Arch Insurance (UK) Limited

Solvency and Financial Condition Report

31 December 2023

Arch Insurance (UK) Limited
28 March 2024

SOLVENCY AND FINANCIAL CONDITION REPORT

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SUMMARY

Arch Insurance (UK) Limited (“**AIUK**,” the “**Company**,” “us,” or “our”) sets out in this report the solvency and financial condition of the Company as at 31 December 2023, as required by Solvency II Regulations (as implemented in the UK in the Prudential Regulation Authority (the “**PRA**”) rulebook for Solvency II firms). The purpose of the Solvency and Financial Condition Report for the year ended 31 December 2023 (this “**SFCR**”) is to provide stakeholders with qualitative and quantitative information relating to AIUK’s business and performance, governance framework, risk profile, valuation for solvency purposes and capital management that is not contained in AIUK’s annual financial statements.

AIUK is a UK authorised insurer and part of Arch Capital Group Ltd. (“**ACGL**” or together with its subsidiaries, “**ACGL Group**” or the “**Group**”), a publicly listed Bermuda exempted company. ACGL provides insurance, reinsurance and mortgage insurance on a worldwide basis through its operations in Bermuda, the United States of America, Europe, Canada, and Australia. ACGL is listed on the NASDAQ Stock Market. AIUK is a wholly owned subsidiary of Arch Reinsurance Europe Underwriting Designated Activity Company (“**ARE**”), an Ireland-based company.

The principal activity of the Company is to underwrite Energy, Property and Casualty insurance business, including but not limited to, Specialty lines of insurance. The Company operates from its head office in London and its UK regional offices. We classify our business into the following Solvency II lines of business: Medical Expense, Income Protection, Motor Vehicle Liability, Other Motor, General Liability, Credit and Suretyship, Marine, Aviation and Transport, Fire and other damage to Property insurance.

All amounts in this SFCR are presented in thousands of Sterling (£’000).

Business, Strategy and Performance

Our insurance underwriting strategy is to operate in lines of business where our underwriting expertise can make a meaningful difference to operating results. Our insurance business seeks to operate profitably across all the product lines and aims to attract and retain underwriting talent. We underwrite predominantly in the London wholesale insurance markets and in regional markets, both directly and on a selective delegated underwriting authority basis. To achieve our objectives, our insurance operating principles are to:

- capitalise on profitable underwriting opportunities;
- maintain a disciplined underwriting philosophy;
- provide superior claims management; and
- utilise a brokerage distribution system.

Our underwriting philosophy is to generate an underwriting profit through prudent risk selection and proper pricing across the underwriting cycle. To achieve this, we adhere to uniform underwriting standards across each product line focusing on 1) risk selection, 2) desired attachment point, 3) limits and retention management, 4) due diligence, including financial condition, claims history, management and exposure, 5) underwriting authority and approval limits and 6) collaborative decision-making.

The rating environment continued to improve during 2023, with firmer pricing for many of our lines of business, including Casualty, Professional Liability and Property. Reflecting the strengthened rating environment, the Company's underwriting strategy in 2023 was more offensive. The Company actively sought to increase the amount of business written in our regional and speciality lines of business to maximise the opportunities for growth, while maintaining our underwriting discipline and executing our philosophy on superior risk selection.

The Company continues to benefit from a financial strength rating of "A2" from Moody's and "A+" from Standard & Poor's and A.M. Best.

System of Governance

The Company's board of directors (the "Board") is responsible for the governance and oversight of all aspects of the Company's business. The Board has delegated broad executive powers to the Chief Executive Officer (the "CEO") to manage and operate the Company's business on a day-to-day basis.

To support the Board and the CEO in dispensing their responsibilities, the Company has established a number of Board Committees and functional committees, including the Management Committee, which meet regularly to discuss and escalate matters, as appropriate, in accordance with clearly defined Terms of Reference.

The Company maintains an effective governance framework which is designed to achieve the following:

- Maintain an adequately transparent organisational 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 outsourced responsibilities are delegated and managed appropriately, with ultimate responsibility residing with the Company's Board of Directors (the "**Board**").

The Company's corporate governance framework is based on the principle of proportionality, such that systems and controls are proportionate to the nature, scale and complexity of the business. The Company manages its business in accordance with a number of policies and strategies that underpin the Risk Management Framework.

The Company's corporate governance framework is regularly assessed by the Legal & Governance, Risk and Compliance functions and all material findings are presented to the Board.

Risk Profile

Risk appetites are an integral part of the Risk Management Framework as they reflect the amount of risk the Company is willing to accept in the pursuit of its strategic objectives. They provide overarching parameters to the business, agreed by the Board, and establish targets for, and limits on, the amount of risk that should be accepted.

The Company seeks to articulate risk appetites using a balance of quantitative and qualitative measures, whilst recognising the inherent uncertainty in quantifying risk. Qualitative measures are used alone where quantification techniques are not appropriate, for example, for strategic risk.

The Board is responsible for ensuring there is an appropriate and effective framework for managing and overseeing the risks facing the business. The risk strategy operates in parallel with its business strategy as a specialty insurer. To achieve its strategy:

- The Company seeks out ‘core’ risks with favourable risk / return characteristics which are assumed subject to stated limits.
- The Company is exposed to other ‘non-core’ risks as a by-product of executing this strategy, which are controlled to an acceptable level subject to the cost of mitigation.

To meet these objectives and the Company’s overall strategy, metrics for the performance against risk appetites and risk tolerances and limits, as articulated in the Company’s Risk Appetite Statements, are monitored by the Risk Function and reported to the Executive Risk Committee and Board Risk Committee on a quarterly basis with a defined escalation process where breaches occur.

Valuation for Solvency II Purposes

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 that on an FRS 102 (UK GAAP) basis arise from:

- the valuation of technical provisions and reinsurer’s share of technical provisions including the removal of an implicit margin of prudence;
- the valuation of holdings in related undertakings; and
- the valuation of deferred acquisition costs and deferred ceding commission.

No volatility or matching adjustments are included and no transitional measures are used.

Capital Management

The Company has adopted a capital management policy and plan setting out the methodology and procedures to provide oversight of the Company’s own funds and compliance with regulatory capital requirements.

The Company's own funds are summarised in the table below as per S.23.01:

	Tier 1	Tier 2	Tier 3	2023 Total Own Funds	2023 Adjusted net asset Approach *	2022 Total Own Funds	2022 Adjusted net asset Approach *
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Paid-In Ordinary Share Capital	50,000	-	-	50,000	50,000	50,000	50,000
Other capital contribution	87,500	-	-	87,500	58,771	87,500	58,771
Reconciliation Reserve	37,634	-	-	37,634	37,634	923	923
Subordinated liabilities	-	15,500	-	15,500	15,500	15,500	15,500
Net deferred tax assets	-	-	10,091	10,091	10,091	8,632	8,632
Total Own Funds After Deductions	**175,134**	**15,500**	**10,091**	**200,725**	**171,996**	**162,555**	**133,826**
Total Eligible Own Funds to Meet the SCR				200,725	171,996	162,555	133,826
Total Eligible Own Funds to Meet the MCR				181,126	155,202	142,600	117,398
SCR				119,840	117,792	83,555	81,012
MCR				29,960	29,448	20,889	20,253
Ratio of Eligible Own Funds to SCR				**167.5%**	**146.0%**	**194.5%**	**165.2%**
Ratio of Eligible Own Funds to MCR				**604.6%**	**527.0%**	**682.7%**	**579.7%**

**The "adjusted net asset basis" is reviewed as part of the Company's internal governance processes but is not independently audited.*

The own funds consist of Tier 1 capital made up of £50.0 million issued and fully paid up ordinary shares, £87.5 million other capital contribution, and £37.6million in the reconciliation reserve alongside Tier 2 subordinated loans of £15.5 million and Tier 3 capital consisting of net deferred tax assets of £10.1 million.

The Company had capital contribution of £87.5 million. This capital increased by £37.6 million in the reconciliation reserve under Solvency II. The Company holds two loans from Arch Capital Finance (Ireland) Limited ("**ACFI**"), an affiliate and subsidiary of ACGL, to support growth for the UK Regional business. The loans were included in the Tier 2 capital which totals £15.5 million. These loans meet the required PRA guidelines to classify as a subordinated loan. AIUK holds net deferred tax assets of £10.1 million as Tier 3 capital as at 31 December 2023.

The Company uses the standard formula for determining its regulatory capital and follows a risk-based approach to determine the amount of capital required to support its activities. Following the acquisition of the UK regional business, an "adjusted net asset basis" was introduced and reported internally to manage the Company's solvency position, taking into account the Company's current capital structure. The "adjusted net asset basis" is an additional, internally applied and more prudent measure that the Board uses to monitor solvency and is not part of the requirement of Solvency II. It is reviewed as part of the Company's internal governance processes but is unaudited.

Under the "adjusted net asset basis", the Company's own funds available are £172.0 million as at December 2023 against the SCR of £117.8 million, with a surplus of £54.2 million or 146.0%. The "adjusted net asset basis" excludes the loan balance with Arch Intermediaries Group Ltd ("AIGL"), formerly known as Arch (UK) Holdings Limited, within the available own funds and the SCR excludes the equity invested as part of UK Regional acquisition.

Directors' Responsibilities

The directors are responsible for ensuring that this SFCR is properly prepared in all material respects in accordance with the PRA rules and the Solvency II Regulations.

The directors are satisfied that:

a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to the Company;

b) it is reasonable to believe that, at the date of the publication of this SFCR, the Company has continued so to comply and will continue so to comply in the future.

On behalf of the Board,

Jason Kittinger

Chief Financial Officer, Chief Operating Officer and Director

28 March 2024

SECTION A Business and Performance

A.1 Business

A.1.1 Name and Legal Form of the Undertaking

Arch Insurance (UK) Limited is incorporated in the United Kingdom. The address of the registered office of the Company is:

60 Great Tower Street, 5th Floor
London, EC3R 5AZ
United Kingdom

This SFCR covers the Company on a solo basis.

A.1.2 Insurance Supervisors

<u>Prudential Regulations Supervisor</u>
Prudential Regulation Authority ("PRA")
20 Moorgate
London, EC2R 6DA
United Kingdom

<u>Financial Conduct Supervisor</u>
Financial Conduct Authority ("FCA")
12 Endeavour Square
London
E20 1JN
United Kingdom

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

A.1.3 External Auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London, SE1 2RT
United Kingdom

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

Arch Reinsurance Europe Underwriting DAC ("ARE"), a private company incorporated in Ireland, owns 100% of the equity share capital of the Company. The Company's ultimate parent and ultimate controlling party is ACGL.

A.1.5 Group Structure

The Company's ultimate parent and ultimate controlling party is ACGL, a publicly listed Bermuda exempted 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.archcapgroup.com or on the website of the U.S. Securities and Exchange Commission located at www.sec.gov.

The smallest group of undertakings for which group financial statements are drawn up, and of which the Company is a member, is Arch Reinsurance Limited ("ARL"), a Bermuda company.

Below is a summary view of the Company's organisational chart, with all entities having 100% shareholding and voting rights. A complete organisation chart of ACGL and AIUK's position in the Group as at 31 December 2023 is included in **Appendix 1**.

A.1.6 Material related undertakings

The Company owns 100% of Arch Europe Insurance Services Ltd. ("AEIS"), a company incorporated in United Kingdom that provides services in the form of staff and facilities to the Company.

A.1.7 Outlook and Future Developments

During the hard market, the Company will continue to look for opportunities to grow existing books of business and underwrite new lines of business, while maintaining underwriting discipline.

The Company is fully cognisant of the emerging importance of climate change as a fundamental societal issue and is pursuing opportunities in underwriting, investments and its operational organisation and supply chains to act responsibly and to support the trend towards a sustainable transition to the post-carbon society.

In line with the PRA's expectations in SS3/19 and PS11/19, an initial approach to managing the financial risks from climate change has been embedded in our standard risk management framework. This approach includes governance, risk management, scenario analysis and disclosure. This approach will continue to evolve as market practice develops in this area.

Risks arising from climate change

The Company is committed to improving our understanding of the implications of climate change and providing products and services that appropriately address evolving climate-related risks and opportunities. The Company is part of Arch Capital Group Ltd. ("**Arch Group**" or "**ACGL**"), a publicly listed insurance company headquartered in Bermuda that provides insurance, reinsurance and mortgage insurance on a worldwide basis through its wholly owned subsidiaries. To facilitate with the Company's efforts, the Company participates in Arch Group initiatives to integrate climate factors and considerations across the business. For more information on such Arch Group initiatives, please refer to ACGL's Task Force on Climate-Related Financial Disclosures ("**TCFD**") Report for the year ended 31 December 2023 available on ACGL's website.

Risk Management

Arch approaches climate-related financial risk (''**climate** risk'') as a cross-cutting risk within our existing risk management framework given elements of climate risk are found in many of the areas across the business. As a result, we have integrated climate risk into our risk appetite framework, which allows us to consider climate risk consistently with other risks in defining our preference and incorporate climate risks into our business plans to facilitate risk-based decision-making. This also allows for better integration with existing processes and ensures that Arch's response is proportionate to its risk profile.

Risk identification: In conjunction with Arch Group, the Company considers short, medium and long-term climate change factors and identifies the potential risks that may arise to business operations and financial results.

Materiality Assessment: The Company has undertaken quantitative and qualitative analysis to identify the most material potential financial risks across the following climate risk categories:

- **Physical risks:** Physical risks relate to direct damages caused by weather related events.

- **Liability risks:** Liability risks relate to climate-related insurance claims under liability insurance policies.
- **Transition risks:** Transition risks relate to the global transition to a carbon-neutral or low-carbon economy. These transition risks have been assessed as low materiality from a financial standpoint due to the short duration of the insurance policies underwritten by the Company as well as the short duration and high quality of investments within the Company's investment portfolio.

Risk Management integrated with current procedures: In the ordinary course of business, the Company updates underwriting guidelines, reviews wordings, exclusions or the adoption of limits to support the management of our exposure to climate risk on relevant products.

Proportionate actions: Individual systems and processes have been established to ensure management of the most material potential risk exposures, as further described below:

- *Physical risks*: Exposure monitoring management information is regularly reported to the Exposure Management Group ("**EMG**") (and subsequently to the Underwriting Committee and Risk Committees) to monitor exposures to perils potentially impacted by climate change. The EMG monitors existing property risk appetites to ensure their continued appropriateness in light of potential climate change effects. In addition, catastrophe modelling is regularly updated to be in line with the latest advances in science to ensure that current climate is incorporated in our modelled results, and to develop an understanding of the potential trends in loss costs under foreseeable climate scenarios.
- *Liability risk*: We have identified key exposures to liability risks in certain long tail insurance lines, and systems have been put in place to ensure risks are managed in conjunction with other underwriting risk exposures for those lines.
- *Transition risks*: Notwithstanding the low materiality of transition risks to the Company, the Company's Investment Managers perform ESG Investment screening which assists AIUK in identifying the most transition-risk exposed investments.

Given the changing social and regulatory environment and ever-developing understanding of the potential loss environment, the Company's approach to managing climate-related financial risks is periodically reviewed and updated as appropriate.

The Company performs a suite of Realistic Disaster Scenarios ("**RDS"**) and other analyses to measure and monitor catastrophe risk exposures. Material RDS exposures are compared to risk appetite limits to ensure that potential catastrophe losses remain at an appropriate level. In addition, the Company enhanced its 2022 ORSA process to include a climate change related reverse stress test ("**RST**"). The RST is predicated on a climate change loss to the Energy book which causes a loss of market and policyholder confidence, reputational damage and loss of Arch Group support. This RST enables Arch to understand the financial and wider implications of severe but plausible climate-related risks.

Climate-related Risks and Opportunities

Climate-related Risks

Arch recognises that climate change is a large societal and economic challenge, and that the impact on our clients, governments and financial markets over the coming years will be material. Profound climate changes and linked social, economic and regulatory transitions could impact loss costs, but we also note the high level of uncertainty and relatively longer time horizon for most of the profound changes relative to the usual business planning cycle. Many areas of potential climate risk are therefore kept under review alongside other relevant market, social and economic trends, with actions being taken for those with the highest potential for short-term impact.

Arch Group has undertaken several steps to integrate climate factors and considerations across the business. This has included contributing to the Arch Group TCFD report. A key part of this project was undertaking a business risk assessment to determine the climate factors that are relevant to the business over the short, medium and long term.

The assessment identified climate-related risks and opportunities across key ACGL business units (including, but not limited to, the Company) and supported the development of strategic responses for our underwriting and investment management activities. Following the assessment, we reviewed the control environment to ensure that climate-related risk is being adequately managed, and actions were raised where further enhancements were required. The assessment is updated on an ongoing basis, with annual consolidation as part of the Arch Group TCFD report.

The table below outlines relevant climate-related considerations and potential business risks:

Time horizon	Climate change risks (transition*/physical**/liability***)	Business risk
Short Term (1–5 years)	Increased stakeholder expectations and regulatory requirements / mandates related to climate-related issues.	Underwriting and exposure selection risk.
		Exposure monitoring and reporting risk.
		Reputational risk related to reporting requirements.
		Impact on investment strategies; adverse effect on the fair value of investments.
		Regulatory risk related to non-compliance.
	Increased uncertainty and unpredictability of frequency and severity of natural catastrophes such as extreme weather events, including the aggregation of such events.	Pricing and reserving risk.
		Product profitability and demand risk.
		Accumulation management and catastrophe loss risk.
Medium Term (5–10 years)	Shifting market dynamics tied to climate change risk (e.g., risk profiles, technological innovation, regulatory scrutiny, rating agency requirements and evolving consumer preferences).	Risk profile uncertainty for carbon-intensive assets, investments, firms or sectors, including revenue and/or income loss.

		Reputational risk associated with failing to transition to and/or meeting new market environment, customer expectations and regulatory requirements.
		External influences impact Arch's strategic plan.
		Changes in security-asset-prices risk may impact the value of our fixed income, real estate and commercial mortgage investments.
	Change in risk profiles of insurance product exposures.	Underwriting exposure and selection risk including property, general liability, directors' and officers' liability and mortgage insurance.
		Accumulation management risk.
		Model risk from increased claims frequency and severity not included in historical data.
	Regional economic hardship due to climate change events and regulation.	Underwriting exposure and selection risk.
		Product design and demand risk.
		Pricing, reserving and regulatory risk.

		Potential loss of investment income and risk to capital.
Long Term (10+ years)	Stringent regulatory mandates such as government policies and sustainable reforms on climate change restricting insuring/investing in carbon-intensive sectors.	Revenue and/or business risk due to government policies and/or influence from activists.
	Increased frequency and/or severity of natural catastrophe and extreme weather events.	Underwriting exposure and selection risk.
		Accumulation management and CAT losses risk.
		Product design and demand risk.
		Potential loss of investment income and risk to capital.
	Permanent change in economic activities and risk profiles due to climate change.	Product design and demand risk.
		Reduction in reinsurer financial strength and risk transfer appetite or capacity.
	Increased capital requirements and/or reduced returns on equity.	Increased capital charges for climate change exposure from ratings agencies or regulators.
	Physical impact of climate change on business operations.	Increased business interruption and operational costs.

* *Transition Risk: resulting from the global transition to a carbon-neutral or low-carbon economy*

*** Physical Risk: resulting from direct damages caused by weather related events.*

**** Liability Risk: relating to climate-related insurance claims under liability insurance policies and direct legal claims against insurers for failing to manage climate risks.*

Of all the climate change risks identified, the Company considers the three risks detailed as the principal climate-related risks which may impact Arch's operations in the short, medium and long term:

(1) Change in risk profiles of insurance product exposures

Longer tail classes, such as Directors & Officers, Financial Institutions, and Casualty are the most materially exposed to liability risks associated with climate change. For example, there may be circumstances in which insurance products respond in the event the insured party is held responsible for their contribution to climate change, or it is determined they have not sufficiently accounted for climate change in their decision-making, or if they have failed to disclose material climate change risk factors. Arch's underwriting teams have developed systems to incorporate these potential risks into standard underwriting risk management procedures.

The Company considers climate change liability risk to be a near-term risk and continues to monitor the increasing trend in climate change litigation cases across various industries and regions through the Climate Change Working Group and relevant underwriting teams.

The Company has undertaken scenario analysis using the PRA's Climate Biennial Exploratory Scenario exercise as a basis to explore the financial risks posed by climate change and considered the implications for Arch, including the Company. Given what has been published by the PRA, we believe the Company's results are in line with the rest of the market.

This scenario exercise identified some challenges in obtaining appropriate data for loss evaluation, which we aim to develop as we perform future scenario testing. As a result, we used estimated GWP in key exposed industries, as well as estimated the proportion of this GWP that would be potentially exposed, likely exposed, or most likely exposed for each of the hypothetical scenarios, in our exploratory scenario exercise.

(2) Increased uncertainty and unpredictability of frequency and severity of natural catastrophes

For Arch's natural catastrophe-exposed business, we seek to limit the amount of exposure we assume from any single insured or reinsured, and the amount of exposure to catastrophe losses from a single event in any geographic zone. Arch has a strong understanding of its exposure to physical risk perils and uses up-to-date modelling of key weather perils to ensure that policies are appropriately priced and aggregate exposures considered acceptable.

For Property classes, Arch has developed a robust natural catastrophe risk management framework to understand the potential impact of embedded climate change for relevant perils (such as wildfire, wind and flood). Property classes are typically short-tailed, with the majority of affected property insurance cover offered on an annual basis. As such, Arch has the opportunity to monitor and respond to gradual changes to the climate risk landscape, adjustments to pricing and/or product offerings. Given the nature of this risk, the short-term effects are considered to be less material, as catastrophe models are updated and validated to ensure that current climate patterns are reflected in loss estimates. Longer-term effects (i.e. 20+ years) of physical risk may drive more material changes to loss exposures and therefore could pose a risk to the viability of Arch's business model if changes are not made in the underwriting portfolio.

