire investment portfolio.

In case there is no guarantees of liquidity, recoverability and profitability the actives are not considered for portfolio.

The strategic asset allocation of the funds of the company for 2016 is as follows:



Tactical deviations from the above percentage limits may occasionally take place but not to the extent that may breach the risk tolerance limits of the company.

Company avoids material exposure in bank deposits, because of the very low level of interest rates. This instrument is replaced by treasuries of USA, Germany and UK on short term basis. The target with liquidity is at least the 50% of the net technical provisions within two weeks.

There are 4 banks which KLPP uses in day-to-day life – UBS AG, Barclays London, PPF and Bank of Cyprus.

In the purpose of investment activity only financial institutions with high credit ratings (not less than Baa2 on Moddy's or BBB on Standard and Poor's) are acceptable – UBS AG, Barclays London. Also brokers accounts are held with Ronin Europe Limited (credit rated European licensed institution).

The investment portfolio is monitored on a daily basis via Bloomberg, the instruments are acceptable if they are listed in stock exchange, have high credit rating (issuer rating, never lower than rating of country of incorporation) and acceptable profit rate. In order to keep high level of liquidity the instrument of choice are corporate and governments bonds. Instrument is also accepted if there is full control through corporate mechanism – Board of Directors, shareholders etc.

In regards of currencies the company keeps position in USD, GBP, EUR and Canadian dollar. The diversification in order to avoid currency risks is 60% in USD, 30% in GBP and up to 20% in other currencies. Company operates in Forex market as well. The Company 3 months in advance voting for Brexit has closed the positions in GBP and opened Roubles, what allowed to generate additional profit.

In regards of commodities, company accepts only stock exchange listed instruments in the level of not more than 2-3% of portfolio, all accepted commodities are high liquidity.

During 2016, the income from investments was 41 925 126 USD

A.4 Performance of Other Activities

The Company does not have any material leasing arrangement or any other material income and expense item in addition to the underwriting and investment income and expenses outlined in the sections above.

A.5 Any Other Information

There is no material information regarding the business and performance of the Company or regarding any material events affecting the Company in 2016, other than that outlined above. There are currently no significant legal or regulatory issues that are being faced by the Company.

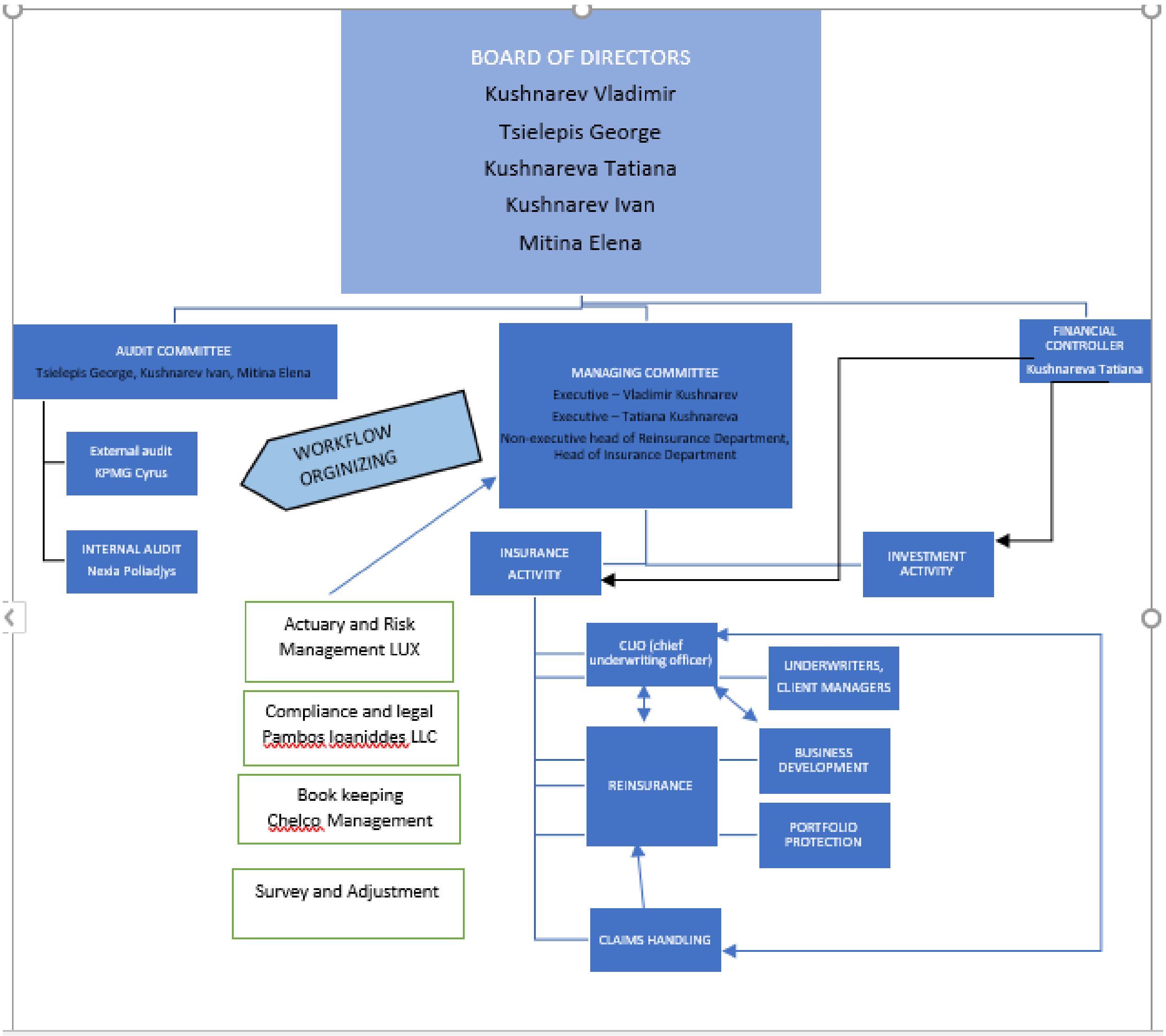
B. System of Governance

B.1 General information on the system of governance

The Company's system of governance provides for the sound and prudent management of the Company's business and includes:

- a transparent organisational structure;
- a risk management system;
- asset-liability management;
- a number of key functions;
- control over outsourced functions; and
- an internal control system.

The Company's organisational structure at 31 December 2016 is depicted graphically below.



B.1.1 The Board of Directors

The composition of the Board of Directors takes into account the size, nature and complexity of the Company's business. Moreover, the Board is designed to ensure that:

- it can adequately discharge its responsibilities and duties;
- it has a proper understanding, and the necessary competencies to deal with current and emerging issues arising from the Company's business;
- it can effectively review and assess the performance of outsourced functions.

The Board is made up of five Directors who collectively possess an adequate level of expertise and experience in insurance underwriting, financial reporting, risk management, actuarial functions and compliance.

The members of the BOD are the following:

NAME	ROLE
Vladimir Kushnarev	Chairman
Tatiana Kushnareva	Vice Chairman
Ivan Kushnarev	Non-Executive Director
George Tsielepis	Non-Executive Director
Elena Mitina	Non-Executive Director

The Board is responsible for leading and controlling the Company, devising strategies and plans for their implementation and reviewing and evaluating the Company's performance against such strategies and plans. The Board of directors executes all resolutions and decisions of Shareholders Meetings. The Board delegates responsibility for day-to-day business and for external representation of the Company to the Managing Committee. However, significant decisions concerning the Company must have the support of the entire Board, in line with the Board procedure outlined in the Company's Memorandum and Articles of Association.

B.1.1.1 Selection and Appointment of BoD Members

The BoD members will be appointed by the shareholders subject to approval from the Superintendent of Insurance. The appointment and removal of directors shall require the consent in writing of members holding not less than fifty-one per cent (51%) of the voting shares of the issued share capital of the Company. A written notice addressed to the Company secretary shall be sufficient for such purpose.

The directors of the Company shall not be required to retire by rotation. Their appointment shall stand until removed by their appointers.

B.1.1.1.1 Chair of the BoD

The Board has the duty to appoint a Chairman from amongst its member to lead Board meetings and to ensure effective communication with the shareholders.

B.1.1.1.2 Non-Executive directors

The role of all Non-Executive Directors has the following key elements:

- Strategy: Non-Executive Directors should constructively challenge and contribute to the development of strategy
- Performance: Non-Executive Directors should scrutinize the performance of Senior management in meeting agreed goals and objectives, and monitor the reporting of performance
- Risks: Non-Executive Directors should satisfy themselves on the integrity of financial information and that financial control and ensure that the systems of risk management are robust.

The independent Non-Executive Directors shall be independent of KLPP and free from any business or other relationship which could materially interfere with the exercise of their independent judgment.

B.1.1.2 Board Committees

To improve operating efficiency, matters not reserved to the BoD are delegated to the following Board Committees that have been formed with BoD participation:

- Managing Committee
- Audit Committee

Delegating to Committees does not in any way release the BoD from collectively discharging its responsibilities. The BoD maintains regular interaction with the Committees through the information provided to the BoD, that it proactively challenges when necessary.

The Terms of Reference of those Committees whose establishment is required under Solvency II, are documented in the Governance Policy of KLPP and can be made available upon request.

The following Committees and Control Functions have been established by the Board (and its Committees) to assist it in discharging its obligations and operated throughout the year under review. Each Committee operates under defined terms of reference and reports to the Board at each Board meeting.

Managing Committee

- Coordinating and monitoring Company`s day-to-day activity in respect of Insurance and Investment activity.
- Ensuring that the Company maintains adequate liquidity at all times
- Monitoring the risks arising from the Company’s activity
- The timely reporting of material deviations from defined risk appetite.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities for:

- The integrity of the Company's financial statements;
- The effectiveness of the Company's internal controls;
- The Company's arrangements for its employees to raise concerns, in confidence, about possible wrong-doing in financial reporting or other matters;
- The effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system; and
- Monitoring the effectiveness, independence and objectivity of the external auditor.

Coordinating and monitoring Company`s actions in respect of Insurance and Investment business.

and executing the role of controller of all financial business process of the company

B.1.2 Remuneration Policy

The Company ensures that its employees are of the highest calibre by employing thorough recruitment and selection procedures and by providing employees with remuneration packages that are adequate and fair in light of their responsibilities, duties, qualifications and experience, giving due consideration to the Company's profit targets and remuneration packages on offer for similar posts in the local market. The management's remuneration consists of a fixed component as well as a variable component. The variable component is tied to personal performance, and the results of the Company. The two components are balanced such that the fixed component represents a sufficiently high proportion of the total remuneration, thus avoiding employees' over-dependence on the variable component and allowing the Company to operate a fully flexible bonus policy, including the possibility of paying no variable component. These principles ensure that no excessive risk taking take place, thus ensuring the sound and prudent management of the Company.

Only non-executive directors are entitled to remuneration which is determined at the annual shareholder meeting and which depends on the financial results of the year.

B.1.3 Key functions

B.1.3.1 Internal Audit

The role of the Internal Audit Function is to:

- Independently examine and evaluate the functioning and effectiveness of the internal controls and all other elements of the system of governance;
- Assess compliance with internal strategies, policies, processes and reporting procedures.

