

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) DAC**  
**SOLVENCY AND FINANCIAL CONDITION REPORT**  
**(FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2020)**

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## Overview

References in this Solvency Financial Condition Report (this “Report”) to the terms “we,” “us,” “our,” the “Company” or other similar terms mean the operations of Allied World Assurance Company (Europe) dac, an Irish company authorised by the Central Bank of Ireland (the “Central Bank”), unless the context requires otherwise. References to the term “Allied World Holdings” means only Allied World Assurance Company Holdings, Ltd, and to the term “Allied World Group” means Allied World Holdings and its subsidiaries. The Allied World Group is majority held by Fairfax Financial Holdings Limited (“Fairfax”). References to “\$” are to the lawful currency of the United States.

This Report has been compiled in accordance with the European Union (the “E.U.”) (Insurance and Reinsurance) Regulations 2015, the European Commission Delegated Regulation 2015/35 and the guidelines issued by the European Insurance and Occupational Pensions Authority (“EIOPA”) (collectively, the “Solvency II Regulations”).

We will make available, free of charge through our website ([www.awac.com](http://www.awac.com)), this Report as soon as reasonably practicable after we electronically file our annual regulatory returns with the Central Bank. This Report has been reviewed and approved by the Board of Directors of the Company (the “Board”).

## Summary

### Company background:

We are an Irish incorporated company authorised by the Central Bank to conduct non-life insurance business pursuant to the E.U. (Insurance and Reinsurance) Regulations 2015. We, through our head office in Dublin and branch offices in the United Kingdom (the “U.K.”) and Switzerland, provide property, casualty and specialty insurance and reinsurance solutions to clients worldwide.

### Business and performance:

The Company reported gross premiums written of \$378.1 million in 2020 compared to \$231.3 million in 2019 and an underwriting profit of \$10.9 million in 2020 compared to an underwriting profit of \$2.7 million in 2019. Gross premiums written in 2020 was positively impacted by improved premium rates across all lines of business, in particular our liability portfolio. The 2020 underwriting result includes net losses incurred of \$18.9 million compared to \$10.0 million in 2019. This increase was largely attributable to the growth in writings. There was a \$2.6 million foreign exchange loss included in the underwriting result in 2020 compared to a \$2.1 million loss in 2019. Administrative expenses were \$33.6 million for the year compared to \$26.5 million in 2019. Net investment return for 2020 was \$8.0 million compared to \$18.3 million for 2019. Profit on operating activities after taxation for 2020 amounted to \$16.2 million compared to \$18.5 million in 2019. Further details on the Company’s performance in 2020 are included in Section A of this Report.

### System of governance:

The Board has ultimate responsibility for ensuring that the Company complies with applicable regulatory requirements. The Board has established an effective system of governance to ensure the sound and prudent management of the Company’s business. During 2020, the Board established a Risk Committee (the “BRC”) to assist it with its oversight of risk management matters. Further details on the Company’s system of governance are included in Section B of this Report.

### Risk profile:

Risks relevant to the Company’s business and operations are outlined in Section C of this Report. The primary risk for the Company is underwriting risk. We have established an effective enterprise risk management (“ERM”) framework that is integrated into the management of our business to manage and monitor relevant risks.

### Valuation for solvency purposes:

The Company reconciles the valuation of its assets and liabilities included in its statutory financial statements to those assets and liabilities produced in accordance with Solvency II Regulations. These reconciliations for the years ended December 31, 2020 and 2019 are included in Section D of this Report.

### Capital management:

As at December 31, 2020, the Company's solvency coverage ratio, solvency capital requirement (the "SCR") and the minimum capital requirement (the "MCR") were 327%, \$130.2 million and \$32.6 million, respectively, compared with 377%, \$106.1 million and \$26.5 million as at December 31, 2019, respectively. As at December 31, 2020, the Company had Tier 1 eligible own funds of \$426.0 million compared with \$399.9 million as at December 31, 2019.

Details on the composition of the SCR and Tier 1 eligible own funds are included in Section E of this Report.

### Recent developments:

In March 2020, the coronavirus ("COVID-19") outbreak was declared a global pandemic and has since caused significant disruption globally to economies and financial markets. The pandemic has resulted in significant market volatility and, due to its ongoing nature, the Company continues to closely monitor the potential impacts on its business, operations, investments, capital and liquidity positions. Heretofore, the maturity and resiliency of our team and systems have enabled us to seamlessly address the challenges presented by the COVID-19 pandemic and as at December 31, 2020, the overall financial impact of COVID-19 on the Company has not been significant.

### Exit of the U.K. from E.U./E.E.A. ("Brexit"):

The Company registered under the U.K. Temporary Permissions Regime (the "TPR") in order that its U.K. branch will continue to underwrite U.K. and non-E.U./E.E.A. (re)insurance business in/from its U.K. branch post-Brexit, which will be regulated by the U.K. Prudential Regulation Authority (the "PRA"). The TPR commenced on January 1, 2021 and will end on December 31, 2023. During this period, the Company will file applications with the PRA and the Central Bank to obtain necessary post-TPR regulatory authorisations and permissions for its U.K. branch, which for regulatory purposes will become a U.K. branch of a third country insurer. As part of our Brexit contingency plans, we have also continued to monitor developments in relation to Brexit, including guidance and consultation papers issued by the PRA and guidance issued by EIOPA, and as part of this process we have mapped the regulatory requirements applicable to the Company under the TPR. We have also provided updates to the Central Bank and the PRA on our post-Brexit plans during 2020.

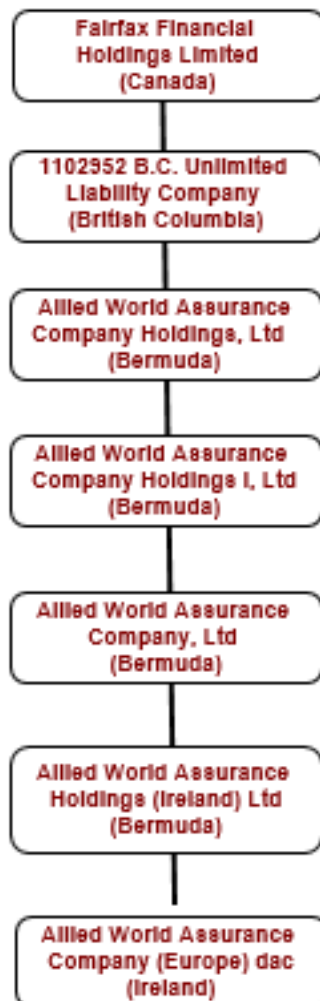
## A. Business and Performance

### A.1 Business

#### Company information:

The Company is a designated activity company with its registered office at 3<sup>rd</sup> Floor, Georges Quay Plaza, Georges Quay, Dublin 2, D02 E440, Ireland (Registration number: 361888). The Company's branch offices are located at 20 Fenchurch Street, 19<sup>th</sup> Floor, London EC3M 3BY, U.K. and Park Tower, 15<sup>th</sup> Floor, Gubelstrasse 24, 6300 Zug, Switzerland. The Company is authorised by the Central Bank (PO Box 559, New Wapping Street, North Wall Quay, Dublin 1) and its U.K. branch is registered under the TPR and is regulated by the PRA.

The Company's immediate parent company is Allied World Assurance Holdings (Ireland) Ltd, a company incorporated in Bermuda. The Company's ultimate parent into which the results of the Company are consolidated is Fairfax. A simplified Group structure and the Company's position within the Group is set out below:



#### Group supervisor:

The Delaware Department of Insurance (841 Silver Lake Blvd., Dover, DE 19904, U.S.A.) acts as the group supervisor for the Fairfax group of insurance subsidiaries, which includes the Allied World Group. In accordance with Delaware law, Fairfax files an annual group Own Risk Solvency Assessment (“ORSA”) and an annual ERM Report. Fairfax prepares annual audited financials in accordance with Canadian International Financial Reporting Standards.

#### External auditor:

The Company’s external auditor is PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm (One Spencer Dock, North Wall Quay, Dublin 1, Ireland).

#### Our strategy:

Our business objective is to generate attractive returns on equity while preserving our capital. We seek to achieve this objective by executing the following strategies:

- *Capitalise on profitable underwriting opportunities.* Our management and underwriting teams are positioned to identify business with attractive risk/reward characteristics. We pursue a strategy that emphasises profitability, not market share. Key elements of this strategy are prudent risk selection, appropriate pricing and adjusting our business mix to remain flexible and opportunistic. We seek ways to take advantage of underwriting opportunities that we believe will be profitable.
- *Exercise underwriting and risk management discipline.* We believe that we exercise underwriting and risk management discipline by maintaining a diverse spread of risk across product lines and geographic regions; managing our aggregate property catastrophe exposure through the application of sophisticated modelling tools; monitoring our exposures on non-property catastrophe coverages; adhering to underwriting guidelines across our business lines; and fostering a culture that focuses on enterprise risk management and strong internal controls.
- *Employ a diversified investment strategy.* We follow a diversified investment strategy designed to emphasise the preservation of capital, provide adequate liquidity for the prompt payment of claims and generate a positive return. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short- to medium-term duration with a modest allocation of collective investment undertakings and equities.

#### Material lines of business and geographical areas:

We provide property, casualty and specialty insurance and reinsurance solutions to clients worldwide.

- The focus of the direct insurance business is on mid-sized to large European and multinational companies domiciled outside North America and smaller commercial clients within certain target European markets.



- The focus of the reinsurance business is predominantly on a medium- to short-tail global book of marine non-proportional reinsurance business, generally on a combined risk and catastrophe basis.

Distribution:

As a commercial insurer, we primarily offer products through independent insurance intermediaries, including retail brokerage firms and excess and surplus lines wholesale brokers. We typically pay a commission to agents and brokers for business that we accept from them. Due to a number of factors, including transactional size and complexity, the distribution infrastructure of the reinsurance marketplace is characterised by relatively few intermediary firms.

Certain of our products are also underwritten and distributed through third-party program administrators. Before delegating underwriting authority, we consider the integrity, experience and reputation of each program administrator, as well as the potential profitability of the business and availability of reinsurance. Once a program is established, we conduct regular ongoing reviews and audits of the program administrator and the claims administrator if such function has been outsourced. We do not believe that the loss of any one program or relationship with any one program administrator would have a material adverse effect on our business, and no single program accounts for 5% or more of our total revenues.

Significant events:

With the exception of COVID-19 and Brexit, and except as otherwise disclosed in this Report, there were no other significant business or other events that occurred during 2020 that had a material impact on the Company.

