# AXIS Specialty Europe SE

# Solvency and Financial Condition Report

**Year Ended 31 December 2022**

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As used in this report, references to "we", "us", "our" or "Company" refers to AXIS Specialty Europe SE. The Solvency and Financial Condition report is presented in thousands of US Dollars (USD'000) unless otherwise stated. Amounts in tables may not reconcile due to rounding differences.

AXIS Specialty Europe SE ("the Company") has prepared this Solvency and Financial Condition Report ("SFCR") in compliance with the public disclosure requirements under the Commission Delegated Regulation (EU) 2015/235 of the European Parliament supplementing Directive 2009/138/EC, known as the Solvency II Directive, which was transposed into Irish Law effective 1 January 2016. This transposition took the form of secondary Irish legislation in the form of a Statutory Instrument, the European Union (Insurance and Reinsurance) Regulations 2015, which together with the Solvency II Directive are collectively referred to as "Solvency II" in this report. This "SFCR" for the company is for year ended 31st December 2022.

This report covers the business and performance of the Company, its system of governance, risk profile, valuation for solvency purposes and capital management process. The Board of Directors ("the Board") of the Company has ultimate responsibility for these matters. The Board use the assistance of various governance and control functions that it has put in place to manage the business and monitor risk.

The Company is regulated by the Central Bank of Ireland ("the Central Bank") and complies with the Corporate Governance Requirements for Insurance Undertakings, 2015 and all related regulatory requirements and codes. The U.K branch of the Company is regulated by the Prudential Regulatory Authority ("PRA") in the U.K. The Company is also regulated by the Financial Conduct Authority ("FCA") for conduct of business rules in respect of its business in the U.K and the National Bank of Belgium ("NBB") in respect of its business in Belgium.

**Business and Performance**

The Company operated from its Head Office at Mount Herbert Court, 34 Upper Mount Street, Dublin 2 until January 2023 when the Company sold its Head Office premises and has entered into a new lease agreement to lease office space at 20 Kildare Street, Dublin 2 from 31 March 2023. The Company has underwriting branches in the United Kingdom and Belgium. A further underwriting branch in the Netherlands closed with effect from 31 December 2021.

The Company is a part of the AXIS Capital Holdings Limited ("AXIS Capital") group. AXIS Capital is a Bermuda-based holding company. At 31 December 2022, it had common shareholders' equity of USD 4.1 billion, total capital of USD 6.0 billion and total assets of USD 27.6 billion.

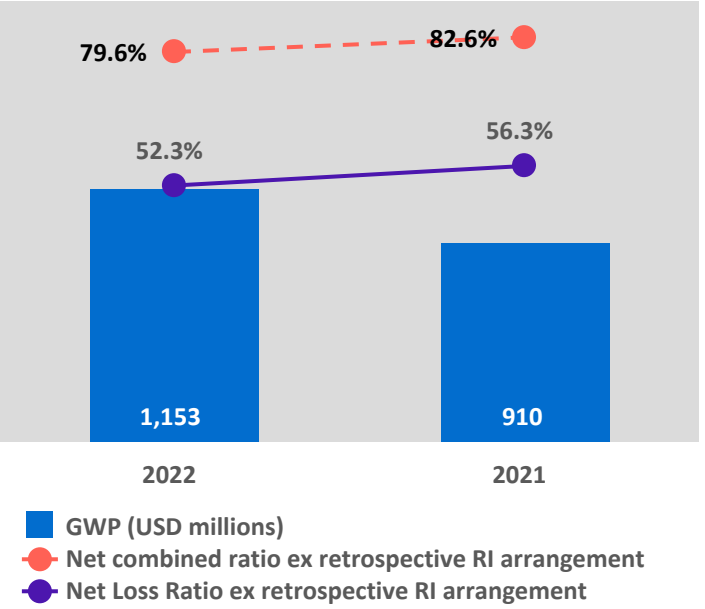
The principal activity of the Company is the transaction of insurance business in respect of the risks of third parties, primarily in the marine, aviation, energy, liability, property (including renewable energy), credit, and accident and health classes of business.

The U.K. officially left the E.U. in 2020 and is now considered a third country. European law no longer applies directly in the U.K., which also means that the Company has lost its passporting rights. An application for authorisation of a third country branch was submitted by the Company to the U.K.'s Prudential Regulatory Authority (PRA) in 2018. This was approved on 28 October 2022 and ASE now has a third country branch which is subject to regulation by the PRA.

In 2022, the Company reported a loss of USD 2.2 million compared to a USD 16.2 million profit in 2021. Gross premium written in 2021 increased by USD 243.4 million to USD 1,153.0 million, representing an increase of 26.8% on prior year. This was driven by both new business and continued favourable rate changes building on positive rate changes delivered in prior years across most lines of business.

On 9 December 2022, AXIS Capital and a number of its subsidiaries entered into a retrospective reinsurance agreement with a third-party. Under the agreement, the Company has been insured against potential adverse development in respect of its net provisions for claims outstanding, providing the Company with protection in several professional lines and liability insurance portfolios, predominantly relating to 2019 and prior accident years. The profit and loss account includes USD 38.9 million in outwards reinsurance premium for this retrospective reinsurance agreement and an offsetting reinsurance recovery in net claims incurred. The net cost recognised by the Company in relation to this transaction was USD 0.5 million. The retrospective reinsurance transaction distorts the comparability of these ratios. Excluding the retrospective reinsurance transaction, the Company's net combined ratio was 79.6% (2021: 82.6%). The favourable result over prior year was driven by the absence of significant catastrophe and weather events in the year and also favourable loss experience in a number of lines of business in both current and prior accident years. Including the retrospective transaction, the Company's net combined ratio was 73.6%.

**Key Metrics**



**Business and Performance (continued)**
Rates, terms and conditions across virtually all insurance lines continued to be favorable as pricing generally continues to rise, albeit at moderated levels. The Company is well positioned to continue to drive profitable growth within the current environment with a strengthened book of business, and growing footprint in attractive specialty markets that are seeing the most favorable conditions.

The Company's investment portfolio generated negative returns from investments of USD 33.9 million in 2022 (2021: USD 2.7 million). The pre-tax total return on average cash and investment was negative 5.3% inclusive of foreign exchange losses that hedge liabilities (2021: 0.4% gain).

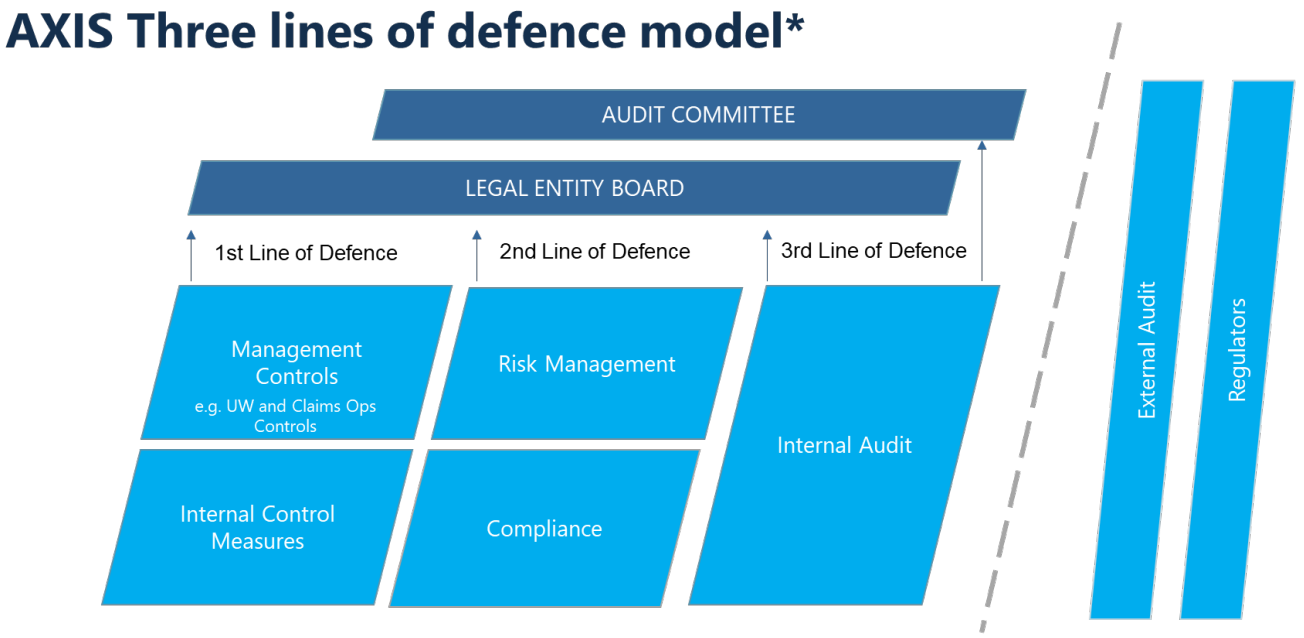
During 2022, the Company paid a USD 10 million dividend payment (2021: Nil) to its parent company AXIS Specialty Holdings Ireland Limited.

Refer to Section A for further detail relating to business and performance.

**System of Governance**
The Board of Directors ("the Board") is ultimately responsible for the good governance, strategy, and oversight of the conduct of performance of the Company. The Company is subject to the relevant requirements set out by the Central Bank, including the Corporate Governance Requirements for Insurance Undertakings, 2015. The Board recognizes that an effective system of governance is essential for appropriate management of the Company and adheres to the principle that good corporate governance is founded on a solid framework which delivers security and protection for policyholders and value for shareholders through the diligent oversight of policies, processes and decision making.

The Company implements the "three lines of defence" model which is used to structure roles and responsibility for risk and control activity. The key functions within the second and third of the three lines of defence are Risk, Compliance and Internal Audit. These key functions are delegated responsibility to monitor and independently challenge the business and to report their findings to the relevant oversight Committee and/or the Board itself.

The three lines of defence model, is described below:




* Source – Chartered Institute of Internal Auditors (IIA) – see link. As amended for AXIS.
https://www.iia.org.uk/resources/audit-committees/governance-of-risk-three-lines-of-defence/

Refer to Section B for further detail on the Company's system of governance.

**Risk Profile**
The Company's risk landscape comprises insurance, market, credit, liquidity, operational, strategic and other risks that arise as a result of doing business. Across these risk categories, emerging threats and opportunities are identified and evaluated through a framework that includes the assessment of potential known and unknown factors that could affect exposures.

**Risk Profile (continued)**

Insurance risk is comprised of underwriting risk (including catastrophe risk) and reserving risk. Underwriting risk is managed through the Company's underwriting risk governance framework. A key component of this is the peer review process which allows for a collaborative review of risk and pricing by management, and ensures underwriting is within established protocols and guidelines. Underwriting guidelines are in place to provide a framework for consistent pricing and risk analysis. Limits are set on underwriting capacity, and cascade authority to individuals based on their specific roles and expertise. The Company seeks to mitigate reserving risk by, among other things, diligently monitoring claims and maintaining a structured process and control framework for determining carried reserves.

The management of market and credit risk comprises the identification, assessment and controlling of the risks inherent in the financial and credit markets and includes monitoring of compliance with the Company's risk management standards, including various risk limits. The Company seeks to mitigate market risk through asset-liability management supplemented with various internal policies and limits. The day-to-day management of asset classes is centralised within AXIS Capital to control aggregation of risk, and provide a consistent approach to constructing portfolios as well as the selection process of external asset managers. Limits are set on the concentration of investments by single issuers and certain asset classes, and on the level of illiquid investments. Further, the Company's investment guidelines do not permit the use of leverage in any of the fixed maturity portfolios. The company manages credit risk through close monitoring of concentration and creditworthiness of our material receivable balances, particularly of its reinsurers. Tolerances and limits are in place to ensure that credit risk is kept to a level within appetite.

The Company aims to ensure it maintains adequate liquidity to meet its liquidity needs under both normal and stressed conditions. The Company manages liquidity through limits on the minimum percentage of the investment portfolio to mature within a defined timeframe.

The Company manages operational risk through sound corporate and risk governance, including the application of process controls throughout which are reviewed on a regular basis. The Risk Management Function is responsible for coordinating and overseeing the Group-wide framework for operational risk management.

The Company has put in place a new operating model for EEA risks, covering the regulated activities of underwriting, claims handling, and complaints handling, with Brexit being the driver of this. This model ensures that applicable activities are undertaken in the correct jurisdiction, while ensuring the Company can retain effective oversight of its activities.

At present, the Company has low and containable exposure to potential losses resulting from war, acts of terrorism, political unrest and geopolitical instability in many regions of the world, including but not limited to, events related to the recent Russian invasion of Ukraine. We are closely monitoring the situation and complying with the requirements of the various sanction regimes which range from prohibiting the provision of insurance and reinsurance coverage or services to the freezing of assets of various insured and cedants. For the foreseeable future, we are generally looking to avoid exposure to business with any Russian influence.

Refer to Section C for further detail on the Company's risk profile.

**Valuation for Solvency Purposes**

The Company's financial statements including the balance sheet have been prepared under the historical cost convention, as modified by the inclusion of certain investments at fair value and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK 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, and comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015. As used in this report, references to "GAAP" refer to the accounting standards and regulations under which the financial statements have been prepared.

The Solvency II Balance Sheet recognises assets and liabilities in conformity with the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 (IFRS as adopted by the EU) unless otherwise stated within Solvency II.

The valuation of assets and liabilities for GAAP is the same as Solvency II except for:

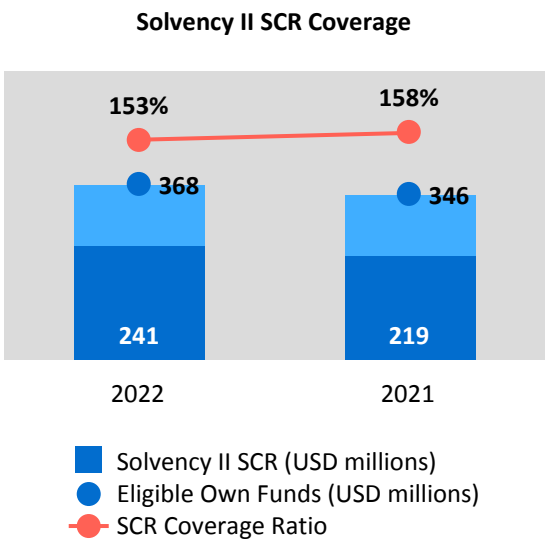
- valuation of technical provisions and associated reinsurance recoverables,
- valuation of property, plant and equipment including leases; and
- deferred tax calculated on the expected tax impact once the valuation adjustments from GAAP to Solvency II unwind.

Refer to Section D for further detail on valuation for Solvency purposes.

**Capital Management**

The Company's Capital Management objective is to ensure that the Company maintains an appropriate level of capital, in terms of both quantity and quality, at all times, in line with its risk appetite and capital requirements, and that it fulfils its obligations to monitor, manage and report its capital position, both required and available, internally and externally as required, in accordance with relevant regulatory requirements. A business plan is prepared annually to support the capital management objective and includes a three year plan of expected performance.

For Solvency II, own funds are divided into levels of quality, known as tiers, depending on their loss absorbency. Tier 1 unrestricted, which is not subject to a limit, is of the highest quality, Tier 3 the lowest. 100% (2021: 97.5%) of the Company's own funds are classified as Tier 1.




The Company applies the Standard Formula approach in calculating the Solvency II Capital Requirement ("SCR").

The SCR at 31 December 2022 was USD 240.6 million (2021: USD 219.4 million) with a coverage ratio of 152.9% (2021: 157.7%).

The increase in SCR over prior year is driven by higher counterparty default risk and non-life underwriting risk charges largely associated with the growth in business.

The Minimum Capital Requirement ("MCR") at 31 December 2022 was USD 60.1 million (2021: USD 54.9 million) with a coverage ratio of 611.7% (2021: 614.9%).

The final SCR and MCR amounts remain subject to supervisory assessment. The Company was compliant with Solvency II capital requirements throughout the year.

Refer to Section E for further detail on Capital Management.

## A. BUSINESS AND PERFORMANCE

### A. 1 Business

**Company Profile**
AXIS Specialty Europe SE was incorporated in Ireland on 18 February 2002 as a limited liability company. On 10 September 2012, the Company re-registered as a Societas Europaea ("SE") having received Irish High Court approval.

The principal activity of the Company is the transaction of insurance business in respect of the risks of third parties, primarily in the liability, marine, energy, property (including renewable energy), credit, and accident and health classes of business. Accident and health business includes income protection and miscellaneous financial loss lines of business.

In 2022, the Company operated from its Head Office at Mount Herbert Court, 34 Upper Mount Street, Dublin 2. This office was officially sold to a third party on 31 January 2023. Contractual provisions have provided for the continued use of Mount Herbert Court as the Company's registered office and for the purposes of storage for a period of six months post sale. The Company has entered into a new lease agreement to lease office space at 20 Kildare Street, Dublin 2 from 31 March 2023.

In 2022, persons previously employed by AXIS Specialty Europe SE in the UK and Ireland transferred to employment with AXIS UK Services Limited in accordance with the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations 2006.

The Company is 100% owned by AXIS Specialty Holdings Ireland Limited ("ASHIL"), an Irish registered company which is 100% owned by AXIS Capital, a company incorporated in Bermuda. The Bermuda Monetary Authority acts as the group supervisor of AXIS Capital.

At 31 December 2022, AXIS Capital had common shareholders' equity of USD 4.1 billion, total capital of USD 6.0 billion and total assets of USD 27.6 billion.

