



ALWYN INSURANCE COMPANY LIMITED  
2021 SOLVENCY AND FINANCIAL CONDITION  
REPORT

08 April 2022

# **SOLVENCY AND FINANCIAL CONDITION REPORT**

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## SUMMARY

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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 2021 AICL wrote premium of £189.5 million (2020 - £159.7 million) and made a profit before tax of £1.4 million (2020 - £0.4 million). The growth in premium written in 2021 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.

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 a largely outsourced business model and the Company’s expenses therefore mostly reflect the charges from its outsourced service providers. In particular, compliance and company secretarial services are outsourced to AICL’s insurance manager 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 2021 was 190% (2020 – 180%), with Own Funds of £29.6 million (2020 - £25.1 million) and a Solvency Capital Requirement (SCR) of £15.6 million (2020 - £14.0 million). The Minimum Capital Requirement was £3.9 million (2020 - £3.5 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 2021, the Company received a further capital injection of £2m from its parent, in order to ensure continuous growth and to remain comfortably within its internal risk appetite limit.

The Company has entered into a capital commitment deed with Arch Reinsurance Ltd. which was approved by the Gibraltar Financial Services Commission in Q4 of 2021. The deed allows the Company to take into account an ancillary Own Funds item of up to £10m and up to a maximum solvency coverage ratio of 160%.

## SECTION A – BUSINESS AND PERFORMANCE

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### **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](http://www.archcapgroup.com) or on the website of the U.S. Securities and Exchange Commission located at [www.sec.gov](http://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 2021		As at 31 December 2020	
	Amount	% of Total	Amount	% of Total
	£'000	%	£'000	%
<b>Gross Premium</b>	189,544		159,723	
<b>Gross written premiums - territory</b>				
United Kingdom	189,546	100%	159,734	100%
Republic of Ireland	- 2	0%	- 12	0%
<b>Total</b>	<b>189,544</b>	<b>100%</b>	<b>159,723</b>	<b>100%</b>
<b>Gross written premiums - class</b>				
Motor	172,372	91%	143,472	90%
Legal Expenses	17,172	9%	16,251	10%
<b>Total</b>	<b>189,544</b>	<b>100%</b>	<b>159,723</b>	<b>100%</b>

### ***A.1.7 Significant Business or Other Events***

On 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions have imposed economic sanctions on Russia. The war in Ukraine and related events happen at a time of significant global uncertainty and economic volatility with rising commodity prices, supply chain shortages and inflationary pressure, weakening the global recovery post the pandemic. To date the Company has not observed any adverse effects on the Company's operations or results. 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. In early 2022, one long standing MGA entered receivership. The Company is now focused on aiding an orderly run off of the existing claims. The Company reports an underwriting profit of £1.5 million for the year (2020 - £1.3 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 2021, with comparatives for 2020.

As at 31 December 2021					
	Total Motor £'000	Motor Liability £'000	Other Motor £'000	Legal Expenses £'000	Total £'000
Gross written premiums	172,372	155,135	17,237	17,172	189,544
Outward reinsurance premiums	(159,327)	(143,599)	(15,728)	(15,764)	(175,091)
Net written premiums	13,045	11,536	1,509	1,408	14,453
Change in the gross provision of unearned premiums	(14,827)	(13,344)	(1,483)	9	(14,818)
Change in the provision for unearned premiums - reinsurers' share	12,015	10,697	1,318	(94)	11,920
Change in the net provision for unearned premiums	(2,812)	(2,648)	(165)	(85)	(2,897)
<b>Earned premiums, net of reinsurance</b>	<b>10,233</b>	<b>8,888</b>	<b>1,345</b>	<b>1,323</b>	<b>11,556</b>
<b>Claims incurred, net of reinsurance</b>	<b>(8,949)</b>	<b>(7,994)</b>	<b>(954)</b>	<b>(604)</b>	<b>(9,552)</b>
<b>Net operating expenses</b>	<b>(360)</b>	<b>(296)</b>	<b>(64)</b>	<b>(130)</b>	<b>(490)</b>
<b>Balance on the technical account</b>	<b>923</b>	<b>598</b>	<b>326</b>	<b>589</b>	<b>1,513</b>
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 premiums	846	1,049	(203)	(1,436)	(590)
<b>Earned premiums, net of reinsurance</b>	<b>5,840</b>	<b>3,114</b>	<b>2,726</b>	<b>1,883</b>	<b>7,723</b>
<b>Claims incurred, net of reinsurance</b>	<b>(5,699)</b>	<b>(3,178)</b>	<b>(2,521)</b>	<b>(572)</b>	<b>(6,271)</b>
<b>Net operating expenses</b>	<b>(120)</b>	<b>(64)</b>	<b>(56)</b>	<b>(39)</b>	<b>(159)</b>
<b>Balance on the technical account</b>	<b>20</b>	<b>(128)</b>	<b>149</b>	<b>1,272</b>	<b>1,293</b>