**A.2 Underwriting performance**

Gross premiums written for 2020 were \$378.1 million, an increase of \$146.8 million from 2019, primarily due to increases across our liability and property portfolios due to improved premium rates achieved in the year. Net premiums written for 2020 were \$40.5 million compared with \$23.1 million for 2019. Ceded premiums written for 2020 were \$337.6 million compared to \$208.2 million for 2019. The Company's ceded premium coverage ratio for 2020 was 89% compared with 90% for 2019.

| <b>Gross Premiums Written by Assured Country (\$ m's)</b> |                    |                    |
|---|--------------------|--------------------|
|   | <b><u>2020</u></b> | <b><u>2019</u></b> |
| Ireland   | 26.4               | 16.4               |
| U.K.  | 211.9              | 132.9              |
| Other E.U. countries                                      | 57.2               | 31.7               |
| Other non-E.U. countries                                  | 82.6               | 50.3               |
|   | <b>378.1</b>       | <b>231.3</b>       |

| <b>2020 Underwriting Result by Line of Business (\$ m's)</b> |                |             |                 |                  |                          |                           |              |
|--|----------------|-------------|-----------------|------------------|--------------------------|---------------------------|--------------|
|  | <u>A&amp;H</u> | <u>MAT*</u> | <u>Property</u> | <u>Liability</u> | <u>Credit and surety</u> | <u>Treaty reinsurance</u> | <u>Total</u> |
| Gross premiums written                                       | 15.9           | 3.8         | 84.5            | 249.3            | 3.1                      | 21.5                      | 378.1        |
| Gross earned premium   | 17.3           | 2.8         | 70.1            | 191.0            | 6.6                      | 21.6                      | 309.4        |
| Gross administrative expenses and acquisition costs          | (4.4)          | (1.1)       | (21.6)          | (51.3)           | (1.7)                    | (4.1)                     | (84.3)       |
| Gross movement in incurred claims                            | (15.7)         | 2.9         | (52.4)          | (134.0)          | (5.7)                    | 0.7                       | (204.2)      |
| Outward reinsurance movements                                | 3.3            | (4.4)       | 2.0             | 2.3              | 0.9                      | (14.1)                    | (10.0)       |
| <b>Underwriting profit / (loss)</b>                          | <b>0.5</b>     | <b>0.2</b>  | <b>(2.0)</b>    | <b>8.0</b>       | <b>0.1</b>               | <b>4.1</b>                | <b>10.9</b>  |
| <b>2019 Underwriting Result by Line of Business (\$ m's)</b> |                |             |                 |                  |                          |                           |              |
|  | <u>A&amp;H</u> | <u>MAT</u>  | <u>Property</u> | <u>Liability</u> | <u>Credit and surety</u> | <u>Treaty reinsurance</u> | <u>Total</u> |
| Gross premiums written                                       | 11.0           | 1.6         | 54.1            | 137.5            | 7.7                      | 19.3                      | 231.3        |
| Gross earned premium   | 3.8            | 4.1         | 45.2            | 119.6            | 7.4                      | 21.0                      | 201.1        |
| Gross administrative expenses and acquisition costs          | (2.2)          | (0.8)       | (15.4)          | (36.3)           | (2.7)                    | (4.5)                     | (61.9)       |
| Gross movement in incurred claims                            | (2.2)          | (5.9)       | (18.7)          | (56.0)           | (2.9)                    | (6.0)                     | (91.7)       |
| Outward reinsurance movements                                | (0.5)          | 3.1         | (12.2)          | (25.3)           | (2.1)                    | (7.9)                     | (44.8)       |
| <b>Underwriting profit / (loss)</b>                          | <b>(1.0)</b>   | <b>0.5</b>  | <b>(1.1)</b>    | <b>2.1</b>       | <b>(0.3)</b>             | <b>2.6</b>                | <b>2.7</b>   |

\* Marine, Aviation and Transport ("MAT")

Net claims incurred in 2020 amounted to \$18.9 million compared to \$10.0 million in 2019, primarily driven by increased writings during the year from our property and liability portfolios.

Administrative expenses were \$33.6 million for 2020 compared to \$26.5 million for 2019. The difference is primarily driven by increased employee-related costs in the current year when compared to prior. The result for the year included net acquisition income of \$34.3 million compared to \$20.3 million in 2019. The increase is due to growth in ceded premiums during the year and the associated ceding commissions earned on our reinsurance arrangements. A foreign exchange loss of \$2.6 million was recognised in 2020 compared to a loss of \$2.1 million in 2019.

### A.3 Investment performance

To help ensure adequate liquidity for the payment of claims, we take into account the maturity and duration of our investment portfolio and our liability profile. In making investment decisions, we consider the impact of various catastrophic events to which we may be exposed. All assets are invested in accordance with the "prudent person principle" as required under Regulation 141 of the Solvency II Regulations.

The majority of assets in our investment portfolio are invested in investment-grade, fixed-maturity securities of short- to medium-term duration with a modest allocation of collective investment undertakings and equities.

Net investment return for 2020 was \$8.0 million compared to \$18.3 million for 2019. The decrease is largely attributable to unrealised losses from our investment portfolio, specifically a loss recognised on the promissory note<sup>1</sup> held by the Company and further losses suffered on our investments in collective investment undertakings and equities, due to negative market movements. Additionally, there was a decrease in net investment income to \$7.7 million from \$10.6 million in 2019 due to a reduced coupon received on the promissory note.

| <b>2020 Investment Performance (\$ m's)</b> |                    |                    |                          |
|---|--------------------|--------------------|--------------------------|
|   | <b><u>2020</u></b> | <b><u>2019</u></b> | <b><u>Variance %</u></b> |
| Income from financial investments           | 7.7                | 10.6               | (27.4%)                  |
| Realised (losses) on financial investments  | (0.6)              | (1.7)              | (64.7%)                  |
| Unrealised gains on financial investments   | 1.5                | 10.0               | (85.0%)                  |
| Investment expenses                         | (0.6)              | (0.6)              | 0.0%                     |
| Net investment return                       | <b>8.0</b>         | <b>18.3</b>        | <b>(56.3%)</b>           |

| <b>2020 Investment Performance (Gross) - by Asset Class (\$ m's)</b> |                            |                                |                         |
|--|----------------------------|--------------------------------|-------------------------|
|  | <b><u>Average</u></b>      | <b><u>Portfolio return</u></b> | <b><u>Portfolio</u></b> |
|  | <b><u>market value</u></b> |                                | <b><u>return%</u></b>   |
| Government bonds   | 102.4                      | 6.1                            | 6.0%                    |
| Corporate bonds  | 33.8                       | 3.4                            | 10.1%                   |
| Collective investment undertakings                                   | 12.4                       | (0.6)                          | (4.8%)                  |
| Equities   | 6.6                        | (1.5)                          | (22.7%)                 |
| Collateralised securities  | 4.4                        | 0.1                            | 2.3%                    |
| Loans and mortgages  | 251.4                      | 1.1                            | 0.4%                    |
|  | <b>411.0</b>               | <b>8.6</b>                     | <b>2.1%</b>             |

Loans and mortgages represent the promissory note held by the Company.

<sup>1</sup> The Company holds a promissory note of \$250,000,000 issued by an affiliated company.

## A.4 Performance of other activities

### Administrative expenses, acquisition costs and foreign exchange:

| <b>Administrative Expenses and Acquisition Costs (\$ m's)</b> |                    |                    |
|---|--------------------|--------------------|
|   | <b><u>2020</u></b> | <b><u>2019</u></b> |
| Acquisition costs   | 54.5               | 36.9               |
| Change in deferred acquisition costs                          | (6.2)              | (3.6)              |
| Administrative expenses                                       | 33.6               | 26.5               |
| Foreign exchange loss / (gain)                                | 2.6                | 2.1                |
| Gross administrative expenses and acquisition costs           | <b>84.3</b>        | <b>61.9</b>        |
| Reinsurers share of broker commissions                        | (82.5)             | (53.6)             |
| <b>Net administrative and acquisition costs</b>               | <b>1.8</b>         | <b>8.3</b>         |

Acquisition costs, comprised of commissions, brokerage fees and insurances taxes, are costs that are directly related to the acquisition of new and renewal business. Deferred acquisition costs are expensed in line with the premiums to which they relate.

Administrative expenses represent the necessary costs to maintain the Company's daily operations and administer its business, and primarily consist of compensation expenses, building (rent and related) expenses and professional fees.

### Lease commitments:

The Company leases office space in Dublin and London. Administrative expenses for the year ended December 31, 2020 included \$1.8 million of lease-related expenses (2019: \$1.9 million).

## A.5 Any other information

N/A

## B. System of Governance

### B.1 General information on the system of governance

Our corporate governance framework is reflective of the nature, scale and complexity of the Company's business and complies with the Central Bank's Corporate Governance Requirements for Insurance Undertakings 2015 (the "Code") and the system of governance requirements of the Solvency II Regulations.

#### Board of Directors:

The Board is the ultimate administrative, management and supervisory body of the Company and is responsible for determining the mission, vision, values and culture of the Company, while ensuring that appropriate controls and procedures are maintained by the Company. The Board is also responsible for the effective, prudent and ethical oversight of the Company and is ultimately responsible for ensuring that risk and compliance are properly managed in the Company. The following individuals are members of the Board:

- Mr. Lee Dwyer, Managing Director
- Mr. Sean Hehir, independent non-executive director
- Mr. Scott Hunter, independent non-executive director
- Mr. Neil Macmillan, independent non-executive director
- Mr. Jim O'Mahoney, independent non-executive director and Chairman of the Board

#### Board Committees:

The Board has established an Audit Committee, which is comprised of three independent non-executive directors that satisfy the director independence criteria of the Central Bank. The primary purposes of the Audit Committee are to assist the Board with the oversight of the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; and the performance of the Company's internal audit function and external auditor. The following individuals are members of the Audit Committee:

- Mr. Sean Hehir, Chairman
- Mr. Scott Hunter
- Mr. Neil Macmillan

During 2020, the Board established the BRC, which is comprised of two independent non-executive directors and the Company's Managing Director. The purpose of the BRC is to oversee and review with management those risks and exposures that could materially impact the Company, and the Committee oversees and advises the Board on current risk exposures and future risk strategy of the Company. The following individuals are members of the BRC:

- Mr. Neil Macmillan, Chairman
- Mr. Jim O'Mahoney
- Mr. Lee Dwyer

#### Management Committees:

The Company has also established a number of management-based committees, including the Executive Management Committee, the Underwriting Committee, the Loss Reserve Committee, the Risk Management Committee and the Operations Committee.

#### Key functions:

Each of the Company's key control functions (*i.e.*, the compliance, internal audit, risk management and actuarial functions) has the necessary authority, resources and operational independence to carry out their tasks and operate in accordance with the Solvency II Regulations. Each of the Company's key functions report into a management-based committee and the Board, including its committees, where relevant.

The Company maintains an organisational chart, that sets out the Company's key control functions, the relevant individuals responsible for those functions and their respective reporting lines. The Company also maintains registers of those persons performing a controlled function (a "CF") or a pre-approval controlled function (a "PCF"), as required by the Central Bank Reform Act 2010 and the Central Bank's Fitness and Probity Standards.

#### Remuneration:

The Company's Remuneration Policy confirms the policies, practices and procedures applicable to the remuneration of the employees and directors of the Company. The Company's remuneration practices do not promote excessive risk taking.

- Executive compensation philosophy and goals are set by the board of directors of Allied World Holdings.
- The non-executive directors of the Board annually receive a fixed standard market fee for their director services. Executive directors are not compensated for their director services and are not otherwise involved in deciding their own compensation as employees.
- The pool for base salary increases is set annually during the budgeting process. Promotions, market adjustments and cases of exceptional performance supporting a base salary change beyond the merit pool are considered on a case-by-case basis.

- The funding available for an employee's discretionary cash bonus is derived from two components: corporate performance and individual performance.
- The weight of each component toward the whole is tied to the employee's relative level within the Company. The highest-level employees have bonuses more heavily weighted toward corporate results, as their positions are of broader leverage and scope and they are in a position to most directly influence overall performance. Staff level contributors have the majority of their bonus tied to individual performance, since these positions tend not to be of broad enough scope to influence overall results.
- In addition, the board of directors of Allied World Holdings determines on an annual basis what percentage of an individual's award will be granted in the form of either Fairfax equity or cash. Equity awards generally vest 100% on the fifth anniversary of the grant date.