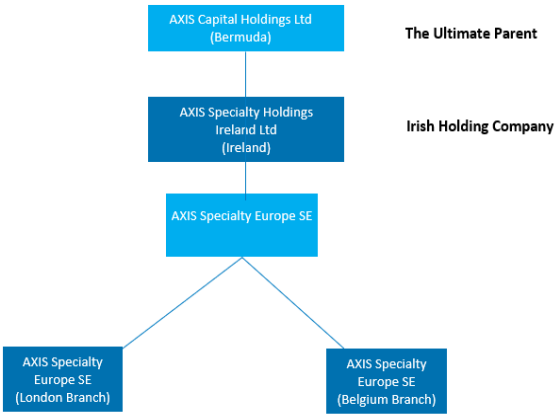
The Company has an underwriting branch in the United Kingdom ("U.K."). The U.K. branch trades as "AXIS Specialty London" located at 52 Lime Street, London EC3M 7A, U.K..

Pursuant to the U.K.'s withdrawal from the European Union on January 31, 2020, the Company submitted an application to have its U.K. Branch fully regulated by the Prudential Regulation Authority ("PRA") and the U.K. Financial Conduct Authority ("FCA") as a third-country branch. This application was approved by the PRA and FCA on 28 October 2022, therefore, the U.K. Branch of the Company is now fully regulated in the U.K.

The Company also has an underwriting branch in Belgium, AXIS Specialty Europe SE (Belgium Branch), which is regulated by the Central Bank of Ireland, and the National Bank of Belgium.

The Company had an underwriting branch in the Netherlands, which was set up on 1 January 2019, which had been regulated by the Central Bank of Ireland and the Dutch National Bank. This branch was closed with effect from 31 December 2021. The activities of the Dutch branch were incorporated into the Belgium branch from 1st January 2022.

**Simplified Group Structure**




Refer to Appendix I for the AXIS Capital group structure including the Company and its related undertakings.

**Shared Services within the AXIS Group**
The AXIS Group ("Group") operates a global business providing a range of specialty (re)insurance products and services. Business segments and legal entities within the Group rely on the breadth of support functions offered by the Group. The Group is structured such that the business segments have access to many of their own vital support functions, such as Finance, Actuarial, Human Resources ("HR") and Business Technology Solutions ("BTS"), and these are overlaid with further functions and support at Group level, such as Corporate Finance, Treasury & Investments, Corporate Risk and Risk Funding. Certain functions have centralised support, such as HR and BTS, with a dedicated representative within the business segment. This also applies to the legal entities where many of the business and support function leaders have a shared responsibility, with some of those having obligations at both business segment and legal entity level.

**Supervision and External Audit**
The Company is regulated by the Central Bank, New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3.

AXIS Specialty London is regulated by the Central Bank and regulated by the PRA and Financial Conduct Authority ("FCA") in respect of the conduct of the United Kingdom business.

The Belgium branch is regulated by the Central Bank of Ireland, and by the National Bank of Belgium.

The Company's external auditor is Deloitte Ireland LLP, Chartered Accountants and Statutory Audit Firm, whose address is 29 Earlsfort Terrace, Dublin 2, Ireland.

**Performance**
On a GAAP basis, the profit for the year ended 31 December 2022 was USD 2.2 million (2021 : USD 16.2 million).

| | **2022** | **2021** |
|---|---|---|
| | **USD'000** | **USD'000** |
| Gross written premium | 1,152,992 | 909,627 |
| Technical result | 35,280 | 21,589 |
| Net investment (losses) / income | (33,905) | 2,699 |
| Foreign exchange losses | (2,828) | (1,194) |
| (Loss) / Profit on ordinary activities before taxation | (1,454) | 23,094 |
| Taxation on (loss) / profit on ordinary activities | (726) | (6,866) |
| **(Loss) / Profit on ordinary activities after taxation** | **(2,180)** | **16,228** |

Gross premium written in 2022 increased by USD 243.4 million to USD 1,153.0 million, representing an increase of 26.8% on prior year. This was driven by both new business and continued positive rate changes building on improved rates delivered in prior years across most lines of business. The favourable technical result over prior year was driven by absence of large catastrophe and weather events and overall benign loss activity in the year.

The Company's investment portfolio generated negative returns from investments of USD 33.9 million in 2022 (2021: USD 2.7 million gain).The pre-tax total return on average cash and investment was negative 5.3% inclusive of foreign exchange losses that hedge liabilities (2021: 0.4%). Investment performance was adversely impacted by the increase in sovereign interest rates, widening in credit spreads and a decline in equity markets and weakening Euro against US dollar reported in net realised and unrealised losses.

Rates, terms and conditions across virtually all insurance lines continue to be favorable as pricing generally continues to rise, albeit at moderated levels. The industry has observed rising loss cost trends and we expect rate improvement to continue as carriers assess the impact of heightened catastrophe loss activity, financial and social inflation, and geopolitical uncertainty, among other factors. In this market environment, we continue to focus on growth in lines of business and market segments that are adequately priced. The Company is well positioned to continue to drive profitable growth within the current environment with a strengthened book of business, and growing footprint in attractive specialty markets that are seeing the most favorable conditions.

During 2022, the Company paid a USD 10 million dividend payment (2021: Nil) to its parent company AXIS Specialty Holdings Ireland Limited.

**A.2 Performance from Underwriting**

| | 2022 USD'000 | 2021 USD'000 |
|---|---|---|
| Gross written premium | 1,152,992 | 909,627 |
| Net premiums written | 157,039 | 142,994 |
| Gross premiums earned | 1,038,336 | 793,373 |
| Net premiums earned | 133,657 | 121,643 |
| Other technical income (net) | 366 | 369 |
| Net losses and loss expenses | (51,323) | (68,455) |
| Net operating expenses | (47,421) | (31,968) |
| **Technical result** | **35,280** | **21,589** |
| | | |
| **Net combined ratio** | **73.6 %** | **82.6 %** |

Gross premium written in 2022 increased to USD 1,153.0 million, representing an increase of 26.8% on prior year with gross across most lines of business.

On 9 December 2022, AXIS Capital and a number of its subsidiaries entered into a retrospective reinsurance agreement with a third-party. Under the agreement, the Company has been insured against potential adverse development in respect of its net provisions for claims outstanding, providing the Company with protection in several professional lines and liability insurance portfolios, predominantly relating to 2019 and prior accident years. The profit and loss account includes USD 38.9 million in outwards reinsurance premium for this retrospective reinsurance agreement and an offsetting reinsurance recovery in net claims incurred. The net cost recognised by the Company in relation to this transaction was USD 0.5 million.

The net combined ratio, which relates net losses and other expenses incurred to net earned premium, is the primary indicator of underwriting and therefore, company performance. The retrospective reinsurance transaction distorts the comparability of these ratios Excluding the retrospective reinsurance transaction, the Company's net combined ratio was 79.6% (2021: 82.6%). The favourable result over prior year was driven by the absence of significant catastrophe and weather events in the year and also favourable loss experience in a number of lines of business in both current and prior accident years.

**Premiums**
The following table provides premium written and net premium earned by line of business:

| **Direct business and accepted proportional reinsurance** | Gross premiums written 2022 USD'000 | Gross premiums written 2021 USD'000 | Net premiums earned 2022 USD'000 | Net premiums earned 2021 USD'000 |
|---|---|---|---|---|
| Income Protection | 28,509 | 27,372 | 6,454 | 5,654 |
| Marine, aviation and transport | 202,395 | 192,449 | 37,255 | 37,490 |
| Fire and other damage to property | 386,981 | 319,630 | 58,824 | 38,515 |
| General liability | 459,859 | 325,003 | 24,237 | 34,499 |
| Credit and suretyship | 75,249 | 44,898 | 6,888 | 5,421 |
| Miscellaneous financial loss | — | 275 | — | 64 |
| **Total** | **1,152,992** | **909,627** | **133,657** | **121,643** |

**Premiums (continued)**

**Analysis of gross premiums written by geographic location of insured**

| | 2022 USD'000 | 2021 USD'000 |
|---|---|---|
| Europe | 287,674 | 237,878 |
| UK | 486,583 | 345,735 |
| North America | 224,797 | 182,939 |
| Asia | 64,445 | 65,856 |
| Oceania | 30,871 | 36,151 |
| Central & South America | 25,126 | 28,052 |
| Africa | 33,495 | 13,015 |
| | **1,152,992** | **909,627** |

Refer to Appendix II S.05.02.01 for further detail on the top five countries by gross premiums written.

In 2022, gross written premiums were USD 243.4 million higher than prior year with increases seen across most of lines of business. This was driven by both new business and strong renewals with continued favourable rate changes building on positive rate changes delivered in prior years across most lines of business.

*Ceded Reinsurance*
The Company continues to purchase both proportional and non-proportional reinsurance to reduce the risk of exposure to loss, from both third parties and other AXIS Capital group companies. The Company shares its third party reinsurance protections with a number of group companies. There has been no change to the risk mitigation strategy during 2022.

Ceded premiums written increased from USD 766.6 million in prior year to USD 996.0 million in 2022 driven by the increase in gross written premium along with the impact of the retrospective reinsurance agreement.

**Other technical income (net)**
In consideration for the Company's appointment of certain intermediaries as reinsurance intermediary/broker for the placement and servicing of treaty reinsurance purchased or renewed by the Company on or after 1 April 2009, and in consideration of the Company's performance of various administrative services to assist the reinsurance intermediary/broker, the intermediaries agree to share the received brokerage revenue derived from the business written on behalf of the Company.

During 2022, USD 1.5 million (2021: USD 1.5 million) was receivable for the performance of those administrative services. Other technical income net of reinsurance recognised in 2022 was USD 0.4 million (2021: USD 0.4 million).

**Net losses and loss expenses**

| Direct business and accepted proportional reinsurance | Net losses and loss expenses 2022 USD'000 | Net loss ratio 2022 % | Net losses and loss expenses 2021 USD'000 | Net loss ratio 2021 % |
|---|---|---|---|---|
| Income protection | 4,044 | 62.7 % | 3,557 | 62.9 % |
| Marine, aviation and transport | 17,168 | 46.1 % | 17,486 | 46.6 % |
| Fire and other damage to property | 29,535 | 50.2 % | 15,250 | 39.6 % |
| General liability | (1,701) | (7.0)% | 31,790 | 92.1 % |
| Credit and suretyship | 1,969 | 28.6 % | 574 | 10.6 % |
| Miscellaneous financial loss | 307 | nm | (202) | nm |
| **Total** | **51,322** | **38.4 %** | **68,455** | **56.3 %** |

The net loss ratio has decreased from 56.3% in 2021 to 38.4% in 2022. Excluding the impact of the retrospective reinsurance agreement, the Company's net loss ratio was 52.3%. The favourable result over prior year was driven by the absence of significant catastrophe and weather events in the year and also favourable loss experience in a number of lines of business in both current and prior accident years. Current year catastrophe and weather events contributed 4.0% to the net loss ratio compared to 4.6% in 2021.

**Net operating expenses**

Net operating expenses include net acquisition costs and net general and administrative expenses incurred during the year. Net general and administrative expenses are allocated across the different lines of business based on gross earned premium.

| Direct business and accepted proportional reinsurance | Net operating expenses 2022 USD'000 | Net operating expenses 2021 USD'000 |
|---|---|---|
| Income protection | 2,253 | 2,120 |
| Marine, aviation and transport | 8,855 | 10,344 |
| Fire and other damage to property | 18,784 | 12,952 |
| General liability | 16,656 | 6,348 |
| Credit and Suretyship | 873 | 358 |
| Miscellaneous financial loss | — | (154) |
| **Total** | **47,421** | **31,968** |

| | 2022 | 2021 |
|---|---|---|
| Net operating expense ratio | **35.5 %** | **26.3 %** |

The increase in net operating expenses is largely driven by increased acquisition costs due to higher earned premiums. Additionally, it increased due to changes in business mix and higher costs associated with delegated business partially offset by growth in certain property and renewable energy lines with lower associated acquisition costs. Excluding the impact of the retrospective reinsurance transaction, the 2022 net operating expense ratio was 27.5% with the increase in net operating expenses largely offset by higher premium earning through.

**A. 3 Performance from investment activities**

| | Dividends 2022 USD'000 | Interest 2022 USD'000 | Realised gains/(losses) 2022 USD'000 | Unrealised gains/(losses) 2022 USD'000 | Total 2022 USD'000 |
|---|---|---|---|---|---|
| Government Bonds | — | 3,034 | (6,751) | (4,176) | (7,893) |
| Corporate Bonds | — | 6,368 | (8,733) | (15,752) | (18,117) |
| Equity instruments | 584 | — | 6,829 | (14,252) | (6,839) |
| Collateralised securities | — | 706 | (623) | (2,723) | (2,640) |
| Cash and deposits | — | 1,713 | (20) | — | 1,693 |
| Other investments | — | — | — | 562 | 562 |
| FX Forward | — | — | 286 | — | 286 |
| | **584** | **11,821** | **(9,012)** | **(36,341)** | **(32,948)** |

| | Dividends 2021 USD'000 | Interest 2021 USD'000 | Realised gains/(losses) 2021 USD'000 | Unrealised gains/(losses) 2021 USD'000 | Total 2021 USD'000 |
|---|---|---|---|---|---|
| Government Bonds | — | 1,026 | 706 | (3,691) | (1,959) |
| Corporate Bonds | — | 5,971 | 2,505 | (10,181) | (1,705) |
| Equity instruments | 628 | — | — | 6,187 | 6,815 |
| Collateralised securities | — | 565 | 18 | (1,251) | (668) |
| Cash and deposits | — | (72) | — | — | (72) |
| Other investments | — | — | — | 1,180 | 1,180 |
| FX Forward | — | — | 217 | — | 217 |
| | **628** | **7,490** | **3,446** | **(7,756)** | **3,808** |

**A. 3 Performance from investment activities (continued)**

The Company's investment portfolio comprises debt, equity, cash and cash equivalents, investment funds and derivatives (used only for hedging foreign currency exposure). The portfolio includes investments in securitisations of USD 3.5 million (2021: USD 5.0 million). Investment performance was adversely impacted by the increase in sovereign interest rates, widening in credit spreads and a decline in equity markets.

The Company's investment portfolio generated negative returns from investments of USD 33.9 million (including investment charges and expenses) in 2022 (2021: USD 2.7 million positive return). The pre-tax total return on average cash and investment was negative 5.3% inclusive of foreign exchange losses that hedge liabilities (2021: 0.4% gain). Unrealised investment losses as a result of yield curve movements did not significantly impact the Company's Solvency II capital position because the same yield curve movements meant a greater discount rate was applied in Solvency II technical provision calculations.

| | 2022<br>USD'000 | 2021<br>USD'000 |
|---|---|---|
| **Investment expenses and charges** | 955 | 1,109 |

Investment expenses and charges relate to costs associated with the management of the investment portfolio including custodian fees and third party investment manager fees. It is not practicable to allocate investment management costs between the different investment classes.

**A.4 Performance of other activities**

In the normal course of its operations, the Company has entered into a "Central Services Agreement" within the AXIS group and performs services on behalf of other AXIS companies. There have been no other significant activities undertaken by the Company.

**Lease arrangements**
The Company leases three floors in the Scalpel, 52 Lime Street. This lease was effective September 2018 and expires May 2036, with no option to terminate during the lease term. In September 2019 a new lease was entered into in Brussels for the Company's Belgium branch. This lease is for 9 years with no lease break option. Charges relating to lease obligations of USD 4.1 million (2021: USD 2.4 million) are included in net operating expenses.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | USD '000 |
|---|---|
| Lease commitments payable: | |
| Within 1 year | 4,619 |
| Within 2 to 5 years | 18,475 |
| After 5 years | 36,556 |
| | **59,650** |

The Company is not party to any finance leases as at 31 December 2022.

**A.5 Any other information**

All material information regarding business and performance has been disclosed in Sections A.1 - A. 4 above.

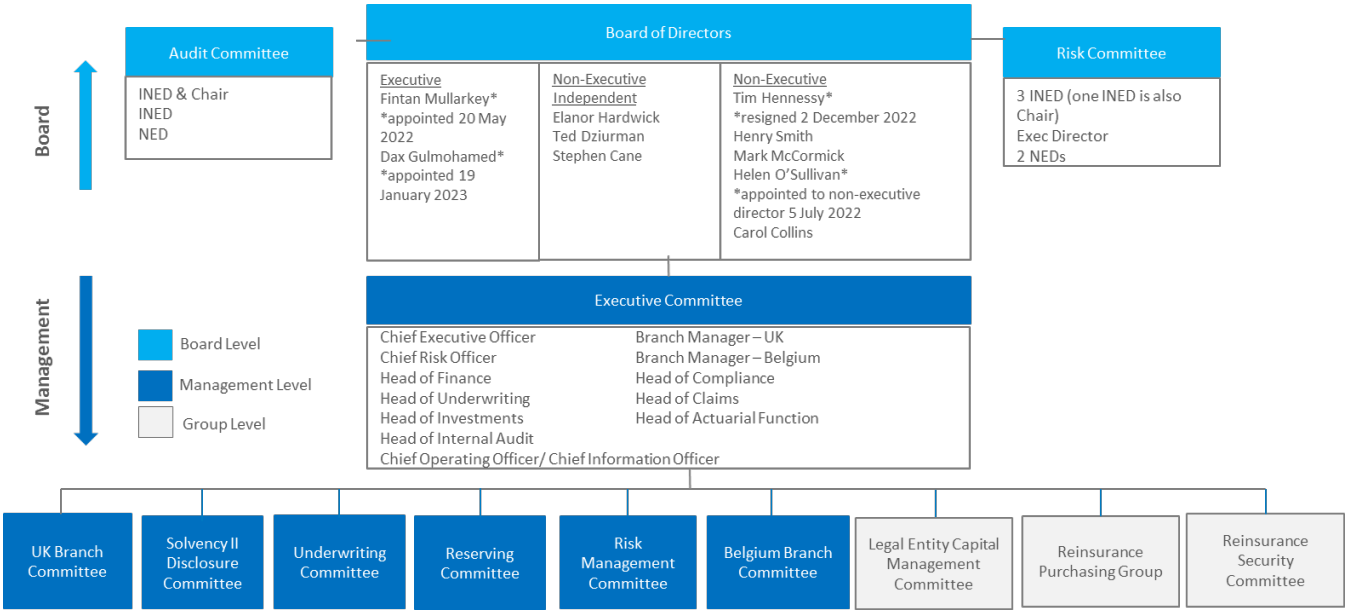
## B. SYSTEM OF GOVERNANCE

### B.1 General governance arrangements

The Board believes an effective system of governance is essential for the appropriate management of the Company and is responsible for the prudent, effective and ethical oversight of the Company. The Company's system of governance reflects the nature, scale and complexity of the Company and is implemented in compliance with Solvency II, the Central Banks Corporate Governance Requirements for Insurance Undertakings 2015, and related regulations and codes. The Company adheres to the principle that good corporate governance is founded on a solid framework which delivers security and protection for policyholders and value for shareholders; through long term diligence in oversight of policy, process and decisions.

