ALWYN INSURANCE COMPANY LIMITED

2020 SOLVENCY AND FINANCIAL CONDITION REPORT

08 April 2021

SOLVENCY AND FINANCIAL CONDITION REPORT

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SUMMARY

Alwyn Insurance Company Limited ("AICL" or the "Company") is an insurance company licensed by the Financial Services Commission in Gibraltar. AICL carries a financial strength rating of "A+" (Superior) from A.M. Best and is an ultimate subsidiary of Arch Capital Group Ltd. ("ACGL"), whose common shares are listed and traded on The NASDAQ Stock Market LLC in the U.S.

AICL provides coinsurance capacity to carefully selected MGA business partners.

Business, Strategy & Performance

During the year ended 31 December 2020 AICL wrote premium of £159.7 million (2019 - £136.7 million) and made a profit before tax of £0.4 million (2019 - £1.3 million). The growth in premium written in 2020 largely stems from increased volumes from the largest capacity provider. Almost all premium written by AICL relates to motor insurance in the United Kingdom, with a small book of legal expenses business and a small book of facultative property reinsurance business. Motor Insurance business in the Republic of Ireland was discontinued after 29 March 2019.

AICL has continued to purchase reinsurance on the business it writes to protect the Company against adverse performance and to efficiently manage capital. External reinsurance is ceded in the form of Excess of Loss cover, providing protection against large losses in excess of agreed limits. Due to growth of the business, the maximum retention for AICL has been placed at £2m from 2021 (£1 million previously). The company furthermore purchased external reinsurance in form of Quota Share for one capacity arrangement and cedes Quota Share reinsurance to related companies to mitigate attritional losses and to allow efficient capital management. The percentage ceded is a minimum of 85%, with a maximum of 90% on certain arrangements.

Systems of Governance

AICL has put in place a system of governance to ensure sound and prudent management of the operations. The system of governance is based on the principle of proportionality taking due account of the nature, scale and complexity of the operations.

AICL has continued to operate an outsourced business model and the Company's expenses therefore reflect the charges from its outsourced service providers. In particular, day-to-day operational management is outsourced to AICL's insurance manager in Gibraltar, Artex Risk Solutions (Gibraltar) Limited ("Artex"). AICL also has outsourcing arrangements with its affiliates, Arch Underwriters Ltd., Arch Investment Management Ltd. and Arch Capital Services Inc. Outsourcing has the potential to create additional risk due to loss of control over the services. Therefore, there is significant focus within the risk and governance framework on the oversight of AICL's outsourced service providers.

AICL's Board of Directors during the year comprised four Executives and one Non-Executive director and the Company operates via two Sub-Committees as set out in Section B. A three lines of defence governance model is employed.

Risk Profile

AICL's risk appetite framework provides an expression of the level of risk the Company is willing to accept in pursuit of its strategic objectives. The risk appetite framework provides quantitative

and qualitative statements which are used to define the general attitude within the organization towards the desired level of risk. It not only supports the Company's risk management framework, it also enables AICL to make informed business decisions having regard for the key risks to which it may be exposed by such a decision.

In general, AICL has an appetite for insurance (underwriting) risk and a tolerance for other forms of risk. The risk philosophy of AICL encompasses all major risks and focuses on attaining the following business objectives:

- Underwrite business that meets agreed targeted returns
- Underwrite business with selected MGA's
- Underwrite only carefully selected business lines
- Manage underwriting volumes in line with the business cycle
- Limit the downside risk such that the Company maintains a sufficient solvency margin.

Valuation for Solvency Purposes

AICL prepares its financial statements in accordance with Gibraltar Generally Accepted Accounting Principles (Gibraltar GAAP). The Company's Solvency II balance sheet is prepared on an economic fair value basis. The most significant differences between the GAAP and the Solvency II balance sheet arise from:

- Valuation of gross technical provisions
- Valuation of reinsurers' share of technical provisions
- Reclassification of insurance and intermediary receivables
- Reclassification of reinsurance payables and receivables
- Valuation of deferred costs

Capital Management

The Company's SCR coverage ratio as at 31 December 2020 was 181% (2019 – 195%), with own funds of £25.3 million (2019 - £23.7 million) and a Solvency Capital Requirement (SCR) of £14.0 million (2019 - £12.1 million). The Minimum Capital Requirement was £3.5 million (2019 - £3.2 million). AICL has a strong capital base, enabling the Company to meet its solvency requirements, and its business plan shows the Company remaining continuously compliant with the capital requirements.

Prior to 31 December 2020, the Company received a further capital injection of £2.5m from its parent, in order to ensure continuous growth and to remain comfortably within its internal risk appetite limit.

SECTION A – BUSINESS AND PERFORMANCE

A.1 Business

A.1.1 Name and Legal Form of the Undertaking

Alwyn Insurance Company Limited ("AICL" or the "Company") is incorporated in Gibraltar (Registered Number: 106261) and is a company limited by shares. The address of the registered office of the Company is:

PO Box 1338
First Floor
Grand Ocean Plaza
Ocean Village
Gibraltar
GX11 1AA

This Solvency and Financial Condition Report covers AICL on a solo basis.

A.1.2 Insurance Supervisor and Group Supervisor

Insurance Supervisor
Gibraltar Financial Services Commission (GFSC)
Suite 3, Ground Floor
Atlantic Suites
Europort Avenue
Gibraltar
GX11 1AA

Group Supervisor
Bermuda Monetary Authority (BMA)
BMA House
43 Victoria Street
Hamilton HM 12 Bermuda

A.1.3 External Auditor

PricewaterhouseCoopers Limited
327 Main Street
Gibraltar
GX11 1AA

A.1.4 Description of the ownership details including proportion of ownership interest

Arch Financial Holdings B.V., a company incorporated in The Netherlands, owns 100% of the equity share capital of the Company.

A.1.5 Group Structure

AICL's ultimate parent and ultimate controlling party is Arch Capital Group Ltd. ("ACGL" or together with its subsidiaries the "Group" or "Arch Group"), a Bermuda public limited liability company. ACGL prepares group financial statements and is the largest Group for which group financial statements are drawn up and of which AICL is a member. Copies of the ACGL group financial statements are available on ACGL's website located at www.archcapgroup.com or on the website of the U.S. Securities and Exchange Commission located at www.sec.gov.

A complete organization chart of ACGL and AICL's position in the Group is included as Appendix 1. AICL does not have any branches.

A.1.6 Material Lines of Business and Geographical areas where business is conducted

The following tables set forth summary information regarding gross premiums written, by segment and geographical region.

	As at 31 December 2020		As at 31 December 2019	
	£'000	**%**	**£'000**	**%**
Gross Premium	159,723		136,695	
Gross written premiums - territory				
United Kingdom	159,734	100%	132,482	97%
Republic of Ireland	- 12	0%	4,213	3%
Total	159,722	100%	136,695	100%
Gross written premiums - class				
Motor	143,472	90%	136,494	100%
Legal Expenses	16,251	10%	201	0%
Total	159,723	100%	136,695	100%

A.1.7 Significant Business or Other Events

On 23 June 2016 the United Kingdom voted to leave the European Union ("EU").

While the ability of Gibraltar insurers to write business into the UK will be secure, passporting rights into other EU territories have not been retained. AICL wrote a significant volume of business into the Republic of Ireland prior to 2019. Due to the ongoing uncertainty around the outcome of Brexit, management stopped writing new business in the Republic of Ireland as from 29 March 2019 and the company is now focused on an orderly run off of any existing policies and liabilities from this book of business. Continuing European business previously written by the company has been placed into an affiliate entity, Arch Insurance (EU) dac ("AIEU"), an entity regulated by the Central Bank of Ireland.

With the outbreak of COVID-19 in the United Kingdom in early 2020 management continue to closely monitor the behaviour of policyholders and activity within the claims environment. At the time of writing no significant adverse impact on the company's results have been observed. Management continue to monitor the situation and any potential impact on future results of the company.

A.2 Underwriting Performance

AICL underwrote mostly UK motor business during the year. Business is written via capacity made available to Managing General Agency ("MGA") partners. AICL also underwrote a small amount of legal expenses cover in the United Kingdom during the year (5% of premium) and a small book of property facultative reinsurance (5% of premium).

The Company recovered the loss of Irish business in 2019 by expanding further one particular MGA arrangement which was the main driver for growth during the year. The Company reports an underwriting profit of £1.3 million for the year (2019 - £1.1 million).

AICL mitigates its risk through appropriate reinsurance arrangements comprising both Excess of Loss and Quota Share reinsurance.

Since the Company prepares its financial statements in accordance with Generally Accepted Accounting Practice ("GAAP") in Gibraltar (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Gibraltar), the underwriting performance information given in this section is on a GAAP (Gibraltar) basis. The following table summarizes the profit and loss account in GBP, by business line and geographical area, for the technical account for year ended 31 December 2020, with comparatives for 2019.

As at 31 December 2020

	Total Motor £'000	Motor Liability £'000	Other Motor £'000	Legal Expenses £'000	Total £'000
Gross written premiums	143,471	129,124	14,347	16,251	159,722
Outward reinsurance premiums	(138,477)	(127,059)	(11,418)	(12,932)	(151,409)
Net written premiums	4,994	2,065	2,929	3,319	8,313
Change in the gross provision of unearned premiums	(6,873)	(6,186)	(687)	(8,170)	(15,043)
Change in the provision for unearned premiums - reinsurers' share	7,719	7,235	484	6,734	14,453
Change in the net provision for unearned permiums	846	1,049	(203)	(1,436)	(590)
Earned premiums, net of reinsurance	5,840	3,114	2,726	1,883	7,723
Claims incurred, net of reinsurance	(5,699)	(3,178)	(2,521)	(572)	(6,271)
Net operating expenses	(120)	(64)	(56)	(39)	(159)
Balance on the technical account	20	(128)	149	1,272	1,293

	As at 31 December 2019				
	Total Motor	Motor Liability	Other Motor	Legal Expenses	Total
	£'000	£'000	£'000	£'000	£'000
Gross written premiums	136,494	122,844	13,649	201	136,695
Outward reinsurance premiums	(127,971)	(117,171)	(10,800)	(153)	(128,124)
Net written premiums	8,522	5,674	2,849	48	8,571
Change in the gross provision of unearned premiums	11,686	10,517	1,169	(184)	11,502
Change in the provision for unearned premiums - reinsurers' share	(9,583)	(8,702)	(881)	140	(9,443)
Change in the net provision for unearned permiums	2,103	1,815	288	(44)	2,059
Earned premiums, net of reinsurance	10,626	7,489	3,137	4	10,630
Claims incurred, net of reinsurance	(9,663)	(5,211)	(4,452)	(1)	(9,664)
Net operating expenses	182	291	(109)	2	184
Balance on the technical account	1,144	2,569	(1,424)	5	1,150

	As at 31 December 2020		
	UK	Ireland	Total
	£'000	£'000	£'000
Gross written premiums	159,734	(12)	159,723
Outward reinsurance premiums	(151,361)	(47)	(151,409)
Net written premiums	8,373	(59)	8,314
Change in the gross provision of unearned premiums	(15,548)	504	(15,044)
Change in the provision for unearned premiums - reinsurers' share	14,892	(440)	14,453
Change in the net provision for unearned permiums	(656)	65	(591)
Earned premiums, net of reinsurance	7,717	6	7,722
Claims incurred, net of reinsurance	6,649	(378)	6,270
Net operating expenses	124	34	158
Balance on the technical account	944	350	1,294

	As at 31 December 2019		
	UK	Ireland	Total
	£'000	£'000	£'000
Gross written premiums	132,482	4,213	136,695
Outward reinsurance premiums	(124,219)	(3,905)	(128,124)
Net written premiums	8,263	308	8,571
Change in the gross provision of unearned premiums	(3,005)	14,507	11,502
Change in the provision for unearned premiums - reinsurers' share	3,870	(13,313)	(9,443)
Change in the net provision for unearned permiums	865	1,194	2,059
Earned premiums, net of reinsurance	9,129	1,501	10,630
Claims incurred, net of reinsurance	(1,388)	(8,276)	(9,664)
Net operating expenses	656	(472)	184
Balance on the technical account	8,397	(7,247)	1,150

A.3 Investment Performance

AICL invests in a small number of UK treasuries and money market funds and holds the remaining funds in cash. At 31 December 2020, investments amounted to £20.7 million (2019 – £20.4 million) in UK treasuries, £0.5 million (2019 - £0.4million) in money market funds and £41.8 million (2019 – £23.4 million) in cash held with banks.

AICL has not recognized any gains or losses directly to equity and does not hold any investments in securitizations.

The components of net investment income included in the statement of income and expenses are as per the table below:

	2020 £'000s	2019 £'000s
Fixed maturities	256	136
Term loan investments		
Equity securities		
Short-term investments		
Other (1)		
Gross investment income	256	136
Investment expenses (2)	30	30
Net investment income	226	106

A.4 Performance of other activities

The following table summarizes the profit and loss account in GBP for the non-technical account for year ended 31 December 2020 and year ended 31 December 2019.

	As at 31/12/2020 £'000	As at 31/12/2019 £'000
Balance on the technical account	1,294	1,150
Realized & unrealized foreign exchange (gains) / losses	(1,244)	4
Net investment return including in the non technical account	226	106
Profit on ordinary activities before taxation	275	1,260
Tax on profit on ordinary activities	96	(117)
Profit on ordinary activities after taxation	371	1,142

Other than the investment performance above, there have been no other items of income or expenditure.