Directors' remuneration:

Directors' fees were \$0.2 million for each of the years ended December 31, 2020 and 2019.

Related party transactions:

There were no related-party transactions outside the ordinary course of business during the years ended December 31, 2020 and 2019.

## B.2 Fit and proper requirements

The Company's Fitness and Probity Policy provides that each person appointed to a position that is designated by the Central Bank as a CF or a PCF must satisfy the standards of fitness and probity prescribed by the Central Bank. All such appointments are made following the successful completion of the Company's fitness and probity assessment process, which includes background checks and assessments of competency, character and financial soundness, among others. Each PCF appointment requires the prior approval of the Board and the Central Bank. Each of the Company's CFs and PCFs are required to certify on an annual basis that they are not aware of any material developments in relation to their compliance with the standards of fitness and probity prescribed by the Central Bank. Periodically, the Company completes background and competency assessments of in situ CFs and PCFs. In the event of a material change in a CF's or PCF's circumstances, the Company will undertake a re-assessment in accordance with its Fitness and Probity Policy.

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

#### Risk management system:

Our ERM framework supports our Company-wide, risk-based, decision-making processes by providing reliable and timely risk information. Our ERM framework is underpinned by the following risk management principles:

- Risk management buy-in at the top.
- A robust governance process aligned with the risks faced by the business.
- A robust independent risk assessment process (bottom-up approach) clearly linking the control framework with risks.

Our primary ERM objectives are to ensure the sustainability of the Company and to maximise our risk-adjusted returns on capital. In order to meet these objectives the Company is required to:

- Identify, manage and measure risks.
- Focus on the most significant risks.
- Ensure risks are escalated to the appropriate management levels.
- Understand the capital required to hold against a risk.
- Identify suitable mitigation approaches.
- Identify emerging risks.
- Protect shareholder and stakeholder value.

Our ERM framework is a dynamic process, with periodic updates being made to reflect organisational processes, changes in risk profiles and recalibration of models, as well as staying current with changes within our industry and the global economic environment. Utilising the Economic Capital Model (“ECM”), the Standard Formula Model (“SFM”) and the ORSA, we review the relative interaction between risks impacting us from various sources, including our underwriting practices and the investments we make.

Our management’s ERM efforts are overseen by the Risk Management Committee (“RMC”), the BRC and the Board, which reviews and approves the overall Company-wide risk appetite as well as (in conjunction with the BRC) overseeing management’s compliance therewith. The BRC reviews our risk management methodologies, standards, tolerances and risk strategies, and reviews management’s processes for monitoring and aggregating risks across our organisation. The BRC reports to the Board on all material elements of these matters.



### Implementation of risk management system:

The output from the ERM framework, including the Economic Capital Requirement (the “ECR”) and the SCR, is integrated into the management and strategic decision-making processes insofar it is used in:

- Determining the appropriate amount of required capital to be held.
- Quarterly reporting and monitoring of risk profile – reviewing distributions by risk category and comparing against risk tolerance statements.
- Implementing the ORSA process and producing the annual ORSA reports.
- Evaluating the impact of potential changes to the Company’s outwards reinsurance purchases.
- Evaluating new product opportunities.

### Risk assessment:

The Company utilises various tools to assist in the identification and assessment of risks in order to provide the Company with a holistic view of its risk profile and enable the organisation to assess the relationships between material risks. The following lists the means by which the Company assesses risk:

- Stress and scenario analysis.
- Modelled output from the SFM and ECM.
- Modelling of natural catastrophe exposures.
- Analysis of aggregate exposures.
- Review of the Risk Register.
- Assessment of non-modelled and emerging risks.
- Assessment of financial performance metrics, including profit and loss.
- Regulatory guidance and market information.
- Review of risk events/issues log.

### Risk appetites and tolerances:

Risk appetites are approved by the Board and define the type and amount of risk that the Company is willing to undertake while setting strategy and long-term objectives. Risk indicators and tolerances are used to ensure the business remains within the pre-defined appetites and that any increased risk is identified early and thus management can review the risk and either accept it or set actions to mitigate it. The RMC, the BRC and the Board receive quarterly updates on risk tolerances, including indicators confirming status of risk against relevant tolerances.

### The ORSA process:

The ORSA is a top-down strategic analysis process that integrates risk management, capital management and strategic planning to determine the current and future capital requirements of the Company. The output of the process provides the Company with a view of own solvency needs in the form of an annual report that is submitted to and approved by the RMC, the BRC and the Board, and filed with the Central Bank. Quarterly updates are submitted to the RMC and the BRC. The 2020 ORSA:

- Confirmed the Company's continuous compliance with capital requirements under the Solvency II Regulations and that the rules relating to technical provisions under Solvency II Regulations have not been breached.
- Is premised upon a forward-looking assessment of the risks to which the Company is exposed and associated required level of capital to meet its liabilities and fulfil its business objectives/strategy.
- Utilised a quantitative view of the SCR, which was supplemented by a qualitative description of risks, where appropriate.
- Confirmed that the Company has sufficient information to identify the risks it faces in the short and long term and to be able to project capital needs over the business planning period. The agreed projections reflect likely changes in the risk profile and business strategy over the planning period.
- Demonstrated that the Company had sufficient capital and realistic plans in place to raise more in relation to the proposed business plan (should such need arise). In conducting this assessment, the quality, volatility and loss-absorbing capacity of the Company's own funds were considered.
- Confirmed that the Company considers emerging risks, including sustainability and climate-change risk, and where relevant, adopts necessary mitigation arrangements.

The Company completes an ORSA annually and will also complete an ORSA without delay following any significant change in its risk profile. During 2020, there were no material changes to the Company's business and performance, risk profile, asset and liabilities

valuations required under the Solvency II Regulations and capital management. The Company's system of governance was enhanced during 2020 through the establishment of the BRC.

#### Determining own solvency needs:

The Company's SCR is determined using the SFM and its ECR is based on the modelled output of the ECM. The RMC and the BRC review various aspects of the ECM and the SFM, including any material changes to the relevant capital modelling processes and the modelled output each quarter, along with standard risk monitoring output. Both the ECM and the SFM are subject to a regular cycle of validation, including the validation of key methodologies and assumptions.

In relation to the SFM and SCR, the BRC and Board approves the minimum solvency coverage ratio, as recommended by the Chief Risk Officer ("the CRO") and management, and confirms the appropriateness of the utilisation of the SFM to calculate the SCR (as opposed to a partial or full internal model), including its alignment and relevance to the Company's risk profile, as presented by the CRO.

#### Use of the SFM:

The decision to use the SFM rather than a full or partial internal model for assessment of the SCR was due to:

- Fit of the SFM parameters and risk factors with the Company's risk profile.
- Limited complexity of the Company's business.
- Resource and expertise requirements to regularly calculate and calibrate a full or partial internal model under internal model approval process.
- Cost of implementing a full/partial internal model for regulatory purposes.

This position is reviewed annually or in the event of a significant change in the Company's risk profile.

#### Validation of the SCR and ECR:

The Company's risk management function coordinates the validation process to test the integrity of the ECM and SFM and reports on non-compliance and matters requiring improvement.

#### Risk issues/events log:

A log recording all known and near-miss events is maintained by the risk management function. The log is maintained based on information provided by each business unit detailing the events over the past quarter. The events log is used to identify any areas where control improvements are required. Material events are reported to the Board.

## B.4 Internal controls system

Our internal controls system is a critical component for the safe and sound operation of the Company and comprises a coherent, comprehensive and continuous set of mechanisms designed to ensure at least the following:

- The Company operates effectively and efficiently, and within agreed risk tolerances, as it pursues its objectives.
- Availability and reliability of financial and non-financial information.
- Compliance with applicable laws and regulations.

The Company's internal controls system includes the Company's administrative and accounting procedures, the internal controls framework, material reporting arrangements (at all levels of the Company), and compliance policies and procedures. The Company:

- Segregates functional responsibilities to ensure the existence of appropriate checks and balances.
- Maintains a system of authorisation and records procedures that is adequate to provide reasonable accounting control over assets, liabilities, revenues and expenditures.
- Maintains policies and procedures for business and control processes.

The Company's Internal Control Policy complies with the requirements of the Solvency II Regulations and the related guidelines of EIOPA, is reviewed annually, and applies to all directors, officers and employees of the Company.

We have implemented both entity-wide and process-specific control procedures that help management ensure that the day-to-day operations are appropriately controlled. A mix of internal controls is required to ensure a robust internal controls environment throughout the Company.

### ***Entity level controls***

Entity level controls provide an overarching internal control environment across the Company. They address the critical requirements to ensure the Company is being well controlled from the top down, which includes, but is not limited to, the following key areas:

- Internal controls ensuring the integrity, ethical values and competence of the Company's directors, officers and employees.

- An ERM framework that facilitates the identification and analysis of risks with a robust and independent risk assessment process that focusses on the relationship between risk and controls.
- Information systems that identify, capture and communicate operational, financial and compliance related information in forms and within timeframes that enable the Company to fulfil its objectives.
- A management monitoring process that is designed to ensure regular oversight of the internal controls system to assess the quality of the system’s performance over time.

### ***Control activities***

The Company’s control activities are procedures that help management ensure that the day-to-day operations are appropriately controlled. They occur throughout the Company, at all levels and in all departments. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets, segregation of duties, checking for compliance with agreed exposure limits and operating guidelines and following-up non-compliance.

Management is responsible for and assumes ownership of the internal controls system. They set the “tone at the top” for integrity and ethics and ensuring a positive control environment and also assign responsibility for the establishment of specific internal controls procedures. Management is accountable to the Board, which provides guidance and oversight. The Board, coupled with effective upward communication channels and capable financial, legal, risk management, actuarial, claims, human resources and internal audit functions, is a key element of our robust internal controls system. The assurance and oversight roles performed by the Company’s risk management and compliance functions, and the independent oversight role performed by the Company’s internal audit department are summarised in Section B.5 of this Report.

### **Compliance function:**

The Company’s compliance function promotes an organisational culture committed to integrity, ethical conduct and compliance with the law, and sets standards, policies and procedures that provide reasonable assurance that the Company achieves its financial, operational and strategic objectives consistent with its compliance obligations. In support of that mission, the compliance function:

- Works proactively with business partners to develop policies, procedures and processes that enable the Company to achieve its strategic objectives in a manner consistent with its ethical standards and applicable law.

- Drives the organisation toward a business culture that builds and actively promotes compliance and encourages and requires employees to conduct business with honesty and integrity in an ethical and law-abiding fashion.
- Promotes open and free communication regarding the Company's ethical and compliance obligations, including mechanisms that allow for anonymity or confidentiality so that the organisation's employees may report or seek guidance regarding potential or actual wrong-doing without fear of retaliation.
- Provides training and guidance regarding applicable laws, regulations and the Company's policies, and clearly communicates ethical guidance.
- Identifies compliance risks affecting the Company and works to minimise those risks.
- Prevents or promptly detects and resolves issues of misconduct or non-compliance to the extent possible.
- Takes whatever steps may reasonably be necessary to enhance and protect the Company's reputation for integrity and ethics throughout its business community.

The compliance function aims to promote an organisational culture committed to maintaining high standards of integrity, ethical conduct and compliance with the law.

The compliance function produces an annual compliance plan that is derived using a risk-based approach with consideration of the results from the Allied World Group and the Company's compliance risk assessment processes, the Risk Register, input from management, input from other lines of defence, regulatory requirements and our knowledge of emerging trends in the area of compliance and ethics. The annual compliance plan follows a risk-based approach in order to ensure that resources are allocated appropriately and in line with the relative perceived risk to the Company.

