ARCH REINSURANCE EUROPE UNDERWRITING DAC

2021 SOLVENCY AND FINANCIAL CONDITION REPORT

Arch Reinsurance Europe
Underwriting dac
08 April 2022

SOLVENCY AND FINANCIAL CONDITION REPORT

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SUMMARY

Arch Reinsurance Europe Underwriting dac (“ARE” or “the Company”) is an Irish regulated composite reinsurance entity authorised by the Central Bank of Ireland (“CBI”). The Company’s ultimate parent is Arch Capital Group Ltd. (“ACGL” and, together with its subsidiaries, the “Group” or the “Arch Group”), whose common shares are listed and traded on the NASDAQ stock market in the U.S. The Company is a property and casualty reinsurance underwriting company writing a diversified portfolio, both in terms of product mix and geography, in non-commoditised niche areas primarily.

Business, Strategy & Performance
Gross written premium (“GWP”) for 2021 was €483.7m, which is 26% up compared to prior year. Net underwriting profit decreased to €6.5m down from €17.4m in 2020. The decrease in net underwriting profit was driven by a combination of lower net retained business, higher acquisition costs (increased proportion of quota share business), lower net earned premium and higher operating expenses. Pre-tax profits including investment income amounted to €14.6m which compared to €31.2m for the prior year.

The effects of the ongoing Covid-19 challenges around the world have been handled well by the industry in terms of operational aspects and market clearance. Related claims (inter alia non-damage business interruption, event and travel cancellations) are mainly from the 2020 underwriting year and are still slow in settling due to coverage verification and accumulation questions. Bankruptcies, whether corporate or individual, have not materialized with consumer confidence staying strong. In fact, Credit & Surety (“C&S”) results through this pandemic period are trending at their best since the years 2010/2011. Further lockdowns or slowdowns across our markets have led to significantly lower claims frequencies particularly in motor. This has put pressure back on original rates as insurers are reporting loss ratios of 10-15% less than normal. With the easing of many governmental measures following vaccination, traffic is back to pre-Covid levels and claims are expected to follow, reverting to pre-Covid times.

Natural catastrophe claims in the US (Uri, Ida) and Europe (Bernd, Volker, Wolfgang) have had their toll on reinsurers’ results particularly in the 3rd Quarter of 2021. We expect loss affected accounts to adjust pricing meaningfully, which will lead clients to take higher retentions to manage reinsurance cost. Furthermore, many clients are revisiting their purchasing at the top end of their programs and will want to buy additional capacity. Retrocession capacity has dried up further as some losses like Uri and Bernd are rather secondary perils (inter alia freeze, flash flood) in nature. This will further drive the industry to more disciplined underwriting in both the primary and reinsurance markets.

The net impact to the Company from those industry events was very manageable and largely limited to property losses in Germany and Austria and balanced by positive prior year developments from multiple lines.

The Company has remained faithful to its underwriting philosophy of writing business that meets our return on equity (“ROE”) criteria whilst taking advantage of opportunities that emerged either as a result of improved market conditions or the overall improvement in pricing in certain lines of business. The growth of the business compared to 2020 was largely a result of i) hardening market conditions in certain geographies, particularly property both treaty and facultative, ii) expansion of shares in attractive markets to us and iii) the identification of those new opportunities which met our underwriting and ROE criteria.

The Company purchases reinsurance on the business it writes to efficiently manage return on capital with partners that value our origination and underwriting capabilities. The Company’s external reinsurance purchases are in the form of both excess of loss and quota share agreements. In addition, the Company cedes 85% of its net retained premium under a quota share agreement with a related group entity, Arch Reinsurance Ltd. ("ARL"), a Bermuda domiciled company with $14.8 billion (2020: $14.8 billion) of capital, comprised of shareholders' equity and debt as at 31 December 2021. More details about the Company's business and performance can be found in Section A.

System of governance

The Company maintains an effective system of governance, which provides for sound and prudent management of its integrated operations.

The Company 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 integrated operations;
- Ensure staff 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 integrated operations;
- 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 integrated operations are exposed;
- Safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question; and
- Ensure that outsourced responsibilities are delegated and managed appropriately, with ultimate responsibility residing with the Board.

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 integrated Company's operations.

In this regard, the Company's Board of Directors ("Board") monitors key aspects of the business and is assisted where appropriate by the Risk and Audit Committees of the Board.

It is not deemed appropriate or proportionate, given the scale of the business and the governance structure in place to appoint an Investment Committee, Nomination Committee or a Remuneration Committee. In addition, the Board reviews information that would otherwise be addressed by such committees at its meetings.

The principles and requirements of the system of governance, particularly risk management, internal control, internal audit and outsourcing, are the responsibility of the Board. While retaining these responsibilities, the Board has delegated the authority for day-to-day risk management to ARE's Executive team. The Company's Chief Risk Officer ("CRO") monitors the Risk Management Framework for operating effectiveness and reports to the Risk Committee and Board as appropriate.

The Board has approved formal policies, which are a component of the Company's Governance Structure.

The system of governance is assessed via reviews by the Head of Compliance ("HOC") , together with the CRO and periodic evaluation by Internal Audit. All related findings and/or reports are presented to the Audit Committee and the Board. **Section B** provides details on the Company's governance system.

Risk Profile

The Company's risk appetite framework provides an expression of the level of risk it 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 the Company to make informed business decisions having regard to the key risks to which it may be exposed by such a decision.

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

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

To meet these objectives and the Company's overall strategy, performance against risk appetites and risk tolerances & limits metrics, as articulated in the Company's Risk Appetite Statement, are monitored by the CRO and reported on to the Risk Committee on a quarterly basis with defined escalation process for breaches of these key metrics.

Covid-19 – risk impact review

The Company have continued to actively monitor the impact of the pandemic on its operations and results by line of business throughout 2021. As a result of favourable developments, , the Company has been able to release some of Incurred But Not Reported ("IBNR") reserves established in 2020 in terms of anticipated losses. This was particularly the case in C&S where global economic impact in terms of business failures and bankruptcies was less than anticipated in large part due to the supports put in place by many governments around the world. In addition, no reinsurance recoverability or impairment concerns have arisen during 2021 and the overall credit quality of outstanding balances consistently remained above the Company's risk tolerance.

The Company's liquidity also remained strong throughout 2021 with no adverse impact resulting in delays in premium collections or accelerated claims settlements. Overall liquidity remained in line with or above the Company's liquidity risk tolerance limit.

The Company's risk profile is detailed in Section C.

Valuation for Solvency II purposes

The Company prepares its financial statements in accordance with Generally Accepted Accounting Practice ("GAAP") in Ireland comprised of accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102. This Financial Reporting Standard is applicable in the UK and Republic of Ireland and promulgated by the Institute of Chartered Accountants in Ireland.

The Company's Solvency II balance sheet is prepared on an economic or fair value basis. The most significant differences between the Solvency II balance sheet and the balance sheet on a GAAP basis arise from;

- the valuation of technical provisions and reinsurer's share of technical provisions;
- the valuation of holdings in related undertakings;
- the valuation of insurance and intermediary balances receivable and reinsurance balances payable;
- the valuation of deferred acquisition costs / deferred ceding commissions; and
- the valuation of deferred tax asset / deferred tax liability.

Section D provides reconciliation between the valuation of assets and liabilities under GAAP and under Solvency II along with further details on valuation for Solvency II purposes.

Capital Management

The Company's SCR coverage ratio as at 31 December 2021 was 184.7% with Eligible Own Funds of €790.7m and a SCR of €428.1m. ARE derives its SCR from the Standard Formula approach. The Company's MCR coverage ratio as at 31 December 2021 was 736.3%. There were no material changes in the SCR calculation during the year. The Company has a strong capital base enabling it to meet its solvency requirements and to facilitate the level of activity anticipated throughout the planning period and within the Company's Own Risk and Solvency Assessment ("ORSA"). Section E provides details about the Company's Capital Management.

SECTION A – BUSINESS AND PERFORMANCE

A.1 Business

A.1.1 Name and Legal Form of the Undertaking

ARE is incorporated in Ireland as a designated activity company ("dac"). A dac is a corporate form for a private company limited by shares, which activities are limited by its objects clause, and its constitution comprises a memorandum and articles of association. The address of the registered office of the Company is:

Arch Reinsurance Europe Underwriting dac
Level 2, Block 3, The Oval
160 Shelbourne Road, Ballsbridge
Dublin 4, Ireland

This Solvency and Financial Condition Report ("SFCR") covers ARE on a solo basis.

A.1.2 Insurance Supervisor and Group Supervisor

Insurance Supervisor
Central Bank of Ireland ("CBI")
PO Box 559
Dublin 1, Ireland

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

A.1.3 External Auditor

Deloitte Ireland LLP
29 Earlsfort Terrace D02 AY28
Dublin, Ireland

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

Arch Financial Holdings Europe II Limited, a private company limited by shares and incorporated in Ireland, owns 100% of the equity share capital of the Company.

A.1.5 Group Structure

The Company's ultimate parent and ultimate controlling party is ACGL, 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 the Company is a member. Copies of the ACGL group financial statements are available on ACGL's website located at www.archgroup.com or on the website of the U.S. Securities and Exchange Commission located at www.sec.gov.

An organization chart illustrating ARE's position in the Group is included as Appendix 1.

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 major business line and geographical region for the year to December 31 2021;

Gross Written Premium ('000 EUR) Major Line of business	**2021**	**2020**
Casualty	146,130	132,215
Other Property	88,873	37,163
Other Specialty	235,733	207,203
Property CAT	11,802	4,702
Marine & Other	1,197	1,906
Total	**483,735**	**383,189**

Gross Written Premium ('000 EUR) Geographic Region	**2021**	**2020**
Europe	308,780	253,776
Asia Pacific	90,540	69,587
Southern & Central America	15,951	19,167
Middle East & Africa	36,642	15,486
North America	13,797	9,634
Other	16,205	15,428
Total	**483,735**	**383,189**

A.1.7 Significant Business or Other Events

The events related to the recent Russian invasion of Ukraine have resulted in economic, financial, sectoral, and other targeted sanctions issued by governments and regulatory bodies in the U.S., U.K., European Union and other countries. The Company is closely monitoring it's underwriting and investment portfolios considering these new sanctions, evaluate its related exposure, as well as the possible impact on the global economy and financial markets. While the impact on the business remains uncertain, the

Company is actively monitoring holdings and valuation of its investments, incurred losses, and premium volume, all of which are potentially impacted by the increased volatility and uncertainty. Due to the recentness of these events, if is too early to fully estimate the effects of these matters on our prospective results of operations or financial condition. We have no direct investments in Russia nor Ukraine nor do we have direct exposures that are substantive. The actions outlined herein are being fully co-ordinated with the Company's ultimate Parent ACGL ("ACGL") and its subsidiaries.

The Company is impacted by Brexit by virtue of its UK Branch presence. The UK Prudential Regulatory Authority ("PRA") has introduced a Temporary Permissions Regime ("TPR") which enables existing Freedom of Establishment ("FOE") operations, such as the Company's branch, to apply to continue to operate on an FOE basis whilst making an application to establish a Third Country branch. The Company has availed of the TPR and will be making an application for the approval of a Third Country branch in 2022.

A.2 Underwriting Performance

Since the Company prepares its financial statements in accordance with Generally Accepted Accounting Practice in Ireland[1], the underwriting performance information given in this section is on a GAAP (Ireland) basis. The following table summarizes the performance, by major line of business in Euro '000, for the technical account for year ended 31 December 2021.

	Casualty	Other Property	Other Specialty	Property Cat	Marine & Other	Total YTD
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Gross premiums written	146,130	88,873	235,734	11,802	1,197	483,735
Net premiums written	13,815	10,576	23,087	956	112	48,545
Net premiums earned	**13,651**	**6,945**	**19,830**	**566**	**154**	**41,145**
Other underwriting-related fee income	-	-	(2,921)	-		(2,921)
Losses and LAE	**12,138**	**3,561**	**6,052**	**3,937**	**92**	**25,781**
Acquisition expenses – GAAP	**(17,582)**	**(2,901)**	**1,278**	**(988)**	**65**	**(20,127)**
Other operating expenses - GAAP	7,332	6,266	11,828	592	60	26,079
GAAP underwriting profit (loss)	**11,762**	**19**	**(2,250)**	**(2,975)**	**(64)**	**6,492**
GAAP ratios:						
Losses and LAE	**88.9%**	**51.3%**	**30.5%**	**695.6%**	**60.1%**	**62.7%**
Acquisition expenses	-128.8%	-41.8%	6.4%	-174.6%	42.3%	-48.9%
Other operating expenses (Incl DKK fee)	53.7%	90.2%	74.4%	104.6%	39.1%	70.5%
Combined ratio	**13.8%**	**99.7%**	**111.3%**	**625.6%**	**141.5%**	**84.2%**

Footnote 1: Net earned premium includes revaluation FX G/L of €5.2m in respect of UPR. Excluding this adjustment, the net loss ratio was 55.7%. The equivalent adjustment in 2020 impacted the loss ratio (decreased) by -8.2%.

The equivalent table for year ended 31 December 2020 is provided in the following table.

[1] Generally Accepted Accounting Practice in Ireland - accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 the Standard applicable in the UK and Republic of Ireland and promulgated by the Institute of Chartered Accountants in Ireland and companies Act 2014.

	Casualty	Other Property	Other Specialty	Property Cat	Marine & Other	Total YTD
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Gross premiums written	**132,216**	**37,163**	**207,203**	**4,702**	**1,906**	**383,189**
Net premiums written	**17,365**	5,219	24,194	473	234	**47,486**
Net premiums earned	16,204	4,327	27,660	427	158	48,777
Other underwriting-related fee income	-	-	**(2,949)**	-		**(2,949)**
Losses and LAE	12,161	1,698	17,574	255	98	31,786
Acquisition expenses – GAAP	*(19,710)*	*(1,756)*	*(2,678)*	*(681)*	*81*	*(24,745)*
Other operating expenses - GAAP	6,366	4,725	9,977	226	92	21,387
GAAP underwriting profit (loss)	**17,387**	**(340)**	**(162)**	**627**	**(113)**	**17,400**
GAAP net ratios:						
Losses and LAE	**75.0%**	**39.2%**	**63.5%**	**59.7%**	**62.2%**	**65.2%**
Acquisition expenses	-121.6%	-40.6%	-9.7%	-159.5%	51.3%	-50.7%
Other operating expenses (Incl DKK fee)	39.3%	109.2%	46.7%	53.0%	58.1%	49.9%
Combined ratio	**-7.3%**	**107.8%**	**100.6%**	**-46.8%**	**171.5%**	**64.3%**

The above tables do not include items such as investment income, realized and unrealized gains and losses including those relating to foreign exchange.