As at 31 December 2021			
	UK £'000	Ireland £'000	Total £'000
Gross written premiums	189,546	(2)	189,544
Outward reinsurance premiums	(175,093)	2	(175,091)
Net written premiums	14,453	(0)	14,453
Change in the gross provision of unearned premiums	(14,818)	0	(14,818)
Change in the provision for unearned premiums - reinsurers' share	11,920	0	11,920
Change in the net provision for unearned premiums	(2,897)	0	(2,897)
<b>Earned premiums, net of reinsurance</b>	<b>11,556</b>	<b>(0)</b>	<b>11,556</b>
<b>Claims incurred, net of reinsurance</b>	<b>9,295</b>	<b>257</b>	<b>9,552</b>
<b>Net operating expenses</b>	<b>493</b>	<b>(3)</b>	<b>491</b>
<b>Balance on the technical account</b>	<b>1,767</b>	<b>(255)</b>	<b>1,513</b>

As at 31 December 2020			
	UK £'000	Ireland £'000	Total £'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 premiums	(656)	65	(591)
<b>Earned premiums, net of reinsurance</b>	<b>7,717</b>	<b>6</b>	<b>7,722</b>
<b>Claims incurred, net of reinsurance</b>	<b>6,649</b>	<b>(378)</b>	<b>6,270</b>
<b>Net operating expenses</b>	<b>124</b>	<b>34</b>	<b>158</b>
<b>Balance on the technical account</b>	<b>944</b>	<b>350</b>	<b>1,294</b>

### **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 2021, investments amounted to £20.1 million (2020 – £20.2 million) in UK treasuries, £0.4 million (2020 - £0.5million) in money market funds and £29.8 million (2020 – £41.8 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:

	2021 £'000s	2020 £'000s
Fixed maturities	(201)	256
Term loan investments		
Equity securities		
Short-term investments		
Other (1)		
Gross investment income	(201)	256
Investment expenses (2)	32	30
Net investment income	(233)	226

#### **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 2021 and year ended 31 December 2020.

	As at 31/12/2021	As at 31/12/2020
	£'000	£'000
Balance on the technical account	1,513	1,294
Realized & unrealized foreign exchange (gains) / losses	147	(1,244)
Net investment return including in the non technical account	(233)	226
<b>Profit on ordinary activities before taxation</b>	<b>1,428</b>	<b>275</b>
Tax on profit on ordinary activities	(291)	96
<b>Profit on ordinary activities after taxation</b>	<b>1,137</b>	<b>371</b>

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

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

In December 2021 AICL secured a further investment from its parent of £2 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.

The Company has entered into a capital commitment deed with Arch Reinsurance Ltd. which was approved by the Gibraltar Financial Services Commission in Q4 of 2021. The deed allows the Company to take into account an ancillary own funds item of up to £10m and up to a maximum solvency coverage ratio of 160%.

## SECTION B – SYSTEM OF GOVERNANCE

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### **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, three of whom are employees of entities of the Arch Group, and one independent Non-Executive Director. One of the Executive Directors is an employee of AICL’s insurance manager, Artex. The Board of Directors as at 31 December 2021 is as follows:

- William Soares
- Amy Smith
- Katja Spindler
- Marcus Hayday (appointed 12 August 2021)
- Michael Feetham (Independent Non-Executive)

Paul Cole resigned from the Board on 31 May 2021.

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 one non-Arch Executive Director 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](http://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 an Arch Director (separate from the risk and actuarial function holders) 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. Paul Cole resigned from the Board on 31 May 2021 and was replaced by Marcus Hayday who was appointed to the Board of Directors on 12 August 2021.

During the year, the Company has decided to bring financial services previously provided by Artex in house, which has resulted in one Executive Director previously employed by the insurance manager to now be a direct employee of Arch. This has not resulted in a material change to the systems of governance.

### ***B.1.9 Remuneration Policy and Practices***

AICL only has three employees (including one executive director) and one Independent Non-Executive Director who receive remuneration from AICL. The other Directors are remunerated under other arrangements. None of the employees or directors receive remuneration which is directly linked to the performance of AICL. None of the Directors are entitled to share options or shares in the Company. The three employees have an entitlement to pensions from AICL.

As a result, the Company does not have a separate Remuneration Committee, with responsibility for this area being retained by the Board.

### ***B.1.10 Material Transactions***

During the year to 31 December 2021, AICL paid its insurance manager a fee of £0.14 million (2020 - £0.18 million) for the services provided. One of AICL's Directors is also a Director of the insurance manager. At 31 December 2021, the balance owed by AICL was £0.01 million (2020 - £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 £132.8 million (2020 - £84.4 million) and the balance outstanding at 31 December 2021 was £40.9 million (2020 - £26.1 million).

On 22 December 2021, Arch Financial Holdings B.V. injected £2 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.

