S C H E D U L E

Part D Part 3

ABSTRACT OF THE VALUATION REPORT PREPARED BY THE APPOINTED ACTUARY

The following information must be provided in the abstract of the report required under Insurance Rule 12 of 2007, the answers being numbered to accord with the numbers of the corresponding paragraphs of this Abstract. For the purposes of this Abstract, the “report period” means the period from the date to which the previous investigation related to the ‘valuation date’ (as defined in 1).

1. Introduction

(1) The date to which the actuarial investigation relates, namely, the **valuation date**.

(2) The previous valuation.

(3) The dates of any interim valuations carried out since the previous ‘valuation date’.

2. Product range

Any significant changes in products during the financial year (new products, new bonus series, products withdrawn, changes to options or guarantees under existing products), including product brand names and charging methods, but not the amounts of the charges where these form part of the product terms.

3. Discretionary charges and benefits

(1) For each product where the insurer has the option to apply a market value reduction (or equivalent), a statement of the period when this has been applied during the year and a summary of the policy years of entry to which it applied.

(2) Any changes to premiums on reviewable protection policies, including for each product affected, the range of the changes (x% to y%), the amount of business affected by a change, and the amount of business where a change was permitted but did not occur at this review date.

(3) For non-profit deposit administration benefits, the interest rate added during the year.

(4) For service charges on linked policies, the percentage changes to service charges for in force policies.

(5) For benefit charges on linked policies, any changes to benefit charges (mortality, morbidity, etc) on linked policies, including for each product affected the range of the changes (x% to y%), and the amount of business affected by the change.

(6) Any changes to unit management charges or notional charges to accumulating with-profits policies, and the amount of business affected by the change.

(7) For unit pricing of internal linked funds:

a) a description of the methods, and the types of unit to which each applies, used for:

i) the creation and cancellation of units in internal linked funds, and

ii) determining unit prices for the allocation of units to, and the de-allocation of units from, policies

including information on:

iii) the basis of the valuation of assets and how the basis is selected (for example, offer basis for net creations of units and bid basis for net cancellations), and

iv) the timing of the asset valuation used in respect of such operations in relation to the time at which the operation is decided upon and effected;

b) when at any one time different pricing bases apply to different policies, details of the circumstances which give rise to the difference; and

c) where assets are units in collective investment schemes or similar assets, the price used and the relationship between the last opportunity to deal at that price and the time of the valuation.

(8) For tax deductions from internal linked funds, the allowance and timing of withdrawal from the fund for tax on realised and unrealised gains and losses, including notional gains on collective investment schemes, specifying the tax rate used.

(9) For tax provisions for internal linked funds, a description of the methods and the types of unit to which each applies, used to determine the provision for tax on realised and unrealised capital gains and the percentage of these gains deducted or provided for during the report period.

(10) Wherever units are held in an internal linked fund, or where property linked benefits are linked to such units, the rate of discount, commission or other allowance made to the insurer on the purchase, sale or holding of units and the extent to which the policyholder benefits from such discount, commission or other allowance.

4. Valuation basis (other than for special reserves)

Where either the gross mathematical reserves or the gross annual premiums for a group of products using the same valuation method and basis exceed 1% of the total gross mathematical reserves, the method and basis of valuation must be given in accordance with 4(1) to 4(9). Where a prospective method has not been used, the basis reported must be the basis used by the insurer to test the adequacy of the reserves.

(1) The valuation methods used and the types of product to which each method applies, including a description of any non-standard method. See paragraphs 5 to 8 for special reserves.

(2) A table of the interest rates used, showing the product group, the rate used at the end of the financial year in question, and the rate used at the end of the previous financial year. Where the valuation with respect to a product involves more than one interest rate (e.g. a rate in deferment and a rate in possession), both interest rates must be shown.

(3) How the yield was adjusted to allow for risk for equity shares, property and other fixed interest securities to determine the risk adjusted yield in **Form 18 part D part 2**.