A.5 Any other information

In December 2020 AICL secured a further investment from its parent of £2.5 million in order to ensure that sufficient capital was available such that the Company would continue to meet its Solvency Capital Requirement ("SCR") with an appropriate buffer.

SECTION B – SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

B.1.1 Overview

AICL operates with a structure of the main Board of Directors (the "Board" or "Board of Directors") and two Committees. The Company's Board is responsible for overseeing, controlling and directing the activities of the Company. The Board retains primary responsibility for corporate governance within the Company at all times. Senior Management at outsourced service providers also plays an important role in ensuring effective governance.

During the year, the Board has comprised four Executive Directors, two of whom are also Directors of other entities in the Arch Group, and one independent Non-Executive Director. Two of the Executive Directors are employees of AICL's insurance manager, Artex. The Board of Directors as at 31 December 2020 is as follows:

- William Soares
- Amy Smith (appointed 9 April 2020)
- Katja Spindler
- Paul Cole
- Michael Feetham (Independent Non-Executive)

Maamoun Rajeh resigned from the Board on 9 April 2020.

The Company Secretary is Raphy Abergel.

The presence of Arch Group Directors on the Board ensures that the Company's strategic direction remains aligned with the wider Arch Group and ensures there is continuous feedback between, and interaction with, AICL and its ultimate parent. This structure enables the Group to retain an appropriate oversight of AICL's operations and to ensure that the business is aligned with the Group's long term goals.

The presence of two non-Arch Executive Directors and one independent Non-Executive Director ensures that there is an appropriate element of independent challenge and oversight.

The Board is responsible for overseeing the business of AICL and supervising management. The Board sets the standards of conduct of the Company, provides direction and oversight, and promotes a culture of integrity. While the Board may delegate certain functions to Committees, this does not absolve the Directors collectively of their responsibility for the Company.

The Board operates under agreed terms of reference and has the following key responsibilities:

- Ensuring the integrity and reliability of the Company's finances, including
    - Approving the annual budget and business plan
    - Ensuring that the Company's capital and solvency position is maintained
    - Reviewing financial performance

    - Determining Directors' remuneration
    - Determining the dividend policy
    - Establishing appropriate accounting policies
    - Approving the appointment of the external auditor
    - Approving publicly reported documents
- Approving the underwriting strategy and policy and monitor its implementation
- Approving the operational policies, including
    - Determining the strategic direction and objectives
    - Approving risk management strategies and policies, risk appetite and tolerance limits
    - Ensuring the effectiveness of the risk management framework
    - Establishing appropriate systems of control
    - Approving significant ventures, partnerships, outsourced functions, disposals, acquisitions, alliances and any other transactions
    - Overseeing the internal audit and actuarial functions
- Setting the investment strategy and monitoring investment performance
- Overseeing, guiding and challenging the ORSA process and approving the ORSA report

The Company has established a Claims and Underwriting Committee, with Terms of Reference approved by the Board. The key responsibilities of the Committee include:

- Considering business opportunities and underwriting proposals presented by management
- Overseeing the ongoing performance of all product lines and intermediaries/distributors
- Manage intermediary/distributor relationship
- Overseeing the implementation of the claims handling, reserving and settlement strategy
- Advising on the reinsurance strategy
- Assisting with setting insurance risk strategy and appetite and limits
- Providing input into the calculation of the SCR and technical provisions
- Providing input into the ORSA process
- Monitoring and reporting on market trends and legislative and similar changes
- Reporting on all relevant matters to the Board

At the present time, the functions of the Claims and Underwriting Committee are retained by the Board and the Committee did not meet separately during the year.

The Company has also established an Audit and Risk Committee, with Terms of Reference approved by the Board. The key responsibilities of the Committee include:

- Developing, managing and monitoring the internal and external audit strategy
- Managing and monitoring the performance of the external auditors and the effectiveness of the internal audit arrangements
- Reviewing internal audit findings and recommendations

- Monitoring changes to accounting standards and financial regulation and legislation
- Monitoring the integrity of the financial statements and evaluating any significant judgements contained therein
- Monitoring the effectiveness of the internal systems of control
- Overseeing the calculation of the SCR and technical provisions
- Overseeing the annual ORSA
- Overseeing the completion of QRTs, the SFCR and the RSR
- Assisting the Board in discharging its corporate governance responsibilities
- Supporting the Board in its deliberation around risk, including in setting strategy and risk appetite limits
- Reviewing the risk management framework, policies, processes and procedures
- Ensuring compliance with statutory and regulatory requirements and that such compliance is embedded in the culture of AICL, its core systems and processes, its management and employees
- Ensure AICL's reputation and integrity is maintained at the highest possible standard
- Reporting on all relevant matters to the Board

At the present time, the functions of the Audit and Risk Committee are retained by the Board and the Committee did not meet formally during the year.

B.1.2 Code of Business Conduct

AICL has adopted the Group's Code of Business Conduct, which describes our ethical principles. The full text of the Group Code of Business Conduct and the Group's Corporate Governance Guidelines are available on the Arch Group's website located at www.archcapgroup.com.

B.1.3 Independent Control Functions

The Company has in place four key independent control functions as required under the Solvency II Directive. These are:

- Risk Management
- Compliance
- Actuarial
- Internal Audit

These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board in relation to the Company's control framework.

All key functions are overseen by Directors of AICL, thus ensuring they all have the appropriate authority to carry out their roles and ensuring that the Board is fully informed of the discharge of the functions duties.

B.1.4 Risk Function

The Risk Management Function is defined as a "Key Function" in Solvency II. The function is overseen by an Arch director, who is the Key Function Holder for Risk Management.

The function holder is supported in his role by the Arch Group risk function, which provided ongoing input into and assistance with AICL's risk management.

Responsibility for risk management at an operational level rests with the Audit and Risk Committee, which reports directly to the Board, or if the Committee does not meet this rests with the Board itself. The function holder is not a member of this Committee and therefore maintains appropriate operational independence when the Committee does meet, fulfilling an oversight role, rather than ongoing management. When responsibility for this is retained by the Board, the presence of non-Arch Group directors ensures an appropriate level of independence.

B.1.5 Compliance Function

The Board follows the Arch Group Code of Business Conduct to ensure that the Company promotes an organizational culture that encourages the highest standards of ethical business conduct. In addition, the Board has approved the establishment of a compliance program to ensure the Company complies with all relevant laws, legislation, regulations and guidance. This is intended to ensure that AICL exercises appropriate care and diligence to prevent conduct in which it is in violation of its compliance program, thereby protecting AICL's reputation and good name.

The requirements of the compliance program apply to all employees, officers and directors of the Company and, where appropriate, to agents of the Company.

The Compliance Function is outsourced to AICL's insurance manager and is overseen by the Executive Director provided by AICL's insurance manager. Compliance services are provided by the insurance manager, with input from the Arch Group and from co-insurance and MGA partners where required. The insurance manager's compliance team is adequately resourced and is not involved in the operational aspects of the Company.

B.1.6 Actuarial Function

The Actuarial Function is defined as a "Key Function" in Solvency II, with specific duties and responsibilities. The Actuarial function services may be outsourced, but responsibility for the function rests with the Actuarial Function Holder ("AFH").

The Actuarial Function is overseen by an Arch Director (separate from the risk function holder). Actuarial function services are provided from within the wider Arch Group, which has appropriate actuarial resources and is entirely independent of operational aspects.

Specific duties of the Actuarial Function include, but are not limited to:

- Coordinate the calculation of the firm's technical provisions
- Assess the sufficiency and quality of the data used in the calculation of technical provisions against the data quality standards as set in Solvency II

- Inform the Board of the reliability and adequacy of the calculation of technical provisions
- Express an opinion on the overall underwriting policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to the effective implementation of the risk management system
- Prepare the annual Actuarial Function Report

B.1.7 Internal Audit

The Company has an Internal Audit Policy in place which sets out the objectives and responsibilities of the Internal Audit function, which is outsourced to Arch Capital Services Inc. Internal Audit is discussed further in Section 2.5 below.

The Internal Audit function was overseen by one of the Executive Directors provided by AICL's insurance manager during the year. Arch Capital Services Inc.'s internal audit function is appropriately resourced with qualified and experienced individuals and is entirely independent of the Company's operation.

B.1.8 Material Changes

There have been no changes in the systems of governance. Maamoun Rajeh resigned from the Board on 9 April 2020 and Amy Smith was appointed to the Board of Directors on 9 April 2020.

B.1.9 Remuneration Policy and Practices

AICL only has Directors and no employees. Only the Independent Non-Executive Director receives remuneration from AICL, with the other Directors being remunerated under other arrangements. As a result, the Company does not have a separate Remuneration Committee, with responsibility for this area being retained by the Board.

The Independent Non-Executive receives a fee which is fixed and has no variable or performance-related elements. The remuneration of other Directors is not linked directly to the performance of AICL.

None of the Directors are entitled to share options or shares in the Company and do not have any entitlement to pensions from AICL.

B.1.10 Material Transactions

During the year to 31 December 2020, AICL paid its insurance manager a fee of £0.18 million (2019 - £0.18 million) for the services provided. Two of AICL's directors are also directors of the insurance manager. At 31 December 2020, the balance owed by AICL was £0.01 million (£2019 - £0.01 million).

During the year, AICL ceded up to a 90% Quota Share to ARL, a shareholder controller of the Company. The amount of premium ceded was £84.4 million (2019 - £62.1 million) and the balance outstanding at 31 December 2020 was £26.1 million (2019 - £13.1 million).

On 23 December 2020, Arch Financial Holdings B.V. injected £2.5 million Ordinary Share Capital into the Company for solvency capital purposes.

B.2 Fit and proper requirements

B.2.1 Fit and Proper Processes

The Company's Fitness & Propriety policy sets out the guidelines to ensure that employees meet the fit and proper standards, both on entry and throughout their employment at the Company. The Compliance Officer is responsible for providing advice, implementing a monitoring program and ensuring the policy is reviewed at least annually.

The Compliance Officer ensures that appropriate Notification Documents are prepared for all individuals carrying out notifiable functions, and that these are submitted to the Gibraltar Financial Services Commission for regulatory approval.

In order to ensure that collectively the Board and its Committees have the required skills and knowledge, any recruitment takes due account of the individual's qualifications and experience. On an ongoing basis all individuals are required to ensure that they keep their skills and knowledge up-to-date and to confirm this annually.

Checks with regard to propriety are carried out by AICL's compliance function, which carries out appropriate checks prior to an individual being engaged and on an ongoing basis thereafter. In addition, each individual is required to complete an annual self-certification confirming their ongoing propriety. AICL's compliance function reports to the Board on these matters.

B.2.2 Professional Qualifications, Skills and Expertise

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

AICL fitness requirements ensure that collectively the Board and its Committees cover at least the following:

- Knowledge of insurance and financial markets
- Understanding of the business strategy and the business model
- Understanding of the systems of governance
- Knowledge of financial matters, actuarial analysis and management information
- Understanding of the regulatory framework and requirements

Propriety checks are carried out taking account of:

- The individual's character
- The individual's personal behavior
- The individual's business conduct
- Any criminal aspects

- Any financial aspects
- Any regulatory aspects

B.3 Risk management system including the Own Risk and Solvency Assessment

B.3.1 Risk Management Process and Procedures

The following narrative provides an overview of the Company's Risk Management Framework, which describes the Company's methodology for identifying, measuring, managing and reporting on the key risks affecting AICL. It outlines AICL's approach to risk identification and assessment and how risk management is implemented and integrated into the organizational structure of the business.

Overview

AICL classifies its risks in the following categories:

- Underwriting Risk;
- Market risk;
- Counterparty credit risk; and
- Operational, including governance, regulatory, business/strategic, reputational, and outsourcing risks.

The framework includes details of the Company's:

- Risk philosophy and policies to address the material risks confronting the Company; and
- Compliance, approach and procedures to control and or mitigate these risks.

The actions and policies implemented to meet the Company's business management and regulatory obligations form the core of this framework. The Company has adopted a holistic approach to risk management by analyzing risk from both a top-down and bottom-up perspective.

AICL has designed its system of governance to achieve the following:

- Maintain an adequately transparent organizational structure that has well-defined, clear, consistent and documented lines of responsibility across the Company's operations
- Ensure personnel have the skills, knowledge and expertise necessary to properly discharge their assigned responsibilities
- Establish and maintain processes to achieve effective internal reporting and communication of information at all relevant levels within the Company
- Maintain information systems that produce sufficient, reliable, consistent, timely and relevant information concerning all business activities, the commitments assumed and the risks to which the Company is exposed
- Safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question

- Any outsourced responsibilities are delegated and managed appropriately, with ultimate responsibility vesting in the AICL Board of Directors.