The Company applies the three lines of defence model and the compliance function is responsible for providing oversight to the business in its adherence to its first line of defence controls, helping the business design and implement appropriate policies and procedures, providing guidance and direction for implementing these policies, and monitoring their proper execution.

Bulletins and other correspondence from the Central Bank and other industry organisations are continually monitored. Any changes to regulatory requirements that are relevant to the Company are identified and actions to address these changes are prioritised accordingly. In addition to this process, any emerging risks identified by management that are pertinent to compliance and ethics are addressed by the compliance function on a timely basis.

The compliance function maintains an annual calendar that includes all key regulatory reporting and filing requirements, allocates task owners and is reviewed and updated regularly.

On a quarterly basis, the compliance function reports on legal and regulatory compliance matters to the Executive Management Committee and the Board.

### B.5 Internal audit function

The Company's internal audit function provides an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Company. It assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Company's risk management, control and governance processes. The Company's internal audit function governs itself by adherence to the mandatory elements of The Institute of Internal Auditors' (the "IIA") International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

The internal audit function, with strict accountability for confidentiality and safeguarding records and information, is afforded full, free and unrestricted access to any and all of the Company's records, physical properties and personnel pertinent to carrying out any engagement. All directors, officers and employees are requested to assist the internal audit function in fulfilling its roles and responsibilities.

The Company's internal audit function reports to the Audit Committee on the design and effectiveness of internal controls. In addition, the internal audit function tests how well existing internal controls are functioning and recommends any necessary changes and improvements. This includes performing examinations of operating and financial controls; conducting efficiency and effectiveness reviews; conducting reviews of compliance with laws and other external regulations; and evaluating the design and execution of internal controls and the Risk Register.

The scope of internal auditing encompasses, but is not limited to, the objective examination and evaluation of evidence for the purpose of providing independent assessments to the Audit Committee and management on the adequacy and effectiveness of the Company's governance, risk management and internal controls. This includes:

- Evaluating risk exposure relating to the achievement of the Company's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information.
- Evaluating systems established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on the Company.

- Evaluating the compliance by the Company’s directors, officers and employees with policies, procedures and applicable laws, regulations and governance standards.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes and the effectiveness of the Company’s risk management process.
- Assisting the Company’s risk management function in assessing and validating the Company’s ERM procedures.
- Performing consulting and advisory services related to governance, risk management and controls as appropriate for the Company.
- Reporting periodically on the internal audit function’s purpose, authority, responsibility and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the Audit Committee.
- Evaluating specific operations at the request of the Audit Committee or management, as appropriate.
- Assisting management in testing internal controls over financial reporting.

Annually, the head of the Company’s internal audit function submits to senior management and the Audit Committee a risk-based internal audit plan for review and approval. The internal audit plan consists of a work schedule and resource requirements for the calendar year. The internal audit plan is developed based on a prioritisation of the audit universe using a risk-based methodology, including input of management and the Audit Committee. The head of the Company’s internal audit function reviews and adjusts the plan, as necessary, in response to changes in the Company’s business, risks, operations, programs, systems and controls. Any significant deviation from the approved internal audit plan is communicated to management and the Audit Committee.

A written report is prepared and issued following the conclusion of each internal audit engagement and internal audit results are communicated to the Audit Committee. The internal



audit report includes management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter, includes a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. The Company's internal audit function is responsible for appropriate follow-up on engagement findings and recommendations. All significant findings remain in an open issues file until cleared.

The Company's internal audit function is free from interference from any element in the organisation in order to maintain the necessary independence, including on matters of audit selection, scope, procedures, frequency, timing or report content. The Company's internal audit function has no direct operational responsibility or authority over any of the activities audited. The Company's internal audit function does not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair an internal auditor's judgment.

The internal audit function maintains a quality assurance and improvement program that covers all aspects of internal audit activity. The program includes an evaluation of the function's conformance with the IIA's Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.

## B.6 Actuarial function

The Company's actuarial function is responsible for coordinating the calculation of technical provisions in accordance with the Solvency II Regulations:

- Ensuring the appropriateness of the methodologies, underlying models and assumptions made in the calculation of technical provisions.
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions.
- Providing the Board with an annual actuarial opinion on technical provisions and an actuarial report thereon.

The head of the actuarial function also provides the Board with an annual opinion on the Company's underwriting policy and reinsurance arrangements, and also contributes to the Company's risk management system, particularly with respect to the risk modelling underlying the calculation of capital requirements. The head of the actuarial function also provides the Board with an actuarial opinion on the Company's annual ORSA. The Board also receives an annual actuarial function report, which summarises key aspects of each of these deliverables.

On a quarterly basis, the actuarial function reports on the loss reserve balances and any significant developments to the Company's management-based Loss Reserve Committee and the Audit Committee. The Company's actuarial function confirmed that the Company complied continuously with the Solvency II requirements for the calculation of technical provisions and also provided input in respect of potential risks arising from the uncertainties associated with such calculations. The Company's head of actuarial function provided the Board with the annual opinion and report on the Company's technical provisions at its meeting on April 2, 2020, and the Actuarial Function Report at its meeting on November 5, 2020.

## B.7 Outsourcing

The Company's Outsourcing Policy applies to services arrangements established by the Company with third parties and relevant subsidiaries of Allied World Holdings. The Outsourcing Policy and its procedures have been designed to ensure continuity with respect to the sound and prudent management of the business and operations of the Company when functions or activities are outsourced. The Outsourcing Policy also sets out the procedures to be followed when establishing services arrangements, including arrangements that relate to the performance of the key functions or core business of the Company (*e.g.*, actuarial, risk management, internal audit, compliance, new product development, underwriting, investment management and claims handling).

Contemplated outsourced services arrangements, in particular for core functions, will not proceed unless certain preconditions have been met, including that the system of governance of the Company will remain effective; the operational risk of the Company will not be unduly increased; the ability of any relevant supervisory authority to monitor the compliance of the Company with its legal and regulatory obligations will not be impaired; and the continuous and satisfactory service to policyholders will be maintained.

The Company retains responsibility for all outsourced functions, processes, services and activities performed in accordance with established services arrangements.

The following functions are fully outsourced to subsidiaries of Allied World Holdings and Fairfax: internal audit (AWAC Services Company (Ireland) Limited ("AWS Ireland")), investment management (AWAC Services Company ("AWS U.S."), Hamblin Watsa Investment Counsel Ltd. and Fairfax), information technology (AWS Ireland and AWS U.S.) and capital modelling (Allied World Assurance Company, AG). Pursuant to relevant intra-group services agreements, certain of the Company's functions receive support from individuals and/or teams employed by certain subsidiaries of Allied World Holdings.

## B.8 Any other information

The Company has assessed the adequacy of its system of governance and has concluded that it provides for the sound and prudent management of its business, and that it is

proportionate to the nature, scale and complexity of the risks inherent in the Company's business.

### C. Risk profile

The Company utilises various tools to assist in the identification and assessment of risks in order to provide the Company with a holistic view of its risk profile and enable the organisation to assess the relationships between material risks. The Company's risk policies address each of the following risk categories and risk concentration and mitigation, and also set-out the process by which relevant risks are assessed and managed.

The main changes in the Company's risk profile during 2020 arise from an increase in the annual gross premium income for the Company's liability lines of business and a growth in technical provisions. There was also an increase in insurance and intermediaries receivables in line with exposure growth and an increase in the value of assets held in GBP relative to liabilities leading to an increase in market risk.

During 2020 the SCR was recalculated on three separate occasions. Throughout the year, the Company's capital position has remained strong.

#### C.1 Underwriting risk

Underwriting risk is the risk of fluctuations in benefits payable to policyholders and cedents and includes:

- Premium risk, which is the risk that non-catastrophe related losses are greater than expected. The Company monitors premium risk by assessing the results of stress tests and scenarios and modelled output from the ECM and the SFM.
- Catastrophe risk, which is the risk that a single natural catastrophe event (or series of such events) of significant magnitude, usually over a short period of time, leads to a significant deviation in actual claims from the total expected claims. Catastrophe risk is also a source of concentration risk for the Company. Catastrophe risk is monitored by assessing the Company's occurrence and aggregate probable maximum losses ("PMLs") and aggregate risk exposures against the risk appetites and tolerances set by the Board.
- Reinsurance risk is the inability of the Company to obtain reinsurance coverage at a reasonable cost. Outwards reinsurance is utilised by the Company to mitigate underwriting risk, in particular catastrophe risk, by transferring such risk to third-party reinsurers.

- Reserve risk is the risk of the loss reserves being inadequate (i.e., that actual losses and related expenses exceed estimated losses). Reserve risk is monitored using the ECM, which incorporates stochastic loss reserving techniques to assess potential deteriorations in loss reserves.

The business planning process assists with the management and mitigation of underwriting risk by:

- Using underwriting authorities and guidelines to avoid writing risks outside of the Company's risk appetite.
- Setting geographic and class premium volume limits to ensure diversity within the Company's risk portfolio.
- Using the ECM to model returns on capital employed to manage risk versus reward.
- Using pricing models (which are independently developed by pricing actuaries and consider trends, macroeconomic variables, market cycle fluctuations, regulatory and judicial changes and other variables) to manage price adequacy and underwriting risk.
- Using the catastrophe models to assess the Company's PMLs and comparing these results to pre-defined limits to manage concentration risk.
- Using stress tests and scenarios to assess the impact of significant sources of aggregate or large underwriting risk and defining risk mitigation actions as required.

## C.2 Market risk

Market risk 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 financial instruments. The Company's assets are invested in accordance with the "prudent person principle" as required under Regulation 141 of the Solvency II Regulations.

The Company has primarily invested in investment-grade, fixed-maturity securities of short- to medium-term duration. Excluding intra-company contracts, the Company's primary market risk stems from fluctuations in interest rates, which is monitored using the ECM and also by assessment of stress tests and scenarios.

The Company has a multicurrency investment portfolio and associated currency risk is mitigated by reviewing the Company's assets and liabilities and matching these by currency where possible.

### ***Risk concentration***

The Company's strategy is to have a diverse portfolio of investments with limited concentration risk. The promissory note is the main driver of market risk in the SCR due to the concentrated potential for asset default. This risk is mitigated through monitoring of the creditworthiness of the counterparty. The Company's strategy over the three-year business planning period will not result in any changes to the market risk profile or any increase in concentration risk.

### ***Risk mitigation***

The Company measures and manages market risk on an ongoing basis by:

- Performing regular stress tests on all or parts of the Company's investment portfolio and discussing the results with management. This output serves as a guide to the Company's market risk appetite and influences the internal capital allocation process.
- Measuring the Company's exposure to particular categories of market risk (e.g., equity, interest rate, foreign exchange and commodities risks) as well as across its entire portfolio of market risks.
- Analysing the impact that new transactions or business may have on the Company's market risk.

Specific measures to mitigate market risks include:

- Setting an appropriate market risk limit structure to control the Company's exposure to market risk as detailed within the investment policy and investment management guidelines. The guidelines include details on:
  - Asset concentrations.
  - Asset liability currency and duration matching.
  - Asset counterparty credit ratings.
  - Consideration of asset marketability and liquidity.
- Setting limits on market risk, value at risk and potential risks arising from stress testing and scenario analysis.
- Considering whether it is appropriate to set intermediate (early warning) thresholds that alert management when limits are being approached, triggering review and action where appropriate.