The key control functions within the Company's system of governance, Compliance, Risk, and Internal Audit have developed and documented oversight monitoring strategies which are reported on to the relevant oversight Committee and/or Board. Responsibility for business decisions and governance rests with the Board who may delegate authority to Board sub-Committees and Management to act on behalf of the Board in respect of certain matters. The Board considers the system of governance to be appropriate and effective.

There were no changes in the system of governance over the reporting period. The material components of the system of governance are outlined below.




### Board of Directors

The Company has established a Board of Directors comprising a minimum of five directors including at least two non-executive directors. As at 31 December 2022, the Board comprised 8 Directors, a majority of 8 being independent or Group non-executive directors and one Executive Director. All Group non-executive directors are deemed independent directors who exercise sound judgement and decision making, independent of the views of management or outside interests. The Company considers the independence of a majority of its Board members to be a key component of good governance. During the reporting period, Helen O'Sullivan stepped down from her role as Chief Executive Officer of the Company and has remained on the Board as a Group Non-Executive Director. The role of Chief Executive Officer is now held by Fintan Mullarkey who is also an Executive Director of the Board.

**Board of Directors (continued)**

The Board is responsible for the following:

- monitoring and oversight of the business activities of the Company,
- setting the strategy of the Company, and overseeing its execution,
- corporate, regulatory and compliance governance,
- compliance with all legal and regulatory requirements,
- effective, prudent and ethical oversight of the Company,
- oversight of Board of Directors Committees,
- ensuring key control functions including, risk, internal audit and compliance are properly managed, are independent of business units and have adequate resources and authority to operate effectively,
- appointment, monitoring and removal of persons performing Controlled Functions or Pre-approval Controlled functions on behalf of the Company,
- defining and documenting the responsibilities of Directors, Board of Directors Committees and senior management to ensure that no single person has unfettered control of the business,
- the Own Risk and Solvency Assessment ("ORSA") process,
- the implementation of the Company's ESG program.
- succession planning for the Board of Directors and senior management; and
- monitoring the performance of outsourced providers.

The Board is enabled to discharge its responsibilities through receipt and review of appropriate management information, regular oversight of the business and the participation in ongoing training and briefings. The Board shall meet as often as is appropriate to fulfil its responsibilities effectively and prudently, reflective of the nature, scale and complexity of the Company's activities. The Board will meet at least four times a year.

The Board is responsible for ensuring that the system of governance is internally reviewed on a regular basis and should determine the appropriate scope and frequency of the reviews, taking into account the nature, scale and complexity of the business. The Board is also responsible for determining who within the Company should conduct the review and should ensure that they are suitably independent.

The Board reserves certain key matters for itself and delegates certain matters to Board sub-Committees and to the Chief Executive Officer, who in turn delegates authority to the Executive Committee and Management. The Board Terms of Reference specify what decisions are reserved for the Board and which decision-making powers it has chosen to delegate.

The Board has established Board and Management Committees as required by law or regulation and as it deems appropriate given the nature, scale and complexity of the Company. The roles and responsibilities of the Committees are further described in this section.

*Board Audit Committee*

The Audit Committee is a sub Committee of the Board and its purpose is to assist the Board of Directors in its oversight of:

- the integrity of the Company's financial statements,
- the Company's compliance with legal and regulatory requirements,
- the independent auditors' qualifications, independence and effectiveness; and
- the effectiveness, adequacy and performance of the Company's internal audit, internal controls and IT systems.

The Audit Committee also reviews external reports and disclosures pursuant to the rules promulgated by the Central Bank and otherwise. In fulfilling its purpose, the Committee maintains free and open communication with the Company's independent auditors, internal auditors and management.

The Audit Committee comprises non-executive directors, the majority being independent, and neither the Chair of the Board nor the Chief Executive Officer are members.

The Committee consists of no fewer than three directors, as determined by the Board of Directors. Committee members shall be appointed annually by a majority vote of the Board of Directors. The Committee Chair is an independent non-executive director appointed by a majority vote of the Board of Directors.

**Board of Directors (continued)**

*Board Risk Committee*
The purpose of the Risk Committee is to assist the Board of Directors in overseeing the integrity and effectiveness of the Company's enterprise risk management framework, and ensuring that the Company's risk assumption and risk mitigation activities are consistent with that framework.

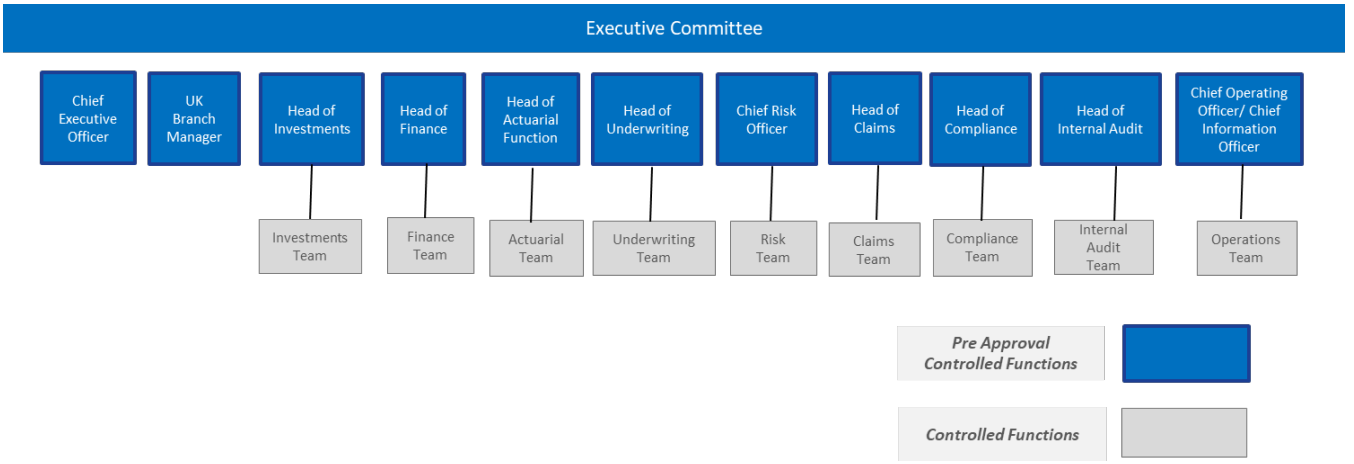
In furtherance of its purpose, the Risk Management Committee has the following duties and responsibilities:

- review and approve the Company's Enterprise Risk Management Framework, and monitor management's effective implementation of this framework,
- review and approve annually, the Company's Risk Management Strategy Framework, overseeing the integrity and effectiveness,
- review the output of the Stress Test and Scenario Testing Framework, and provide input on scenario design and selection,
- review and approve annually the Company's Risk Management Strategy and Reinsurance Management Strategy documents,
- review and approve any changes to the Company's Strategic Solvency Target and Risk Limits,
- review and approve the Company's annual Own Risk and Solvency Assessment ("ORSA") policy and the Company's ORSA Report,
- review the Company's assessment of emerging risks that could have significant impact on the Company,
- review the operational risk register and any applicable risk events reported in the quarter,
- before a decision to proceed is taken by the Board, review the inherent risks associated with any proposed strategic transactions, focusing in particular on risk aspects and implications on the Company's Strategic Solvency Target and Company Risk Limits,
- meet on a regular basis with the Chief Risk Officer in a separate executive session,
- to review and recommend for approval to the Board, the Company's three-year business plan, focusing in particular on risk aspects and implications for the Company's Strategic Solvency Target and Company Risk Limits.

The Risk Committee shall consist of no fewer than three directors, as determined by the Board of Directors. The Committee shall include a Chair who shall be a non-executive director.

*Group Remuneration and Nomination Committee*
Effective 1 January 2023, the Board have elected not to establish a Remuneration and Nomination Committee and resolved to rely on the AXIS Group Human Capital and Compensation Committee and the Corporate Governance and Nominating and Social Responsibility Committee. There is common membership between the Board and these Group Committees.

*Executive Committee ("ExCo")*
The ExCo, chaired by the Chief Executive Officer, is delegated the day-to-day running of the Company by the Board. The ExCo includes the Company executive's holding Pre-Approval Controlled Function ("PCF") positions:




The Exco has established a number of functional internal Committees to support the management and governance of the Company's activities. It is also supported by various AXIS Group committees including the Reinsurance Purchasing Group, the Reinsurance Security Committee and the Legal Entity Capital Committee.

**Board of Directors (continued)**

The main responsibilities of the ExCo are:

- managing and overseeing the business activities of the Company,
- managing and overseeing the activities of each branch of the Company,
- annually preparing ASE's three-year business plan, and presenting same to the Board for approval,
- reviewing ASE's risk framework and appetite and recommending to the Board for approval,
- managing and overseeing key control functions including risk, internal audit, actuarial, and compliance,
- approving ASE quarterly provision for loss and loss expense reserves,
- reviewing certain policies of ASE and recommending same to the Board for approval,
- reviewing and approving those policies of ASE which do not require Board approval.

*Underwriting Committee*
The Underwriting Committee ensures underwriting alignment with business objectives, the annual business plan, and any relevant regulatory and compliance requirements. The Underwriting Committee is responsible for:

- underwriting strategy and management, including overseeing the management of underwriting risk within agreed risk appetites, and reporting breaches to the ExCo, or other committee, as appropriate;
- reviewing and providing input into the business plan for recommendation to the ExCo;
- reviewing progress against the annual business plan and monitoring performance against defined targets;
- maintaining and monitoring the underwriting control framework, ensuring that appropriate documented underwriting policies and procedures are in place;
- approving Class of Business Underwriting Guidelines and monitoring breaches of business written outside agreed criteria, or causing breach of appetite; and
- reviewing letters of authority to underwriters.

The Underwriting Committee is chaired by the Deputy Chief Underwriter, and receives updates from various underwriting teams as well as the Pricing, Risk Funding, Claims, Delegated Underwriting, Conduct Risk, Risk, Compliance, Operations, and Reserving functions.

*Reserving Committee*
The purpose of the Reserving Committee is to determine Management's Best Estimate ("MBE") of the Reserves for Loss and Loss Expenses to be recorded in the financial statements.

Core responsibilities of the Reserving Committee include:

- reviewing the actuarial reserve proposals of the actuarial central estimate ("ACE") and the MBE for inclusion in local financial statements,
- recommending to the Board Audit Committee the level of reserves to be included in the Company's accounts both on a UKIRE GAAP basis, as well as the Technical Provisions on a Solvency II basis,
- review the actuarial best estimate of projections of ultimate claims, gross and net of reinsurance, and by line of business,
- overseeing the governance of the setting of the Technical Provisions and its compliance with Reserving Policy, and considering areas of judgement and materiality within the reserves.

The Reserving Committee includes the Head of Actuarial Function, Chief Executive Officer, Head of Finance, Chief Risk Officer and Head of Claims. Effective from 1 January 2023, the membership of the Reserving Committee also includes one Independent Non-Executive Director.

*Risk Management Committee*
The Risk Management Committee is a functional Committee whose main purpose is to support the Board Risk Committee in overseeing the integrity and effectiveness of the company's Enterprise Risk Management framework, and make appropriate recommendations to the Board Risk Committee.

The Risk Management Committee comprises the Chief Risk Officer, Chief Executive Officer, Head of Underwriting, Head of Finance, Head of Compliance, Head of Actuarial Function and Chief Operating Officer for the Company.

*Solvency II Disclosure Committee*
The purpose of the Solvency II Disclosure Committee is to provide a forum that ensures that Solvency II Reporting and Disclosures are accurate, complete and present fairly in all material respects the financial condition and results of operations of the Company and are made in a timely manner in accordance with applicable laws, rules and regulations. The Committee reviews annual Solvency II reporting and recommends board approval. On a quarterly basis, the Board has delegated authority to the Solvency II Disclosure Committee to approve the quarterly reporting.

**Board of Directors (continued)**
*Solvency II Disclosure Committee (continued)*

For the ASE UK Branch reporting, the Disclosure Committee will review the annual reports, and propose these to the UK Branch Management Committee for approval prior to submission to the PRA. The Disclosure Committee will review and approve quarterly UK Branch Solvency II reports prior to submission to the PRA.

The Solvency II Disclosure Committee comprises the Head of Finance, Chief Executive Officer, Head of Investments, Chief Risk Officer, Head of Compliance and Head of Actuarial Function. Where UK Branch reports are being reviewed, the UK Branch Manager will also sit on the Committee.

*UK Branch Management Committee*
The UK Branch has a functional committee, chaired by the UK Branch Manager whose responsibilities include:

- effective, prudent and ethical oversight of the UK branch, including managing the business activities and back-office function of the UK Branch,
- implementing and monitoring the annual business plan of the UK Branch as approved by the Board of Directors,
- approve the UK Branch underwriting guidelines,
- ensuring the Company's risk framework and appetite, as approved by the Board, is implemented in the UK Branch,
- ensuring effective implementation of the Company's policies and procedures, in the UK Branch, as approved by the ExCo and/or the Board,
- reviewing the UK branch reports prior to submission to the PRA and/or FCA; and
- managing the interaction and relationship with ASE and Group Committees and underwriting segment teams, including the ASE Board and Audit/Risk Committees, the ExCo, and the AXIS Europe Solvency II Disclosure Committee.

The UK Branch Management Committee includes UK Branch executives holding senior control function positions. The management committee may co-opt other positions onto the committee.

*Belgium Branch Management Committee*
Similar to the UK Branch Management Committee, the Company has also established a committee to oversee the Belgium Branch. This is another functional committee, whose responsibilities include:

- effective, prudent and ethical oversight of the Belgium Branch, including managing the business activities and back-office function of the Branch,
- implementing and monitoring the annual business plan of the Belgium Branch as approved by the Board,
- approve the Belgium Branch underwriting guidelines; and
- managing the interaction and relationship with other management and AXIS Capital committees.

The Belgium Branch Management Committee includes Branch executives holding senior control function positions. The management committee may co-opt other positions onto the committee

The Terms of Reference of each management level Committee specify the delegation of responsibilities by the Board and/or ExCo to the Committee. The second and third line are appropriately represented at all management level Committees. There are clear policies and procedures in place to ensure that any input from Compliance, Risk or Internal Audit required for a decision are included in the relevant reports or documentation.

**Key Functions**
Under Solvency II, the following are considered key functions:

- Risk-management function,
- Compliance function,
- Internal Audit function; and
- Actuarial function.

The Company ensures that key functions have the necessary authority, resources and operational independence to carry out their tasks and fulfil their obligations. All key functions present regular updates to the Board on a quarterly basis. The roles and responsibilities of each function are further described later in this section.

**Conflicts of interest**
Conflicts of interests, and the appearance of conflicts, are managed under the Company's Conflict of Interest Policy and the AXIS Code of Business Conduct. Each employee, officer and director of the Company is required to conduct business with integrity and to comply with all applicable laws.

**B.1.2 Remuneration**
An AXIS Europe Remuneration Policy has been established to cover the Company and its sister company, AXIS Re SE.

The remuneration policy and practices incorporate the following principles and shall:

- be in line with the Company's business and risk management strategy plan, its risk profile, objectives, risk management practices, its long-term interests and performance as a whole,
- ensure that conflicts of interest are avoided,
- promote sound and effective risk management and shall not encourage risk taking that exceeds the Company's risk appetite and risk tolerance limits,
- incorporate non-financial performance metrics as part of the annual performance management process,
- reward employees who demonstrate a significant contribution to the success of the business,
- remain competitive to attract, retain and motivate high performing staff with appropriate experience, qualifications and talent; and
- be non-discriminatory.

AXIS Europe's remuneration structure includes both fixed and variable components.

*Fixed:*
The fixed component of the remuneration structure shall be of a sufficiently high proportion of total remuneration to the effect that employees are not dependent on the variable remuneration component.

*Variable:*

- variable remuneration payments shall be flexible and discretionary,
- the variable component of remuneration shall be determined by a combination of individual performance and the performance of the AXIS Capital,
- employee's performance shall be evaluated based on achievement of both financial goals related to business targets and non-financial goals,
- metrics used to measure AXIS Capital performance in determining the variable component of the remuneration shall allow for a downwards adjustment for exposure to current and future risks; and
- a portion of the variable remuneration applicable to employees at senior leader level and above shall be deferred over a period of not less than three years.