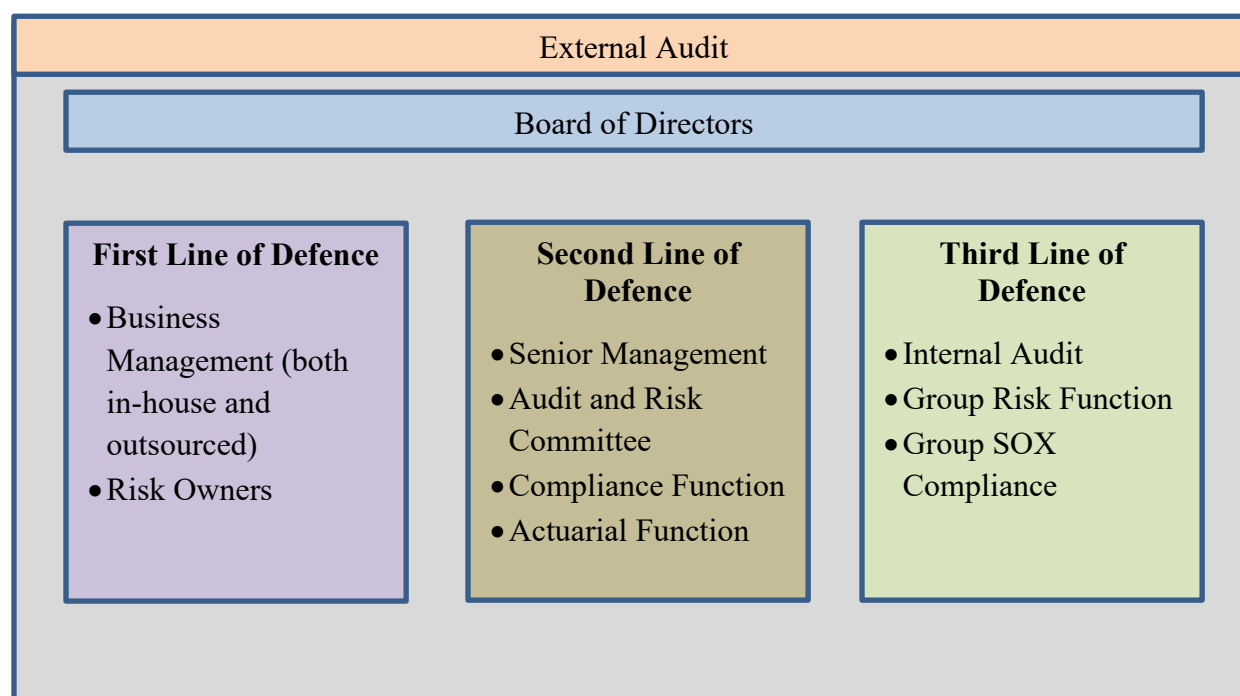
The system of governance is based on the principle of proportionality, such that systems and controls are proportionate to the nature, scale and complexity of the Company's operations. Appropriate and proportionate systems, resources and procedures are in place for AICL's operations.

### 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 AGL Audit Committee and the AGL 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 AGL. AGL'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**

AGL 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 AGL'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.

<b>Outsourced function or activity</b>	<b>Jurisdiction</b>
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	Republic of Ireland
Investment management services	Bermuda
Compliance services	Gibraltar
Actuarial Function services, including Solvency II reporting	Bermuda
	Republic of Ireland
	Belgium
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 31 December 2021.

## 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-21	Allocated % of SCR as at 31-Dec-20
Underwriting Risk	Risk of losses from business already written or planned to be written over the next year	39.0%	41.7%
Market Risk	Risk of losses from market movements, including exchange rates and investment returns	6.2%	8.8%
Credit Risk	Risk of losses from counterparty defaults, including reinsurers and other counterparties	34.9%	29.9%
Operational Risk	Risk of operational losses	19.8%	19.6%

### **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.
- Contingent commissions from MGAs.

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

#### ***C.3.2 Material Risk Concentrations***

As at 31 December 2021, 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 A1+ or equivalent by S&P or Fitch and P-1 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 by one credit step was therefore modelled as a stress test. The stress test shows that the Company was able to withstand such a modelled stress, and will only breach its SCR if the Quota Share Reinsurer is downgraded to non-rated, which is considered an extreme and unlikely scenario.

## **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 2021, the expected profit in future premium is £0 million (2020 – £0.08 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 Ukraine Russia war***

On 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions have imposed economic sanctions on Russia. The war in Ukraine and related events happen at a time of significant global uncertainty and economic volatility with rising commodity prices, supply chain shortages and inflationary pressure, weakening the global recovery post the pandemic.

The Directors have considered the potential impact of the Ukraine war on the entity. To date the Company has no known exposure to sanctioned entities or individuals, nor has it observed any adverse effects on the Company's operations or results. Management continue to monitor the situation and any potential impact on future results of the Company.

### ***C.6.3 Market Developments and Covid 19***

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

The COVID 19 pandemic has 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 during 2020 and 2021. As the UK emerges from the pandemic road use volumes have returned to pre-lockdown levels and the market overall is moving beyond Covid with increased focus on the FCA pricing and whiplash reforms.

The UK motor market has historically been volatile and further volatility has been observed in the run up to and following the introduction of the recent FCA pricing practices rules with some insurers increasing rates while others have dropped rates.

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.

### **C.7 Any other information**

No other material information to report as of 31 December 2021.

## 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 2021 and 2020 under Solvency II and GAAP:

Assets (in GBP 000s)	2021 Solvency II	2021 GAAP	2020 Solvency II	2020 GAAP
Reinsurer's Share of Technical Provisions	261,881	319,542	252,993	285,571
Deferred Tax Asset	304	0	508	72
Investments (including accrued interest & cash)	20,542	20,501	20,763	20,713
Insurance and intermediaries receivable balances	3,030	26,838	2,182	16,086
Reinsurance Receivables	0	0	0	0
Deposits to Cedants	18,902	18,902	2,272	2,272
Other assets	9,005	9,046	17	68
Cash & Cash Equivalents	29,823	29,823	41,787	41,787
Deferred Acquisition Costs	0	13,828	0	10,056

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 2021, 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 £0.4 million (2020 – £0.5 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 during 2020 and 2021, 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 2021, 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 2021 there were no overdue receivables. For Solvency II purposes, such items are included in technical provisions.