### C.3 Credit risk

Credit risk is the risk that payments due to the Company from third parties are not made in accordance with contractual and regulatory-required deadlines (*e.g.*, the Company's third-party reinsurers and insurance brokers are unable to pay claims and premiums, respectively). Credit risk is managed by ensuring there is no significant concentration risk with any one or small group of contractual counterparties and by monitoring the credit rating of its material contractual counterparties, including all third-party reinsurers.

The Company has not pledged any collateral to any third parties or custodian. The SCR calculation has not recognised any collateral received from third parties.

During the reporting period, there were no material changes in the outwards reinsurance program or credit ratings of third parties that would significantly impact the level of credit risk.

#### ***Risk concentration***

The Company has set thresholds as part of its external ceded reinsurance strategy to mitigate sources of concentration, which are monitored to mitigate the risk.

#### ***Risk mitigation***

The Company manages credit risk through:

- Avoiding reliance on a small number of counterparties or concentrations of assets.
- Setting credit limits before broker terms of business agreements are signed.
- Protecting against the risk of non-payment of premiums with the inclusion of cancellation clauses.
- Usage of approved reinsurers.
- Reviewing external rating agency (Standard & Poor's and A.M. Best) credit ratings for counterparties.
- Reviewing reinsurer financials.

### C.4 Liquidity risk

Liquidity risk is the risk that the Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due. Liquidity risk is monitored using the quarterly risk appetite and tolerance monitoring.

The expected profit included in future premiums as at December 31, 2020 was \$22.1 million compared to \$16.5 million as at December 31, 2019.

In identifying liquidity risks, management considers the Company's current liquidity risk and also how existing activities may impact its liquidity risk profile in the future. The implications of new products or business lines are also considered.

A number of criteria that are considered when identifying and assessing liquidity risk are:

- Planning and cash flow.
- Unexpected events.
- Post-loss environment.

***Risk concentration***

There are no liquidity risk concentrations.

**C.5 Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems. It also includes legal risks that arise from failure to comply with relevant laws or regulations and risks arising from inadequate contingency plans as addressed in business continuity plans. Operational risk is assessed and monitored using the Risk Register and internal control framework.

All material operational risks that are identified are included in the Risk Register and assessed based on the probability of occurrence and severity of impact of the risk and assessed against the controls in place.

***Risk concentration***

The Company is not exposed to any material concentration risk with regard to operational risk.

***Risk mitigation & risk sensitivity***

For operational risk, the following risk mitigation strategies are employed:

- Certain back-office functions are outsourced to increase operational efficiency and reduce costs, but, this does not reduce the overall risks that could potentially impact the Company from outsourcing.
- Policies and procedures are put in place to ensure that sufficient governance and controls are in place to mitigate the potential for operational risks.
- Internal controls are reviewed to ensure that they remain robust.

## C.6 Other material risks

Other material risks are group and strategic risk. Group risk is the adverse impact on the Company as a result of corporate group interactions and/or reputation. Strategic risk arises from the inability to implement or achieve appropriate business plans and/or strategies.

### ***Risk Concentration***

There are currently no significant business conduct or strategic risk concentrations.

### ***Risk mitigation***

The Company has implemented the following controls to manage its material risks and limits to trigger action(s) to control exposure:

- Policies are in line with market standards and acceptable to our regulators.
- Best business practices, proportionate to the needs of the Company, are in place and sufficient to satisfy regulation regarding group risk.
- Limits and tolerances are set around the strategic and business, conduct and group risk appetites and monitored on a quarterly basis by the risk management function.

Management actions are taken where required to mitigate risks that exceed defined tolerances or thresholds.

### **Risk concentrations:**

As detailed in the underwriting risk section, catastrophe risk underwritten by the Company is a source of concentration risk and is mitigated using outwards reinsurance and managed by regular management reviews of the PMLs.

With the exception of certain intra-group reinsurance agreements and the promissory note, there are no other incidences of material risk concentration.

### **Risk mitigation:**

We use three forms of risk mitigation: (1) avoidance of risk, (2) transfer of risk (e.g. reinsurance purchasing), and (3) limitation of risk (e.g. setting risk appetite limits and tolerances, and establishment of risk controls, etc.).

### **Risk scenarios and stress testing:**

The Company assesses risk scenarios and the results of risk stress testing, including reverse stress and sensitivity tests to assess the potential impact on its business and the effectiveness of risk controls and as part of the risk identification process. The Company maintains a list of internal risk scenarios that could have a significant impact to the value of the Company. The risk scenarios are reviewed regularly and the impact to the Company is calculated at least annually or more frequently if there are significant changes to the Company's risk profile. The



impact across multiple risk categories and lines of business is considered when determining the value for each scenario.

Scenarios have been developed in conjunction with the capital modelling, risk management and exposure management functions to help understand the potential impacts to both the capital required and the net cost to the Company.

Stress testing covers the following categories and results presented under these categories:

- Scenario Tests: Assess the financial impact on the business of possible future scenarios, for example, a large catastrophic event or multiple events.
- Sensitivity Tests: Assess the implication of possible alternative assumptions, for example, variations in premium income and in particular their impact on capital requirements.
- Reverse Stress Tests: Assess impact and potential management actions where the Company has become insolvent or there has been a significant impact to its business model, which results in the Company not being able to perform normal business operations.

During 2020, the results of the stress and scenario tests were in line with expectations and within approved risk appetite and tolerances and considered, where relevant, future management actions. Results did not require changes to the Company's risk strategy and/or mitigation arrangements and the Company's solvency ratio coverage remained above the prescribed threshold.

#### C.7 Any other information

N.A

## D. Valuation for Solvency Purposes

### D.1 Assets

Balance sheet extract (in \$) as at December 31, 2020 and December 31, 2019:

| <b>Balance Sheet – Assets (\$ m's)</b>  |                    |                  |                    |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | <u>2020</u>        | <u>2020</u>      | <u>2019</u>        | <u>2019</u>      |
|   | <u>Solvency II</u> | <u>Statutory</u> | <u>Solvency II</u> | <u>Statutory</u> |
|   | <u>value</u>       | <u>accounts</u>  | <u>value</u>       | <u>accounts</u>  |
|   | <u>value</u>       | <u>value</u>     | <u>value</u>       | <u>value</u>     |
| <b>Assets</b>   |                    |                  |                    |                  |
| Deferred acquisition costs  | -                  | 26.0             | -                  | 19.0             |
| Intangible assets   | -                  | 0.8              | -                  | -                |
| Deferred tax assets   | -                  | 0.2              | -                  | -                |
| Property, plant and equipment held for own use                                  | 14.3               | 2.6              | 16.1               | 3.1              |
| Investments (other than assets held for index-linked and unit-linked contracts) | 187.9              | 170.5            | 152.7              | 148.8            |
| <i>Government Bonds</i>   | 121.2              | 104.3            | 101.0              | 100.6            |
| <i>Corporate Bonds</i>  | 45.2               | 44.7             | 26.4               | 22.9             |
| <i>Collateralised securities</i>  | 3.7                | 3.7              | 5.1                | 5.1              |
| <i>Collective investment undertakings</i>                                       | 12.1               | 12.1             | 12.7               | 12.7             |
| <i>Equities</i>   | 5.7                | 5.7              | 7.5                | 7.5              |
| Loans and mortgages   | 254.5              | 249.4            | 262.1              | 253.4            |
| Reinsurance recoverables from non-life excluding health                         | 483.8              | 604.1            | 397.1              | 487.5            |
| Insurance and intermediaries receivables  | 59.4               | 118.2            | 35.2               | 73.6             |
| Reinsurance receivables   | 9.9                | 9.9              | 12.4               | 10.5             |
| Receivables (trade, not insurance)  | 5.4                | 6.0              | 5.3                | 5.3              |
| Cash and cash equivalents   | 32.0               | 48.6             | 15.5               | 18.8             |
| Any other assets, not elsewhere shown   | 2.9                | 8.8              | 0.7                | 10.6             |
| <b>Total assets</b>   | <b>1,050.1</b>     | <b>1,245.1</b>   | <b>897.1</b>       | <b>1,030.6</b>   |

The Company's financial statements have been prepared in accordance with the provisions of the Companies Act 2014 and FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and FRS 103 "Insurance Contracts" ("FRS 103") issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland ("Irish GAAP").

The Company recognised and valued assets and liabilities for Solvency II purposes in accordance with FRS 102 and FRS 103 valuation methods. Valuations above are consistent with the Solvency II Regulations with the exception of "Property, plant and equipment held for own use" ("PP&E"), which is valued at cost less depreciation and impairment. Given the

nature and age of PP&E, using the revaluation model under the Solvency II Regulations would not result in a materially different valuation.

All investments are carried at fair value. Differences arising between the Solvency II Regulations and the Company's statutory position are due to the inclusion of accrued interest for Solvency II valuation. For statutory purposes, accrued interest is included in other assets.

Investments in government bonds, corporate bonds, collateralised securities, collective investment undertakings, equities and loans and mortgages are valued at fair value. Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arms' length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Company applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases, management estimates other than observable market inputs are used within the valuation model. There is no standard model and different assumptions may generate different results. Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker.

#### Solvency II versus statutory valuation of assets:

As part of the revised methodologies for calculating Solvency II technical provisions, a number of items on our balance sheet are adjusted from a statutory perspective:

- At the reporting date, the Company held investments in treasury bonds in our investment portfolio. Under statutory accounting policy, investments in purchased treasury bonds that have a maturity of less than three months are classified under cash and cash equivalents. For the Solvency II balance sheet, however, these are classified as government bonds per Solvency II guidance.
- An International Financial Reporting Standards ("IFRS") 16 – Leases adjustment has been made to the Solvency II balance sheet with respect to recognising a right-of-use asset in relation to our Dublin and London office rentals that is not required from a statutory perspective.
- Intangible assets are not recognised under the Solvency II Regulations but have been recognised in the statutory accounts.
- Deferred acquisition costs are not recognised under the Solvency II Regulations but instead future cash flows from acquisition costs are incorporated into the Solvency II technical provisions.
- A portion of insurance and intermediary's receivables are incorporated into the Solvency II technical provisions calculation based on expected cash flows and due dates.

As a result of the aforementioned cash flow adjustments in respect of the Solvency II technical provisions, certain reinsurance balances have been reclassified.

Outside of factors outlined in Section D.22 of this Report, which addresses technical provisions, there are no other sources of uncertainty relevant to the valuation of the Company's assets.

## D.2 Technical provisions

Technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows, which is calculated using the cost of capital approach and a risk-free discount rate term structure. The risk free rate term structures are prescribed by EIOPA for each reporting period.

The technical provisions include a claims provision, a premium provision and a risk margin:

- The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the valuation date.
- The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from policies under which the (re)insurer is obligated at the valuation date.
- The risk margin is intended to be the balance that another (re)insurer taking on the liabilities at the valuation date would require over and above the best estimate. It is calculated using a cost-of-capital approach.

The claims and premium provisions are calculated both gross and net of outwards reinsurance. The risk margin is calculated net of reinsurance.

The best estimate for the premium provision is calculated by using the unearned element of premium on an Irish GAAP basis, adjusting for bound but not incepted business as at December 31, 2020 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted.

Loss reserves calculated applying Irish GAAP (the "GAAP Reserves") form the starting point for the calculation of the technical provisions required under the Solvency II Regulations and, as part of this process, Irish GAAP Reserves are subjected to a series of adjustments, including removal of prudence margins; incorporation of expected reinsurance counterparty defaults; incorporation of events not in data; other adjustments related to consideration for expenses, etc.; and discounting of cash flows.