The Board retains the prerogative of calling upon the Internal Audit Function to give its opinion or assistance or to carry out other special tasks, such as investigation of suspected fraud.

The Company outsource the Internal Audit function to an accounting firm. The persons responsible for providing the service selected carefully depending on their skills and experience.

B.1.3.2 Compliance

The Compliance Function is responsible for:

- Identifying all areas of the Company's business activity that are susceptible to compliance risk;
- Implementing the necessary controls to ensure that the Company complies with the applicable insurance laws and external regulatory requirements, including but not limited to, licensing requirements, supervisory reporting and public disclosure requirements;
- Ensuring that the Company complies with all applicable non-insurance specific laws and external regulations.

The Compliance Function is outsourced to a legal firm with appointed individual within that firm to undertake the role of Compliance Officer. In making this appointment, the Board insured that this person has the requisite skills and experience to undertake the role.

B.1.3.3 Actuarial

The objective of the Actuarial Function is to establish and maintain appropriate procedures, processes and systems sufficient to allow the Company to reasonably estimate its insurance obligations, exposures and the related capital requirements, in line with applicable laws and recognised industry standards.

The Actuarial Function coordinates the assessment and validation of internal data to determine the level of compliance with recognised standards for data quality and, if necessary, recommends improvements in Company procedures aimed at improving such compliance. Furthermore, the Actuarial Function reviews the integration of any relevant external data within the calculation of technical provisions and coordinates the process of validation of such external data, using the same criteria and standards applied to internal data.

The Actuarial Function in KLPP is outsourced to proven actuarial firm after having satisfied itself of the service provider's ability and capacity to perform the Actuarial Function satisfactorily.

B.1.3.4 Risk Management

The Risk Management Function is responsible for:

- Assisting the Board, management and the other functions in discharging their risk management responsibilities and in advising on possible improvements;

- Performing reviews of the RMS and suggesting possible improvements, including documentation of material changes to the RMS and reporting such changes to the Board in order to ensure that the RMS is maintained and improved;
- Effectively identifying, assessing, monitoring and assisting with the mitigation and management of, identified risks;
- Maintaining a Risk Register to gain an aggregated view of the Company's risk profile, including the Company's capacity to absorb risks;
- Evaluating the internal and external risk environment on an on-going basis, in order to identify and assess potential risks as early as possible;
- Conducting stress testing and scenario analysis;
- Regularly reporting to the Board on the Company's risks and the management of risks.

B.1.4 Material changes in the system of governance over the reporting period

Since the beginning of the insurance activity (6 months after the licence was granted) and following consultation with S&P Rating Agency the system of management and control was upgraded and changed. Prior to these upgrades the governance system was assessed by the rating agency (along with other aspects) and the Company was granted B+ rating of financial strength in November 2016. Thus, it is expected that these improvements would now yield an even higher rating. Moreover, the new organized Committees (as mentioned above) tends to make structure more effective and transparent.

B.2 Fit and proper requirements

Prior to the appointment of any new Board member or Company Secretary, an evaluation is undertaken of the fitness and propriety of the proposed officer of the Company. This involves examination and documentation of:

- the person's previous experience, knowledge and professional qualifications and whether these are adequate to enable sound and prudent management of the Company;
- proof of skill, care, diligence and compliance with the relevant standards of the area/sector he/she has previously worked in;
- reputation, including an enquiry as to whether there have been any criminal or financial antecedents or past experience with regulatory authorities which may cast doubt on the ability of that person to adequately discharge his/her duties in line with applicable rules, regulations and guidelines.

The function delegated with the responsibility for the Fit and Proper test is the Compliance function. The Compliance Function also bears the responsibility for monitoring the fitness and propriety of individuals on an ongoing basis.

The fit and proper test criteria satisfy at a minimum the relevant regulatory requirements.

The assessment is facilitated through:

- personal questionnaires
- academic and/or professional qualification certificates
- certificate of non-bankruptcy
- clear criminal record certificate
- personal resume and
- personal declaration

In particular, with regards to members of the BoD they must always have the collective knowledge of the financial and insurance market, business strategy, system of governance, financial and actuarial analysis and the regulatory framework and requirements.

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

B.3.1 Description of the undertaking's risk management system

KLPP has implemented an effective risk management system which is designed to ensure timely identification and assessment of existing and emerging risk exposures as well their effective management. The risk management system is comprehensively addressed in the company's risk management policy which provides for the **risk governance**, a **risk appetite** statement and the **risk management framework**.

The risk management policy comprises of sub-policies for all main categories of risk namely: Underwriting Risk, Investment and Asset Liability Risk, Credit Risk, Liquidity Risky, Concentration Risk, Operational Risk and Reinsurance. It is approved by the BoD and is reviewed at least once a year. During 2016, the company completed a comprehensive audit of the risk management system and the BoD approved to commit additional resources to improve the robustness and effectiveness of the system.

B.3.1.1 Risk Appetite Statement

The risk appetite statement lays down the level and nature of risks that are considered acceptable for the Company and the constraints within which it should operate in pursuing its strategy.

KLPP manages its risk appetite through a set of limits. The limits are set, not such that they are likely to be fully used, but rather so that limited exceptions are reported. The aggregate risk limits and the risk category limits are to be used by the RMF for the monitoring and reporting of overall risk exposure and by the BoD for making decision on the Company's risk profile.

Overall KLPP sees itself as a low risk entity and risk tolerance limits have been set to reflect that.

The company has a target of maintaining a solvency coverage ratio at all times in excess of 500%.

In this context, tolerance limits are set for all risk categories to ensure that on a worst-case scenario basis, risk exposures will not lead to losses threatening this target solvency ratio.

B.3.1.2 Risk Governance

The risk governance of the Company forms an integral part by defining the role of each function of the company in the Risk Management Framework. It is organised in a way that ensures the establishment of clear responsibility boundaries, the proper segregation of duties and the avoidance of conflicts of interest at all levels.

As mentioned in previous sub-sections, the system of governance is based on the "three lines of defence model" safeguarding that risk management is embedded into the organisational structure and decision-making processes of the company and that the risk management system is supported by appropriate internal controls and by information systems that provide relevant, accurate and reliable information.

The roles of the key functions in the Risk Management System are described in detail in the company's governance policy and are outlined below:

Body / Function	Roles in the risk management framework
BoD	• The responsibility for the approval and periodic review of the risk profile and risk appetite, as well as the risk strategy and the policies for managing risks, lies with the BoD, so as to ensure that the BoD takes all measures necessary for the monitoring and control of risks, in accordance with the approved risk strategy and policies.
Risk Management Function	• Supports the BoD in the determination and implementation of the risk strategy and capital planning • Coordinates the implementation of the risk management framework and is the main unit for risk management responsibilities. • Regular reporting to the Senior Management • Risk management training to the BoD, Committees, Senior Management and Risk taking functions directly involved in the management and oversight of risk, on the contents of the current and other risk-specific policies, and for providing guidance on their application • Monitors the risk profile of the Company against the BoD's risk appetite • Develops internal risk methodologies and models • The full responsibilities of the RMF are documented in the RMF Policy

Body / Function	Roles in the risk management framework
Senior Management	• The Company's Senior Management is responsible for the implementation of the risk strategy, as this has been approved by the BoD, and for the development of the policies, methodologies and procedures required to identify, measure, monitor and control every type of risk, in accordance with the nature and complexity of the Company's operations • They also have the responsibility to apply the framework in their day to day activities
Actuarial Function	• The Actuarial function is a specialist function that advises the Senior Management of the Company on the calculation of technical provisions and capital requirements, as well as on the technical aspects of risk management and modelling.
Compliance Function	• The Compliance Function applies suitable procedures for the purpose of achieving a timely and on-going compliance of the Company's risk management framework with existing and new laws and regulations.
Internal Audit	• The Internal Audit Function undertakes independent reviews and testing of the risk management framework or of specific components of the framework and reports the results to the Audit Committee. The responsibilities of Internal Audit are governed by the Internal Audit Policy

B.3.1.3 Risk management Processes

The risk management framework is a continuous process encompassing of the following key stages:

Risk Identification

The identification process is facilitated by a continuous use and review of internal and external sources of information.

Quantitative risks are identified through observation of the company's exposures through its financial records. Emerging risks are identified through external data or information.

Qualitative risks are identified through identification of events, actions or inactions (risks) that have the potential to materially impact the achievement of the objectives or the intended operation of functions and business processes. These can relate to both threats to operations or failures to take advantage of opportunities.

Stress testing, scenario analysis and sensitivity analysis are also adopted for the purposes of identifying risk exposures over the business planning horizon through the ORSA process which is described in the next section.

Risk Assessment / Measurement

The main metric for assessing quantifiable risk exposures is the 99.5% value at risk. This is a measurement of the maximum loss occurring from predefined events with a probability of 1 in 200. Additional risk metrics are a predefined set of key risk indicators encompassing all risk areas. All risk metrics correspond to a risk tolerance limit explicitly stated within the risk appetite statement. This enables the comparison of actual risk exposures against the company's tolerances indicating where further mitigating action is necessary.

Non-quantifiable risks are measured and ranked based on established criteria for frequency and severity. The frequency and severity associated with risks are assessed on an inherent and residual basis, having considered both the existence and effectiveness of the controls, by following a four-step process:

- Assessing the frequency of risk events and their resulting severity (inherent risk);
- Identifying the controls in place that prevent or detect the occurrence of the risk event or mitigate its severity;
- Assessing the design and performance of each control; and
- Assessing the frequency of risk events and their resulting severity, having considered the effectiveness of existing controls (residual risk).

Once identified and measured, material risks are documented in the Risk Register. Risk and control owners are assigned to each risk to ensure accountability for managing all material risks and the related controls. The Risk Register is monitored regularly and amended where necessary to capture changes in risks facing the business or in the controls used to mitigate existing risks.

Risk Control and Mitigation

KLPP has a strong risk controls culture to ensure the mitigation of all risks in its risk universe. Controls are developed and used to safeguard the integrity of the Company's processes and systems.

Additionally, the RMF evaluates and adopts appropriate risk transfer methods to mitigate its exposure to the identified risks. Such methods may include purchasing reinsurance coverage, using derivatives as hedging instruments.

Unexpected risks exposures are also covered by own funds, in accordance with the Solvency II requirements.

KLPP's policies on risk transfer including the use of reinsurance or other instruments is documented in the Company's Reinsurance Policy.

Once KLPP has identified and quantified its risks, it can implement a strategy for mitigating them with appropriate policies, procedures, systems, and controls. Within the established risk appetite and tolerance, KLPP would retain a certain portion of risk, transfer another portion (through reinsurance), and then finance those risks it could not insure.

Risk Monitoring and Reporting

The RMF has the responsibility to ensure that all material risk exposures are monitored on an on-going basis and that any risks that fall outside the approved risk appetite of the Company are identified and appropriately escalated to the BOD.