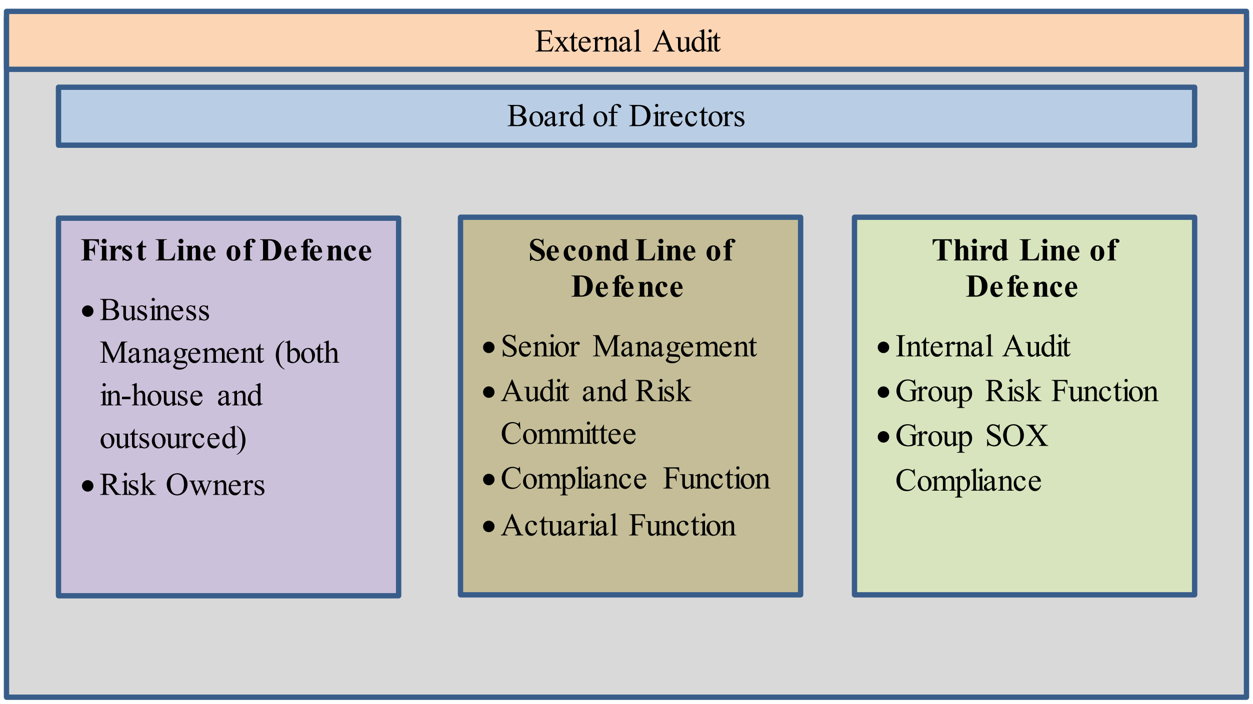
The system of governance is based on the principle of proportionality, such that systems and controls are proportionate to the nature, scale and complexity of the Company's operations. Appropriate and proportionate systems, resources and procedures are in place for AICL's operations.

Responsibilities

Responsibility for risk management ultimately rests with the Board. While the Company has not appointed a Chief Risk Officer, the Audit and Risk Committee has day-to-day responsibility for the risk function including risk identification, assessment, monitoring and reporting.

Risk management is closely integrated into the Company's operations through oversight of the business partners, appropriate structuring of contracts and agreements to take account of risk, and ongoing monitoring of underlying performance to ensure that risk appetite limits and capital buffers are not breached.

The Risk Management Framework follows the Three Lines of Defence model and fits into the overall governance structure as follows:



Risk Identification, Assessment, Monitoring and Reporting

AICL's risk philosophy and profile is defined in accordance with the wider Arch Group risk philosophy and is evaluated, challenged and approved by the Board. The Board sets the overall risk appetite. Overall, AICL has an appetite for Insurance Risk and a tolerance for other forms of risk. The rationale for the appetite and tolerances is articulated in the individual risk policies, which are reviewed and updated regularly. The overall risk appetite is articulated in the Company's Risk Appetite Statement document.

This approach results in the risk policies and inputs to the Risk Register, where all risks are defined and analyzed for potential impact to the Company. The Risk Register analysis includes all risks facing AICL and details the corresponding controls and or mitigation in respect of these risks. Qualitative and quantitative assessments of the impact and probability of all risks is contained within the Risk Register, which are part of a regular review process. The Risk Management function defines the risks in the Risk Register.

The Risk Register is a key input into the risk management regime, and any material changes in the underlying risks will be modelled for potential impact upon AICL's capital requirements. Such changes include, but are not limited to, changes in business mix, strategy and investment policy.

The controls identified in the Risk Register to monitor, mitigate and control the risks facing AICL are reviewed for continued relevance and documented in the process documents for each function. Compliance with the components of these controls is verified via the ongoing management reviews and Internal Audit reviews undertaken at AICL. This is undertaken on a Group-wide basis and any issues are reported to the AICL Board.

The result of this process is that all material risks are included within the Risk Register and also feed into the SCR calculations where appropriate, in some cases also being further investigated through stress testing. Inputs and outputs are owned by the appropriate function and are signed off by the appropriate committee of the Board.

The Audit and Risk Committee presents periodic reports to the Board against agreed risk appetite measures, including appropriate capital coverage.

B.3.2 Implementation and Integration of ORSA

The Company believes an integrated approach to developing, measuring and reporting its ORSA is an integral part of the Risk Management Framework. The ORSA process provides the link between the Company's risk profile, its Board-approved risk appetite including approved risk tolerances and limits, its business strategy and its overall solvency requirements.

The ORSA is 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 capital necessary to ensure that overall solvency needs are met at all times. The ORSA also makes the link between actual reported results and the capital assessment.

The ORSA process and reporting are integral parts of AICL's business strategy, tailored specifically to fit into AICL's organizational structure and risk management system with the appropriate techniques in place to assess its overall solvency needs, taking into consideration the nature, scale and complexity of the risks inherent in the business.

The Company also takes the results of the ORSA into account for its system of governance, including long-term capital management, business planning and new product development. It also contributes to various strategic decision-making including how best to optimise capital management and deciding whether to retain or transfer risks.

The ORSA is the basis for risk reporting to the Board and its committees and acts as a mechanism to embed the Risk Management Framework within the Company's decision making processes and operations. The Board has delegated responsibility for supervision and oversight of the ORSA to the Audit and Risk Committee. This oversight includes regular reviews of the ORSA process and output.

The ORSA process operates continuously through the course of the year but is accompanied by periodic formal reporting. The formal ORSA report builds on the information viewed by management through the year in order to make strategic risk and capital decisions, supplemented with specific additional items.

The ORSA will be formally reported at least annually following the annual business planning process. In addition, an ORSA report will be produced on each occasion that the entity's risk profile changes as set out below.

The ORSA is an ongoing process to ensure that AICL has the appropriate capital for its risk profile. However, a formal re-run will take place, at the Board's decision, following a significant change in AICL's risk profile including:

- Significant change in business
    - Including introduction of a significant new product (accounting for an increase of 20% or more in GWP)
    - Entering a material new line of business
    - Exiting a material existing line of business
- Material capital change, resulting in a drop of 10% or more in the market value of investments
- Significant market stress which directly impacts the Company
- SCR coverage falling below the stated risk appetite as per the previous ORSA

AICL records the actual performance of the overall solvency assessment and the assessment of any deviations in its risk profile from the assumptions underlying the SCR calculation to a level of detail that enables a third party to evaluate the assessments performed.

The Audit and Risk Committee prepares a periodic report for the Board covering risk management in general, including the above topics discussed in the Audit and Risk Committee meetings. The Risk Register is presented to the Board on an annual basis for approval. Any material changes in the risk management strategy, policies, processes, procedures and or SCR calculations are presented to the Board for approval.

AICL's Capital Management Plan has regard to and incorporates the output from the ORSA process, including requesting further capital injections if this is indicated as a result of the ORSA.

AICL reviews the appropriateness of its Risk Appetite Statements and the related Risk Limits and Tolerances during the analysis of the results and outputs of each ORSA process. If deemed necessary following a review, this Risk Appetite Statement will be revised and presented to the Board for approval.

B.3.3 Performance, Documentation and Review of the ORSA

A full ORSA cycle is performed at least annually and reported to the Board. The ORSA process is a circular process that relies on key elements of the business:

- **The Board outputs** – Strategy / Capital Management Plan / The Board Risk Appetite
- **Business planning** – providing the basis for the base case projections
- **The Solvency II Pillar I standard formula** – 3 year outputs & base assumptions used
- **The Board** – who review, challenge approve the test scenarios, the ORSA process and output
- **The Actuarial Function** – who quantify technical provisions and provide other input into the Pillar I model
- **The Risk Function and Management** - who quantify the Pillar I capital requirements, assess the outputs and prepare the reports
- **ORSA Reporting to all stakeholders**

The Key Activities in the ORSA Process are:

- Strategy & Planning
- Pillar I base outputs and assumptions
- Risk identification & assessment
- Scenario setting
- Scenario testing through the Pillar I model & production of test output
- Review of test output & report preparation
- Management review & Board review & reporting

Each run of the ORSA process will be appropriately documented to evidence each of its constituent parts, and this record will be retained for any later scrutiny. The documentation shall contain:

- The underlying business plan and strategy
- The Risk Appetite Statement
- The Pillar I standard assumptions & output
- The schedule of scenarios to be tested
- The scenario test results
- The ORSA report
- Any relevant summaries relating to scrutiny, review & challenge of the ORSA process & outputs

B.3.4 Relationship Between the ORSA, Solvency Needs, and Capital and Risk Management Systems

The Company has both a Capital Management Policy and Capital Management Plan in place. The Risk Management Function is responsible for developing and maintaining the Capital Management Plan. The Audit and Risk Committee reviews and monitors the plan and reports thereon to the Board.

The Capital Management Plan incorporates the output from the ORSA and associated reporting. The plan also sets out triggers for corrective capital actions relative to the Company's Solvency Ratios, which are based on the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR").

AICL's capital planning process aims to be dynamic and forward-looking in relation to AICL's risk profile and shall take into account the output from AICL's risk management activities and the ORSA process and associated reporting as part of capital planning activities.

As such, capital planning activities take into account any current or anticipated changes in AICL's risk profile, such as those reflected in its business plan, and forecasting the related impact on capital. In addition, as part of its capital planning, the Company integrates projected capital needs with its business planning and financial forecasting processes.

The Capital Management Plan identifies a number of potential sources of capital and associated corrective actions that may be utilised to restore sufficient capitalisation, depending on the severity of the capital requirements placed upon AICL.

When considering the sources of capital and corrective actions, AICL will have regard to the Solvency II Own Fund requirements.

Any material changes in the underlying risks, such as changes in business mix, reinsurance strategy and investment strategy, are modeled for potential impact upon AICL's capital requirements. The result of this process is to ensure that all material risks feed into the capital requirements analysis, and in some cases also trigger further investigation through stress testing.

B.3.5 Approval Process

The Audit and Risk Committee has responsibility for reviewing the risk management framework, policies, processes and procedures and for overseeing the annual ORSA process. The ORSA policy and the ORSA report are reviewed by the Audit and Risk Committee and recommended to the Board for approval.

The Board of Directors is the main governing body of AICL and has the following input and responsibilities to the ORSA:

- To evaluate, challenge and approve the Company's strategy, business plan and accompanying financial information, as proposed by Senior Management. This process will include:
    - Monitoring the performance of the Company against established Key Performance Indicators (KPIs)

    - Approving any material expansions and/or contractions of the Company
    - Approving any material expenditure and/or projects
- To evaluate, challenge and approve the Company's ORSA, as determined and proposed by the Audit and Risk Committee. As part of this approval of the ORSA, the Board will:
    - Approve the ORSA policy and process, including validating this process
    - Challenge the identification and assessment of risks, including any new risk management strategies to be implemented
    - Challenge assumptions on which the SCR calculation is based
    - Approve the long- and short-term capital management plan, having considered the ORSA outcome, business strategy and risk tolerance of the Company
    - Consider any risks outside of the ORSA process and the extent to which the SCR calculation accommodates these
    - Utilise the ORSA for strategic decision-making
- To evaluate, challenge and approve the Company's risk appetite and the associated risk tolerances and limits.

B.4 Internal control system

B.4.1 Internal Control System

AICL maintains an effective internal control system, which includes administrative and accounting procedures, an internal control framework, appropriate reporting arrangements and a compliance function.

The Board is responsible for monitoring the establishment and maintenance of the system of controls used to assess and manage exposure to all areas of risk. The objectives of these controls are to ensure that AICL's risk strategy is maintained and risk remains within the appetite and tolerances set by the Board.

AICL is part of Group-wide compliance activities, including management's assessment to confirm the design and operating effectiveness of internal controls over financial reporting and the identification and testing of key internal controls, including any required remediation.

The Board has delegated management and oversight of certain controls to appropriate forums within the Group. AICL's internal control framework provides an appropriate level of reporting on the control environment to the Board.

Controls are detailed in the Risk Register, which associates elements within the category of risk to one or more mitigating controls. AICL's internal control framework includes reviews of both the design and effectiveness of key controls, with results of this periodic evaluation regularly reported to the Board.

The Group's Sarbanes-Oxley (SOX) compliance function's testing of internal control over financial reporting (ICFR) is a major element of the Company's monitoring activities. The focus of testing is to provide auditable evidence regarding the design and operating effectiveness of ICFR. A major component of this process is the identification, tracking and disposition of internal control deficiencies that are assessed individually and in the aggregate. The results of the testing are continually communicated to stakeholders who include senior management, process/control owners and the Audit Committee.

B.4.2 Compliance Function

Implementation of the Compliance Function

As part of the Arch Group, AICL has implemented its compliance function taking due account of and in accordance with the overall group compliance structure.