#### ***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 2021 there were no overdue receivables.

#### ***D.1.7 Other assets***

As at 31 December 2021, the Company had a further £8.9 million receivable (2020 - £1.4m receivable) on a GAAP basis of amounts receivable from business partners with respect to sliding scale and profit commission shares. 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.

#### ***D.1.8 Cash and cash equivalents***

The majority of cash and cash equivalents with banking counterparties are held in GBP, with circa 1% held in EUR, and 3% 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 2021 is set out below, split by material lines of business:

<b>31 December 2021</b>				
<b>Net of Retrocession and inter-company Quota Share</b>	<b>Claims Provisions (£'000)</b>	<b>Premium Provisions (£'000)</b>	<b>Risk Margin (£'000)</b>	<b>Solvency II Technical Provisions (£'000)</b>
Other motor insurance	745	378	250	<b>1,373</b>
Motor vehicle liability insurance	15,729	3,328	854	<b>19,910</b>
Legal Expenses insurance	1,194	439	71	<b>1,704</b>
<b>Grand Total</b>	<b>17,667</b>	<b>4,144</b>	<b>1,175</b>	<b>22,987</b>

This compares to the following corresponding table as at 31 December 2020:

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

### **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 30<sup>th</sup> September 2021 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.

2021YE	Base Case (£'000)	Losses + 5% (£'000)	Losses + 10% (£'000)
Net Best Estimate Liabilities	21,812	23,057	23,973
Impact		1,245	2,161

The above results of sensitivity testing should be considered in the context of the Company's solvency profile. As at December 31 2021, the Company's SCR was £15.6m, against which it held eligible own funds of £29.6m, equating to SCR coverage of 190%. 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 176%.

### ***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.

<b>2021 Technical Provisions GAAP to Solvency II</b>	<b>Gross £'000</b>	<b>Ceded £'000</b>	<b>Net £'000</b>
Claims Provisions	240,890	223,223	17,667
Premium Provisions	42,802	38,658	4,144
Risk Margin	1,175	-	1,175
<b>Solvency II Technical Provisions</b>	<b>284,867</b>	<b>261,881</b>	<b>22,987</b>
<b>GAAP Reserves (post-Audit adjustment)</b>	<b>247,055</b>	<b>232,329</b>	<b>14,725</b>
Audit adjustment reversal	-	-	-
Remove margins	-	-	-
Allowance for ENID	3,619	3,410	209
Change of Expense Basis	4,941	2,430	2,511
Adjustment for Counterparty Default	-	(213)	213
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(14,725)	(14,569)	(155)
Currency Revaluation	-	(164)	164
Remove booked ULAE	-	-	-
<b>Solvency II Claims Provisions</b>	<b>240,890</b>	<b>223,223</b>	<b>17,667</b>
<b>GAAP Reserves (Unearned Premium)</b>	<b>96,291</b>	<b>89,042</b>	<b>7,249</b>
Remove Unearned Premium Reserve	(96,291)	(89,042)	(7,249)
Future Premium (net of Acquisition Costs)	(3,621)	(3,539)	(83)
Future Losses and ALAE	71,250	65,204	6,046
Remove margins	-	-	-
Allowance for ENID	1,069	978	91
Change of Expense Basis	6,648	5,806	842
Adjustment for Counterparty Default	-	(7)	7
Premium Receivables	(31,659)	(29,030)	(2,630)
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(883)	(754)	(129)
<b>Solvency II Premium Provision</b>	<b>42,802</b>	<b>38,658</b>	<b>4,144</b>



This compares to the following corresponding table as at 31 December 2020:

<b>2020 Technical Provisions</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>
<b>GAAP to Solvency II</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Claims Provisions	225,396	208,475	16,921
Premium Provisions	46,542	44,517	2,025
Risk Margin	1,775	1	1,774
<b>Solvency II Technical Provisions</b>	<b>273,713</b>	<b>252,993</b>	<b>20,720</b>
<b>GAAP Reserves (post-Audit adjustment)</b>	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
<b>Solvency II Claims Provisions</b>	<b>225,396</b>	<b>208,476</b>	<b>16,921</b>
<b>GAAP Reserves (Unearned Premium)</b>	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)
<b>Solvency II Premium Provision</b>	<b>46,542</b>	<b>44,517</b>	<b>2,025</b>

### ***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 2021 and 2020 under Solvency II and GAAP:



Other Liabilities (in GBP 000s)	2021 Solvency II	2021 GAAP	2020 Solvency II	2020 GAAP
Insurance & intermediaries payables	-	-	-	-
Reinsurance payables	24,119	45,155	17,685	29,394
Payables (trade, not insurance)	4,897	4,897	3,769	3,769
Other Liabilities **	-	13,814	73	10,715
Total Other Liabilities	29,016	63,866	21,528	43,879

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 2021 on a GAAP basis the Company had £45.2 million (2020 - £29.4 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 2021, the Company had trade payables of £4.9 million (2020 - £3.8m), 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 2021 the Company had £13.8m deferred ceded acquisition costs (2020 - £10.7m). 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 31 December 2021.