Qualitative discussion – major lines of business

2021 to 2020 comparison

GWP for 2021 was €483.7m, prior to cessions to the Company's retrocessionaires. This is an increase of €101m or 26% compared to €383m in 2020. This increase is driven by several lines of business but most significant by Other Property which had a €51.7m increase in GWP. This growth was the result of hardening market conditions in this line of business, within both treaty and facultative areas. This growth was geographically spread but notable locations contributing to the increase premium income were South Africa and Australia. Casualty was up €14.0m, largely because of new business written by the Company, mainly in UK motor, where we had an opportunity to expand our foothold. Overall organic growth in motor excess of loss was limited as rates were generally flat or softening during 2021. The increase in Other Specialty derived primarily from C&S and Agriculture lines of business. C&S had an €19.8m increase in written premium as the trade credit primary markets regained lost premium through the partial recovery of global trade activity following the impact of the Covid-19 pandemic and the end of government back trade credit schemes put in place in 2020 in response to the pandemic to support that market. Agriculture premiums written grew €14.8m taking advantage of hardening conditions in various geographies.

The reported loss ratio improved in 2021 to 62.7% compared to 65.2% for 2020. Included in these respective ratios is the impact of an Irish GAAP adjustment requiring the revaluation of Unearned Premium Reserve (UPR) for foreign exchange rate changes. This adjustment decreased Net Earned Premium by plus €5.2m (2020 - €5.5m increase) to €41.3m. As most of the Company's retrocession purchased, including the 85% intercompany quota share agreement, are denominated in Euro this revaluation adjustment had a broadly similar impact on a gross and net basis. Excluding this accounting adjustment, the net loss ratio for 2021 was 55.7% (2020 – 73.4%).

Before the accounting adjustment referred to above, the net loss ratio reduced by 17.8%. The 2020 net loss ratio was also elevated as it reflects direct and indirect loss reserves for Covid-19 primarily impacting the C&S, Accident & Health ("A&H") and Other Property business lines. Other segments such as Property Cat and Marine are immaterial, and their loss ratios are disproportionately impacted by very small movements in losses. In 2021 the loss ratio was favourable impacted by the release of IBNR both in respect of reserves established for Covid-19 losses that have not emerged and general prior year releases due to favourable development. These releases more than offset losses incurred by the Company from the European natural catastrophe events.

The net underwriting profit for 2021 was €6.5m, excluding investment income and realized gains and losses and other non-underwriting items. The equivalent result for 2020 was a profit of €17.4m. The reduction in the underwriting profit of €10.9m, is mainly explained by negative UPR revaluation movement of €5.2m, higher net acquisition costs of €4.6m and increase in operating expenses of €4.6m. This result is despite the positive loss ratio performance with net incurred loss being €6.0m lower than 2020. The higher net acquisition costs were influenced by a change in business mix towards more quota share business, which is more expensive to acquire. The increase in operating expenses reflected several factors including growth in headcount both at the Company and in group entities that provide support services and charges for same to the Company, and also increases in other discretionary elements of compensation.

Casualty

In the Casualty segment the Company's focus is on providing coverage to ceding company clients on third party liability products like motor, employers', general and/or professional liability, primarily on a treaty basis. Our main markets are in Continental Europe, United Kingdom and Ireland. We are active in exploring other European territories as well.

The Casualty segment saw a 11% increase in GWP largely through new business written by the Company, mainly in UK motor, that had previously been written elsewhere in the Arch Group. Overall organic growth in motor excess of loss was limited as rates were generally flat or softening during 2021.

The overall performance across the Company's Casualty book is well within expectations.

Other Property

The Company provides coverage for both personal lines and commercial property exposures and principally covers buildings, structures, equipment, and contents. On the treaty side we have seen further material growth with premium increased threefold from €20.5m to €62.9m. This growth was concentrated within a small number of geographies where the Company was able to leverage its entry to those locations in recent years. This was particularly the case in South Africa where written premium grew from €6.3m in 2020 to €25.6m in 2021. Growth in Israel, France, and Australia, along with South Africa, accounted for almost all of the increase seen in written premium. This growth was derived a through combination of factors namely the leveraging of favourable market conditions, from a small number of new MGA relationships and in some cases, such as in France where all of the growth was from one account, from expanding an existing relationship where the opportunity justified doing this.

The Company's Property Facultative business is written by three teams based in London, Zurich and Copenhagen. The Company has seen an increased submission flow in this line due to continued increased demand from the specific needs of clients as well as following increased loss activity in certain markets. GWP for this unit grew from €16.7m in 2020 to €26.0m in 2021, growth which reflects the demand driver favourable market conditions. Risk selection remains critical to the underwriting of the Company. Much of this growth was driven by the reduced appetite of our clients which increased the demand for capacity from the market. Continued challenging attritional loss results, increased reinsurance cost and the impact of Covid-19 losses have contributed to these dynamics. The underwriting team remains focused on ensuring new business meets the Company's underwriting criteria.

Other Specialty

Within the Other Specialty unit, the Company provides coverage to ceding company clients for A&H, Workers' Compensation Catastrophe, Agriculture, Trade C&S and proportional Motor Liability.

Geographically we run most of those lines on a highly diversified world-wide basis excluding the United States.

In Trade Credit, in 2020, the global pandemic led to the contraction of the global economy which was expected to produce indirect losses to the trade credit market, using the similar contraction in the Global Financial Crisis as a proxy for the scale of such losses. The introduction of government backed credit guarantee schemes in many countries together with other measures such as bankruptcy protections, emergency lending, furlough schemes and other fiscal policies have softened the impact on the credit market. As consequence of this outcome, the Company has been able to release some of the IBNR established in anticipation of these expected indirect insured losses. In addition, as government schemes were rolled back, premium returned to the private insurance market to reverse the contraction of the trade credit (re)insurance business. In Surety, loss activity remained low throughout the Covid crisis. Demand for construction was up in 2021 which has allowed contractors to price good margins in new projects in turn helping to firm up insurance terms and conditions. The Company's strategy for C&S has been to defend its portfolio for the most part whilst maintaining underwriting discipline. Whilst this continues to be the case, and as a consequence of the factors discussed herein particularly in relation to trade credit, GWP grew by 25% in 2021.

The Agriculture unit grew its GWP again in 2021, in comparison to 2020, increasing by 27%. During 2021 the Company was able to take advantage of hardening market conditions in specific sub-sectors of the agriculture (re)insurance market which experience capacity constraints (inter alia losses and market expansion). The performance of the Company's Agriculture book meets our expectations.

In A&H (also part of Other Specialty) GWP increased modestly by 4% in 2021. Loss reserves associated with Covid-19 (i.e., travel, contingency) remain in line with those established in 2020. The supplemental health activity during 2021 continued to focus mainly on a small number of core relationships in Europe with an initiative with a new partner launching in France late in 2021. The combined A&H portfolio has performed as expected in 2021.

GWP in the Motor quota share business reduced 25% in 2021 compared to 2020 following a reduction in our participation on renewal of the small number of transactions in this portfolio.

Property CAT

Property CAT remains an incidental line of business for the Company but nonetheless grew more than 200% in 2021. This growth arose in the main from one treaty in South Africa. In general, the approach in this line general is written in combination with transactions in other lines of business, primarily Casualty.

Marine and other

The Company has Marine activity in some legacy accounts. In addition, a small number of new accounts written in 2020 were renewed in 2021. GWP in Marine and Other was just €1.2m in 2021.

A.3 Investment Performance

ARE invests in a diversified portfolio of highly rated securities. Fixed income securities comprise most of the Company's investment assets. In addition to fixed income the Company also holds some short-term cash or cash equivalent securities, equity fund and an investment in a limited partnership which is valued using the equity method. The following table summarizes the invested assets of the Company at year ended 31 December 2021 and 2020.

	2021		2020	
	Amount €'000	% of Total	Amount €'000	% of Total
Bonds				
Government Bonds	533,653	76.5%	470,920	80.5%
Corporate Bonds	67,713	9.7%	72,846	12.5%
Asset Backed Securities	767	0.1%	3,369	0.6%
Subtotal	**602,133**	**86.3%**	**547,135**	**93.6%**
Short term investments				
Money Market Funds	11,298	1.6%	559	0.1%
Cash & Cash Equivalents	35,739	5.1%	1,747	0.3%
Subtotal	**47,037**	**6.7%**	**2,306**	**0.4%**
Equities				
Equity Funds	36,673	5.3%	27,082	4.6%
Equity method investment				
Limited Partnership Fund	11,539	1.7%	8,290	1.4%
Total	**697,382**	**100.0%**	**584,813**	**100.0%**

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

	2021	2020
Investment income	**€'000**	**€'000**
Interest income from:		
Government & Supranational Bonds	1,603	1,883
Corporate Bonds	1,055	1,384
Cash and Deposits	555	1,620
Total Interest Income	3,213	4,888
Investment return		
Foreign exchange gain/(losses) on investments	28,393	(17,400)
Unrealised gains/(losses) on investments	(18,391)	6,711
Realised gains/(losses)/ on investments	11,393	2,908
Income on investments valued under equity method	3,146	(1,129)
Total investment income & investment return	**27,754**	**(4,023)**
Investment expenses and charges	(1,259)	(1,176)
Net investment return	**26,495**	**(5,199)**

A.4 Performance of other activities

The following table summarizes the profit and loss account in Euro for the non-technical account for year ended 31 December 2021 and year ended 31 December 2020.

	Year Ended 31/12/2021 €'000	**Year Ended 31/12/2020** €'000
Balance on the technical account	15,880	32,353
Net investment return included in the non-technical account	(1,257)	(1,174)
Profit on ordinary activities before taxation	**14,623**	**31,179**
Tax on profit on ordinary activities	611	(11,135)
Profit on ordinary activities after taxation	**15,234**	**20,044**

There were no gains or losses recognised directly in equity.

There were no material other income or expenses during the year.

A.5 Any other information

There is no other material information to report as of 31 December 2021.

SECTION B – SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

B.1.1 Overview

The Company is classified as Medium Low Risk under the CBI's PRISM rating framework and is subject to the CBI's Corporate Governance Requirements for Insurance Undertakings 2015 (the Code).

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 also plays an important role in ensuring effective governance.

The terms of reference of the Board require the Board be made up of at least five directors, the majority of whom must be non-executive directors or independent directors. At least two members of the Board must be independent non-executive directors.

The Board as at 31 December 2021 is as follows:

- Ian Britchfield, Chair (INED, Chair of the Board and Risk Committee);
- Gerald König (INED, Audit committee chair, Risk committee member);
- Anthony Asquith (INED, Risk committee member, Audit committee member);
- Soren Scheuer (NED, Risk committee member);
- Jason Kittinger (NED, Audit committee member); and
- Michael Hammer, CEO (Executive Director, Risk committee member)

The company secretary is Mark Nolan.

The presence of independent non-executive directors ensures that there is an appropriate element of independent challenge and oversight

The Board is responsible for overseeing the business of the Company 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 delegates certain functions to Sub-Committees and Management, this does not absolve the Directors of their responsibility for the Company.

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

- To comply with any obligations for the Board prescribed by the Code, the Companies Acts 2014 and all other rules, regulation, guidelines and laws applicable;
- The effective, prudent and ethical oversight of the Company;
- Setting the business strategy for the Company; and
- Ensuring that the Company complies with its constitution as well as relevant legal, regulatory, and governance requirements.

The Board reserves the following matters specifically to the Board unless, where permitted by applicable Irish law and regulatory requirements, such matters are expressly delegated in writing to management, the Audit Committee, the Risk Committee of the Company, or otherwise. These matters are also subject, where appropriate, to the direction/decision of the shareholder.

- All matters prescribed as being specifically reserved to the Board by the Company's Memorandum and Articles of Association, company law, and regulatory requirements;
- Appointment of Members of the Board, subject to regulatory approval;
- Approval of minutes of meetings of the Board and acknowledgement of the content of any minutes of any Committee of the Board or management/operational committee;
- Approval or ratification of any recommendation from or action taken by management or any Committee of the Board or management/operational committee, to the extent that any such recommendation or action requires approval or ratification;
- Recommendation and approval of distributions or dividends to the shareholders;
- Approval of Annual Financial Statements and Regulatory Returns, including approval of content of, and signing, the annual directors' compliance certificate and the annual compliance statement with respect to the Code;
- Appointment of Auditors;
- Appointment of Bankers and/or Investment Managers or Advisors;
- Approval of any changes in the structure of the Board;
- Approval of the business plan, including but not limited to corporate strategy, goals and structure;
- Establishment, appointment to and/or dissolution of, as the case may be, Committees of the Board and management/operational committees, including prescribing and approving charters and/or terms of reference for such committees;
- Determining the Risk Appetite of the Company;
- Self-assessment of the Board, including in relation to composition, performance, conflicts of interest and any other matter specified in the Code. In relation to performance, the Board shall document the fact and results of its review;
- Waiver of any actual or apparent conflict of interest, if legally appropriate, involving the Company;
- Final approval of litigation or arbitration activities, including compromises and settlements of disputed litigation claims (other than ordinary course insurance claims);
- Approval of the removal from office of any head of a Control Function as defined in the Code;
- Dealings with (including disposal or acquisition of, or change of use of) any material asset of the Company;
- Approval of any appointments to Executive Management;
- Approval of matters outside of Company Policies (e.g., limits, products, investments);
- Approval of material agreements; and
- Any other matters not delegated to management or otherwise delegated by the Board.