The ACGL Board has approved the establishment of a compliance and ethics program to ensure that all companies within the group promote an organizational culture that encourages the highest standards of ethical business conduct and compliance with the Group's Code of Business Conduct, policy statements and any laws and regulations which govern the Company's business activities (collectively referred to as the "Compliance Program"). The Compliance Program is intended to ensure that all companies within the group exercise appropriate due diligence to prevent conduct which is in violation of its Compliance Program thereby protecting the Group's reputation and good name.

Consistent with its desire to have uniform policies, practices and procedures to ensure that our business is conducted in an ethical manner, ACGL has directed that each of its majority-owned subsidiaries adopt a compliance program similar to that adopted by ACGL. In addition to being familiar with this Compliance Program, it is essential that employees are familiar, and in compliance, with any additional compliance programs and procedures adopted to meet the requirements of applicable local law and regulations which may not be covered by this Compliance Program.

The requirements of this Compliance Program apply to all employees, officers and directors of the AICL. In addition, where appropriate, the Compliance Program also will apply to agents of the Company.

The Compliance function is an integral element of AICL's risk management and internal control framework. The purpose of Compliance is to assist the Board in achieving its overall strategic objectives by promoting a culture of integrity, ethical conduct and compliance with the laws, regulations and administrative provisions that affect AICL. The compliance function is also responsible for the ongoing assessment of any possible impact of changes in the legal environment on AICL operations and for the identification and assessment of Legal / Litigation risk and for monitoring adherence to certain elements of the risk management framework and reporting thereon to the appropriate forums.

Independence and Authority

AICL has outsourced its compliance function to its insurance manager, thereby ensuring independence from other operational functions. Compliance attends Committee and Board meetings and reports to the Audit and Risk Committee and the Board on all relevant matters.

The Compliance function is authorized to review all areas of the Company and has full, free, and unrestricted access to all Company activities, records, property and personnel. Compliance has full and direct access to AICL's Board and the authority to escalate matters to ACGL where required.

B.5 Internal audit function

Arch Capital Services Inc. ("ACSI") provides internal audit services for all ACGL entities and is led by the Director of Internal Audit Services ("IAS"). AICL is included within the scope of IAS's responsibilities. As such, it is deemed by AICL management that internal audit is effectively outsourced to ACSI.

IAS is an independent, objective assurance and consulting activity designed to add value and improve the Company's operations. It helps management and the Board accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

IAS is adequately staffed by competent individuals and is objective and independent of AICL's day-to-day activities. Where necessary, IAS utilizes external resources to support its work. Appropriate budgets are set to support IAS.

IAS has appropriate access to all staff, Senior Management and records, including those relating to third party service providers. No restrictions are placed on the scope of the team's work. The Committee is required to inform IAS of all noted control deficiencies and or of any definite suspicion of irregularities.

IAS's scope encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Company's procedures and internal controls related to its business processes, governance and risk management functions. In addition, IAS may perform special examinations and tasks at the request of management or the Board.

B.5.1 Internal Audit Reporting

Implementation of the Internal Audit Function

The Director of IAS reports to the Chairman of the ACGL Audit Committee and administratively to the ACGL Chief Financial Officer. The Director of IAS also reports to AICL's Committee for AICL related activities (and has direct access to all members of the Committee) and the Committee reports any material issues to the Board.

An Annual Internal Audit Plan ("Audit Plan") is produced and submitted to the Company's Committee and the Board prior to starting fieldwork for any of the audits included in the Audit Plan. It summarizes IAS's risk assessment of the business, the scope of its work, the competencies of the team, and the resources, both internal and external, required to accomplish the Audit Plan.

The Plan takes into consideration management's view of key and emerging risks per the Risk Register, as well as IAS's assessment of the Company's key and emerging risks and related controls and their linkage to historical and planned audits. IAS also performs a process based risk assessment which analyses risks within each of the business processes to assess the impact on the

Audit Plan. The rationale for internal audit activity for the coming year is also detailed within the Audit Plan and is based on a number of factors which include, but are not limited to the assessed level of risk associated with each business process, planned operational changes, new or expanding lines of business, consideration of the work performed by other assurance providers, etc.

IAS maintains communication with other assurance providers in order to identify potential issues and also to leverage where applicable upon the work they perform. The Audit Plan includes an overview of the various other assurance activities performed upon which IAS may place reliance and which provides additional rationale for the areas of focus.

Prior to fieldwork, IAS confirms the detailed scope (including any exclusions) with management, as well as resources and timing of fieldwork and reporting. During fieldwork, audit procedures will include both substantive testing and control testing (including inspection and/or re-performance) where appropriate. Audit evidence is retained for all audit work performed.

Subsequent to completion of fieldwork and discussion of findings with management, IAS issues a report (or memo where appropriate) for all audit engagements and reviews performed. These reports or memos include a management response for all recommendations along with a target date for remediation. The progress of all recommendations is monitored by IAS and periodically reported to the ACGL Audit Committee and the AICL Board.

Independence of the Internal Audit Function

A key feature that ensures the independence of the Internal Audit function is its positioning outside of functional roles and responsibilities. IAS staff are employees of Arch Capital Group and may not carry out operational roles for AICL. AICL's internal audit charter specifically includes the following:

- Internal Audit shall have no direct responsibility or authority over any of the activities reviewed;
- Internal Audit shall not design and install procedures, prepare records or engage in any other activity that it would normally review, appraise or audit;
- Internal Audit is authorised to review all areas of the Company and to have full, free and unrestricted access to all Company activities, records, property and personnel;
- Internal Audit reports to and has full and independent access to the Audit and Risk Committee and reports to the president of Arch Capital Services for administrative purposes.

B.6 Actuarial function

AICL outsources Actuarial Function services to Arch Underwriters Ltd. ("AUL") under oversight of the Actuarial Function Holder.

The Actuarial Function's primary responsibility is to the Board. The Actuarial Function in performing its duties acts independently of AICL's business units. The Board provides oversight to ensure the Actuarial Function has adequate resources and authority to operate effectively.

The main activities of the Actuarial Function in a Solvency II environment shall include the requirements of the Solvency II Directive, including:

- Coordinate the calculation of Technical Provisions;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of Technical Provisions;
- Assess the sufficiency and quality of the data used in the calculation of Technical Provisions;
- Compare best estimates against experience;
- Inform the Board of the reliability and adequacy of the calculation of Technical Provisions;
- Oversee the calculation of Technical Provisions in the cases set out in the regulations;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements; and
- Contribute to the effective implementation of the risk management system
- Provide an Actuarial Opinion on Technical Provisions; and
- Provide Actuarial Report on Technical Provisions.

On an annual basis the Actuarial Function will prepare an Actuarial Opinion on Technical Provisions and present the Actuarial Report on Technical Provisions to the Board of Directors. The ARTP will be prepared in line with relevant regulatory and Actuarial Standards of Practice.

The actuarial function comprises experienced, fully qualified, individuals with in-depth knowledge of actuarial and financial mathematics. The function is staffed appropriately given the nature, scale and complexity of the risks inherent in the integrated operations.

ACGL's Group Actuary oversees actuarial policies throughout the Group, as well as development of Group-wide actuarial techniques and education. This individual provides an independent assessment of the Group's reserves to the ACGL Audit Committee each quarter.

B.7 Outsourcing

B.7.1 Outsourcing Policy

AICL defines outsourcing as contracting out part or all of an internal business process to a third party provider (either outside or inside the Arch Group of companies). In this regard AICL may use the external service provider's processes and controls to perform the agreed upon services. However, AICL will retain all decision making and ultimate responsibility over the business function and maintain the appropriate monitoring mechanisms to ensure adherence to a service level agreement.

The Company has an Outsourcing Policy in place which sets out the following:

- The definition of outsourcing
- Responsibility for implementation and operation of the policy and consequent controls and processes
- The criteria for outsourcing
- Due diligence on potential providers

- Establishment of appropriate contractual arrangements which clearly define responsibilities and allow adequate supervision and control
- Establishment of appropriate contingency planning, including terminating or exiting the arrangement
- Periodic audit requirements
- Records of outsourced arrangements
- The approval process
- Contract and legal requirements
- Risk assessment and risk mitigation measures
- Monitoring and on-going requirements

B.7.2 Outsourced Functions

The following table provides detail of the key functions which are outsourced by AICL.

Outsourced function or activity	Jurisdiction
Provision of business development, underwriting and pricing support; administration of contracts, agreements and other arrangements	Bermuda United Kingdom Republic of Ireland
Policy administration	United Kingdom Republic of Ireland
Claims handling, reserving and settlement	United Kingdom Republic of Ireland
Accounting and financial support	Gibraltar Republic of Ireland
Investment management services	Bermuda
Compliance services	Gibraltar
Actuarial function services, including Solvency II reporting	Bermuda Republic of Ireland
Assistance with risk management	Gibraltar Bermuda Republic of Ireland
Internal audit services	United States

	Bermuda
Company secretarial services	Gibraltar

B.8 Adequacy of Systems of Governance

AICL's systems of governance are as set out above. The Company does not have a complex business model and the systems of governance have been established taking due account of the principle of proportionality, being appropriate to the size, nature and scale of the operations. In addition, governance falls within the remit of both internal and external audit and the risk function continuously assesses relevant legislation, guidance, advice and best practice to ensure that the systems of governance remain up-to-date.

On this basis, the Board believes that the governance arrangements are adequate and appropriate for the business.

B.9 Other information

No other material information to report as of December 31, 2020.

SECTION C – RISK PROFILE

Overview

AICL's risk appetite framework provides an expression of the level of risk the Company is willing to accept in pursuit of its strategic objectives. The risk appetite framework provides quantitative and qualitative statements which are used to define the general attitude within the organization towards the desired level of risk. It not only supports the Company's risk management framework, it also enables AICL to make informed business decisions having regard to the key risks to which it may be exposed by such a decision.

In general, AICL has an appetite for insurance (underwriting) risk and a tolerance for other forms of risk. The risk philosophy of AICL encompasses all major risks and focuses on attaining the following business objectives:

- Underwrite business that meets agreed targeted returns
- Underwrite business with selected MGAs
- Underwrite only carefully selected business lines
- Manage underwriting volumes in line with the business cycle
- Limit the downside risk such that the Company maintains a sufficient solvency margin.

The following table shows the composition by sub-module of the SCR.

Risk Category	Description	Allocated % of SCR as at 31-Dec-20	Allocated % of SCR as at 31-Dec-19
Underwriting Risk	Risk of losses from business already written or planned to be written over the next year	41.7%	38.9%
Market Risk	Risk of losses from market movements, including exchange rates and investment returns	8.8%	9.3%
Credit Risk	Risk of losses from counterparty defaults, including reinsurers and other counterparties	29.9%	32.2%
Operational Risk	Risk of operational losses	19.6%	19.5%

C.1 Underwriting risk

C.1.1 Key Underwriting Risks

Underwriting risk refers to the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate pricing or risk quantification assumptions, which includes the fluctuations in the timing, frequency and severity of insured events. At a risk policy level, we consider underwriting risk is linked to reserving risk. Reserving Risk refers to the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate reserving assumptions, which includes fluctuations in the timing, frequency and severity of insured events.

AICL operates via MGA partners in the UK (and previously Irish) motor markets. This business line is highly competitive and insurance companies have in the past struggled to achieve their target margin. Furthermore, the motor industry is materially exposed to regulatory, legislative and fiscal changes, economic factors, as well as policyholder behaviour and the actions of key service providers, such as claimant lawyers and claims management companies. These factors can lead to significant fluctuations in results.

The resulting key underwriting and reserving risks identified by management are:

- Inappropriate underwriting
- Unexpected deterioration in reserves
- Inappropriate concentration of underwriting risks
- Inappropriate reinsurance strategy
- Over-reliance on lead underwriters or key intermediaries

C.1.2 Material Risk Concentrations

AICL currently writes almost exclusively motor business, which leads to some concentration of risk. However, within this category the Company writes different types of motor risks, from standard motor through specialized niche business and uses MGA partners. There is therefore not considered to be a material underwriting risk concentration.

C.1.3 Underwriting Risk Mitigations

AICL purchases Excess of Loss reinsurance protection to mitigate the impact of large claims. In addition, inter-company Quota Share reinsurance is in place to mitigate the impact of attritional losses.

In addition, underwriting risk is further mitigated through the following:

- Business performance is monitored regularly, including consideration of market factors, pricing trends and strategic challenges
- Actual performance is compared against plan each quarter
- There is regular dialogue with and visits to MGA partners and review of management information received
- Independent actuarial review of reserves by ACGL actuaries
- Periodic audits of claims handlers

C.1.4 Stress and Sensitivity Testing

Stress and scenario testing is carried out as part of the ORSA process, which is conducted at least annually. These tests consider moderate as well as extreme but plausible stresses and assess the impact on AICL's capital position.

A number of scenarios were considered in the ORSA which aim to reflect the underwriting and reserving risk to which the Company is exposed. These represent adverse scenarios to which the Company could be exposed, including poor loss ratio performance, unplanned growth and a highly adverse outcome for the largest book of business. The projected SCR and Own Funds were then calculated under each of these scenarios, allowing the capital impact to be assessed.

Due to the manner in which AICL structures its arrangements, while the stresses showed deterioration in the Company's capital position, only the most extreme modelled combination scenarios were considered likely to result in a breach of the SCR. The Company's underwriting risk profile is therefore considered to be resilient to most shocks.