Exposure monitoring accumulation data has been enhanced to include a climate change materiality exhibit which provides a view of the total exposed limits for classes of business exposed to physical climate change risks. This is reported to the Exposure Management Group.

Arch has several risk appetite metrics in place to monitor its exposure to peak natural catastrophe risk, these include:

- Single net loss or event at return period of 1:250 years or less, as percentage of capital
- Aggregate net loss or events at return period of 1:250 years or less, as percentage of capital
- Natural catastrophe Realistic Disaster Scenarios

Catastrophe risk exposure from climate-affected physical perils are considered as part of the annual business planning process, incorporated into pricing and underwriting procedures, and reviewed and monitored through exposure management. Catastrophe modelling is continuously reviewed and update to make sure it reflects the latest view of current climate trends.

(3) Increased stakeholder expectations and regulatory requirements / mandates related to climate-related issues:

<u>Our Investments:</u>

Overall, transition risk is not a material risk for the Company's investment portfolio given the short duration and high-quality nature of its investments.

Over the longer term, however, transition risk may be a strategic risk (and opportunity) for Arch as the level of economic activity in impacted sectors changes (e.g., potentially driving reduction in traditional energy premiums and growth in renewables). These longer-term strategic changes are considered in the strategy and business planning process, which consider forward-looking market conditions in our business lines. Indicative scenario analysis suggests there is a limited impact on the Company's investment portfolio even in material adverse climate scenarios.

<u>Our Underwriting Activities:</u>

Transition risk is also not typically a material risk within our underwriting portfolio given the short-term nature of general insurance contracts – which allows for re-underwriting and repricing typically on an annual basis. Potential transition risk has also been considered in the context of certain underwriting contracts – specifically for Credit & Political risks, where contracts can be longer duration, and linked to transition-exposed activities, such as hydrocarbon extraction. Following this assessment, we believe Arch's portfolio has limited exposure to specific energy transition risks given the duration and mix of contracts in our Credit & Political line of business.

Transition risk may be a strategic risk (and opportunity) for Arch as the level of economic activity in impacted sectors changes (e.g., potentially driving reduction in traditional energy premiums and growth in renewables). In the longer term, climate change may lead to some existing risks within Arch's business to no longer being insurable, such as coal production property risks.

Arch's Group Thermal Coal Policy acts to reduce these strategic transition risks as we reduce and restrict underwriting in this most transition-exposed sector. This policy, which applies to Arch Group's insurance underwriting, outlines five key steps designed to fully evaluate risk and trigger escalations as necessary for further consideration as outlined below:

- Set risk threshold at 30% of an account's revenues derived from thermal coal mining and/or coal power production;
- Screen and assess all thermal coal transactions against the risk threshold;
- Escalate flagged transactions to the appropriate escalation committee;
- Assess transactions further through the Sensitive Underwriting Working Group; and
- Report Sensitive Underwriting Working Group's outcomes quarterly to the ESG Committee

In addition, in 2022, the Company adopted sector specific guidelines regarding arctic energy exploration and production, as well as oil sands mining and surface extraction. These policies provide scope and screening parameters for the review and escalation referral process for these environmentally sensitive business accounts.

Arch reassesses its underwriting risk appetite as part of the business planning process, in line with changes in science and weather patterns, regulation and the development and emergence of new lower carbon markets. A pragmatic approach is taken to strategic risks over the longer-term. Arch has a robust strategic planning process which includes the consideration of short and medium-term prospects for clients in key sectors. We expect to make material changes to the underwriting portfolio and strategy over the medium term as we continue to seek to create shareholder value through the insurance cycle, and medium-to-long term climate risks will be considered as part of this process.

Climate-related Opportunities

Arch recognises that insurance will play a key role in response to climate change for our customers and recognises opportunities in supporting climate resilience and insuring the energy transition. The table below provides some examples of specific areas where climate change and the energy transition are expected to have an impact on our business generally. Our customer-focused culture and history of innovating to meet client needs will ensure that these, and other emerging consumer needs, are met by ongoing evolution in our products. In particular, we anticipate climate change will present opportunities for Arch both by increasing demand for our existing insurance products and, where required, by new and tailored insurance solutions.

Time Horizon	Climate-related Opportunities[1]
Short-term (1-5 years)	Increased economic activity and research and development related to clean energy and clean technology is expected to generate additional revenue to Arch as a result of increased demand for certain of our insurance products.
	Regulations are likely to drive increased demand for specific insurance products as governments and companies worldwide pledge to achieve net-zero greenhouse gas emissions.

[1] These examples should not be construed as a characterisation regarding the materiality or financial impact of these opportunities.

Medium-term **(5-10 years)**	Further innovation is expected to drive development of insurance products/services for clean energy and clean technology business.
	Changes in weather patterns may lead to an increase in customer demand for insurance coverage.
	Our insureds' business models may change due to the energy transition which may lead to an increase in demand for certain of our insurance services and products.
Long-term **(10+ years)**	Changing patterns of weather-related events is likely to further increase demand for certain of our insurance products.
	Greater demand for insurance products/services which support both the development of new technology and infrastructure, and the adaptation or decommissioning of heritage assets.

Arch is currently active in the clean energy and technology (re)insurance business, offering products catering to clean energy production (i.e., solar, wind, hydro, nuclear power, biofuel and geothermal power, and biofuel production), and clean technology (i.e., battery storage, hydrogen and carbon capture projects). We expect decarbonisation efforts driven by market demand for, and research and development in, clean energy and technology will present Arch with an opportunity to generate more revenue in this line of business. An increase or expansion in legislation and regulation relating to climate change is also expected to increase demand for insurance products relating to such regulations. In addition, as insureds' business models change during their transition to net zero, we expect an increased demand for niche products, such as product and warranty coverage.

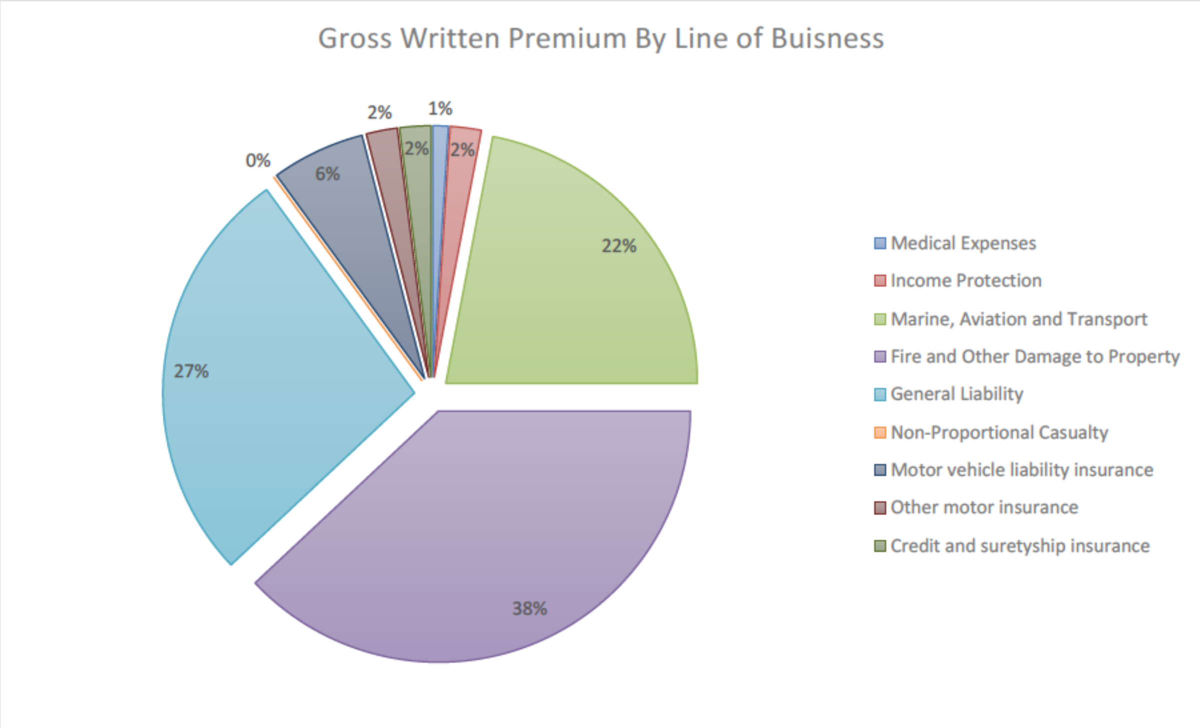
Further, as the transition to clean energy production progresses in the long term, we may see greater demand for specialised insurance products which caters for the complexities involved with decommissioning heritage power production plants.

We also expect to see underwriting opportunities in property insurance and construction projects as public and private entities address changing climate patterns, including projects to address flood control, infrastructure adaptability, waterproofing, fire safety and susceptibility.

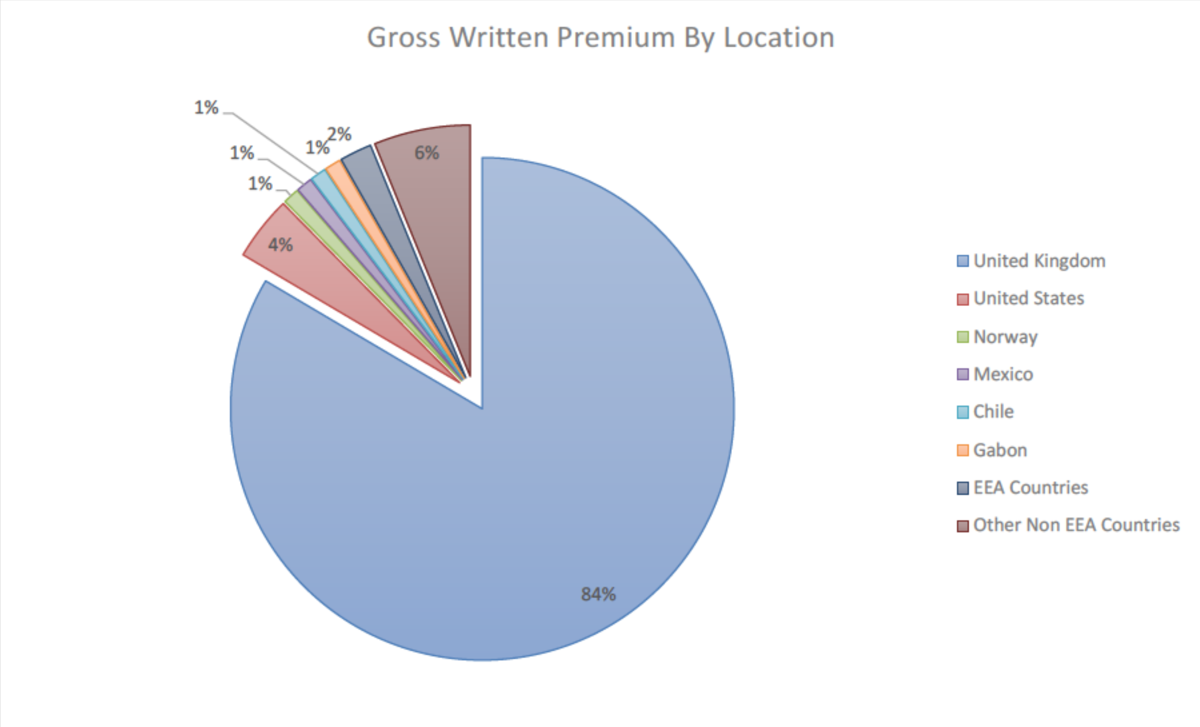
A.1.8 Material Lines of Business and Geographical areas where business is conducted per S.05.01_05.02

The principal activity of the Company is to underwrite Energy, Property and Casualty insurance business, including but not limited to, Specialty lines of insurance. The Company operates from its head office in London and its UK Regional offices.

The following diagram shows the total gross written premiums for each of the Company's lines of business and the location of the risk. The Company wrote £708.2m of gross written premium at the year ended 31 December 2023 (2022: £562.7m million).



	2023		2022	
	£'000	% of Total	£'000	% of Total
Gross Premiums Written				
Medical Expenses	5,814	1%	1,710	0%
Income Protection	10,696	2%	7,301	1%
Marine, Aviation and Transport	156,894	22%	84,588	15%
Fire and Other Damage to Property	269,853	38%	221,949	39%
General Liability	190,285	27%	188,697	34%
Non-Proportional Casualty	-	0%	-	0%
Motor vehicle liability insurance	40,161	6%	33,819	6%
Other motor insurance	17,212	2%	14,494	3%
Credit and suretyship insurance	17,333	2%	10,122	2%
Total	**708,248**	**100%**	**562,680**	**100%**



	2023		2022	
	£'000	% of Total	£'000	% of Total
Gross Premiums Written by Risk Location				
United Kingdom	587,504	83%	475,854	83%
United States	30,891	4%	22,403	4%
Norway	10,028	1%	4,352	1%
Mexico	5,781	1%	2,897	1%
Chile	8,885	1%	2,832	1%
Gabon	7,202	1%	2,892	1%
EEA Countries	16,013	2%	9,546	2%
Other Non EEA Countries	41,944	7%	41,904	7%
Total	**708,248**	**100%**	**562,680**	**100%**

A.1.9 Significant Business or Other Events

No other information to report as of 31 December 2023.

A.2 Underwriting Performance

The Company's results for the year ended 31 December 2023 show a profit for the financial year of £8.4m (2022 profit: £37.2m). The 2023 underwriting gain pre intra-group reinsurance treaty of £5.9m (2022: £25.2m) has fallen since the prior year, largely driven by an increase in the combined ratio due to worsening claims and expense ratios, partially offset by an increase in earned premium due to business growth. The expense ratio in 2022 was significantly affected by the change in intra-group quota share ceding commission.

The impact from the intra-group quota share and stop loss agreements in 2023 resulted in a post quota share underwriting profit of £3.4m (2022 profit: £28.2m). The 2022 underwriting year intercompany quota share contract changed from a 39% ceding commission in the previous year to a 'follow the fortunes' contract in which acquisition and operating expenses are ceded at 85%. This resulted in a timing impact in the 2022 financial year due to the ceding commission earnings under the respective quota share contracts, which created a gain in the 2022 financial year.

The following table summarises the underwriting results for year ended 31 December 2023 and year ended 31 December 2022 as per S.05.01 and statutory account.

	2023 (excl. intra-group reinsurance) £'000	2023 (incl. intra-group reinsurance) £'000	2022 (excl. intra-group reinsurance) £'000	2022 (incl. intra-group reinsurance) £'000
Gross Premiums Written	708,248	708,248	562,680	562,680
Net Premiums Written	612,530	90,224	492,557	72,502
Net Premiums Earned	**549,215**	**80,663**	**416,588**	**60,719**
Net Claims Incurred	(332,684)	(49,901)	(235,357)	(35,304)
Net underwriting (expense) / income	(210,610)	(27,397)	(156,045)	2,856
Net underwriting results	5,921	3,365	**25,186**	**28,270**
Investment return and foreign exchange	6,871	6,871	2,593	2,593
Profit/(Loss) before taxation	**12,792**	**10,236**	**27,779**	**30,863**
Taxation	(1,834)	(1,834)	6,381	6,381
Profit/(Loss) for the year	**10,958**	**8,402**	**34,160**	**37,244**
Claims ratio	60.6%	61.9%	56.5%	58.1%
Expense ratio	38.3%	34.0%	37.5%	-4.7%
Combined ratio	98.9%	95.8%	94.0%	53.4%

The Directors of the Company measure performance excluding the intra-group reinsurance arrangements. Therefore, the commentary in the sections below is based on the pre-intra-group reinsurance result of the Company.

Premiums written

Gross written premium increased by £145.5m to £708.2m (2022: £562.7m) for the year ended 31 December 2023. The increase compared to prior year was primarily driven by the continuing hardening London market rates, new open market contracts and increased binder premiums. In particular, new Warranty business generated £72.6m of additional premium. There was also continued growth in the UK Regional business with an increase of £27.0m. In addition, there were increases in Onshore Energy business of £15.6m premium as well as Terrorism with £15.3m of additional premium.

Claims incurred

Pre intra-group reinsurance, there was a deterioration in the loss ratio which was 3.9 points higher than 2022 at 60.4% (2022: 56.5%). This was due to various losses within the Professional Liability division and UK storm related losses in the UK Regional business.

Underwriting expenses

The Expense ratio increased slightly by 0.8% to 38.3% (2022: 37.5%), which is due to increased acquisition expense from a change in business mix.

Investment returns

The net investment gain excluding foreign exchange difference was £9.2m in 2023 (2022: loss of £3.9m).

Intra-group reinsurance

The Company has the benefit of a whole account proportional (85%) intra-group reinsurance treaty and a stop loss reinsurance protection with Arch Reinsurance Limited ("Arch Re"). Arch Re is a Bermuda-domiciled company with US$21.1 billion of capital as at 31 December 2023 (2022: US$15.6 billion). This reinsurance protection enables capital to be provided from Bermuda to support the business written through the Company and achieve an A+ Standard & Poor's rating for the Company. The net loss on the whole account intra-group reinsurance treaty and stop loss, before consideration given to the capital benefit, was £3.9m (2022: net income £3.0m).

	2023		2022	
	£'000	**% of Total**	**£'000**	**% of Total**
Net Underwriting Result*				
Medical Expenses	(68)	-2%	202	1%
Income Protection	444	14%	1,145	4%
Marine, Aviation and Transport	2,267	77%	5,796	21%
Fire and Other Damage to Property	(1,293)	-44%	12,153	43%
General Liability	(1,204)	-40%	10,342	38%
Non-Proportional Casualty	(11)	0%	20	0%
Motor vehicle liability insurance	(2,302)	-78%	(1,025)	-4%
Other motor insurance	(1,945)	-66%	(1,001)	-4%
Credit and suretyship insurance	7,073	239%	363	1%
Total	**2,961**	**100%**	**27,995**	**100%**
Net Underwriting Result by Risk Location				
United Kingdom	(2,313)	-77%	13,101	47%
United States	783	26%	352	1%
Norway	83	3%	247	1%
Mexico	186	6%	(82)	0%
Chile	265	9%	58	0%
Gabon	(39)	-1%	17	0%
EEA Countries	1,104	37%	2,777	10%
Other Non EEA Countries	2,892	97%	11,525	41%
Total	**2,961**	**100%**	**27,995**	**100%**

*The table above excludes investment fees.

A.3 Investment Performance

The Company's investment portfolio primarily consists of highly rated fixed income securities and cash, with an average S&P rating of AA+. These are available to settle insurance and reinsurance liabilities to third parties. Our aggregate invested assets as at 31 December 2023 totalled £146.0 million (2022: £149.7million). No investments in securitisations are being held.

The distribution of our fixed income and other investments by type is shown in the table below, excluding holdings in related undertakings:

	2023		2022	
Asset Type	**£'000**	**%**	**£'000**	**%**
Government Bonds	57,000	39%	98,601	66%
Corporate Bonds	75,931	52%	34,892	23%
Collateralised Securities	3,050	2%	1,192	1%
Collective Investment Undertakings	10,014	7%	15,038	10%
Total	**145,995**	**100%**	**149,723**	**100%**

The components of net investment income included in the statement of income and expenses are as per the table below: Based on S.09.01

	2023		2022	
	£'000	**%**	**£'000**	**%**
Government Bonds	1,799	47%	932	109%
Corporate Bonds	1,811	47%	(160)	-19%
Collateralised Securities	116	3%	28	3%
Collective Investment Undertakings	93	3%	58	7%
Total Investment income	**3,819**	**100%**	**858**	**100%**
Net investment expenses	(342)		(274)	
Net investment return	**3,477**		**584**	

The net investment return, excluding foreign exchange difference, was £3.5 million in 2023 (2022: £0.6 million). The net investment return includes investment charges and unrealised gains and losses recognised in other comprehensive income. Effective net investment return was 2.4% (2022: (0.4%)).

A.4 Performance of Other Activities

The following table summarises the other income and expenses for the year ended 31 December 2023 and year ended 31 December 2022.

	2023	2022
	£'000	**£'000**
Gain / (loss) on foreign exchange	(623)	6,910
Other expense	(1,701)	(379)
Total	**(2,324)**	**6,531**

The Company’s foreign exchange gains and losses are from the translation of subordinated currency positions that are different to the functional currency of the Company. The main subordinated trading currencies are Euros, United States Dollars, and Australian Dollars.

Though the Company’s policy is to match the assets and liabilities of these subordinated currency positions, in most cases there is a small surplus held at balance sheet date due to timing of movement in assets and liabilities and the timing of actions taken to remediate the matching positions.

The Company has no lease arrangements as at 31 December 2023. All services are recharged to the Company from AEIS.

A.5 Any Other Information

No other information to report as of 31 December 2023.

SECTION B System of Governance

B.1 General Information on The System of Governance

B.1.1 Overview

The Board is responsible for the governance and oversight of all aspects of the Company's business. The Board operates in accordance with clearly defined terms of reference. Among other matters, the Board:

- Determines the strategy for the Company that promotes the delivery of good outcomes to customers and is supported by a well-articulated and measurable statement of risk appetite;
- Promotes high standards of business conduct that is consistent with regulatory standards and is supported by a framework of prudent and effective risk management;
- Sets and oversees an effective internal control framework that includes well-functioning risk management, actuarial, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework;
- Determines policies on key areas, including risk, reserving, compliance, internal audit, outsourcing, fitness and probity, business continuity, accounting, remuneration, and board diversity;
- Sets risk appetite and overall risk tolerance levels;

Given the nature, scale and complexity of the risks inherent in our business, the Board of the Company considers the Company's corporate governance framework to be adequate for the Company which is classified as a Category 4 firm under the PRA's framework.