The Board has an Audit Committee and a Risk Committee. Both are governed by their respective Terms of Reference.

The duties of the Audit Committee are:

- to liaise with the external and internal auditor particularly in relation to their audit findings;
- to oversee the relationship with the external auditors;
- to review the integrity of the Company's financial statements and to ensure that they give a "true and fair view" of the financial status of the Company;

- to review any financial announcements and reports and to recommend to the Board whether to approve the Company's annual accounts;
- to assess auditor independence and the effectiveness of the audit process;
- to monitor the effectiveness and adequacy of the Company's internal control, internal audit and IT systems;
- to review all reports on the Company from the auditors and management's responsiveness;
- to review and assess the annual audit plan including adequacy of resources and ensure that it is consistent with the scope of the audit engagement;
- to check quarterly the developments under the Annual Compliance Plan (for avoidance of doubt the other Compliance activities, such as training, reporting, advising and policies are overseen by the Risk Committee as part of the Annual Compliance Plan) and report to the Risk Committee
- to ensure the Compliance function has adequate resources and independence; and
- to review and challenge, where necessary:
  - the consistency of, and any changes to, accounting policies;
  - the methods used to account for significant or unusual transactions where different approaches are possible; and
  - whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor.

The duties of the Risk Committee are:

- to liaise at least quarterly with the Chief Risk Officer to discuss the quarterly Risk report and other matters under these Terms of Reference;
- to oversee the risk management function and to check quarterly the developments under the Annual Risk Plan;
- to review updated or new Risk Policies and make a recommendation to the Board;
- to review the Annual Plan for the Risk Function including a review of adequacy of resources;
- to review at least annually the Risk Management Framework and advise the Board accordingly;
- to ensure that the risk appetite is clearly articulated and reflected within the Risk Appetite Statement and that the Risk Appetite Statement is reviewed at least annually;
- to review at least annually the Risk Register and advise the Board accordingly;
- to review quarterly the Risk Matrix and advise the Board on the current risk exposures;
- to keep under review the Company's overall risk assessment processes ensuring both qualitative and quantitative metrics are used;
- to review the Company's capability to identify and manage new risk types;
- to advise the Board, before a decision is taken to proceed with a proposed strategic transactions including acquisitions or disposals, on risk aspects of such transaction(s) and any implications for the risk appetite and tolerance of the Company;
- to review reports on any material breaches of risk limits and the adequacy of proposed action;
- to ensure the Risk Function has appropriate access to information to enable it to perform its function effectively;

- to ensure the Risk Function has adequate independence and unfettered access to the Board and Chair of the Risk Committee;
- to consider other risk management topics, as defined by the Board;
- to monitor the effectiveness and adequacy of the Company's risk management processes;
- to advise the Board on the effectiveness of strategies and policies with respect to maintaining, on an on-going basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the institution;
- to review, challenge and advise on the inputs to and outputs from the (at least) annual ORSA process and report;
- to oversee the Compliance management function in relation to its policies, advising, reporting and training activities and to check quarterly the developments under the Annual Compliance Plan; and
- to review updated or new Compliance and Governance Policies and make a recommendation to the Board.

B.1.2 Code of Business Conduct

The Company has adopted the Group Code of Business Conduct ("Ethics Code"), which describes our ethical principles for the conduct of our business. The full text of the Ethics Code and our Corporate Governance Guidelines are available on the Group's website located at www.archgroup.com.

B.1.3 Independent Control Functions

The Company has in place four key independent control functions as required under the Corporate Governance Requirements for Insurance Undertakings 2015. These are:

- Risk Management (See Section B3)
- Compliance (See Section B4.2)
- Actuarial (see Section B6)
- Internal Audit (see Section B5)

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. Each function has the necessary authority, resources and operational independence to meet their responsibilities.

B.1.4 Material Changes

There have been no material changes in the memberships of the Board and Committees over the period.

B.1.5 Remuneration Policy and Practices

The ACGL Compensation Committee, in its capacity as a committee of the ACGL Board, has overall responsibility for approving and evaluating, and making recommendations to the Board regarding compensation plans, policies and programs of the Company for senior executives, as well as compensation parameters for all other employees of the Company and its controlled subsidiaries.

The Company has a Remuneration Policy in place which is guided by principles which are embedded in the Company's risk management framework and in Code of Ethics. The Code of Ethics embodies the

Group's goal of promoting an organisational culture that encourages the highest standards of ethical business conduct. The Remuneration Policy follows compensation parameters established and approved by ACGL Compensation Committee.

The Board of the Company is responsible for the implementation and administration of the Policy. It is not deemed appropriate or proportionate, given the scale of the business and the governance structure in place in Ireland and within the Arch Group, to appoint a Remuneration Committee. At least annually, the Risk Committee of the Company will review the Policy against the Company's risk framework and provide recommendations to the Board. The Board will review the Risk Committee's recommendations and ultimately approve the Policy for implementation if appropriate.

The CEO is responsible for reporting to the Board on the implementation and operation of this Policy, and consequent controls and processes. The HOC is responsible for coordinating the review of the Policy at least on an annual basis as part of the Compliance Plan. The HOC and CEO will present recommendations for changes to the Policy to the Risk Committee.

The CEO will monitor the implementation of the Policy, then conferring with the Group Human Resources staff, confirm that the Policy is being implemented appropriately. Reasonable evidence of the implementation shall be provided to the HOC.

Responsibility for the determination of fixed salary levels rests with the CEO. For departmental staff, consultation is undertaken with department heads. The remuneration of the CEO is set at the Group level.

The principal features of our compensation programs and policies are summarized below.

Key Principles

Remuneration decisions are meant to encourage employees to meet the strategic aims and objectives of the Company within a framework of prudent and effective risk management and system of internal controls. Remuneration decisions should also take into account financial and non-financial considerations, as well as an employee's functions, responsibilities and experience.

Material Risk Takers

With respect to Material Risk Takers, who are defined as those employees who are permitted to commit or bind the Company to reinsurance transactions and to accept risk on behalf of the Company, the Policy also embodies the Group's guiding principles to emphasize long-term compensation tied to Group performance in order to mitigate excessive risk-taking. Arch philosophy requires exercise of judgment in making compensation decisions for employees after reviewing the Group's and Company's overall performance and long-term interests and evaluating an employee's performance during the year against established objectives, leadership qualities, scope of responsibilities and current compensation. Specific factors affecting compensation decisions include key financial metrics, such as growth in book value, return on capital, after-tax operating income, combined ratio and investment performance, as well as achieving strategic objectives and supporting Arch's values by promoting a culture of integrity through compliance with law and its ethic policies. Fixed (base salary) and variable (bonus) components of remuneration may be adjusted upwards or downwards based on these considerations. The Group can modify or terminate elements of the compensation program for Material Risk Takers which create a fully flexible bonus policy, including the possibility of no pay-out of the variable cash component and no issuance of new equity awards. In addition, senior management, who are not within the definition of Risk Takers, also participate in this long-term compensation plans linked to Group performance.

Formula Approach
Material Risk Takers and some senior non-Material Risk Takers who perform an underwriting support function and who are eligible to receive cash bonuses will be granted them based on a "Formula Approach", which is determined by ACGL. Under the Formula Approach, a bonus pool is established for each business segment based on underwriting performance during a given underwriting year. Further, individual performance is factored using a modifier to the target which becomes the basis for future pay-outs for that specific underwriting year. For each underwriting year, the bonus pool will be recalculated annually as actual underwriting results emerge, and any resultant payments will be made to the employees over a 10-year development period. A deferral period of three years is in place for a substantial portion of the bonus in that the bonus is paid out over ten years. The Group adopts this approach because it believes that much of its business requires multiple years to determine whether the business written has been successful (in terms of return on capital). The Group believes that making payments to employees over a period of years as actual results become known effectively aligns pay with performance. Thus, performance-based remuneration is awarded in a manner which promotes sound risk management, does not induce excessive risk-taking and encourages the highest standards of ethical business conduct.

Risk Management
We believe our approach to evaluation of performance and the design of our compensation programs assists in mitigating excessive risk-taking that could harm our Company. We emphasize variable compensation that is tied to Company performance. For senior management, we emphasize long-term compensation that vests over a multi-year period. Furthermore, and as discussed above, the Formula Approach is based on underwriting performance during a given underwriting year. For each underwriting year, the bonus pool will be recalculated annually as actual underwriting results emerge, and any resultant payments will be made to the participants over a 10-year development period. Since much of our business requires multiple years to determine whether we have been successful in our assessment of risk, we have structured our plan in this manner so that incentive payments are made to employees as actual results become known. In addition, senior management is subject to our clawback policy and share ownership guidelines with hedging/pledging restrictions.

B.1.6 Supplementary Pension / Early Retirement Schemes

The Company operates a defined contribution plan for certain employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The assets of the plan are held separately from the Company in independently administered funds. The contributions to the defined contribution plan are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet.

B.1.7 Material Transactions

The Company did not enter into any material insurance or other business transaction with its shareholder, controllers, persons who exercise significant influence, the Board or senior executive during the reporting period.

B.2 <u>Fit and proper requirements</u>

B.2.1 Fit and Proper Process

The Company's Fitness & Probity ("F&P") policy sets out the requirements to ensure that employees meet the fit and proper standards, both on entry and throughout their employment at the Company. The CEO is responsible for implementing this policy, while the HOC is responsible for providing advice, implementing a monitoring program and reviewing the policy at least annually.

The HOC identifies and maintains a record of Pre-Approved Controlled Function ("PCF") and Controlled Function ("CF") holders. Before the Company can appoint a person to a PCF, the CBI must have approved the appointment in writing.

The F&P policy sets out a number of steps that must be carried out before proposal of a PCF to the CBI. These include, but are not limited to:

- a competency interview to establish evidence of the required competencies;
- a full chronological interview to establish patterns and trends in behaviour that should indicate integrity and competency;
- a full and thorough screening by an independent third-party company with a recognised reputation for pre-employment screening, where necessary; and
- pre-employment screening including identity verification, credit and bankruptcy checks, self-certification on conflicts of interests, directorship checks, education and professional qualifications validation, employment reference checks, compliance and regulatory checks.

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.

As described above, the F&P policy sets out the due diligence that must be performed before a candidate is proposed to the CBI to a PCF role, or appointed to a senior management position. The process aims to ensure that key function holders and decision makers have the requisite employment experience, technical skills, professional qualifications and key competencies to perform their duties to the highest standard.

All employees are monitored on an on-going basis through a formal performance appraisal process and continuing professional development. Specific requirements include:

- Appraisal meetings are conducted in the third month of employment;
- The appraisal meeting focuses on development by reviewing the employee against a set of competencies specific to their role and on setting objectives for the next year and measurement of goals during the first three months of employment. Competency also is reviewed at this meeting;
- Formal appraisal meetings are held annually to ensure that staff continues to meet their goals and to set new objectives for the year ahead;
- Appraisal meetings and development requirements are documented and training needs are actioned via the appropriate training methods;

- Employees are encouraged to maintain an on-going record of their continuous professional development/training;
- Employees are required to attend a minimum level of training courses and maintain a minimum standard of competency. Examples of areas covered by on-going training are work specific roles; general insurance; legal issues and regulations; and
- Employees also are required to complete in-house training, including code of conduct training, anti-harassment training and anti-money laundering.

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

B.3.1 Chief Risk Officer

The Board has approved the CRO, who is responsible for the Risk Management Function. The Board has approved a Risk Management Charter and terms of reference for the CRO / Risk Management Function and reviews the terms of reference annually. The Risk Committee has approved the annual risk plan and reviews the plan annually.

The Risk Management Function is defined as a "Key Function" in Solvency II. The CRO has responsibility for the Risk Management Function and is the Key Function Holder for Risk Management.

The CRO's primary responsibility is to the Board, and reports to the Board periodically with direct access to the Chair of the Board. The CRO also reports to the Risk Committee, at least quarterly. The CRO is a member of the Executive Management Meeting.

The Risk Management Function and CRO carry out the following duties:

- ensure that ARE has and maintains effective processes to identify, monitor, manage and report on the risks to which ARE is or might be exposed;
- measure and assess the controls of material risks;
- implement the risk management framework and risk policies;
- prepare a regular risk report including a view of all current and future material risks;
- provide comprehensive and timely information on ARE's material risks which enables management and the Board to understand the overall risk profile;
- be the central point for risk reporting;
- maintain a Risk Function calendar of activities;
- report on the effectiveness of the risk management system;
- provide advice on risk management to all Stakeholders;
- provide education and training on risk matters to colleagues and staff in related companies;
- promote a strong risk culture;
- co-ordinate the annual refresh of the risk policies;
- maintain the risk register;
- lead the ORSA process; and
- facilitate the setting of the risk appetite by the Board.

B.3.2 Risk Management Process and Procedures

As described above, the CRO produces regular risk reports, including the quarterly CRO report. This reporting aims to provide the Board, Risk and Audit Committees with sufficient oversight of the Risk Management Framework and the risks to which the company is exposed.

The ORSA process is carried out throughout the year, which facilitates integration with decision making, culminating in the annual ORSA report which is owned and shaped by the Board.

The Company has a Risk Management Framework in place which is designed to support the Company's decision-making procedures by providing consistent, reliable and timely risk information and protecting capital from risks that exceed established risk tolerances.