C.2 Market risk

C.2.1 Key Market Risks

Market Risk is the risk of changes in income or values of assets arising from fluctuations in political and economic variables (systemic), including interest rates, currency exchange rates, equity markets, commodity markets and real estate markets. It is the risk of loss, or adverse change, resulting directly or indirectly from fluctuations in the prices of assets. Market Risk includes the following specific components:

- Currency Risk
- Interest Rate Risk
- Spread Risk
- Equity Risk

Market Risk is also affected by:

- Concentration Risk: The risk that the Company will suffer losses from lack of diversification with regards to a particular sector, industry, geographic region, security, or asset class in the investment portfolio. Concentration Risk also includes the risk of failure to identify and manage correlation risk between insurance/reinsurance operations and invested assets.
- Investment Credit Risk: The risk of loss, or adverse change in financial condition, resulting from fluctuations in the credit standing of issuers of securities and counterparties to which undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentration risk.

AICL has a very conservative investment policy, focusing on capital preservation rather than investment return. The key market risk identified by management are foreign currency fluctuations.

C.2.2 Material Risk Concentrations

AICL only has a small investment in government securities with the remainder of investible assets held in deposits with banks. Therefore there are no material risk concentrations.

C.2.3 Market Risk Mitigations

AICL mitigates investment risk through the implementation of appropriate controls. These include:

- Regular Board and Senior Management oversight;
- Formal agreements which delegate investment authority to AIM;
- Investment Guidelines which are structured to ensure sufficient liquidity and prevent over-exposure to any one risk sector;
- Quarterly Investment Guideline compliance confirmations issued by Investment Managers;
- Utilisation of Company approved brokers, investment managers and 3rd party service providers;

C.2.4 Stress and Sensitivity Testing

AICL has a limited exposure to market risk and hence a single scenario involving an investment shock was modelled. This modelled stress was not considered likely to result in a breach of the SCR and the Company is therefore considered to be highly resilient to market risk.

C.2.5 Prudent Person Principle

AICL seeks to manage investment assets subject to the Prudent Person Principle which states that the Board must discharge its duties with the care, skill, prudence and diligence that a prudent person acting in a similar capacity would use in the conduct of an enterprise of similar character and objectives.

- The Board of Directors of AICL has outlined the following risk management objectives in order to minimise its exposure to Investment Risk in line with the overall AICL Risk Appetite:
  - AICL shall adopt a conservative approach to investments and seek to safeguard the assets of shareholders;
  - AICL shall hold sufficient investment values and investment liquidity to ensure all liabilities are met as they fall due; and,
  - AICL shall ensure that there are appropriate policies, strategies and procedures in place to meet these objectives.

AICL adopts a conservative approach to investments and, as articulated in the Company risk management philosophy, limits Investment Risk such that the overall portfolio will consist of high quality fixed income securities and bank deposits, and limits the proportion of total investments that may be represented by other investments. New investment product initiatives fall into the category of other investments and include investments such as equities and all alternative investments. Participation in new investment products are subject to Board approval. In circumstances where new products are being considered by the Company, the following steps will be undertaken:

- Detailed information will be provided describing the nature of the investment such that the Board has full information to properly evaluate the risk
- The finance function will document the impact of the new investment, including an assessment of whether it complies with the prudent person principle
- A presentation will be made to the Board to explain the rationale for the proposed investment
- The Audit and Risk Committee will separately review the material and consider the impact on AICL's risk appetite and risk profile

If the proposed investment is approved, AICL's finance and compliance functions will liaise with AIM to revise or develop bespoke Investment Guidelines for the new product where appropriate. In certain circumstance, such as in the case of an investment in a fund, this may not be required.

C.3 Credit risk

C.3.1 Key Credit Risks

AICL has a low appetite for investment credit risk, which is recommended by AICL management and approved by the Board.

AICL is exposed to credit risk from the following sources:

- Investments in fixed income securities
- Deposits with banking counterparties
- Reinsurance counterparties – internal from the Quota Share arrangement
- Reinsurance counterparties - external
- Premiums collectable from lead insurers and MGA partners.

The key risk is that one or more of these counterparties fail.

C.3.2 Material Risk Concentrations

As at 31 December 2020, AICL used a single banking counterparty, thus resulting in risk concentration. Reinsurance credit concentration was also high, due to the inter-group Quota Share arrangement. Premium debtor credit exposure is diversified.

C.3.3 Credit Risk Mitigations

AICL mitigates credit risk through the implementation of appropriate controls, processes and procedures.

At purchase, securities must be rated investment grade by at least two of the following ratings agencies (if rated by all three): Moody's, S&P or Fitch. If only two of the three agencies rate the security, the lower rating is used to determine eligibility. If only one of the three agencies rates a security, the rating must be Aa3/AA- or higher.

For the placement of time deposits, banks must be rated at least Al+ or equivalent by S&P or Fitch and P-l or equivalent by Moody's at the time of purchase.

Reinsurance and premium receivables are closely monitored and controlled, with short credit periods mitigating any risk exposure. Furthermore, other than the inter-group Quota Share reinsurance, other reinsurance arrangements are split across a number of counterparties, thereby reducing single name exposure.

C.3.4 Stress and Sensitivity Testing

Due to the high level of reinsurance ceded, AICL is exposed to a material amount of counterparty default (credit risk). As one of the Company's most material risks, a downgrade of the Quota Share reinsurer was therefore modelled as a stress test, as well as a downgrade of the five largest counterparties. These showed that the Company was able to withstand such a modelled stress.

C.4 Liquidity risk

Liquidity risk is the risk of the Company's inability to realise investments and other assets in order to settle its financial obligations when they fall due. Liquidity risk has low materiality for the Company. One of the objectives of the investment risk policy of the Company is that the Company shall hold sufficient investment values and investment liquidity to ensure all liabilities are met as they fall due. To achieve this objective, the investment risk appetite permits only highly rated securities to be purchased. Risk limits and tolerances have been also set in respect of (i) asset-liability duration matching and (ii) availability of liquid assets. The Company considers that the composition of its assets in terms of their nature, duration and liquidity are appropriate in order to meet its obligations as they fall due.

C.4.1 Risk Exposure and Material Risk Concentrations

The Company considers its exposure to this risk as low. The Company monitors its liquidity in compliance with its investment risk policy and stated limits and tolerances in respect of the percentage of assets which are invested in liquid investments.

C.4.2 Risk Mitigation

Liquidity risk is mitigated by the cash held in investments and bank accounts.

C.4.3 Expected Profit in Future Premium

As of 31 December 2020, the expected profit in future premium is £0.08 million (2019 – £0.22 million).

C.5 Operational risk

C.5.1 Key Operational Risks

Operational Risk means the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

It also includes the risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations, and the exposure to litigation from all aspects of business activities.

Within Operational Risk, AICL also includes:

- Group Risk: Risks related to unregulated entities within a group, implicit or explicit exposure to losses throughout the group ("contagion risk"), risks related to inter-company transactions and double gearing, the extent to which practical, legal, or regulatory barriers to the transfer of capital between group members exist, and other additional risks which individual members of a group face by virtue of their group membership.
- Strategic Risk: Risk that strategic business decisions prove to be ill-founded or poorly executed. Examples of such risk include mergers and acquisitions, moving into new markets, business lines, or regions, changes to the operating model, or failing to anticipate or react to a more general shift in the economic environment, demographics, etc.
- Reputational Risk: The potential adverse impact of an economic loss through deterioration of reputation, credibility or standing with coinsurance and MGA partners, other customers, brokers and the investor community.

AICL's management has identified the following key operational risks:

- Legal, litigation, regulatory, political and reputational risk
- Reliance on key individuals (including directors and staff at outsourced service providers)
- Inappropriate overall business strategy or inadequate monitoring of strategic decisions
- Risks external to AICL but internal to the ACGL

Those risks classified under the Operational Risk profile have been identified, assessed and articulated in the AICL Risk Register. Relevant risk and control owners report to the Audit and Risk Committee and are responsible for identifying new, emergent or changing risks and any consequent control changes required to realign the risks with the risk appetite.

With respect to Legal Risk, AICL's Compliance Officer has the responsibility for monitoring new and pending legislation from the Gibraltar Financial Services Commission ("GFSC") or Gibraltar government, the European Insurance and Occupational Pensions Authority ("EIOPA") and relevant bodies in other applicable jurisdictions for items that could potentially impact the Company.

In addition, applicable international risks are identified through discussions, meetings and memos with/from law and accounting firms within the jurisdiction of all ACGL entities.

C.5.2 Material Risk Concentrations

There is no Operational Risk concentration.

C.5.3 Operational Risk Mitigations

AICL has put in place a strong internal control framework which mitigates operational risk. In particular, the following are key controls in managing this risk:

- Appropriate segregation of duties across all functions
- Systems access controls
- Four-eyes oversight of all key areas
- Regular management accounting process including reconciliations and checks
- Business Continuity and Disaster Recovery Plans
- All outsourced arrangements conducted under formal agreements and in accordance with the Outsourcing Policy
- Ongoing oversight and regular audits of outsourced service providers
- All material contracts reviewed by the ARL General Counsel on behalf of AICL
- Appropriate reporting to ACGL on all relevant matters to enable oversight
- Business plans and budgets reviewed quarterly
- Appropriate governance structures, including quarterly Board meetings

C.5.4 Stress and Sensitivity Testing

Operational risk is included in the Standard Formula. However, as part of its ORSA process, AICL also considers those areas of operational risk which may not be adequately covered, such as loss of a service provider and assesses its impact on the capital position. In addition, operational risk is indirectly stress tested through other risks, such as a credit down-grade of the inter-company Quota Share partners.

Operational risk comprises a moderate part of AICL's risk profile and the stress tests prove the Company's capital buffer to be sufficiently resilient to withstand this risk.

C.6 Other material risks

C.6.1 Overview

A number of other risks are considered to be relevant for the Company, namely, Group risk, strategic risk, reputational risk, regulatory risk and compliance risk. These risks have not been quantified but are included within the Own Risk and Solvency Assessment.

Risk Exposure and Material Risk Concentrations
The Company considers the most material exposures in this category of risk are (i) the potential for inappropriate business strategy and (ii) the potential for regulatory breaches.

Risk Mitigation
Risk controls, risk monitoring and reporting are considered to be the main method of risk mitigation.

AICL considers the following to be additional potentially material risks to the business.

C.6.2 Brexit

On 31 January 2020, the UK formally left the European Union, and the UK and the EU have entered into a Trade and Cooperation Agreement which was provisionally applied from 1 January 2021, but is still subject to final ratification by the EU. In the meantime Gibraltar domiciled insurance companies have continued to enjoy temporary passporting rights into the United Kingdom post Brexit, until the Gibraltar Authorisations Regime ("GAR") is in place.

Due to the ongoing uncertainty around the outcome of Brexit, management stopped writing new business in the Republic of Ireland in March 2019 and the company is now focused on an orderly run off of any existing policies and liabilities from this book of business. With all of AICL's business now located in the United Kingdom, the Board does not anticipate Brexit having an impact on the Company's ability to continue to trade. Brexit has however disrupted the supply chain for repair parts for motor vehicles, particularly when the supply of these parts is from within the European Union, with such delays giving rise to additional repair costs. The board continue to monitor this situation closely making underwriting adjustments as appropriate.

C.6.3 Market Developments and Covid 19

AICL is exposed to potentially adverse developments within the wider market.

During 2020 the World Health Organisation declared COVID 19 as a global pandemic and as a result the UK Government introduced various measures to control the spread of the virus, including a sequence of lockdowns, which have had a material impact on the motor insurance market including changes to consumer behaviour and policy sales, claims frequency, cost per claim and levels of claims fraud. At the time of writing this report the Company has observed lower volumes of certain books whereas others have remained relatively stable, since motor insurance remains a compulsory class of insurance cover. The impact on claims frequencies has been positive during full lockdown.

From an operational point of view, AICL depends heavily on its outsourced service providers. Most service providers have at various points during 2020 invoked their BCP plans and staff worked remotely to ensure the ongoing provision of services to the Company. The Company continues to closely monitor the situation particularly in the UK, where most of its business is now placed.

In Europe, the low inflation environment and concerns over growth in peripheral nations continues to be a challenge. Future adverse events could cause a shock in developed markets. Furthermore, AICL currently underwrites only UK motor risks. The UK motor market have undergone significant changes in various areas, including the legal and commercial environments, changes in policyholder behaviour, technological advances, new distribution channels and business models, and such changes are likely to continue over the coming years. The Ogden rate which was set at -0.25% in 2019 continues to drive higher reinsurance costs.

While the impact of such events and changes is difficult to predict, AICL maintains contacts through the wider Arch Group in all major jurisdictions, thus ensuring that the Company is well-placed to react promptly to any adverse developments.

<u>C.7</u> <u>Any other information</u>

No other material information to report as of December 31, 2020.

SECTION D – VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

The table below sets out the value of the material assets of the Company (except for reinsurance technical provisions) as at 31 December 2020 and 2019 under Solvency II and GAAP:

Assets (in GBP 000s)	2020 Solvency II	2020 GAAP	2019 Solvency II	2019 GAAP
Reinsurer's Share of Technical Provisions	252,993	285,571	203,578	230,664
Deferred Tax Asset	508	72	294	0
Investments (including accrued interest & cash)	20,763	20,713	20,493	20,403
Insurance and intermediaries receivable balances	2,182	16,086	0	8,235
Reinsurance Receivables	0	0	0	0
Deposits to Cedants	2,272	2,272	7,569	7,569
Other assets	17	68	0	152
Cash & Cash Equivalents	41,787	41,787	23,350	23,350
Deferred Acquisition Costs	0	10,056	0	8,506

The following are the bases, methods and main assumptions used for valuation of each material class of assets for Solvency II purpose.