The Board operates as an effective, balanced body of qualified persons, with appropriate skill sets, collectively guiding the performance with the best interests of the Company and its wider stakeholders under the leadership of the Chair of the Board.

As of the date of this SFCR, the Board consisted of the following members:

N. Denniston	Non-Executive Director	(resigned 31 August 2023)
K. Felisky	Independent Non-Executive Director	
M. Hammer-Dahinden	Group Non-Executive Director	
J. Hine	Independent Non-Executive Director	
J. Kittinger	Chief Operating Officer and Chief Financial Officer	
J. Mentz	Group Non-Executive Director	(resigned 21 March 2023)
P. Storey	Independent Non-Executive Director and Chair	
H. Sturgess	President and Chief Executive Officer	
K. Valder	Chief Administrative Officer	(appointed 10 March 2023)

B.1.2 Board Committees

As at 31 December 2023, the Board was supported by the following Board Committees, each operating under their own clearly defined Terms of Reference and reporting directly to the Board:

Audit Committee: The Audit Committee assists the Board in controlling, overseeing and coordinating the Company's internal and external audit activities and processes. It oversees financial reporting and the control environment and reviews the annual financial statements and regulatory filings.

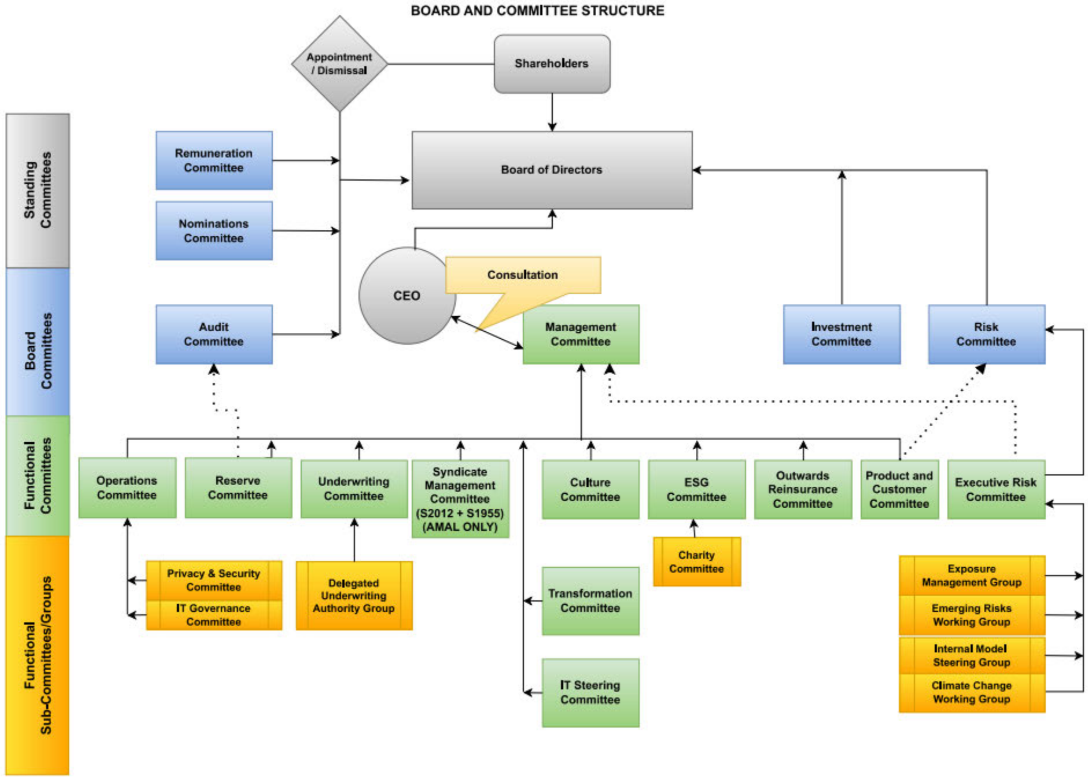
Risk Committee: The Board Risk Committee serves as a focal point for oversight of risk management. It reviews current exposures and makes recommendations to the Board on the Company's risk appetite and future risk strategy as well as overseeing the Risk Management function. The Risk Committee assists the Board in fulfilling its oversight responsibilities with regard to the identification of and control by the management of material risks to the objectives of the Company. This encompasses the processes undertaken by management to identify, evaluate and mitigate the material risks to the objectives including, but not limited to, strategic risk, insurance risk, investment risk, credit risks, liquidity risk, operational risk and regulatory risk.

Nominations Committee: The Nomination Committee assists and supports the Board on matters relating to the composition and membership of the Board and senior appointments within the Company. Among other things, it oversees succession planning and compliance with corporate governance requirements in relation to the composition and membership of the Board. The Nomination Committee also plays an active role in diversity and inclusion, including setting and monitoring targets for Board diversity, and overseeing the self-evaluation of the performance of the Board and its Committees.

Remuneration Committee: The Remuneration Committee assists and supports the Board on matters relating to the Company's remuneration programs and policies to ensure they are appropriate, fairly administered and support the Company's culture. The Remuneration Committee is responsible for reviewing the overall compensation remuneration paid to the CEO and our other senior management, establishing overall remuneration policies for employees, and overseeing the administration of executive compensation plans.

Investment Committee: The Investment Committee oversee the Company's investment strategy and risk, the investment manager selection, investment performance, and investment risk management policies and guidelines.

The Company's governance reporting structure is summarised in the table below:



B.1.3 Management Committees

The following key management committees have been established to assist and support the Chief Executive Officer and other senior management in fulfilling their responsibilities:

Management Committee

The purpose of the Management Committee is to support the Chief Executive Officer as the core management team to develop and implement the Company's strategy as approved by the Board of Directors, monitor and evaluate performance across all areas of the business, and manage the day-to-day activities of the business. As at 31 December 2023, the members of the Management Committee consisted of the President and Chief Executive Officer (Chair), Chief Financial Officer/Chief Operations Officer, Chief Underwriting Officers, Chief Executive of UK Regional, Chief Risk Officer, Chief Administrative Officer, Chief Actuary, Chief Reinsurance and Exposure Officer, Chief Strategy & Distribution Officer, Managing Director of Managing Agency, Chief Compliance Officer, General Counsel, Chief HR Officer and Chief Information Officer.

Underwriting Committee

The purpose of the Underwriting Committee is to assist the Management Committee with oversight of the Company's underwriting activity and reinsurance management programme, including reviewing and recommending the Company's underwriting strategy, reviewing and recommending the annual underwriting business plan to the Management Committee, and overseeing the Company's underwriting performance.

ESG Committee

The purpose of the Committee is to assist the Management Committee with promoting the long-term sustainable success of the Company with regard to environmental, social and governance ("ESG") matters. Among other matters, the ESG Committee is charged with overseeing the development of the Company's strategy, policies and procedures relating to ESG matters and monitoring current and emerging ESG trends and relevant legislative and regulatory requirements. The ESG Committee is also responsible for approving any products and initiatives developed in response to Arch's ESG strategy, including sustainable product offerings/green products and partnerships.

Reserve Committee

The purpose of the Reserve Committee is to provide oversight on the status of the reserves of the Company, and to make recommendations to the Audit Committee (in line with all actuarial function requirements) regarding the Reserves to be set by the Board for forecasting the result of the underwriting accounts and for the financial statements according to GAAP and the Solvency II and/or unearned reserves.

Operations Committee

The purpose of the Operations Committee is to provide oversight, challenge and advice to the Management Committee on the operating functions to ensure that, individually and collectively, they are aligned with the Company's strategic objectives and provide an efficient and effective service to all relevant stakeholders.

Product and Customer Committee (previously Product Oversight Group)

The purpose of the Product and Customer Committee is to assist the Management Committee with maintaining, operating and reviewing the process for the approval of medium and high risk rated insurance products, exclusive of contracts of large risk or reinsurance, manufactured by Arch (collectively, the "Products") as well as approving certain Products before they are marketed or distributed to customers. The Committee is also responsible for ensuring that Arch delivers good outcomes to customers in line with Arch's policies and procedures and applicable laws and regulations.

Outwards Reinsurance Committee

The purpose of the Committee is to assist the Management Committee with reviewing, recommending and monitoring Arch's outwards reinsurance strategy and purchasing plan to ensure that it is robust, reflects the underwriting, exposure and capital management appetite of Arch.

Transformation Committee

The purpose of the Transformation Committee is to assist the Management Committee with oversight of the portfolio of strategic initiatives and projects within the remit of the Strategic Portfolio Management Framework to ensure they are aligned with the business strategy, represent effective use of resources for the organisation and deliver their intended value.

IT Steering Committee

The purpose of the IT Steering Committee is to provide strategic advice, guidance and direction on Arch's IT strategy and technology initiatives to ensure they are carried out in an efficient and cost-effective manner and are aligned with the delivery of Arch's business strategy. This Committee is also tasked with approving the budget of the IT department and certain IT projects, including any material changes thereto.

Material changes in the system of governance

With the exception of the creation of the Transformation Committee and the Outwards Reinsurance Committee, there were no material changes to the system of governance in 2023.

B.1.4 Code of Business Conduct

The Company is committed to integrity in the conduct of its business and requires that all employees, directors and other representatives perform their duties in a manner which is legally, ethically and morally irreproachable. To that end, the Company has adopted ACGL Group's Code of Business Conduct, which describes standards, policies and expectations for ethical conduct. The full text of our Code of Business Conduct, as well as ACGL's Corporate Governance Guidelines, are available at www.archcapgroup.com.

B.1.5 Independent Control Functions

The Company has in place the following four key independent control functions as required under the Solvency II Directive: Risk Management, Compliance, Actuarial and Internal Audit.

These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board in relation to the Company's control framework. These functions have the authority, independence and resources to carry out their tasks and details of the committees are contained within **Sections B.1.2 & B.5.**

B.1.6 Risk Management Function

The CRO is the Key Function Holder for the Risk Management function. The CRO has a direct reporting line to the CEO and the Chair of the Board Risk Committee.

The key responsibilities of the Risk Management function are:

- Ensure that the Company has and maintains effective processes to identify, monitor, manage and report on the risks to which it is or might be exposed;
- Run the ORSA Process and produce the ORSA Report;
- Advise on Risk Strategy and recommend Risk Appetites in relation to the Business Strategy;
- Provide an effective Risk Management Framework including Policies on the main categories of risk;
- Operate an effective Risk Governance system to embed risk consideration in decision making;
- Ensure that concentrations and accumulation of risk are well identified, analysed and monitored;
- Coordinate Emerging Risk Policy and use of Stress and Scenario Testing;
- Maintain the Risk Register, including internal controls;
- Provide effective integrated risk monitoring reporting to confirm position relative to appetite;

- Complete the validation of the internal capital model;
- Advise on risk implications of new business or business change; and
- Promote Risk Management culture.

B.1.7 Compliance Function

The Chief Compliance Officer is the Key Function Holder for the Compliance function. The CCO has a direct reporting line to the CEO.

The primary purpose of the Compliance Function is to ensure that the integrated operations continue to adhere to best practice standards for Arch Group requirements, PRA, FCA, EIOPA, and all regulatory requirements and applicable laws. This is achieved by formulating best practice and monitoring adherence to internal strategies, policies, processes, established controls and reporting procedures.

The Compliance Function is also responsible for the ongoing assessment of any possible impact of changes in the legal or regulatory environment on the integrated operations and for the identification and assessment of compliance risk. The approach to monitor and mitigate this risk is contained within the approved annual Compliance Plan.

B.1.8 Actuarial Function

The Chief Actuary is the Key Function Holder for the Actuarial function and reports to Chief Executive Officer. The key responsibilities of the Actuarial function are:

- Analytical support for Business Plan performance monitoring by management;
- Design and operate pricing framework, monitor pricing adequacy and provide opinion on overall underwriting policy;
- Assess and recommend appropriate reserves, comparing best estimates against experience and reconciling booked reserves and movements with the financial reserving process;
- Coordinate the calculation of technical provisions (Solvency II) and opine on their appropriateness;
- Ensure integrity of the reserving process (data, methodologies and assumptions); and
- Evaluate and report with opinion on the adequacy of reinsurance arrangements.

B.1.9 Internal Audit Function

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and accountability of the Company by providing independent, risk-based, objective assurance services.

Internal Audit is covered further in Section B.5.

B.1.10 Remuneration Policy and Practices

The Board has adopted a Remuneration Policy whose main principles include the following:

- Aligning remuneration with the corporate strategy to deliver long-term value creation;
- Encouraging employees to meet the strategic objectives of the Company within a framework of prudent and effective risk management;
- Attracting and retaining employees who will contribute to the long-term success of the business;
- Adherence to the Company's standards of compliance, ethical behaviour, whistleblowing and good conduct in building and retaining the reputation of the Company;
- Ensuring compensation decisions take into account overall long-term collective performance; and
- Ensuring there is an appropriate balance between fixed and variable remuneration.

Our compensation program includes both fixed and variable compensation, with an emphasis on long-term compensation that is tied to the Company's performance. Although we do not apply rigid apportionment goals in our compensation decisions, our philosophy is that variable pay, in the form of annual cash incentive bonuses and share-based awards, should constitute a significant portion of total direct compensation and be suitably deferred.

A component of variable compensation is granted in the form of annual multi-year vesting share-based awards, which make stock price appreciation over an extended period of time fundamental in realising a compensation benefit. By emphasising long-term performance through using long-term incentives, we align our executives' interests with our shareholders' interests and create a strong retention tool. The Company provides awards in the form of restricted share/unit grants and stock options and share-settled stock appreciation rights, which typically provide for vesting over three years.

The Remuneration Committee considers both financial performance and strategic objectives in its evaluation process, and generally does not use pre-set performance goals. Instead, the Remuneration Committee reviews performance on an annual basis and applies its business judgment to review bonuses and the overall amount and mix of compensation elements. The Remuneration Committee believes this structured and disciplined evaluation process in administering the Company's compensation programs enables us to respond more flexibly to changes in the business environment as well as the Company's operations.

B.1.11 Supplementary Pension / Early Retirement Schemes

The Company contributes to a defined contribution Group Personal Pension Plan. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The Company does not maintain any defined benefit retirement or pension plans.

B.1.12 Material Transactions

No other information to report as of 31 December 2023.

B.2 Fit and Proper Requirements

B.2.1 Fit and Proper Process

The Company's Fit and Proper policy sets out the guidelines to ensure that employees meet the Fit and Proper regulatory standards as set out in the Senior Managers and Certification Regime (SMCR), both on entry and throughout their employment at the Company. The CEO is responsible for implementing this policy through the Human Resources function, while the Chief Compliance Officer is responsible for providing advice, implementing a monitoring program and reviewing the policy at least annually.

Individuals performing certain Senior Manager Functions ("SMF") are subject to regulatory pre-approval. These roles receive Prescribed Responsibilities and Expected Responsibilities which are specified by the regulator and recorded in the Responsibilities Map. The Chief Compliance Officer identifies and maintains a record of these functions and individuals as well as other employees subject to Certification.

Key Function Holders, including non-executive Directors not otherwise preapproved, are required to be notified to the regulator once the firm has satisfied its own Fit and Proper procedures.

In accordance with its obligations under the SMCR, the Company has identified those employees who are considered to be "Certified Persons" and need to be certified as being Fit and Proper for the role on an annual basis. These are people who owing to the nature of their role is one that involves or may involve a risk of significant harm to the firm or its customers. This population of people includes both Significant Management Functions and Material Risk Takers.

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. All employees are monitored on an on-going basis through a formal performance appraisal process.

The Company assesses the professional competence of its managers and employees, specifically focusing on management competence and technical competence (including previous experience, knowledge and professional qualifications) by:

- Following a thorough and robust recruitment process including specification of responsibility, considering competency and suitability, with review and discussion by the Nominations Committee of the Board for senior appointments;
- Completing screening of successful candidates comprising various checks which vary according to the level of the role and include criminal record, financial soundness checks and employer references addressing a candidate's regulatory professional and disciplinary track record;
- Ongoing monitoring of managers' and employees' professional competence through performance appraisals. Formal performance appraisals are performed annually, and records maintained on file. Non-executive Board members undergo periodic individual and collective self-appraisal; and
- Ongoing training and development to ensure competency and ethical propriety is maintained. This includes in-house training such as code of conduct training, anti-harassment training and anti-money laundering. Training and development needs are formally assessed at least annually, and records are maintained on file.

B.3 Risk Management System including the Own Risk and Solvency Assessment ("ORSA")

The Risk Function provides practical guidance on the implementation of the Risk Management Framework (RMF) on a day-to-day basis bearing in mind that the Company is a risk-taking organisation and that risk management capability is a fundamental part of the business. Within the 'Three Lines of Defence Framework' all types of risk are managed and controlled on a day-to-day basis by the business.

Risks faced across the company and their respective controls are documented within the Risk Register. Furthermore, the controls identified in the Risk Register to monitor and manage the risks facing Arch are also regularly reviewed for continued relevance. Compliance with the components of these controls is assessed via the ongoing Internal Audit, External Audit, Sox, Compliance and regulatory reviews undertaken alongside the quarterly control attestations performed by the Risk Function. Updates on both the risk and control assessments are reported to the Executive Risk Committee and Board Risk Committee, Underwriting Committee, Investment Committee, Reserve Committee and Operations Committee meetings, and where required to the Audit Committee, and documented within the minutes.

The Risk Function designs and facilitates the implementation and operation of the RMF across the organisation.

The RMF consolidates the processes for the identification, assessment, mitigation, management and monitoring of risks, and the periodic reporting to management of the status of the risks, which together make up the overall risk profile, against the approved Risk Appetites.

The key components of the RMF are:

- Risk Strategy
- Risk Governance (including the Three Lines of Defence model)
- Risk Appetites
- Risk Reporting
- Risk Policies
- Risk Register
- Risk & Control Self-Assessment (RCSA)
- Control Validation processes
- Risk Events processes
- Emerging Risks processes
- Stress and Scenario testing
- Risk Culture assessments
- Risk Management training
- Internal Model validation

Arch's risk management strategy operates in parallel with its business strategy. To achieve its strategy:

- Arch seeks out 'core' risks with adequate risk / return characteristics which are assumed subject to stated limits.
- Arch is exposed to other 'non-core' risks as a by-product of executing this strategy, which are controlled to an acceptable level subject to the cost of mitigation.

Arch's Risk Strategy is to only take risks that are:

Consistent

- Risks are only assumed to the extent they are consistent with, and contribute to, the achievement of Arch's business strategy and the execution of its business plan.
- Risks are only assumed where they are consistent with the expectations of our key stakeholders. Primarily this is our capital providers (Arch Group and Third-Party Capital providers for S1955), but also including reinsurance partners, regulators, brokers, and customers.

Controlled

- Assumed risks must have an acceptable level of potential down-side, considering the following:
  - Protecting capital
  - Managing earnings volatility
  - Limiting exposure to operational, reputational, regulatory, and other non-financial risks

Understood

- Arch must have appropriate skill and expertise to manage assumed risks.
- Processes exist for risk identification and assessment that are proportionate to the nature, scale, and complexity of risks.

Profitable

- All risks assumed must have an associated expected return that is commensurate with the down-side exposure, and accretive to value when viewed over the long term.
- Arch has no appetite for unprofitable risks.
- Where 'non-core' risks arise as an unavoidable consequence of executing the business plan (rather than being actively targeted) – for example operational risks – a balance is struck between the potential down-side and the cost of mitigation.

Arch has a set of risk appetite statements that are appropriate for its business model and strategy. The Risk Appetite Statements set out clear descriptions, detailing appropriate levels of risk for each material area of risk.

The table below sets out our strategic risk objectives and shows, at a high level, the corresponding appetite statements

Strategic risk objective	Risk appetite statement
Maintain capital adequacy	Target capital level
Deliver stable earnings	Return on Capital
Ensure fair outcomes for customers	Conduct and customer
Maintain robust and effective operations	Operational resilience
Ensure employees behaviour aligns to Arch's values	Culture

Each of these statements is supported by Key Risk Indicators for detailed monitoring which are regularly reviewed and escalated through the governance structure. Key Risk Indicator thresholds are set at levels at which they are intended to be triggered when the risk level nears the tolerance, this ensures that sufficient remedial actions are put in place to ensure Arch responds early to heightened risks. Risk appetites are reviewed, at a minimum, annually by the Board Risk Committee to ensure the Company has full oversight of its risks.

B.3.1 Risk Management Process and Procedures

The RMF, outlines the methodology for identifying, measuring, managing, monitoring and reporting on the key risks affecting the Company.

The framework documents the methodology for embedding risk management activities into the whole organisation. It outlines the Company's approach to risk identification, assessment, monitoring and reporting, and provides an overview of its risk appetite and tolerance for each of the following risk categories:

- Insurance risk*;
- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk
- Regulatory and Legal risk;
- Group risk;
- Strategic risk, and
- Capital risk.

*The Insurance Risk category is further sub-divided for reporting purposes into: Underwriting (Catastrophe), Underwriting (Non-Catastrophe), Reserving, Ceded Reinsurance, and Conduct Risk.

The actions and policies implemented to meet the Company's business management and regulatory obligations are a key component 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.

Risk Identification

Internal and external events can affect the Company achieving its objectives. Until a risk has been identified it is difficult to know or demonstrate that it is being adequately managed to within an acceptable level. Risk identification is therefore a vital first step in the process.

Some risks provide the business with opportunities, which should also be captured and assessed.

The primary approach for risk identification entails identifying significant functions or processes operating within the business and analysing these to identify the key risks within each business area. In turn this allows related controls to be identified and mapped to those risks.

Effective risk management, however, is not a matter of identifying individual risks in isolation. It is essential to also think about the risks in aggregation since several minor risks may combine to cause something more significant when viewed together. Operational risk is a risk type that flows across the business, where gaps in processes may not be apparent to the individuals responsible. There is significant value to understanding the inter-relationship between different business areas and processes. This is a particular area of focus within our operational resilience assessment process.