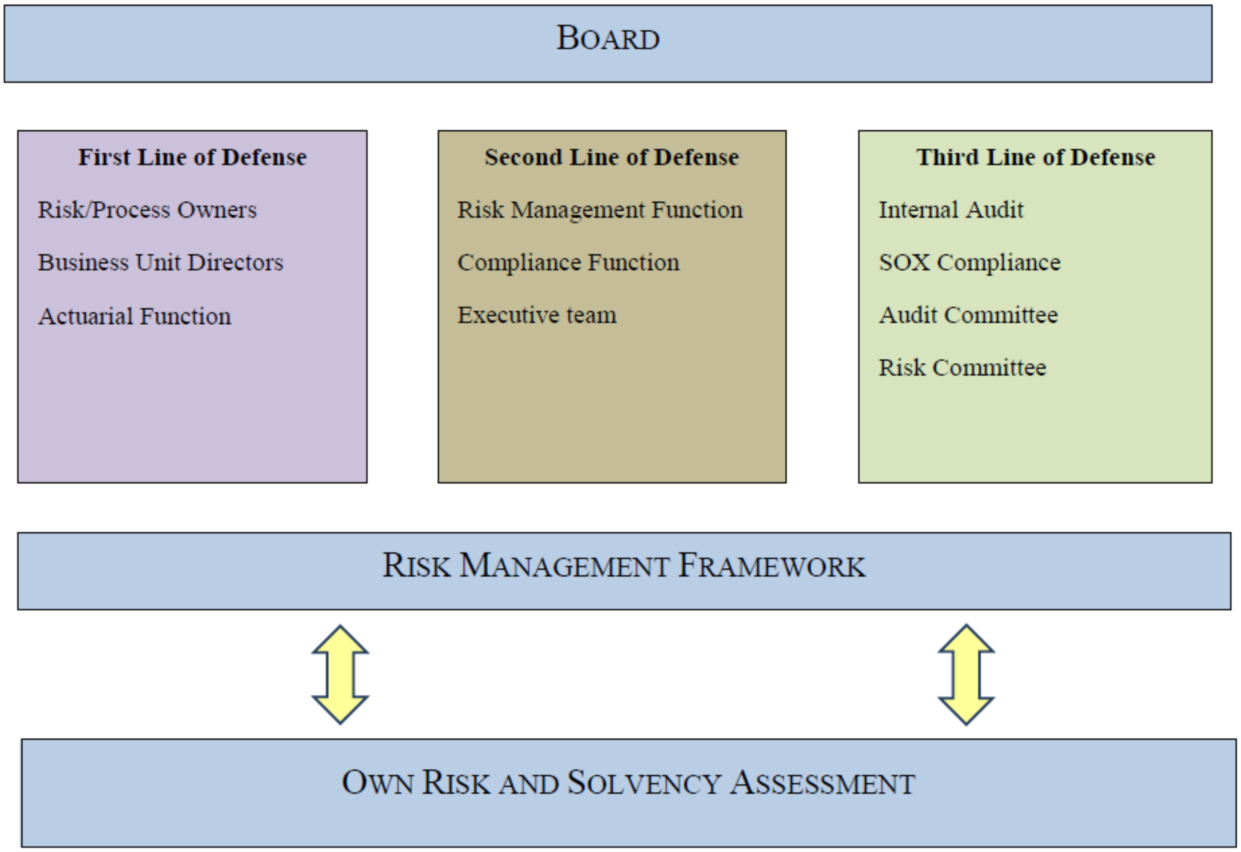
The following narrative provides an overview of the Risk Management Framework ("RMF"), which sets out the Company's methodology for identifying, measuring, managing and reporting on the key risks affecting ARE. It outlines ARE's approach to risk identification and assessment and provides an overview of ARE's risk appetite and tolerance for each of the following major risks:

- Underwriting Risk;
- Market risk;
- Counterparty credit risk; and
- Operational, including governance, regulatory, business/strategic, investor relations (reputational), rating agency and outsourcing risks.

The RMF 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 RMF follows the Three Lines of Defence model, and fits into the overall governance structure as follows:



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 analysing risk from both a top-down and bottom-up perspective.

<u>Risk Identification and Assessment</u>

The Risk Committee of the Board oversee the top-down and bottom-up review of the Company's risks. Given the nature and scale of the Company, the committee considers underwriting, investments and operational risks within the scope of the assessment. The CRO assists the committee in the identification and assessment of all key risks.

The CRO is responsible for maintaining the Risk Register and continually reviewing and challenging risk assessments, including the impact of emerging risks and significant business developments. Board approval is required for any new high-level risks or change in inherent / residual designations.

<u>Risk Monitoring and Control</u>

ARE's RMF requires risk owners to monitor key risks on a continuous basis. The highest residual risks are actively managed by the Risk Committee. The remaining risks are managed and monitored at a process level by the risk owners and/or CRO.

Risk owners have ultimate responsibility for the day-to-day management of each designated risk, reporting to the CRO on the satisfactory management and control of the risk and timely escalation of significant issues that may arise in relation to that risk.

The CRO is responsible for overseeing the monitoring of all risks across the business and for communicating to the relevant risk owners if he becomes aware of issues, or potential and actual breaches of risk appetite, relevant to the assigned risks.

A key element of these monitoring activities is the evaluation of the Company's position relative to risk tolerances and limits approved by the Board.

Risk Reporting

Quarterly, the CRO compiles the results of the key risk review process into a report to the Risk Committee for review and discussion at their quarterly meeting. The report includes:

- An overview of selected key risks (e.g., Underwriting, Market, Credit);
- Changes in the rating of high-level risks in the Risk Register;
- A risk dashboard that depicts the status of risk limit and tolerance metrics;
- Summary of largest exposures and concentration risks; and
- Reinsurance arrangements, including outstanding and uncollectible recoveries.

If necessary, risk management matters reviewed at the Risk Committee meeting are presented for discussion by the Board. The CRO is responsible for immediately escalating any significant risk matters to ARE executive management, the Risk Committee and/or the Board for approval of the required remediation.

B.3.3 Implementation and Integration of ORSA

The Company believes an integrated approach to developing, measuring and reporting its ORSA is an integral part of the RMF. 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 ARE's business strategy, tailored specifically to fit into ARE's organisational 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, establishing the most appropriate premium levels 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 Risk Committee. This oversight includes regular reviews of the ORSA process and output.

An ORSA Report is produced at least annually and the results of each assessment are reported to the Board. The Board actively participates in the ORSA process by steering how the assessment is performed and challenging its results, including suggesting and challenging stress scenarios. This assessment is also taken into account when formulating strategic decisions for the Company.

B.3.4 Performance, Documentation and Review of the ORSA

A full ORSA cycle is performed at least annually and reported to the Risk Committee of 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/ORSA Policy;
- **Business planning –** providing the basis for the base case projections;
- **The Solvency II Pillar I standard formula –** 5 year outputs & base assumptions used;
- **The Risk Committee –** who review, challenge & approve the test scenarios, and 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;
- **The Risk Committee & Board –** who provide an assessment of the output and resultant capital, strategy & risk appetite review; and
- **ORSA Reporting to the 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; and
- Risk Committee & 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:

- A summary of the Board strategy for the Company;
- The Risk Appetite Statement;
- The Pillar I standard assumptions & output;
- The schedule of scenarios to be tested, cross-referenced to the Risk categories in the Board’s risk appetite, and quantification of deviations from the base assumptions;

- The scenario test results;
- The ORSA report;
- Any Audit and Risk Committee Minutes relating to scrutiny & challenge of the ORSA process & outputs;
- Any Board minutes relating to ORSA output review & challenge – resultant strategy decisions and risk appetite review; and
- A record of the report to the CBI.

B.3.5 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 Risk Committee reviews and monitors the plan and presents it to the Board for approval. The Audit Committee is responsible for monitoring the alignment of the investment strategy with the plan.

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, both in terms of SCR and MCR.

ARE's capital planning process aims to be dynamic and forward-looking in relation to ARE's risk profile and shall take into account the output from ARE'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 ARE'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 ARE.

When considering the sources of capital and corrective actions, ARE 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 modelled for potential impact upon ARE'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.3.6 Approval Process

The Company records the actual performance of the overall capital assessment and the assessment of any deviations in its risk profile from the assumptions underlying the capital requirements analysis to a level of detail that enables a third party to evaluate the assessments performed.

The CRO prepares a quarterly report for the Risk Committee covering risk management in general, including relevant ORSA topics, for discussion in the Risk Committee meetings. The Risk Register is presented to the Risk Committee on an annual basis for review, followed by Board approval. Any material changes in the risk management strategy, policies, processes, procedures and/or capital requirements analysis are presented to the Board for approval.

The ORSA policy and the ORSA report are reviewed by the Risk Committee and recommended to the Board for approval.

B.4 Internal control system

B.4.1 Internal Control System

ARE 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 ARE's risk strategy is maintained and risk remains within the appetite and tolerances set by the Board.

ARE 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. ARE'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. ARE'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. Key controls are verified using a compliance monitoring system and the output is reported to the Audit Committee Chair.

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 Group Audit Committee.

B.4.2 Compliance Function

Implementation of the Compliance Function

The Board has approved a HOC who is responsible for the Compliance Function. In addition, the Board approved a Compliance Function Terms of Reference, Compliance Charter and a Compliance Plan which have to be reviewed on an annual basis. Changes have to be approved by the ARE Board.

The Compliance Charter contains, among others, Mission Statement, Guiding Principles, Authority, Accountability, Activities, Planning and Reporting of the Compliance Function.

While the Board retains primary responsibility for compliance and governance within ARE at all times, senior management plays an important part in ensuring effective governance and compliance and hence is responsible for operating effective oversight consistent with Board policy. The role of the Compliance Function is to assist and advise the Board and management with their responsibilities. In addition, senior management and all staff members are responsible for their own regulated activities and for complying with relevant rules, legislation, standards, contracts, policies and procedures relevant to their work.

The high-level goals of the Compliance Function are:

- To ensure that a proportionate compliance infrastructure is in place;
- To identify and manage Compliance risks;
- To implement a review and monitoring program; and
- To help the business to meet requirements with applicable legislation and regulation.

The HOC has to produce and submit an Annual Compliance Plan to the Board for approval. The Compliance Plan ensures that the Compliance Function's work has a focus with measurable output that is understood by and aligns with expectations of the business. It determines the actions that the Compliance Function needs to achieve in the next 12 months.

The Compliance Plan shall cover at least the following:

- Compliance Objectives;
- Compliance Resources;
- Provision of regulatory staff training;
- Revision of existing policies and procedures;
- Preparation of new policies and procedures;
- Monitoring – details of a risk based monitoring review program; and
- Projects – on-going and planned business or regulatory projects.

The HOC is required to make following internal reports:

- Quarterly to the Risk Committees;
- Monthly to the CEO;
- Promptly report any material or major compliance issues identified to the relevant person and the CEO; and
- Provide update to management team at the bi-weekly management call hosted by the CEO.

Independence and Authority

At ARE, the Compliance Function does not hold any other responsibilities besides Compliance. The HOC attends Committee and Board meetings and reports to the Audit and Risk Committee and the Board on all relevant matters. The HOC attends the Executive Management Meetings.

The Compliance Function is authorised 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 ARE's Board and the authority to escalate matters to ACGL where required.

B.5 Internal audit function

The purpose of Arch Capital Services LLC ("ACS") Internal Audit services function ("IA") is to provide independent, objective assurance and consulting services designed to add value and improve Arch Capital Group Limited's ("ACGL") and its subsidiaries' (including ARE) operations. The Company has a Head of Internal Audit (PCF-13) who is employed by ACS. As such, it is deemed by the Company that the internal audit function is effectively outsourced to ACS.

IA governs itself by adherence to the mandatory elements of The Institute of Internal Auditors ("IIA") International Professional Practices Framework, including the core principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

An Annual Internal Audit Plan ("Audit Plan") is produced and submitted to the Company's Audit Committee prior to the start of the year to which the Audit Plan pertains. The Plan takes into consideration management's view of key and emerging risks, as well as IA's assessment of the Company's key and emerging risks and related controls and their linkage to historical and planned audits.

The Head of IA also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. IA may perform advisory and related client service activities, the nature and scope of which will be agreed with management, provided IA does not assume management responsibility.

IA maintains a comprehensive Charter which outlines key IA practices.

B.5.1 Maintenance of Independence

The Head of IA will ensure IA remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and report content. If the Head of IA determines that independence or objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to the appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on engagement matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Company or its affiliates.
- Initiating or approving transactions external to IA.
- Directing the activities of any Company employee not employed by IA, except to the extent that such employees have been appropriately assigned to engagement teams or to otherwise assist internal auditors.

B.5.2 Process for Reviewing Internal Audit Policy

The Internal Audit policy is reviewed and updated in line with ACGL's IA Charter to reflect amendments that may be required as a result of Company specific legislative or regulatory changes. The review is carried out at least annually by the Head of Compliance as part of the Compliance Plan.

B.6 Actuarial function

The Board has approved the Head of Actuarial Function ("HoAF"), who is responsible for the Actuarial Function. The Board has approved terms of reference for the Actuarial Function and reviews the terms of reference annually. The terms of reference state that the Actuarial Function must be free from influence from other functions and the Board.

The Board provides oversight to ensure the HoAF 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, the Society of Actuary in Ireland's Domestic Actuarial Regime and the CBI Guidance for (Re) Insurance Undertakings on the Head of Actuarial Function Role 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;
- Contribute to the effective implementation of the risk management system;
- Provide an Actuarial Opinion on Technical Provisions;
- Provide Actuarial Report on Technical Provisions; and
- Express an opinion on each ORSA process.

On an annual basis the Head of Actuarial Function will prepare an Actuarial Opinion on Technical Provisions ("AOTP") and present the Actuarial Report on Technical Provisions ("ARTP") to the Board. 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 Chief 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

ARE 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 ARE may use the external service provider's processes and controls to perform the agreed upon services. However, ARE 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;
- The approval process;
- Contract and legal requirements;
- Risk assessment and risk mitigation measures; and
- Monitoring and on-going requirements.

Key functions that have been outsourced (within the Arch Group) include:

- Head of Actuarial Function role (to the Chief Actuary of ARL);
- Investment Management Services (to Arch Investment Management Ltd.); and
- Head of Internal Audit (to Director of Internal Audit Services at ACSI).

B.8 Assessment

Given the nature, scale and complexity of the risks inherent in our business, we conclude that the Company's system of governance is adequate and appropriate.

B.9 Any other information

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

SECTION C – RISK PROFILE

Overview

ARE'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 ARE to make informed business decisions having regard to the key risks to which it may be exposed by such a decision.