The variable component of remuneration of employees engaged in Risk, Compliance, Internal Audit and Actuarial functions is not directly linked to the performance of the individual operational units they monitor and/or test.

**Other Remuneration**
Termination or severance payments shall be related to performance achieved over the employees' entire period of activity and shall be designed not to reward failure.

Employees subject to this policy are prohibited from hedging the economic risk of owning AXIS Capital stock or pledging AXIS Capital stock for loans or other obligations in accordance with the AXIS Insider Trading Policy.

**B.1.3 Material transactions with shareholders and the Board of Directors**
There have been no material transactions during the reporting period with the company's sole shareholder ASHIL outside the normal course of business.

There were no contracts or arrangements of any significance in relation to the business of the Company in which the Directors had a material interest, as defined by the Companies Act 2014, at any time during the reporting period.

Director emoluments include all payments made by the company to the Board. Fees paid by the Company to non-executive Directors are included in 'Aggregate emoluments in respect of qualifying services'.

| | 2022<br>USD'000 | 2021<br>USD'000 |
|---|---|---|
| Aggregate emoluments in respect of qualifying services | 1,333 | 740 |
| Aggregate emoluments receivable under long-term incentive schemes | 538 | 447 |
| Company contributions in respect of qualifying services to Pension Scheme Fund, a defined contribution retirement benefit scheme | 83 | 153 |
| Compensation paid or payable , or other termination payments, in respect of loss of office | 200 | — |
| | **2,154** | **1,340** |

**B.2 Fit and proper requirements**

The Company is subject to the Central Bank Fitness and Probity Regime ("F&P"), which is set out under Part 3 of the Central Bank Act, 2010, and subsequent Statutory Instruments. This Regime sets the minimum standards aimed to ensure all persons who run the business, or hold key positions, are at all times competent and capable, act honestly, ethically and with integrity and are financially sound. The Regime requires the Company to have in place certain control functions ("CF") and pre-approval control functions ("PCFs"). The potential candidates for controlled functions that are subject to pre-approval by the Central Bank before appointment include Board Directors and the heads of key functions. Before taking up a PCF position a potential candidate is required to submit an Individual Questionnaire to the Central Bank for their review and consideration. Should the potential candidate not be approved by the Central Bank, the potential candidate is not appointed to the position.

Further to this, the UK Branch of the Company is also subject to the PRA and FCA's Senior Managers & Certification Regime ("SMCR"), which requires the Company to have in place certain Senior Manager Functions ("SMFs") and Certified Persons ("CPs"). The Company has put in place a Fitness & Probity policy which complies with both the Regime and the SMCR.

Both F&P and SMCR impose a requirement on persons performing a CF, PCF, SMF, or CP on behalf of the Company to comply with certain standards of competence, capability, honesty, integrity and financial prudence ("F&P Standards"). The policy sets out the approach to assessing the fitness & probity of existing staff and new hires.

In order to meet the F&P and SMCR requirements, the Company applies the below criteria for CFs, PCFs, SMFs, and CPs and must satisfy itself on reasonable grounds that the person complies with the F&P Standards and/or SMCR regime, as applicable:

- an assessment of whether an individual's Conduct is deemed Competent and Capable,
- an assessment of whether an individual's Conduct is deemed Honest, Ethical and Acting with Integrity; and
- an assessment of an individual's Financial Soundness.

The Company does not allow a person to perform a controlled function unless it is satisfied that the person complies with the F&P and SMCR requirements. The person has to agree to comply with the requirements on an ongoing basis. This includes a commitment to continuing their professional development and retention of certain qualifications, where applicable. CFs and PCFs, SMFs and CPs attest, on an annual basis, to continuing compliance with F&P Standards.

**B.3 Risk management system including the Own Risk and Solvency Assessment ("ORSA")**

**B.3.1 Overview of the Risk Management Framework**

AXIS has an established Group-Wide Enterprise Risk Management ("ERM") framework which provides a structured and consistent approach to ensuring that risks are appropriately identified, assessed, managed, monitored and reported with clear ownership and appropriate levels of oversight. This framework is implemented consistently and proportionately across the AXIS Group and its legal entities, including the Company.

The mission of ERM at AXIS is to promptly identify, assess, manage, monitor and report risks that affect the achievement of our strategic, operational and financial objectives. The key objectives of the risk management framework are to:

- protect our capital base and earnings by monitoring our risks against our stated risk appetite and limits;
- promote a sound risk management culture through disciplined and informed risk taking;
- enhance value creation and contribute to an optimal risk-return profile by providing the basis for efficient capital deployment;
- support our Group-wide decision-making process by providing reliable and timely risk information; and
- safeguard AXIS capital' reputation.

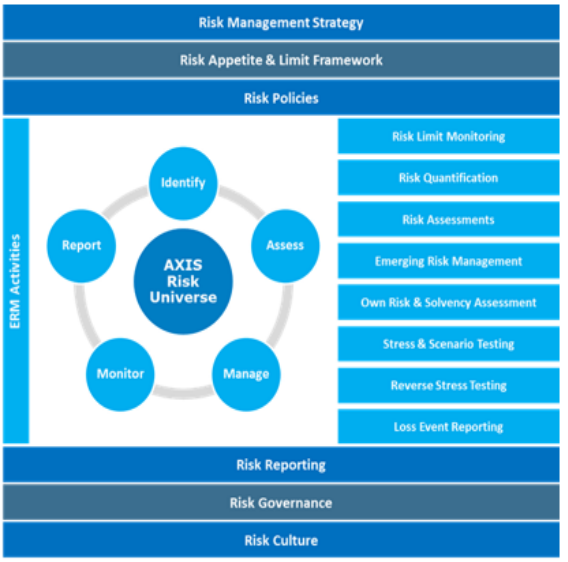
The ERM framework is an evolving framework which develops in response to changes in the Company's internal and external environment in order to remain relevant to the business and enhance value creation. The implementation and oversight of the framework is the responsibility of the Risk Function, which is led by the CRO.

The key elements of the ERM Framework are described in further detail below and include Risk Governance, Risk Strategy/ Appetite Statement, the Risk Management Cycle and Key Controls.

***Risk Governance***

We articulate roles and responsibilities for risk management throughout the organisation from the Board of Directors and the Chief Executive Officer to the business and functional areas, thus embedding risk management throughout the business.

Risk governance is executed through a three lines of defence model, with the business units ("first line") responsible for the identification, assessment, management, mitigation and monitoring of risks on a day-to-day basis; the Risk Function ("second line") providing oversight and guidance on risk management across the business by supporting and challenging Risk Owners in their identification, assessment, management and mitigation of risk; and Internal Audit ("third line") providing independent assurance on the effectiveness of governance, risk management and internal controls.




The Risk Committee of the Board assists the Board of Directors in overseeing the integrity and effectiveness of the ERM framework. The Risk Committee reviews, approves and monitors risk strategy, risk appetite and key risk limits and receives regular reports from the Risk Function to ensure any significant risk issues are being addressed by management. The Risk Committee further reviews the Company's risk policies and satisfies itself that those effective systems of risk management and controls are established and maintained. Among its other responsibilities, the Risk Committee also reviews and approves our annual ORSA report.

The ExCo is responsible for the implementation of the Company's ERM framework, with all identified material risks on the Company's risk register assigned ownership to an ExCo member. This ensures that ownership of risks is at the highest level of the Company and that Risk Owners have the appropriate authority and resources to take management action where appropriate. The ExCo is supported by the Risk Management Committee ("RMC"), as well as various committees and working groups at Group and Company level (for example the Emerging Risk and Climate Change Working Groups).

***Risk Appetite Statement***

The company articulates its appetite and tolerance for risk through its Risk Appetite and Limit Framework. The Company's risk appetite, as approved by the Board of Directors, represents the amount of risk that the Company is willing to accept in pursuit of its strategic objectives within the constraints imposed by its capital resources, as well as the expectations of its stakeholders as to the type of risk the Company holds within the business. The Risk appetite and Limit Framework includes limits by individual risk type which are defined based on the capital available and management's preference for risk in line with the Company's business strategy. The RAS is reviewed and approved by the Board Risk Committee on an annual basis.

We regularly monitor the Company's position against risk appetite through, for example, risk dashboards and limit consumption reports. These are intended to allow us to detect potential deviations from our internal risk limits at an early stage.

**Risk Management Cycle**

The Risk Function implements the ERM framework through a cyclical process of identifying, assessing, managing, monitoring and reporting of all material risks to which the Company is or could be exposed.

Ongoing risk identification activities are in place to identify new and/or changing risks to the achievement of the Company's strategy and business objectives. A process is also in place for scanning the external environment to identify risks that present an emerging threat to the business environment, industry or Company. These are classified as emerging risks and are captured on the Company's emerging risk radar. The Emerging Risks Working Group oversees the process for identifying, assessing, managing, monitoring and reporting current and potential emerging risks. They are regularly discussed and reviewed by the Company's Board Risk Committee.

Risk assessment and measurement activities are carried out on a regular basis in order to understand the Company's exposure to each risk on the Risk Register, through quantitative and/or qualitative measures and inform the Company's own view of risk and assessment against risk appetite. Risk mitigation strategies and control activities are in place for each risk based on impact and materiality and are typically aimed at reducing or avoiding our exposure, in line with the Company's risk appetite.

**B.3.1 Overview of the Risk Management Framework (continued)**

Changes in the internal and external environment are monitored on an on-going basis, ensuring that changes that may substantially affect the Company's exposure to risks are identified, assessed and appropriately managed. The Risk Function engages in extensive risk reporting and communication in order to enable the Board in their risk oversight responsibility and support the Company's decision-making process by providing reliable and timely risk information.

**Key controls**
Each Risk Owner is responsible for designing and implementing an adequate and efficient internal control environment to manage their respective risks. The control environment consists of processes, policies, guidelines, standards of practice / procedures, collectively referred to as 'key controls' deployed by the Risk Owner to manage risk. The effectiveness of key controls is evaluated on a quarterly basis by first line control owners and reviewed by the Risk Function. Internal Audit provide overall assurance over the effectiveness of these key controls. All key controls are documented and signed-off quarterly within AXIS' Riskonnect platform which facilitates control self-assessment and enforces individual ownership and accountability for key controls.

**B.3.2 Own Risk and Solvency Assessment**
The Company currently sets its capital requirements based on the Solvency II Standard Formula SCR calculation, and ensures the ongoing appropriateness of this approach through a comparison with the outcome of its ORSA. The ORSA is the overarching framework of processes employed by Management to establish a comprehensive assessment of the Company's solvency position based on its current, prospective and stressed risk profile and associated capital requirements.

The main objectives of the ORSA process are to:

- inform short and longer-term decision making and strategic management; and
- ensure the Company has sufficient capital at all times commensurate with a comprehensive assessment of its risk profile, and in line with internal and external solvency standards.

In order to fulfil the objectives set out above, the ORSA is a dynamic process which is incorporated into the Company's ERM framework and Risk Management Cycle which provide a continuous assessment of all material risks the Company is exposed to, with quarterly reporting to the Board on material changes to the risk profile and associated capital requirements. In addition, ORSA results are formally documented in the annual ORSA report which includes a summary of the ORSA activity during the previous year and the outcome of the forward-looking assessment.

ORSA triggers are defined and monitored to identify events with the potential to materially impact the most recent ORSA results, for example changes to the risk profile or capital.

A core component of the ORSA is the forward-looking assessment performed in conjunction with the business planning process, whereby the impact of short and medium term business plans on the risk profile and capital needs of the Company is assessed. As part of this, the outputs from the Company's Solvency II Standard Formula are reviewed to analyse changes in risk composition, prospective risk exposures relative to the RAS and overall risk capital requirements. The ORSA also includes various forms of stress tests and scenario analysis whereby the resilience of the Company's solvency ratios to adverse stress scenarios over the planning horizon is assessed.

The Board of Directors is responsible for overseeing the Company's ORSA, with the Risk Committee serving as the focal point for that oversight. The Risk Committee has a material input into the ORSA through reviewing and challenging the quarterly and annual (forward-looking) results and approving the annual ORSA report, as well as reviewing the selection and calibration of stress and scenario tests. The outcome of the ORSA informs the Company's RAS, including the ongoing appropriateness of its Own Solvency Needs and capital contingency plans, and influences the Company's business strategy by being closely linked to the business planning process.

**B.4 Internal control system**
The Board is ultimately responsible for ensuring that adequate and effective internal controls are embedded within the Company. Internal control is defined as the processes, policies, guidelines, and standards of practice in place to mitigate and manage risk to acceptable levels. The Company is committed to having an internal control system that satisfies its organisational needs and all applicable regulatory requirements. The Company seeks to avoid policies, procedures and practices that may provide incentives for inappropriate activities.

The AXIS internal control framework is based on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992, and updated in 2013.

The AXIS internal controls are documented and maintained in Riskonnect, the AXIS risk and control repository, and individual control owners certify each quarter to the adequate design and continued operating effectiveness of their respective controls.

**B.4 Internal control system (continued)**

The internal control framework includes the following five interrelated components:

- Control Environment: The primary responsibility of the Board is to provide effective governance over the Company's affairs for the benefit of its shareholders, and to help broaden the perspective of executive management. The Board has established the Audit Committee to facilitate and assist in the execution of its responsibilities. In terms of internal control oversight, it is the responsibility of the Audit Committee to review and periodically discuss with the Board the adequacy and effectiveness of the Company's internal control structure. There are several oversight committees such as the RMC which help set the management tone in terms of the control environment. In addition, AXIS operates with a three lines of defence model.
- Risk Assessment: The Internal Controls policy lists the risks ('Risk universe') to which the Company is exposed which the Risk Committee of the Board and RMC annually evaluate. For each risk in the universe, there is a separate risk policy which affirms AXIS's group-wide approach, appetite and risk mitigation/control philosophy for managing each risk.
- Control Activities: Each risk policy identifies an individual Risk Owner, normally a member of the AXIS Group Executive Committee, having appropriate experience and knowledge of the risk. The Risk Owner is responsible for designing and implementing an adequate and efficient control environment to manage their respective risks. Activities include, but are not limited to, reconciliations, documented roles and responsibilities, clear authority limits, peer reviews, appropriate segregation of duties and metrics reporting.
- Information and Communication: In terms of communication, the Company has clear reporting and communication lines in place. Role profiles make clear each individual's role, their reporting lines and functional terms of reference set out responsibilities by function. Clear organisational and structure charts are also maintained. There is an escalation policy in place to ensure matters are reported upwards as required by employees. The Whistle-blowing Policy also provides various confidential lines of communication for reporting violations and concerns.
- Monitoring: The effectiveness of the internal control framework is independently validated via regular internal audit reviews which are conducted on a rotational basis with findings reported to the Audit Committee. There are also Management Initiated Audits ("MIAs") done on claims and underwriting transactions which are reported to the Management Audit Committee. There are various monitoring activities performed by the second line of defence in line with their annual monitoring plans.

The internal control framework is regularly reviewed and updated and annually assessed by the external auditors. The Internal Audit function also validate that the COSO 2013 framework is present and functioning as part of its annual internal audit plan.

**Compliance Function**

The Company has a Compliance Function which is part of the Group Legal Department, predominantly staffed by lawyers and compliance experts. The Compliance Function is an assurance function responsible for the compliance and governance arrangements of the Company. The mandate of the Compliance Function is to support the business to be compliant with applicable regulations within the "three lines of defence" model, which defines the governance structure at AXIS and the related roles and responsibilities.

The Board has appointed a Head of Compliance (a PCF) of the Company who is primarily responsible for ensuring the activities of the Company are conducted in compliance with the Regulations, and reporting to the Board and to the Central Bank and other Regulatory Authorities as applicable. In line with Article 270 of the Delegated Regulation, the Board reviews the Compliance Policy at least annually and ensures that recommendations for improvements are adequately incorporated and approve proposals for Policy amendment.

The Head of Compliance oversees the Compliance Function and ensures it is appropriately resourced and meets all material service level requirements. The Compliance Function has access to specialist external expertise to assist on particular matters or jurisdictions.

Principal responsibilities of the Head of Compliance include:

- obtaining the approval of the CEO and the Board for a Policy statement on compliance with the insurance acts and regulations, with guidelines issued by the CBI and with other applicable legislation,
- advising the Board and management on compliance with laws and regulations supporting delivery of strategic objectives,
- establishing an annual Compliance Plan to manage regulatory risks,
- designing a common monitoring framework and delivering risk-based monitoring activities,
- leading the horizon scanning and regular updates to the business,
- designing, implementing and reviewing compliance policies, procedures and related processes, and
- designing and executing compliance training and awareness on compliance matters such as countering the financing of terrorism and financial sanctions, consumer protection and anti-bribery and corruption.

In addition, the duties of the Compliance Function include assessing the adequacy of the measures adopted by the Company to prevent non-compliance.

**B.4 Internal control system (continued)**

In line with Article 279 of the Delegated Regulation and Article 46 of the Solvency II Directive, the Compliance Function maintains a set of Compliance policies to track applicable legal, regulatory and corporate requirements.

**B.5 Internal Audit Function**

Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations and protect the assets and reputation 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 governance, risk management and internal controls.

The internal audit activity is established by the Audit Committee of the Board. The internal audit activity's responsibilities are defined by the Audit Committee as part of their oversight role.

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing* (*Standards*). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to AXIS' relevant policies and procedures and the internal audit activity's methodology.