Methods for Identifying Risks include:

- Workshops
- Brainstorming
- Interviews
- Questionnaires

Risks outside appetite and/or significant in nature are reported to the appropriate forum, individual, or Committee.

Risk Assessment

Risk assessment is the process of risk analysis and risk evaluation and covers the following areas:

- Risk Scoring (Quantitative and Qualitative Risk Impact and Probability Scoring)
- Inherent Risk vs Residual Risk
- Risk Evaluation
- Risk Target

The methods used to assess risk are consistent across AUKG. In this way, the scoring of risks becomes familiar and the status of the risks become familiar and is better understood and can be reported consistently to the ERC, BRC and the Board.

1. Risk Rating

The Risk Owners assess and score their respective risks on two bases – 'Inherent' and 'Residual'. For most Risks, each basis is scored using 1:10 return period (10% probability of occurrence in the next 12 months). However, there are some exceptions to this, notably the Catastrophe Risks which are assessed using a longer return period.

- Inherent Risk Rating: The level of risk when risk treatments that would prevent the risk event from occurring are not applied systematically.
- Residual Risk Rating: The level of risk following the systematic application of risk treatments.

2. Risk Target

This is the level of risk that management has determined the entity can accept. It is measured using the same six bandings that are used to measure Inherent and Residual Risk.

3. Risk Evaluation

As part of the evaluation process, decisions need to be made on how best to manage an inherent risk to within the Risk Target.

4. Risk Status

The status of a Risk is used to denote whether it is currently assessed as being within or outside the Risk Target after consideration of existing controls. For Risks that have a Residual Risk that exceeds its Risk Target, an action plan should be put in place to ensure the Residual Risk is reduced to below the Risk Target within an acceptable timeframe.

Risk Mitigation and Control

The risk treatment options include:

- Accept – take no action, as it is not cost effective to mitigate the inherent risk
- Transfer – transfer the risk or a proportion of the risk to another party (e.g., by (re) insurance agreement or derivative instrument)
- Avoid – decide not to accept the risk by not becoming involved in certain activities
- Reduce – through applying one or more controls to reduce the inherent risk to an acceptable level
- Mitigate – by changing business practices. Mitigation is the process of reducing the inherent risk exposure through implementing controls and performing management actions.

Controls help to ensure the successful execution of processes and therefore increase the probability that the functions and therefore AUKG's objectives are met. The implementation of effective controls is one of the principal means by which risk is managed and consequently the mechanism by which risks are managed to within Risk Appetites.

The controls operating in a business area include all the measures and practices used to mitigate exposures for all types of risk that could prevent AUKG achieving its objectives. The main objectives of our control framework include:

- Safeguarding our assets
- Maintaining an effective and efficient operation
- Providing reliable financial reporting
- Maintaining compliance with applicable laws and regulations
- Enabling the business to demonstrate that the control framework is operating effectively.

Risk Reporting

The Risk Function is responsible for compiling and disseminating risk and control information to the key governance forums of the AUKG entities. The main elements of this reporting are summarised below along with the key procedures that are undertaken in their compilation.

Providing pertinent, accurate, appropriate and timely risk information to relevant forums assists them in making informed decisions and supports AUKG in achieving its objectives. Such information assists senior management to:

- Gain assurance on the effectiveness of risk management and the internal control environment
- Determine whether risk exposures are being managed in accordance with the risk appetite and policy set by the Board
- Understand the AUKG entities' risk profiles and how these change over time
- Discuss new challenges and opportunities including emerging risks
- Strengthen controls where losses occur and /or weaknesses in the effectiveness are identified
- Monitor actions to manage risk to an acceptable level
- Demonstrate externally that risks and controls are being appropriately managed by the business

Risk Monitoring

- Risk Monitoring is carried out by risk owners and the RMF utilises risk appetites and other metrics or information (from internal and external sources) which provides a view on exposure to risk
- Takes account of any risk tolerances, limits or thresholds which are in place
- Includes monitoring of the control environment to detect situations where a weakness in systems and controls exposes the business to increased risk
- Identifies incidents and near misses

B.3.2 Implementation and Integration of ORSA

The Own Risk and Solvency Assessment (ORSA) is defined as "the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a (re)insurance undertaking faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times."

The ORSA provides the Boards with a holistic view of the strategy, business plan, risk profile, capital requirement, liquidity and solvency position of the Company. The ORSA allows the Board to:

- Assess challenges to the strategy and business plans
- Assess capital needs and the adequacy of the processes underpinning this
- Advise on notable errors or omissions from the ORSA
- Provide constructive challenge as it deems necessary on both the ORSA Process and the outputs from it.

The ORSA Process is a continuous, embedded, forward-looking process, requiring the assessment of the Company's risk profile, capital requirements and solvency over a planning horizon of three years.

The ORSA assesses a range of outcomes, in addition to the 99.5th percentile used for capital setting purposes, as appropriate to the business.

Ownership and Responsibilities

The CRO and Risk Function are responsible for the overall ORSA Process. This includes the consolidation of the output from the relevant underlying processes, support for the execution of those processes, and execution of specific processes where this is relevant.

The ORSA has inputs from multiple areas of the business and relies on underlying processes to be operating in line with the Company’s governance structure and requirements. The key roles and responsibilities are noted in the matrix below.

Role		Responsibilities
Governance	AIUK Board	The Board has overall ownership of the ORSA Process; Own, review, challenge and approve the ORSA Report
	AIUK Board Risk Committee	Review and challenge the components of the ORSA Process throughout the reporting cycle and recommend the final ORSA Report to the AIUK Board
	AIUK Executive Risk Committee	Review and challenge the components of the ORSA Process throughout the reporting cycle and recommend the final ORSA Report to the AIUK Board Risk Committee
	ManCom	Monitor and review ORSA process; Review components and report
Functions	CEO	Together with the Management Committee, the CEO conducts an annual review of the strategy to ensure it remains fit for purpose and is adapted to meet current market conditions and reflects changes to ACGL strategy
	Underwriting	The Underwriting Function create the Annual and Long-Term Plan Narrative to outline the drivers behind growth and contraction in different LoBs and territories
	Risk Function	Ensure the documented risk strategy is aligned to the business strategy and the risk framework evolves appropriately; Summarise the risk profile of the entities at a risk category level; Ensure risk culture is embedded in AIUK; Coordination of ORSA process and report drafting; Risk Framework and Reporting; Conducting stress and scenario tests to understand the impacts of stressing the base case conditions
	Capital Management	Calculating the current and future capital requirements to ensure there is sufficient capital on a current and prospective basis and also to consider capital requirements under stressed conditions; Producing a summary of the entities' Technical Provisions
	Exposure Management (Non-Nat Cat)	Assessing and reporting on material aggregate exposures; Produce the cat numbers for a number of scenarios for AIUK
	Finance	Producing the Financial Results; Developing the Annual Business Plan and Medium-Term Plan
	Company Secretarial	Maintaining the Board and Committee structure charts and the description of Group Governance

High Level Principles

(a) All material ORSA Process elements should be embedded within the Company's day to day processes.

(b) The ORSA is a collection of management processes supporting the execution of the Company's strategy.

(c) Outcomes of an ORSA should inform management decisions and action.

(d) The ORSA should encompass all material risks that may have an impact on the firm.

(e) Stress testing is an essential part of the ORSA and should be used in considering all risks.

(f) The ORSA may take different levels of sophistication according to the nature, complexity and scale of the risks inherent in the Company.

(g) The ORSA Process and outcome should be appropriately evidenced in the ORSA Reports.

ORSA Components

The ORSA Process links the Company's strategy and the defining of its Risk Appetites to the business planning process. The Risk Management Framework is used to identify the risks inherent in the business plan and provide continuous monitoring of performance against appetites along with changes in the risk profile. The Standard Formula is used to calculate the SCR for AIUK.

The Company's ability to meet the current and prospective capital requirements forms the solvency assessment. The results of this process are considered and reviewed within the ORSA Report.

The key elements of the ORSA Process are noted below:

- Strategy – Defining the vision of the organisation over the next three years
- Risk appetites – Articulate the level of risk the Company is willing to accept
- Business planning – The objectives the business wishes to achieve over the next 12 months aligned to the strategy
- Solvency Assessment – Capital needed to support the business plan
- Internal Model – A key tool for the assessment of risk and capital requirements
- Risk Management Framework – A framework that identifies, assesses, manages, monitors and reports on the risks of not meeting the business plan and strategic objectives
- Stress and Scenario Testing – Conducted to understand how the business plan, and capital requirements, react in stressed circumstances on a current and forward looking basis
- Forward-looking capital requirement – Consideration of capital required for the three-year plan
- Governance Framework – The framework responsible for reviewing and approving the component elements of the ORSA Process along with outputs including the ORSA Reports.

Reporting

The purpose of the annual ORSA Report is to provide the Board with a holistic view of the strategy, business plan, risk profile, capital requirement, liquidity and solvency position of the AUKG entities based on the entire ORSA Process.

Documentary evidence, at a minimum, includes:

- Frequency and contents of the ORSA Report
- A description of the ORSA Process and responsibilities of key personnel
- An overview of the business strategy, identified objectives, material risks and scenarios
- A summary of the performance against the business plan
- A description of the risk areas
- The overall solvency needs and financial resources of the firm
- A description of the independent assessment and the results of the last assessment
- Stress tests used and their results
- Strategies for raising additional own funds where necessary

The ORSA Report is produced, at a minimum, on an annual basis but should be run on an ad hoc basis as the result of specific triggers or at the request of senior management. Typically, the ORSA Report is completed in Q1 each year.

The principal purpose of the annual ORSA Report is to ensure that the ORSA submission meets the Solvency II requirements and the expectations of the Company's regulators.

Additionally, the events noted below may trigger the production of an off cycle ORSA. Although it is not considered either practical or desirable to specify hard thresholds for triggering an ad hoc update.

- A significant single loss event, or series of events
- Significant changes to the business strategy
- Significant changes to risk appetite
- Significant changes to the business plan (either short or long term). In this context "significant" would be anything that causes the SCR, at some point during the projection period, to change by 10% or more
- Material changes to the scale or nature of the capital base e.g. changes that cause the surplus capital to change by 10%
- Anything else that produces changes to the SCR of 10% or more

Ad Hoc ORSA triggers may be identified by a number of different sources, including:

- Output from the Risk Management process
- Risk and Control Self-Assessments
- Risk Event Reporting

The ORSA triggers are reported to ManCom which decides if an update is needed. The Board may also request an ORSA update.

B.3.3 Relationship between the ORSA, Solvency Needs, and Capital and Risk Management Systems

Comparison Between Standard Formula and Internal Model SCR

The Capital Management team performs a comparison between the Standard Formula SCR and the Internal Model SCR on a one-year basis.

The comparison is carried out at risk category level and at total level. Explanations are sought for areas where the results of the calculations are materially different; variances are typically due to differences in calculation methodologies.

Projected Capital and Solvency Requirements

AIUK undertakes a forward-looking assessment of financial performance and solvency over a three-year time horizon. This analysis shows the impact of current strategic planning assumptions on the performance of the company's financial results and capital position of the company.

Stress and scenario tests are performed to examine the impact of varying the assumptions underlying this analysis.

Assumptions required for estimating future capital requirements are based on a best estimate view, and where possible use existing information from the capital requirements calculations. These assumptions are consistent with the business plan, allowing for expected future changes to the risk profile, and both internal and external factors being taken into consideration.

The Ultimate SCR for the projected years is calculated by scaling the Standard Formula SCR using changes in planned premium and sensitivity testing from the AIUK Internal Model.

The capital requirements (on the ANA basis) for the projected years are calculated consistently with the three-year financial projection explained above. Sensitivity analysis of the Standard Formula is utilised to estimate how the capital requirements will vary under the base three-year projection scenario and other scenarios.

The capital resources are also projected forward using projected profits and investment income. The projected financials are compared to Arch's risk appetite to assess whether there are any breaches of the projected solvency capital requirement. In the projection, a capital injection is required when the Solvency Ratio falls below 120%.

Medium-term scenario testing is applied to the three-year business plan. This investigates the impact of variations around the medium-term plan on forecast capital and solvency metrics. The scenarios include:

- Base Case Scenario

- Higher Growth
- Underperformance
- Market Downturn
- Moderate Recession
- Stagflation
- Loss of business
- Nat cat loss and market response

The impact on the capital requirements is assessed for each of these scenarios. The projected financials are then compared to Arch's risk appetite to assess whether there are any breaches. This may then have implications for the amount or type of own funds held. Any action plans required to ensure that solvency needs are fully met are then considered and documented.

B.3.4 ORSA Approval Process

The AIUK Board is ultimately responsible for the ORSA process and for approving this ORSA report. Oversight responsibility is delegated to the Board Risk Committee. Day-to-day responsibility for the underlying ORSA processes lies with AIUK's executive management.

The ORSA report is circulated so that the Board Risk Committee has adequate time to review it ahead of a meeting to formally approve it. Feedback from the meeting is incorporated within the final report, and once the report has been approved, the final version is circulated again.

B.4 Internal Control System

B.4.1 Internal Control System

The internal control system is a fundamental part of the Company's system of governance. The internal control system is defined as a process implemented by an entity's Board, management and other personnel that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations – addresses an entity's basic business objectives; these include performance and profitability goals and safeguarding of resources.

- Reliability of financial reporting – ensures reliable published financial statements, including interim financial statements and financial data derived from such statements.

- Compliance with applicable laws and regulations – deals with the compliance with laws and regulation that the organisation is subject to, including preparation and submission of regulatory reporting and related disclosures.

A major component of AUKG's control environment is the maintenance of a strong culture in respect of controls, risk management, and compliance. This culture applies at all levels of the organisation and is led by the Board and executive management. The Board is responsible for all policies relating to the system of governance and for:

- Promoting a culture which encourages clear risk setting and open communication to ensure that senior management has clear understanding of risks and their responsibilities in relation to controls

- The design of a control environment which allows for rapid and clear transmission of information on the business performance and risks and ensures that negative news is not withheld

Board Responsibilities

The Board defines the processes to be adopted for its on-going monitoring and review, including specifying the requirements, scope and frequency for reporting and assurance. Regular reports to the Board should provide a balanced assessment of the risks and the effectiveness of the systems of risk management and internal control in managing those risks. The Board should form its own view on effectiveness, based on the evidence it obtains, exercising the standard of care generally applicable to directors in the exercise of their duties.

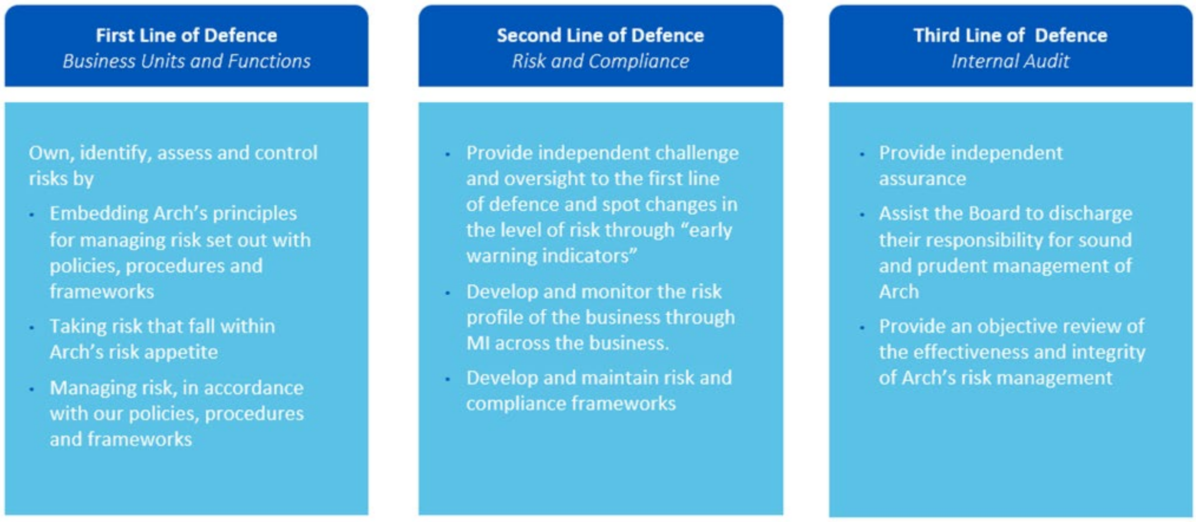
The Board has responsibility for the overall approach to risk management and internal control, including:

- Provide oversight and approve the appropriateness of the risk management framework and internal control systems that identify the risks facing the Company.
- Determining the nature and extent of the principal risks the Company faces and quantifying the amount of risk it is willing to take in achieving its strategic objectives i.e. setting its risk appetites
- Agreeing how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or their impact
- Ensuring that appropriate culture and reward systems have been embedded throughout the Company
- Monitoring and reviewing the risk management and internal control systems, and the management's process of monitoring and reviewing, and satisfying itself that they are functioning effectively, and that corrective action is being taken where necessary
- Ensuring the Company has sound internal and external information and communication processes and taking responsibility for external communication on risk management and internal control.

The Board is responsible for overseeing the Company's system of internal control. The Board Risk Committees and the Audit Committees are established as full committees of the Board, and they include at least two independent Non-Executive Directors. Each appointed Committee works with management to oversee processes and procedures in order to provide an appropriate control environment in line with the responsibilities delegated to them from the Board and set out in the respective Terms of Reference.

B.4.2 Internal Control Framework

The Company adopts the Three Lines of Defence model to structure the roles, responsibilities and accountabilities relating to risk and control. This model defines the relationship between the various functions and business areas and describes how responsibilities are divided. The diagram below is the pictorial representation of the Three Lines of Defence at AIUK.



First Line of Defence

The First Line of Defence consists of the risk-taking and support functions. These functions include the underwriting teams as well as support functions such as finance and IT. This is the most effective way to ensure that the identification, assessment, and management of the Company's risk exposures are executed in line with prescribed levels of risk-taking acceptability.

The First Line of Defence:

- Owns the risk management process, risks, and controls
- Identifies risks and the appropriate controls to manage and mitigate such risks.
- Establishes clear ownership and accountability for risks and their controls.
- Monitors and reports on risk and control effectiveness.
- Tracks and reports actual losses and near misses.

The Function heads are responsible for risk control and performance management and are supported by the Risk Function.

It is the role of management to implement and take day-to-day responsibility for Board policies on risk management and internal control. Management should ensure internal responsibilities and accountabilities are clearly established, understood and embedded at all levels of the organisation. Employees should understand their responsibilities as noted in the policies and for adhering to the Company's culture.

The Company’s management should therefore implement effective controls by considering the following:

- Determining the need for controls – Managers must be able to isolate a process, procedure or a situation where there is a need for specific internal controls.

- Designing suitable controls – Once a need for a control has been identified, management must establish suitable means to implementing them. This formal process should involve an assessment of the associated risks and an analysis of the issues that may arise if the controls are not in place. Cost involved in implementing the control versus the benefits gained will also need to be considered.

- Implementing the controls – Managers must ensure controls are carefully implemented with suitable guidance developed (policies and procedures) and explaining how they should be used. Basic skills required to effect the controls also need to be considered leading to suitably skilled staff being employed to manage the controls.

- Checking controls are being applied correctly – It is the primary responsibility of management in the First Line of Defence to ensure controls are appropriately designed and operating effectively. Controls should be seen as a highly regarded discipline and not just a set of rules that impair performance. Staff acceptance and management focus will result in a higher level of compliance.

- Maintaining and updating controls – Controls are a continuous task and management must revisit the controls to ensure they continue to operate as originally intended, remain up to date and relevant. Outdated controls should be retired to avoid situations where they are perceived as patchy, a burden or are simply being bypassed.

These activities are premised on an appropriately and proportionately documented definition of functional responsibility as well as up to date process and procedure documents.

Formalised reporting responsibilities by, and within, each function and descriptions of authority and responsibility are provided via organisation charts, statements of responsibility, job descriptions, functional terms of reference and/or narratives.

Each senior manager of the Management Committee is responsible for ensuring that the processes within their area of responsibility have controls which are documented appropriately and are designed and operating effectively.

Written policies and procedures should be developed by each functional area (e.g. underwriting, claims, actuarial, reinsurance, finance, IT, operations, payroll, etc.) and cover their key systems and internal controls. The nature and extent of the documentation is proportional to the operating environment, and approval from the relevant Committee or Board is obtained for key areas where necessary.

Internal control is exercised via each individual in the Company executing the controls relating to their relevant process and being responsible and accountable for the outcome of these.

Second Line of Defence

The Second Line of Defence is the appropriately skilled internal resource that uses data and its knowledge and experience to opine on and challenge, the perceived range and level of risk to which

Arch is exposed. The Risk Function and the Compliance Function are in the second Line of Defence and help facilitate the risk taking and risk management activities of the first line functions, whilst ensuring other second line stakeholders receive appropriate management information upon which to base their review, challenge and decision making.

Role of the Risk Function

Risks are assessed at various levels including at strategic, tactical and operational level. The Risk Register detailing the risks faced by the business and its operations is the responsibility of the Risk Function. The Risk Register analyses significant, key or material risks facing the Company (i.e. Strategic, Insurance, Operational, Credit, Liquidity, Market, Capital, Regulatory and Group) and details the corresponding controls to mitigate and/or control these risks. Qualitative and quantitative assessments of the impact and probability of all risks is contained in the Risk Register. The controls documented in the Risk Register to monitor, mitigate and/or control the risks facing the Company are reviewed for continued relevance and accuracy.

Moreover, in the event of a change in the risk profile, whether through emerging risk, changed operations or changed environment, the Risk Function will highlight the impact in terms of the sufficiency of controls. The Risk Function also reviews and verifies the validity of the internal control environment through the quarterly RCSA process and a rolling program of control validation. These processes are detailed further in the Risk Management Framework and the Risk Function's responsibilities are detailed in the Risk Function Terms of Reference.