(4) A table of mortality bases used, showing the product group and the bases used at the end of the financial year in question and at the end of the previous financial year. If a mortality basis cannot be expressed as a flat percentage of a standard table or as a standard table subject to a flat age rating, then the mortality basis should be shown as 'modified <name of table>'. For assurance where the 'modified table' description is used, rates must be provided for ages 25, 35, 45 and 55. For all annuitant mortality bases covered by this paragraph, the expectation of life at age 65 and 75 for annuities in payment and the expectation of life at age 65 for current ages 45 and 55 for deferred annuities must be provided. Allowances made for future changes in mortality where not implicit in the basis, and details of any allowance made and the amount of any reserve held, for any possible detrimental impact of significant changes in the incidence of disease or developments in medical science on the mortality experience of the insurer assumed in the valuation of the contracts of insurance must be provided.

(5) A table of morbidity bases used, showing the product group and the bases used at the end of the financial year in question and at the end of the previous financial year. If a basis cannot be expressed as a simple modification to a standard table (e.g. flat percentage, age rating), the basis must be shown as ‘modified <name of table>’. Where the 'modified table' description is used the morbidity rates and recovery rates must be provided for ages 25, 35, 45 and 55. Inception and recovery rates for income protection business are only required for the most common deferred period in the firm's business and for occupation class 1. The deferred period must be stated. Recovery rates must be provided at durations of 2 and 5 years. Allowances made for future changes in morbidity, and details of any allowance made and the amount of any reserve held, for any possible detrimental impact of significant changes in the incidence of disease or developments in medical science on the morbidity experience of the insurer assumed in the valuation of the contracts of insurance must be provided.

(6) A table of expense bases used, showing the product group, the basis for the financial year in question, and the basis for the previous financial year. The table must show zillmer adjustments, expense assumptions for prospective methods where no further premiums are payable, expense assumptions for gross premium valuations of with-profits and non-profit premium paying business and expense assumptions for non-unit liability calculations for linked business, identifying monetary amounts and the percentages of premiums. The

table must show the unit growth rates for gross and net linked business before management charges and the inflation rates assumed for future expenses and future increases in policy charges. For non-unit liability calculations, the expense bases must be shown only for the main products (e.g. life regular premium, life single premium, pensions regular premium, and pensions single premium).

(7) Future bonus rates for gross premium valuations of with-profits business and for valuations of unitised with-profits business.

(8) Any other material basis assumptions not stated elsewhere (e.g. persistency).

(9) How the valuation of liabilities allowed for derivative contracts (or contracts or assets having the effect of derivative contracts). Derivatives held in connection with options or guarantees must be included in 5. If the valuation does not correspond to the **Form 9** presentation, an explanation and reconciliation must be provided. A statement of how any out-of-the-money derivatives have been used to back liabilities must be provided.

5. Options and guarantees

Where the basic reserve exceeds 1% of the total gross mathematical reserves, the methods and bases used for the calculation of the reserves options and guarantees must be given in accordance with 5(1) to 5(4). The bases must include the assumptions for the take-up of the options and guarantees. For the purposes of 5, guarantees do not include those which have already been explicitly valued (e.g. the guaranteed sum assured on endowment contracts).

(1) Guaranteed annuity rate options (where the ‘asset share’ or amount of benefit may be converted, at the option of the policyholder from cash to annuity at a guaranteed rate), including:

a) a description of the method used; and

b) a table showing:
   i) product name,
   ii) basic reserve,
   iii) spread of outstanding durations,
   iv) guarantee reserve,

v) guaranteed annuity rate (expressed as a percentage of the cash sum for a male age 65). If there are categories of business with guaranteed annuity rates differing by more than one percentage point, these categories must be shown separately,
vi) whether policyholders may make increments to the policy
vii) form of the annuity (e.g. yearly in arrears, single or joint life, and so on), and
viii) retirement ages.

(2) Guaranteed surrender and unit-linked maturity values, including:

a) a description of the method and basis used; and

b) a table showing:
i) product name,
ii) basic reserve,
iii) spread of outstanding durations,
iv) guarantee reserve,
v) guaranteed amount,
vi) MVA free conditions
vii) in force premiums, and
viii) whether policyholders may make increments to the policy.