The level of uncertainty associated with technical provisions is the extent to which future cash flows can be estimated. There is the inherent uncertainty in insurance claims that historical experience will not be entirely predictive of future claims:

- Such uncertainty is higher for longer-tailed lines of business. Direct and assumed liability lines take longer to develop and are therefore more susceptible to this type of uncertainty; specifically, excess casualty and professional lines.
- The selection of initial expected loss ratios which are largely based on the Company's pricing assumptions, expectations and experience to date are also a key area of uncertainty.

There is also a certain level of uncertainty associated with outside factors such as changes in market conditions, interest rates, litigation patterns and outcomes, etc.

The Company does not apply the matching adjustment, the volatility adjustment, the transitional risk free interest rate term structure or the transitional deduction as outlined in the Solvency II Regulations.

The following table shows the Company's Irish GAAP position compared to the Solvency II technical provisions as at December 31, 2020 and December 31, 2019:

| <b>Irish GAAP Position to Solvency II Technical Provisions as at December 31 (\$m's)</b> |                    |                    |
|--|--------------------|--------------------|
|  | <u><b>2020</b></u> | <u><b>2019</b></u> |
| <b>Irish GAAP position</b>   | <b>39.5</b>        | <b>27.2</b>        |
| Margin included in Irish GAAP reserves   | (1.4)              | (1.5)              |
| Future premiums  | 2.0                | 0.0                |
| Legally obliged business   | (7.0)              | (4.7)              |
| ULAE   | 0.5                | 0.2                |
| Non-ULAE   | 5.6                | 4.8                |
| Bad debt   | 1.5                | 1.3                |
| Binary events  | 1.5                | 1.0                |
| Discounting  | (1.0)              | (1.9)              |
| <b>Total Solvency II best estimate - net</b>   | <b>41.2</b>        | <b>26.4</b>        |
| Solvency II risk margin  | 20.7               | 15.5               |
| <b>Solvency II Technical provisions - total</b>  | <b>61.9</b>        | <b>41.9</b>        |

The Company's actuarial function confirmed that the Company complied continuously with the Solvency II requirements for the calculation of technical provisions and also provided input in respect of potential risks arising from the uncertainties associated with such calculations. The Company's Head of Actuarial Function provided the Board with the annual opinion and report on the Company's technical provisions at its meeting on April 2, 2020, and the Actuarial Function Report at its meeting on November 5, 2020.

As at December 31, 2020 and December 31, 2019, the Solvency II technical provisions were as follows:

| <b>Technical Provisions as at December 31, 2020 (\$m's)</b>         |   |   |                           |  |
|---|---|---|---------------------------|--|
| <b>SII line of business</b>   | <b><u>Total best estimate - gross</u></b> | <b><u>Total best estimate - net</u></b> | <b><u>Risk margin</u></b> | <b><u>Technical provisions - total</u></b> |
| <i><u>Direct business and accepted proportional reinsurance</u></i> |   |   |                           |  |
| A&H insurance   | 4.4                                       | (1.1)                                   | 0.8                       | (0.2)                                      |
| Marine, aviation and transport insurance                            | 6.9                                       | 0.1                                     | 0.2                       | 0.3  |
| Fire and other damage to property insurance                         | 63.7                                      | 5.5                                     | 3.0                       | 8.5  |
| General liability insurance   | 393.1                                     | 36.4                                    | 12.8                      | 49.2                                       |
| Credit and suretyship insurance                                     | 7.1                                       | (3.0)                                   | 0.4                       | (2.5)                                      |
| <i><u>Accepted non-proportional reinsurance</u></i>                 |   |   |                           |  |
| Non-proportional casualty reinsurance                               | 12.4                                      | 0.7                                     | 0.3                       | 1.0  |
| Non-proportional marine, aviation and transport reinsurance         | 20.4                                      | 1.7                                     | 1.9                       | 3.6  |
| Non-proportional property reinsurance                               | 17.1                                      | 0.8                                     | 1.3                       | 2.0  |
|   | <u>525.0</u>                              | <u>41.2</u>                             | <u>20.7</u>               | <u>61.9</u>                                |
| <b>Technical Provisions as at December 31, 2019 (\$m's)</b>         |   |   |                           |  |
| <b>SII line of business</b>   | <b><u>Total best estimate - gross</u></b> | <b><u>Total best estimate - net</u></b> | <b><u>Risk margin</u></b> | <b><u>Technical provisions - total</u></b> |
| <i><u>Direct business and accepted proportional reinsurance</u></i> |   |   |                           |  |
| A&H insurance   | 2.3                                       | 3.0                                     | 0.5                       | 3.5  |
| Marine, aviation and transport insurance                            | 9.3                                       | 0.6                                     | 0.2                       | 0.8  |
| Fire and other damage to property insurance                         | 26.1                                      | 1.0                                     | 2.9                       | 3.9  |
| General liability insurance   | 329.0                                     | 24.2                                    | 7.9                       | 32.1                                       |
| Credit and suretyship insurance                                     | 7.9                                       | (3.1)                                   | 0.5                       | (2.6)                                      |
| <i><u>Accepted non-proportional reinsurance</u></i>                 |   |   |                           |  |
| Non-proportional casualty reinsurance                               | 18.9                                      | 1.3                                     | 0.4                       | 1.7  |
| Non-proportional marine, aviation and transport reinsurance         | 22.0                                      | 1.3                                     | 2.1                       | 3.4  |
| Non-proportional property reinsurance                               | 8.1                                       | (1.8)                                   | 1.0                       | (0.8)                                      |
|   | <u>423.5</u>                              | <u>26.4</u>                             | <u>15.5</u>               | <u>41.9</u>                                |

The Company recovered \$132.4 million under reinsurance contracts during 2020 compared to \$99.3 million in 2019, the majority of which was recovered from a related group entity. COVID-19 losses are being tracked separately within the Company and a net ultimate loss of \$1.3 million has been recognised as at December 31, 2020.

There have been no material changes in the relevant assumptions used in the calculation of the technical provisions from December 31, 2019 to December 31, 2020.

### D.3 Other liabilities

Balance sheet extract (in \$) as at December 31, 2020 and December 31, 2019:

| <b>Balance Sheet – Liabilities (\$m's)</b> |                    |                       |                    |                       |
|--|--------------------|-----------------------|--------------------|-----------------------|
|  | <u>2020</u>        | <u>2020</u>           | <u>2019</u>        | <u>2019</u>           |
|  | <u>Solvency II</u> | <u>Statutory</u>      | <u>Solvency II</u> | <u>Statutory</u>      |
|  | <u>value</u>       | <u>accounts value</u> | <u>value</u>       | <u>accounts value</u> |
| <b>Liabilities</b>                         |                    |                       |                    |                       |
| Technical provisions – best estimate       | 525.0              | 667.6                 | 423.5              | 526.3                 |
| Technical provisions – risk margin         | 20.7               | -                     | 15.5               | -                     |
| Deferred tax liabilities                   | 2.2                | -                     | 0.1                | -                     |
| Insurance and intermediaries payables      | 6.7                | 6.7                   | 4.5                | 4.5                   |
| Reinsurance payables                       | 40.7               | 85.0                  | 18.3               | 44.9                  |
| Payables (trade, not insurance)            | 28.9               | 18.2                  | 35.3               | 22.1                  |
| Any other liabilities, not elsewhere shown | -                  | 52.3                  | -                  | 33.8                  |
| <b>Total liabilities</b>                   | <b>624.2</b>       | <b>829.8</b>          | <b>497.1</b>       | <b>631.6</b>          |

#### Solvency II versus statutory valuation of liabilities:

As part of the revised methodologies for calculating Solvency II technical provisions, a number of items on our balance sheet have been adjusted from a statutory perspective:

- An IFRS 16 – Leases adjustment has been made to the Solvency II balance sheet with respect to recognising an additional liability equalling the net present value of future lease payments on our Dublin and London office rentals that is not required from a statutory perspective.
- Reinsurance payables were adjusted to account for future cash flows and their effect on technical provisions.
- Ceded deferred acquisition income was not recognised under the Solvency II Regulations but instead future cash flows from acquisition income were incorporated into the technical provisions.

As a result of changes to the balance sheet after applying principles of the Solvency II Regulations, the Company has recognised an additional deferred tax liability.

There are no liabilities included in respect of pension-related employee benefits or leasing arrangements.

Outside of factors outlined in Section D.2 of this Report, which addresses technical provisions, there are no other sources of uncertainty relevant to the valuation of the Company's liabilities.

#### D.4 Alternative methods for valuation

Unless otherwise stated, the Company does not use any alternative methods for valuation.

#### D.5 Any other information

The Board have a reasonable expectation that the Company will continue in operational existence for twelve months from the date of approval of this Report. In assessing the Company's going concern position as at December 31, 2020, the Board have considered all available information about the future, the possible outcomes of events and changes in conditions. The assessment focused on the capital structure, liquidity stress test scenarios, investment risk, reinsurance structures, operational resilience and COVID-19 related insurance liabilities, along with the ongoing business considerations such as future premium flows, actual and planned profitability and catastrophe-based risk scenarios. The Board have a reasonable expectation that the Company has adequate resources to continue its business operations for the foreseeable future and to continue as a going concern.



## E. Capital Management

### E.1 Own funds

The Company's capital management process is governed by its Capital Management Policy, which confirms the key components of, and the roles and responsibilities of directors, officers and employees with respect to, the management of the Company's capital. The Company seeks at all times to hold sufficient capital to meet its current and projected business activities, and to comply with all applicable laws and regulations. The Capital Management Policy sets out the Company's approach to:

- Classification of capital items used to meet its solvency capital requirements.
- Capital management, including monitoring and reporting procedures.
- Medium-term capital plans.
- Dividend distributions.

Furthermore, the Company's medium-term capital plans reflect projected capital requirements as set out in the ORSA. The Board reviews material changes to the Company's capital position, including any issuance, distribution or maturity of any element of the own funds.

Own funds are comprised as follows:

| <b>Own Funds (\$ m's)</b>   |              |              |
|---|--------------|--------------|
|   | <u>2020</u>  | <u>2019</u>  |
| Ordinary share capital  | 10.0         | 10.0         |
| Reconciliation reserve  | 62.7         | 36.6         |
| Other own fund items approved by the supervisory authority as basic own funds | 353.3        | 353.3        |
| <b>Basic own funds</b>  | <b>426.0</b> | <b>399.9</b> |
| <b>Reconciliation reserve detail:</b>   |              |              |
| Statutory retained earnings   | 35.8         | 17.3         |
| Profit on ordinary activities after taxation for the financial year           | 16.2         | 18.5         |
| Solvency II reconciliation reserve  | 10.7         | 0.9          |
| Dividends paid during the financial year                                      | -            | -            |
| Foreseeable dividend  | -            | -            |
| <b>SII reconciliation reserve</b>   | <b>62.7</b>  | <b>36.6</b>  |

The eligible amount of own funds to cover the SCR and the MCR is \$426.0 million as at December 31, 2020. This balance is comprised entirely of Tier 1 basic own funds and is consistent with the prior year.

The Company has not recognised a deferred tax asset on the loss absorbing capacity of technical provisions.