Role of the Compliance Function

The primary purpose of the Compliance Function is to ensure that the integrated operations continue to adhere to best practice standards for Arch Group requirements, PRA, FCA, EIOPA, and all regulatory requirements and applicable laws. This is achieved by formulating best practice and monitoring adherence to internal strategies, policies, processes, established controls and reporting procedures.

The Compliance Function is also responsible for the ongoing assessment of any possible impact of changes in the legal or regulatory environment on the integrated operations and for the identification and assessment of compliance risk. The approach to monitor and mitigate this risk is contained within the approved annual Compliance Plan.

Compliance responsibilities are detailed in the approved Compliance Function Terms of Reference.

Third Line of Defence

The Third Line of Defence is the Audit Committee, supported by the independent Internal Audit Function.

Role of the Internal Audit Function

On an annual basis, Internal Audit performs a risk assessment in conjunction with the Board and management and with reference to the Risk Register to ensure that audit resources are directed to providing assurance over key risks and controls and related processes. The resulting detailed annual audit plan is presented, challenged and approved by the Audit Committee.

The Internal Audit Function performs independent reviews, detailed within the plan, across the Company and reports on the extent to which risks are being managed and the operational effectiveness of the system of internal controls. Formal reports are submitted to the Audit Committee and ACGL, and agreed action points recorded in the reports are monitored by Internal Audit until satisfactorily completed by management. The purpose, authority and responsibility for Internal Audit is detailed in the Internal Audit Charter.

Role of Sox Reviews

The Sarbanes-Oxley Act of 2002 ("Sox") was enacted to set new and enhanced standards for US publicly traded companies. Specifically, Section 404 of Sox defines the requirements for a firm's internal controls over financial reporting and financial disclosures. The overall objective of Sox is to implement a framework of internal controls over financial reporting that mitigates the risk of significant financial misstatement within the Group's consolidated financial statements.

B.4.3 Key Procedures within the Internal Control System

Key Components

In order to develop a robust control environment, the Company has established and maintains the following key components:

- Internal Control Environment – A major component of the control environment is the maintenance of a strong culture in respect of controls, risk management, and compliance. This culture applies to all levels of the organisation and is led by the Board and executive management.

- Risk Assessment – Risk Assessment, including Conduct Risk Assessment, is the identification and analysis of relevant risks to achievement of the company's objectives. The executive management is responsible for the identification, quantification, prioritisation, monitoring and reporting of risks associated with the achievement of the Company's business strategy and objectives.

- Control Activities – These are policies and procedures created by function and process owners to ensure management directives are carried out and ensure that necessary actions are taken to address risks to the achievement of the Company's objectives and to meet its regulatory obligations. An example of control activities can range from approvals and authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

- Information and Communication – This looks at whether the control message is effectively communicated throughout the Company and associated problems and ideas are communicated upwards and across the business. The format and content of management information and management reports is established and maintained on a continuing basis to provide timely and effective Board and management oversight and decision-making.

- Monitoring – The internal control system is monitored to assess the quality of the systems performance over time. The First Line (has responsibility for this on a day-to-day basis, with independent monitoring undertaken by the Second Line and independent assurance being provided by the Internal Audit Function in the Third Line.

The above components cover not only activities performed by the Company but also govern the relationship with outsourced service providers where service level agreements reflect the components set out above.

B.4.4 Compliance Function

The primary purpose of the Company's Compliance function is to ensure that integrated operations continue to adhere to the best practice standards for ACGL Group requirements, Prudential Regulation Authority ("PRA"), Financial Conduct Authority ("FCA"), Lloyd's of London ("Lloyd's"), the European Insurance and Occupational Pensions Authority ("EIOPA") and other regulatory requirements and applicable laws. This is achieved by formulating best practice and monitoring adherence to internal strategies, policies, processes and reporting procedures. The key responsibilities of the Compliance function are set out in **Section B.1.5** above.

The Compliance function is an integral element of the Company's risk management and internal control framework. The purpose of the Compliance function is to assist the Board in achieving its overall strategic objectives by promoting a culture of integrity, ethical conduct and compliance with the laws, regulations and administrative provisions that affect AIUK. It also monitors adherence to certain elements of the risk management framework and the reporting thereon to the appropriate forums.

B.5 Internal Audit ("IA") Function

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of AIUK. It does this by providing independent, risk-based, objective assurance services designed to add value and improve AIUK's operations and by assessing whether all significant risks are identified and appropriately reported by management and Risk Management to the Board and Executive Management, including whether they are adequately controlled, and by challenging Executive Management to improve the effectiveness of internal controls, governance, and risk management.

Internal Audit acts primarily to provide the Committee with information necessary for it to fulfill its own responsibilities and duties. Implicit in Internal Audit's role is that it supports management to fulfill their risk, control and compliance responsibilities.

B.5.1 Internal Audit Practices

Internal Audit governs itself in alignment with the mandatory elements of:

- The Chartered Institute of Internal Auditors ("CIIA") 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, collectively referred to as ("the Standards").
- The CIIA Financial Services Code of Practice ("the Code") – guidance on effective internal audit in the financial services sector (January 2021).

B.5.2 Internal Audit Reporting

The Head of Internal Audit:

- Reports periodically to senior management and the Committee regarding Internal Audit's conformance with the mandatory elements of the Standards
- Issues a report to management at the conclusion of each engagement to confirm the results of the engagement and the timetable for the completion of corrective management actions to be taken
- Provides periodic reports to management and the Committee summarising Internal Audit's activities, the results of internal audit engagements and the status of corrective management actions taken in response to internal audit engagements.
- Reports annually to the Committee on Internal Audit's performance against its goals and objectives.
- Reports periodically to senior management and the Committee on any corrective management actions not effectively implemented.
- Communicates to senior management and the Committee on the impact of resource limitations on the annual internal audit plan.

B.5.3 Maintaining Independence

- The Head of Internal Audit ensures that Internal Audit remains free from all conditions that threaten its ability to carry out its responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, disclosure to an appropriate party (e.g., senior management and the Committee) will be made.

The Head of Internal Audit and Internal Audit team members 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 judgement on engagement matters to others.

Internal Audit has no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Audit does not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair its judgement, including but not limited to:

- Assessing specific operations for which it had responsibility within the previous year.
- Performing any operational duties for AIUK.
- Initiating or approving transactions external to Internal Audit.
- Directing the activities of any Arch employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to engagement teams or to otherwise assist Internal Audit.

Where the Head of Internal Audit has or is expected to have roles and/ or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to their independence or objectivity.

The Head of Internal Audit will confirm to the Committee, at least annually, the organisational independence of Internal Audit. In addition, the Head of Internal Audit will disclose to the Committee any interference and related implications in determining the scope of internal auditing, performing work, and/ or communicating results.

B.6 Actuarial Function

The Actuarial function is an integral part of the Company's Risk Management System. The team, which is separate from the Risk Management function, is led by the Chief Actuary. Actuarial Terms of Reference are in place which state that the Actuarial function must be free from influence from other functions and the Board.

The governance of the Actuarial function (reporting lines, remuneration structure, professional requirements) is such that:

- the Actuarial function is able to function independently and objectively while being sufficiently proximate to enable relevant comment to be made on actuarial matters; and
- conflicts of interest are considered, and appropriate mitigating measures are adopted and documented.

The Actuarial function comprises experienced individuals with in-depth knowledge of and professional qualifications in actuarial and financial mathematics. The Chief Actuary is responsible for the function being staffed appropriately given the nature, scale and complexity of the risks inherent in the integrated operations. The team has appropriate access to all resources and information systems required to discharge its responsibilities.

An integral part of the Actuarial function is the responsibility for supporting the capital planning, reserving, reinsurance, and underwriting performance reporting of the Company.

The main activities of the Actuarial function include:

- providing the senior management with the analytical tools and timely management information to empower them to manage and plan the business effectively;
- providing the Actuarial Function Report to the Board at least annually documenting the tasks undertaken and highlighting any shortcomings identified along with how such deficiencies could be remedied.
- The Actuarial Function Report addresses the activities performed by the Actuarial function in the following areas:
    - Coordinating the calculation of technical provisions;
    - Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
    - Comparing best estimates against experience;
    - Informing the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
    - Expressing an opinion on the underwriting policy with sufficient involvement around the policy;
    - Overseeing the calculation of technical provisions in the cases set out in the regulations;
    - Rating models, rate adequacy, benchmarking, profitability studies and underwriting strategy;
    - Expressing an opinion on the reinsurance policy with sufficient involvement on capital modelling, profitability studies and reinsurance strategy;
    - Providing sound FRS 102 reserves and reserving volatility measures as input into standard formula SCR and Solvency II technical provisions;

- Ensuring consistency between Return on Capital measures and Pricing;
- Assisting in the independent validation of the calculation kernel;
- Providing accurate and timely management information;
- Providing plan loss ratios via a bridging analysis; and
- Assessing output that feeds into the ORSA, such as technical provisions, business plan and reinsurance arrangements.

B.7 Outsourcing

B.7.1 Outsourcing and Third-Party Risk Management

The Company uses a variety of external and intragroup providers to perform agreed services.

The Company manages all third-party arrangements, including outsourcing and intragroup services to ensure that the associated service levels, risks and regulatory requirements are managed to expectations

A program consisting of policy, standards, procedures, systems, and controls are used to assess and manage the risk of using each service.

A comprehensive assessment methodology, to determine segmentation category, risk tier, and financial status, is used when selecting potential third parties. This assessment also identifies the type of data it may hold or gather for the Company, whether the service supports Important Business Services and any arrangements that need pre-notifying to regulators.

The Company identifies and monitors qualitative and quantitative performance targets to assess the adequacy of service provision, including to its policyholders, where appropriate.

Each third-party service provider is expected to re-attest to meeting the minimum controls requirements, to ensure the effective provision of services and that the arrangement remains fit for purpose.

Delegated underwriting and administration of claims is subject to enhanced due diligence, monitoring and audit procedures.

B.8 Any Other Information

No other information to report as of 31 December 2023.

SECTION C Risk Profile

C.1.1 Overview

The Company'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 organisation towards the desired level of risk. It complements the Risk Management Framework and enables the Company to make informed business decisions having regard to the key risks to which it may be exposed by such a decision.

All risks are regularly reviewed at Board committee meetings. The risks can be broadly split into the following categories:

			Adjusted net asset Basis *	
Risk Category	**SCR £'000**	**SCR %**	**SCR £'000**	**SCR %**
Insurance Risk	71,408	49%	71,408	50%
Market Risk	24,148	17%	19,927	14%
Credit Risk	27,746	19%	27,746	20%
Operational Risk	22,313	15%	22,313	16%
Liquidity Risk	-	0%	-	0%
Group Risk	-	0%	-	0%
Undiversified SCR	**145,615**	**100%**	**141,395**	**100%**
Diversification Credit	(25,776)		(23,603)	
Total SCR	**119,839**		**117,792**	

The "adjusted net asset basis" is an additional, internally applied, more prudent measure, that the Board use to monitor solvency, and is not part of the requirements of Solvency II. It is reviewed as part of the Company's internal governance processes but is unaudited.

Further details of these risk categories, including the key risk exposures, concentrations, mitigation techniques and sensitivities, are set out below.

C.2 Insurance Risk

C.2.1 Key Risk Exposure

Insurance risk is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance liabilities and premiums. This includes the potential for catastrophic losses, cost of reinstatement premiums and any possible reinsurance exhaustion, claims reserve deterioration and adequacy of the firm's pricing. Insurance risk incorporates underwriting, reserving and reinsurance risks. It forms the largest proportion of the SCR at 49% (2022: 56%).

The key insurance risks identified by management are:

Underwriting Risk (Non-Catastrophe)

The risk that the unearned reserves and future premiums are insufficient to cover their run-off and future claims and expenses. The reserves considered in these calculations are the unearned elements of the technical provisions and are modelled in a similar way to reserve risk. In addition, one future year of planned business is included within the calculations, and this is modelled by splitting out claims between attritional, large and catastrophe claims. Catastrophe losses in respect of the future year of planned business are considered separately within Catastrophe Risk. Attritional and large losses are parameterised by considering the planned loss ratios and using historical data, and benchmarks to determine the volatility assumptions.

Underwriting risk is the largest risk category facing the company. The prime drivers are our large losses including those relating to Casualty classes (natural catastrophe exposures are considered within the Catastrophe Risk category).

Underwriting Risk (Catastrophe)

The risk of losses due to natural catastrophes relating to unearned business. Natural catastrophes in this context refer to natural disasters namely earthquakes, windstorms and flooding. This is modelled using AIR, an external catastrophe modelling tool. Catastrophe risk is managed by the Exposure Management function.

We also use reinsurance as a method of risk mitigation. The controls in place for catastrophe risk are consistent with those for underwriting risk.

Reserve Risk

The risk that the current reserves are insufficient to cover their run-off. The reserves considered in these calculations are the earned elements of the technical provisions. Reserve risk is modelled by considering the size and volatility of earned reserves (split by line of business and currency) and the dependencies between each modelled variable. Volatilities and dependencies are derived using historical information. Reserve risk is the second largest risk category and is managed by the Actuarial function.

The company operates to a best estimate reserving philosophy. Reserve estimates are derived by the Chief Actuary after consultation with individual underwriters and claims teams, actuarial analysis of the loss reserve development and comparison with market benchmarks. The objective is to produce reliable and appropriate estimates that are consistent over time and across classes of business. Generally, reserves are established without regard to whether the claim may subsequently be contested, and Solvency II reserves are discounted for the time value of money.

C.2.2 Material Risk Concentrations

Realistic Disaster Scenarios (“RDS”) are in place for all classes of business and are monitored regularly at a number of groups and committees, including the Exposure Management Group, the Underwriting Committee, the Executive Risk Committee and the Board Risk Committee.

There are generally no material anticipated changes to risk concentrations over the coming year.

C.2.3 Material Risk Mitigations

Reinsurance is considered to be the main method of insurance risk mitigation. This consists of a number of arrangements with external reinsurers, including a catastrophe treaty to mitigate UK flood aggregations. The Company also has an 85% intercompany whole-account quota share arrangement with Arch Re Ltd (Bermuda).

The Company does not make use of any complex arrangements, such as catastrophe bonds or any other methods of alternative risk transfer.

In addition, insurance risk is further mitigated through the following key controls:

Underwriting Risk

Arch has a number of robust controls in place for managing Underwriting risk. In addition to underwriting controls, we also use reinsurance as a method of risk mitigation. Key controls include:

- AIUK Regional Executive Committee – meeting monthly and is Chaired by the Regional CEO and other senior AIUK executives, it focuses on overseeing underwriting and operational performance across AIUK.
- Digital Underwriting Strategy – automation of underwriting with feedback loop to improve performance and rapid change employment.
- Business Planning Process – business planning is an interactive process whereby underwriters and management agree the premium and loss ratios required to achieve a target rate of return set by the Board. The Chief Underwriting Officers are responsible for the process on behalf of the Board with the assistance of the Management Committee and Underwriting Committee.
- Underwriting Authorities – approved written and signed underwriting authorities in place for all underwriters that are aligned to the company's business plans and an individual's experience.
- Regional UW Quality Assurance Reviews – on a monthly basis, QA Team performs data and risk quality reviews to check that policy data and any subsequent MTAs are entered into UW systems completely and accurately.
- Formal independent peer review process in place for underwriting – independent reviewers take a sample size of all risks written within a month. A quarterly review meeting is held with the CUOs and any findings are reported to Underwriting Committee.

Catastrophe Risk

Arch employs a number of techniques to ensure that catastrophe exposure is managed and controlled within defined limits.

- Risk Appetites – with defined limits on exposure to material perils.
- Catastrophe reinsurance programmes to control retained risk.

- Underwriting guidelines to specify controls for individuals writing catastrophe exposed business (e.g. limits on geographical exposures).
- Catastrophe modelling (using the AIR system) to generate and analyse loss distributions at a granular level. This is supported by additional controls, such as:
    - Reconciliation between AIR and underwriting systems
    - Validation of Cat Models to ensure appropriateness of output for Arch's risk profile
    - Data checks to ensure that all exposures are appropriately included in estimates
- The Exposure Management Group reviews detailed exposure information each month where they receive further challenge, focusing on changes which have taken place, and access checks and validation carried out.
- Review by Committees – Executive Summaries are presented to the Underwriting Committee and the Executive Risk Committee each quarter.

Reserve Risk

Key management controls include:

- Independent External Review of actuarial reserves - External Actuaries conduct a review of the level of reserves based on data forwarded by the Chief Actuary at least annually for Q4 reserves.
- Adherence to Reserving Policy (GAAP IBNR Reserves) - Arch documents its reserving philosophy and methodologies in the Reserving Policy.
- Chief Actuary Review of GAAP Reserves - A quarterly review of the loss reserves is performed by the Reserving Actuary and the Chief Actuary.
- Review of quarterly reserving data - On a quarterly basis, the Reserve Committee reviews suggested reserves for each line of business presented by the Reserving Actuary and proposes the reserves to be posted for the Underwriting Result to check if reserves are reasonable.
- Board review of reserves - The Board reviews reserves as part of the Quarterly Board pack. The Board reviews the annual Actuarial Function Report.
- Audit Committee review of reserves - On a quarterly basis the Audit Committee reviews the reserve adequacy as part of the Quarterly Audit pack.
- Quarterly Reserving Report - Internal actuaries perform detailed analysis and make the first cut Ultimate Loss Ratio selections. The UK Chief Actuary reviews all selections, and the reserve report is completed and signed by the Reserving Actuary.

C.2.4 Stress and Sensitivity Testing

Stress and scenario testing is performed as part of the ORSA Process and is conducted at least annually. These tests consider moderate as well as extreme but plausible stresses and assess the impact on the Company's capital position.

In addition, sensitivity tests are run by changing a single assumption in the capital model while keeping other assumptions consistent. These sensitivity tests have been carried out using the internal capital model as an approximation to both regulatory and economic capital requirements (both use the standard formula). The below assumptions only impact the solvency capital requirement for both regulatory and economic capital, and the solvency ratio has been calculated with the current level of own funds.

Sensitivity Test	Total Own Funds		Net Adjusted Assets	
	Impact on SCR	Impact on Solvency Ratio	Impact on SCR	Impact on Solvency Ratio
Reserve volatility - pessimistic view	0.88%	-1.45%	0.88%	-1.26%
Cat Losses increased by 25% on largest exposure (European Windstorm)	3.99%	-6.38%	3.99%	-5.56%
Estimated earned and written premium in next 12 months - both down by 10%	-0.39%	0.65%	-0.39%	0.57%

The impact of above sensitivity tests is in line with the expectations due to the underwriting risk being the largest component of the SCR.

C.3 Market Risk

C.3.1 Key Risk Exposure

Market risk is the risk of changes in income from or values of assets arising from fluctuation in economic variables, including interest rates and exchange rates. It is the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from fluctuations in the level and in the volatility of market prices of assets, liabilities and or financial instruments. Also includes defaults against issuers of securities and the risk from limited diversification in the asset portfolio.

The company's investment strategy is designed to limit market risk through investments which are considered to be conservative high-quality assets that reduce exposure. The current investment guidelines and approach focus on total return, preservation of capital and market liquidity. The duration of assets is designed to match the duration of liabilities which is around 2.5 years on average. The company does not invest in hedging or derivative financial instruments. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

Exposure to interest rate risk arises from the investments in fixed interest securities. The company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the policyholder liabilities. Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by buying and selling fixed interest securities of different durations.

The company seeks to mitigate the currency risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. The company reviews currency asset and liability positions on a quarterly basis. This process is designed to align currency matching. In addition, as part of this process, currency trades may be made to maintain the desired currency net asset allocations.

C.3.2 Material Risk Concentrations

The material concentrations of securities are monitored regularly at Investment Committee meetings.

The Company's largest exposures as at 31 December 2023 are Blackrock money market fund (£5.4 million or 2.7% of capital), UK GILTs (£20.8 million or 10.4% of capital), US Treasury (£11.5 million or 5.8% of capital) and Other Government Bonds (£24.7 million or 12.4% of capital).

There are no material anticipated changes to risk concentrations over the coming year.

C.3.3 Market Risk Mitigations

A low-risk investment strategy which closely matches liabilities by currency and duration is considered to be the main method of market risk mitigation. The Company does not use exotic or alternative arrangements such as derivatives to minimise market risk.

Arch outsources investment management to the Arch Group. This allows Arch to benefit from economies of scale by being part of a substantially larger portfolio. Oversight is provided by the CFO, Investment Committee and the Arch Board.

Key management controls include:

- Investment Risk Appetite – Overall limits are put in place on the level of investment risk, and also on key (such as duration, credit quality and liquidity).
- Investment Risk Policy - The Investment Risk Policy sets out the sources of investment risk, investment objectives, function and committee oversight, appetites, controls, and the process for evaluation of new investment products.
- Triparty reconciliation investment - On a quarterly basis, Management Accountant performs a three-way reconciliation of investment data which covers quantity and market values for all investment assets held by the Investment Account Service Provider, Custodian and Arch's Investment Accounting records.
- Formal Investment Strategy and Guidelines - The Investment Strategy sets out the high-level objectives and is supported by detailed guidelines which Investment Managers operate under and approved by the Board.
- Investment Committee review and oversight of investment portfolio - The Investment Committee is the oversight Committee that ensures that Arch Europe's Investment Risk Policy is being applied and monitored.
- Reconciliation of investment journal to General Ledger - On a monthly basis, the Management Accountant/Head of Finance Operations verifies the accuracy of the posting of the monthly Investment Accounting journal.