Specifically, the RMF monitors the following for each risk:

- Actual exposure vs. Limit at an aggregate base
- Key Risk Indicators
- Risk data and model validation
- Appropriateness and assumptions of risk measurement methodologies
- Unusual or material events
- Early warning indicators (in the internal and external environment of the Company)
- Policy breaches

B.3.2 *Significant Risk Exposures*

The main risk exposures as at 31 December 2016 as measured through the Solvency II standard formula are shown in the table below:

99.5% VALUE AT RISK (SCR)	USD'000s
Market risk	20,982
Counterparty default risk	18,610
Life Underwriting risks	-
Health underwriting risk	-
Non-Life underwriting risk	4,099
Intangible asset risk	-
Operational risk	13

B.3.3 *Material Risks not included in the calculation of the Solvency Capital Requirement*

There were no material risks other than those captured in the calculation of the SCR.

B.3.4 *Credit Assessments*

Credit assessments are used for the company's main counterparties through its reinsurance program and its asset portfolio. The ratings used are those of the main global rating agencies such as AM Best, Standard & Poor's, Fitch and Moody's. The ratings are obtained by the asset managers and the reinsurers themselves and are verified through ad hoc research through the internet.

KLPP considers these external ratings as adequate for the purpose of the credit risk assessment of these counterparties unless information emerges which is thought to compromise their credit worthiness and has not yet been allowed for by the rating agencies.

B.4 Own Risk and Solvency Assessment (ORSA)

In line with the Company's ORSA policy, ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks the Company faces or may face and to determine the own funds necessary to ensure that the Company's overall solvency needs are met at all times. The ORSA policy is the policy which governs the ORSA process.

Strategic decisions such as the introduction of new products, utilisation of additional distribution channels etc. are assessed and evaluated in the light of their effect on the Company's risk situation and risk-bearing capacity.

KLPP follows the steps below to implement its ORSA:

i. ***Identify and classify risks, including governance*** - The Company identifies the material risks it faces at a particular point in time. This includes risks considered in the SCR formula, as well as risks not included in the standard formula such as liquidity, strategic and business risks.

ii. ***Assessment and measurement of risks*** - the Company collects data, quantifies and aggregates risks using different approaches such as Value at Risk and stress testing. The assessment is done using predefined risk metrics. This also includes and assessment of the Solvency II standard formula and whether it adequately reflects the underlying risk profile of the company.

iii. ***Capital Allocation*** – According to its risk profile, the Company determines the necessary risk capital required at that point in time.

iv. ***Capital planning*** – The company projects its risk profile based on its business plan and prepares a capital plan over the business planning horizon. The capital plan depends on its strategic objectives and financial projections and assumptions on future economic conditions.

v. ***Stress testing*** - The Company applies stress and scenario testing to the forward-looking capital plan and develops actions that can be taken in unforeseen circumstances in the future. Stress tests complement the use of the standard formula by assessing the financial effect of events or sequence of events that lead to specific adverse scenarios. Thus, they can be used to understand the Company's vulnerability to its various risk exposures and the level of financial strain that it can withstand.

vi. ***Communicate and document the results*** – The Company presents the results of the process to senior management and the BoD and prepares the ORSA report. The BoD reviews and challenges the results of the ORSA through minuted discussions.

B.4.1 *Governing the ORSA*

The ultimate responsibility for the ORSA process lies with the BoD. The BoD defines the corporate objectives and the risk strategies of the company which form significant inputs to the ORSA. The BoD also defines the stress testing program and also reviews, challenges and approves the ORSA Report. The BoD also sets the ORSA policy and reviews it every year.

The function mostly responsible for carrying out the ORSA is the Risk Management Function. However, due to its very nature, the ORSA requires input from across the whole Company and hence the Risk Management Function coordinates the ORSA process in conjunction with all the other functions as risk owners.

Significant input is required from the finance function for the preparation of the financial projections in accordance with the company's business plan and from the Actuarial function in quantifying future risks and assisting with the financial modelling of forecasted solvency assessments.

B.4.2 *ORSA and decision making processes*

ORSA is considered as a very valuable assessment in addressing the risks inherent with the company's strategy and the BoD confirms that it is embedded in the decision-making processes of the company. In particular, the ORSA allows the management to take into account all the risks associated with the Company's business strategies and the required level of capital that the Company requires commit, explore alternative options and assess their impact and decide on the optimal strategy and advise to BoD accordingly.

B.4.3 *Frequency of the ORSA*

The Company currently intends to perform the ORSA annually. Furthermore, the assessment will be performed immediately following any significant changes to the environment that the company operates.

These changes include, but are not limited to:

- Significant changes to the financial and political environment in which the Company operates
- Significant operational losses
- Material changes to the new business volumes
- Planned changes to the operating model of the company
- Significant changes in the Company's risk profile

B.4.4 *Solvency needs and Risk Profile*

In 2016, the Company undertook a detailed risk and solvency assessment as well as a forward-looking assessment of capital requirements comprising of the year 2016-2019. These assessments encompass all material risks that the Company faces or could expect to face over its planning period.

The assessment also addressed the adequacy of the standard formula and how it relates to the underlying risk profile of the company. The assessment provided satisfactory evidence for the adequacy of the standard formula and comfort that we can continue using this as a key risk metric. Furthermore, it provided confidence that the capital requirements address the material risk exposures and the available own funds provide a satisfactory buffer in safeguarding business continuity beyond the 99.5% confidence threshold.

Any risks not covered by capital are believed to be adequately mitigated through the control measures applied internal and no additional capital beyond the SCR was deemed necessary.

The following table summarises the financial and solvency projections over the business planning horizon as shown in the ORSA Report. The BoD confirms that it has adequate capital availability for implementing its strategy. All amounts are in USD '000s.

Capital Adequacy	**YE2015**	**YE2016**[1]	**YE2017**	**YE2018**
Assets	273,184	298,950	308,456	318,940
Liabilities	14,863	818	1,148	1,928
Net Assets	**258,321**	**298,133**	**307,307**	**317,012**
Solvency Capital Requirement	**28,427**	**35,999**	**37,391**	**38,610**
Surplus capital	**229,894**	**262,134**	**269,916**	**278,402**
Solvency ratio	**909%**	**828%**	**822%**	**821%**
Minimum tolerance	300%	300%	300%	300%

B.5 Internal control system

The Company defines internal controls as a process, effected by an entity's Board, management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives:

- efficiency and effectiveness of processes;
- availability of sufficient and reliable financial and non-financial information to effectively manage the business of the Company;
- compliance with all applicable laws and regulations.

The key components of the Company's internal control system are outlined below:

- **Control Environment**

  The control environment sets the tone of the Company, influencing the control consciousness of its people. It is the foundation for all other components of the Company's internal control system, providing discipline and structure. Control environment factors include:

[1] These are the amounts projected during the ORSA performed in 2016. The actual solvency position as at YE2016 was 895%.

- the ethical values of the Board and Company employees, together with the Company's philosophy and operating style, as reflected in the Company's Code of Conduct;
- the integrity and competence of the Company's Board and employees; as reflected in the objectives of the fitness and propriety requirements and the Recruitment and Remuneration Policy;
- clear definition of authority and responsibility, as defined by the Company's policies and the organisational structure;
- the three line of defence system to manage risks as outlined in Section B.3.1.

- **Risk Management**

  Risk Management entails the identification and analysis of relevant risks which threaten the achievement of the Company's objectives, forming a basis for determining how the risks should be managed.

- **Control Activities**

  Control activities are the policies and procedures that are designed to ensure that management directives are carried out, strategies are properly implemented and the necessary actions are taken to address material risks to the achievement of the Company's objectives. Control activities occur throughout the entire Company, at all levels and in all functions. They include a range of activities as diverse as:
  - approval and authorization requirements, as required by the Company's procedure manual;
  - segregation of duties, as reflected in the Company's organisational structure and in other controls outlined in the procedure manual;
  - controls required by the Company's various policies, such as the Outsourcing Policy;
  - verifications, reconciliations, reviews, controls over assets and other controls as identified in the procedure manual and which are primarily aimed at implementing the four-eyes principle.

- **Information and Communication**

  Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities The Accounting Function prepares a monthly management report, which is distributed to the Board and which informs the Company's decision making. Moreover, all the functions responsible for implementing each of the Company's policies report to the Board at least once a year on the implementation of such policy, the adherence thereto together with any proposals for changes to the policy as considered necessary by the relevant function. As outlined in Section B.1.1, due to the size of the organisation, lines of communication are not formally defined beyond the circulation of monthly management reports to the Board and the requirement for holding Board and Investment Committee meetings.

- **Monitoring of Internal Controls**
  Internal controls need to be monitored by a process that assesses the quality of their performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the normal course of operations. Each function, as the risk owner, is responsible for ensuring the ongoing efficiency and effectiveness of the internal controls addressing the owned risks. Moreover, controls are monitored by the Risk Management Function, the Compliance Function and the Internal Audit Function. Significant internal control deficiencies are reported to the Board by means of the annual report prepared by each function, or immediately if deemed necessary. The scope and frequency of separate evaluations may be determined by the Board on the basis of its assessment of risks and its evaluation of the effectiveness of ongoing monitoring procedures.

B.5.1 Compliance Policy and Compliance Function

KLPP Compliance function is sufficiently outsourced in order to ensure compliance with all the applicable regulation and legislation. Appointed compliance officer is Pambos Ioannides LLC.

The Compliance Function ensures that compliance awareness is promoted internally and externally and that compliance is an integral part of the corporate culture of the company. Employees within the organization receive adequate training on compliance and Anti-Money Laundering issues on a set periodic basis and are encouraged to identify and report all breaches as necessary so that corrective action can be immediately taken and risks mitigated.

The role of the Compliance Function includes:

a) advising the Board of Directors on compliance with any legislation, regulations and any other applicable laws, in so far as they apply to the company,

b) the assessment of possible impact as regards changes in the legal environment on the company,

c) the identification and assessment of any compliance/regulatory risks.

d) providing the Board of Directors with regular reports on the progress of the Compliance plan, and any other matters which need to be brought to the attention of the Board of Directors.

As far as KLPP is concerned, the company has a compliance plan and a compliance policy in place. The Compliance policy is reviewed every year by the Board of Directors, and if required, it is updated to ensure that it remains relevant to the company and in line with the regulation. On the other hand, the annual compliance plan is drawn up every year by the Compliance Function and is approved by the Board of Directors.

B.6 Internal audit function

The Company's Internal Audit Policy establishes and maintains an Internal Audit Function, the objectives of which are:

- to independently examine and evaluate the functioning and effectiveness of the internal controls and all other elements of the system of governance;
- to assess compliance with internal strategies, policies, processes and reporting procedures.

The Company outsources its Internal Audit Function to Nexia Poyiadjis thus ensuring the independence and objectivity from any functions which have operational responsibilities. The Internal Audit Function reports to the Board through the Audit Committee.

The Internal Audit Function has an unrestricted right to obtain information relevant to the discharge of its responsibilities. This entails the prompt provision of all necessary information, the availability of all essential documentation and the ability to look into all activities and processes of the Company. To this effect, the Internal Audit Function has full, free and unrestricted access to all the personnel of the Company who shall, in turn, ensure that the Internal Audit Function obtains the necessary information about, and has the necessary access to, the Company's outsourced functions.