The following table reconciles the differences (reconciliation reserve) between the equity in the financial statements and the excess of the assets over liabilities as calculated in accordance with the Solvency II Regulations.

| <b>Reconciliation of Basic Own Funds to the Financial Statements (\$ m's)</b> |                     |                     |
|---|---------------------|---------------------|
|   | <b><u>2020</u></b>  | <b><u>2019</u></b>  |
| <b>Total equity in financial statements</b>                                   | 415.3               | 399.1               |
| Deduct items not recognised in financial statements:                          |                     |                     |
| <i>Difference in the valuation of technical provisions</i>                    | 13.5                | 1.7                 |
| <i>Difference in the valuation of assets</i>                                  | 10.3                | 12.5                |
| <i>Difference in the valuation of liabilities</i>                             | (13.1)              | (13.3)              |
| <b>Solvency II – Excess of assets over liabilities</b>                        | <b><u>426.0</u></b> | <b><u>399.9</u></b> |
| <br>  |                     |                     |
| <b>Solvency II - Basic own funds</b>  | <b><u>426.0</u></b> | <b><u>399.9</u></b> |

Consistent with the position in the prior year, none of the Company's own funds are subject to transitional arrangements, and the Company has no ancillary own funds. No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.

## E.2 SCR and MCR

As at December 31, 2020, the following are the components of the SCR, which is calculated applying the standard formula in accordance with the Solvency II Regulations:

| <b>Standard Formula SCR as at December 31 (\$m's)</b> |              |              |
|---|--------------|--------------|
| <b>Risk</b>   | <b>2020</b>  | <b>2019</b>  |
| Market risk   | 67.2         | 63.9         |
| Counterparty default risk                             | 41.3         | 28.6         |
| Life underwriting risk                                | -            | -            |
| Health underwriting risk                              | 2.0          | 1.7          |
| Non-life underwriting risk                            | 44.8         | 30.8         |
| Diversification                                       | (40.9)       | (31.7)       |
| Intangible asset risk                                 | -            | -            |
| <b>Basic SCR</b>                                      | <b>114.4</b> | <b>93.4</b>  |
| Operational risk                                      | 15.8         | 12.7         |
| <b>Solvency SCR</b>                                   | <b>130.2</b> | <b>106.1</b> |

Over the short term, for 2020, the SCR and ECR have been assessed to ensure that the Company has sufficient capital and a minimum SCR coverage ratio in excess of 160% to protect its stakeholders from any adverse scenarios. As at December 31, 2020, the SCR was \$130.2 million, with a 327% coverage ratio (December 31, 2019: \$106.1 million, 377% coverage ratio).

The Company uses the SFM for calculation of the SCR and all calculations in the risk and sub-modules are in accordance with the Solvency II Regulations. We have not simplified the relevant parameters, nor have we applied Company-specific parameters in the calculation of the SCR.

The primary driver of the market risk component is the concentration risk associated with the promissory note.

The MCR is the greater of the absolute floor of the MCR and the combined MCR as prescribed by the Solvency II Regulations.

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

N/A

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

N/A

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

N/A

E.6 Any other information

N/A

## Appendices

### Annual quantitative reporting templates

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| Template code | Template name  |
|---------------|--|
| S.02.01.02    | Balance sheet  |
| S.05.01.02    | Premiums, claims and expenses by line of business    |
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| S.17.01.02    | Non-life technical provisions                        |
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S.02.01.02 - Balance Sheet Assets - December 31, 2020

Balance sheet - USD 000's

|  | Solvency II value |                  |
|--|-------------------|------------------|
|  |                   | C0010            |
| <b>Assets</b>  |                   |                  |
| Goodwill   | R0010             |                  |
| Deferred acquisition costs   | R0020             |                  |
| Intangible assets  | R0030             |                  |
| Deferred tax assets  | R0040             |                  |
| Pension benefit surplus  | R0050             |                  |
| Property, plant & equipment held for own use   | R0060             | 14,261           |
| Investments (other than assets held for index-linked and unit-linked contracts)        | R0070             | 187,887          |
| Property (other than for own use)  | R0080             |                  |
| Holdings in related undertakings, including participations                             | R0090             |                  |
| Equities   | R0100             | 5,742            |
| Equities - listed  | R0110             | 5,742            |
| Equities - unlisted  | R0120             |                  |
| Bonds  | R0130             | 170,076          |
| Government Bonds   | R0140             | 121,116          |
| Corporate Bonds  | R0150             | 45,226           |
| Structured notes   | R0160             |                  |
| Collateralised securities  | R0170             | 3,734            |
| Collective Investments Undertakings  | R0180             | 12,068           |
| Derivatives  | R0190             |                  |
| Deposits other than cash equivalents   | R0200             |                  |
| Other investments  | R0210             |                  |
| Assets held for index-linked and unit-linked contracts                                 | R0220             |                  |
| Loans and mortgages  | R0230             | 254,527          |
| Loans on policies  | R0240             |                  |
| Loans and mortgages to individuals   | R0250             |                  |
| Other loans and mortgages  | R0260             | 254,527          |
| Reinsurance recoverables from::  | R0270             | 483,863          |
| Non-life and health similar to non-life  | R0280             | 483,863          |
| Non-life excluding health  | R0290             | 478,419          |
| Health similar to non-life   | R0300             | 5,444            |
| Life and health similar to life, excluding health and index-linked and unit-linked     | R0310             |                  |
| Health similar to life   | R0320             |                  |
| Life excluding health and index-linked and unit-linked                                 | R0330             |                  |
| Life index-linked and unit-linked  | R0340             |                  |
| Deposits to cedants  | R0350             | 0                |
| Insurance and intermediaries receivables   | R0360             | 59,433           |
| Reinsurance receivables  | R0370             | 9,906            |
| Receivables (trade, not insurance)   | R0380             | 5,364            |
| Own shares (held directly)   | R0390             |                  |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400             |                  |
| Cash and cash equivalents  | R0410             | 31,964           |
| Any other assets, not elsewhere shown  | R0420             | 2,941            |
| <b>Total assets</b>  | <b>R0500</b>      | <b>1,050,145</b> |

**S.02.01.02 - Balance Sheet Liabilities - December 31, 2020**

**Liabilities - USD 000's**

Technical provisions – non-life  
 Technical provisions – non-life (excluding health)  
 Technical provisions calculated as a whole  
 Best Estimate  
 Risk margin  
 Technical provisions - health (similar to non-life)  
 Technical provisions calculated as a whole  
 Best Estimate  
 Risk margin  
 Technical provisions - life (excluding index-linked and unit-linked)  
 Technical provisions - health (similar to life)  
 Technical provisions calculated as a whole  
 Best Estimate  
 Risk margin  
 Technical provisions – life (excluding health and index-linked and unit-linked)  
 Technical provisions calculated as a whole  
 Best Estimate  
 Risk margin  
 Technical provisions – index-linked and unit-linked  
 Technical provisions calculated as a whole  
 Best Estimate  
 Risk margin  
 Other technical provisions  
 Contingent liabilities  
 Provisions other than technical provisions  
 Pension benefit obligations  
 Deposits from reinsurers  
 Deferred tax liabilities  
 Derivatives  
 Debts owed to credit institutions  
 Financial liabilities other than debts owed to credit institutions  
 Insurance & intermediaries payables  
 Reinsurance payables  
 Payables (trade, not insurance)  
 Subordinated liabilities  
 Subordinated liabilities not in Basic Own Funds  
 Subordinated liabilities in Basic Own Funds  
 Any other liabilities, not elsewhere shown  
**Total liabilities**  
**Excess of assets over liabilities**

|              | Solvency II value |         |
|--------------|-------------------|---------|
|              | C0010             |         |
| <b>R0510</b> |                   | 545,720 |
| <b>R0520</b> |                   | 540,523 |
| <b>R0530</b> |                   |         |
| <b>R0540</b> |                   | 520,651 |
| <b>R0550</b> |                   | 19,871  |
| <b>R0560</b> |                   | 5,197   |
| <b>R0570</b> |                   |         |
| <b>R0580</b> |                   | 4,384   |
| <b>R0590</b> |                   | 814     |
| <b>R0600</b> |                   |         |
| <b>R0610</b> |                   |         |
| <b>R0620</b> |                   |         |
| <b>R0630</b> |                   |         |
| <b>R0640</b> |                   |         |
| <b>R0650</b> |                   |         |
| <b>R0660</b> |                   |         |
| <b>R0670</b> |                   |         |
| <b>R0680</b> |                   |         |
| <b>R0690</b> |                   |         |
| <b>R0700</b> |                   |         |
| <b>R0710</b> |                   |         |
| <b>R0720</b> |                   |         |
| <b>R0730</b> |                   |         |
| <b>R0740</b> |                   |         |
| <b>R0750</b> |                   |         |
| <b>R0760</b> |                   |         |
| <b>R0770</b> |                   |         |
| <b>R0780</b> |                   | 2,175   |
| <b>R0790</b> |                   |         |
| <b>R0800</b> |                   |         |
| <b>R0810</b> |                   |         |
| <b>R0820</b> |                   | 6,708   |
| <b>R0830</b> |                   | 40,680  |
| <b>R0840</b> |                   | 28,900  |
| <b>R0850</b> |                   |         |
| <b>R0860</b> |                   |         |
| <b>R0870</b> |                   |         |
| <b>R0880</b> |                   | 0       |
| <b>R0900</b> |                   | 624,183 |
| <b>R1000</b> |                   | 425,962 |





S.05.02.01 - Premium, Claims and Expenses by Country - December 31, 2020

Premiums, claims and expenses by country - USD 000's

|   | Home Country | Total Top 5 and home country | Top 5 countries (by amount of gross premiums written) - non-life obligations |                    |                  |       |
|---|--------------|------------------------------|--|--------------------|------------------|-------|
|   |              |                              | (GB) United Kingdom  | (US) United States | (CH) Switzerland |       |
|   | C0080        | C0140                        | C0090  | C0090              | C0090            |       |
| <b>R0010</b>                                  |              |                              |  |                    |                  |       |
| <b>Premiums written</b>                       |              |                              |  |                    |                  |       |
| Gross - Direct Business                       | R0110        | 23,979                       | 318,821  | 275,875            | 18,781           | 185   |
| Gross - Proportional reinsurance accepted     | R0120        | 0                            | 5  | 5                  | 0                | 0     |
| Gross - Non-proportional reinsurance accepted | R0130        | 1,883                        | 25,275   | 14,046             | 3,931            | 5,416 |
| Reinsurers' share                             | R0140        | 23,422                       | 306,504  | 261,825            | 16,152           | 5,105 |
| Net   | R0200        | 2,440                        | 37,597   | 28,101             | 6,560            | 495   |
| <b>Premiums earned</b>                        |              |                              |  |                    |                  |       |
| Gross - Direct Business                       | R0210        | 21,843                       | 251,169  | 210,454            | 18,741           | 131   |
| Gross - Proportional reinsurance accepted     | R0220        | 0                            | 5  | 5                  | 0                | 0     |
| Gross - Non-proportional reinsurance accepted | R0230        | 1,906                        | 25,741   | 14,412             | 4,003            | 5,421 |
| Reinsurers' share                             | R0240        | 21,382                       | 246,804  | 202,463            | 18,218           | 4,741 |
| Net   | R0300        | 2,366                        | 30,110   | 22,407             | 4,527            | 810   |
| <b>Claims incurred</b>                        |              |                              |  |                    |                  |       |
| Gross - Direct Business                       | R0310        | 43,362                       | 165,662  | 107,368            | 14,961           | -29   |
| Gross - Proportional reinsurance accepted     | R0320        | -13                          | -16  | -6                 | 0                | 3     |
| Gross - Non-proportional reinsurance accepted | R0330        | 559                          | 4,178  | 2,494              | 1,175            | -50   |
| Reinsurers' share                             | R0340        | 43,029                       | 157,272  | 100,346            | 13,945           | -47   |
| Net   | R0400        | 878                          | 12,551   | 9,511              | 2,192            | -29   |
| <b>Changes in other technical provisions</b>  |              |                              |  |                    |                  |       |
| Gross - Direct Business                       | R0410        |                              |  |                    |                  |       |
| Gross - Proportional reinsurance accepted     | R0420        |                              |  |                    |                  |       |
| Gross - Non-proportional reinsurance accepted | R0430        |                              |  |                    |                  |       |
| Reinsurers' share                             | R0440        |                              |  |                    |                  |       |
| Net   | R0500        |                              |  |                    |                  |       |
| <b>Expenses incurred</b>                      | R0550        | -418                         | 1,247  | 1,508              | 344              | -188  |
| <b>Other expenses</b>                         | R1200        |                              |  |                    |                  |       |
| <b>Total expenses</b>                         | R1300        |                              | 1,247  |                    |                  |       |