C.4 Credit Risk

C.4.1 Key Risk Exposure

Credit risk is the risk of loss, or of adverse change in the financial situation resulting from fluctuations in the credit standing of counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk. Key counterparties include reinsurers, brokers, coverholders and banking counterparties.

Exposure to credit risk arises from financial transactions with counterparties including debtors, borrowers, brokers, policyholders, reinsurers, banks and guarantors. The company uses the credit ratings assigned to particular counterparties to measure credit risk. Credit risk is managed by the finance function.

Note: Credit risk associated with investments is included in the market risk category.

C.4.2 Material Risk Concentrations

With regard to premium debtor risk, the company ensures that all brokers are subject to a due diligence protocol and that they have terms of business agreements in place. An approval system also exists for new brokers, and broker performance is regularly reviewed. System exception reports highlight trading with non-approved brokers, and the company's credit control team regularly monitors the ageing and collectability of debtor balances. Large and aged items are prioritised.

To lessen the risk of the company's exposure to any particular reinsurer, exposure limits by class of business are approved. On behalf of AIUK, ACGL has developed processes to formally examine all reinsurers before entering into new business arrangements, which are also considered at the company level. New reinsurers are approved by the Reinsurance Security Committee, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow paying reinsurers are examined more frequently.

As noted in the earlier sections, the Company has in place an 85% quota share arrangement with ARL, which potentially exposes the business to a significant level of credit risk. This is mitigated through the use of a collateralised trust fund set up by ARL, with the Company being the sole beneficiary of the trust. Collateral of 100% of the reinsurer obligations is required at any given time, which means that if ARL were to default, the Company would be expected to be able to recover any outstanding balances through the trust. The trust fund deed's guidelines state the fund should have a surplus of 5% at all times.

We expect ARL to remain strongly capitalised, and the level of collateral held as well as the security of ARL is discussed quarterly by the Board.

The external ratings of ARL have been stable over the year in respect of Moody's at A2 (Outlook Stable) and have improved for S&P at A+ (Outlook Stable) and AM Best at A+ (Outlook Stable).

The material concentration of other reinsurers and other counterparty balances held are consistent with the risk exposure above and are monitored regularly.

C.4.3 Credit Risk Mitigations

Key management controls include:

- Approval of Bank Payments - All payments go through a two-tiered approval process.
- Monthly credit control report - The Credit Control Projects and Reporting manager produces a monthly credit control report, including all entities in the business.
- Monthly credit control report meetings with CFO - aged debt reports are prepared by the Head of Finance Operations. These reports are reviewed by CFO during the monthly credit control review meeting to discuss aged debt and unallocated cash.

- Aged Payables Review - On a monthly basis, the Head of Finance Operations reviews and approves the AP Aging report.
- Vendor monitoring - A quarterly review of all payees and total amounts paid is undertaken by the CFO.
- Quarterly Review of KPI Report and Unallocated Cash - On a quarterly basis, the Group Credit Control Manager reviews the unallocated cash position.

C.4.4 Stress and Sensitivity Testing

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

A sensitivity test is run by changing a single assumption in the capital model while keeping other assumptions consistent. The below assumptions only impact the solvency capital requirement for regulatory and economic capital, and the solvency ratio has been calculated with the current level of own funds.

	Total Own Funds		Net Adjusted Assets	
Sensitivity Test	**Impact on SCR**	**Impact on Solvency Ratio**	**Impact on SCR**	**Impact on Solvency Ratio**
50% increase in currency mismatch	0.50%	-0.83%	0.50%	-0.72%
All assets held in corporate bonds	0.27%	-0.44%	0.27%	-0.38%
1 notch decrease to all corporate bond ratings	0.50%	-0.83%	0.50%	-0.72%

The impact of above sensitivity test is in line with the expectations and is not believed to have a material impact on the Company's solvency.

	Total Own Funds		Net Adjusted Assets	
Sensitivity Test	**Impact on SCR**	**Impact on Solvency Ratio**	**Impact on SCR**	**Impact on Solvency Ratio**
10% increase in Reinsurance balances	0.51%	-0.84%	0.51%	-0.74%
1 notch decrease to ARL credit rating	0.05%	-0.08%	0.05%	-0.07%
Intercompany quota share collateral reduced by 10% to 90% of reinsurer obligation	0.62%	-1.02%	0.62%	-0.89%

The sensitivities demonstrate that key variations in assumptions around the intercompany quota share arrangement, including the level of collateral held, do not have a material impact to the Company's solvency.

C.5 Liquidity Risk

C.5.1 Material Risk Exposure

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. This includes the extent of mismatch between assets and liabilities (by nature, term, and currency) and the amount of assets held in highly liquid, marketable forms should unexpected cash flows lead to a liquidity problem.

AIUK is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due, at a reasonable cost. The company's approach is to manage its liquidity position so that it can reasonably survive a significant loss event. This means that AIUK maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. Regular cash flow monitoring ensures that maturing deposits are sufficient to meet cash calls.

C.5.2 Risk Mitigation

Key management controls include:

- Cash flow forecast - Weekly cash flow projections are performed, matching income and outgoings in settlement currency to ensure short-term liquidity by currency.
- Trust fund review - the trust fund positions in relation to the inter-company quota share with ARL are reviewed by the financial controller. The trust funds must run at a 5% surplus as per internal benchmarks. If a shortfall is noted, ARL are informed that a top up is required.
- Intercompany Quota Share - The company controls liquidity through the 85% quota share reinsurance arrangement with Arch Re Ltd (Bermuda) that is settled quarterly, net and in arrears.

C.5.3 Expected Future Profit

Expected profits included in future premiums (“EPIFP”) are profits which result from the inclusion in technical provisions of premiums on existing (in force) business that will be received in the future, but that have not yet been received.

The table below shows the expected profit in future premiums (“EPIFP”) at 31 December 2023 were £32.4million (2022: £30.4 million). This represents the future profits expected.

Expected profit in future premium	**2023 £'000**	**2022 £'000**
Medical expenses	-	-
Income protection	1,181	1,645
Marine, aviation and transport	5,033	3,721
Fire and other damage to property	11,026	14,933
General liability	6,504	6,785
Motor other	1,360	1,984
Motor liability	259	472
Credit and Surety	6,941	782
Casualty Reinsurance	49	53
Total	**32,353**	**30,375**

C.6 Operational Risk

C.6.1 Key Risk Exposure

Operational risk is defined to be the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

The Company considers cyber events to be the most material operational risk.

Management has also identified the following other key operational risks:

- Inadequate claims handling;
- Reliance on key individuals (including Directors and staff at outsourced service providers).

The risks classified under the Operational Risk profile have been identified, assessed and articulated in the Risk Register. Relevant risk and control owners report to the Executive and Board Risk Committee and are responsible for identifying new, emerging or changing risks and any consequent control changes required to realign the risks within risk tolerances.

C.6.2 Material Risk Concentrations

It is noted that we have a number of third party vendors including Global Services in the Philippines. We do not consider any one of these individual third parties to lead to a material level of operational risk concentration.

C.6.3 Operational Risk Mitigations

Key management controls include:

- Operational Risk Processes and procedures – There are various monitoring processes and procedures in place that provide oversight on adherence to internal policies and regulatory requirements. These include internal control certification on controls, risk management oversight via risk reviews and assessments, monitoring of key metrics, compliance oversight and monitoring alongside independent reviews performed by the Internal Audit function.
- Management Oversight – There are a number of management oversight committees in place that oversee the matters relating to operational risk.
- Regulatory Compliance – An independent and dedicated Compliance function is in place which is responsible for ensuring Arch remains compliant with its regulatory requirements. In addition, the function analyses regulatory developments and trends that may impact Arch and are communicated to the business. The function also performs regular thematic reviews.
- Internal Audit – Provides independent assurance across the risk and control framework.

The Risk Function also maintain Arch’s Risk Events Log. An incident can be an occurrence, several occurrences or even a non-occurrence where there is an actual consequence to the company. These usually have causes which could be from a control not operating effectively, lack of control or a cause which cannot be managed or foreseen.

An efficient Risk Events process that identifies, assesses, reports and monitors actual losses and near misses across the organisation allows Arch to continuously refine processes, strengthen the Risk Management Framework, potentially reduce costs and limit any reputational damage. Reported Risk Events are presented to the Executive Risk Committee and Board Risk Committee.

C.6.4 Stress and Sensitivity Testing

Operational Risk is included in the Standard Formula. However, as part of its ORSA process, the Company also considers the following:

A sensitivity test is run by changing a single assumption in the capital model in isolation while keeping other assumptions consistent. The below assumptions only impact the solvency capital requirement for both regulatory and economic capital, and the solvency ratio has been calculated with the current level of own funds.

	Total Own Funds		Net Adjusted Assets	
Sensitivity Test	Impact on SCR	Impact on Solvency Ratio	Impact on SCR	Impact on Solvency Ratio
10% increase in largest operational stress tests	0.36%	-0.59%	0.36%	-0.51%

The impact of above sensitivity test is in line with the expectations and is not believed to have a material impact on the Company's solvency.

C.7 Regulatory and Legal Risk

C.7.1 Key Risk Exposure

Regulatory and Legal risk is the risk of loss from the failure to comply with the regulation and legislation that the Company must comply with.

The key driver of regulatory risk is an insufficient understanding of legislative and regulatory requirements/mandates. Our assumption is that potential changes in legislative and regulatory requirements are effectively communicated by the governing bodies.

The Company applies significant endeavours to avoid legal, regulatory or compliance failure or impairment which may lead to regulatory censure and/or financial penalty and/or harm to its reputation or franchise.

The risks classified under the Regulatory and Legal Risk profile have been identified, assessed and articulated in the Risk Register. Relevant risk and control owners report to the Executive Risk Committee and Board Risk Committee and are responsible for identifying new, emerging or changing risks and any consequent control changes required to realign the risks within risk tolerances.

With respect to Legal Risk, the General Counsel has responsibility for monitoring new and pending legislation in the UK 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.7.2 Regulatory and Legal Risk Mitigations

Key management controls include:

- Operational Risk Processes and procedures – There are various monitoring processes and procedures in place that provide oversight on adherence to internal policies and regulatory requirements. These include internal control certification on controls, risk management oversight via risk reviews and assessments, monitoring of key metrics, compliance oversight and monitoring alongside independent reviews performed by the Internal Audit function.

- Management Oversight – There are a number of management oversight committees in place that oversee the matters relating to Regulatory and Legal risk.
- Regulatory Compliance – An independent and dedicated Compliance function is in place which is responsible for ensuring Arch remains compliant with its regulatory requirements. In addition, the function analyses regulatory developments and trends that may impact Arch and are communicated to the business. The function also performs regular thematic reviews.
- Internal Audit – Provides independent assurance across the risk and control framework.

C.8 Group Risk

C.8.1 Key Risk Exposure

Group Risk is the the risk of loss arising from other companies within Arch Group and other related parties.

The key drivers of Group Risk are:

- Downgrade of Arch Group
- Occurrence of an adverse reputational event in another Arch group company
- Failure to implement adequate governance.

C.8.2 Material Risk Concentrations

The Company has a dependence on ACGL as its sole capital provider so any adverse financial or reputational event impacting ACGL will have a knock-on effect to the Company.

C.8.3 Group Risk Mitigations

Key management controls include:

- Regular dialogue with Group Executives
- Relevant attendance at Group Committees / Management Forums
- Crisis Management Plan and Procedures
- Monitoring of ACGL financial strength

C.9 Strategic Risk

C.9.1 Key Risk Exposure

Strategic Risk is the risk of losses arising from the adverse effect of management decisions on both business strategies and their implementation. This also includes the failure to adopt a business strategy following changes in the internal or external environment.

The individual risks constituting strategic risk, and their definitions, key drivers and key mitigations are outlined below.

Strategic Decisions

This is an inability to set value creating strategic objectives and execute on them in a timely manner leading to inadequate profitability, financial loss or reputational damage.

The key drivers of this risk are:

- Failure to define and document Arch's strategy
- Failure to appropriately respond/position to changes in demand patterns (client buying behavior, distribution channels)
- Failure to appropriately respond/position to changes in supply patterns (new entrants, business model, consolidation)
- Inadequate or inappropriate due diligence and governance around new initiatives (including acquisitions/dispositions, expansions/closures, restructuring)
- Inadequate governance around business planning (including RORAC) and the strategic asset allocation process resulting in misinformed underwriting strategy

The key mitigations of this risk are:

- Assigning strategic risk responsibility
- Formal process in place for developing the business strategy
- Review and approval of business strategy
- Formal M&A management process in place
- Management Committee in place
- Regular review of competitors' activity
- Formal business planning process in place
- Review and approval of Business Plan

Strategy Execution

This is the risk of the business plan not being designed to make progress towards achieving the company's strategic objectives leading to inadequate profitability, financial loss or reputational damage.

The key drivers of this risk are:

- Failure to translate strategy into operational plans
- Failure to execute business plans
- M&A: Poor integration planning and execution including cultural alignment
- M&A: Loss of key personnel from the newly acquired entity

- Failure to adequately manage a crisis event that may lead to a loss of confidence amongst stakeholders
- Failure to implement adequate governance

The key mitigations of this risk are:

- Formal process in place for developing the business strategy
- Formal M&A management process in place
- Business plan monitoring and reporting
- Management Committee in place
- Monthly business performance status report
- Board of Directors oversight
- Group review and approval of business plan
- Communication of business plan objectives to all staff
- Crisis Management Plan and Procedures
- Formal business planning process in place
- Review and approval of Business Plan

Culture

The Risk arising from the dilution of culture or a mismatch between culture and governance leading to a diminished Arch identity and loss of business or reputational damage.

The key drivers of this risk are:

- Failure to define, communicate or regularly review Arch's culture
- Major change leading to conflicts in culture
- Failure to implement adequate governance
- Failure to complete internal and external culture related reporting

The key mitigations of this risk are:

- M&A management process
- Management Committee review of culture assessments
- Background verification for all new joiners including contractors
- Code of conduct
- Anti-Bullying and Harassment, Equal Opportunities, Recruitment and Disciplinary policies
- Employee engagement survey
- Mental Health First Aiders training
- FCA Code of Conduct return (non-financial misconduct content)

- Gender pay gap reporting
- Mandatory 'Code of Conduct', 'Whistleblowing' and 'Preventing Sexual Harassment' training

Reputation

The consequential impact on reputation from the manifestation of a scenario identified in another risk event or an emerging risk not yet captured in the risk register.

The key drivers of this risk are:

- Underwriting sensitive insurance products
- Details of high-profile claims disclosed
- Failure to implement adequate governance

The key mitigations of this risk are:

- Formal approach to claims management including processes and controls is set out within the Claims Manual.
- Management of reputational risk
- ESG Committee
- ESG Framework
- Sensitive Underwriting Group
- Sensitive Underwriting Review Criteria and Referral Process
- A formal underwriting committee established to review all matters relating to underwriting activities
- Formal business planning process in place
- Review and approval of Business Plan

Strategic Broker Management

The risk that Arch does not design, manage or monitor its strategic broker arrangements effectively and appropriately resulting in a financial and/or reputational impact.

The key drivers of this risk are:

- Not having a documented Broker Strategy and/or communicating this to all underwriters
- Not having a documented Broker Remuneration Policy and/or not communicating this to all underwriters
- Over dependence on a concentrated number of brokers
- Not monitoring and/or having inadequate resource to monitor Broker Service Agreements using appropriate management information

- Lack of effective governance and oversight in ensuring the Broker Strategy is effectively executed.

The key mitigations of this risk are:

- Annual review of the documented Broker Strategy
- Underwriting Committee oversight
- Annual review of the documented Acquisition Cost Policy
- Monthly business development meeting
- Review of Brokers metrics
- Broker Service Agreement Progress Review
- Legal review of Broker Service Agreements
- Biannual Broker Service Agreements review meetings
- Quarterly distribution report

C.10 Emerging Risks

Identifying, planning for and controlling emerging risks is an important part of our risk management activity across all aspects of our business, including core insurance activities, investments, operations and strategy. We make a significant effort to identify potential material emerging threats to Arch. It is a core responsibility of each committee, and we believe all reasonable steps are taken to minimise the likelihood and impact of potential emerging risks and to prepare for them in the event they occur.

The Risk Function collates emerging risks from a number of sources, including the quarterly risk assessments, and then reports these to the Underwriting Committee, Executive Risk Committee, and the Board Risk Committees.

In addition, the Emerging Risks Group meets quarterly to discuss emerging risks with escalation to the Underwriting Committee and the Risk Committees. The Emerging Risks Group also shares content with Arch Group's Emerging Risks Committee.

The membership of the Emerging Risks Group expanded during 2023 to include underwriting representation from a broader range of classes of business. This has ensured emerging insurance risks remain the focus of the ERG, with the Risk Function facilitating the process and ensuring these emerging risks are added to the Emerging Risks Log.

During 2023 regular updates have been provided on previously identified emerging risks, such as:

- Inflation
- Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS)
- Pesticide and herbicide exposure
- Plastics pollution
- The China/Taiwan situation

Additionally, a number of new emerging risks have been identified, discussed, investigated and reported during 2023 including:

- Geopolitical risks
- Generative AI such as ChatGPT
- Exposure to Financial Institutions following the collapse of SVB and Signature banks
- Lithium batteries
- The unauthorised use of biometric data
- New risks in the Arctic
- Solar panel waste
- Digital twins
- Deepfake technology
- Airborne liquid crystal monomers
- Climate change litigation
- State backed cyber losses
- Interstate armed conflicts

SECTION D Valuation for Solvency Purpose

The table below shows the balance sheet as at 31 December 2023 on a FRS 102 basis, Solvency II basis and the adjustments to each line.

Details of the valuation changes are contained in the sections **D.1 to D.5**.

Balance Sheet as at 31 December 2023 - £'000s	**UK GAAP**	**Adjustments**	**Solvency II**
Deferred acquisition costs	87,979	(87,979)	-
Deferred tax assets	10,091	-	10,091
Holdings in related undertakings, including participations	40,500	27,410	67,910
Equities - unlisted	-	-	-
Government Bonds	56,598	402	57,000
Corporate Bonds	74,800	1,131	75,931
Collateralised securities	3,037	13	3,050
Collective Investments Undertakings	10,014	(0)	10,014
Reinsurance recoverables from: Non-life and health similar to non-life	946,807	(319,928)	626,879
Insurance and intermediaries receivables	93,525	(53,339)	40,186
Reinsurance receivables	86,612	6,646	93,258
Receivables (trade, not insurance)	4,402	-	4,402
Cash and cash equivalents	3,558	-	3,558
Any other assets, not elsewhere shown	15,479	(1,546)	13,934
Total assets	**1,433,402**	**(427,189)**	**1,006,213**
Technical provisions - non-life	1,090,358	(341,083)	749,275
Reinsurance payables	40,920	(40,920)	-
Payables (trade, not insurance)	44,587	-	44,587
Subordinated liabilities	15,500	-	15,500
Any other liabilities, not elsewhere shown	88,404	(76,778)	11,626
Total liabilities	**1,279,769**	**(458,781)**	**820,988**
Net Assets	**153,633**	**31,593**	**185,225**

D.1 Assets

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

D.1.1 Deferred acquisition costs

In the financial statements, acquisition costs, which represent commission and other related expenses, are deferred over the years in which the related premiums are earned. The deferred expenses relate to commissions, underwriter salaries, office costs, and marketing which are deferred based on a ratio between bound and quoted policies by line of business.

The Solvency II balance sheet is prepared on the basis that best estimate future cash flows on servicing (re)insurance contracts are included in the calculation of SII Technical Provisions. Therefore, deferred acquisition costs are excluded from the Solvency II balance sheet.

D.1.2 Deferred tax assets

As at 31 December 2023, the Company has recognised £10.1 million (2022: £8.6 million) deferred tax assets being the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts under Solvency II. The recognition was based on the forecast that there will be future taxable profits against which the losses can be utilised.

The measurement principles for deferred taxes are consistent between UK GAAP and Solvency II. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. The valuation difference relates to the change in the value of deferred tax, caused by the impact of adjustments made to balance sheet items in compliance with Solvency II regulations.

D.1.3 Holdings in related undertaking

As at 31 December 2023, the Company valued its investment in its wholly owned subsidiary, AEIS, at £67.9 million (2022: £53.9 million) on a Solvency II basis. The valuation is based on adjusted equity method where the value of the investment is determined as the Company's share of AEIS' net assets. The value of AEIS comprises of a loan to AIGL and the remaining net assets of the entity excluding intangibles. The valuation of the adjusted equity method is consistent with Solvency II rules, where an intangible asset has been excluded from the net assets.

The value of the holdings in the related undertaking is different from the FRS 102 valuation, where the value was stated at the lower of cost less impairment or recoverable amount, which is £40.5 million.

In addition to the investment in its wholly owned subsidiary, the Company is party to a licensing agreement with AIGL permitting the Company to renew the UK commercial lines business acquired by AIGL from the Ardonagh Group in 2019.

AEIS hold a £28.7 million (2022: £28.7 million) loan receivable, that was issued to AIGL to provide funding for the above-mentioned acquisition.

D.1.4 Investments (other than holding in related undertaking)

As at 31 December 2023, the Company has a total of £146.0 million (2022: £149.7 million) investment assets that were valued in accordance with FRS 102 fair value model. The Company's investments are externally managed. The Company receives quarterly reports detailing the underlying securities held in the investment funds. The quarterly reports are reviewed to ensure average credit ratings and durations have not moved significantly since the previous quarter. Any unusual movements or discrepancies are discussed with the fund managers and is presented to the Investment Committee on a quarterly basis.

The investments are valued at fair value under FRS 102 and Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets. The investments under Solvency II include accrued interest which under FRS 102 is reported under other assets.

The valuation of investments is consistent with the accounting valuation under FRS 102.