B.6.1 Internal Audit in 2016

During 2016, the Internal Audit was performed on the Actuarial Function and the Risk Management Function. The internal audit report is in progress and is expected to be finalised in June 2017. No material findings or recommendations are expected based on current progress.

B.7 Actuarial Function

The Actuarial Function is a critical function for KLPP given the nature of its product suite and its operations. It is subject to the fit and proper criteria and according to the relevant legislation it should at all times be carried out by persons who are fit and proper to carry out the duties outlined below, in an objective manner and free from any undue influences. The Actuarial Function of KLPP is outsourced to Lux Actuaries and Consultants (Cyprus) Limited, and is executed by a Fellow of the Institute of Actuaries who fulfils all above criteria.

The Actuarial Function reports to BoD and is subject to the audit of the Internal Audit Function regarding the adequacy and effectiveness of its procedures. The operating procedures of the function are described in detail in the Actuarial Function Manual.

The role of the Actuarial Function is to establish and maintain appropriate procedures, processes and systems sufficient to allow the Company to reasonably estimate its insurance obligations and exposures and the related capital requirements, in line with applicable laws and recognised professional standards. In this context, the Actuarial Function coordinates the assessment and validation of internal data to determine the level of compliance with recognised standards for data quality and, if necessary, recommends improvements.

Furthermore, the Actuarial Function is involved in the profit testing process of new products assessing them for profitability, capital intensiveness, risk profile, system compatibility and marketability. It also contributes all financial modelling in relation to risk management activities and the ORSA in particular.

The activities of the Actuarial Function during 2016 were as follows:

- Carried out the calculation of technical provisions on a quarterly basis in accordance with all relevant regulatory requirements
- Submitted reports in relation to the above calculations to the BoD
- Provided modelling assistance for the calculation of Solvency Capital Requirements on a quarterly basis
- Assessment of data quality
- Expressed opinion on adequacy of Reinsurance Arrangements and participated in the discussions with the Reinsurers for the renewal of treaties.
- Expressed opinion on the company's underwriting policy
- Worked closely with the management and addressed areas of its expertise in relation to the company's ongoing operations
- Provided the modelling for carrying out the financial and solvency projections of the ORSA
- Attended four meetings of the BoD and actively participated in discussions around the company's restructuring plan and its strategy going forward.
- Carried out investigations to the company's experience in terms of claims, lapses, expenses and new business volumes

B.8 Outsourcing

KLPP outsources the following key functions:

Function	Entity	Person Responsible
Actuarial Function	Lux Actuaries & Consultants	Dimitris Dimitriou
Risk Management Function	Lux Actuaries & Consultants	Dimitris Dimitriou
Compliance Function	Ioannides Demetriou LLC	Katerina Hadjichristofi
Internal audit	Nexia Poyiadjis	Suzana Poyadjis

KLPP has opted to outsource these functions given the high level of specialisation and the limited availability of such skills in the domestic market. Furthermore, we have selected providers with significant expertise in their areas who can introduce knowhow and skillset in a beneficial way for the company. Outsourcing is also believed to be a cost-efficient approach for the selected functions.

Additional benefits of outsourcing include the safeguarding the continuity of services since KLPP does not rely on one person but a firm with a contractual obligation to provide the requested services under all circumstances.

It also saves on infrastructure and technology since the company does not need to invest in specialised software and relevant IT solutions.

The selected partners have over the years proven to be efficient in their dealings with the Company and provide comfort to the BoD in the quality of their service and the value they add to KLPP.

The Company acknowledges that outsourcing does not in any way relieve the Company of ultimate responsibility for the outsourced functions. In line with regulatory requirements, KLPP has appointed one member of senior management with the responsibility of oversight of these functions and these persons have been notified to the MFSA. Furthermore, the performance of providers is regularly reviewed and monitored by the BoD.

B.8.1 Outsourcing Policy

The criteria for the selection of service providers and the process for their appointment is laid down in the company's outsourcing policy which is approved by the BoD and reviewed once a year. In regards of points of fast track going out for the company for the insurance market, Board of directors decided to outsource several functions. This is considered as a basement for additional transparency of business model of the company and provides additional trust of clients and counterparties to the Company. In particular, the Outsourcing Policy states that when choosing a service provider for any critical or important functions or activities KLPP ensures that:

- The potential service provider has the ability and capacity and any authorisation required by law to deliver the required functions or activities satisfactorily, taking into account the undertaking's objectives and needs
- The service provider has adopted all means to ensure that no explicit or potential conflict of interests with KLPP impairs the needs of the outsourcing undertaking
- It enters into a written agreement with the service provider which clearly allocates the respective rights and obligations of the undertaking and the service provider
- The general terms and conditions of the outsourcing agreement are authorised and understood by Managing Commitee. The outsourcing does not represent a breach of any data protection regulation or any other laws
- The service provider is subject to provisions on the safety and confidentiality of information relating to KLPP or to its policyholders or beneficiaries

In order to ensure against an undue increase in Operational Risk, when outsourcing critical or important functions or activities the Company shall:

- Verify that the service provider has adequate financial resources to take on the additional tasks KLPP plans to transfer and to properly and reliably discharge its duties towards KLPP and that the staff of the service provider is chosen on the basis of criteria that give reasonable assurance that they are sufficiently qualified and reliable
- Make sure the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and has periodic testing of backup facilities where that is necessary having regard to the function, service or activity outsourced

Furthermore, the Policy lays down the minimum required contents of an outsourcing agreement safeguarding the quality of service provided, protecting the interests of KLPP, ensuring that conflicts of interest are avoided and that the service provider cooperates with internal or external auditors as well as the MFSA.

B.9 Adequacy of the system of governance

The Company maintains a robust system of governance which, in light of the nature, scale and complexity of the Company' activities and its risk profile, is deemed to be adequate in ensuring the sound and prudent management of the Company.

B.10 Any other information

There is no material information, other than that provided above, that is relevant to the Company's system of governance.

C. Risk Profile

The sections which follow provide an overview of the manner in which the Company manages its risk exposures. In this regard, no material changes occurred in 2016 or are expected to occur over the Company's planning horizon.

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/or reserving practices. Underwriting risk may be caused by the fluctuations in timing, frequency and severity of insured events and claim settlements in comparison to the expectations at the time of underwriting.

The Company's underwriting risk is addressed by the Underwriting Guidelines and Risk Selection Strategy. The objective of this document is to ensure that:

- reasonable and effective controls are in place to support the risk selection and underwriting process;
- the Company's future retrocession programme provides secure coverage appropriate to the Company's strategy, level of capital and risk profile;
- the risks arising out of retrocession as a risk mitigation technique are properly understood, addressed and monitored;
- claims are managed fairly and recorded properly in line with reinsurance agreements and all amounts recoverable from retrocessionaires are duly collected;
- a consistent methodology for the calculation of, and the accounting for, outstanding loss reserves (OSLR) and incurred but not reported reserves (IBNR) is maintained.

C.1.1 Underwriting strategy

As previously mentioned the Company's strategy is to selectively insure and accept reinsurance/retrocession business, The Company plans on utilising an existing network of business relations to develop and deliver insurance and reinsurance solutions to targeted clients.

Furthermore, the external environment in which KLPP operates has presented an opportunity to expand existing business into new lines and geographical territories. Strategic opportunities are coming from changes in specific external factors which are difficult to predict and largely outside the Company's control. Therefore, the Company's strategic focus is not to create opportunities but to be responsive to any good opportunity that arises. Such expansion will take place upon regulatory approval from the Superintendent of Insurance.

Following the core strategic focus as outlined above, the Company focuses on the opportunities to get profitable business, as follows:

- Increase in clients for insurance due to business growth of the trading partners, as well as other sources of business attracted by reputable development of the Company, by new experienced staff and partners,
- Grow of the client base using reinsurance capacity of the Company,
- Identification of new opportunities for further profit contribution to the Company

New opportunities for taking on new lines of business may arise in various ways, for instance a new venture of shareholders which results in new corporate risks or new insurance products offered to customers as supplementary to the other business transactions. It could also arise from improvement in the loss history of an existing policy or product, such that the risk characteristics become aligned with the requirements of the Company's underwriting strategy and policy. These opportunities would normally materialize over the longer-term horizon, giving the Company time to analyze the full implications of exploiting these opportunities.

The Company's overall business strategy is supported by an efficient operational mechanism, cutting edge technology and a strong capital base. It will be implemented through its system of governance, which revolves around the definition of the Company's risk appetite, as well as the development and implementation of sub-strategies and policies for the Company's key functions and risk areas. The Company's main sub-strategies are the underwriting strategy, the ALM and investment strategy and the risk management strategy.

The main lines of business are Fire and other property damage Insurance, Cargo insurance, General Liability and Credit & Suretyship lines. .

In line with the underwriting strategy, risks that fall within the overall strategy are only reinsured in as far as:

- reasonable projections of the premiums, claims experience and expenses provide the Company with an expectation of an adequate net underwriting profit and consequently an adequate return on capital as expressed by the overall strategy;
- the Company's available capital is adequate to cover the net underwriting risk assumed and all the other exposures and risks arising from the ensuing reinsurance contract.

Moreover, the Company strives to achieve a number of quantitative objectives, namely:

- a maximum overall combined ratio across all lines of business;
- a specified maximum exposure per line of business;
- a maximum underwriting risk capital charge in accordance with the standard formula;

Inward Reinsurance

In respect of Inward reinsurance and business attraction strategy of the Company we have some established rules and principles. The main purpose to achieve is for the reinsurance portfolio to be well balanced and diversified.

At their initial stage of business development, the majority of companies start relationships from facultative business and then transferring business to the treaty contracts. Nowadays the KLPP underwriters have enough experience and market knowledge to deal with inward facultative business as well as with treaty contracts.

The strategy in respect of treaty business consideration should be focused on the role of following market at the early stages of Company`s development and in most regions of geographical presence on the market. We will rely on the conditions provided by the most experienced players in respect of prices of the programs. At the same time, we feel free to propose and to write the shares subject to the conditions which we consider mandatory for the contract (Sanction clause, premium payment warranties, cancellation clause).

For the facultative acceptances the role of the reputable Leader is also important and we pay great attention to other participants and experience of previous relations of business provider with the ceding company (i.r.o. premium payment/ loss investigation experience).

In each case underwriters of the Company evaluate proposed business using internal general pricing approach (i.e. technical and target price) and always follow main risk selection strategy as well as monitoring of accumulation on a regular basis for both treaty and facultative inward contracts and keep our acceptances in the frame of the risk appetite limits established in the Company.

Distribution channels

The company's business model is a cost effective and time efficient framework that allows a small team of highly skilled professionals each responsible for respective area to ensure that goals set by the Shareholders are reached.

Taking into the account KLPP's business model and the small number of staff employed in the office the Management have decided to focus on the Broker channel of distribution as the key instrument of open market growth (aside of business of Shareholders) with 2018 year end projected split of business received from Direct channel and Broker channel to be around 15% for Direct channel and 85% for Broker channel.