(3) Guaranteed insurability options, including:

a) a description of the method and basis used; and

b) for conversion and renewal options where the total sum assured exceeds €1b a table showing:
i) product name,
ii) in force premiums,
iii) sum assured,
iv) description of the option, and
v) guarantee reserve.

(4) The nature of any other guarantees and options, including a description of the method and basis used, the amount of business (premium, sum assured or reserve), and the amount of additional reserve.

6. Expense reserves

(1) The aggregate amount of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 months from the ‘valuation date’ from implicit and explicit reserves made at the ‘valuation date’ to meet expenses in fulfilling contracts in force at the ‘valuation date’, the amounts arising from each of explicit and implicit allowances, the amount of investment expenses and the amount of any other maintenance expenses.

(2) A brief statement of the basis of calculating implicit allowances.

(3) Where the amount of maintenance expenses is significantly different from the maintenance expenses shown at line 4 of **Form 4 part D part 2**, an explanation of this.

(4) New business expense overrun reserve, including the method and basis of calculation (whether or not a reserve is required) in respect of the expenses of continuing to transact new business during the 12 months following the ‘valuation date’ and the amount of the reserve so calculated.

(5) The maintenance expense overrun reserve or, where an explicit reserve has not been made for meeting the expenses likely to be incurred in future in fulfilling the existing contracts on the basis of specific assumptions in regard to the relevant factors, details of the basis used to test the adequacy of the reserves in accordance with Regulation 70 of the Insurance Business (Assets and Liabilities) Regulations, 2007, in either case stating whether redundancy costs or costs of terminating management agreements have been taken into account (with or without stating the amount of such costs).

7. Mismatching reserves

(1) Subject to (2), a table of the sum of the mathematical reserves (other than liabilities for property linked benefits) and the liabilities in respect of the deposits received from reinsurers as shown in **line 10 Form 12B Part C**, analysed by reference to the currencies in which the liabilities are expressed to be payable, together with the value of the assets, analysed by reference to currency, which match the liabilities.

(2) Liabilities totalling up to 2% of the total under (1) may be grouped together as ‘other currencies’, and the assets matching those liabilities are not required to be analysed by reference to currencies as long as the proportion of such liabilities which are matched by assets in the same currency is stated.

(3) The amount of reserve for currency mismatching and a description of the method used to calculate the reserve.

(4) A description of all the scenarios of future changes in the value of assets which have been tested in order to take account of the nature and terms of the assets held in determining the amount of the long term liabilities in accordance with Regulation 74 of the Insurance Business (Assets and Liabilities) Regulations, 2007 identifying that scenario which produces the most onerous requirement (whether or not a reserve is required).

(5) The amount of any reserve made pursuant to Regulation 74(a) of the Insurance Business (Assets and Liabilities) Regulations, 2007, together with a brief description of the method used and assumptions made to calculate any such reserve.

(6) In respect of that scenario described under sub-paragraph (4) which produces the most onerous requirement (whether or not a reserve is thereby required), the amount of any reserve made pursuant to Regulation 74(b) of the Insurance Business (Assets and Liabilities) Regulations, 2007, together with –

a) a description of the changed assumptions made in calculating such requirement;

b) a brief description of the method used to calculate such requirement; and

c) resulting from the application of such changed assumptions –

i) the change in the aggregate amount of the long term liabilities; and

ii) the aggregate amount by which the assets allocated to match such liabilities in the scenario have changed in value from the amount of those assets shown in **Part C Form 7B.**

8. Other special reserves

For other special reserves which exceed 0.1% of total mathematical reserves, the nature and amount of the reserves, including (where the reserve is greater than 0.5% of total mathematical reserves) a description of the method and basis used to calculate each reserve.