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of AXIS records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee and full Board.

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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

Internal audits are performed across the Company's audit universe, which encompasses all areas of the business and the Company, within a three to five year cycle. Areas of higher risk will be audited more frequently. Audits selected for a forthcoming annual plan will be submitted for approval to the Audit Committee. Over the course of each year, auditors meet with key personnel to monitor performance, changes in the business, and emerging risks within the Company. Resulting midterm changes to the audit plan will be recommended and submitted to the Audit Committee for approval. The internal audit methodology is set out in the 'AXIS Internal Audit Methodology' document. The methodology is reviewed to ensure that it is up-to date after any changes to the business or updates to the IIA Standards.

The scope of each audit is determined using a risk-based approach. At the conclusion of each audit, an audit report containing any issues requiring corrective action by management is published. Management is responsible for implementing these agreed upon action plans. Internal Audit is responsible for monitoring implementation of these action plans and verifying satisfactory performance. The Audit Committee is briefed quarterly on the status of internal audits in progress, completed audits, open corrective action plans, and any other important matters concerning the Company. Evidence supporting Internal Audit's conclusions is maintained in the Riskonnect system.

**B.6 Actuarial Function**

The main purpose of the Actuarial function is to effectively support the Company reserving framework and governance, including principles, policies, standards of practice, processes and controls and reporting.

The Actuarial function has the following duties and responsibilities:

- calculation and recommendation of the technical provisions,
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of the technical provisions,
- peer reviewing and signing off on work product and recommendations that relate to governance and control function responsibilities. This includes the peer reviewing of pricing and planning loss ratios as necessary,
- ensuring the sufficiency and quality of the data used in the calculation of technical provisions,
- informing the Board of Directors of the reliability and adequacy of the calculation of technical provisions,
- ensuring the sufficiency of processes and controls supporting the AXIS reserving framework and maintaining comprehensive documentation for all aspects of this framework,
- expressing an opinion on the overall underwriting policy and the adequacy of reinsurance arrangements,
- contributing to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements,
- establishing and maintaining a reserving platform, infrastructure and reporting capabilities to support GAAP, local statutory and management needs; and
- ensuring that the reserving framework is applied effectively in the Company.

The Head of Actuarial function provides a written report to the Board presenting the tasks undertaken by the Actuarial function and their results, as well as any deficiencies identified and recommendations on how such deficiencies should be remedied. A full Actuarial report is provided at least annually, with updates addressing specific aspects of the work of the Actuarial function provided on a more regular basis.

**B.7 Outsourcing**

Outsourcing is an arrangement of any kind between the Company and a service provider by which that service provider performs a process, a service or an activity that would otherwise be undertaken by the Company itself. Where appropriate, the Company uses service providers when it is more efficient and more cost effective than utilising its own resources.

The Company is subject to the AXIS European Outsourcing Policy which is derived from Directive 2009/138/EC (the “Solvency II Directive”), Commission Delegated Regulation (EU) 2015/35 (the “Delegated Regulation”), the EIOPA Guidelines on System of Governance and the Central Banks Cross Industry Guidance on Outsourcing. The purpose of the AXIS European Outsourcing Policy is to ensure that ASE is identifying and managing the risks associated with its outsourcing activities through appropriate due diligence, approval and on-going monitoring activities and thereby continue to meet both its financial and service obligations, including operational resilience. The policy requirements are based on the principle that as a regulated firm, the Company remains fully responsible for discharging all its obligations when outsourcing certain functions or activities. The Company’s service providers may be an entity from the AXIS Group (intra-group outsourcing or insourcing) or a third party (external outsourcing) and it may be located inside or outside of the EU.

The Board is ultimately responsible for ensuring that there is adequate oversight and governance in relation to outsourcing. The outsourcing of a 'critical or important' activity must be approved by the Board or PCF holder (“Business Leader”) prior to the commencement of an outsourcing arrangement. Business Leaders are responsible for carrying out appropriate due diligence on service providers in accordance with the AXIS European Outsourcing Policy to ensure the service provider has the necessary ability to carry out the outsourcing activity, taking into account the impact of the proposed arrangement on the operations of the Company.

The Company determines whether an outsourced function or activity is ‘critical or important’. As outlined in the Central Bank's Cross-Industry Guidance on Outsourcing, the Central Bank expects firms to have regard to the following definition when determining the criteria for the criticality or importance of the Function(s) to be outsourced: “*Functions that are necessary to perform core business lines or critical business functions should be considered as critical or important, unless the institution’s assessment establishes that a failure to provide the outsourced Function or the inappropriate provision of the outsourced Function would not have an adverse impact on the operational continuity of the core business line or critical business function*”. A materiality assessment has been designed by the Company for use in determining whether an arrangement is deemed a Critical or Important Functional Activity (“CIFA”). This materiality assessment is documented within the AXIS European Outsourcing Policy, which is subject to Board review and approval on an annual basis.

Prior to commencement, proposed outsourcing arrangements must be assessed using the materiality assessment with the outcome of the assessment recorded by the individual functions. The materiality assessment must also be considered on an ongoing basis – in the event an agreement changes and then is considered a CIFA against the Company’s’ expectations. The Company is required to provide timely notification of planned or CIFA outsourcing arrangements and of any material changes to existing CIFA outsourcing arrangements to the Central Bank.

**B.7 Outsourcing (continued)**

Business Leaders ensure that risk assessments are conducted of any proposed outsourcing arrangements, aligned with the Company's risk appetite, and where necessary, appropriate controls developed and implemented. The relevant function or team will conduct and document these risk assessments as appropriate. Outsourced arrangements, whether internal or external, must not harm the Company, specifically:

a. Materially impairing the quality of the Company's governance of its business
b. Unduly increasing the Company's operational risk
c. Obstructing relevant supervisory authorities from monitoring the Company's compliance with outsourcing regulations and any regulations applying to the activities themselves, and
d. Harming the service that the Company provides to its policyholders and clients.

The Company maintains an Outsourcing Register which documents all internal and external outsourced arrangements, which is regularly reviewed and updated in compliance with the Central Banks Cross Industry Guidance on Outsourcing.

The AXIS Group Vendor Management Office ("VMO") has established an enterprise-wide standard methodology to assess performance and risk of outsourced services (excluding underwriting and claims which are monitored by the relevant business leader). Outsourcing arrangements are managed effectively through Service Level Agreements ("SLAs") which are reported to and monitored by the VMO reporting relevant issues to the business leader. The VMO ensures that all relevant aspects of a service providers risk management, financial resources and internal control systems are adequate and robust, in addition to ensuring that the outsourcing activities do not impact AXIS governance or operational risk.

The Company benefits from the shared support services provided by the wider AXIS Group entities, providing the Company with access to necessary skills and resources enabling the Company to operate more effectively to meet regulatory and business requirements.

The table below outlines an overview of outsourced CIFAs and the jurisdiction of where the service provider is located:

| Function | Description of Service Provided | Jurisdiction |
|---|---|---|
| **Internal** | | |
| Investment Management | Delivery of investment management services within the investment limits as set by the Board and the production and delivery of investment performance reporting to the Board and other relevant oversight Committees. | US |
| Internal Audit | Delivery of audits on the approved Internal Audit Plan, including reporting to relevant management, in compliance with the Internal Audit Charter and the International Professional Practices Framework of the Institute of Internal Auditors. | US |
| **External** | | |
| Finance | Finance outsourcing includes provision of accounting and reconciliation services | Multi-jurisdictional |
| Actuarial | Actuarial outsourcing includes actuarial close and control services | Multi-jurisdictional |
| Investments | Investment services outsourcing includes investment management of assets, accounting and risk solutions. | Multi-jurisdictional |
| Business and Technology | IT services outsourcing includes provision of data storage and IT application development and maintenance | Multi-jurisdictional |
| Underwriting | Underwriting outsourcing includes authority to write business and issue policies | Multi-jurisdictional |
| Claims | Claims outsourcing include claims business process, compliance and modelling support, claims handling and advice. | Multi-jurisdictional |

**B.8 Assessment of governance**

The Board is responsible for ensuring sound governance, that the operational effectiveness of the risk management and control environment is maintained and that effective risk management policies are adhered to within the risk management framework. Risk assessment and evaluation takes place as an integral part of the annual planning and forecasting process, the results of which are reviewed by senior management and the Board. There is also an ongoing program of operational reviews and audits and annual self - assessment of financial controls. The results of these reviews are reported to the Audit Committee, whose purpose is to assist the Board and the ExCo, in the oversight of the effectiveness, adequacy and performance of the Company's internal controls.

**B.8 Assessment of governance (continued)**

The Company has assessed the effectiveness of risk management and the control environment 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.

**B.9 Any other information**

The Board is responsible for ensuring that the Company causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, and enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy. They are also responsible for safeguarding the assets of the Company and maintaining sufficient information to enable any person charged with the winding up of the Company to take control of those assets. The accounting records are kept at Mount Herbert Court, 34 Upper Mount Street, Dublin 2.

All material information regarding system of governance is disclosed in sections B.1 - B.8.

## C. RISK PROFILE

The Company's risk profile comprises insurance, credit, market, liquidity, operational, strategic and other risks that arise as a result of doing business. Ongoing risk identification activities are in place to identify new, emerging and changing risks to the achievement of the Company's strategy and business objectives. Risk assessment activities are carried out on a regular basis in order to understand the Company's exposure to each risk, through quantitative and/or qualitative measures and inform the Company's own view of risk. The following sections provide definitions of the above risk categories as well as the Company's related risk management practices.

### C.1 Insurance Risk

The insurance risk category encompasses the underwriting risks in all lines of business including the marine, professional lines, aviation, energy, property (including renewable energy), credit, liability and accident and health classes of insurance business. Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to the Company through the underwriting process. The two main components are underwriting risk and reserve risk.

#### C.1.1 Underwriting risk

**Risk Definition**

Underwriting risk represents the risk that premiums will not be sufficient to cover incurred losses.

**Risk Mitigation**

Underwriting risk is managed through the Company's underwriting risk governance framework. A key component of this is the peer review process which allows for a collaborative review of risk and pricing by management, and ensures underwriting is within established protocols and guidelines. Underwriting guidelines are in place to provide a framework for consistent pricing and risk analysis. Limits are set on underwriting capacity, and cascade authority to individuals based on their specific roles and expertise.

Another key component of the Company's mitigation of underwriting risk is the purchase of reinsurance. AXIS has a centralised Risk Funding department which coordinates external treaty reinsurance purchasing across the group and is overseen by the Reinsurance Purchasing Group, in conjunction with the Reinsurance Security Committee. The Company also benefits from internal quota share and stop loss agreements with AXIS Specialty Limited ("ASL").

**Accumulation/ catastrophe risk**

**Risk Definition**

Accumulation risk represents the risk of additional, unexpected losses due to having unknown / unintended risk concentrations where aggregation of risk exposure is not understood or managed appropriately. The majority of the Company's accumulation risk exposure arises from either natural catastrophes such as earthquakes, hurricanes, storms and floods or man-made catastrophes such risks as train collisions, aeroplane crashes, terrorism or cyber-attacks.

**Natural Perils Catastrophe Risk**

Natural catastrophes represent a challenge for risk management due to their accumulation potential and occurrence volatility as well as the uncertainty around the potential impacts of climate change. Natural catastrophe risk is mitigated through diversification (i.e. offering a variety of products across different geographic regions), the purchase of significant reinsurance protections and the Company's exposure management framework and governance. In managing natural catastrophe risk, the risk limit framework aims to limit the impact to the Company's SII SCR coverage ratio from an aggregation of natural peril catastrophe events.

**Man-Made Catastrophe Risk**

Consistent with our management of natural peril catastrophe exposures, we take a similarly focused and analytical approach to the management of man-made catastrophes. Man-made catastrophes are harder to model in terms of assumptions regarding intensity and frequency. For these risks, we couple the vendor models (where available) with our bespoke modeling and underwriting judgement and expertise. This allows us to take advantage of business opportunities related to man-made catastrophe exposures particularly where we can measure and limit the risk sufficiently as well as obtain risk-adequate pricing.

**Risk Mitigation**
Through the effective monitoring and reporting of accumulation risk, the Company is able to effectively intervene and mitigate risk on a timely basis. We also use reputable catastrophe models to support this monitoring. Mitigation actions might include abstaining from additional underwriting commitments (or non-renewing existing commitments upon expiry) or purchasing additional treaty or facultative reinsurance for peak exposures.

Stress and scenario testing is also performed to enhance understanding of the Company's exposure to Accumulation risk and measure the potential impact of stress scenarios to the Company's solvency ratios. Stress testing performed covers natural catastrophe peril exposures and Realistic Disaster Scenario ("RDS") stresses measuring the loss impact to the business on man-made catastrophe scenarios covering accumulations and clashes across all classes of business. Results are reported to the Risk Management Committee and Risk Committee.

**Special Purpose Vehicles**
In July 2018, AXIS sponsored a catastrophe bond, Northshore Re II Limited, Series 2018-1 which provides the Group with multi-year annual aggregate cover capacity of USD 200 million for U.S. named storms (incl. Puerto Rico & U.S. Virgin Islands), U.S. and Canada earthquake, and European windstorm events. The risk period was from 7 July 2018 to 30 June 2022. The Series 2018-1 CAT Bond matured at 30 June 2022 and was redeemed thereafter.

In June 2019, AXIS sponsored a catastrophe bond, Northshore Re II Limited, Series 2019-1 which provides the Group with multi-year annual aggregate cover capacity of USD 165 million for U.S. named storms (incl. Puerto Rico & U.S. Virgin Islands), U.S. and Canada earthquake and European windstorm events. The risk period is from 27 June 2019 to 30 June 2023.

In December 2020, AXIS sponsored a catastrophe bond, Northshore Re II Limited, Series 2021-1 which provides the Group with multi-year annual aggregate cover capacity of USD 150 million for U.S. named storms (incl. Puerto Rico & U.S. Virgin Islands), U.S. and Canada earthquake and European windstorm events. The risk period is from 1 January 2021 to 31 December 2023.

In June 2022, AXIS sponsored a new catastrophe bond, Northshore Re II Limited, Series 2022-1 which provides the Group with multi-year annual aggregate cover capacity of USD 140 million for U.S. named storms (incl. Puerto Rico & U.S. Virgin Islands) and U.S. and Canada earthquake events. The risk period is from 1 July 2022 to 30 June 2025.

The catastrophe bonds operate on index triggers and losses are calculated through usage of pay-out factors. The vehicles are fully funded at the inception of the risk period, ensuring full collateralisation of the covers throughout the risk period.

**C.1.2 Reserving risk**
**Risk Definition**
Reserving risk represents the risk that loss reserves established to cover losses already incurred are insufficient. The estimation of loss reserves is subject to uncertainty as the settlement of claims that arise before the Balance Sheet date is dependent on future events and developments. New information, events or circumstances, unknown at the original estimation date, may lead to future developments in the Company's ultimate losses being significantly greater (or less) than the reserves currently provided. There are many factors that would cause reserves to increase or decrease, which include, but are not limited to, emerging claims and coverage issues, changes in legislative, regulatory, social and economic environment and unexpected changes in loss inflation.

**Risk Mitigation**
The AXIS reserve framework is designed to ensure that the process of establishing reserves is supported by appropriate governance structure and reserving risk management practices including robust governance, processes and controls over the reserving cycle and internal and external independent assessment of the adequacy of loss reserves.

We calculate reserves for losses and loss expenses ("loss reserves") in accordance with actuarial best practice based on substantiated methodologies and assumptions. In addition, we have well established processes in place for determining loss reserves, which we ensure are consistently applied. Our loss reserving process demands data quality and reliability and requires a quantitative and qualitative review of overall reserves and individual large claims.

**C.1.3 SCR Coverage Scenario Testing - Insurance Risk**
SII SCR coverage scenario testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios including insurance risk. A summary of the stress testing for insurance risk as at 31 December 2022 is provided in section C.8.

**C.2 Credit Risk**

**Risk Definition**

Credit risk represents the risk of incurring financial loss due to the diminished creditworthiness (reduced financial strength and, ultimately, possible default) of third-party counterparties. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio, reinsurance programme, amounts due from policyholders and intermediaries, and credit risk assumed through insurance contracts such as the credit & political Insurance business.

**Risk Mitigation**

As part of the Company's credit risk framework, credit risk limits are assigned which are based on and adjusted according to a variety of factors including the prevailing economic environment and the nature of underlying credit exposures.

**Investment portfolio**

The Company is exposed to potential losses arising from the diminished creditworthiness of issuers of bonds as well as third party counterparties such as custodians. Exposure to such credit risk is limited through diversification, issuer exposure limitation and, with respect to custodians, through contractual and other legal remedies.

The fixed term maturity portfolio represents approximately USD 406.7 million or 13.4% of the Company's total assets (2021: USD 439.4 million or 16.9% of its total assets). The credit ratings of fixed term maturities are shown below at 31 December 2022 and 31 December 2021. The methodology for assigning credit ratings to fixed term maturities is in line with the methodology used for the Barclays U.S Aggregate Bond Index. This methodology uses the middle of Standard & Poor's (S&P), Moody's and Fitch ratings. When ratings from only two of these agencies are available, the lower rating is used.

| | 2022 | 2021 |
|---|---|---|
| | USD '000 | USD '000 |
| **Rating** | | |
| AAA | 197,668 | 204,063 |
| AA | 16,798 | 18,728 |
| A | 89,673 | 89,767 |
| BBB | 64,835 | 85,475 |
| Below BBB | 37,679 | 41,400 |
| | **406,653** | **439,433** |

The Company also has credit risk relating to cash and cash equivalents. Cash and cash equivalents comprise cash at bank and investment in money market funds. In order to mitigate concentration and operational risks related to cash and cash equivalents, the maximum amount of cash that can be deposited with a single counterparty is limited and the Company invests in acceptable counterparties based on current rating, outlook and other relevant factors.