Such strategy will provide following advantages over the predominantly Direct channel strategy:

- Minimize the number of staff required for processing the business
- Allow wider presence of the Company on the prospective markets
- A more efficient development of the portfolio with focus on the large corporate business
- Ultimate cost reduction and efficiency in terms of using Brokers global and regional expertise

Brokers

The Company plans to focus on cooperation with regional branches of large international brokers such as Aon, Willis, Marsh. In addition, we are cooperating with established Russian\CIS brokers that allows us to completely cover the Russian and CIS markets in terms of the large industrial accounts. In addition foreign offices of brokers involved in Russian\CIS business are considered an interesting source of business.

The Company also cooperates with a number of overseas brokers in order to receive international business. The focus is set on regional producers and well known international business providers.

Marketing key elements

The main element which is of the most important for marketing purposes in the business development of the Company is the rating. 04 November 2016 KLPP was assigned with the rating from Standard and Poor`s “B+”, Outlook Stable. Prospective up-grade of rating assessment will allow the Company to receive higher quality business from various markets worldwide, especially markets which are currently unable to offer business due to regulative requirements.

As competitive advantage also the capacity with reinsurance and retrocession protection can be used.

According to the future plans of the KLPP to build up reinsurance program with the recognized international capacity providers such as Swiss Re, Hannover Re, Lloyd’s syndicates in order to be capable to provide the Clients higher limits ad take part successfully in different tenders and competitions in the market of main geographical presence of the Company.

C.1.2 Material risk exposures

During 2016 the gross written premiums by line of business were as follows:

Line of Business	Gross Written Premium
Marine, aviation and transport insurance – Direct Insurance	2,115
Fire and other damage to property insurance - Direct Insurance	3,955
Fire and other damage to property insurance – Proportional reinsurance accepted	9,341
General liability insurance – Direct Insurance	595,112
General liability insurance – Proportional Reinsurance	1,250
Property - Accepted non-proportional reinsurance	38,249

Over the business planning horizon, GWP by line of business and country of risks forecasted as follows:

2017 **All figures in EUR '000**

Class of Business	GERMANY	RUSSIA	CIS countries	SOUTH KOREA	NETHERLANDS	CYPRUS	GREECE	CZECH REP.	SPAIN	OTHER	TOTAL
Goods in transit		15			30	10			15		70
Fire, Natural Forces & Other Damage to Property	30	85	45			60	55	50		90	415
General Liability	10	12		15	10	280			10	8	345

Credit		2	5		30				20		57
Suretyship		50					940				990
Miscellaneous Financial Loss	5	10	5			10	5			10	45
Total:	45	174	55	15	70	360	1000	50	45	108	**1 922**

2018									**All figures in EUR '000**		
Class of Business	**GERMA NY**	**RUSSIA**	**CIS countries**	**SOUTH KOREA**	**NETHER LANDS**	**CYPRUS**	**GREECE**	**CZECH REP.**	**SPAIN**	**OTH ER**	**TOTAL**
Goods in transit		25			35	20			15		95
Fire, Natural Forces & Other Damage to Property	40	120	45			150	55	70		120	600
General Liability	10	15		15	10	570			10	10	640
Credit		5	5		30				20		60
Suretyship		50					1320				1370
Miscellaneous Financial Loss	5	15	5			20	5			20	70
Total:	55	230	55	15	75	760	1380	70	45	150	**2 835**

2019									**All figures in EUR '000**		
Class of Business	**GERMA NY**	**RUSSIA**	**CIS countries**	**SOUTH KOREA**	**NETHERL ANDS**	**CYPRUS**	**GREECE**	**CZEC H REP.**	**SPAIN**	**OTHER**	**TOTAL**
Goods in transit		30			45	35			20		130
Fire, Natural Forces & Other Damage to Property	55	160	45			220	55	80		160	775
General Liability	15	25		15	10	610			20	15	710
Credit		5	5		30				25		65
Suretyship		50					1600				1650
Miscellaneous Financial Loss	10	20	5			30	5			25	95
Total:	80	290	55	15	85	895	1660	80	65	200	**3 425,00**

C.1.3 Risk Concentrations

There are currently no material risk concentrations in our underwriting portfolio nor do we foresee any such concentrations to arise over the business planning horizon.

C.1.4 Risk Mitigation

Underwriting risk is mitigated through the controls implemented during the underwriting stage and the strict adherence to our underwriting criteria. Furthermore, risk is mitigated through reinsurance/retrocession to ensure that net exposures remain within the company's tolerance limits.

Reinsurance / Retrocession Policy

The reinsurers / retrocessionaires chosen by the Company should meet, as far as reasonably possible, the following characteristics:

- renowned global players;
- rating of not less than B+ or equivalent;
- a satisfactory solvency, profitability and liquidity position in accordance with the latest financial statements available;

whilst giving due consideration to diversification in order to avoid undue concentration risk.

The Company's policy is to arrange all its reinsurance/retrocession placements on a facultative basis within the traditional reinsurance market. As at 31/12/2016 there were no reinsurance/retrocession cover in place as all risks taken on were within the company's tolerances.

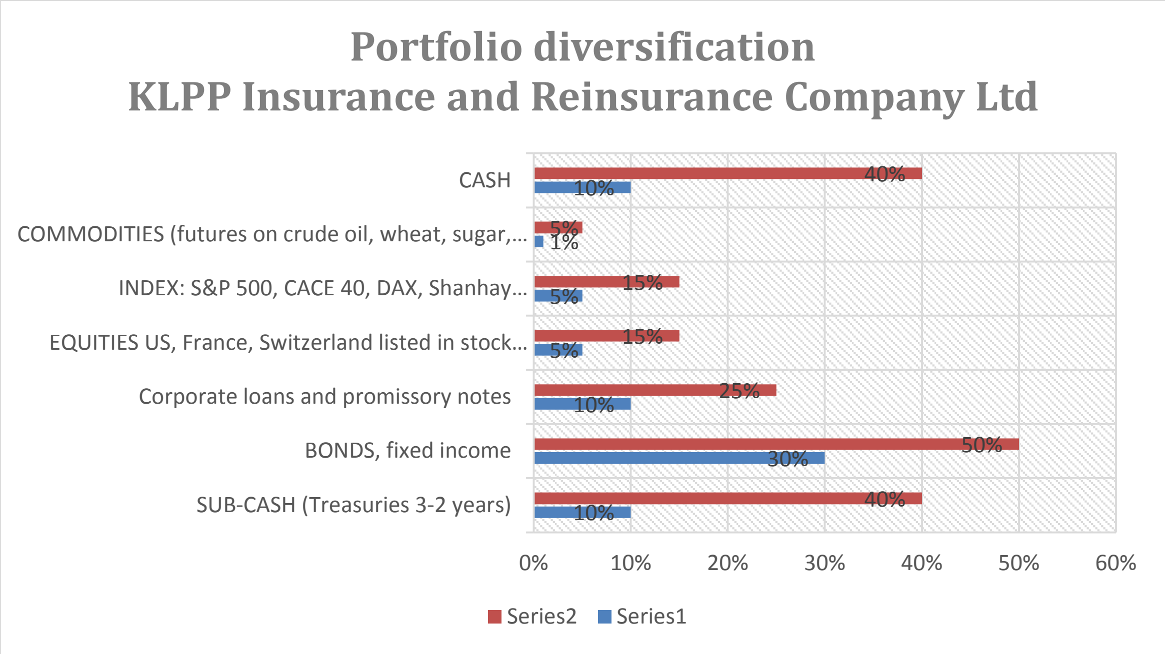
It is not anticipated that the Company enters into any financial or finite reinsurance arrangements or other non-traditional form of reinsurance – it is the intention to maintain traditional facultative reinsurance arrangements over the planning horizon.

C.2 Market risk

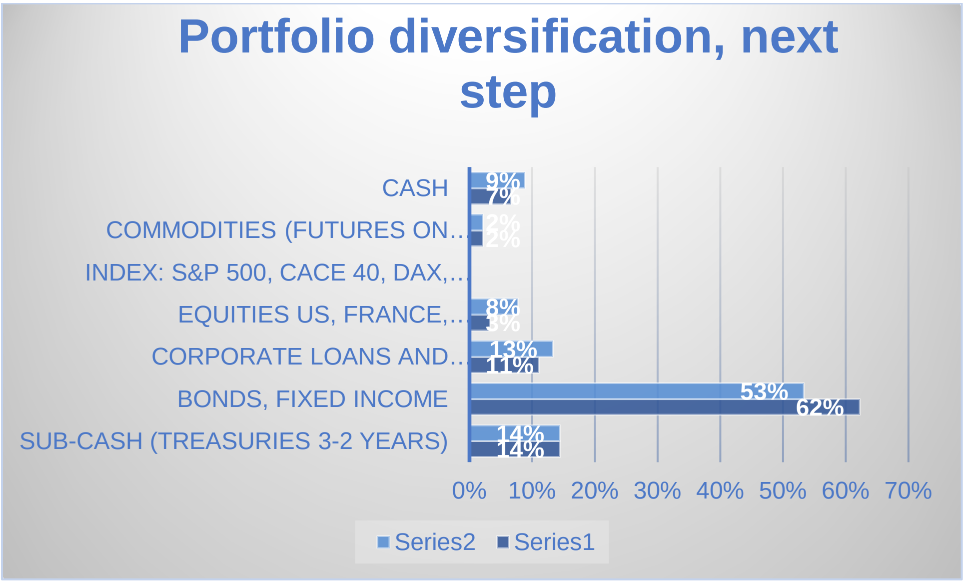
The Company is exposed to market (Investment) risk through its asset portfolio and in particular from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the Company.

Market risk reflects the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the Company.

As at 31/12/2016 the composition of the Asset Portfolio was as follows:



The next step of investment strategy and asset allocation for next years is shown below



KLPP has appetite for investment risk as per its investment strategy, given the large capital base. The investment strategy of the company is based in conservative base - to increase the profit, and maximum low down potential losses, and it gives answers to each one of the investment risks named above. The principals of investment strategy in concentration risk, is to diversify type of investments, using different instruments given preference to most liquid.

All securities, except corporate loans are listed in stock exchanges and have investment grade rating.