D.1.5 Insurance and intermediaries receivables

Insurance and intermediaries receivables balance represents premiums owed from policyholders. As at 31 December 2023, the Company has a total of £40.2 million (2022: £30.1 million) of outstanding premiums. Outstanding premiums are valued at amortised cost as an approximation to 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 FRS 102. The deferred premiums held under FRS 102 are transferred from insurance and intermediaries to the technical provisions in the calculation of the Solvency II balance sheet.

D.1.6 Reinsurance receivables

The reinsurance receivables balance represents recoverables from reinsurers on settled claims. As at 31 December 2023, the Company had a total of £93.3 million (2022: £30.0 million) of reinsurance receivable. Reinsurance receivables are valued at amortised cost as an approximation to fair value and due to the short-term nature of the receivable no adjustments to valuation are required. The valuation of reinsurance receivables is consistent with the accounting valuation under FRS 102.

D.1.7 Cash and cash equivalents

As at 31 December 2023, the Company had £3.6 million (2022: £9.8 million) held as cash and cash equivalents with £0.6 million (2022: £0.6 million) in the UK. The UK bank accounts are held in major currencies which are GBP, USD, EUR and AUD. The monies held in Germany, Italy and Spain bank accounts are denominated in EUR. The non-GBP balances are translated into GBP at the balance sheet closing rate.

There is no valuation difference between FRS102 and Solvency II for cash and cash equivalents.

D.1.8 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 FRS 102.

D.2 Technical Provisions

D.2.1 Results summary

A summary of the technical provisions for the Company as at 31 December 2023 is set out below, split by material lines of business:

	Net Best Estimate Claims Provision £'000	Net Best Estimate Premium Provision £'000	Risk Margin £'000	Net Technical Provisions £'000	% Of Net TP %
Medical Expenses	(41)	(0)	-	(41)	0%
Income Protection	799	(393)	30	436	0%
Motor Vehicle Liability	4,801	523	232	5,556	5%
Other Motor	2,528	615	153	3,296	3%
Marine, Aviation and Transport	15,034	4,775	904	20,713	17%
Fire and Other Damage to Property	22,215	3,745	1,200	27,160	21%
General Liability	57,571	3,753	2,934	64,258	53%
Non-Proportional Casualty	33	(3)	1	31	0%
Credit and suretyship insurance	276	656	55	987	1%
Total	**103,216**	**13,671**	**5,509**	**122,396**	**100%**

The total technical provisions were £122.4 million as at 31 December 2023, consisting of £103.2 million in respect of the claims provision (earned business), £13.7 million in respect of the premium provision (unearned business), and £5.5 million in respect of the risk margin.

The process of valuing AIUK's Technical Provisions ("TPs") begins with actuarial valuation of our FRS 102 basis reserves for loss and loss adjustment expenses ("Loss Reserves"). Cash flows associated with those Loss Reserves, along with unearned premium reserves and provisions for other components of TPs, are converted to an economic basis using the approach outlined below.

D.2.2 Calculation Methodology

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

The calculations for the Solvency II technical provisions are based on the existing FRS 102 valuation, which in itself contain key sources of estimation uncertainty. The most significant of these involves the valuation of outstanding claims and, in particular, the provision for claims incurred but not reported.

The processes used to determine the assumptions on which the measurement of insurance contract provisions is based, actual assumptions used, the effects of changes in assumptions, and an analysis of sensitivity to changes in assumptions are described below.

(i) Process used to determine the assumptions for measuring insurance contracts

Loss Reserves are established to provide for loss adjustment expenses and represent the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. Periodically, adjustments to the reported or case reserves may be made as additional information regarding the claims is reported or payments are made. IBNR reserves are established to provide for incurred claims which have not yet been reported to an insurer or reinsurer at the balance sheet date as well as to adjust for any projected variance in case reserving. IBNR reserves are derived by subtracting paid losses and loss adjustment expenses and case reserves from estimates of ultimate losses and loss adjustment expenses. Actuaries estimate ultimate losses and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. The process of estimating reserves involves a considerable degree of judgement by management and, as of any given date, is inherently uncertain.

Ultimate losses and loss adjustment expenses are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. The Company uses several methods for determining its reserves. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

Expected loss methods – these methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss and loss adjustment expense ratios are typically developed based upon the information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data available from organisations, such as statistical bureau and consulting firms, where appropriate. These ratios consider, among other things, rate increases and changes in terms and conditions that have been observed in the market. Expected loss methods are useful for estimating ultimate losses and loss adjustment expenses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available and is commonly applied when limited loss experience exists for a company.

Historical incurred loss development methods – these methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. These methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods may be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses may be less reliable than other methods.

Bornhuetter-Ferguson ("B-F") paid and incurred loss methods – these methods utilise actual paid and incurred losses and expected patterns of paid and incurred losses, taking the initial expected ultimate losses into account to determine an estimate of expected ultimate losses. The B-F paid and incurred loss methods are useful when there are few reported claims and a relatively less stable pattern of reported losses.

Inflation – We assess the expected impact of inflation on the booked reserves using a multi-year cash flow approach. Our approach estimates the impact of economic inflation on the expected claims frequency and severity of the in-force business, recognising that different insurance classes are affected differently by economic inflation. The expected impact on reserves is compared to an independent actuarial review to ensure our reserve surplus versus said independent actuarial remains within our risk appetite. No adjustments have been made to the financial statements for the impact of inflation.

Additional analyses – other methodologies are often used in the reserving process for specific types of claims or events, such as catastrophic or other specific major events including COVID-19. These include vendor catastrophe models, which are typically used in the estimation of Loss Reserves at the early stage of known catastrophic events before information has been reported to an insurer or reinsurer, and analyses of specific industry events, such as large lawsuits or claims.

The selection of a method to determine the Company's reserves is driven by not only the characteristics of the lines of business, but also by the development stage of the years of account and the availability, credibility and relevance (for future projection) of in-house or benchmark data. For short-tail lines of business, such as Property and Offshore Operating, reserves will mostly be calculated using the expected loss ratio method for the most recent year of account, unless early loss experience necessitates an upward deviation, before moving to the more data-driven methods for more mature years. For long-tail lines of business, typically the Casualty and D&O classes, reflecting slower loss emergence and settlement, the expected loss ratio method is usually applied for longer than 1 year, unless early loss experience necessitates an upward deviation, before allowing for benign claims experience using more data-driven methods.

To convert the reserves calculated under FRS 102 methodology set out above, the same methodology is applied to each homogeneous risk group and follows the steps laid out below:

- Gross and net best estimates are estimated separately for each underwriting year. Each underwriting year is then split into earned or unearned business. Relevant payment patterns are applied to these different blocks according to the respective state of their development. The outputs are gross and net outflows for claims payments, separately for claims provision and premium provision;
- Premiums receivable are derived from the analysis of debtor cash flows, i.e., looking at the not yet due debt collectables. Estimates of not yet due debt collectables are used directly as cash inflows. The output are gross cash inflows for premiums receivable for both the claims and premium provision. It is worth noting that debt due but not received is excluded from the technical provisions and is instead included within insurance receivables on the balance sheet. In addition, the calculations also allow for future reinsurance costs which correspond to recoveries being made in respect of claims;
- A number of adjustments are allowed for in the steps above:
    - The business contractually agreed before the balance sheet date but incepting after the balance sheet date. This is referred to as Written But Not Incepted ("WBNI") business; and
    - Events Not In Data ("ENIDs"): Solvency II requires the Best Estimate to include allowance for "all possible outcomes", e.g., latent claims or extreme high severity, low probability claims. An ENID provision is calculated to allow for all possible scenarios where historical data may be lacking
    - Removal of margins: Removal of FRS103 prudent margins.

- Cash outflows for reinsurance premiums payable/net premiums receivable are based on gross cash flows to which net or ceded ratios are applied to both premiums and claims. These net /ceded ratios are based on the ratios derived in the FRS 102 reserve exercise and follow the principle of correspondence as set out in **Section D.2.6**;
- Different types of expenses (acquisition costs, unallocated loss adjustor expenses, and administration expenses) are projected and future cash flows are derived from this analysis. The output is expense cash outflows separately for claims provision and premium provision;
- An allowance for cash inflows stemming from ceded reinsurance income is also made;
- An adjustment is carried out to allow for reinsurance counterparty default. The output is cash outflows for reinsurance counterparty default, separately for claims provision and premium provision;
- The risk margin is calculated at a total level by running off the one-year SCR over future years and multiplying the cash flows by a cost of capital of 4% per annum as prescribed by Article 39 of the Commission Delegated Regulations (EU) 2015/35; and
- All future cash flow series above are discounted using payment patterns derived from the reserving process and the sum of these discounted cash flows is calculated for each series. These sums are then added together to derive the net best estimate liabilities. The discount rates used are those prescribed by EIOPA.

Key Simplifications

The key simplifications made in the technical provision calculations are set out below:

- **Risk margin methodology** – Uses an approximation for the whole SCR for each future year, with a decayed run-off method. This method is used because a proportionate approach does not adequately capture the run-off, so a longer pattern is used to reflect relative reserve risk increasing as the size of the portfolio reduces; and
- **Calculation of recoverables** – as the timings of gross claim payments and corresponding recoveries are not markedly different, it is assumed that they correspond and projections use the timing of direct payments.

Whilst there are a number of limitations identified in the calculations of the technical provisions, there were no material uncertainties identified in the technical provisions process. All expert judgments are supported by relevant and appropriate data and exercised by recognised experts within the Company.

D.2.3 Impact of Reinsurance

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.

D.2.4 Pre-Intercompany Quota Share

All cash flows which are calculated pre-intercompany quota share (i.e., after applying only the external reinsurance) are based on those in the net FRS 102 reserves. The calculations are consistent with net to gross ratios used in the FRS 102 reserving exercise (i.e., historical ratios), with different ratios applied to claims and premiums.

The pre-intercompany quota share cash flows are adjusted for the following:

- Ceded percentages of the quota share are applied for claims and premium cash flows. The ceded percentages are based on the actual percentages defined by the quota share; and
- Ceding commission cash flows are based on the ceded premium for the quota share. The cash flows are calculated by applying the current ceding commission percentage to the ceded premium amounts.

Counterparty Default

The expected loss due to the default of reinsurance counterparties is a small element within the technical provision calculations relating to bad debt. Reinsurance recoverables are calculated assuming no counterparty default. An adjustment for counterparty default is then explicitly calculated using S&P default rates and applied separately.

D.2.5 Treatment of Future Premiums

Future premiums, not yet due, are excluded explicitly from the Solvency II economic balance sheet and are instead included within the technical provisions. These premiums consist of four components:

- Premiums receivable for incepted policies included in the actuarial dataset;
- Premiums receivable for incepted policies not included in the actuarial dataset;
- WBNI premiums receivable; and
- Premiums receivable allowing for future reinsurance costs which relate to unearned business written to date.

Incepted future premiums included in the actuarial dataset are taken from aged debt reports which include splits of earned and unearned premiums. Where splits between earned and unearned premiums are unavailable, the uncertainty is addressed by applying average percentages instead.

Future premiums receivable are not required to be fully allocated to premium provisions, as premium cash flows can also relate to earned business. These premiums are also allocated to underwriting years and lines of business based on the information in the aged debt reports.

Incepted future premiums not included in the actuarial dataset are taken from a financial data report showing the premiums written in the one month. WBNI premiums receivable are calculated using the WBNI uplift percentage against the expected annual premium as set out in the business plan for the following year. The WBNI uplift percentage is an uncertain amount and is estimated using historical data analysis.

Ceded future premium is included as a direct input, rather than calculated using gross premiums and net to gross ratios. This is because premium receivable amounts do not necessarily correspond with premium payable balances. Within the economic balance sheet, an adjustment is also made for reinsurance balance payable not yet due. Without this adjustment, reinsurance liabilities would be double counted.

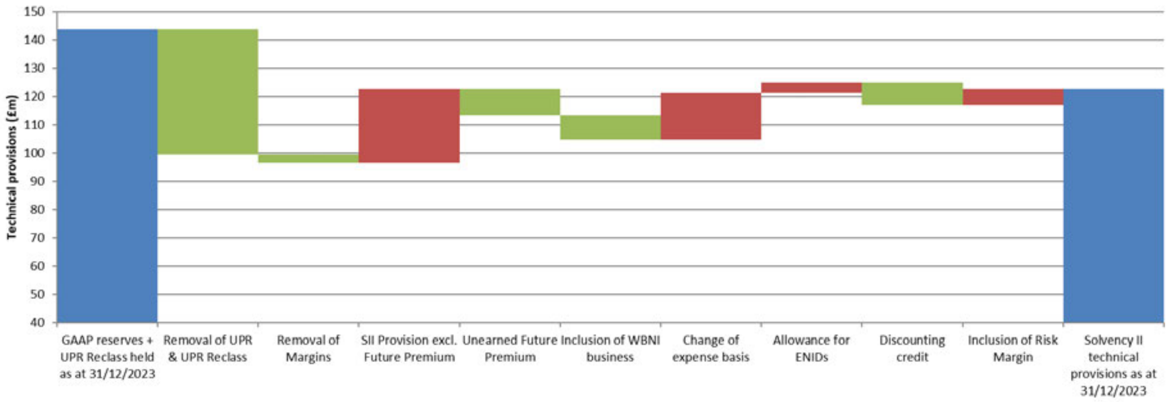
In addition, the principle of correspondence is considered when carrying out the calculation of reinsurance recoveries. When considering the contracts to be included, there should be correspondence between the gross inwards claims and the reinsurance recoveries included within the valuation. This includes the cost of future reinsurance cover not yet bought that will cover existing inwards contracts (e.g. losses occurring cover incepting in the following year). The additional reinsurance costs calculated for each line of business are allowed for by adjusting the ceded future premium amounts in respect of unearned business subject to minimum deposit premium terms per contract.

D.2.6 Material Differences between FRS 102 and Solvency II

Whilst some of the approaches and techniques applied under Solvency II are similar to those followed under the existing FRS 102 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;
- Introduction of the principle of a market consistent basis and calculation of a “risk margin”; and
- Valuation of liabilities segmented by Solvency II lines of business.

The waterfall chart below sets out the movement analysis between FRS 102 and Solvency II for the Company as at 31 December 2023:



Each of the above Solvency II adjustments are independent and discreet in the calculations.

(i) Removal of 100% UPR & UPR reclass (-£44.2 million).

(ii) Removal of margins (-£3.0 million). This is removal of any implicit margin.

(iii) Solvency II provisions on unearned exposures (+£26.0 million). These are expected claims coming from unearned premiums.

(iv) Unearned Future Premium (-£9.3 million)

(v) Inclusion of unincepted business (-£8.5 million). A decrease to the technical provisions which corresponds to a small profit on the WBNI business.

(vi) Change of expense basis (+£16.8 million). The adjustment reflects the additional expenses that would be incurred to service existing insurance liabilities.

(vii) Allowance for ENIDs (+£3.6 million). A small increase to the technical provisions due to an allowance for events not in data.

(viii) Discounting credit (-£8.0 million). Application of risk free discount rates, which leads to a decrease in the technical provisions.

(ix) Inclusion of risk margin (+£5.5 million). An amount equivalent to a theoretical level needed to transfer the obligations to another insurance undertaking.

D.2.7 Assumptions and uncertainty

The most material sources of uncertainty arise from the FRS 102 calculation. The main assumptions used in the technical provisions other than those in the GAAP reserves include Events Not In Data (ENIDs) and Written But Not Incepted business (WBNI).

Removal of Margins

The TPs, include a removal of implicit margin. The rationale for removing the implicit margin is to move from a Prudent Best Estimate ("PBE") TP reserving methodology to a True Best Estimate ("TBE") TP reserving methodology.

To quantify the implicit margin, standard market practice would be to equate the implicit margin to the margin over the Statement of Actuarial Opinion ("SAO") reserves. The benefit of applying this approach is that the quantum of the implicit margin is based on estimations performed by an independent third party. The key draw-back of this approach is that the third-party actuaries will be less familiar with the business, apply a more mechanical approach to reserving and would usually react quite significantly to large losses, which can result in an estimate that is too volatile to reflect in Solvency II Technical Provisions.

Therefore, instead of quantifying the implicit margin by equating it to the margin over the SAO, the Company has adopted a different approach. The Company's reserving actuaries have completed a separate reserving exercise, which in comparison to the UK GAAP reserving process uses the same data, same level of information and the same personnel. However, rather than projecting a PBE, the actuaries project a TBE, a less conservative estimate, with a guiding principle that by reserving at that level, favourable and unfavourable PYD would be expected with equal probability. Fixing as many variables as possible, i.e., data, detailed knowledge of the business and personnel, and only changing the level of prudence applied, the quantification of the implicit margin as the difference between the two approaches is considered to create a significantly more accurate result than using the margin over the SAO.

Events Not In Data

ENIDs are low frequency/high severity claims not captured in the data. We add an explicit amount, or load, to the calculations to take account of ENIDs. The ENID loadings for each line of business are derived using a truncated distribution approach. This methodology is based on the true mean of a reserve distribution being underestimated as it will only include information which is realistically foreseeable. If an assumption is made about the level at which events are realistically foreseeable then derived uplifts can be applied to estimate a mean allowing for incomplete information.

Using stochastic reserving techniques and appropriate fitting algorithms, we determine that the Company's best estimate reserves are log-normally distributed.

The calculated uplifts are then validated using expert judgement from the risk management and underwriting teams to ensure appropriateness of the assumptions. Uplifts can be adjusted based on this expert judgement, e.g., if there has been significant experience of tail events or relatively benign experience for a particular class of business.

We validate our selection by comparing them to benchmark market data and make adjustment if our selections are believed to be materially out of line with the market. In addition, we perform sensitivity tests to gauge the materiality of this assumption. The current sensitivity test shows that removing the ENIDS would approximately reduce the TPs by 2.5%.

Written But Not Incepted business

WBNI relates to the business contractually agreed before the balance sheet date but incepting after the balance sheet date. This is also referred to as unincepted business. Unincepted uplifts are calculated separately for each line of business using historical Company data. Historical policy data is used to calculate what the previous unincepted uplifts have been for previous years.

The unincepted business sensitivities are applied to understand the materiality of the assumptions and to validate the application of unincepted business uplifts in the calculations. Removing the calculations for unincepted business decreases the premium provision by approximately 11% because the unincepted business is believed to be profitable.

D.3 Other Liabilities

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 Other liabilities and non-insurance payables

Other liabilities and non-insurance payables 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 FRS 102.

D.3.2 Reinsurance Payables

Under Solvency II the reinsurance payables are transferred from the FRS 102 balance sheet and reported as part of the technical provisions. The reinsurance payables under Solvency II are reported as nil. (See section **D.2** for information on TPs).

D.3.3 Deferred ceded acquisition costs

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

The 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.4 Alternative Methods of Valuation

No alternative methods for valuation were used in 2023.

D.5 Any Other Information

No other information to report as of 31 December 2023.

SECTION E Capital Management

Overview

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 breached 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 makes recommendations to the Board. Responsible for reviewing and monitoring the key capital management metrics and tolerances and presenting key capital management information to the Board on an ongoing basis;
- **Investment 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
- **Actuarial Function**: Responsible for maintaining the internal capital models and Standard Formula calculation, which amongst other uses, produce the economic and solvency capital requirements for AIUK.

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. In the event that the Company's capital is below the SCR, the Company will communicate to the PRA immediately together with a proposed remediation plan.

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 realisation of relief from the management actions is six months.

Other potential sources of capital which the Company has identified are:

- Additional capital sourced from ACGL Group through contributed capital, capital loan or additional reinsurance arrangements;
- Purchasing external reinsurance;
- Changing mix to less capital intensive lines of business;
- Merging with cash rich partner;
- Sale of business / blocks of business; and
- Management buyout by current management team with corporate finance support to raise new third party capital.

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

It should be noted that the estimated timeframes above would be expected to be longer in a stressed scenario. The provision of additional capital by ACGL and capital relief by means of intragroup reinsurance is not guaranteed. The current quota share contract provides for a continuous contract terminable on 12 months' notice. As notice is customarily given to ensure that the terms of the reinsurance are agreed on a commercial and arm's length basis, it has been agreed that the Company may exercise an option to extend the period of the reinsurance by one year in the event of unsuccessful renegotiation, in order to enable an orderly transition to alternative funding.

During 2023 the definition of the economic capital requirement continued to use "adjusted net assets basis" using the Standard Formula SCR, in line with the commentary in Section E.1. Previously in 2018 economic capital requirements were based on a tail value at risk calculation using the internal capital model ultimate SCR.

The "adjusted net asset basis" is an additional, internally applied, more prudent measure, that the Board use to monitor solvency, and is not part of the requirement of Solvency II. It is reviewed as part of the Company's internal governance processes but is unaudited.

E.1 Own Funds

The Company's own funds are summarised in the table below:

	Tier 1	Tier 2	Tier 3	2023 Total Own Funds	2023 Adjusted net asset Approach *	2022 Total Own Funds	2022 Adjusted net asset Approach *
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Paid-In Ordinary Share Capital	50,000	-	-	50,000	50,000	50,000	50,000
Other capital contribution	87,500	-	-	87,500	58,771	87,500	58,771
Reconciliation Reserve	37,634	-	-	37,634	37,634	923	923
Subordinated liabilities	-	15,500	-	15,500	15,500	15,500	15,500
Net deferred tax assets	-	-	10,091	10,091	10,091	8,632	8,632
Total Own Funds After Deductions	**175,134**	**15,500**	**10,091**	**200,725**	**171,996**	**162,555**	**133,826**
Total Eligible Own Funds to Meet the SCR				200,725	171,996	162,555	133,826
Total Eligible Own Funds to Meet the MCR				181,126	155,202	142,600	117,398
SCR				119,840	117,792	83,555	81,012
MCR				29,960	29,448	20,889	20,253
Ratio of Eligible Own Funds to SCR				**167.5%**	**146.0%**	**194.5%**	**165.2%**
Ratio of Eligible Own Funds to MCR				**604.6%**	**527.0%**	**682.7%**	**579.7%**

Tier 1 capital is made up of £50.0 million issued and fully paid up ordinary shares, £37.6 million in the reconciliation reserve which is comprised of the excess of assets over liabilities on a Solvency II valuation basis, less other basic own fund items between UK GAAP and Solvency II and £87.5 million other capital contribution. The Company has capital contribution of £87.5 million.