## SECTION E – CAPITAL MANAGEMENT

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### **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 2021.

### ***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 31/12/2021				Year Ended 31/12/2020			
Own Funds (£'000)	Total	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3
Paid-in ordinary share capital	23,879	23,879			21,879	21,879		
Share premium account related to ordinary share capital	3,871	3,871			3,871	3,871		
Reconciliation Reserve:	1,550	1,550			(977)	(977)		
Net Deferred Tax Assets	304			304	508			508
<b>Total Own Funds</b>	<b>29,604</b>	<b>29,300</b>		<b>304</b>	<b>25,281</b>	<b>24,773</b>		<b>508</b>

This reflects the additional capital injection of £2 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.

No Tier 2 capital has been taken into account under the capital commitment deed since the Tier 1 solvency ratio exceeds 160%.

### ***E.1.3 Terms and Conditions of Own Funds***

Own fFnds 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 31/12/2021	Year Ended 31/12/2020
Equity shown in Financial Statements	32,342	29,206
Asset Valuation	41	50
Technical Provisions Valuation	(256)	(2,752)
Receivables & Payables	(2,772)	(2,195)
Deferred Tax Asset	304	369
Deferred Acquisition Costs Eligibility	(13,828)	(10,056)
Other	13,773	10,592
<b>Excess of Assets over Liabilities for solvency purposes</b>	<b>29,604</b>	<b>25,281</b>

## **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 2021 and 2020 is set out in the following table:

<b>Risk Category</b>	<b>2021 SCR (£'000)</b>	<b>2020 SCR (£'000)</b>
Market risk	1,120	1,444
Counterparty default risk	6,324	4,911
Life underwriting risk	-	-
Health underwriting risk	-	-
Non-life underwriting risk	7,069	6,846
Diversification	(2,537)	(2,469)
<b>Basic Solvency Capital Requirement</b>	<b>11,975</b>	<b>10,732</b>
Operational risk	3,593	3,220
Loss-absorbing capacity of deferred taxes	-	-
<b>Solvency Capital Requirement</b>	<b>15,568</b>	<b>13,952</b>

### *E.2.3 Inputs used to Calculate the MCR*

The following inputs have been used to calculate the MCR as at 31 December 2021:

<b>MCR Calculation (GBP 000s)</b>		
<b>Year-End 2021</b>	<b>Net of Reinsurance</b>	<b>Net written premiums</b>
<b>Line of Business</b>	<b>Best Estimate TPs</b>	<b>last 12 months</b>
Motor vehicle liability	19,056	11,305
Other motor	1,123	1,547
Legal Expenses	1,633	1,600
Linear MCR		3,173
SCR		15,568
Combined MCR		3,892
Absolute Floor of the MCR		3,122
<b>Minimum Capital Requirement</b>		<b>3,892</b>

The comparative for 31 December 2020 was:

<b>MCR Calculation (GBP 000s)</b>		
<b>Year-End 2020</b>	<b>Net of Reinsurance</b>	<b>Net written premiums</b>
<b>Line of Business</b>	<b>Best Estimate TPs</b>	<b>last 12 months</b>
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
<b>Minimum Capital Requirement</b>		<b>3,488</b>

### ***E.2.4 SCR ratio and MCR ratio***

As at 31 December 2021 and 2020, the ratio of eligible Own Funds to SCR and the ratio of eligible own funds to MCR are summarized in the table below.

<b>Solvency Coverage</b>	<b>2021 (£'000)</b>	<b>2020 (£'000)</b>
Total eligible own funds to meet the SCR	29,604	25,281
Total eligible own funds to meet the MCR	29,300	24,773
SCR	15,568	13,952
MCR	3,892	3,488
<b>Ratio of Eligible own funds to SCR</b>	<b>190%</b>	<b>181%</b>
<b>Ratio of Eligible own funds to MCR</b>	<b>753%</b>	<b>710%</b>

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.

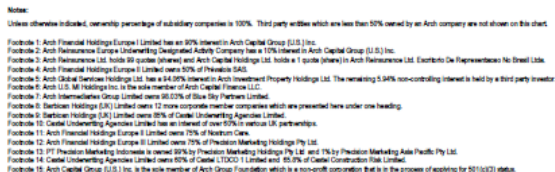
### **E.5 Non-compliance with the MCR and non-compliance with the SCR**

The Company complies with the Solvency Capital Requirement and Minimum Capital Requirement during 2021.

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

No other material information to report as at 31 December 2021.