- Cash – preference to the treasuries

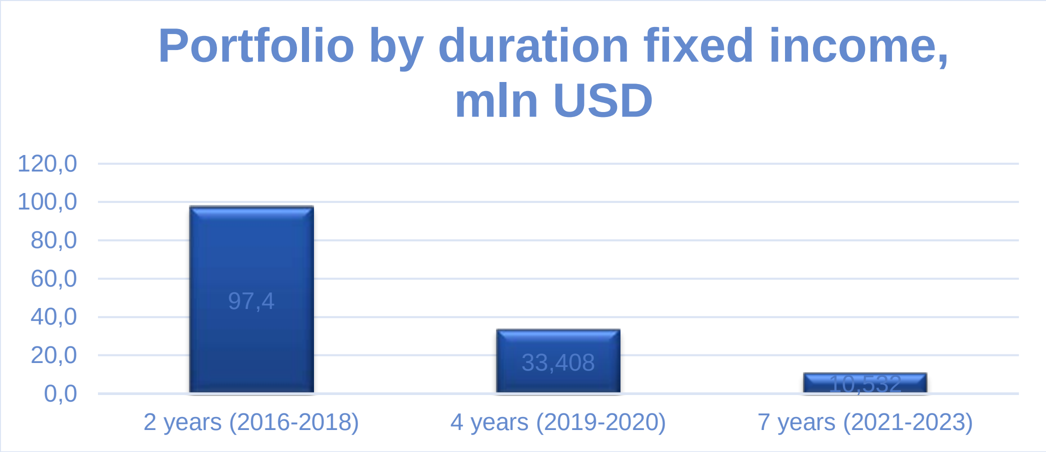
- Bonds – corporate eminent, only Senior bonds, preference to Russian strategic banks Sberbank, Alpha Bank, VEB, with average duration 2-6 years, which are the base of financial system. In regards of corporate emitents – only the leaders of Russian economy allowed- Nornikel, Severstal, Alrosa, Vimpelcom, EVRAZ, RZD, Novatek, Gazprom average duration 2 years,
- Securities – only listed in stock exchange, mostly of US banks and corporates and index – S&P 500, CACE 40, DAX, NIKKEY-225, Shanhasy COMPOSITE, RTS
- Commodities- only high liquid, stock listed – gold, silver, coffee, crude oil, wheat, cuprum, nikel.

In order to diversify portfolio the frame for each issuer of securities not more than 2-4%, in other asset in portfolio not more than not more than 3% on each issuer.

In regards of Cash (current accounts) Company doesn't enter to deposit with the banks giving preferences to US Treasury Bills, which gives stable interest rate and have high liquidity.

Risk appetite framework for counterparty risk is resolving for the system of accessing of relationships with each counterparty. The Banks and financial institutions relationships are framed through the system of credit rating monitoring, analyse of their financial statements on day to-day base – our counterparties in financial activity has an obligation to provide us on regular basis their financial statements UBS, Barclays, Ronin Europe Ltd, analyse of information opened from different source starting from Bloomberg system and including news messages. All securities, bonds and commodities, are accepting only if they are listed in EU, US stock exchanges, but simultaneously system of requirements includes rating of credit agency of issue, interest rate, analyze of position on day to day basis, and financial statements issue analytic. The alternative – investments in controlled instruments – through corporate instruments (Board of Directors, ownership rights). Currency risk is managed through diversification of currencies. Investments in development are acceptable in case if risks under these projects do not take more than 10- 15% of own funds of the company.

At the same time company has established an internal system of controls on investment strategy realization – terms limits and CDS restriction. Finally, the portfolio of the company is balanced in regards of the terms of maturity.



Portfolio by duration	mln USD, market value	Share in portfolio	CDS min	CDS max	CDS min mln USD	CDS max mln USD	CDS min % of losses of portfolio	CDS max % of losses of portfolio
2 years (2016-2018)	97,4	32,65%	1%	1,80%	0,97	1,75		
4 years (2019-2020)	33,408	11,20%	1,60%	3%	0,53	1,00	0,59%	1,05%
7 years (2021-2023)	10,532	3,53%	2,50%	3,50%	0,26	0,37		
	141,307	298,25			1,77	3,12		

The investment strategy is based on conservative platform, and it's main frame is not acceptable of the risk in case it doesn't pass through the system of managing risks, at the same time giving regular profit which is acceptable by shareholders.

C.2.1 *Risk Assessment/Measurement*

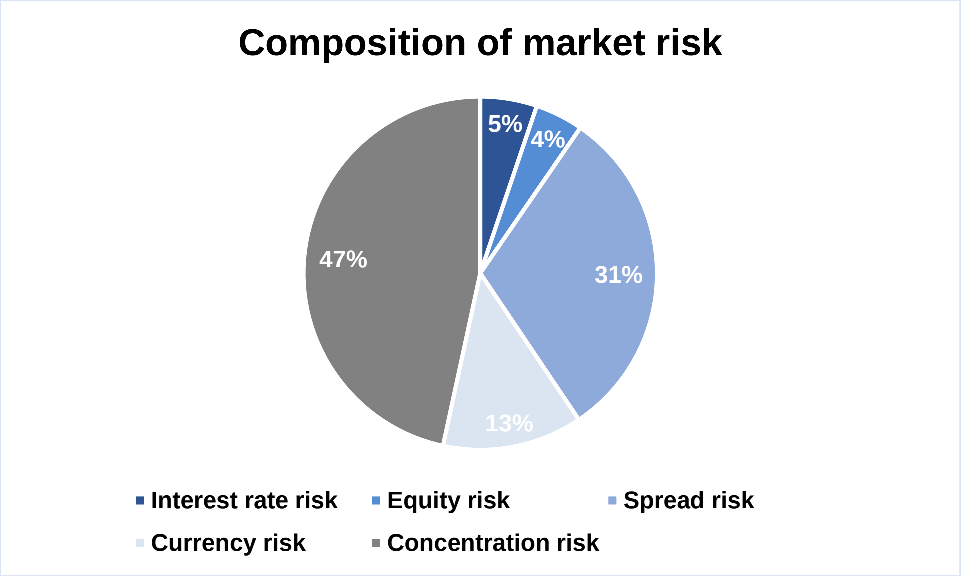
KLPP measures its market risk using the standard formula, the adequacy of which was assessed during the latest ORSA. The measurement is done separately for the sub-categories mentioned above. Then the aggregate marker risk measure allows for diversification between its components.

KLPP also adopts other risk assessment tools such as stress and scenario testing (both on the current position and over the business planning horizon), maintenance of a risk register, comparison of actual exposure and risk tolerance limits and use of Key Risk Indicators.

Over the business planning horizon, KLPP expects its own funds to increase materially as business is written on profitable terms. Inevitably, the higher capital base will introduce additional market risk.

With the support of the RMF, the Company assesses the impact of any material investment decisions on its solvency coverage ratio.

The composition of the investment risk portfolio of KLPP is as follows:



The total market risk SCR as at 31.12.2016 was 20 982 242 USD.

C.2.2 *Risk Concentrations*

Overall the investment portfolio meets the diversification requirements as specified in the company's investment policy and no material concentrations is observed to a particular instrument or counterparty.

C.2.3 *Risk Mitigation*

Market risk is mitigated through the investment policy adopted by KLPP which safeguards limited exposure to risky asset classes and minimum diversification limits.

The Managing Committee reviews investment related information regularly to ensure that the portfolio is invested in line with the investment guidelines and the risk appetite of the company. Furthermore, external financial advisors are appointed to provide independent investment advice.

The continued effectiveness of the risk mitigation techniques and controls is monitored through the Managing Committee and additional oversight is provided by the Board of Directors.

C.2.4 *Investment Management and Prudent Person Principle*

KLPP manages its investments in a prudent manner and in accordance with "The Prudent Person Principle". As previously mentioned the company has set in place tolerance limits with regard to the underlying risk of its asset portfolio which work to control the risk profile of the portfolio in relation to diversification, liquidity, volatility and matching to the liabilities in terms of nature currency and duration.

The performance and risk profile of the investment portfolio is monitored on a quarterly basis through a set of predefined metrics and is discussed at the BoD.

Further information about the investment management process

The Investment strategy was implemented by KLPP directly as well as through two wholly owned subsidiaries: Arcanis Holdings Management Limited and Malastare Holdings Management Limited. These legal entities have current accounts with UBS AG Switzerland, Barclays London and PPF Czech Republic. They operate through three brokers – Ronin Europe Limited, UBS and Barclays. This arrangement has been changed following the dissolution of the two subsidiaries and the decision for setting up of SICAV SIF Luxembourg.

The Grand Duchy of Luxembourg was considered by KLPP to be the most beneficial place for the setting up of its investment management activity for the reasons described below:

It is the largest investment fund centre in Europe with over EUR 3 741.330 billion[2] in net asset under management and the second largest fund centre in the world after the United States of America.

Luxembourg is also the platform of choice for asset management of holdings and companies seeking to distribute their funds internationally, as well as the acknowledged global leaders in Undertakings for Collective Investment in Transferable Securities (UCITS) investment funds marketable to retail and institutional investors in Europe, Asia, Latin America and the Middle East.

As the major centre for alternative asset classes, the Grand Duchy of Luxembourg has established investment structures for all the main alternative classes and was a first mover in the new alternative investment fund management directive (the AIFMD) framework. The AIFMD allows compliant asset managers to distribute the parts of the alternative investment funds under management to professional investors across the entire European market.

Furthermore, the Grand Duchy of Luxembourg offers a complete range of structures and special purpose vehicles for investment funds that are subject to different levels of regulation. The choice of a structure is generally driven by the investment policy and the distribution.

The Grand Duchy of Luxembourg is an AAA-jurisdiction with a stable outlook (as per Standard & Poor's credit rating)[3], fully compliant with European Union financial legislation, which allows at the same time to distribute funds worldwide.

In addition to the general considerations mentioned above, please find the key reasons of our choice outlined as follows:

- social and political stability based on a long tradition;
- high-rated and transparent jurisdiction;
- a modern legal and regulatory framework that is continuously updated, thanks to an ongoing cooperation between the government, the legislator and the private sector;
- a strong culture of investor protection and rigorous anti-money-laundering policies;

[2] http://www.alfi.lu/sites/alfi.lu/files/files/Statistics/Luxembourg/ouverture_section_statistique_chiffres_du_mois.pdf

[3] Moody's credit rating for Luxembourg was last set at Aaa with stable outlook. Fitch's credit rating for Luxembourg was last reported at AAA with stable outlook.

- attractive tax environment; and
- access to a highly-qualified and multilingual workforce, and subcontractors in financial markets.

- Access to the "club" of privileged corporate client base in insurance and reinsurance activity

The jurisdiction of the Grand Duchy of Luxembourg has thus become a jurisdiction of choice for European Insurance Company investment activities due to its transparency, its high-rating , sourse and give access (i) to wide-spread bank system (ii) as well as to cheap financing (incorporation in a high level jurisdiction together with a regulated position) which will give additional possibilities in trading credits and low rates bonds (notes).

In addition, the Luxembourg, as a jurisdiction, will meet the Cypriot insurance regulatory requirements with respect to the quality of insurance investments in compliance with the implementation of the directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) requirements.

C.3 Credit risk

Credit risk is the risk of loss or adverse changes in the Company's financial position due to fluctuations in the credit standing of issuers of securities, counterparties or any other debtors, including risk of loss arising from the Company's inability to collect funds from debtors.

The Company manages its credit risk by prescribing minimum requirements for its distribution channels and fronters as well as reinsurers and retrocessionaries and by ensuring an adequate level of diversification in its investment portfolio.

In managing its credit risk, the Company places a high value on the financial rating awarded to its counterparties by the main rating agencies (Moody's, Standard and Poor's and Fitch), since such ratings are recognised worldwide as the benchmark for assessing a counterparty's financial strength. In fact, as far as reasonably possible, the Company's seeks to ensure that its fronters and retrocessionaires have a minimum rating of B+ or equivalent. Moreover, only investment grade bonds are included in the Company's investment portfolio.

Credit risk is the second largest risk exposure of the Company. This arises primarily from exposures to banks through deposits and cash.