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

- Underwrite business that meets agreed targeted returns;
- Underwrite business with selected cedants;
- Underwrite only carefully selected business lines;
- Manage underwriting volumes in line with the business cycle; and
- 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 as at 31 December 2021, along with the composition as at 31 December 2020 for comparison purposes.

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	19.7%	19.3%
Market Risk	Risk of losses from market movements, including exchange rates and investment returns	68.7%	70.2%
Credit Risk	Risk of losses from counterparty defaults, including reinsurers and other counterparties	6.3%	5.1%
Operational Risk	Risk of operational losses	5.3%	5.4%

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/reinsurance 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 the fluctuations in the timing, frequency and severity of insured events.

As already mentioned in Section A, the reinsurance industry remains competitive in many parts but profits from a firming in primary rate and conditions in select places are continuing. Competition is prevailing, as the current market is not stressed enough and new capacity entered into 2022 to benefit from improvements in market conditions. Furthermore, the nature and breadth of the business we write means we are exposed to regulatory, legislative and fiscal changes, economic factors and changes in behaviour, as well as catastrophe events.

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

- Reserve Risk: The risk of loss, or adverse change, in the value of insurance liabilities due to the occurrence, amount, and timing of claims, inadequate pricing and provisioning assumptions;
- Pricing Risk: The risk of loss due to inadequate pricing of business pre-claim; and
- Catastrophic Risk: The risk of loss from infrequent high severity claims from natural or man-made disasters.

C.1.2 Material Risk Concentrations

An identified risk to the Company is an inappropriate concentration of underwriting risks, through over-exposure to a particular geographic region, line of business / peril or cedant. The risk is monitored in the Risk Register and is managed through a number of controls, including the setting of exposure limits, modelling of catastrophe exposure and quarterly measurement and reporting of accumulations. C&S concentrations are limited at the portfolio level through monitoring of the maximum probable maximum loss per counterparty group. Single Realistic Disaster Scenario events at a 1 in-250-year return period are limited to less than 25% of shareholders' equity (net of expected reinsurance recoverables). After controls, the risk is considered low impact; therefore, there is not considered to be material underwriting risk concentration.

C.1.3 Underwriting Risk Mitigations

ARE purchases Excess of Loss retrocession protection on particular programmes to mitigate the impact of catastrophic claims and/or to manage accumulations of risk. In addition, inter-company Quota Share reinsurance is in place to mitigate the impact of attritional losses. An inter-company Stop Loss agreement is also in place to help protect the overall underwriting result against deterioration beyond a pre-determined level.

In addition, underwriting risk is further mitigated through a number of controls and practices, which include the following:

- Business performance is monitored regularly, including consideration of market factors, pricing trends and strategic challenges;
- Actual performance is compared against expected each quarter;
- Treaties are subject to the four-eye review principle – peer underwriter review ensures that guidelines are being adhered to;
- Pricing is processed by a pricing actuary, independent from the underwriting function;
- ARL's Property Cat modelling group assist with the validation of the models and assumptions used for pricing and to analyse Property Cat exposures;

- Audits are performed in respect of selected cedents/contracts periodically to review underwriting standards and claims files to ensure accuracy of cedents reporting to ARE and adherence to treaty terms and conditions;
- Bi-annual European underwriting meetings occur in ARE, attended by all key underwriting staff, senior executives from ARE and representatives from ARL to review risk, claims and underwriting performance at contract level, movements and aggregation. Market conditions are also discussed;
- Quarterly Change Report ("QCR") meetings are held between the Underwriting, Finance and Actuarial teams to review development of treaties relative to expectations;
- A quarterly IBNR memo from the HoAF documents known issues and underlying assumptions around loss reserves and is sent out to Executive Management; and
- An independent actuarial firm provide an annual review of ARE reserves.

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 ARE's capital position.

We considered a number of scenarios in the ORSA which aim to reflect the underwriting and reserving risk to which the company is exposed.

Numerous Realistic Disaster Scenarios ("RDS") were devised in conjunction with underwriting teams across the various lines of business; these represent very adverse scenarios to which the company could be exposed. We also devised a scenario in which reserves are not adequate to meet the liabilities that arise, and therefore must be increased by 20% for short development business and 10% each projected year for long development business. The projected SCR and Own Funds were then calculated under each of these scenarios, allowing the Company to assess the capital impact and profit metric of each scenario.

Due to the Company's capital strength, while the stresses showed deterioration in the Company's capital position, none of the modelled 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 at ARE includes the following specific components:

- Currency Risk;
- Interest Rate Risk;
- Spread Risk;
- Equity Risk; and
- Property 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.

The Company's Market Risk SCR is driven by strategic participations in Arch US and UK which are increasing the currency risk (USD and GBP) and concentration risk, while having a material benefit on the assets.

The Company's primary investment objective is to preserve capital and ensure adequate liquidity for policyholder / cedant claims, while supplementing the ROE generated by the reinsurance underwriting operations. The key market risks identified by management are:

- Failure or impairment of investment counterparty; and
- Exposure to foreign currency fluctuations.

C.2.2 Material Risk Concentrations

ARE has a diversified portfolio of assets with no material risk concentrations in non-government securities. The Company's investment guidelines have specific single issuer limits, including sovereign and supranational single issuer limits, to prevent asset risk concentrations.

C.2.3 Market Risk Mitigations

ARE 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;
- Analysis of quarterly Investment Guideline compliance confirmations issued by Investment Managers, as summarized by ACSI personnel and reviewed by ARE;
- Quarterly review of investment portfolios with ARE Senior Management;
- Appropriate trade due diligence and guideline compliance;
- Utilisation of company approved brokers, investment managers and 3rd party service providers;

- Quarterly testing of Investment Guideline compliance and subsequent review with ARE Senior Management;
- Investment portfolio reporting from AIM to ARE Excecutive Management and the Board. This reporting includes performance and risk summaries, and includes duration analysis;
- Accounting reconciliations across holdings and risk data; and
- Linkage between ALM ("asset liability matching") and the limits for asset classes, as approved by the Board and set out in this Investment Risk Policy.

C.2.4 Stress and Sensitivity Testing

A number of ORSA stress tests were performed to reflect the Company's exposure to Market Risk. One economic crisis scenario was performed reflecting an economic crisis centred in Europe.

In this Europe-centric scenario, we consider the impact of such a scenario on C&S claims and exchange rate movements, along with the impact of interest rate movements on bond prices and technical provisions.

Due to the Company's capital strength, while the modelled stresses would result in some deterioration in the Company's capital position, none of the scenarios were considered likely to result in a breach of the SCR. The Company's market risk profile is therefore considered to be resilient to most shocks.

C.2.5 Prudent Person Principle

ARE 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 ARE has outlined the following risk management objectives in order to minimise its exposure to Investment Risk in line with the overall ARE Risk Appetite:

- ARE shall adopt a conservative approach to investments and seek to safeguard the assets of shareholders;
- ARE shall hold sufficient investment values and investment liquidity to ensure all liabilities are met as they fall due; and
- ARE shall ensure that there are appropriate policies, strategies and procedures in place to meet these objectives.

ARE 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 products 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 product, 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; and
- The Risk Committee will separately review the material and consider the impact on ARE's risk appetite and risk profile.

If the proposed investment is approved, ARE's finance and compliance functions will liaise with AIM to revise or develop bespoke Investment Guidelines for the new product where appropriate. In certain circumstances, 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

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

ARE is exposed to credit risk from the following sources:

- Investments in fixed income securities;
- Deposits with banking counterparties;
- Reinsurance counterparties; and
- Premiums collectable from cedants.

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

The exposure to counterparty default risk includes banks where the Company has short term deposits, insured and insurance intermediary receivable balances and reinsurance agreements including the 85% quota share reinsurance agreement with ARL.

C.3.2 Material Risk Concentrations

As at December 31, 2021, the reinsurance recoverable from the quota share reinsurance agreement with ARL is significant however this is partially mitigated by assets in trust to partially collateralise the net recoverable.

C.3.3 Credit Risk Mitigations

ARE 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, Standard & Poor's 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 "A+" or equivalent by Standard & Poor's or Fitch and P-l or equivalent by Moody's at the time of purchase.

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

In addition, ARE requires many counterparties, including ARL, to post significant collateral against reinsurance balances, further mitigating this risk. The collateral posted by ARL is held in a trust account for the benefit of the Company and invested in accordance with investment guidelines agreed with the Company. These guidelines restrict the assets invested into highly rated fixed income government and corporate bonds and limited single name concentrations. Collateral is required to be maintained at a minimum percentage of the net amount recoverables by the Company from ARL. In the event that ARL's rating were to be downgraded this minimum percentage would be subject to graduated increase with the increased percentage being a function of the rating following any such downgrade.

C.3.4 Stress and Sensitivity Testing

Due to the high level of reinsurance ceded, ARE is exposed to a material amount of counterparty default (credit risk). As one of the Company's most material risks, a downgrade of the Company's immediate parent, ARL, was considered as a scenario. In this scenario it is assumed ARL's rating is downgraded to "B++" from "A+" and that ARL does not post additional capital following its downgrade. Under this stress scenario, which has ARL's downgrade as the sole stress factor, the Company is able to withstand the shock of the downgrade whilst maintaining its SCR ratio above the risk appetite requirement of 120% SCR coverage ratio.

In addition, this ARL downgrade scenario has been selected as part of a Reverse Stress Test carried out in the ORSA, in conjunction with several other adverse scenarios occurring simultaneously. The aim of a reverse stress test is to devise an extreme scenario which would result in the Company's available capital falling below the SCR requirement.

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. These risk appetites, risk limits and tolerances are monitored by the risk function and reported to the Board and Risk Committee. 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.

In the latest ORSA the Company assessed the Liquidity profile under Stress Scenarios. The stress scenario with the highest peak on a quarterly basis in additional liquidity requirements over the base scenario is the adverse loss experience scenario. Under this scenario, we anticipate that additional liquidity requirements would peak on a quarterly basis at €17.1m in 2022 over the base scenario due to the aggregation of gross of reinsurance claims falling due for payment in the same quarter. We believe that the Company will maintain adequate liquid assets to meet liquidity requirements under the stress scenarios during the projection horizon.

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. There are no planned changes to risk mitigation over the business planning horizon.

C.4.3 Expected Profit in Future Premium

As of December 31, 2021, the expected profit in future premium is €41.1m.

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, ARE also includes:

- Group Risk: Risks related to unregulated entities within the 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; and
- 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.

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

- Financial and/or non-financial (e.g. reputational) loss arising from over reliance on outsourced service providers;
- Legal, litigation, regulatory, political and reputational risk;
- Reliance on key individuals (including directors and staff at outsourced service providers);
- Reliance on key brokers;
- Inappropriate overall business strategy or inadequate monitoring of strategic decisions; and
- Risks external to ARE but internal to ACGL.

Those risks classified under the Operational Risk profile have been identified, assessed and articulated in the ARE Risk Register. Relevant risk and control owners report to the CRO, who in turn reports to the 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, ARE's HOC has the responsibility for monitoring new and pending legislation from the CBI or Irish 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 material Operational Risk concentration outside of our exposure to ACGL.

C.5.3 Operational Risk Mitigations

ARE 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 ARE;
- Appropriate reporting to ACGL on all relevant matters to enable oversight;
- Business plans and budgets reviewed quarterly; and
- Appropriate governance structures, including quarterly Board meetings.

C.5.4 Stress and Sensitivity Testing

Operational risk is included in the Standard Formula.

As part of its ORSA process, ARE considers those areas of operational risk which may not be adequately covered, such as implementation and compliance with Solvency II and other relevant regulation, investment in subsidiaries and other group risks. In addition, operational risk is stress tested through some of the scenarios:

- large scale operational risk event such as Cyber attack;
- the risk of a credit down-grade of Arch Group (and its impact on the inter-company Quota Share); and
- the risk of inappropriate business strategy resulting in loss ratio deviation.

Operational risk comprises a moderate part of ARE'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

A number of other risks are considered to be relevant for the Company, namely group risk, strategic 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. There are no planned changes to risk mitigation over the business planning horizon.

C.7 Any other information

The onset of global pandemic in March 2020 resulted in the Company's offices in Dublin, Zurich and London being largely closed and occasionally open on a voluntary basis throughout 2021. Government restrictions were eased in most jurisdictions and a flexible return to work was implemented across all locations. This transition has not led to any diminution of productivity or disruption to the business's operations or performance. The Risk function has undertaken additional risk awareness initiatives and reviews in areas where heightened risks arise from remote working including fraud prevention and 'home' workplace risk assessments.

Following the Russian invasion of Ukraine, the Company is actively monitoring holdings and valuation of its investments, incurred losses, and premium volume, all of which are potentially impacted by the increased volatility and uncertainty. The Risks function actively involved in this ongoing monitoring.

D.1 Assets

The table below sets out the value of the assets of the Company as at 31 December 2021 under Solvency II and Irish GAAP, along with equivalent values as at 31 December 2020.

Assets	2021 Solvency II €'000	2021 Irish GAAP €'000	2020 Solvency II €'000	2020 Irish GAAP €'000
Reinsurer's Share of Technical Provisions	848,637	1,173,138	747,244	975,337
Deferred Tax Asset	2,535	2,734	5,906	671
Investments (including accrued interest & cash)	711,485	711,484	598,765	598,842
Holdings in related undertakings	613,752	565,948	506,799	496,531
Reinsurance Receivables & Insurance and intermediaries receivable	35,491	206,302	21,483	149,910
Deposits to Cedants	19,710	19,710	20,147	20,147
Other assets and non-insurance receivables	34,569	34,752	27,730	27,730
Deferred Acquisition Costs	-	58,397	-	40,490

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 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. 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.

D.1.2 Holdings in related undertakings

As at December 2021, the Company has two holdings in related undertakings; a 10% holding in Arch Capital Group (U.S.) Inc. (“ACGI”), valued at €491.1m, and a wholly owned subsidiary, Arch Insurance (UK) Limited (“AIUK”), valued at €122.6m.