The table below provides a breakdown of the Company's cash and cash equivalents by credit rating at 31 December 2022 and 31 December 2021:

| | | 2022 | 2021 |
|---|---|---|---|
| **Rating** | **Rating Agency** | **USD '000** | **USD '000** |
| AAAm | S&P | 98,704 | 71,544 |
| P-1 | Moody's | 32,177 | 19,742 |
| P-2 | Moody's | 189 | 205 |
| | | **131,070** | **91,491** |

**Reinsurance recoverable assets**

As a result of its reinsurance purchasing activities the Company is exposed to the credit risk of a reinsurer failing to meet its obligations under the reinsurance contracts. To help mitigate this, all reinsurance purchasing is subject to financial security requirements specified by the Reinsurance Security Committee ("RSC"). The RSC maintains a list of approved reinsurers, reviews credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty limits for different types of ceded business and monitors concentrations of credit risk. This assessment considers a wide range of individual attributes, including a review of the counterparty's financial strength, industry position and other qualitative factors. Generally, the RSC requires reinsurers who do not meet specified requirements to provide collateral.

**Reinsurance recoverable assets (continued)**
The table below provides a breakdown of the Company's reinsurance recoverable and prepaid reinsurance premiums balances by credit rating at 31 December 2022 and 31 December 2021:

| Rating | 2022<br>USD '000 | 2021<br>USD '000 |
|---|---|---|
| A++ | 32,686 | 28,450 |
| A+ | 527,917 | 409,727 |
| A | 1,039,569 | 972,240 |
| A- | 23,830 | 23,412 |
| B++ | 637 | 1,576 |
| Not rated | 167,448 | 30,174 |
| | **1,792,087** | **1,465,579** |

The A balance includes USD 927.0 million (2021: USD 874.3 million) recoverable from ASL, a related party. The unrated balance includes USD 155.5 million recoverable in respect of the retrospective reinsurance agreement entered into during the year. This recoverable has been secured by collateral in a trust.

**Premium receivables**
The largest credit risk exposure to receivables is from brokers and other intermediaries. The risk arises where they collect premiums from customers or pay claims to customers on behalf of the Company. There are policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions and overdue debt collection.

**Underwriting portfolio**
The Company provides credit insurance primarily for lenders (financial institutions) seeking to mitigate the risk of non-payment from their borrowers. The Company's credit insurance exposures are concentrated primarily within developed economies. The underlying risk associated with the Company's credit related business is governed through the underwriting risk management framework described in C.1.1.

**SCR Coverage Scenario Testing - Credit Risk**
SII SCR Coverage scenario testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios including credit risk. A summary of the stress testing for credit risk as at 31 December 2022 is provided in section C.8.

**C.3 Market Risk**
***Risk Definition***
Market risk is the risk that our financial instruments may be negatively impacted by movements in financial market prices or rates such as equity prices, interest rates, credit spreads and foreign currency exchange rates. Fluctuations in market prices or rates primarily affect the Company's investment portfolio.

***Risk Mitigation***
Through asset and liability management, the Company aims to ensure that market risks influence both the economic value of investments and loss reserves and other liabilities in the same way, thus mitigating the effect of market fluctuations. For example, important features of liabilities are reflected, such as maturity patterns and currency structures, on the asset side of the Balance Sheet by acquiring investments with similar characteristics.

Asset-liability management is supplemented with various internal policies and limits. The management of asset classes is centralised to control aggregation of risk and provide a consistent approach to constructing portfolios as well as the selection process of external asset managers. As part of the annual Strategic Asset Allocation process, different asset strategies are simulated and stressed in order to evaluate the 'optimal' portfolio (given return objectives and risk constraints). The management of asset classes is centralised to control aggregation of risk, and provide a consistent approach to constructing portfolios as well as the selection process of external asset managers. Limits are set on the concentration of investments by single issuers and certain asset classes, and we limit on the level of illiquid investments. Further, the Company's investment guidelines do not permit the use of leverage in any of the fixed maturity portfolios.

Investment portfolios are stress tested using historical and hypothetical scenarios to analyse the impact of unusual market conditions and to ensure potential investment losses remain within risk appetite.

**C.3 Market Risk (continued)**
**Risk Mitigation (continued)**
The Balance Sheet includes a substantial amount of assets whose fair values are subject to market risks. The following sections provide information on the primary market risk exposures at 31 December 2022. The Company does not currently anticipate significant changes in primary market risk exposures or in how these exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

**Equity price risk**
The portfolio of equity securities has exposure to equity price risk. This risk is defined as the potential loss in fair value resulting from adverse changes in stock prices. The global equity portfolio is managed to a benchmark composite index, which consists of a blend of the S&P500 and MSCI World Indices. Changes in the underlying indices have a corresponding impact on the overall portfolio.

**Interest rate and credit spread risk**
Interest rate risk includes fluctuations in interest rates and credit spreads that have a direct impact on the fair value of fixed term maturities. As interest rates rise and credit spreads widen, the fair value of fixed term maturities falls, and the converse is also true.

Sensitivity to interest rate changes and credit spread changes is monitored by revaluing fixed maturities using a variety of different interest rates (inclusive of credit spreads). Duration and convexity is used at the security level to estimate the change in fair value that would result from a change in each security's yield. Duration measures the price sensitivity of an asset to changes in yield rates. Convexity measures how the duration of the security changes with interest rates. The duration and convexity analysis takes into account changes in prepayment expectations for MBS and ABS securities. The analysis is performed at the security level and aggregated up to the asset category levels.

**Foreign exchange risk**
Foreign exchange or currency risk represents the risk that the fair value of future cash flows, assets and liabilities will fluctuate because of changes in foreign exchange rates. Foreign exchange risk is managed by seeking to match the estimated insurance liabilities payable in foreign currencies with assets, including cash and investments that are also denominated in such currencies. Foreign Currency derivatives are utilized to manage and reduce open currency exposures reported on the company's quarter end balance sheets and as a result reduce FX exposures and associated currency risk charges under Solvency II. The table below provides a breakdown of the Company's exposure to foreign currencies on a GAAP basis at 31 December 2022 and 31 December 2021:

| **As at 31 December 2022** | **GBP** | **EUR** | **CAD** | **NOK** | **AUD** | **DKK** | **Other** | |
|---|---|---|---|---|---|---|---|---|
| | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **Total** |
| Invested assets | 12,368 | 55,274 | 7,692 | 5,844 | 2,169 | 2,311 | 4,396 | 90,054 |
| Other net assets/(liabilities) | (52,618) | (20,137) | 673 | (170) | (6,566) | (574) | (4,108) | (83,500) |
| **Total Foreign Currency Exposure** | **(40,250)** | **35,137** | **8,365** | **5,674** | **(4,397)** | **1,737** | **288** | **6,554** |
| Foreign Currency Derivatives Net | 99,305 | (4,089) | — | — | 13,439 | — | 1,521 | 110,176 |
| **Total Net Foreign Currency Exposure** | **59,055** | **31,048** | **8,365** | **5,674** | **9,042** | **1,737** | **1,809** | **116,730** |
| Impact of net foreign currency exposure on income before tax given a hypothetical 10% rate movement | **5,905** | **3,105** | **837** | **567** | **904** | **174** | **181** | **11,673** |

| **As at 31 December 2021** | **GBP** | **EUR** | **CAD** | **NOK** | **AUD** | **DKK** | **Other** | |
|---|---|---|---|---|---|---|---|---|
| | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **Total** |
| Invested assets | 16,975 | 55,459 | 2,039 | 1,104 | 1,449 | 1,790 | 4,089 | 82,905 |
| Other net assets/(liabilities) | (72,202) | (8,333) | 337 | (141) | (665) | (5,216) | (1,897) | (88,116) |
| **Total Foreign Currency Exposure** | **(55,226)** | **47,126** | **2,376** | **963** | **784** | **(3,426)** | **2,192** | **(5,211)** |
| Foreign Currency Derivatives Net | 71,129 | (14,735) | — | — | 9,403 | 4,572 | 1,138 | 71,507 |
| **Total Net Foreign Currency Exposure** | **15,902** | **32,391** | **2,376** | **963** | **10,187** | **1,146** | **3,330** | **66,295** |
| Impact of net foreign currency exposure on income before tax given a hypothetical 10% rate movement | **1,590** | **3,239** | **238** | **96** | **1,019** | **115** | **333** | **6,630** |

***SCR Coverage Scenario Testing - Market Risk (continued)***

SII SCR Coverage scenario testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios including market risk. A summary of the testing performed as at 31 December 2022 is provided in section C.8.

**C.4 Prudent person principle and investments**

The Company is required to invest in assets in accordance with the 'prudent person principle'. As part of its prudent person approach, when the Company invests its assets it considers the following:

(a) the type of business carried on by the Company, in particular the nature, the amount and the duration of the expected claims payments, in such a way as to secure sufficiency, liquidity, security, quality, profitability and matching of the Company's investments,

(b) diversification and adequate spread of assets so as to enable appropriate response to changing economic circumstances, in particular developments in the financial markets and real estate markets or large impact catastrophic events,

(c) keeps to a prudent level of investments in assets that are not traded on a regulated financial market,

(d) proper diversification of the assets so as to avoid excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole,

(e) not invest in assets issued by the same issuer, or by issuers belonging to the same group, in such a way as to expose the undertaking to excessive risk concentration; and

(f) assess the impact of irregular market circumstances on its assets and diversify those assets to ensure that the impact is reduced.

The Company may invest in derivative instruments to the extent that they help to reduce investment risks or facilitate efficient portfolio management. However, the Company shall value those investments on a prudent basis, taking into account the underlying assets and must include a valuation of the relevant institution's assets. The Company will also avoid excessive risk exposure to a single counterparty and to other derivative operations.

The requirements specified in paragraph (d) and (e) above do not apply to investment in government bonds.

**C.5 Liquidity Risk**

**Risk Definition**

Liquidity risk is the risk that the Company may not have sufficient financial resources to meet its obligations when they are due, or would have to incur excessive costs to do so. As an insurer, the core business generates liquidity primarily through premium, investment income and the maturity/sale of investments. Exposure to liquidity risk stems mainly from the need to cover potential extreme loss events.

**Risk mitigation**

The Company aims to ensure it maintains adequate liquidity to meet its liquidity needs under both normal and stressed conditions. To manage liquidity risk, a range of policies and measures are in place including maintaining cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. Forecasts are also prepared regularly to predict required liquidity levels over both the short- and medium-term.

In addition, there are internal limits on the minimum percentage of the investment portfolio to mature within a defined timeframe. The Company further undertakes stress testing to ensure that it would be able to withstand extreme loss events and still remain liquid.

**Expected profit in future premium**

The expected profit included in future premiums is calculated as the difference between the technical provisions without a risk margin and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. At 31 December 2022, the expected profit in future premiums is USD 13.1 million (2021: USD 11.4 million).

**C.6 Operational Risk**

**Risk Definition**

Operational risk represents the risk of loss as a result of inadequate processes, system failures, human error or external events, including but not limited to direct or indirect financial loss, reputational damage, customer dissatisfaction and legal and regulatory penalties.

**C.6 Operational Risk (continued)**
**Risk Definition (continued)**

The third country branch application for the UK Branch was approved on 28 October 2022, and ASE now has a third country branch which is subject to regulation by the PRA and Financial Conduct Authority (FCA). As part of the application, the Company continued to embed the new operating model for EEA risks in 2022 to ensure applicable activities were undertaken in the correct jurisdiction, while ensuring the Company retained effective oversight. The requirements and market practices in relation to the new operating model are evolving and the Company in turn continues to evolve our operating model to align with our view of best practices in relation to managing cross border business.

**Risk Mitigation**
The Company manages operational risk through sound corporate and risk governance, including the application of process controls throughout our business which are reviewed on a regular basis. In testing these controls, the Company supplements the work of the internal audit team with regular underwriting and claim peer audits. A risk register, capturing all operational risks faced by the Company and the associated risk assessments are periodically reviewed by the Risk Committee of the Board. The Group Risk Function is responsible for coordinating and overseeing a Group-wide framework for operational risk management, which includes:

- clearly defined ownership of all operational risks with a regular risk and control assessment process for assessing each risk;
- clearly defined ownership of Key Controls, with a quarterly self-assessment (certification) process where the effectiveness is assessed;
- an internal control framework consistent with the principles of the COSO framework, including the maintenance of appropriate process and control documentation;
- a risk event process which helps to identify and escalate operational risk events, identify any trends, and, where necessary, put in place improvement actions to avoid occurrence or recurrence of operational loss events;
- key risk indicators and other metrics to help monitor the Company's operational risk profile; and
- appropriate governance and monitoring with respect to any operational risk associated with major new or change initiatives within the Company.

We have specific processes and systems in place to focus on high priority operational matters such as information and cyber security, managing business resilience, and third-party vendor risk:

- major failures and disasters which could cause a severe disruption to working environments, facilities and personnel, represent a significant operational risk to the Company. The Business Continuity Management framework strives to protect critical business services and the functions which support these from these effects to enable them to carry out their core tasks in time and at the quality required.
- the Company may be the target of attempted cyber and other security threats and continuously monitors and develops information technology networks and infrastructure to prevent, detect, address and mitigate the risk of threats to our data and systems as well as having a dedicated cyber security team.
- the use of third-party vendors exposes the Company to a number of increased operational risks, including the risk of security breaches, fraud, non-compliance with laws and regulations or internal guidelines and inadequate service. Material third party vendor risk is managed, by, among other things, performing a thorough risk assessment on potential large vendors, reviewing a vendor's financial stability, ability to provide ongoing service and business resilience planning.

**C.7 Other material risks**

**Inflation**
The Company's balance sheet is exposed to changes in economic and social inflation. Unexpected inflation movements can have an impact on the valuation of the Company's insurance liabilities and on the adequacy of pricing, as well as on investment valuations and the ability to match durations between assets and liabilities.

The Company has undertaken extensive activity to ensure that all elements of the Company's risk profile which are impacted by inflation are being properly managed and that valuations on the Company's balance sheet take into account the most up-to-date assumptions on current and future inflation rates.

**ESG/Climate change**
Environmental, Social and Governance (ESG) and sustainability have become major topics that encompass a wide range of issues, including climate change and other environmental risks. In line with Company strategy, we have put in place a number of measures in order to identify, assess and manage potential exposure to climate risks for example physical, transition and liability risks. The Company is potentially exposed to different aspects of climate risk, specifically, physical, liability and transition risks, as a result of climate change.

**C.7 Other material risks (continued)**
**ESG/Climate change (continued)**

Physical risks describe weather-related events and longer-term shifts in climate, and emanate primarily from underwriting of property insurance and reinsurance. Climate change may expose us to an increased frequency and/or severity of these weather-related losses, and there is a risk that our pricing of these perils or our management of the associated aggregations does not or will not appropriately allow for changes in climate. Over the longer term, climate change may have an impact on the economic viability of certain lines of business, if suitable adjustments in price and coverage cannot be achieved.

The Company may also be exposed to liability risks. Liability risks relate to losses or damages suffered by our insureds from physical or transition risks, such as losses stemming from climate-related litigation in liability lines. These risks could arise from management and boards not fully considering or responding to the impacts of climate change, or not appropriately disclosing current and future risks.

There is additionally a risk that certain elements of our business cease to be viable as a result of climate change 'transition' risks, which relate to losses driven by changes in technology, governments and regulators putting into place measures to encourage and support this transition, and society as a whole adapting to a lower-carbon economy. There remains a risk that our financial condition or operating performance may be impacted by changes in our business model arising from climate change transition, and by the performance of strategies we put in place to manage this transition.

AXIS has initiated a Climate Change Working Group, which includes representation from the Company, to ensure that the potential risks and opportunities from climate change are identified and then managed in line with the standard risk management framework. The Company has additionally developed a plan to ensure that the any exposures are systematically assessed and well monitored as appropriate.

AXIS Capital's Fossil Fuel policy limiting thermal coal and oil sands underwriting and investment went into effect on 1 January 2020 and was strengthened further in 2021. Further details on Group wide energy and carbon reduction initiative has been documented in the Corporate Citizenship section of the AXIS Capital Holdings Annual Report.

**Russia/Ukraine Conflict**
At present, the Company has low and containable exposure to potential losses resulting from war, acts of terrorism, political unrest and geopolitical instability in many regions of the world, including but not limited to, events related to Russia's invasion of Ukraine. We are closely monitoring the situation and complying with the requirements of the various sanction regimes which range from prohibiting the provision of insurance and reinsurance coverage or services to the freezing of assets of various insureds and cedants. For the foreseeable future, we are generally looking to avoid exposure to Russian business or insureds with material Russian interests.

**COVID-19**
The threat and outcome relating to COVID-19 are better understood now than during the earlier stages. The longer term societal and economic impact remains uncertain. The Company continues to monitor the situation closely, including stress and scenario testing on existing underwriting and investment exposures, taking into consideration among other assumptions, the possible severity and duration of the outbreak.

**Strategic risk**
Strategic risk is the risk of an unexpected negative change in the company value arising from the adverse effect of management decisions regarding business strategies and their implementation. This includes the risk that business strategy is not adapted to changes in the internal and external environment.

To ensure proper implementation of strategic goals in the current business plan, management monitors market and competitive conditions, regulatory conditions, etc. to decide whether to make strategic adjustments.