D.1.1 Deferred acquisition costs

As at 31 December 2020, the Company recognized deferred acquisition costs on a GAAP basis. In the financial statements, acquisition costs which represent commission and other related expenses are deferred over the period in which the related premiums are earned. To the extent that acquisition costs are deferred and considered irrecoverable against the related unearned premiums, they are written off to net operating expenses as incurred.

The Solvency II balance sheet is prepared based on the best estimate of future cash flow basis. As deferred acquisition costs do not result in future cash flows, these amounts are therefore excluded from the Solvency II balance sheet.

There has been no change in the recognition and valuation basis during the period.

D.1.2 Deferred tax assets

Deferred tax assets are the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts under Solvency II or GAAP. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and if they relate to income taxes levied by the same taxation authority on the same taxable entity.

The valuation of deferred tax assets is consistent with the accounting valuation under GAAP.

D.1.3 Investments (other than holding in related undertaking)

Investment assets are comprised mainly of Government bonds, with £0.5 million (2019 – £0.4 million) held in money market funds. The Company's investments are externally managed. The Company receives quarterly reports detailing the underlying assets and their performance. Whilst Coronavirus has given rise to market volatility in financial markets, the Company's investment portfolio has held up well in during 2020, as the company's investment portfolio comprises of UK Government bonds.

The investments are valued at fair value under GAAP and Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets. No significant estimates or judgements have been used in the valuation of investments.

There has been no change in the recognition and valuation basis during the period and the valuation of investments under Solvency II is consistent with the accounting valuation under GAAP.

D.1.4 Deposits to Cedants

Deposits to cedants represent cash floats held by MGA partners for the settlement of claims. These balances are valued at fair value reflecting the amount held at 31 December 2020, translated at the closing exchange rate for balances not denominated in the reporting currency. No estimates or judgements are required in the valuation.

There has been no change in the recognition and valuation basis during the period. However, the Company is paying in advance for the claims float on behalf of QS partners. The calculation of the Counterparty risk has been adjusted to account for the rating of the Quota Share partners.

D.1.5 Insurance and intermediaries receivables

Insurance and intermediaries receivables balance represents premiums owed from lead insurers and MGA partners less related acquisition costs. Outstanding premiums are valued at fair value, being the amount recoverable, and due to the short-term nature of the receivable no adjustments to valuation, estimates or judgements are required.

There has been no change in the recognition and valuation basis during the period and the valuation of insurance and intermediaries receivables under Solvency II is consistent with the accounting valuation under GAAP. However, for Solvency II purposes, these amounts are reduced by the amount not yet due on the valuation date. At 31 December 2020 there were no overdue receivables. For Solvency II purposes, such items are included in technical provisions.

As at 31 December 2020, the Company had a further £1.4 million receivable (2019 - £0.2m payable) on a GAAP basis of insurance and intermediaries receivables, representing net amounts owed to business partners with respect to funds held for future sliding scale and profit commission shares together with any related interest charges. These are valued at fair value, being amounts assessed as payable based on the contract terms. Key judgements and estimates involved in deriving the value of these items are the best estimate loss ratios of the underlying business, which are based on actuarial reviews.

There has been no change in the recognition and valuation basis during the period and the valuation under Solvency II is consistent with the accounting valuation under GAAP. However, for GAAP purposes, amounts owed to MGA partners are netted against premium debtors, whereas for Solvency II purposes debtors and liabilities are grossed up.

D.1.6 Reinsurance receivables

Reinsurance receivables represent premiums owed from Quota Share and Excess of Loss reinsurers. These balances are valued at fair value, being the amount recoverable, and due to the short-term nature of the receivable no adjustments to valuation, estimates or judgements are required.

There has been no change in the recognition and valuation basis during the period and the valuation of insurance and intermediaries receivables under Solvency II is consistent with the accounting valuation under GAAP. However, for Solvency II purposes, these amounts are set against reinsurance technical provision cashflows to the extent that they are not overdue. At 31 December 2020 there were no overdue receivables.

D.1.7 Cash and cash equivalents

The majority of cash and cash equivalents with banking counterparties are held in GBP, with circa 3% held in EUR, and 11% in USD. All accounts are held in the UK. The non-GBP balances are translated into GBP at the balance sheet closing rate.

Cash and cash equivalents are valued at fair value by the relevant financial institution, and the Company receives monthly statements at the period end to confirm the balances held. There are no significant estimates or judgements used in valuing cash holdings due to the nature of the asset.

There has been no change in the recognition and valuation basis during the period and the valuation of cash and cash equivalents under Solvency II is consistent with the accounting valuation under GAAP.

D.2 Technical provisions

D.2.1 Results summary

A summary of the technical provisions results for the Company as at 31 December 2020 is set out below, split by material lines of business:

31 December 2020 Net of Retrocession and inter-company Quota Share	Claims Provisions (£'000)	Premium Provisions (£'000)	Risk Margin (£'000)	Solvency II Technical Provisions (£'000)
Other motor insurance	1,532	45	254	**1,831**
Motor vehicle liability insurance	14,678	403	1,454	**16,535**
Legal Expenses insurance	711	1,577	66	**2,354**
Grand Total	16,921	2,025	1,774	**20,720**

This compares to the following corresponding table as at 31 December 2019:

31 December 2019 Net of Retrocession and inter-company Quota Share	Claims Provisions (£'000)	Premium Provisions (£'000)	Risk Margin (£'000)	Solvency II Technical Provisions (£'000)
Other motor insurance	2,110	270	1,433	**3,813**
Motor vehicle liability insurance	13,426	2,568	200	**16,194**
Legal Expenses insurance	1	(66)	14	**(51)**
Grand Total	15,536	2,772	1,647	**19,956**

D.2.2 Calculation Methodology

Under Solvency II an economic balance sheet is required – which requires a market valuation of technical provisions. The overarching principle for valuing technical provisions under Solvency II is the current amount undertakings would have to pay if they were to transfer their (re)insurance obligations immediately to another undertaking.

The starting point for valuing the Company's Technical Provisions (TPs) is the Company's GAAP basis reserves for loss and allocated loss adjustment expenses (Loss Reserves). Cash flows associated with those Loss Reserves, along with unearned premium reserves and provisions for other components of economic basis TPs, are calculated for each homogenous risk group using the approach outlined below.

(1) Best Estimate Liability

The best estimate liability ("BEL") is calculated from the cashflows in respect of the claims provisions and premium provisions. The best estimate liability represents the present value of future cashflows. The present value is calculated based on the timing of cashflows and on yield curves provided by EIOPA. The best estimate liability is determined on a gross, ceded and net basis for both the claims provisions and the premium provisions.

(2) Premium Receivable

Premium receivable in respect of the portion of the GAAP premium receivable not yet due on the valuation date is included in the premium provisions cashflows. A consistent approach is applied to calculation of ceded premium payable.

(3) Premium in respect of Bound But Not Yet Incepted Business

The Company's technical provision calculation allows for business that is bound but not yet incepted ("BBNI") at the valuation date.

The premium provisions include the future premium cashflows in respect of the BBNI business up to the relevant contract boundary.

(4) Future loss and allocated loss adjustment expense

Future loss and allocated loss adjustment expense cashflows are projected in respect of the GAAP Loss Reserves in order to calculate claims provisions. The Company does not consider that there are any implicit or explicit margins in the GAAP Loss Reserves.

Future loss and allocated loss adjustment expense cashflows are projected in respect of the GAAP unearned premium reserves and BBNI premium in order to calculate premium provisions. The projection uses business planning assumptions in respect of future loss ratios on unearned premium reserves and not yet incepted business.

(5) ENIDs

The Solvency II technical provisions must allow for events not in data ("ENIDs"). These are possible future events which are not included in historical data. An ENID loading has been derived by the Company using a truncated distribution approach and is applied to future claim cashflows in both the claims provisions and premium provisions.

(6) Expenses

Acquisition costs directly attributable to the future premium receivable are determined based on the terms of the contracts which generate the premium receivable.

In addition, an allowance for unallocated loss adjustment expenses, administrative expenses and investment management expenses associated with the settlement of the best estimate liabilities is included in the technical provisions.

The Quota Share with Arch Re has been endorsed to clarify inclusion in the cover up to a maximum percentage of the incurred loss in case of the commencement of Run-Off for the Company. The Company is currently not in Run-Off.

(7) Impact of Reinsurance

The Company's reinsurance program consists of proportional reinsurance and non-proportional cover. Fixed percentage ceding acquisition expenses apply to the proportional reinsurance cover. In general, ceded cashflows are derived proportionally from gross cashflows. Exceptions to this approach are (i) ceded acquisition costs which are derived from the product of ceded premiums and the ceded acquisition expense percentage, and (ii) GAAP ceded balances receivable / payable which are analysed by their settlement terms to determine the portion of balance not yet due for settlement and which should be included in ceded technical provisions.

(8) Adjustment for counterparty default

An adjustment for counterparty default is applied to the ceded technical provisions. The adjustment for counterparty default uses the Probability of Default ("PD") consistent with the Credit Quality Steps specified in EIOPA guidance in respect of the AM Best financial strength rating for reinsurance counterparties. An assumption was made in this adjustment that the Loss Given Default ("LGD") in the case of a counterparty defaulting on its obligations would represent 50% of the amount of exposure to that counterparty.

(9) Risk Margin

The Risk Margin is calculated based on the Level 3 of Simplifications in the EIOPA guidance which projects future SCR values based on the assumption that the SCR to Net BEL ratio is constant through time. A ratio of SCR to Net BEL is determined as of the valuation date. This ratio is applied to future BEL estimates at each 1 year interval until liabilities are fully runoff to estimate future SCR requirements. A 6% cost of capital is applied to all SCR estimates though time to estimate the cost of capital to support the liabilities. The resulting series of costs of capital requirements are present valued to the valuation date using the yield curve for the reporting currency of the Company with a 1-year lag per the EIOPA guidance material.

(10) Allocation to Lines of Business

AICL writes motor business, which for Solvency II reporting purposes requires to be split into Motor Liability and Other Motor. It is not common practice in the UK and Irish markets to rate motor business on this basis.

The split between Liability and Other has therefore been derived by reference to claims heads of damage, with Third Party Property Damage and Bodily Injury being allocated to Liability and Accidental Damage, Windscreen, Fire and Theft being allocated Other Motor.

D.2.3 Material Changes since Last Reporting Period

There have been no material changes in the basis for calculation of technical provisions during the period.

D.2.4 Level of Uncertainty

Uncertainty in technical provisions arises from a number of sources:

- The estimates for outstanding losses are based on known information at the balance sheet date. Ultimate settlement of these claims may differ from these estimates
- The estimates for future losses on both expired and unexpired business are based on actuarial assumptions reflecting past performance and anticipated future changes. These assumptions may ultimately prove to differ from actual experience
- The estimates for expenses are based on reasonable judgement reflecting past experience and on assumptions as to the run-off period. Either of these factors may differ from ultimate experience
- Events not in data are by their nature unpredictable and any allowance made could prove to be over-prudent or insufficient
- The legislative and market environment in which AICL operates has been subject to material changes in the past, which could impact best estimates and projected future cash flows, such as the upcoming whiplash reforms and a further review of the Ogden discount rate

- The allocation of losses to Solvency II Lines of Business (Motor Liability and Motor Other) is based on the historic loss pattern. The ultimate distribution of losses into liability / non-liability may differ from the assumed allocation.
- Allowance for future premium is based on expected premium under coinsurance / MGA agreements. Market conditions and other factors might make it difficult for our partners to achieve expected premium volume.

AICL follows a robust process in determining the appropriate assumptions underlying the calculation of technical provisions. Actual performance is monitored against expectations on an ongoing basis to ensure assumptions are updated as required.

Stress testing was performed on the Solvency II Technical Provisions as at 30th September 2020 in order to give an indication of sensitivity around loss ratio assumptions.

The following table shows net TPs in stressed scenarios (loss ratios 5% and 10% higher than expected). The table takes account of sliding scale commissions, which provide the Company with some protection against moderate loss ratio movements.

2020YE	Base Case (£'000)	Losses +5% (£'000)	Losses +10% (£'000)
Net Best Estimate Liabilities	18,714	19,473	20,478
Impact		759	1,764

The above results of sensitivity testing should be considered in the context of the Company's solvency profile. As at December 31 2020, the Company's SCR was £14m, against which it held eligible own funds of £25.3m, equating to SCR coverage of 181%. Without considering the impact on the SCR, the more extreme of the scenarios above (losses 10% higher than expected), would reduce the SCR coverage ratio to 169%.