These valuations are based, in the case of AIUK, on their solvency II excess of assets over liabilities whilst for ACGI the valuation is based on their economic balance sheet prepared on a Solvency II equivalent basis for Bermuda Monetary Authority (“BMA”) statutory reporting purposes. The BMA regime has been accepted as Solvency II equivalent by EIOPA.

D.1.3 Investments (other than holdings in related undertakings)

Investments have been valued in accordance with Irish GAAP’s fair value model. The Company’s investments are managed by Arch Investment Management Limited. The Company receives quarterly report detailing the underlying securities held in the fund. The quarterly reports are reviewed to ensure average financial strength ratings and durations have not moved significantly since the previous quarter. Any unusual movements or discrepancies are discussed with the fund managers. This information is presented to the Group Investment Committee every quarter.

The investments are valued at fair value under Irish GAAP and Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets. Where there are no quoted prices available, the fair value is determined using inputs that are observable for the assets.

There is an amount of €11.5m for an unlisted equity that has been valued using the alternative valuation method in accordance with Solvency II. The Directors have used the equity valuation method, being the closest to the fair value of this equity.

The valuation of investments is consistent with the accounting valuation under Irish GAAP.

D.1.4 Deposits to Cedants

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 and there are no differences between the valuation for Solvency II and the GAAP valuation.

D.1.5 Insurance and intermediaries receivables

Insurance and intermediaries receivables balance represents premiums owed by cedants. Outstanding premiums are valued at fair value and due to the short-term nature of the receivable no adjustments to valuation are required. The valuation of insurance and intermediaries receivables is consistent with the accounting valuation under Irish GAAP except that the share of insurance and intermediaries balances which are not yet due at the valuation date are deducted from the balance and included in the technical provisions cashflow.

D.1.6 Cash and cash equivalents

The Company’s cash holdings are held in major currencies, which are EUR, GBP and USD, comprising a mix of bank deposits and cash funds. The non-EUR balances are translated into EUR 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 Irish GAAP.

D.1.7 Other assets and non-insurance receivables

Other assets and non-insurance receivables have been valued using the alternative valuation method in accordance with Solvency II. The Directors have used the cost approach or current replacement cost approach, being the closest to the fair value of these assets.

The valuation of other assets and non-insurance receivables is consistent with the accounting valuation under Irish GAAP, apart from goodwill, which is recognised on an Irish GAAP basis, but not on a Solvency II basis.

D.1.8 Deferred acquisition costs / Goodwill

The following are the material differences in valuation of assets between Solvency II and financial statements prepared in accordance with Irish GAAP that are not already explained in the previous sections.

In the financial statements, acquisition costs which represent commission and other related expenses are deferred over the year 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.

Solvency II balance sheet is prepared based on the best estimate of future cash flow basis. Therefore, deferred acquisition costs are being excluded from the Solvency II balance sheet.

Goodwill recognised under Irish GAAP is similarly excluded from the Solvency II balance sheet.

D.2 Technical provisions

D.2.1 Results summary

The following table sets out the Solvency II technical provisions by grouping as at 31 December 2021.

31 December 2021 Net of Retrocession and inter-company Quota Share	**Claims Provisions (€'000)**	**Premium Provisions (€'000)**	**Risk Margin (€'000)**	**Solvency II Technical Provisions (€'000)**
Accident & Health Reinsurance	2,784	(575)	458	**2,667**
Property Reinsurance	11,587	(1,651)	6,847	**16,783**
Liability Reinsurance	8,111	(2,994)	2,848	**7,965**
Credit & Surety Reinsurance	15,461	6,754	9,847	**32,062**
Non-Proportional Reinsurance	97,917	(31,531)	49,856	**116,242**
Grand Total	135,860	(29,997)	69,856	**175,719**

For comparison purposes, the following table sets out the Solvency II technical provisions by grouping as at 31 December 2020.

31 December 2020 Net of Retrocession and inter-company Quota Share	**Claims Provisions (€'000)**	**Premium Provisions (€'000)**	**Risk Margin (€'000)**	**Solvency II Technical Provisions (€'000)**
Accident & Health Reinsurance	1,851	(1,882)	809	**777**
Property Reinsurance	7,355	(3,128)	5,960	**10,187**
Liability Reinsurance	6,585	(3,450)	2,615	**5,750**
Credit & Surety Reinsurance	14,091	12,756	10,811	**37,659**
Non-Proportional Reinsurance	71,101	(32,512)	48,024	**86,613**
Grand Total	100,984	(28,216)	68,219	**140,987**

The groupings above are made up of the following Solvency II Lines of Business (“LoB”).

Line of Business grouping	**Solvency II line of business**
Accident & Health Reinsurance	Medical expense Workers' compensation
Liability Reinsurance	Motor vehicle liability General liability
Property Reinsurance	Other motor Marine, aviation and transport Fire and other damage to property
Credit & Surety Reinsurance	Credit and suretyship
Non-Proportional Reinsurance	Non-proportional health reinsurance Non-proportional casualty reinsurance Non-proportional marine, aviation and transport reinsurance Non-proportional property reinsurance

The increase of in the overall technical provisions is a reflection of the growth in the business over the past 12 months.

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 Irish 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.

(a) 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.

(b) 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.

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

The Company's technical provision calculation allow 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.

(d) 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.

(e) ENIDs

The Solvency II technical provisions must allow for events not in data ("ENIDs"). This identifies that the Company has potential exposure to an extreme loss arising from severe liability catastrophe. 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.

(f) 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.

(g) 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.

(h) 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.

D.2.3 Material Changes since Last Reporting Period

There has been no material change in the calculation methodology for technical provisions since the last reporting period. Some minor changes were made to the process and assumptions used for technical provisions. The source system for the data used to define the business that was Bound But Not Incepted (BBNI) was revised to ensure this data was available earlier in the process. In addition, the Natural Catastrophe exposure has been refined at treaty level.

D.2.4 Impact of Reinsurance

There has been no material change in the calculation methodology for technical provisions since the last reporting period. Some minor changes were made to the process and assumptions used for technical provisions. The source system for the data used to define the business that was Bound But Not Incepted (BBNI) was revised to ensure this data was available earlier in the process. In addition, the Natural Catastrophe exposure has been refined at treaty level.

The held provisions for Solvency II correspond to the probability-weighted average of all future cash flows including cash flows recoverable from reinsurance contracts and special purpose vehicles. This takes account of the time value of money, using the relevant risk-free interest rate, and the adjustment for the expected losses due to the default of the counterparty (i.e. bad debt).

Recoverables from reinsurance contracts are shown separately on the asset side of the balance sheet (as "recoverables from reinsurance contracts"). Recoveries due on settled claims do not sit within the technical provisions, i.e. those where collection notes have been sent out but not received – reinsurance receivables.

Calculation of amounts recoverable from reinsurance contracts are performed under the same principles as for calculation of the gross best estimate. Risk margins are not required in respect of reinsurance and special purpose vehicle recoverables, as risk margins are calculated at a net level.

Gross and net best estimate reserves are estimated separately for each underwriting year. Reinsurance cash flows are then derived as the difference between gross and net cash flows.

Reserves are calculated on both gross and net (post internal quota share) bases. The net figures are produced in two stages:

- Firstly, applying all external reinsurance; and
- Secondly applying the intercompany quota share (85% placement).

Cash inflows stemming from ceded reinsurance income are calculated as a factor of net premiums.

In addition, the principle of correspondence underlying the calculation of reinsurance recoveries is also considered, as set out in the next section.

D.2.5 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; and
- Events not in data are, by their nature unpredictable and any allowance made could prove to be over-prudent or insufficient.

The Company follows a robust process in setting 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 31st December 2020 in order to give an indication of sensitivity around loss ratio assumptions.

The following table shows net Best Estimate of Liabilities (i.e. the claims provision and premium provision, but not including the Risk Margin) in stressed scenarios (losses 5% and 10% higher than expected).

	Base Case (€'000)	**Losses +5% (€'000)**	**Losses +10% (€'000)**
Net Best Estimate Liabilities	105,862	115,641	124,797
Impact		9,779	18,935

The above results of sensitivity testing should be considered in the context of the Company's solvency profile. As at December 31st, 2021, the Company's SCR was €428.2m, against which it held eligible own funds of €790.7m, equating to SCR coverage of 184.7%. Without considering the impact on SCR, the more extreme of the scenarios above (losses 10% higher than expected), would reduce the SCR coverage ratio to 180.2%.

D.2.6 Material Differences between Irish GAAP and Solvency II

Whilst some of the approaches and techniques applied under Solvency II are similar to those followed under the existing Irish 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;
- Introduction of discounting of cash flows, leading to increased volatility in reserves;
- 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.

D.2.7 Other Comments

The Company does not apply the matching adjustment referred to in Article 77 b of Directive 2009/138/EC, the volatility adjustment referred to in Article 77 d of Directive 2009/138/EC, the transitional adjustment to the risk-free interest rate term structure referred to in Article 308 c of Directive 2009/138/EC, or the transitional deduction referred to in Article 308 d of Directive 2009/138/EC.

Due to the nature of the business and the low level of materiality in respect of policyholders opting to lapse, no lapse assumption has been applied to future premium in the calculation of technical provisions.

Future management actions are not considered relevant for this business.

D.2.8 Irish GAAP to Solvency II Comparison

The table below sets out the movement analysis between Irish GAAP and Solvency II for the Company as at 31 December 2021.

2021 Technical Provisions GAAP to Solvency II	Gross €'000	Ceded €'000	Net €'000
Claims Provisions	1,057,410	921,553	135,860
Premium Provisions	(102,913)	(72,915)	(29,997)
Risk Margin	69,856	-	69,856
Solvency II Technical Provisions	**1,024,353**	**848,637**	**175,719**
GAAP Reserves (including ULAE)	**1,069,158**	**950,879**	**118,279**
Remove margins	-	-	-
Allowance for ENID	13,808	12,085	1,723
Change of Expense Basis	21,310	-	21,310
Adjustment for Counterparty Default	-	(423)	423
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(46,866)	(40,988)	(5,875)
Currency Revaluation	-	-	-
Remove booked ULAE	-	-	-
Solvency II Claims Provisions	**1,057,410**	**921,553**	**135,860**
GAAP Reserves (Unearned Premium)	**248,749**	**222,258**	**26,490**
Remove Unearned Premium Reserve	(248,749)	(222,258)	(26,490)
Future Premium (net of Acquisition Costs)	(343,322)	(286,815)	(56,507)
Future Losses and ALAE	414,566	374,705	39,861
Remove margins	-	-	-
Allowance for ENID	5,867	5,289	578
Change of Expense Basis	8,291	-	8,291
Adjustment for Counterparty Default	-	(173)	173
Premium Receivables	(171,005)	(150,496)	(20,509)
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(17,310)	(15,425)	(1,885)
Solvency II Premium Provision	**(102,913)**	**(72,915)**	**(29,997)**

The movement from Irish GAAP basis reserves and Solvency II Technical Provisions applies in the same manner for each Line of Business.

For comparison purpose, the table below sets out the GAAP to Solvency II movement as at 31 December 2020.

2020 Technical Provisions GAAP to Solvency II	Gross €'000	Ceded €'000	Net €'000
Claims Provisions	919,390	818,285	101,105
Premium Provisions	(99,422)	(71,041)	(28,380)
Risk Margin	68,276	-	68,276
Solvency II Technical Provisions	**888,245**	**747,244**	**141,001**
GAAP Reserves (including ULAE)	900,035	817,682	82,353
Remove margins	-	-	-
Allowance for ENID	12,081	10,518	1,563
Change of Expense Basis	17,935	-	17,935
Adjustment for Counterparty Default	-	(361)	361
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(10,661)	(9,554)	(1,107)
Currency Revaluation	-	-	-
Solvency II Claims Provisions	**919,390**	**818,285**	**101,105**
GAAP Reserves (Unearned Premium)	176,745	157,655	19,090
Remove Unearned Premium Reserve	(176,745)	(157,655)	(19,090)
Future Premium (net of Acquisition Costs)	(308,177)	(261,867)	(46,310)
Future Losses and ALAE	331,344	302,121	29,223
Remove margins	-	-	-
Allowance for ENID	4,717	4,304	413
Change of Expense Basis	6,627	-	6,627
Adjustment for Counterparty Default	-	(204)	204
Premium Receivables	(128,427)	(110,306)	(18,121)
Reinsurance Receivables/Payables	-	-	-
Discounting impact	(5,505)	(5,090)	(415)
Solvency II Premium Provision	**(99,422)**	**(71,041)**	**(28,380)**

D.3 <u>Other liabilities</u>

The table below sets out liabilities other than technical provisions on the Solvency II balance sheet as at year-end 2021 and 2020:

Other Liabilities	2021 Solvency II €'000	2021 Irish GAAP €'000	2020 Solvency II €'000	2020 Irish GAAP €'000
Deposits from Reinsurers	-	-	0	0
Insurance & intermediaries payables	13,248	13,248	16,678	16,678
Reinsurance payables	420,400	570,896	349,080	459,386
Payables (trade, not insurance)	1,914	1,596	7,237	7,057
Ceded deferred excess commission	-	14,804	-	11,345
Ceded deferred acquisition costs	-	48,834	-	34,676
Payables (securities)	-	15,529	-	77
Any Other Liabilities, not elsewhere shown	15,529	318	0	180
Total Other Liabilities	451,091	665,225	372,995	529,398

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

Reinsurance payables balance represents amounts payable to reinsurers in respect of ceded premiums. Reinsurance payables are valued at fair value. The valuation of reinsurance payables is consistent with the accounting valuation under Irish GAAP except that the share of reinsurance balances which are not yet due at the valuation date are deducted from the balance and included in the technical provisions cashflow.

D.3.2 Payables (trade, not insurance)

The valuation of payables (trade, not insurance) is consistent with the accounting valuation under Irish GAAP.

D.3.3 Ceded deferred Excess commissions

In the financial statements, ceded deferred excess commissions represent ceding commission received in excess of original acquisition expenses on assumed business, and are deferred over the year in which the related reinsurers' share of premiums are earned.

Solvency II balance sheet is prepared based on the best estimate of future cash flow basis. Therefore, ceded deferred ceded deferred excess commissions are being excluded from the Solvency II balance sheet.