**Group contagion risk**
Group contagion risk is the risk of financial or non-financial loss in the Company due to linkages or interdependencies with other parts of the AXIS Group. Group contagion risk is primarily managed through AXIS' Group wide Risk Management Framework which ensures that each entity operates within its defined solvency standards and risk limits, thus limiting their exposure to the above risks.

**Reputational risk**
Reputational risk is the risk of a loss resulting from damage to the Company's public image. The Company is potentially exposed to reputational risk stemming from an act or omission by the Company or an employee, or from an event from within the broader AXIS Group. Any damage to the Company's reputation may result in a loss of trust among its clients and stakeholders.

**C.7 Other material risks (continued)**
**Reputational risk (continued)**

Every risk type has potential consequences on the Company's reputation, and therefore, effectively managing each type of risk helps reduce threats to reputation. The Company's risk assessment process covering all risks in the risk register considers reputational impacts to the Company. Additionally, the Company endeavours to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles in the AXIS Code of Conduct, which includes integrity and good business practices. Mitigation of legal or regulatory breach is undertaken by the skilled and qualified compliance team, by ongoing monitoring of the regulatory landscape, through business conduct standards and policies, implementation of background and compliance checks and staff training. Effectiveness of the processes and governance to mitigate legal and compliance risk is monitored through the Company risk register. The AXIS Group centrally manages certain aspects of reputation risk, for example, communications, through dedicated functions with appropriate expertise.

**Conduct Risk**
Conduct risk management refers to seeking to ensure good customer outcomes through treating all customers fairly and minimising the risk of any actions that may result in customer detriment across the product lifecycle. The Company has a conduct risk framework in place which is reviewed and updated on a regular basis and is supported by the operation of the Conduct Oversight Group.

**Emerging Risks**
AXIS has in place a process for scanning the external environment to identify risks that present an emerging threat to the business environment, industry or company and any opportunities. An Emerging Risk framework is in place to ensure that emerging risks and opportunities are identified, assessed and managed in an appropriate and timely manner. The scope of the Emerging Risk framework considers upside, as well as downside risks, to ensure that any potential commercial opportunities are explored and pursued. The Emerging Risk Working Group (ERWG) is responsible for the oversight of the framework and acts as a focal point for coordinating the Company's response. These emerging risks and opportunities are captured by the Company's emerging risk radar and reviewed by the Company's Board Risk Committee on a regular basis. The risk radar categorizes emerging risks according to their potential impact and the time horizon to first material impact and facilitates ongoing monitoring. More detailed assessments are carried out on "priority" risks identified to understand the threat or opportunity of these risks and early action is taken where appropriate to mitigate future impact. An example of a key emerging risk the Company is currently focusing on is Climate Change (see below).

**Emerging claim and coverage issues**
As industry practices and legal, judicial, social, political, technological and other environmental conditions change, unexpected issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the frequency and/ or severity of claims. The Company continues to be disciplined and vigilant in its management of this risk.

**Cyber**
Cyber events are man-made perils and as such the threat landscape is dynamic and evolving. This risk of cyber-attacks could be exacerbated by geopolitical tensions, including hostile actions taken by nation-states and terrorist organisations. There is also a risk that increases in the frequency and severity of loses to our clients from Cyber events could adversely affect the results of our operations, financial condition or liquidity. In addition, our exposure to cyber events potentially includes exposure through "non-affirmative" coverages, meaning risks and potential losses associated with policies where cyber risk is not explicitly included or excluded in the policy wording. As this is a relatively new peril, even in cases where losses from cyber events are explicitly excluded, there can be no assurance that a court or arbitration panel will interpret policy language in line with the intention of the exclusion.

The Company continuously monitors the threat of attempted cyber and other security attacks in order to prevent, detect, address and mitigate the risk of threats to its data and systems.

## C.8 Any other information

**Sensitivity testing**

SII SCR Coverage sensitivity testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios stressing the Company's material risks. A summary of the sensitivity testing results has been provided by risk category below. No future management actions are assumed in any of the scenarios. None of the tests performed resulted in the SCR coverage ratio falling below the Company's Strategic Solvency Target.

| Sensitivity | Description | Risk Category | SCR Impact (USD'm) | SCR post shock (USD'm) | SCR Coverage |
|---|---|---|---|---|---|
| **Baseline** | **Based on 2022 Annual SCR** | | | | **153 %** |
| Higher growth than planned during 2023 | Net Earned Premium increase by 10% across all lines | Insurance Risk | 21 | (2) | 141 % |
| Reserve deterioration in long tail lines | 20% increase Net Technical Provisions for long-tail lines | Insurance Risk | 12 | 252 | 146 % |
| Equity investments value decrease | Value decrease by 40% | Market Risk | (2) | 239 | 151 % |
| Credit spreads widening | Widening by 100bps for Investment Grade & 400bps for High Yield | Market Risk | 0 | 240 | 151 % |
| Aged Debt increase | Increase proportion of > 90 days aged debt by 50%. | Counterparty Default Risk | 6 | 247 | 150 % |
| Reinsurance counterparties downgrade | All RI counterparties credit rating down by 1 notch | Counterparty Default Risk | 8 | 249 | 148 % |
| Yield curve movement | Yield curve movement up by 1% | Multiple Risks | (4) | 237 | 156 % |

In the event of a breach, the Company has a number of ways by which it can manage its solvency coverage and ensure that it returns within target. This includes changing gross exposures or external reinsurance arrangements, changing the internal reinsurance arrangements or other traditional forms of capital management (e.g. capital injections, cease dividend payments etc.).

All material information regarding the Company's risk profile is disclosed in sections C.1 - C.8.

## D. VALUATION FOR SOLVENCY PURPOSES

The Company's financial statements including the balance sheet have been prepared under the historical cost convention, as modified by the inclusion of certain investments at fair value and in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK 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, and comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015.

The Solvency II balance sheet recognises assets and liabilities in conformity with the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 (IFRS as adopted by the EU) unless otherwise stated within Solvency II.

### D.1 Assets

| | Solvency II 2022 USD'000 | GAAP 2022 USD'000 | Difference 2022 USD'000 | Adjustment Type |
|---|---|---|---|---|
| **Deferred acquisition costs** | — | 8,258 | (8,258) | Valuation |
| **Net deferred tax asset** | — | 2,846 | (2,846) | Valuation |
| **Property, plant & equipment held for own use** | 52,970 | 33,245 | 19,725 | Valuation |
| Government Bonds | 185,415 | 179,259 | 6,156 | Reclassification |
| Corporate Bonds | 193,840 | 199,338 | (5,498) | Reclassification |
| Collateralised securities | 28,059 | 28,058 | 1 | Reclassification |
| Collective Investments Undertakings | 141,230 | 123,180 | 18,050 | Reclassification |
| Other investments | 5,542 | 12,945 | (7,403) | Reclassification |
| Other loans and mortgages | 9,429 | — | 9,429 | Reclassification |
| **Investments** | 563,515 | 542,780 | 20,735 | |
| | | | | |
| **Insurance and intermediaries receivables** | 98,075 | 406,304 | (308,229) | Valuation |
| **Reinsurance receivables** | 59,350 | 59,350 | — | |
| **Derivatives** | 206 | — | 206 | Reclassification |
| **Cash and cash equivalents** | 20,903 | 32,367 | (11,464) | Reclassification |
| **Any other assets, not elsewhere shown** | 22,988 | 6,737 | 16,251 | Reclassification |
| | **818,007** | **1,091,887** | **(273,880)** | |

**D.1 Assets(continued)**

| | Solvency II 2021 USD'000 | GAAP 2021 USD'000 | Difference 2021 USD'000 | Adjustment Type |
|---|---|---|---|---|
| **Deferred acquisition costs** | — | 6,712 | (6,712) | Valuation |
| **Net deferred tax asset** | 8,629 | 2,683 | 5,946 | Valuation |
| **Property, plant & equipment held for own use** | 57,555 | 30,572 | 26,983 | Valuation |
| Government Bonds | 185,323 | 183,761 | 1,562 | Reclassification |
| Corporate Bonds | 226,109 | 224,877 | 1,232 | Reclassification |
| Collateralised securities | 30,868 | 30,794 | 74 | Reclassification |
| Collective Investments Undertakings | 113,731 | 108,921 | 4,810 | Reclassification |
| Other investments | 18,366 | 16,224 | 2,142 | Reclassification |
| Other loans and mortgages | 574 | — | 574 | Reclassification |
| **Investments** | 574,971 | 564,578 | 10,394 | |
| | | | | |
| **Insurance and intermediaries receivables** | 80,670 | 326,681 | (246,011) | Valuation |
| **Reinsurance receivables** | 48,558 | 48,558 | — | |
| **Derivatives** | 680 | 589 | 91 | Reclassification |
| **Cash and cash equivalents** | 19,930 | 26,864 | (6,934) | Reclassification |
| **Any other assets, not elsewhere shown** | 34,545 | 37,090 | (2,545) | Reclassification |
| | **825,538** | **1,044,327** | **(218,788)** | |

Reclassification for solvency purposes are differences in classifications of balances between GAAP and Solvency II balance sheet line items. Valuation adjustments are valuation differences between GAAP and Solvency II measurement methodologies.

**D.1.1 Deferred acquisition costs**

Acquisition costs vary with and are directly related to the acquisition of insurance contracts and consist primarily of fees and commissions paid to brokers and premium taxes.

Under Solvency II, cash flow projections used in the calculation of Solvency II Technical Provisions include acquisition costs associated with insurance contracts. Deferred acquisition costs are valued at nil in order to avoid double counting as acquisition costs are considered in the Solvency II Technical Provision calculations.

Under GAAP, acquisition costs are deferred over the period during which the Company is exposed to the underlying risk which is generally one to two years with the exception of multi year contracts.

**D.1.2 Net deferred tax**

Certain GAAP assets and liabilities are restated in accordance with SII valuation rules. The restated assets and liabilities are analyzed for permanent differences arising between SII restated accounts and tax accounts. All material differences are considered and deferred tax is provided on any temporary differences arising. Current tax legislation and rates are applied to calculate the deferred tax. Deferred tax assets and liabilities are presented net on the face of the SII Balance Sheet.

Under GAAP, deferred taxation is calculated on the differences between the Company's taxable profits and the results as stated in the financial statements. These differences arise as a result of timing differences on unrealised gains and losses on investments and capital allowances. Deferred tax assets and liabilities are offset when taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

**D.1.3 Property, plant and equipment**

Property, plant and equipment includes the office premises in Dublin, leasehold improvements, "right of use" lease assets, software, computer equipment and fixture & fittings.

Under Solvency II, the IAS 16 revaluation model is applied when valuing property, plant and equipment. The Dublin office is valued at USD 8.1 million.

**D.1.3 Property, plant and equipment (continued)**
Under GAAP, property, plant and equipment is measured at cost less depreciation. The Company provides depreciation at cost less estimated residual value in equal annual instalments over the estimated useful lives of the assets.

Leasehold improvements are valued cost less any depreciation and impairment loss and this is considered a reasonable approximation of market value of the bespoke nature of the improvements. Under Solvency II, this is an alternative valuation methodology.

Under Solvency II, operating leases are measured in accordance with IFRS 16 with a right of use asset and lease liability recognised in the Balance Sheet. Under GAAP, rent payable under operating leases is charged on a straight-line basis over the term of the lease. The "right of use" lease asset is included in Property, plant & equipment.

Software, computer equipment and fixture & fittings are valued at nil on the SII economic balance sheet as an active secondary market does not exist to provide appropriate fair value estimations.

**D.1.4 Investments**
The Company's investments comprise debt, equity and other investments.

Under Solvency II, investments are measured in accordance with IAS 39 at fair value through profit & loss. Fair value measurement is consistent with GAAP except for the recognition of accrued interest. Under Solvency II, accrued interest is included in the valuation of debt and cash instruments. Under GAAP, accrued interest is recognised separately in 'Any other assets'.

*Fair Value Measurement*
Under GAAP, investments are measured in accordance with FRS 102 section 11 and section 12. The Company determines the classification of its investments at initial recognition and re-evaluates this at each reporting date. The Company classifies its investments on a portfolio by portfolio basis and has designated all investment portfolios as at fair value through profit and loss. These portfolios are managed and their performance evaluated on a fair value basis. Short-term investments comprise debt securities that, at purchase, have a maturity greater than three months but less than one year. Due to the short-term nature of these investments amortized cost is used to approximate fair value. All purchases and sales of investments are recorded on the trade date, which is the date that the Company commits to purchase or sell the assets. The fair values of listed investments are based on closing bid prices. For investments not traded on an active market, the Company establishes fair value based on quoted market prices of similar instruments or on other valuation techniques.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. The fair value hierarchy used gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level A - The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.
- Level B - When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.
- Level C - If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

*Classification*
Under GAAP, classification of investments is in accordance with FRS 102 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015. Under Solvency II, certain investments have been reclassified where necessary in order to conform to Solvency II asset categories.

**D.1.5 Insurance and intermediaries receivables**

Under Solvency II, premium and commission receivable balances past due are recognised at fair value. Balances past due greater than one year are discounted using the risk free interest rate curve. Under Solvency II, technical provisions are calculated on a cash-flow basis. Premiums and commission receivable balances not yet due are included in technical provision best estimate calculations and eliminated from the GAAP Insurance and intermediaries receivable balance. A balance is deemed not yet due at the balance sheet date, if the receivable is not aged (overdue) and will become due for payment by the client some time after the balance sheet date.

Under GAAP, premium and commission receivable balances arising under insurance contracts are recognised when due and measured at cost. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

**D.1.6 Reinsurance receivables**

Under Solvency II, similar to Insurance and intermediaries receivables, balances deemed not yet due are included in best estimate calculation in technical provisions and removed from the GAAP reinsurance receivable balance.

Under GAAP, ceded premium advances and losses paid recoverable are recognised at cost with a provision for impairment if identified.

**D.1.7 Cash and Cash Equivalents**

Cash and cash equivalents are carried at face value and include fixed income securities that, at purchase have a maturity 3 months or less.

Under Solvency II, certain cash deposits have been reclassified to investments where necessary in order to conform to Solvency II asset categories. As noted in 'Investments' under Solvency II, accrued interest is included in the valuation of cash and cash equivalents. Under GAAP, accrued interest is recognised separately in 'Any Other Assets'.

**D.1.8 Any other assets**

Any other assets includes amounts such as amounts due from group companies, prepaid expenses, accrued interest and other taxes receivable in the GAAP balance sheet. The balances are measured at a value for which they could be exchanged between knowledgeable and willing parties in an arm's length transaction. As noted above, under Solvency II, accrued interest is included in the valuation of debt and cash instruments. Under GAAP, accrued interest is recognised in 'Any Other Assets'

**D.2 Technical provisions**

The valuation methodology for technical provisions in accordance with Solvency II differs significantly from the valuation in the financial statements.

| | | Solvency II | | GAAP |
|---|---|---|---|---|
| | 2022 | 2022 | 2022 | 2022 |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| **Net technical provisions** | **Best Estimate** | **Risk Margin** | **Total** | **Total** |
| **Direct business and accepted proportional reinsurance** | | | | |
| Income Protection | 3,649 | 857 | **4,506** | **6,027** |
| Marine, aviation and transport | 39,713 | 8,813 | **48,526** | **69,321** |
| Fire and other damage to property | 44,316 | 8,962 | **53,278** | **77,898** |
| General liability | 98,948 | 17,993 | **116,941** | **131,507** |
| Credit and suretyship | (1,013) | 483 | **(530)** | **22,518** |
| Miscellaneous financial loss | (21) | — | **(21)** | **—** |
| **Total Non-Life obligation** | **185,592** | **37,108** | **222,700** | **307,271** |

| | | Solvency II | | GAAP |
|---|---|---|---|---|
| | 2021 | 2021 | 2021 | 2021 |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| **Net technical provisions** | **Best Estimate** | **Risk Margin** | **Total** | **Total** |
| **Direct business and accepted proportional reinsurance** | | | | |
| Income Protection | 3,542 | 572 | **4,114** | **4,925** |
| Marine, aviation and transport | 35,916 | 7,343 | **43,259** | **61,991** |
| Fire and other damage to property | 42,221 | 6,563 | **48,784** | **64,359** |
| General liability | 149,008 | 23,302 | **172,310** | **151,751** |
| Credit and suretyship | (6,730) | 194 | **(6,536)** | **8,194** |
| Miscellaneous financial loss | (1,031) | 8 | **(1,023)** | **48** |
| **Accepted non-proportional reinsurance** | | | | |
| Health | (27) | — | **(27)** | **—** |
| **Total Non-Life obligation** | **222,899** | **37,982** | **260,881** | **291,268** |

**D.2.1 GAAP technical provisions**

*Claims reserves*

Claims Reserves represent an estimate of the unpaid portion of the ultimate liability for losses and loss expenses for reinsureds events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported ('case reserves') and claims that have been incurred but not yet reported ("IBNR"). These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

Reserves for losses and loss expenses are reviewed on a quarterly basis. Case reserves are primarily established based on amounts reported from insureds, reassureds and/or brokers. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgement regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilised in this process, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods. The Company estimate is highly dependent on management's critical judgement as to which method(s) are most appropriate for a particular accident year and class of business. The Company's historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Initial Expected Loss Ratio (“IELR”) Method: This indication of ultimate claim cost is based on applying an expected loss ratio for the accident period to an exposure measure, normally the earned or written premium. The expected loss ratio is normally calibrated based on the historical loss ratios of the class of business, adjusted for changes in the underwriting environment such as premium rates and terms and conditions as well as qualitative information such as shifts in the mix of business. Where the history is not considered fully credible, an external benchmark may also be given some weight.