C.4 Liquidity risk

Liquidity risk refers to the inability to realise investments and other assets in order to settle financial obligations when they fall due, in other words, it refers to the availability of funds or certainty that funds will be available without significant losses, to honour all cash outflow commitments as they fall due.

The Company's cash inflow is generated from premium income and reinsurance / retrocession recoveries, together with the returns on, and expiration of, investments. Cash outflows consist mainly of claim payments and retrocession premium, together with a relatively small volume of administration expenses.

The Company minimizes liquidity risk by:

- designing and implementing proper controls to ensure that inflows are actively managed, monitored and followed up
- ensuring that income generated from the investment portfolio is duly received by the Company
- requiring that the investments comprise solely of listed instruments and that a certain proportion of the investments are made up of highly liquid assets
- catering for unexpected cash flows
- considering the effect of any proposed new business on liquidity and liquidity risk at Board level

The Company does not have any expected profits included in future premiums

C.5 Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events. This risk encompasses all exposures faced by the Company's functions in the course of conducting the Company's business, including but not limited to, accounting and financial reporting, business continuity, claims management, information technology and data processing, legal and regulatory compliance, outsourcing and retrocession.

The Company addresses operational risk through the following measures:

- an Operational Risk Policy is in place to ensure that operational risks are properly identified, recorded, addressed and controlled.
- an Outsourcing Policy is in place to minimize the operational risks that result from outsourcing.
- an internal control system is in place, mainly to ensure that the four-eyes principle is always adhered to
- A business continuity plan and a procedure manual are in place to ensure continuity and regularity in the performance of activities.

C.6 Other material risks

The Company is not exposed to any other material risks, other than those described above.

D. Valuation for solvency purposes

D.1 Assets

All assets and liabilities, listed in the Table below are valued in accordance with the Solvency II Framework. Assets and liabilities are valued on the assumption that the Company will pursue the business as a going concern. No changes in the valuations methods occurred during the year under review.

The Company does not have any intangible assets or off-balance sheet assets or liabilities.

	Solvency II Valuation	IFRS Valuation
Assets	**2016**	**2016**
Investments	13,4345,650	13,4345,650
Deferred Tax Asset	-	-
Loans and Mortgages	47,728,930	47,728,930
Property, plant & equipment held for own use	38,526	38,526
Premiums Receivable	36,083	36,083
Cash & Cash Equivalent	124,538,966	124,538,966
Other Assets	2,232,897	2,232,897
Total Assets	**308,921,053**	**308,921,053**

D.1.1 *Description of bases, methods and main assumption used for valuation for solvency purposes*

Investments

The fair value of quoted financial assets is based on quoted market prices at the end of the reporting period. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

D.1.2 *Differences between IFRS and Solvency II valuation*

As at 31.12.2016, the value of the assets used for the solvency calculation was the same as that shown in the Financial Statements.

D.2 Technical Provisions

The value of the Company's technical provisions is equal to the sum of the best estimate and the risk margin, which are calculated separately. The table below shows the value of technical provisions as at 31 December 2016.

$	CLAIMS PROVISION		PREMIUM PROVISION		RISK MARGIN
LINE OF BUSINESS	GROSS BE	RI RECOVERABLE	GROSS BE	RI RECOVERABLE	
Proportional RI Marine, aviation and transport insurance	-	-	-	-	-
Proportional RI Fire and other damage to property insurance	-	-	2,627	-	1,516
Proportional RI General liability insurance	-	-	747	-	431
Marine, aviation and transport insurance	-	-	807	-	466
Fire and other damage to property insurance	-	-	235	-	136
General liability insurance	-	-	403,805	-	233,018
Non-proportional RI Property	-	-	15,944	-	9,201
Total	**-**	**-**	**424,165**	**-**	**244,767**

The total technical provisions as at 31.12.2016 amounted to 668 932 USD.

D.2.1 Methodology

In 2016, the methodology for the calculation of technical provisions was in accordance with the Solvency II framework. The following principles underlie the calculation of the best estimate:-

- The best estimate is generally calculated separately for each insurance contract in place at the valuation date.
- The best estimate for claims outstanding is valued separately from the best estimate of premium provisions. The premium provisions relate to future claim events covered by insurance obligations falling within the contract boundary. The provisions for claims outstanding relate to claim events that have already occurred, regardless of whether the claims arising from these events have been reported or not.
- The best estimate corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money, using the risk-free interest rate term structure prescribed by EIOPA for the valuation date.
- The estimated future cash flows take account of all the cash inflows and outflows that are expected to be required to settle the reinsurance obligations over the lifetime thereof, including expenses expected to be incurred in servicing the reinsurance obligations. The Company's reinsurance obligations do not include any guarantees.
- The estimates take account of the uncertainties surrounding the cash flow projections.
- The projected future cash flows are based on the actuarial function's expectations regarding the future cash flows that are expected to arise from the underlying insurance contracts.
- The best estimate is calculated on a gross basis i.e. without deduction of the amounts recoverable from reinsurance contracts

The risk margin is designed to ensure that the value of technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the Company's reinsurance obligations. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the

Company's reinsurance obligations over the lifetime thereof. This rate, called Cost-of-Capital rate, is prescribed by EIOPA and currently stands at 6%.

Given the fact that the Company reinsures risks and operates a rather simple and stable underwriting portfolio, the Company uses a simplified method to calculate the risk margin. The method used is a combination of Level 2 and Level 3 simplifications as specified in Guideline 61 of the 'Guidelines on the Valuation of Technical Provisions' issued by EIOPA. More specifically, the Company calculates the SCR that arises from its non-life underwriting risk for each future year but uses a proportional method (based on the development of the best estimate technical provisions) to estimate the future SCR for its life and health business. Since the relative sizes of the capital requirement per line of business do not materially change over the lifetime of the business, the risk margin is allocated to the individual lines of business using the simplification outlined in Guideline 63 of the same EIOPA Guidelines.

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

D.2.2 Assumptions

The assumptions used for the calculation of technical provisions are summarised as follows:

The assumptions used in the calculation of the premium provision as at YE2016 were as follows:

Loss Ratio (Claims)	Marine, aviation and transport insurance	25%
	Fire and other damage to property insurance	35%
	General liability insurance	51%
Expense Ratio		20%

D.3 Other Liabilities

	Solvency II Valuation	IFRS Valuation
Liabilities	**2016**	**2016**
Payables (trade, not insurance)	4,906,845	4,906,845
Other Liabilities	3,500,471	3,500,471

D.4 Any other information

Disclosure of any other material information regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

E.1 Own Funds

E.1.1 Objectives, policies and processes employed for managing its own funds

The objective of capital management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management and BoD, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. As part of own funds management, the Company prepares annual solvency projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA, contains a three-year projection of funding requirements and this helps focus actions for future funding.

E.1.2 Information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period

The following table shows the structure of own funds as at 31 December 2016.

Own Funds ($'000s)	Dec-16
Ordinary share capital	9,860,120
Preference shares	
Reconciliation reserve	-66,344
Surplus Funds	290,051,023
An amount equal to the value of net deferred tax assets	
Other Own Funds	
TOTAL BASIC OWN FUNDS	299,844,799

E.1.3 Eligible amount of own funds to cover SCR & MCR

The composition of Own Funds as at 31.12.2016 and the classification into tiers is shown below:

ELIGIBLE OWN FUNDS €'000	TOTAL	TIER 1	TIER 2	TIER 3
Ordinary share capital (net of own shares)	9,860,120	9,860,120		
Surplus Funds	290,051,023	290,051,023		
Preference shares				
Deferred tax assets				
Reconciliation reserve	-66,344	-66,344		
· *Adjustments to assets*				
· *Adjustments to technical provisions*	-66,344	-66,344		
Other own funds not specified above				
TOTAL ELIGIBLE OWN FUNDS	299,844,799	299,844,799		

All of the above own funds items are eligible to cover the SCR.

E.1.4 *Material terms and conditions of the main items of own funds held by the undertaking*

As shown above, own funds are mostly composed of Tier 1 ordinary share capital and retained profits and this is not expected to change over the projection horizon. Consequently, these own funds items have no maturity or call dates and therefore their duration expands beyond the duration of liabilities

E.1.5 *IFRS Equity vs Own Funds*

The following summary table shows the comparisons and movement in the IFRS and Solvency II valuation of assets, liabilities and Own Funds.

($)	IFRS	SOLVENCY II	MOVEMENT
Total Assets	308,921,053	308,921,053	
Total Liabilities	9,009,909	9,076,253	66,344
Total Own Funds	**299,911,143**	**299,844,799**	66,344

- The movement in the valuation of assets and liabilities arises from the differences in the valuation of IFRS and Solvency II standards, in the gross technical provisions (as explained in the previous section).

E.1.6 *The expected developments of the undertaking's own funds over its business planning period*

The development of own funds over KLPP's business planning period based on the most recent ORSA projections are summarised in the table below in $'000s.

ELIGIBLE OWN FUNDS TO MEET SCR	YE2016[4]	YE2017	YE2018
Tier 1 - unrestricted	298,133	307,307	317,012
Tier 1 - restricted			
Tier 2			
Tier 3			
TOTAL	**298,133**	**307,307**	**317,012**

E.1.7 *Whether there is any intention to repay or redeem any own-fund item*

There is no intention to repay or redeem any own-fund item.

[4] This amount shown is the forecast for YE2016 in the ORSA for comparison purposes with the following years. The actual own funds as at YE2016 were higher.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Amounts of SCR and MCR

As at 31 December 2016 the SCR of KLPP was calculated at $33,451K and the MCR at $8,363K.

E.2.2 Breakdown of SCR by risk modules

The following table shows the SCR split by risk modules:

SOLVENCY CAPITAL REQUIREMENT	USD ’000s
Market risk	20,982
Counterparty default risk	18,610
Life Underwriting risks	-
Health underwriting risk	
Non-Life underwriting risk	4,099
Sum of risk components	**43,702**
Diversification effects	*10,264*
Diversified risk	**33,438**
Intangible asset risk	
Basic SCR	33,438
Operational risk	13
Adjustments	-
SCR	33,451

E.2.3 Simplifications

No simplifications have been used for any of the modules or sub-modules of the SCR.

E.2.4 Undertaking-specific parameters

KLPP has not used undertaking-specific parameters for any of the parameters of the standard formula.

E.2.5 Information on the inputs used to calculate the MCR

The inputs used in the calculation of the MCR are presented in the table below:

MINIMUM CAPITAL REQUIREMENT	USD’000s
Linear MCR	130
SCR	33,451
MCR cap	15,053
MCR floor	8,363
Combined MCR	8,363
Absolute floor of the MCR	3,893
MCR	**8,363**

E.2.6 *The expected development of the undertaking's SCR and MCR over the business planning period*

The table below shows the forward-looking figures for the SCR over the business planning horizon. The figures below are in USD '000s.