D.3.4 Ceded deferred acquisition costs

In the financial statements, ceded acquisition costs which represent commission and other related expenses, are deferred over the year in which the related reinsurers' share of premiums are earned. To the extent that ceded deferred 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.

Solvency II balance sheet is prepared based on the best estimate of future cash flow basis. Therefore, deferred ceded acquisition costs are being excluded from the Solvency II balance sheet.

D.3.5 Insurance and Intermediaries Payables

The valuation of Insurance and Intermediaries payables is consistent with the accounting valuation under Irish GAAP.

D.4 Alternative methods for valuation

As previously stated, (i) unlisted equities in the investment portfolio and (ii) other assets and non-insurance receivables have been valued using the alternative valuation method in accordance with Solvency II.

D.5 Any other information

The Company has a number of risk management policies in place that aim to protect the balance sheet against various risks. These include the investment risk policy and underwriting and reserving risk policy. Further information on the Company's risk management is provided in Section B above.

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

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;
- Risk Committee: Reviews the capital management policy and plan and makes recommendations to the Board. Reviews and monitors the key capital management metrics and tolerances and presents key capital management information to the Board on an ongoing basis;
- Audit Committee: Responsible for aligning the investment strategy with the capital management policy and plan, and ensuring an appropriate level of funds are available to meet the Company's obligations in a timely manner and at a reasonable cost;
- 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; and
- Risk Management Function. Responsible for maintaining and developing the capital management policy and plan, and for maintaining the SCR and MCR calculations.

In the event that the ongoing monitoring indicates that Company's capital position is outside of risk appetite, corrective actions shall, as deemed appropriate, be taken. Proposed corrective actions shall be initiated by the Finance Function, after receiving approval from the Board on the appropriate corrective action to be taken.

The Company has identified management actions which would provide capital relief if required:

- Restricting line sizes / product redesign / repricing; and
- Discontinue / Run off certain lines of business.

Estimated timeframe for realization of relief from the management actions is six months.
Other potential sources of capital which the Company has identified are:

- Additional capital sourced from Group through contributed capital, capital loan or additional reinsurance arrangements; and
- Capital sourced from outside parties, e.g., merger, private equity.

Estimated timeframe for realization of relief from the potential sources of capital from the Group is 1 to 3 month. Estimated timeframe for realization of relief from outside parties is three months to one year.

There have been no material changes to capital management during 2021.

E.1.2 Classification of Own Funds

The Company's own funds consist mostly of Tier 1 own funds, along with a small amount of Tier 3 own funds (deferred tax asset). Tier 1 funds are comprised of paid-in ordinary share capital, share premium account related to ordinary share capital, reconciliation reserve and other own funds (investments in related undertakings).

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	50,000	50,000			50,000	50,000		
Share premium account related to ordinary share capital	24,341	24,341			24,341	24,341		
Reconciliation Reserve:	519,893	519,893			404,623	404,623		
Net Deferred Tax Assets	2,535			2,535	5,906			5,906
Other Own Fund items approved by the CBI	193,964	193,964			181,964	181,964		
Total Own Funds	**790,733**	**788,198**		**2,535**	**666,835**	**660,929**		**5,906**

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.

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 differences in valuation of technical provisions and other items outlined in the subsections below.

E.1.3 Terms and Conditions of Own Funds

There is no restriction on the availability or transferability of the own funds.

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 deferred ceded acquisition costs) and goodwill, the adjustment to the deferred tax asset, the valuation of payables and receivables and differences in the valuation of investments in related undertakings.

Differences in Own Funds (Euro in thousands)	**Year Ended 31/12/2021**	**Year Ended 31/12/2020**
Equity shown in Financial Statements	789,342	703,479
Technical Provisions Valuation	(30,947)	(39,557)
Payables & Receivables	(20,510)	(18,121)
Economic Valuation of Investments in Subsidiaries	47,804	10,268
Goodwill	0	0
Deferred Acquisition Costs Eligibility	5,243	5,532
Deferred Tax Asset Adjustment	(199)	5,235
Deferred Tax Liabilities	0	0
Other	0	0
Excess of Assets over Liabilities for solvency purposes	**790,733**	**666,835**

E.2 <u>Solvency Capital Requirement and Minimum Capital Requirement</u>

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; and
- The MCR is calculated based on the Linear MCR based on the net of reinsurance 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 €3.6m also applied to derive the final MCR requirement.

As at 31 December 2021, the SCR is €428.2m. A breakdown of SCR by risk category is set out in the following table.

Risk Category	2021 SCR (€'000)	2020 SCR (€'000)
Market risk	370,401	322,138
Counterparty default risk	33,869	23,316
Life underwriting risk	-	-
Health underwriting risk	10,131	8,395
Non-life underwriting risk	95,816	80,137
Diversification	(89,577)	(72,337)
Basic Solvency Capital Requirement	**420,640**	**361,650**
Operational risk	28,635	24,599
Loss-absorbing capacity of deferred taxes	(21,076)	(21,163)
Solvency Capital Requirement	428,199	365,086

The evaluation of the loss absorbing capacity for deferred tax remains aligned with the standard formula review by EIOPA amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC. The evaluation of loss absorbing capacity for deferred tax is aligned with the Company strategic plan.

Market risk is driven by company strategic participations in Arch US and UK which are increasing the currency risk (USD and GBP) and concentration risk. This is also driving the increase of the own funds.

As at 31 December 2021, the MCR is €107.1m. The calculation of MCR is set out in the following table:

MCR Calculation		
Line of Business	**Net of Reinsurance Best Estimate TPs**	**Net written premiums last 12 months**
Medical expense	2,057	3,471
Income protection	-	-
Workers' compensation	150	257
Motor vehicle liability	-	-
Other motor	1,641	837
Marine, aviation and transport	398	118
Fire and other damage to property	7,895	12,578
General liability	6,473	191
Credit and suretyship	22,215	10,120
Non-proportional health reinsurance	4,647	3,722
Non-proportional casualty reinsurance	58,100	12,197
Non-proportional marine, aviation and transport reinsurance	-	13
Non-proportional property reinsurance	3,645	6,842
Linear MCR		23,962
SCR		428,199
Combined MCR		107,050
Absolute Floor of the MCR		3,600
Minimum Capital Requirement		**107,050**

E.2.2 SCR ratio and MCR ratio

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

Solvency Coverage	2021 (€'000)	2020 (€'000)
Total eligible own funds to meet the SCR	790,733	666,835
Total eligible own funds to meet the MCR	788,198	660,929
SCR	428,199	365,086
MCR	107,050	91,271
Ratio of Eligible own funds to SCR	**185%**	**183%**
Ratio of Eligible own funds to MCR	**736%**	**724%**

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

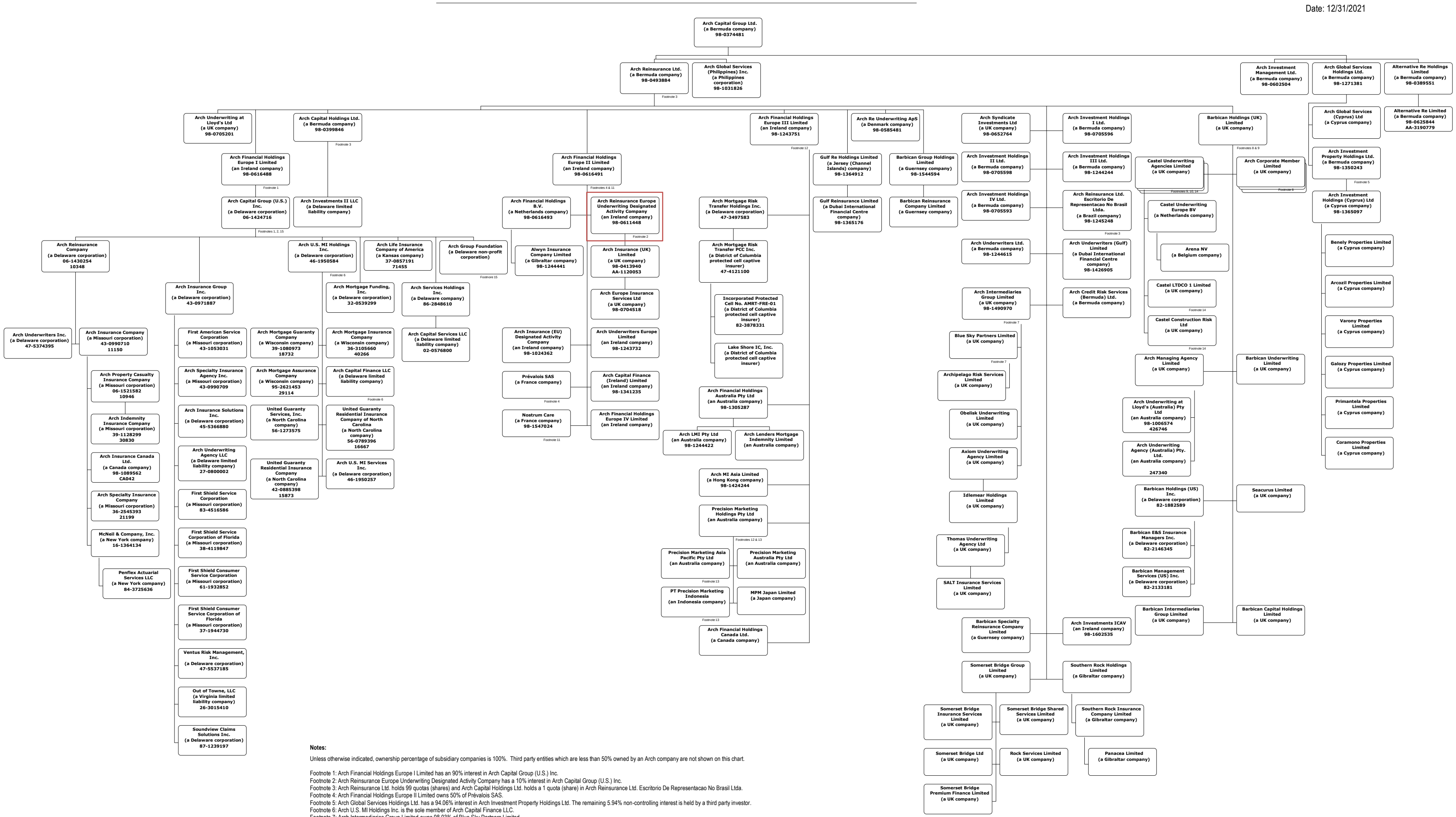
The Company complies with the SCR and MCR during 2021.

E.6 Any other information

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

APPENDIX 1 – ACGL ORGANIZATIONAL STRUCTURE

Date: 12/31/2021



Notes:

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

Footnote 1: Arch Financial Holdings Europe I Limited has an 90% interest in Arch Capital Group (U.S.) Inc.
Footnote 2: Arch Reinsurance Europe Underwriting Designated Activity Company has a 10% interest in Arch Capital Group (U.S.) Inc.
Footnote 3: Arch Reinsurance Ltd. holds 99 quotas (shares) and Arch Capital Holdings Ltd. holds a 1 quota (share) in Arch Reinsurance Ltd. Escritorio De Representacao No Brasil Ltda.
Footnote 4: Arch Financial Holdings Europe II Limited owns 50% of Prévalois SAS.
Footnote 5: Arch Global Services Holdings Ltd. has a 94.06% interest in Arch Investment Property Holdings Ltd. The remaining 5.94% non-controlling interest is held by a third party investor.
Footnote 6: Arch U.S. MI Holdings Inc. is the sole member of Arch Capital Finance LLC.
Footnote 7: Arch Intermediaries Group Limited owns 98.03% of Blue Sky Partners Limited.
Footnote 8: Barbican Holdings (UK) Limited owns 12 more corporate member companies which are presented here under one heading.
Footnote 9: Barbican Holdings (UK) Limited owns 85% of Castel Underwriting Agencies Limited.
Footnote 10: Castel Underwriting Agencies Limited has an interest of over 60% in various UK partnerships.
Footnote 11: Arch Financial Holdings Europe II Limited owns 75% of Nostrum Care.
Footnote 12: Arch Financial Holdings Europe III Limited owns 75% of Precision Marketing Holdings Pty Ltd.
Footnote 13: PT Precision Marketing Indonesia is owned 99% by Precision Marketing Holdings Pty Ltd and 1% by Precision Marketing Asia Pacific Pty Ltd.
Footnote 14: Castel Underwriting Agencies Limited owns 60% of Castel LTDCO 1 Limited and 65.8% of Castel Construction Risk Limited.
Footnote 15: Arch Capital Group (U.S.) Inc. is the sole member of Arch Group Foundation which is a non-profit corporation that is in the process of applying for 501(c)(3) status.

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

AF
Actuarial Function.

Allocated Loss Adjustment Expenses (ALAE)
A provision to cover the estimated expenses relating to the handling of outstanding claims (including IBNR claims), which are allocated directly to case estimates. It usually includes external expenses such as legal expenses and claims assessors' fees.

ARE
Arch Reinsurance Underwriting Europe dac.

BEL
Best Estimate Liability.

CBI
Central Bank of Ireland.

Data Integration Layer (DIL)
An automated ETL process implemented in 2016 that takes data from various sources and formats it correctly for use in the Risk Integrity platform. Developed externally by consultant Genpact with expertise hired at a Group level for on-going maintenance and development.

Extract, Transform & Load (ETL)
Refers to a process in database usage and especially in data warehousing that performs:

1. Data extraction – extracts data from homogeneous or heterogeneous data sources
2. Data transformation – transforms the data for storing it in the proper format or structure for the purposes of querying and analysis

Data loading – loads it into the final target database

EPI
Estimated Premium Income.