D.2.5 Material Differences between GAAP and Solvency II

Whilst some of the approaches and techniques applied under Solvency II are similar to those followed under the existing GAAP rules, there are other rules where there will be significant changes. These include:

- Movement to a cash flow basis for valuation of both gross business and reinsurance;
- Removal of any implicit or explicit margins within technical provisions to give a "true best estimate" for solvency purposes, defined as the mean of the full range of possible future outcomes;
- Introduction of the valuation of very low probability extreme events including latent claims, referred to as an allowance for "events not in data" or ENIDs;
- Removal of the requirements to hold an unearned premium reserve and to allow for other non-monetary items. These are replaced by "premium provisions", valued on a best estimate basis. This also includes a requirement to take account of all future premium cash inflows;

- Movement to recognising contracts on a "legal obligation basis". This will mean the inclusion of business currently not valued as part of technical provisions – for example 1 January renewals entered into prior to a 31 December valuation, also referred to as "bound but not incepted" business;
- Inclusion of run-off expenses in technical provisions;
- Introduction of discounting of cash flows, leading to increased volatility in reserves;
- Setting off of insurance and intermediaries receivables and reinsurance receivables and payables against gross technical provisions and reinsurance technical provisions;
- Introduction of the principle of a market consistent basis and calculation of a "risk margin"; and
- Valuation of liabilities segmented by at least Solvency II lines of business.

The table below shows the movement from gross GAAP technical provisions to Solvency II technical provisions. Note that an audit adjustment was made to the final GAAP financials to reflect payments from claims agents in the period. This was an accounting adjustment made outside of our data warehouse and therefore is not reflected in the Technical Provisions. This adjustment was a reallocation and did not impact Own Funds.

2020 Technical Provisions GAAP to Solvency II	Gross £'000	Ceded £'000	Net £'000
Claims Provisions	225,396	208,475	16,921
Premium Provisions	46,542	44,517	2,025
Risk Margin	1,775	1	1,774
Solvency II Technical Provisions	**273,713**	**252,993**	**20,720**
GAAP Reserves (post-Audit adjustment)	223,140	209,212	13,928
Audit adjustment reversal			
Remove margins	-	-	-
Allowance for ENID	3,310	3,108	202
Change of Expense Basis	4,463	1,844	2,619
Adjustment for Counterparty Default	-	(146)	146
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(5,517)	(5,542)	25
Solvency II Claims Provisions	**225,396**	**208,476**	**16,921**
GAAP Reserves (Unearned Premium)	80,399	76,125	4,274
Remove Unearned Premium Reserve	(80,399)	(76,125)	(4,274)
Future Premium (net of Acquisition Costs)	(1,601)	(1,444)	(158)
Future Losses and ALAE	60,760	57,207	3,553
Remove margins	-	-	-
Allowance for ENID	911	858	53
Change of Expense Basis	1,215	16	1,199
Adjustment for Counterparty Default	-	(6)	6
Premium Receivables	(14,693)	(12,066)	(2,627)
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(50)	(49)	(1)
Solvency II Premium Provision	**46,542**	**44,517**	**2,025**

This compares to the following corresponding table as at 31 December 2019:

2019 Technical Provisions GAAP to Solvency II	Gross £'000	Ceded £'000	Net £'000
Claims Provisions	178,271	162,735	15,536
Premium Provisions	43,615	40,843	2,772
Risk Margin	1,647	-	1,647
Solvency II Technical Provisions	**223,533**	**203,578**	**19,956**
GAAP Reserves (post-Audit adjustment)	182,723	168,992	13,731
Audit adjustment reversal			
Remove margins	-	-	-
Allowance for ENID	2,741	2,535	206
Change of Expense Basis	3,654	1,888	1,766
Adjustment for Counterparty Default	-	-	-
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(10,847)	(10,596)	(251)
Solvency II Claims Provisions	**178,271**	**162,819**	**15,452**
GAAP Reserves (Unearned Premium)	65,355	61,672	3,683
Remove Unearned Premium Reserve	(65,355)	(61,672)	(3,683)
Future Premium (net of Acquisition Costs)	(4,725)	(4,175)	(549)
Future Losses and ALAE	55,728	52,080	3,648
Remove margins	-	-	-
Allowance for ENID	803	752	51
Change of Expense Basis	597	65	532
Adjustment for Counterparty Default	-	-	-
Premium Receivables	(8,235)	(7,358)	(878)
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(554)	(518)	(35)
Solvency II Premium Provision	**43,615**	**40,847**	**2,769**

D.2.6 Transitional Adjustments

AICL does not make use of any transitional adjustments with regard to the matching adjustment, volatility adjustment, transitional risk-free interest rate term structure or transitional deduction.

D.3 Other liabilities

The table below sets out the value of the material liabilities of the Company as at 31 December 2020 and 2019 under Solvency II and GAAP:

Other Liabilities (in GBP 000s)	2020 Solvency II	2020 GAAP	2019 Solvency II	2019 GAAP
Insurance & intermediaries payables	-	-	154	154
Reinsurance payables	17,685	29,394	4,289	11,647
Payables (trade, not insurance)	3,769	3,769	3,619	3,662
Other Liabilities **	73	10,715	-	9,004
Total Other Liabilities	21,528	43,879	8,063	24,468

The following are the bases, methods and main assumptions used for valuation of each material class of other liabilities for Solvency II purpose.

D.3.1 Reinsurance Payables

As at 31 December 2020 on a GAAP basis the Company had £29.4 million (2019 - £11.6 m) of reinsurance payables, being those balances due to reinsurers. This represents the amounts owed to the inter-company Quota Share reinsurer and XOL reinsurers. On a Solvency II basis, the balances represent the amounts technically overdue, reflecting the fact that AICL settles the inter-company Quota Share balance on a periodic basis, but not monthly. Hence the amount effectively considered to be overdue will vary over time.

The balance is valued at fair value, being the total amount payable above the reinsurer's share of premiums still to be collected, and does not require significant estimates or judgements in the valuation.

There has been no change in the recognition and valuation basis during the period and there are no differences between the valuation for Solvency II and the GAAP valuation. However, for Solvency II purposes, the amounts not considered overdue are set against technical provisions recoverable from reinsurers.

D.3.2 Trade Payables

As at 31 December 2020, the Company had trade payables of £3.8 million (2019 - £3.7m), comprising IPT and accrued expenses due post the reporting date. There are no estimations or judgements required for these items.

There has been no change in the recognition and valuation basis during the period and there are no differences between the valuation for Solvency II and the GAAP valuation.

D.3.3 Other Liabilities

As at 31 December 2020 the Company had £10.7m deferred ceded acquisition costs (2019 - £9.0m). In the financial statements ceded acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related reinsurers' share of premiums are earned. To the extent that ceded acquisition costs are deferred and considered irrecoverable against the related reinsurers' share of unearned premiums, they are written off to net operating expenses as incurred.

The Solvency II balance sheet is prepared based on the best estimate of future cash flow basis. As deferred ceded acquisition costs do not result in future cash flows, these amounts are therefore excluded from the Solvency II balance sheet.

There has been no change in the recognition and valuation basis during the period.

D.4 Any other information

No other material information to report as at December 31, 2020.

SECTION E – CAPITAL MANAGEMENT

E.1 Own funds

E.1.1 Management of Own Funds

The Company has adopted a capital management policy setting out the methodology and procedures to provide oversight of the Company's own funds. The strategic objectives articulated in the capital management policy are (i) to ensure compliance with the Company's regulatory capital requirements, (ii) to manage and allocate capital efficiently to achieve sustainable returns and facilitate growth objectives as articulated in the Company's business plans; and (iii) to ensure access to capital markets on competitive terms, so that the Company's overall cost of capital is minimised. To achieve these objectives, the Company strives to maintain capital levels that are consistent with its risk appetite, corporate strategy and statutory minimum requirements, at both a point in time and on a forward looking basis. The Company's time horizon for business planning is one year, however the capital planning horizon spans three years.

The Company has adopted a capital management plan which is reviewed annually and sets out the methodology and procedures to provide oversight of the Company's own funds. The capital management plan articulates solvency capital thresholds, corrective actions to be taken if the thresholds are reached and potential sources of capital for the Company and their estimated timeframe of realisation.

High level roles and responsibilities in relation to capital management activities are outlined below.

- Board. Sole responsibility for approving the capital management policy and plan. Overall responsibility for monitoring capital management.
- Audit and Risk Committee. Reviews the capital management policy and plan and makes recommendations to the Board. Responsible for reviewing and monitoring the key capital management metrics and tolerances and presenting key capital management information to the Board as required. Responsible for monitoring the alignment of the investment strategy with the capital management policy and plan, ensuring appropriate levels of capital to meet the Company's obligations.
- Finance Function. Responsible for producing the reports necessary for appropriate monitoring that the capital management policy is being followed and monitoring execution of the capital management plan.
- Risk Management Function. Responsible for maintaining and developing the capital management policy and plan. Responsible for maintaining the SCR and MCR calculations.

There have been no material changes to capital management during 2020.

E.1.2 Classification Own Funds

The Company's own funds consist mostly of Tier 1 own funds. It is comprised of paid-in ordinary share capital, capital contribution and economic surplus.

Composition of Own Funds	Year Ended 31/12/2020				Year Ended 31/12/2019			
Own Funds (£'000)	**Total**	**Tier 1**	**Tier 2**	**Tier 3**	**Total**	**Tier 1**	**Tier 2**	**Tier 3**
Paid-in ordinary share capital	21,879	21,879			19,379	19,379		
Share premium account related to ordinary share capital	3,871	3,871			3,871	3,871		
Reconciliation Reserve:	(977)	(977)			144	144		
Net Deferred Tax Assets	508			508	294			294
Total Own Funds	**25,281**	**24,773**		**508**	**23,688**	**23,394**	**0**	**294**

This reflects the additional capital injection of £2.5 million during the year.

The reconciliation reserve equals the excess of assets over liabilities less other own funds items as at the reporting date and represents retained earnings less adjustments from GAAP to Solvency II valuation.

There are no foreseeable or planned dividends.

E.1.3 Terms and Conditions of Own Funds

Own funds do not have any terms or conditions attached, as they comprise solely of ordinary share capital, share premium and the reconciliation reserve. As such, the own funds are not redeemable and do not carry any guaranteed dividend or other return and are fully loss absorbing.

E.1.4 Differences in Own Funds between Financial Statements and Solvency II Valuation

The difference between the equity shown in the Company's financial statements and the excess of the assets over liabilities as calculated for solvency purposes arises due to the valuation of technical provisions, the ineligibility of the deferred acquisition costs and the adjustment to the deferred tax asset.

Differences in Own Funds (£'000)	Year Ended 31/12/2020	Year Ended 31/12/2019
Equity shown in Financial Statements	29,206	26,335
Asset Valuation	50	90
Technical Provisions Valuation	-2,752	(2,542)
Receivables & Payables	-2,195	(834)
Deferred Tax Asset	436	294
Deferred Acquisition Costs Eligibility	-10,056	(8,506)
Other	10,592	8,852
Excess of Assets over Liabilities for solvency purposes	**25,281**	**23,688**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Calculation of SCR and MCR

In respect of the calculation of the SCR and MCR:

- The Company uses the Standard Formula.
- Undertaking specific parameters are not used.
- No capital add-ons are applied to the SCR figures.
- The simplifications outlined in Articles 107, 108, 110, 111 and 112 Commission Delegated Regulation (EU) 2015/35 apply to the Counterparty default risk sub-module.
- No simplifications have been used in the other risk sub-modules.
- The MCR is calculated initially based on the calculation of the Linear MCR based on the best estimate technical provisions and the net written premiums in the last 12 months. Then a floor of 25% of the SCR and a cap of 45% of the SCR is applied with an absolute floor of €3.7m also applied to derive the final MCR requirement.

E.2.2 Amount of SCR and MCR

A breakdown of SCR by risk category as at 31 December 2020 and 2019 is set out in the following table:

Risk Category	2020 SCR (£'000)	2019 SCR (£'000)
Market risk	1,444	1,339
Counterparty default risk	4,911	4,627
Life underwriting risk	-	-
Health underwriting risk	-	-
Non-life underwriting risk	6,846	5,585
Diversification	(2,469)	(2,220)
Basic Solvency Capital Requirement	**10,732**	**9,331**
Operational risk	3,220	2,799
Loss-absorbing capacity of deferred taxes	-	-
Solvency Capital Requirement	**13,952**	**12,130**

E.2.3 Inputs used to Calculate the MCR

The following inputs have been used to calculate the MCR as at 31 December 2020:

MCR Calculation (GBP 000s) Year-End 2020 Line of Business	Net of Reinsurance Best Estimate TPs	Net written premiums last 12 months
Motor vehicle liability	15,080	7,007
Other motor	1,576	935
Legal Expenses	2,289	1,705
Linear MCR		2,387
SCR		13,952
Combined MCR		3,488
Absolute Floor of the MCR		3,346
Minimum Capital Requirement		**3,488**

The comparative for 31 December 2019 was:

MCR Calculation (GBP 000s)		
Year-End 2019	**Net of Reinsurance**	**Net written premiums**
Line of Business	**Best Estimate TPs**	**last 12 months**
Motor vehicle liability	15,994	7,007
Other motor	2,380	935
Linear MCR		2,268
SCR		12,130
Combined MCR		3,033
Absolute Floor of the MCR		3,187
Minimum Capital Requirement		**3,187**

E.2.4 SCR ratio and MCR ratio

As at 31 December 2020 and 2019, the ratio of eligible own funds to SCR and the ratio of eligible own funds to MCR are summarized in the table below.

Solvency Coverage	2020 (£'000)	2019 (£'000)
Total eligible own funds to meet the SCR	25,281	23,688
Total eligible own funds to meet the MCR	24,773	23,394
SCR	13,952	12,130
MCR	3,488	3,187
Ratio of Eligible own funds to SCR	**181%**	**195%**
Ratio of Eligible own funds to MCR	**710%**	**734%**

AICL's SCR has increased during the period as a result of higher business volumes written during the year. The MCR has increased and is still based on the SCR rather than the absolute floor. Corresponding increases in Own Funds eligible to cover each requirement have kept the ratios at acceptable levels.