## AICL Solvency and Financial Condition Report – 2021





## APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES

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**Annex I**  
**S.02.01.02**  
**Balance sheet**

**Assets**

Goodwill
Deferred acquisition costs
Intangible assets
Deferred tax assets
Pension benefit surplus
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Structured notes
Collateralised securities
Collective Investments Undertakings
Derivatives
Deposits other than cash equivalents
Other investments
Assets held for index-linked and unit-linked contracts
Loans and mortgages
Loans on policies
Loans and mortgages to individuals
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Life and health similar to life, excluding health and index-linked and unit-linked
Health similar to life
Life excluding health and index-linked and unit-linked
Life index-linked and unit-linked
Deposits to cedants
Insurance and intermediaries receivables
Reinsurance receivables
Receivables (trade, not insurance)
Own shares (held directly)
Amounts due in respect of own fund items or initial fund called up but not yet paid in
Cash and cash equivalents
Any other assets, not elsewhere shown
<b>Total assets</b>

	Solvency II value
	C0010
<b>R0010</b>	
<b>R0020</b>	
<b>R0030</b>	
<b>R0040</b>	304
<b>R0050</b>	
<b>R0060</b>	
<b>R0070</b>	20542
<b>R0080</b>	
<b>R0090</b>	
<b>R0100</b>	
<b>R0110</b>	
<b>R0120</b>	
<b>R0130</b>	20146
<b>R0140</b>	20146
<b>R0150</b>	
<b>R0160</b>	
<b>R0170</b>	
<b>R0180</b>	396
<b>R0190</b>	
<b>R0200</b>	
<b>R0210</b>	
<b>R0220</b>	
<b>R0230</b>	
<b>R0240</b>	
<b>R0250</b>	
<b>R0260</b>	
<b>R0270</b>	261881
<b>R0280</b>	261881
<b>R0290</b>	261881
<b>R0300</b>	
<b>R0310</b>	
<b>R0320</b>	
<b>R0330</b>	
<b>R0340</b>	
<b>R0350</b>	18902
<b>R0360</b>	3030
<b>R0370</b>	
<b>R0380</b>	
<b>R0390</b>	
<b>R0400</b>	
<b>R0410</b>	29823
<b>R0420</b>	9005
<b>R0500</b>	343487

**Liabilities**

Technical provisions - non-life

Technical provisions - non-life (excluding health)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions - health (similar to non-life)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions - life (excluding index-linked and unit-linked)

Technical provisions - health (similar to life)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions - life (excluding health and index-linked and unit-linked)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions - index-linked and unit-linked

Technical provisions calculated as a whole

Best Estimate

Risk margin

Other technical provisions

Contingent liabilities

Provisions other than technical provisions

Pension benefit obligations

Deposits from reinsurers

Deferred tax liabilities

Derivatives

Debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions

Insurance &amp; intermediaries payables

Reinsurance payables

Payables (trade, not insurance)

Subordinated liabilities

Subordinated liabilities not in Basic Own Funds

Subordinated liabilities in Basic Own Funds

Any other liabilities, not elsewhere shown

**Total liabilities****Excess of assets over liabilities**

	Solvency II value
	C0010
<b>R0510</b>	284867
<b>R0520</b>	284867
<b>R0530</b>	
<b>R0540</b>	283693
<b>R0550</b>	1175
<b>R0560</b>	
<b>R0570</b>	
<b>R0580</b>	
<b>R0590</b>	
<b>R0600</b>	0
<b>R0610</b>	
<b>R0620</b>	
<b>R0630</b>	
<b>R0640</b>	
<b>R0650</b>	
<b>R0660</b>	
<b>R0670</b>	
<b>R0680</b>	
<b>R0690</b>	
<b>R0700</b>	
<b>R0710</b>	
<b>R0720</b>	
<b>R0730</b>	
<b>R0740</b>	
<b>R0750</b>	
<b>R0760</b>	
<b>R0770</b>	
<b>R0780</b>	0
<b>R0790</b>	
<b>R0800</b>	
<b>R0810</b>	
<b>R0820</b>	
<b>R0830</b>	24119
<b>R0840</b>	4897
<b>R0850</b>	
<b>R0860</b>	
<b>R0870</b>	
<b>R0880</b>	
<b>R0900</b>	313883
<b>R1000</b>	29604

Annex I

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: <b>non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)</b>											Line of Business for: <b>accepted non-proportional</b>				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
Premiums written																		
Gross - Direct Business	R0110				155135	17237					17172							189544
Gross - Proportional reinsurance accepted	R0120																	
Gross - Non-proportional reinsurance accepted	R0130																	
Reinsurers' share	R0140				143599	15728					15764							175091
Net	R0200				11536	1509					1408							14453
Premiums earned																		
Gross - Direct Business	R0210				141791	15755					17181							174726
Gross - Proportional reinsurance accepted	R0220																	
Gross - Non-proportional reinsurance accepted	R0230																	
Reinsurers' share	R0240				132903	14410					15858							163171
Net	R0300				8888	1345					1323							11556
Claims incurred																		
Gross - Direct Business	R0310				110991	12332					7269							130593
Gross - Proportional reinsurance accepted	R0320																	
Gross - Non-proportional reinsurance accepted	R0330																	
Reinsurers' share	R0340				102997	11378					6665							121040
Net	R0400				7994	954					604							9552
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				874	132					130							1136
Other expenses	R1200																	0
Total expenses	R1300																	1136