SOLVENCY CAPITAL REQUIREMENT	YE2016[5]	YE2017	YE2018
Market risk	23,083	24,683	25,976
Counterparty default risk	21,431	21,482	21,526
Life Underwriting risks	0	0	0
Health underwriting risk	5	8	17
Non-Life underwriting risk	1,608	1,704	1,890
Sum of risk components	46,126	47,877	49,410
Diversification effects	-10,138	-10,506	-10,849
Diversified risk	35,988	37,371	38,561
Intangible asset risk	-	-	-
Basic SCR	**35,988**	**37,371**	**38,561**
Operational risk	11	20	49
Adjustments	-	-	-
SCR	**35,999**	**37,391**	**38,610**
Eligible own funds	298,133	307,307	317,012
Solvency ratio	**828%**	**822%**	**821%**

The figures above demonstrate that over the business planning horizon, KLPP expects its levels of capital adequacy to remain at the same strong levels as its current position.

Finally, the MCR is expected to remain at the same levels over the business planning horizon.

E.3 Non-compliance with the MCR and non-compliance with the SCR

E.3.1 *Non-compliance with the MCR & SCR*

KLPP has been continuously compliant with the both the MCR and the SCR throughout the year.

E.3.2 *Any reasonably foreseeable risk of non-compliance with the MCR or SCR*

Based on the projections of the solvency position performed as part of the ORSA and on the resilience the Company has shown to the stress tests performed, there is no reasonably foreseeable risk of non-compliance with the MCR or SCR.

[5] The figures shown as YE2016 were the ones used in ORSA which were before the accounts were finalised and audited. The final YE2016 solvency position was higher.

E.3.3 Plans to ensure compliance with SCR and MCR is maintained

KLPP will closely monitor actual experience compared to what was assumed in the ORSA projections. Should any material deviation occur, an investigation will take place to identify the underlying source and take corrective actions.

Moreover, ORSA projections will continue to be performed every year so as to ensure each and every year that the business strategy of the Company will be in line with its target solvency ratio.

Despite being sufficiently capitalised (based on the above projections), a medium-term capital management plan has been developed which includes realistic plans as to how to raise additional capital if and when required.

Appendix A: Quantitative Reporting Templates

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Intangible assets	**R0030**	-
Deferred tax assets	**R0040**	-
Pension benefit surplus	**R0050**	-
Property, plant & equipment held for own use	**R0060**	38 526
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	134 345 650
Property (other than for own use)	**R0080**	-
Holdings in related undertakings, including participations	**R0090**	1 666 590
Equities	**R0100**	1 447 459
Equities - listed	**R0110**	1 447 459
Equities - unlisted	**R0120**	-
Bonds	**R0130**	130 870 659
Government Bonds	**R0140**	25 244 479
Corporate Bonds	**R0150**	105 626 180
Structured notes	**R0160**	-
Collateralised securities	**R0170**	-
Collective Investments Undertakings	**R0180**	-
Derivatives	**R0190**	-
Deposits other than cash equivalents	**R0200**	-
Other investments	**R0210**	360 942
Assets held for index-linked and unit-linked contracts	**R0220**	-
Loans and mortgages	**R0230**	47 728 930
Loans on policies	**R0240**	-
Loans and mortgages to individuals	**R0250**	-
Other loans and mortgages	**R0260**	47 728 930
Reinsurance recoverables from:	**R0270**	-
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**	-
Health similar to life	**R0320**	-
Life excluding health and index-linked and unit-linked	**R0330**	-
Life index-linked and unit-linked	**R0340**	-
Deposits to cedants	**R0350**	-
Insurance and intermediaries receivables	**R0360**	36 083
Reinsurance receivables	**R0370**	-
Receivables (trade, not insurance)	**R0380**	-
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**	124 538 966
Any other assets, not elsewhere shown	**R0420**	2 232 897
Total assets	**R0500**	308 921 053

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	668 932
Technical provisions – non-life (excluding health)	**R0520**	668 932
Technical provisions calculated as a whole	**R0530**	-
Best Estimate	**R0540**	424 165
Risk margin	**R0550**	244 767
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**	-
Technical provisions calculated as a whole	**R0700**	-
Best Estimate	**R0710**	-
Risk margin	**R0720**	-
Contingent liabilities	**R0740**	-
Provisions other than technical provisions	**R0750**	-
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**	-
Reinsurance payables	**R0830**	-
Payables (trade, not insurance)	**R0840**	4 906 845
Subordinated liabilities	**R0850**	-
Subordinated liabilities not in Basic Own Funds	**R0860**	-
Subordinated liabilities in Basic Own Funds	**R0870**	-
Any other liabilities, not elsewhere shown	**R0880**	3 500 471
Total liabilities	**R0900**	9 076 248
Excess of assets over liabilities	**R1000**	299 844 805

Annex I

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**												Line of Business for: **accepted non-proportional reinsurance**				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**						2 115	3 955	595 112									601 182
Gross - Proportional reinsurance accepted	**R0120**						-	9 341	1 250									10 591
Gross - Non-proportional reinsurance accepted	**R0130**																38 249	38 249
Reinsurers' share	**R0140**																	-
Net	**R0200**						2 115	13 296	596 362								38 249	650 021
Premiums earned																		
Gross - Direct Business	**R0210**						372	3 535	29 075									32 982
Gross - Proportional reinsurance accepted	**R0220**						-	4 607	198									4 804
Gross - Non-proportional reinsurance accepted	**R0230**																9 641	9 641
Reinsurers' share	**R0240**																	-
Net	**R0300**						372	8 142	29 273								9 641	47 428
Claims incurred																		
Gross - Direct Business	**R0310**																	
Gross - Proportional reinsurance accepted	**R0320**																	
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**																	
Net	**R0400**																	
Changes in other technical provisions																		
Gross - Direct Business	**R0410**																	
Gross - Proportional reinsurance accepted	**R0420**																	
Gross - Non- proportional reinsurance accepted	**R0430**																	
Reinsurers' share	**R0440**																	
Net	**R0500**																	
Expenses incurred	**R0550**						1 772	11 140	499 651								32 046	544 609
Other expenses	**R1200**																	
Total expenses	**R1300**																	544 609

		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**
Premiums written										
Gross	**R1410**									
Reinsurers' share	**R1420**									
Net	**R1500**									
Premiums earned										
Gross	**R1510**									
Reinsurers' share	**R1520**									
Net	**R1600**									
Claims incurred										
Gross	**R1610**									
Reinsurers' share	**R1620**									
Net	**R1700**									
Changes in other technical provisions										
Gross	**R1710**									
Reinsurers' share	**R1720**									
Net	**R1800**									
Expenses incurred	**R1900**									
Other expenses	**R2500**									
Total expenses	**R2600**									

Annex I
S.05.02.01
Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110	601 182						601 182
Gross - Proportional reinsurance accepted	R0120	10 591						10 591
Gross - Non-proportional reinsurance accepted	R0130	38 249						38 249
Reinsurers' share	R0140	-						-
Net	R0200	650 021						650 021
Premiums earned								
Gross - Direct Business	R0210	32 982						32 982
Gross - Proportional reinsurance accepted	R0220	4 846						4 846
Gross - Non-proportional reinsurance accepted	R0230	9 743						9 743
Reinsurers' share	R0240	-						-
Net	R0300	47 571						47 571
Claims incurred								
Gross - Direct Business	R0310							
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340							
Net	R0400							
Changes in other technical provisions								
Gross - Direct Business	R0410							
Gross - Proportional reinsurance accepted	R0420							
Gross - Non- proportional reinsurance accepted	R0430							
Reinsurers' share	R0440							
Net	R0500							
Expenses incurred	R0550	544 609						544 609
Other expenses	R1200							-
Total expenses	R1300							544 609

Annex I
S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
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	**R0050**																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	**R0060**						807	2 862	404 552								15 944	424 165
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**																	
Net Best Estimate of Premium Provisions	**R0150**						807	2 862	404 552									424 165
Claims provisions																		
Gross	**R0160**																	
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**																	
Net Best Estimate of Claims Provisions	**R0250**																	
Total Best estimate - gross	**R0260**						807	2 862	404 552									424 165
Total Best estimate - net	**R0270**						807	2 862	404 552									424 165
Risk margin	**R0280**						466	1 652	233 449									244 767
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	**R0290**																	
Best estimate	**R0300**																	
Risk margin	**R0310**																	
Technical provisions - total																		
Technical provisions - total	**R0320**						1 272	4 514	638 002									668 932
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**																	-
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**						1 272	4 514	638 002									668 932

Annex I
S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	9 860 120	9 860 120			
Share premium account related to ordinary share capital	**R0030**					
Iinitial 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**	290 051 023	290 051 023			
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	- 66 339	- 66 339			
Subordinated liabilities	**R0140**					
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**	299 844 805	299 844 805			
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**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	299 844 805	299 844 805			
Total available own funds to meet the MCR	**R0510**	299 844 805	299 844 805			
Total eligible own funds to meet the SCR	**R0540**	299 844 805	299 844 805			
Total eligible own funds to meet the MCR	**R0550**	299 844 805	299 844 805			
SCR	**R0580**	33 451 143				
MCR	**R0600**	8 362 786				
Ratio of Eligible own funds to SCR	**R0620**	896%				
Ratio of Eligible own funds to MCR	**R0640**	3585%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	299 844 805	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	299 911 144	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	- 66 339	
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**		

Annex I
S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	20 982 242		
Counterparty default risk	R0020	18 610 028		
Life underwriting risk	R0030			
Health underwriting risk	R0040	10 800		
Non-life underwriting risk	R0050	4 098 968		
Diversification	R0060	- 10 263 620		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	33 438 418		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	12 725
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	33 451 143
Capital add-on already set	R0210	
Solvency capital requirement	R0220	33 451 143
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 Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Annex I
S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	**R0010**	130 485

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
Medical expense insurance and proportional reinsurance	**R0020**		
Income protection insurance and proportional reinsurance	**R0030**		
Workers' compensation insurance and proportional reinsurance	**R0040**		
Motor vehicle liability insurance and proportional reinsurance	**R0050**		
Other motor insurance and proportional reinsurance	**R0060**		
Marine, aviation and transport insurance and proportional reinsurance	**R0070**	807	2 115
Fire and other damage to property insurance and proportional reinsurance	**R0080**	2 862	13 296
General liability insurance and proportional reinsurance	**R0090**	404 552	596 362
Credit and suretyship insurance and proportional reinsurance	**R0100**		
Legal expenses insurance and proportional reinsurance	**R0110**		
Assistance and proportional reinsurance	**R0120**		
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**		
Non-proportional health reinsurance	**R0140**		
Non-proportional casualty reinsurance	**R0150**		
Non-proportional marine, aviation and transport reinsurance	**R0160**		
Non-proportional property reinsurance	**R0170**	15943,53	38248,5442

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	**R0200**	

		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**		
Other life (re)insurance and health (re)insurance obligations	**R0240**		
Total capital at risk for all life (re)insurance obligations	**R0250**		

Overall MCR calculation

		C0070
Linear MCR	**R0300**	130 485
SCR	**R0310**	33 451 143
MCR cap	**R0320**	15 053 014
MCR floor	**R0330**	8 362 786
Combined MCR	**R0340**	8 362 786
Absolute floor of the MCR	**R0350**	3 893 098
		C0070
Minimum Capital Requirement	**R0400**	8 362 786