9. Reinsurance

(1) For long-term insurance business ceded on a facultative basis to a reinsurer who is not authorised to carry on insurance business in Malta at any time during the report period –

a) the aggregate of premiums payable by the insurer to all such reinsurers (sub-divided according to financial years, if appropriate) and the aggregate amount deposited at the 'valuation date' under any deposit back arrangement; and

b) the amount of any such premiums payable by the insurer to any reinsurer which is a connected company of the insurer and the aggregate amount deposited at the 'valuation date' under any deposit back arrangement.

(2) For each treaty of reinsurance where the insurer is the cedant and under which business is in force at the valuation date, a table showing –

a) the name of the reinsurer;

b) whether the reinsurer is authorised to carry on insurance business in Malta;

c) whether the reinsurer is a connected company of the insurer;

d) an indication of the nature and extent of the cover given under the treaty;

e) the premiums payable by the insurer under the treaty during the report period;

f) the amount deposited at the 'valuation date' in respect of the treaty under any deposit back arrangements;

g) the extent to which provision has been made for any liability of the insurer to refund any amounts of reinsurance commission in the event of lapses or surrender of the contract; and

h) whether the treaty is closed to new business;

(3) For each ‘financing arrangement’ –

a) the amount of any undischarged obligation of the insurer and a brief description of the conditions for the discharge of such obligation; and

b) a description of how, if at all, all such discharged obligations have been taken into account in the valuation.

(4) In this paragraph 9:

a) **deposit back arrangement**, in relation to any contract of reinsurance, means an arrangement whereby an amount is deposited by the reinsurer with the cedant;

b) **financing arrangement** means any contract entered into by the insurer, in respect of contracts of insurance effected by the insurer, which has the effect of increasing the amount of assets included at line 35 (or 51) of Form 14 Part C, representing assets of the insurer which are available to meet its required minimum margin for long term business, and which includes terms for –

(i) the transfer of assets to the insurer, the creation of a debt to the insurer or the transfer of liabilities to policyholders from the insurer (or any combination of these), and

(ii) either an obligation for the insurer to return (with or without interest) some or all of such assets, a provision for the diminution of such debt or a provision for the recapture of such liabilities, in each case, in specified circumstances; and

c) A body corporate and another person are **connected** with each other if –

i) the other person is –

- a subsidiary undertaking of the body corporate;
- a parent undertaking of the body corporate; or
- a subsidiary undertaking of the parent undertaking of the body corporate; or

ii) one of them is controlled by the other or both are controlled by the same person, but a body corporate shall not be taken to be connected with another person if the insurer furnishing the statement does not know and could not upon reasonable enquiry be expected to find that it is so connected with the other person.

iii) A person shall be taken to control a body corporate if he is a person –

- in accordance with whose directions or instructions the directors of the body corporate or of a body corporate of which it is a subsidiary are accustomed to act; or

- who, either alone or with any associate or associates, is entitled to exercise, or control the exercise of, 15 per centum or more of the voting power at any general meeting of the body corporate or of a body corporate of which it is a subsidiary.

In relation to an insurer, a reinsurer shall not be taken to be connected with another reinsurer;

10. Reversionary (or annual) bonus

(1) Where the mathematical reserves under (b) exceed 1% of the total mathematical reserves, a table showing (by bonus series):

a) name of bonus series;
b) amount of mathematical reserves;
c) reversionary bonus rate for the financial year in question;

d) reversionary bonus rate for the preceding financial year; and

e) total guaranteed bonus rate for the financial year in question (whether in the form of a guaranteed cash benefit, guaranteed investment return or reversionary bonus).

(2) For unitised with-profits business, the table under (1) must show the percentage increase in unit price during the year or the equivalent in bonus units added.

(3) For super compound bonuses, the table under (1) must show both rates (e.g., 2%/3% for 2% bonus on the sum assured and 3% bonus on the existing bonus).

(4) For bonus series where bonus rates vary (e.g., by age or term), the table must show an approximate weighted average reversionary bonus and a note must be included stating the factors by which reversionary bonus rates vary. If they vary according to premium paying status, bonus rates must be shown in separate lines.