**Annex I**

**S.05.02.01**

**Premiums, claims and expenses by country**

		Home Country	Top 5 countries (by amount of gross premiums written) - non-		Total Top 5 and home country
		C0010			C0070
	R0010		IE	GB	
		C0080			C0140
<b>Premiums written</b>					
Gross - Direct Business	R0110		(2,365)	189,546,458	189,544,092
Gross - Proportional reinsurance accepted	R0120				
Gross - Non-proportional reinsurance accepted	R0130				
Reinsurers' share	R0140		(2,062)	175,093,170	175,091,107
Net	R0200		(302)	14,453,287	14,452,985
<b>Premiums earned</b>					
Gross - Direct Business	R0210		(2,365)	174,728,602	174,726,238
Gross - Proportional reinsurance accepted	R0220				
Gross - Non-proportional reinsurance accepted	R0230				
Reinsurers' share	R0240		(2,062)	163,172,787	163,170,725
Net	R0300		(302)	11,555,815	11,555,513
<b>Claims incurred</b>					
Gross - Direct Business	R0310		1,317,556	129,275,093	130,592,649
Gross - Proportional reinsurance accepted	R0320				
Gross - Non-proportional reinsurance accepted	R0330				
Reinsurers' share	R0340		1,060,555	119,979,718	121,040,273
Net	R0400		257,001	9,295,375	9,552,376
<b>Changes in other technical provisions</b>					
Gross - Direct Business	R0410	0			-
Gross - Proportional reinsurance accepted	R0420				
Gross - Non- proportional reinsurance accepted	R0430				
Reinsurers' share	R0440	0			-
Net	R0500	0			-
<b>Expenses incurred</b>	R0550		(2,625)	1,168,293	1,136,169
<b>Other expenses</b>	R1200				-
<b>Total expenses</b>	R1300				1,136,169

**Technical provisions calculated as a whole**  
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

**Technical provisions calculated as a sum of BE and RM**

**Best estimate**  
Premium provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

**Claims provisions**  
Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

**Total Best estimate - gross**

**Total Best estimate - net**

**Risk margin**

**Amount of the transitional on Technical Provisions**

Technical Provisions calculated as a whole

Best estimate

Risk margin

**Technical provisions - total**

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

	Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance					Total Non-Life obligation
	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	
	C'0020	C'0030	C'0040	C'0050	C'0060	C'0070	C'0080	C'0090	C'0100	C'0110	C'0120	C'0130	C'0140	C'0150	C'0160	C'0170	C'0180
R0010																	
R0050																	
R0060				36594	4147					2061							42802
R0140				33266	3770					1622							38658
R0150	0	0	0	3328	377	0	0	0	0	439	0	0	0	0	0	0	4144
R0160				207620	24551					8720							240890
R0240				191891	23806					7526							223223
R0250	0	0	0	15729	745	0	0	0	0	1194	0	0	0	0	0	0	17668
R0260				244214	28698					10781							283693
R0270	0	0	0	19057	1122	0	0	0	0	1633	0	0	0	0	0	0	21812
R0280				854	250					71							1175
R0290																	
R0300																	
R0310																	
R0320				245068	28948					10852							284868
R0330	0	0	0	225157	27576	0	0	0	0	9148	0	0	0	0	0	0	261881
R0340	0	0	0	19911	1372	0	0	0	0	1704	0	0	0	0	0	0	22987

Annex I

S.19.01.21

Non-life Insurance Claims Information

Total Non-Life Business

Accident year /  
Underwriting year

<b>Z0020</b>	2
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Gross Claims Paid (non-cumulative)  
(absolute amount)

Year	Development year										
	0	1	2	3	4	5	6	7	8	9	10 & +
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100										334
N-9	R0160										
N-8	R0170	3465	12206	5574	3134	2359	1879	295	769		
N-7	R0180	1504	6019	2746	1569	1578	1306	723	392		
N-6	R0190	1205	7347	4407	2182	1033	2009	373			
N-5	R0200	3516	18246	26996	14106	12885	8979				
N-4	R0210	1859	9444	10633	4645	3044					
N-3	R0220	13807	43574	16743	8421						
N-2	R0230	16191	43378	16107							
N-1	R0240	13498	43116								
N	R0250	19981									

Gross undiscounted Best Estimate Claims Provisions  
(absolute amount)

Year	Development year										
	0	1	2	3	4	5	6	7	8	9	10 & +
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100										220
N-9	R0160										
N-8	R0170			8187	6873	5489	319	2360	1368		
N-7	R0180		6033	5876	3679	243	1683	1152			
N-6	R0190		11292	7668	5048	375	2130	2090			
N-5	R0200	6891	47635	56913	6521	57343	46245				
N-4	R0210	3609	14507	2046	16253	12948					
N-3	R0220	38059	5587	53600	46619						
N-2	R0230	3733	52309	43395							
N-1	R0240	44958	51568								
N	R0250	50010									

In Current year

Sum of years  
(cumulative)

	C0170	C0180
R0100	334	334
R0160		
R0170	769	31450
R0180	392	15836
R0190	373	18556
R0200	8979	84729
R0210	3044	29626
R0220	8421	82545
R0230	16107	75676
R0240	43116	56614
R0250	19981	19981
Total	R0260	101516
		415347

Year end  
(discounted data)

		C0360
Total	R0100	220
	R0160	
	R0170	1334
	R0180	1028
	R0190	1840
	R0200	41961
	R0210	11348
	R0220	43007
	R0230	40902
	R0240	49885
	R0250	49368
R0260	240890	

**Annex I**  
**S.23.01.01**  
**Own funds**

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

Ordinary share capital (gross of own shares)  
Share premium account related to ordinary share capital  
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings  
Subordinated mutual member accounts  
Surplus funds  
Preference shares  
Share premium account related to preference shares  
Reconciliation reserve  
Subordinated liabilities  
An amount equal to the value of net deferred tax assets  
Other own fund items approved by the supervisory authority as basic own funds not specified above