Tier 2 capital is made of £15.5 million subordinated loan from ACFI, to support growth from the new UK Regional business. These loans meet the required PRA guidelines to classify as a subordinated loan.

Tier 3 capital is made of £10.1 million of deferred tax assets.

"Adjusted net asset basis (unaudited)"

Although the Company uses the Standard Formula for Solvency II in determining its regulatory capital, it has an Internal Capital Model that it has previously used for setting economic capital and continues to use for a number of other purposes. Following the acquisition of UK regional business in 2019, the economic capital definition was revised to an "adjusted net asset basis" to ensure that the solvency position is adequately taking into account the Company's current capital structure. The purpose of this "adjusted net asset basis", using the standard formula as the starting point, is to recognise a solvency position where the underlying intangible assets held in respect of the acquisition in a fellow ACGL group company are treated as intangible assets on a look through basis, thereby reducing the value of own funds accordingly and also reducing the SCR relating to the market risk of these assets.

The Company follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed, and the results are documented and reconciled to the Board's risk appetite where necessary.

Under the "adjusted net asset basis", the Company's own funds available is £172.0 million as at December 2023 against the SCR of £117.8 million, with a surplus of £54.2 million or 146.0%. The "adjusted net asset basis" excludes the loan balance with Arch Intermediaries Group Ltd ("AIGL"), formerly known as Arch (UK) Holdings Limited, within the available own funds and the SCR excludes the equity invested as part of UK Regional acquisition.

The Company remains above the target risk appetite of 120.0% against SCR on an ''adjusted net asset basis''.

The "adjusted net asset basis" is an additional, internally applied, more prudent measure, that the Board use to monitor solvency, and is not part of the requirement of Solvency II. It is reviewed as part of the Company's internal governance processes but is unaudited.

On an adjusted net asset basis, the economic surplus remained stable at £54.2m during 2023 due to higher reconciliation reserves.

Dividends & Valuation Differences

There are no foreseeable dividend distributions by the Company.

The Company's financial statements are prepared in accordance with FRS 102. The key differences between the net assets under FRS 102 and the excess of assets over liabilities under Solvency II are summarised in the table below:

	2023 £'000
Net Assets per Financial Statements in Accordance with UK GAAP	**153,634**
Valuation Difference on Technical Provision	4,181
Valuation Difference on Investment in Subsidiary	26,136
Subordinated loan	15,500
Total Own Funds Under Solvency II	**199,451**

Subordinated liabilities

The subordinated liabilities are in respect of the subordinated loan between ACFI and AIUK. The total subordinated liabilities are now £15.5 million (2022: £15.5 million). Under Solvency II subordinated liabilities are measured on a fair value basis whilst under FRS102 they are measured at amortised cost.

Subordinated liabilities	Lender	Issue date	Maturity date	2023 £'000	2022 £'000
Dated subordinated liabilities	Arch Capital Finance (Ireland) Limited	15/06/2019	15/06/2029	8,000	8,000
Dated subordinated liabilities	Arch Capital Finance (Ireland) Limited	29/12/2020	29/12/2030	7,500	7,500
				15,500	**15,500**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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 of the Commission Delegated Regulation (EU) 2015/35 apply to the counterparty default risk sub-module;
- Simplifications have been used in the market, counterparty and underwriting risk sub-modules, as follows:
    - Interest Rate Risk on assets has been calculated using accumulated cash flows at currency level rather than individual asset level.
    - Counterparty default risk is in line with Article 107 of the Delegated Acts, AIUK has applied the simplification for Risk Mitigating Effects of reinsurance to simplify the calculation and inputs required for the calculation. This derives a Gross underwriting Risk SCR from which the Net Underwriting Risk SCR is deducted to estimate the allowance of reinsurance on the SCR. This amount is then apportioned across the current reinsurance exposures in line with the outstanding recoverables.
    - Non-life underwriting risk within the Delegated Acts allow for a 20% reduction in the premium risk standard deviation for Fire and Property, General Liability and proportional classes due to XOL recoveries. It has been assumed that this reduction applies in all classes.
- The MCR is initially based on the calculation of the Linear MCR using the best estimate technical provisions and the net written premiums in the last 12 months. Then a floor of 25% of the SCR and a cap of 45% of the SCR is applied with an absolute floor of £3.1 million also applied to derive the final MCR requirement; and

- The Company has no material exposure to equity, hence the duration-based equity risk sub-module is not used.

As at 31 December 2023, the SCR is £119.8 million and the MCR is £29.9 million. A breakdown of SCR by risk category is set out in the following table:

Risk category	2023 £'000	2022 £'000	Variance £'000
Insurance risk	71,408	54,490	16,918
Market risk	24,148	13,299	10,849
Credit risk	27,746	11,669	16,077
Operational risk	22,314	18,035	4,279
Undiversified Basic SCR	**145,616**	**97,493**	**48,124**
Diversification credit	(25,776)	(13,938)	(11,838)
Total SCR	**119,840**	**83,555**	**36,286**

The Company's SCR has increased by £36.3 million during 2023. Main driver being insurance risk due to the higher premiums written in 2023 and the future planned growth.

E.2.1 SCR ratio and MCR ratio

As of 31 December 2023, the ratio of eligible own funds to SCR was 167.5% (2022: 194.5%) and the ratio of eligible own funds to MCR was 604.6% (2022: 682.7%) on a standard Solvency II basis.

The Company uses the Standard Formula for determining its regulatory capital and also uses the Standard Formula on an ''adjusted net asset basis'' for setting economic capital. Under the "adjusted net asset basis", the Company's own funds available are £172.0 million as at December 2023 against the SCR of £117.8 million, with a surplus of £54.2 million or 146.0%.

The Company complied with the Solvency Capital Requirement and Minimum Capital Requirement during 2023.

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 Capital Model Used

Only the standard formula was used in the calculation of the SCR.

E.5 Non-Compliance with the MCR and Non-Compliance with the SCR

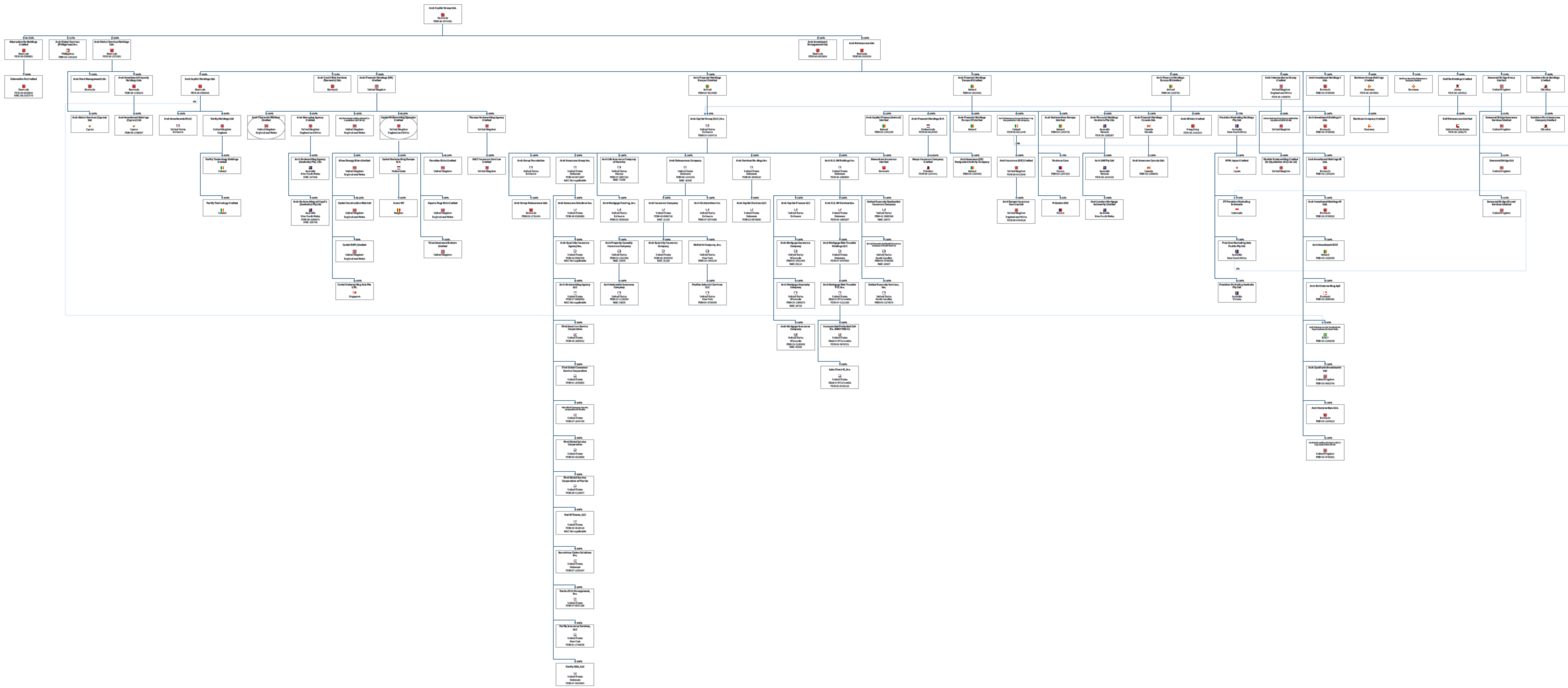
The Company complied with the SCR and MCR during 2023 and as at the date of this report.

E.6 Any other information

Climate Change

Please refer to Section A1.7

Appendix 1 ACGL Organisational Structure



Notes:
*Third party entities which are less than 50% owned by an Arch company are not shown on this chart
*For each entity the following is listed: ownership percentage, country flag, FEIN #, company name, jurisdiction, NAIC# or equivalent, region/state

Note 1: Arch Financial Holdings (UK) Limited owns 11 more corporate member companies which are presented under one heading of Arch Corporate Member Limited
Note 2: Castel Underwriting Agencies Limited has an interest of over 60% in various UK partnerships
Note 3: Arch Capital Group (U.S.) Inc. is the sole member of Arch Group Foundation which is a non-profit corporation in the process of applying for 501(c)(3) status
Note 4: Blue Sky Partners Limited, the parent company of Archipelago Risk Services Limited was dissolved on 8/22/2023. Archipelago Risk Services Limited is currently in liquidation and we expect the official dissolution to be confirmed imminently. Based on the preceding facts, we have removed Archipelago Risk Services Limited from the Q3 2023 ACGL organizational chart.

Appendix 2 Quantitative Reporting Templates

Arch Insurance (UK)

Solvency and Financial Condition Report

Disclosures

31 December

2023

(Monetary amounts in GBP thousands)

General information

Undertaking name	Arch Insurance (UK) LImited
Undertaking identification code	213800GLG1B1FI4VN881
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations
S.05.02.01 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	10,091
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	213,905
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	67,910
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	135,980
R0140	*Government Bonds*	57,000
R0150	*Corporate Bonds*	75,931
R0160	*Structured notes*	0
R0170	*Collateralised securities*	3,050
R0180	*Collective Investments Undertakings*	10,014
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	626,879
R0280	*Non-life and health similar to non-life*	626,879
R0290	*Non-life excluding health*	621,435
R0300	*Health similar to non-life*	5,444
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	40,186
R0370	Reinsurance receivables	93,258
R0380	Receivables (trade, not insurance)	4,402
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	3,558
R0420	Any other assets, not elsewhere shown	13,935
R0500	**Total assets**	1,006,213

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	749,275
R0520	*Technical provisions - non-life (excluding health)*	743,437
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	737,958
R0550	*Risk margin*	5,479
R0560	*Technical provisions - health (similar to non-life)*	5,838
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	5,808
R0590	*Risk margin*	30
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	44,587
R0850	Subordinated liabilities	15,500
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	15,500
R0880	Any other liabilities, not elsewhere shown	11,626
R0900	**Total liabilities**	820,988
R1000	**Excess of assets over liabilities**	185,225

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

		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	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	5,814	10,591		40,161	17,212	91,254	197,886	175,976	1,847								540,739
R0120	Gross - Proportional reinsurance accepted	0	105		0	0	65,640	71,967	14,310	15,486								167,508
R0130	Gross - Non-proportional reinsurance accepted														0			0
R0140	Reinsurers' share	4,949	9,194		34,264	15,607	135,159	236,752	166,018	16,082					0			618,023
R0200	Net	865	1,502		5,897	1,605	21,736	33,101	24,268	1,251					0			90,224
	Premiums earned																	
R0210	Gross - Direct Business	2,545	10,887		37,172	15,931	90,435	183,927	178,549	6,110								525,555
R0220	Gross - Proportional reinsurance accepted	0	108		0	0	29,435	63,198	16,477	2,845								112,063
R0230	Gross - Non-proportional reinsurance accepted														243			243
R0240	Reinsurers' share	2,170	9,371		31,723	14,468	103,877	217,086	169,849	8,447					207			557,199
R0300	Net	374	1,624		5,449	1,462	15,993	30,038	25,177	509					36			80,662
	Claims incurred																	
R0310	Gross - Direct Business	776	4,169		24,735	10,601	41,804	88,301	146,323	2,108								318,817
R0320	Gross - Proportional reinsurance accepted	0	16		0	0	25,276	28,384	7,602	4,540								65,818
R0330	Gross - Non-proportional reinsurance accepted														-7			-7
R0340	Reinsurers' share	685	3,584		20,643	9,415	58,316	102,166	136,038	6,249					-6			337,089
R0400	Net	92	600		4,092	1,186	8,765	14,520	17,887	399					-1			47,538
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0		0	0	0	0	0	0					0			0
R0550	**Expenses incurred**	351	580		3,658	2,221	4,961	16,811	8,494	-6,963					48			30,163
R1200	**Other expenses**																	
R1300	**Total expenses**																	30,163

S.05.02.01

Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			US	NO	CL	GA	MX	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	502,247	21,061	8,491	95	24	620	532,537
R0120	Gross - Proportional reinsurance accepted	85,257	9,830	1,537	8,790	7,178	5,161	117,753
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0140	Reinsurers' share	512,661	26,956	8,750	7,753	6,284	5,045	567,449
R0200	Net	74,843	3,935	1,277	1,132	917	736	82,841
	Premiums earned							
R0210	Gross - Direct Business	472,722	18,806	3,746	116	24	586	496,000
R0220	Gross - Proportional reinsurance accepted	56,251	8,942	1,458	5,129	395	3,084	75,258
R0230	Gross - Non-proportional reinsurance accepted	243	0	0	0	0	0	243
R0240	Reinsurers' share	462,256	24,248	4,548	4,584	366	3,207	499,209
R0300	Net	66,959	3,500	656	662	53	463	72,293
	Claims incurred							
R0310	Gross - Direct Business	300,545	5,866	2,140	19	5	123	308,697
R0320	Gross - Proportional reinsurance accepted	33,970	4,256	273	950	556	550	40,556
R0330	Gross - Non-proportional reinsurance accepted	-7	0	0	0	0	0	-7
R0340	Reinsurers' share	293,165	8,871	2,115	849	491	589	306,081
R0400	Net	41,343	1,251	298	120	69	83	43,165
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	27,930	1,465	275	277	22	194	30,163
R1200	**Other expenses**							
R1300	**Total expenses**							30,163

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0		0	0	0	0	0	0					0			0
R0050	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																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	0	2,208		4,533	1,492	30,544	38,832	33,690	1,151					433			112,884
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	2,601		4,009	878	25,769	35,087	29,937	495					436			99,212
R0150	**Net Best Estimate of Premium Provisions**	0	-393		523	615	4,775	3,745	3,753	656					-3			13,671
	Claims provisions																	
R0160	Gross	-205	3,805		24,441	12,352	78,517	152,260	358,770	978					-35			630,882
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-163	3,006		19,641	9,823	63,483	130,046	301,198	702					-68			527,667
R0250	**Net Best Estimate of Claims Provisions**	-41	799		4,801	2,528	15,034	22,214	57,571	276					33			103,216
R0260	**Total best estimate - gross**	-205	6,013		28,974	13,844	109,061	191,092	392,459	2,129					398			743,766
R0270	**Total best estimate - net**	-41	405		5,324	3,143	19,810	25,960	61,324	932					30			116,887
R0280	**Risk margin**	0	30		232	153	904	1,200	2,934	55					1			5,509
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**	-205	6,042		29,206	13,997	109,965	192,292	395,394	2,184					399			749,275
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-163	5,607		23,650	10,701	89,252	165,132	331,135	1,197					368			626,879
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	-41	435		5,556	3,296	20,713	27,160	64,258	987					31			122,396

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											27,317	27,317	27,317
R0160	-9	1,011	16,408	20,996	16,563	2,538	1,156	13,622	608	2,342	3,072		3,072	78,316
R0170	-8	2,316	16,099	13,066	10,195	5,818	25,400	681	5,610	952			952	80,138
R0180	-7	2,983	21,343	13,768	14,753	24,227	2,046	9,417	3,388				3,388	91,926
R0190	-6	2,228	16,779	13,766	47,363	8,651	8,632	8,559					8,559	105,980
R0200	-5	1,964	22,786	42,312	10,257	8,141	16,242						16,242	101,703
R0210	-4	6,251	49,404	38,242	22,571	19,260							19,260	135,727
R0220	-3	8,192	41,352	33,831	22,335								22,335	105,709
R0230	-2	10,682	63,487	53,061									53,061	127,230
R0240	-1	7,531	72,224										72,224	79,755
R0250	0	14,856											14,856	14,856
R0260												Total	241,265	948,656

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											25,533	25,230
R0160	-9	0	0	50,568	35,226	27,224	17,015	13,887	12,332	14,102	14,799		14,615
R0170	-8	0	51,735	51,667	39,953	30,046	12,787	15,025	9,958	11,661			11,514
R0180	-7	30,590	56,177	42,176	30,700	25,771	25,766	15,888	23,482				22,938
R0190	-6	44,461	78,006	68,463	36,813	32,906	24,012	18,687					17,897
R0200	-5	40,221	72,566	41,996	37,785	35,926	26,998						25,436
R0210	-4	62,518	132,863	92,359	70,259	54,334							51,586
R0220	-3	38,090	122,985	92,069	100,808								93,525
R0230	-2	28,588	159,929	140,746									131,208
R0240	-1	58,277	174,116										161,681
R0250	0	81,022											74,274
R0260												Total	629,905

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	50,000	50,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	87,500	87,500		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	37,634	37,634			
R0140	Subordinated liabilities	15,500		0	15,500	0
R0160	An amount equal to the value of net deferred tax assets	10,091				10,091
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**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**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	200,725	175,134	0	15,500	10,091
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	200,725	175,134	0	15,500	10,091
R0510	Total available own funds to meet the MCR	190,634	175,134	0	15,500	
R0540	Total eligible own funds to meet the SCR	200,725	175,134	0	15,500	10,091
R0550	Total eligible own funds to meet the MCR	181,126	175,134	0	5,992	
R0580	**SCR**	119,840				
R0600	**MCR**	29,960				
R0620	**Ratio of Eligible own funds to SCR**	167.49%				
R0640	**Ratio of Eligible own funds to MCR**	604.56%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	185,225
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	147,591
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	37,634
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	32,351
R0790	**Total Expected profits included in future premiums (EPIFP)**	32,351

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	24,148		
R0020	Counterparty default risk	27,746		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	768		
R0050	Non-life underwriting risk	70,640		
R0060	Diversification	-25,776		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	97,527		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	22,313
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	119,840
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	119,840
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Yes

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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
R0010	MCR_{NL} Result	21,517

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	874
R0030	Income protection insurance and proportional reinsurance	405	1,502
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	5,324	5,897
R0060	Other motor insurance and proportional reinsurance	3,143	1,605
R0070	Marine, aviation and transport insurance and proportional reinsurance	19,810	21,993
R0080	Fire and other damage to property insurance and proportional reinsurance	25,960	33,101
R0090	General liability insurance and proportional reinsurance	61,324	24,268
R0100	Credit and suretyship insurance and proportional reinsurance	932	1,983
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	30	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

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

	Overall MCR calculation	C0070
R0300	Linear MCR	21,517
R0310	SCR	119,840
R0320	MCR cap	53,928
R0330	MCR floor	29,960
R0340	Combined MCR	29,960
R0350	Absolute floor of the MCR	3,495
R0400	**Minimum Capital Requirement**	29,960

Appendix 3 PwC Audit Opinion

Report of the external independent auditors to the Directors of Arch Insurance (UK) Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2023, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

The 'relevant elements of the Solvency and Financial Condition Report' include information contained within the 'Capital Management' section of the Solvency and Financial Condition Report which has not been audited – this information is clearly marked as 'unaudited' and relates to the 'adjusted net asset basis' used by the company as part of its internal capital governance.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's going concern assessment which considered the company's financial condition and liquidity position;
- Agreeing management's analysis to supporting documentation; and
- Assessing the reasonableness of management's analysis given our understanding of the company and challenging it accordingly.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of insurance regulations, such as those issued by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as Solvency II Regulations and the Solvency II Directive. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- Discussions with the Audit Committee, management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;

- Reviewing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, in particular in relation to technical provisions, including the estimation of future premiums within those provisions;

- Testing material Solvency II adjustments applied to the Templates subject to audit;

- Identifying and testing journal entries based on selected fraud risk criteria, in particular journal entries with unusual account combinations;

- Evaluating the business rationale for any significant transactions identified outside the normal course of business; and

  Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

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SE1 2RT

28 March 2024