5.17.01.02 - Non-life Technical Provisions - December 31, 2020

Non-life Technical Provisions - USD 000's

|   | Direct business and accepted proportional reinsurance | Direct business and accepted proportional reinsurance |   |                             |                                 | Accepted non-proportional reinsurance |   |                                       | Total Non-Life obligation |         |
|---|---|---|---|-----------------------------|---------------------------------|---------------------------------------|---|---------------------------------------|---------------------------|---------|
|   | Medical expense insurance                             | Marine, aviation and transport insurance              | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance |                           |         |
|   | C0020   | C0070   | C0080                                       | C0090                       | C0100                           | C0150                                 | C0160   | C0170                                 | C0180                     |         |
| <b>Technical provisions calculated as a whole</b>   |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| 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 |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| <b>Technical provisions calculated as a sum of BE and RM</b>  |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| <b>Best Estimate</b>  |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| Premium provisions  |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| Gross   | R0060   | 1,764   | 109   | 16,635                      | 53,216                          | 1,750                                 | 858   | -752                                  | -905                      | 72,676  |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default   | R0140   | 2,938   | 216   | 13,846                      | 43,207                          | 3,718                                 | 903   | 353                                   | 1,163                     | 66,345  |
| Net Best Estimate of Premium Provisions   | R0150   | -1,173  | -107  | 2,789                       | 10,009                          | -1,968                                | -45   | -1,105                                | -2,068                    | 6,331   |
| <b>Claims provisions</b>  |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| Gross   | R0160   | 2,619   | 6,742                                       | 47,025                      | 339,902                         | 5,384                                 | 11,528  | 21,125                                | 18,035                    | 452,360 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default   | R0240   | 2,506   | 6,509                                       | 44,340                      | 313,478                         | 6,391                                 | 10,796  | 18,303                                | 15,196                    | 417,518 |
| Net Best Estimate of Claims Provisions  | R0250   | 114   | 233   | 2,685                       | 26,423                          | -1,007                                | 732   | 2,822                                 | 2,840                     | 34,841  |
| <b>Total Best estimate - gross</b>  | R0260   | 4,384   | 6,851                                       | 63,660                      | 393,118                         | 7,134                                 | 12,386  | 20,373                                | 17,130                    | 525,035 |
| <b>Total Best estimate - net</b>  | R0270   | -1,060  | 126   | 5,473                       | 36,433                          | -2,975                                | 687   | 1,717                                 | 771                       | 41,172  |
| <b>Risk margin</b>  | R0280   | 814   | 171   | 3,035                       | 12,794                          | 427                                   | 324   | 1,867                                 | 1,255                     | 20,685  |
| <b>Amount of the transitional on Technical Provisions</b>   |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| Technical provisions calculated as a whole  | R0290   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| Best Estimate   | R0300   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| Risk margin   | R0310   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| <b>Technical provisions - total</b>   |   |   |   |                             |                                 |                                       |   |                                       |                           |         |
| Technical provisions - total  | R0320   | 5,197   | 7,021                                       | 66,694                      | 405,911                         | 7,561                                 | 12,710  | 22,240                                | 18,385                    | 545,720 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total                              | R0330   | 5,444   | 6,725                                       | 58,186                      | 356,685                         | 10,109                                | 11,699  | 18,656                                | 16,359                    | 483,863 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total  | R0340   | -246  | 296   | 8,508                       | 49,226                          | -2,548                                | 1,011   | 3,584                                 | 2,026                     | 61,857  |



5.23.01.01 - Own Funds - December 31, 2020

Own funds - USD 000's

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

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

**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

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

Other ancillary own funds

**Total ancillary own funds**

**Available and eligible own funds**

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

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

|       | Total      | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|-------|------------|-----------------------|---------------------|--------|--------|
|       | C0010      | C0020                 | C0030               | C0040  | C0050  |
| R0010 | 10,000     | 10,000                |                     |        |        |
| R0030 |            |                       |                     |        |        |
| R0040 |            |                       |                     |        |        |
| R0050 |            |                       |                     |        |        |
| R0070 |            |                       |                     |        |        |
| R0090 |            |                       |                     |        |        |
| R0110 |            |                       |                     |        |        |
| R0130 | 62,665     | 62,665                |                     |        |        |
| R0140 |            |                       |                     |        |        |
| R0160 |            |                       |                     |        |        |
| R0180 | 353,297    | 353,297               | 0                   | 0      | 0      |
| R0220 |            |                       |                     |        |        |
| R0230 |            |                       |                     |        |        |
| R0290 | 425,962    | 425,962               | 0                   | 0      | 0      |
| R0300 |            |                       |                     |        |        |
| R0310 |            |                       |                     |        |        |
| R0320 |            |                       |                     |        |        |
| R0330 |            |                       |                     |        |        |
| R0340 |            |                       |                     |        |        |
| R0350 |            |                       |                     |        |        |
| R0360 |            |                       |                     |        |        |
| R0370 |            |                       |                     |        |        |
| R0390 |            |                       |                     |        |        |
| R0400 |            |                       |                     |        |        |
| R0500 | 425,962    | 425,962               | 0                   | 0      | 0      |
| R0510 | 425,962    | 425,962               | 0                   | 0      |        |
| R0540 | 425,962    | 425,962               | 0                   | 0      | 0      |
| R0550 | 425,962    | 425,962               | 0                   | 0      |        |
| R0580 | 130,207    |                       |                     |        |        |
| R0600 | 32,552     |                       |                     |        |        |
| R0620 | 327.1414%  |                       |                     |        |        |
| R0640 | 1308.5656% |                       |                     |        |        |

**S.23.01.01 - Reconciliation Reserve - December 31, 2020**

**Reconciliation reserve - USD 000's**

Excess of assets over liabilities

**R0700**

425,962

Own shares (held directly and indirectly)

**R0710**

Foreseeable dividends, distributions and charges

**R0720**

0

Other basic own fund items

**R0730**

363,297

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**R0740**

**Reconciliation reserve**

**R0760**

62,665

**Expected profits**

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

**R0770**

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

**R0780**

22,055

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

**R0790**

22,055

**C0060**

S.25.01.21 - Basic Solvency Capital Requirement - December 31, 2020

Solvency Capital Requirement - for undertakings on Standard Formula - USD 000's

|   | Gross solvency capital requirement | USP   | Simplifications |
|---|------------------------------------|-------|-----------------|
|   | C0110                              | C0090 | C0100           |
| Market risk                               | R0010 67,205                       |       |                 |
| Counterparty default risk                 | R0020 41,319                       |       |                 |
| Life underwriting risk                    | R0030 0                            |       |                 |
| Health underwriting risk                  | R0040 1,938                        |       |                 |
| Non-life underwriting risk                | R0050 44,895                       |       |                 |
| Diversification                           | R0060 -40,900                      |       |                 |
| Intangible asset risk                     | R0070 0                            |       |                 |
| <b>Basic Solvency Capital Requirement</b> | R0100 114,456                      |       |                 |

S.25.01.21 - Total Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk  
 Loss-absorbing capacity of technical provisions  
 Loss-absorbing capacity of deferred taxes  
 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

**Solvency capital requirement, excluding capital add-on**

Capital add-ons already set

**Solvency Capital Requirement**

**Other information on SCR**

Capital requirement for duration-based equity risk sub-module  
 Total amount of Notional Solvency Capital Requirements for remaining part  
 Total amount of Notional Solvency Capital Requirements for ring fenced funds  
 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios  
 Diversification effects due to RFF nSCR aggregation for article 304

|       | C0100   |
|-------|---------|
| R0130 | 15,751  |
| R0140 | 0       |
| R0150 | 0       |
| R0160 | 0       |
| R0200 | 130,207 |
| R0210 | 0       |
| R0220 | 130,207 |
| R0400 |         |
| R0410 |         |
| R0420 |         |
| R0430 |         |
| R0440 |         |

**S.28.02.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity - December 31, 2020**

**Linear formula component for non-life insurance and reinsurance obligations - USD 000's**

|              |  |
|--------------|--|
|              | <b>C0010</b>   |
| MCRNL Result | <b>R0010</b> <span style="border: 1px solid black; padding: 2px;">9,442</span> |

|  |              | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|--|--------------|---|---|
|  |              | C0020   | C0030   |
| Medical expense insurance and proportional reinsurance                   | <b>R0020</b> | 0   | 1,602   |
| Income protection insurance and proportional reinsurance                 | <b>R0030</b> | 0   | 0   |
| Workers' compensation insurance and proportional reinsurance             | <b>R0040</b> | 0   | 0   |
| Motor vehicle liability insurance and proportional reinsurance           | <b>R0050</b> | 0   | 0   |
| Other motor insurance and proportional reinsurance                       | <b>R0060</b> | 0   | 0   |
| Marine, aviation and transport insurance and proportional reinsurance    | <b>R0070</b> | 126   | 655   |
| Fire and other damage to property insurance and proportional reinsurance | <b>R0080</b> | 5,473   | 12,354  |
| General liability insurance and proportional reinsurance                 | <b>R0090</b> | 36,433  | 22,594  |
| Credit and suretyship insurance and proportional reinsurance             | <b>R0100</b> | 0   | 279   |
| Legal expenses insurance and proportional reinsurance                    | <b>R0110</b> | 0   | 0   |
| Assistance and proportional reinsurance                                  | <b>R0120</b> | 0   | 0   |
| Miscellaneous financial loss insurance and proportional reinsurance      | <b>R0130</b> | 0   | 0   |
| Non-proportional health reinsurance                                      | <b>R0140</b> | 0   | 0   |
| Non-proportional casualty reinsurance                                    | <b>R0150</b> | 687   | 519   |
| Non-proportional marine, aviation and transport reinsurance              | <b>R0160</b> | 1,717   | 812   |
| Non-proportional property reinsurance                                    | <b>R0170</b> | 771   | 1,726   |

**S.28.01.01 - Overall MCR**

**Overall MCR calculation**

|                                    |              |              |
|------------------------------------|--------------|--------------|
|                                    |              | <b>C0070</b> |
| Linear MCR                         | <b>R0300</b> | 9,442        |
| SCR                                | <b>R0310</b> | 130,207      |
| MCR cap                            | <b>R0320</b> | 58,593       |
| MCR floor                          | <b>R0330</b> | 32,552       |
| Combined MCR                       | <b>R0340</b> | 32,552       |
| Absolute floor of the MCR          | <b>R0350</b> | 4,540        |
| <b>Minimum Capital Requirement</b> | <b>R0400</b> | 32,552       |