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

The duration-based equity risk sub-module is not used in the calculation of the SCR.

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

Not applicable.

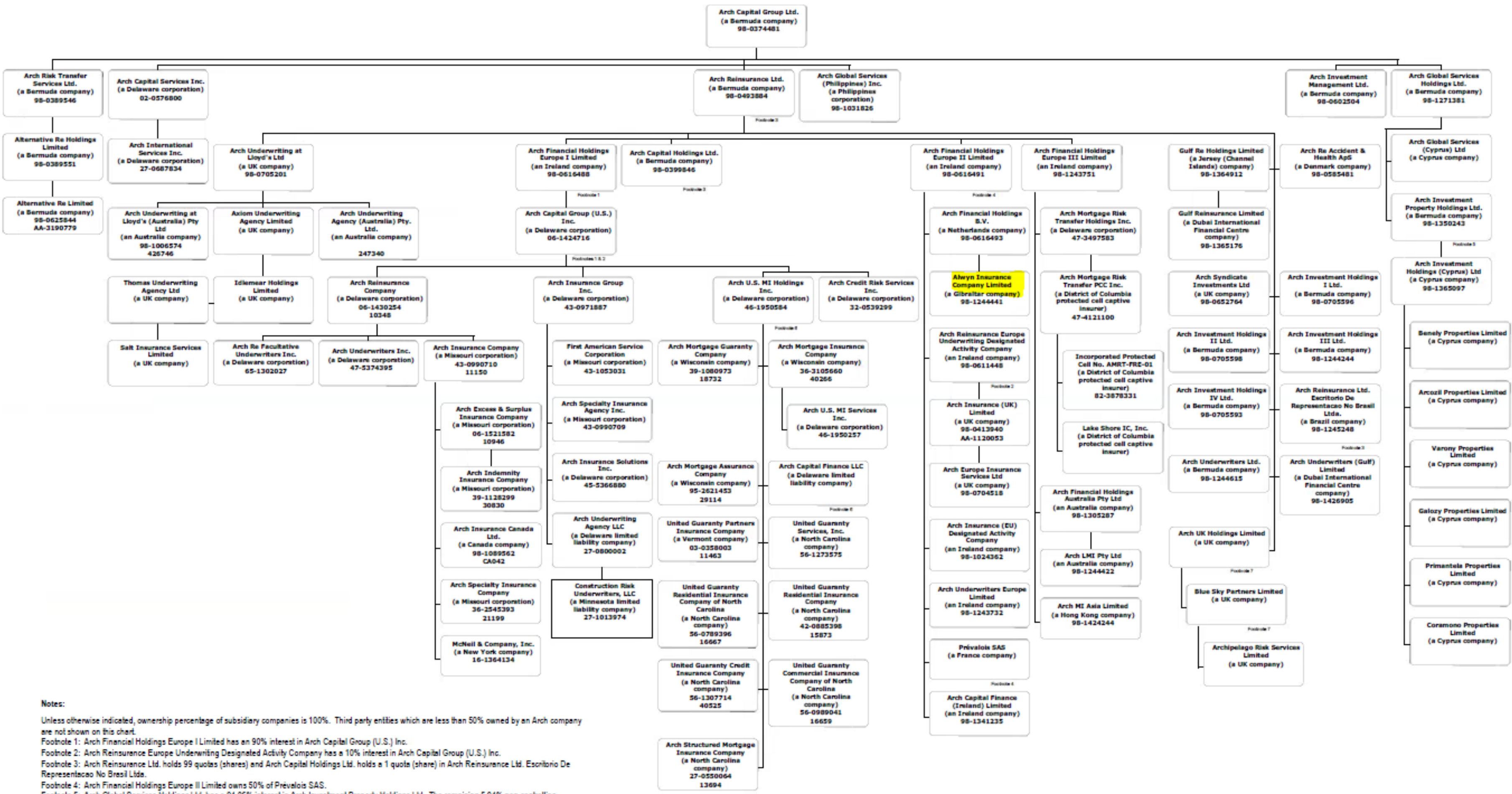
E.5 Non-compliance with the MCR and non-compliance with the SCR

The Company complies with the Solvency Capital Requirement and Minimum Capital Requirement during 2020.

E.6 Any other information

No other material information to report as at December 31, 2020.

APPENDIX 1 – ACGL ORGANIZATIONAL STRUCTURE



Notes:

Unless otherwise indicated, ownership percentage of subsidiary companies is 100%. Third party entities which are less than 50% owned by an Arch company are not shown on this chart.

Footnote 1: Arch Financial Holdings Europe I Limited has an 90% interest in Arch Capital Group (U.S.) Inc.

Footnote 2: Arch Reinsurance Europe Underwriting Designated Activity Company has a 10% interest in Arch Capital Group (U.S.) Inc.

Footnote 3: Arch Reinsurance Ltd. holds 99 quotas (shares) and Arch Capital Holdings Ltd. holds a 1 quota (share) in Arch Reinsurance Ltd. Escritorio De Representacao No Brasil Ltda.

Footnote 4: Arch Financial Holdings Europe II Limited owns 50% of Prevalois SAS.

Footnote 5: Arch Global Services Holdings Ltd. has a 94.06% interest in Arch Investment Property Holdings Ltd. The remaining 5.94% non-controlling interest is held by a third party investor.

Footnote 6: Arch U.S. MI Holdings Inc. is the sole member of Arch Capital Finance LLC.

Footnote 7: Arch UK Holdings Limited owns 75% of Blue Sky Partners Limited.

Key: For each entity, the company name (jurisdiction), FEIN # (where applicable) and NAIC # (or equivalent number if applicable) are listed.

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	508
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	20763
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	20308
Government Bonds	**R0140**	20308
Corporate Bonds	**R0150**	
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	455
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	252993
Non-life and health similar to non-life	**R0280**	252993
Non-life excluding health	**R0290**	252993
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**	2272
Insurance and intermediaries receivables	**R0360**	2182
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**	41787
Any other assets, not elsewhere shown	**R0420**	17
Total assets	**R0500**	320522

Liabilities		Solvency II value
		C0010
Technical provisions - non-life	R0510	273713
Technical provisions - non-life (excluding health)	R0520	273713
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	271939
Risk margin	R0550	1775
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	0
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	
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	0
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	17685
Payables (trade, not insurance)	R0840	3769
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	73
Total liabilities	R0900	295240
Excess of assets over liabilities	R1000	25282

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**				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**				129,124	14,347					16,251							159,723
Gross - Proportional reinsurance accepted	**R0120**																	
Gross - Non-proportional reinsurance accepted	**R0130**																	
Reinsurers' share	**R0140**				127,059	11,418					12,932							151,409
Net	**R0200**				2,065	2,929					3,319							8,313
Premiums earned																		
Gross - Direct Business	**R0210**				122,938	13,660					8,081							144,679
Gross - Proportional reinsurance accepted	**R0220**																	
Gross - Non-proportional reinsurance accepted	**R0230**																	
Reinsurers' share	**R0240**				119,824	10,934					6,198							136,956
Net	**R0300**				3,114	2,725					1,883							7,722
Claims incurred																		
Gross - Direct Business	**R0310**				115,328	12,814					4,157							132,299
Gross - Proportional reinsurance accepted	**R0320**																	
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**				112,150	10,293					3,586							126,029
Net	**R0400**				3,178	2,521					572							6,271
Changes in other technical provisions																		
Gross - Direct Business	**R0410**				0	0					0							0
Gross - Proportional reinsurance accepted	**R0420**																	
Gross - Non- proportional reinsurance accepted	**R0430**																	
Reinsurers'share	**R0440**				0	0					0							0
Net	**R0500**				0	0					0							0
Expenses incurred	**R0550**				64	56					39							158
Other expenses	**R1200**																	0
Total expenses	**R1300**																	158

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

		Home Country	Top 5 countries (by amount of gross		Total Top 5 and home country
		C0010			C0070
	R0010		IE	GB	
		C0080			C0140
Premiums written					
Gross - Direct Business	R0110		-12	159,734	159,723
Gross - Proportional reinsurance accepted	R0120				
Gross - Non-proportional reinsurance accepted	R0130				
Reinsurers' share	R0140		47	151,361	151,409
Net	R0200		-59	8,373	8,314
Premiums earned					
Gross - Direct Business	R0210		492	144,186	144,679
Gross - Proportional reinsurance accepted	R0220				
Gross - Non-proportional reinsurance accepted	R0230				
Reinsurers' share	R0240		487	136,469	136,956
Net	R0300		6	7,717	7,722
Claims incurred					
Gross - Direct Business	R0310		1,000	131,299	132,299
Gross - Proportional reinsurance accepted	R0320				
Gross - Non-proportional reinsurance accepted	R0330				
Reinsurers' share	R0340		1,378	124,651	126,029
Net	R0400		-378	6,649	6,270
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		34	124	158
Other expenses	R1200				0
Total expenses	R1300				158

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	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				39322	4377					2843							46542
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140				38919	4332					1266							44517
Net Best Estimate of Premium Provisions	R0150	0	0	0	403	45	0	0	0	0	1577	0	0	0	0	0	0	2025
Claims provisions																		
Gross	R0160				198847	22737					3813							225396
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240				184169	21205					3102							208476
Net Best Estimate of Claims Provisions	R0250	0	0	0	14678	1532	0	0	0	0	711	0	0	0	0	0	0	16921
Total Best estimate - gross	R0260				238169	27113					6657							271939
Total Best estimate - net	R0270	0	0	0	15081	1577	0	0	0	0	2288	0	0	0	0	0	0	18946
Risk margin	R0280				1454	254					66							1775
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				239623	27367					6723							273714
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	0	0	0	223088	25537	0	0	0	0	4368	0	0	0	0	0	0	252993
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	0	0	0	16535	1831	0	0	0	0	2354	0	0	0	0	0	0	20721

Annex I
S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	2

Gross Claims Paid (non-cumulative)
(absolute amount)

		Development year											In Current year	Sum of years (cumulative)
	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**		
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0170**	**C0180**
Prior	**R0100**													
N-9	**R0160**	0	5677	24417	10938	4335	6636	3096	3432	520	197		197	59249
N-8	**R0170**													
N-7	**R0180**	3465	12206	5574	3134	2359	1879	1770	295				295	30681
N-6	**R0190**	1504	6019	2746	1569	1578	1306	723					723	15444
N-5	**R0200**	1205	7347	4407	2182	1033	2009						2009	18183
N-4	**R0210**	3516	18246	26996	14106	12885							12885	75750
N-3	**R0220**	1859	9444	10633	4645								4645	26581
N-2	**R0230**	13807	43574	16743									16743	74124
N-1	**R0240**	16191	43378										43378	59569
N	**R0250**	13498											13498	13498
Total	**R0260**												94375	373080

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year											Year end (discounted data)
	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	
		C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**	**C0360**
Prior	**R0100**												
N-9	**R0160**						8739	7351	1815	87	278		286
N-8	**R0170**												
N-7	**R0180**				8187	6873	5489	319	2360				2294
N-6	**R0190**			6033	5876	3679	243	1683					1586
N-5	**R0200**		11292	7668	5048	375	2130						1966
N-4	**R0210**	6891	47635	56913	6521	57343							54882
N-3	**R0220**	3609	14507	2046	16253								15427
N-2	**R0230**	38059	5587	53600									52192
N-1	**R0240**	3733	52309										51852
N	**R0250**	44958											44913
Total	**R0260**												225396

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	21879	21879			
Share premium account related to ordinary share capital	R0030	3871	3871			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	-976	-976			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	508				508
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	25282	24774	0	0	508
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	0				

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	R0400				0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	25282	24774	0	0	508
Total available own funds to meet the MCR	R0510	24774	24774	0	0	
Total eligible own funds to meet the SCR	R0540	25282	24774	0	0	508
Total eligible own funds to meet the MCR	R0550	24774	24774	0	0	
SCR	R0580	13952				
MCR	R0600	3488				
Ratio of Eligible own funds to SCR	R0620	1.8121				
Ratio of Eligible own funds to MCR	R0640	7.1026				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	25282	
Own shares (held directly and indirectly)	R0710	0	
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	26258	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced	R0740		
Reconciliation reserve	R0760	-976	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770		
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	85	
Total Expected profits included in future premiums (EPIFP)	R0790	85	

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	1444.33		
Counterparty default risk	R0020	4910.98		
Life underwriting risk	R0030	0	None	
Health underwriting risk	R0040	0	None	
Non-life underwriting risk	R0050	6845.88	None	
Diversification	R0060	-2468.99		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	10732.2		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	3219.66
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	13951.86
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	13951.86
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	

Approach to tax rate

		Yes/No
		C0109
Approach based on average tax rate	R0590	3

Calculation of loss absorbing capacity of deferred taxes

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

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
MCRNL Result	R0010	2387

		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	15080	5907
Other motor insurance and proportional reinsurance	R0060	1576	808
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110	2289	1705
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		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	0

		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	2387
SCR	R0310	13952
MCR cap	R0320	6278
MCR floor	R0330	3488
Combined MCR	R0340	3488
Absolute floor of the MCR	R0350	3346
		C0070
Minimum Capital Requirement	R0400	3488