**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

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

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

**Total ancillary own funds**

**Available and eligible own funds**

Total available own funds to meet the SCR  
Total available own funds to meet the MCR  
Total eligible own funds to meet the SCR  
Total eligible own funds to meet the MCR

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

Excess of assets over liabilities  
Own shares (held directly and indirectly)  
Foreseeable dividends, distributions and charges  
Other basic own fund items  
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve**

**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business  
Expected profits included in future premiums (EPIFP) - Non- life business

**Total Expected profits included in future premiums (EPIFP)**

Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
R0010	23879	23879		
R0030	3871	3871		
R0040				
R0050				
R0070				
R0090				
R0110				
R0130	1550	1550		
R0140				
R0160	304			304
R0180				
R0220				
R0230				
R0290	29604	29300	0	304
R0300				
R0310				
R0320				
R0330				
R0340				
R0350				
R0360				
R0370				
R0390	0			

Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
R0400			0	0
R0500	29604	29300	0	304
R0510	29300	29300	0	0
R0540	29604	29300	0	304
R0550	29300	29300	0	0
R0580	15568			
R0600	3892			
R0620	1.9016			
R0640	7.5283			

C0060	
R0700	29604
R0710	0
R0720	
R0730	28054
R0740	
R0760	1550
R0770	
R0780	0
R0790	0



# Annex I

S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

Market risk

Counterparty default risk

Life underwriting risk

Health underwriting risk

Non-life underwriting risk

Diversification

Intangible asset risk

### Basic Solvency Capital Requirement

### Calculation of Solvency Capital Requirement

Operational risk

Loss-absorbing capacity of technical provisions

Loss-absorbing capacity of deferred taxes

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

### Solvency capital requirement excluding capital add-on

Capital add-on already set

### Solvency capital requirement

### Other information on SCR

Capital requirement for duration-based equity risk sub-module

Total amount of Notional Solvency Capital Requirements for remaining part

Total amount of Notional Solvency Capital Requirements for ring fenced funds

Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

### Approach to tax rate

Approach based on average tax rate

### Calculation of loss absorbing capacity of deferred taxes

LAC DT

LAC DT justified by reversion of deferred tax liabilities

LAC DT justified by reference to probable future taxable profit

LAC DT justified by carry back, current year

LAC DT justified by carry back, future years

Maximum LAC DT

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
R0010	1119.67	
R0020	6323.52	
R0030	0	None
R0040	0	None
R0050	7069.12	None
R0060	-2536.82	
R0070	0	
R0100	11975.49	

C0100
R0130
R0140
R0150
R0160
R0200
R0210
R0220
R0400
R0410
R0420
R0430
R0440

Yes/No
C0109
R0590

LAC DT
C0130
R0640
R0650
R0660
R0670
R0680
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

MCRNL Result

Medical expense insurance and proportional reinsurance  
Income protection insurance and proportional reinsurance  
Workers' compensation insurance and proportional reinsurance  
Motor vehicle liability insurance and proportional reinsurance  
Other motor insurance and proportional reinsurance  
Marine, aviation and transport insurance and proportional reinsurance  
Fire and other damage to property insurance and proportional reinsurance  
General liability insurance and proportional reinsurance  
Credit and suretyship insurance and proportional reinsurance  
Legal expenses insurance and proportional reinsurance  
Assistance and proportional reinsurance  
Miscellaneous financial loss insurance and proportional reinsurance  
Non-proportional health reinsurance  
Non-proportional casualty reinsurance  
Non-proportional marine, aviation and transport reinsurance  
Non-proportional property reinsurance

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

MCRL Result

Obligations with profit participation - guaranteed benefits  
Obligations with profit participation - future discretionary benefits  
Index-linked and unit-linked insurance obligations  
Other life (re)insurance and health (re)insurance obligations  
Total capital at risk for all life (re)insurance obligations

#### Overall MCR calculation

Linear MCR  
SCR  
MCR cap  
MCR floor  
Combined MCR  
Absolute floor of the MCR

#### Minimum Capital Requirement

	<b>C0010</b>
<b>R0010</b>	3173

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	<b>C0020</b>	<b>C0030</b>
<b>R0020</b>		
<b>R0030</b>		
<b>R0040</b>		
<b>R0050</b>	19056	11305
<b>R0060</b>	1123	1547
<b>R0070</b>		
<b>R0080</b>		
<b>R0090</b>		
<b>R0100</b>		
<b>R0110</b>	1633	1600
<b>R0120</b>		
<b>R0130</b>		
<b>R0140</b>		
<b>R0150</b>		
<b>R0160</b>		
<b>R0170</b>		

	<b>C0040</b>
<b>R0200</b>	0

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	<b>C0050</b>	<b>C0060</b>
<b>R0210</b>		
<b>R0220</b>		
<b>R0230</b>		
<b>R0240</b>		
<b>R0250</b>		

	<b>C0070</b>
<b>R0300</b>	3173
<b>R0310</b>	15568
<b>R0320</b>	7006
<b>R0330</b>	3892
<b>R0340</b>	3892
<b>R0350</b>	3122
	<b>C0070</b>
<b>R0400</b>	3892