Excess of loss
A generic term describing reinsurance which, subject to a specified limit, indemnifies the reinsured company against all or a portion of the amount of loss in excess of the reinsured's specified loss retention. The term is generic in deserving various types of excess of loss reinsurance, such as per risk (or per policy), per occurrence (Property Catastrophe or Casualty Clash), and annual aggregate. The loss retention in excess of loss reinsurance should not be confused with the policy retention in surplus share re-insurance, which always refers to a pro rata form of reinsurance in which, once a cession of insurance is made, the reinsured and reinsurer share insurance liability, premium and losses, beginning with the first dollar of loss. Also known as Non-proportional Reinsurance.

GWP
Gross Written Premium.

HoAF
Head of Actuarial Function.

Incurred Claims
The sum of the paid claims and outstanding notified claims (or case estimates or case reserves) at any point in time.

Incurred But Not Reported Reserve (IBNR)
Amount of reserves required for claims in respect of claim events that have occurred before the accounting date but have not yet been reported to the insurer by that date. Within this report, IBNR includes IBNER.

Initial Expected Loss Ratio (IELR)
The claim ratio expected on a book of business at inception.

Outstanding
Unless specifically stated otherwise the term outstanding is used in this report to denote the amount of notified case reserves.

REGIS

Reinsurance Group Information System – The Company's Underwriting, Accounting and Claims system.

RI
Risk Integrity - A Solvency II platform created by Moody's and purchased by the Company in 2016, used for pillar 1 and pillar 3 reporting. Produces QRTs and generates the XBRL required by the CBI.

ROE
Return on Equity (profit divided by capital).

QCR

Quarterly Change Report.

QRTs
Quantitative Reporting Templates.

SII
Solvency II.

Quota-share
A form of pro rata reinsurance (proportional) in which the reinsurer assumes an agreed percentage of each insurance being reinsured and shares all premiums and losses accordingly with the reinsured. Quota share reinsurance is usually arranged to apply to the insurer's net retained account (i.e., after deducting all other reinsurance except perhaps excess of loss catastrophe reinsurance), but practice varies. A quota share reinsurer may be asked to assume a quota share of a gross account, paying its share of premium for other reinsurance protecting that gross account.

Ultimate Loss Ratio (ULR)
The ratio of the ultimate cost of claims in a period to the corresponding ultimate premiums from that period either gross or net of reinsurance.

Unallocated Loss Adjustment Expenses (ULAE)
A provision to cover the estimated expenses relating to the handling of outstanding claims (including IBNR claims) which are not allocated directly to case estimates. It usually includes such expenses as salaries of claims department staff.

Underwriting Year / UWY
Describes written premium and claims data that is grouped according to the year in which the business is written irrespective of when they are actually reported or paid and irrespective of the month in which the claim event occurs.

Unearned Premium Reserve (UPR)

The amount set aside from premiums written before the accounting date to cover risks incurred after that date.

Written Premium

Amount of premium, either gross or net of reinsurance, for which cover commenced in an accounting period.

Attached are the public QRTs required as part of the report. We note in some cases totals do not match the sum of individual fields due to rounding.

There are nominal differences between Paid claims in S.19.01 and paid claims under GAAP due to difference in the recognition of the effect of exchange rates.

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	2,535
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	363
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	1,276,990
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	613,752
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	603,728
Government Bonds	**R0140**	534,976
Corporate Bonds	**R0150**	67,985
Structured notes	**R0160**	
Collateralised securities	**R0170**	767
Collective Investments Undertakings	**R0180**	59,510
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	848,637
Non-life and health similar to non-life	**R0280**	848,637
Non-life excluding health	**R0290**	790,258
Health similar to non-life	**R0300**	58,379
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	19,710
Insurance and intermediaries receivables	**R0360**	194
Reinsurance receivables	**R0370**	35,297
Receivables (trade, not insurance)	**R0380**	426
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	48,246
Any other assets, not elsewhere shown	**R0420**	33,779
Total assets	**R0500**	2,266,177

		Solvency II value
Liabilities		**C0010**
Technical provisions - non-life	**R0510**	1,024,353
Technical provisions - non-life (excluding health)	**R0520**	954,501
Technical provisions calculated as a whole	**R0530**	
Best Estimate	**R0540**	889,264
Risk margin	**R0550**	65,237
Technical provisions - health (similar to non-life)	**R0560**	69,852
Technical provisions calculated as a whole	**R0570**	
Best Estimate	**R0580**	65,233
Risk margin	**R0590**	4,619
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	-
Technical provisions - health (similar to life)	**R0610**	
Technical provisions calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	

Technical provisions - life (excluding health and index-linked and unit-linked)	**R0650**	
Technical provisions calculated as a whole	**R0660**	
Best Estimate	**R0670**	
Risk margin	**R0680**	
Technical provisions - index-linked and unit-linked	**R0690**	
Technical provisions calculated as a whole	**R0700**	
Best Estimate	**R0710**	
Risk margin	**R0720**	
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	-
Deferred tax liabilities	**R0780**	-
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	13,248
Reinsurance payables	**R0830**	420,400
Payables (trade, not insurance)	**R0840**	1,914
Subordinated liabilities	**R0850**	
Subordinated liabilities not in Basic Own Funds	**R0860**	
Subordinated liabilities in Basic Own Funds	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	15,529
Total liabilities	**R0900**	1,475,444
Excess of assets over liabilities	**R1000**	790,733

Annex I
S.05.01.02
Premiums, claims and expenses by line of business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**												Line of Business for: **accepted non-proportional reinsurance**				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**																	
Gross - Proportional reinsurance accepted	**R0120**	22260		2065	15740	9624	1047	125508	1624	91753								269622
Gross - Non-proportional reinsurance accepted	**R0130**													27585	127041	241	59247	214113
Reinsurers' share	**R0140**	18992		1825	13793	8901	936	114416	1445	82222				24095	115611	229	52725	435190
Net	**R0200**	3267		241	1947	723	111	11092	179	9531				3490	11430	12	6521	48544
Premiums earned																		
Gross - Direct Business	**R0210**																	
Gross - Proportional reinsurance accepted	**R0220**	22106		1717	14239	8560	1269	89082	1321	69703								207998
Gross - Non-proportional reinsurance accepted	**R0230**													27207	120270	227	56029	203734
Reinsurers' share	**R0240**	19078		1508	12493	7603	1135	82347	1174	61862				23895	108976	218	50298	370586
Net	**R0300**	3028		209	1746	957	135	6735	148	7840				3312	11294	10	5731	41145
Claims incurred																		
Gross - Direct Business	**R0310**																	
Gross - Proportional reinsurance accepted	**R0320**	10557		1301	11463	5156	790	73446	330	4649								107692
Gross - Non-proportional reinsurance accepted	**R0330**													3006	98367	62	46722	148156
Reinsurers' share	**R0340**	8990		1130	9857	4623	695	67019	288	4202				2709	87866	60	42627	230067
Net	**R0400**	1567		171	1606	532	94	6428	42	447				296	10501	2	4094	25780
Changes in other technical provisions																		
Gross - Direct Business	**R0410**																	
Gross - Proportional reinsurance accepted	**R0420**	0		0	0	0	0	0	0	0								0
Gross - Non- proportional reinsurance accepted	**R0430**													0	0	0	0	0
Reinsurers'share	**R0440**	0		0	0	0	0	0	0	0				0	0	0	0	0
Net	**R0500**	0		0	0	0	0	0	0	0				0	0	0	0	0
Expenses incurred	**R0550**	720		50	416	155	32	1760	35	1868				789	2697	2	1631	10156
Other expenses	**R1200**																	0
Total expenses	**R1300**																	10156

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**									
Reinsurers' share	**R1420**									
Net	**R1500**									
Premiums earned										
Gross	**R1510**									
Reinsurers' share	**R1520**									
Net	**R1600**									
Claims incurred										
Gross	**R1610**									
Reinsurers' share	**R1620**									
Net	**R1700**									
Changes in other technical provisions										
Gross	**R1710**									
Reinsurers' share	**R1720**									
Net	**R1800**									
Expenses incurred	**R1900**									
Other expenses	**R2500**									
Total expenses	**R2600**									0

Annex I
S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	**R0010**																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	**R0060**	-4955		-114	-13033	1800	-128	16199	-3641	-33903				-10738	-41468	-56	-12877	-102913
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	-4562		68	-9705	2453	-170	17239	-3975	-40657				-6171	-22499	-43	-4895	-72915
Net Best Estimate of Premium Provisions	**R0150**	-393	0	-182	-3328	-653	42	-1040	334	6754	0	0	0	-4567	-18969	-13	-7982	-29997
Claims provisions																		
Gross	**R0160**	16328		2354	13747	16957	2733	84301	44529	119204				62359	592771	103	102026	1057410
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	13877		2021	11775	14663	2376	75365	38390	103743				53145	515702	96	90399	921553
Net Best Estimate of Claims Provisions	**R0250**	2451	0	333	1972	2294	357	8936	6139	15461	0	0	0	9214	77069	7	11627	135860
Total Best estimate - gross	**R0260**	11373		2240	714	18757	2605	100500	40888	85301				51621	551303	48	89149	954497
Total Best estimate - net	**R0270**	2058	0	151	-1356	1641	399	7896	6473	22215	0	0	0	4647	58100	-6	3645	105863
Risk margin	**R0280**	369		89	1951	303	64	6480	897	9847				4161	31271	697	13727	69856
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	**R0290**																	
Best estimate	**R0300**																	
Risk margin	**R0310**																	
Technical provisions - total																		
Technical provisions - total	**R0320**	11742		2329	2665	19060	2669	106980	41785	95148				55782	582574	745	102876	1024353
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	9315	0	2089	2070	17116	2206	92604	34415	63086	0	0	0	46974	493203	53	85504	848638
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	2427	0	240	595	1944	463	14376	7370	32062	0	0	0	8808	89371	691	17372	175719

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	370400.91		
Counterparty default risk	R0020	33869.04		
Life underwriting risk	R0030	0	None	
Health underwriting risk	R0040	10131.02	None	
Non-life underwriting risk	R0050	95815.62	None	
Diversification	R0060	-89576.73		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	420639.86		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	28634.92
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	-21076.2
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	428198.58
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	428198.58
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Approach to tax rate

		Yes/No
		C0109
Approach based on average tax rate	R0590	1

Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	-21076.2
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

Annex I
S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	50000	50000			
Share premium account related to ordinary share capital	**R0030**	24341	24341			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**					
Subordinated mutual member accounts	**R0050**					
Surplus funds	**R0070**					
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	519893	519893			
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**	2535				2535
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	193964	193964			
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**					
Total basic own funds after deductions	**R0290**	790733	788198	0	0	2535
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	**R0390**	0				

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**				0	0
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	790733	788198	0	0	2535
Total available own funds to meet the MCR	**R0510**	788198	788198	0	0	
Total eligible own funds to meet the SCR	**R0540**	790733	788198	0	0	2535
Total eligible own funds to meet the MCR	**R0550**	788198	788198	0	0	
SCR	**R0580**	428199				
MCR	**R0600**	107050				
Ratio of Eligible own funds to SCR	**R0620**	1.8466				
Ratio of Eligible own funds to MCR	**R0640**	7.3629				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	790733	
Own shares (held directly and indirectly)	**R0710**	0	
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	270840	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	519893	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**		
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	41054	
Total Expected profits included in future premiums (EPIFP)	**R0790**	41054	

Annex I
S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	2

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

		Development year										
	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**											3009
N-9	**R0160**	16179	34179	18450	10117	6383	-411	5849	3926	4502	1875	
N-8	**R0170**	47923	70412	51601	28895	5387	6885	7468	3450	2419		
N-7	**R0180**	8144	39379	21405	11614	10256	6824	3252	5135			
N-6	**R0190**	4204	41148	21221	6974	5910	8644	7596				
N-5	**R0200**	8820	47902	50107	18234	9293	7194					
N-4	**R0210**	5347	28152	31562	13130	7849						
N-3	**R0220**	5511	43783	27573	10888							
N-2	**R0230**	6245	44123	20630								
N-1	**R0240**	5186	39740									
N	**R0250**	9179										

		In Current year	Sum of years (cumulative)
		C0170	**C0180**
	R0100	3009	6615
	R0160	1875	101050
	R0170	2419	224439
	R0180	5135	106010
	R0190	7596	95696
	R0200	7194	141550
	R0210	7849	86040
	R0220	10888	87756
	R0230	20630	70998
	R0240	39740	44925
	R0250	9179	9179
Total	**R0260**	115514	974260

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year										
	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**											37264
N-9	**R0160**					52842	46622	46656	48671	35185	29526	
N-8	**R0170**				62047	55027	47221	41194	37891	32595		
N-7	**R0180**			101916	96936	88444	79438	72121	64144			
N-6	**R0190**		111244	97751	92553	96565	85090	74424				
N-5	**R0200**	82938	155398	126899	117248	107373	102950					
N-4	**R0210**	90435	147631	126051	107687	93009						
N-3	**R0220**	98004	161028	129926	126424							
N-2	**R0230**	117590	206018	170089								
N-1	**R0240**	108980	193135									
N	**R0250**	180716										

		Year end (discounted data)
		C0360
	R0100	37292
	R0160	29011
	R0170	31864
	R0180	60835
	R0190	70331
	R0200	97387
	R0210	88186
	R0220	120206
	R0230	162008
	R0240	183943
	R0250	176348
Total	**R0260**	1057410

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	23962

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	2057	3471
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040	150	257
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0
Other motor insurance and proportional reinsurance	R0060	1641	837
Marine, aviation and transport insurance and proportional reinsurance	R0070	398	118
Fire and other damage to property insurance and proportional reinsurance	R0080	7895	12578
General liability insurance and proportional reinsurance	R0090	6473	191
Credit and suretyship insurance and proportional reinsurance	R0100	22215	10120
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140	4647	3722
Non-proportional casualty reinsurance	R0150	58100	12197
Non-proportional marine, aviation and transport reinsurance	R0160	0	13
Non-proportional property reinsurance	R0170	3645	6842

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	0

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

Overall MCR calculation

		C0070
Linear MCR	R0300	23962
SCR	R0310	428199
MCR cap	R0320	192689
MCR floor	R0330	107050
Combined MCR	R0340	107050
Absolute floor of the MCR	R0350	3600
		C0070
Minimum Capital Requirement	R0400	107050