**D.2.1 GAAP technical provisions (continued)**

Development Factor ("DF") Method (also termed Chain Ladder Method): The indication of ultimate claim cost is based on grossing up the cumulative reported (or paid) claims according to a factor representing the expected percentage of claims assumed to have been reported (or paid) given the delay period that has elapsed since the start of the accident period ('percentage developed'). This 'development profile' is normally calibrated by considering the percentage of the ultimate claims cost that has emerged in older, more mature, accident periods at each delay period. Where the history is not considered fully credible, an external benchmark may also be given some weight.

Bornhuetter-Ferguson ("BF") Method: The BF method is a weighted average of the IELR and DFM methods. It gives more weight to the IELR method in the earlier stages of a year's development before progressively weighting more towards experience indications (i.e., DFM) as the year matures.

Any adjustments to previous reserves for losses and loss expenses are recognised in the period they are determined. While management believes that reserves for losses and loss expenses are adequate, this estimate requires significant judgement and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the balance sheet.

The current reserving process is based on historic statistics which may or may not be borne out in future. There is uncertainty around claims inflation which may be higher or lower in future than seen in the historic data. Some classes of business assume a certain number of claims to be reported in future which may turn out to be different in reality. The stability of the claims process can also affect reserving estimates. Should the claims process speed up through automation or slow down due to processing delays, even taking these into account, there will be particularly uncertainty in the reserving estimates.

*Unearned premium reserves*

Insurance premiums written are recorded in accordance with the terms of the underlying policies. Insurance premiums are earned over the period during which the Company is exposed to the underlying risk which is generally one to two years with the exception of multi year contracts. Insurance unearned premiums represent the portion of insurance premiums written which is applicable to the unexpired risks under contracts in force.

**D.2.2 Solvency II technical provisions**

Technical provisions on a Solvency II basis combine the data and results from the GAAP based reserving process with additional information and calculations.

The calculation of the Solvency II technical provisions is split into three parts:

i. **Provisions relating to earned business ('Claims Provision')**: The best estimate amount of earned, unpaid claims (i.e., reported outstanding claims and earned IBNR from the standard reserving process) and associated runoff expenses. Under Solvency II it is also necessary to ensure that the technical provisions include an allowance for 'Events not in Data' ("ENIDs"). The best estimate of ultimate claims under the traditional GAAP basis generally only reflects actual historic losses and development patterns. The Technical Provisions for Solvency II require that allowance is also made for events or circumstances that are not reasonably foreseeable (i.e., have low probabilities) and are at levels not contained in the historical data (i.e., have potentially large severities). This additional reserve amount is referred to as 'Events not in Data'.

ii. **Provisions relating to unearned business ('Premium Provision'):** Unearned business comprises unearned business already incepted, as well as business that is not yet incepted but has been already been bound before the valuation date. As with the earned provision, the claim amount is also loaded for ENIDs that could impact unearned business, includes associated runoff expenses and is offset by future premiums to be received.

iii. **Risk Margin:** A risk margin is then applied to reflect the premium that would be required by a third party assuming the business at the valuation date.

Both the earned and unearned provisions take account of the expected reinsurance recoveries to be received in respect of this business, reduced for reinsurance bad debt.

All elements of the provisions take account of the assumed cash flow pattern on a best estimate basis (i.e., excluding margins for prudence) and are discounted at the EIOPA provided discount rates. It is intended that the Best Estimate captures a probability-weighted average of all future outcomes, including the possibility of claim events that have not been seen in the Company's history.

**D.2.3 Differences between Solvency II and GAAP valuation bases**

The main changes from the methodology used to derive the technical provisions on a GAAP basis are as follows:

i. Standard Solvency II classes of business are used for reporting in addition to the standard reserving classes and also at the original currency level, with all minor currencies being grouped into an 'Other' category.
ii. The reserves held for future claims are calculated on a best-estimate basis with an explicit risk margin added onto this best estimate. This is different from the GAAP basis where booked reserves may include some implicit margin for uncertainty.
iii. The technical provisions also contain an allowance for ENIDs representing low frequency/high severity events.
iv. Future premium income and claims outgoing are all discounted for the time value of money using the relevant risk free interest rate term structure.
v. Bound unincepted business is included in the analysis, with the expected claims offset by the future premium income for this business.
vi. Unearned claims are estimated rather than 100% unearned premium reserve being held.
vii. The expected cost of future claims is offset by the future premium income.
viii. All calculations are based on a cash flow basis. This means that any transactions that have taken place but where the cash has not yet been paid or received will be included as a future cash flow.
ix. Additional allowance for expenses is made on the basis that the provision includes the expected expense amount needed to service all existing policies throughout their lifetime.

**D.2.4 Level of uncertainty**

The level of the technical provisions on both a GAAP and on a Solvency II basis is heavily dependent on the reliability and accuracy of the underlying reserving process. In particular, future claims development is inherently uncertain and subject to future events that cannot be known accurately at the present time. The best estimate of ultimate claims, while considered to have been derived using a reasonable methodology and set of assumptions, may still differ, potentially significantly, from the eventual cost of ultimate claims.

**D.2.5 Recoverables from reinsurance contracts**

The Company purchases reinsurance to reduce the risk of exposure to loss. Four types of reinsurance cover are purchased; facultative, excess of loss, quota share and stop loss. Facultative covers are typically individual risk purchases. Excess of loss covers provide a contractually set amount of cover after an excess point has been reached. This excess point can be based on the size of an industry loss or a fixed monetary amount on either a per loss or aggregate basis. Generally these covers are purchased on a package policy basis, and they may provide cover for a number of lines of business within one contract. Quota share covers provide a proportional amount of coverage from the first dollar of loss and stop loss cover protects the Company's net ultimate loss ratio.

All of these reinsurance covers provide for recovery of a portion of losses and loss reserves from reinsurers. Under its reinsurance security policy, the Company predominantly cedes business with reinsurers rated A- or better by Standard & Poors and/or AM Best Company. Where business is ceded to reinsurers that are unrated, associated credit risk is mitigated by collateral held in trust. The Company remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or some other reason. Included within the Company's GAAP reinsurance recoverable as at 31 December 2022 were amounts of USD 560.8 million (2021: USD 577.7 million) recoverable from a group company.

**D.2.6 Any other information**

The Company has not applied the matching adjustment, volatility adjustment, transitional risk-free interest term structure of the transitional deduction in calculating Solvency II technical provisions.

**D.3 Other Liabilities**

| | Solvency II 2022 USD'000 | GAAP 2022 USD'000 | Difference 2022 USD'000 | Adjustment Type |
|---|---|---|---|---|
| **Net deferred tax liabilities** | 1,416 | — | 1,416 | Valuation |
| **Derivatives** | 497 | 291 | 206 | Reclassification |
| **Insurance & intermediaries payables** | — | 17,598 | (17,598) | Valuation |
| **Reinsurance payables** | 126,768 | 366,969 | (240,201) | Valuation |
| **Deposits from Reinsurers** | 595 | 595 | — | |
| **Debts owed to credit institutions** | 9,696 | — | 9,696 | Reclassification |
| **Any other liabilities, not elsewhere shown** | 89,337 | 33,987 | 55,350 | Valuation |
| | **228,309** | **419,440** | **(191,131)** | |

**D.3 Other Liabilities (continued)**

| | Solvency II 2021 USD'000 | GAAP 2021 USD'000 | Difference 2021 USD'000 | Adjustment Type |
|---|---|---|---|---|
| **Derivatives** | 91 | — | 91 | |
| **Insurance & intermediaries payables** | 4,113 | 20,930 | (16,817) | Valuation |
| **Reinsurance payables** | 84,512 | 270,141 | (185,629) | Valuation |
| **Deposits from Reinsurers** | 636 | 636 | — | |
| **Debts owed to credit institutions** | 394 | — | 394 | Reclassification |
| **Any other liabilities, not elsewhere shown** | 127,880 | 83,995 | 43,885 | Valuation |
| | **217,626** | **375,702** | **(158,076)** | |

**D.3.1 Insurance & intermediaries payable**
Under Solvency II, similar to insurance and intermediaries receivable, balances not yet due for payment are recognised in technical provisions and removed from insurance and intermediaries payable. A balance is deemed not yet due at the balance sheet date, if payment will become due after the balance sheet date.

Under GAAP, amounts payable to policyholders, insurers and other business linked to insurance such as commissions due to intermediaries but not yet paid are recognised at cost.

**D.3.2 Reinsurance payables**
Similar to 'Insurance and intermediaries payable', under Solvency II, balances not yet due for payment are removed and recognised in technical provisions.

Under GAAP, premium payables are recognised at cost. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

**D.3.3 Any Other Liabilities**
Under Solvency II, any other liabilities are recognised at fair value. Cost is considered to approximate fair value on the basis that duration is less than one year and no discounting is required.

Under Solvency II, operating leases are measured in accordance with IFRS 16 with a right of use asset and lease liability recognised in the Balance Sheet. Under GAAP, rent payable under operating leases is charged on a straight-line basis over the term of the lease. The lease liability is included in "Any Other Liabilities.

Under GAAP, ‘Amounts payable to group companies’, ‘Net payable for investments purchased’, ‘Other taxes payable’ and ‘Accrued expenses’ and are recognised at cost and payable in less than one year.

**D.4 Any other information**
All material information regarding valuation is disclosed in sections D.1 - D.3.

## E. CAPITAL MANAGEMENT

Capital management is a business process that links risk and return preferences with strategy setting and business planning. It requires cross functional collaboration, and involves a significant commitment from business segments, corporate functions, risk management and the Board of Directors.

The Company's Capital Management objective is to ensure that the Company maintains an appropriate level of capital, in terms of both quantity and quality, at all times, in line with its risk appetite and capital requirements, and that it fulfils its obligations to monitor, manage and report its capital position, both required and available, internally and externally as required, in accordance with relevant regulatory requirements. A business plan is prepared annually to support the capital management objective and includes a three year projection of expected performance.

Business strategy, capital and risk are closely integrated within decision making, and embedded through the ORSA process which assess that the prospective risk profile is in line with the Company's risk appetite framework. The SCR calculation is performed as part of the ORSA process to provide input into the Company's capital management strategy.

### E.1 Own Funds

*Eligible Own funds*

For Solvency II, own funds are divided into levels of quality, known as tiers, depending on their loss absorbency. Tier 1 unrestricted, which is not subject to a limit, is of the highest quality, Tier 3 the lowest. 100% (2021: 97.5%) of the Company's own funds are classified as Tier 1.

| | 2022<br>USD'000<br>Total | 2022<br>USD'000<br>Tier 1 | 2022<br>USD'000<br>Tier 2 | 2022<br>USD'000<br>Tier 3 |
|---|---|---|---|---|
| Ordinary share capital | 10,110 | 10,110 | — | — |
| Reconciliation reserve | 357,802 | 357,802 | — | |
| Net deferred tax asset | — | — | — | — |
| **Eligible own funds** | **367,912** | **367,912** | **—** | **—** |

| | 2021<br>USD'000<br>Total | 2021<br>USD'000<br>Tier 1 | 2021<br>USD'000<br>Tier 2 | 2021<br>USD'000<br>Tier 3 |
|---|---|---|---|---|
| Ordinary share capital | 10,110 | 10,110 | — | — |
| Reconciliation reserve | 327,218 | 327,218 | — | — |
| Net deferred tax asset | 8,629 | — | — | 8,629 |
| **Eligible own funds** | **345,956** | **337,328** | **—** | **8,629** |

The reconciliation reserve includes the following:

- shareholders' equity on a GAAP basis as per the financial statements,
- revaluation reserve (adjustments from GAAP to Solvency II economic valuation basis); and
- deduction for restricted own fund items.

A reconciliation of shareholders' equity to eligible own funds is as follows:

| | 2022<br>USD'000 | 2021<br>USD'000 |
|---|---|---|
| **Shareholders' equity** | 365,175 | 377,354 |
| Revaluation reserve | 4,537 | (30,324) |
| **Less restricted own fund items** | | |
| Restricted asset | (1,800) | (1,074) |
| **Eligible own funds** | **367,912** | **345,956** |

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**E.1 Own Funds**

The increase in eligible own funds is driven by the movement of GAAP to Solvency II valuation adjustments recognised in the revaluation reserve. Section D provides description of valuation differences between GAAP and Solvency II.

| | 2022 | 2021 |
|---|---|---|
| | USD'000 | USD'000 |
| Adjustments for Solvency II technical provisions | 71,248 | 24,804 |
| Adjustments for Solvency II risk margin | (37,108) | (37,981) |
| Adjustment for deferred acquisition costs | (8,258) | (6,712) |
| Adjustments for property, plant and equipment (including leases) | (17,083) | (16,381) |
| Deferred tax adjustment | (4,262) | 5,946 |
| **Revaluation reserve** | **4,537** | **(30,324)** |

Adjustments are summarised below:

- Solvency II technical provisions, excluding risk margin, have had a beneficial increase to own funds during the period:
  - Claims provisions have had reductions in claims reserves and further reductions due to higher discount rates.
  - Premium provisions have had beneficial movements in own funds due to improved loss ratios and increased business volumes.
- the risk margin is a function of the main SCR risks and the run off of these risks. The increase in the associated SCR risks have been more than offset by the beneficial impact of discounting resulting in minimal change from prior year.
- adjustment for deferred acquisition costs have increased in line with the increase in business,
- adjustment for property, plant and equipment recognises the revaluation of property, plant and equipment and capitalisation of operating leases on the Solvency II balance sheet; and
- adjustment for deferred tax recognised the tax impact of GAAP to Solvency II valuation adjustments.

Restricted own fund items relate to USD 1.8 million restricted cash balances (2021: USD 1.1 million) held by the Company.

**E.2 Solvency capital requirement and Minimum capital requirement**

The 2022 and 2021 results presented are based on the 2022 and 2021 Annual Solvency II returns submitted to the Central Bank respectively.

The SCR has been calculated using the Standard Formula methodology.

| **Solvency Capital Requirement** | 2022 | 2021 |
|---|---|---|
| | USD'000 | USD'000 |
| Market risk | 57,079 | 56,610 |
| Counterparty default risk | 89,429 | 83,152 |
| Health underwriting risk | 4,721 | 5,220 |
| Non-life underwriting risk | 127,747 | 115,589 |
| Diversification | (65,516) | (62,812) |
| **Basic solvency capital requirement** | **213,460** | **197,759** |
| Operational risk | 38,771 | 38,364 |
| Loss-absorbing capacity of deferred taxes ("LACDT") | (11,655) | (16,694) |
| **Solvency capital requirement** | **240,576** | **219,429** |
| **Eligible own funds** | **367,912** | **345,956** |
| **Ratio of eligible own funds to SCR** | **152.9 %** | **157.7 %** |

**E.2 Solvency capital requirement and Minimum capital requirement (continued)**
The increase in SCR over prior year is largely driven by the growth in the business during 2022 and forecast continued growth in 2023.

- The Non-life underwriting risk charge has increased materially due higher premium volumes across all lines of business and an increased catastrophic risk charge attributable to higher premium volumes in Fire and other damage and General liability lines of business.
- The Counterparty default risk charge has increased largely due to higher reinsurance recoverables with an increased proportion with unrated counterparties. The increase associated with unrated counterparties has been somewhat mitigated by collateral held in trust.

**Use of simplifications and undertaking specific parameters**
*Simplified calculation of the risk mitigating effect for reinsurance arrangements*
The Company has applied a simplified calculation of the risk-mitigating effect for reinsurance. The risk mitigating effect on underwriting risk of the reinsurance arrangements for all counterparties is determined as the difference between the following capital requirements:

- the hypothetical capital requirement for the underwriting risk of the Company if none of the reinsurance arrangements exist; and
- the capital requirements for underwriting risk of the Company.

The risk mitigating effect on underwriting risk of a particular reinsurance arrangement is then calculated based on its share of the total best estimate amount recoverable from all counterparties.

*Lapse risk*
The Company applies a simplification approach on the calculation of lapse risk charge whereby the risk charge is calculated on a basis of groups of policies, rather than on a policy level. This simplification approach is based on Delegated Regulation Articles 90a and 96a.

*Share of Reinsurer's assets subject to collateral arrangements*
The Company uses the simplification as per Article 112a of the Delegated Regulation which assumes more than 60% of the counterparty's assets are subject to collateral arrangements where the Company does not have this information.

*Collateral*
The Company's counterparty default risk charge includes an allowance for a collateral arrangement. The simplification based on Article 112 of the Delegated Regulation is applied for the calculation of the risk adjusted value of collateral to take into account the economic effect of the collateral.

*Undertaking specific parameters*
The Company does not use any undertaking specific parameters in the calculation of the SCR.

**MCR**
The MCR is calculated in accordance with Solvency II requirements using a factor-based formula calibrated using a Value-at-Risk measure with an 85% confidence level over a one-year period. The Company is required to maintain the higher of the minimum required capital (imposed by the regulations) of EUR 3.7 million or the MCR at all times during the year.

| | 2022<br>Total<br>USD'000 | 2022<br>Tier 1<br>USD'000 | 2022<br>Tier 2<br>USD'000 |
|---|---|---|---|
| **Eligible own funds to meet the MCR** | 367,912 | 367,912 | — |
| **MCR** | **60,144** | | |
| **Ratio of eligible own funds to MCR** | **611.7 %** | | |

**MCR (continued)**

| | 2021 Total USD'000 | 2021 Tier 1 USD'000 | 2021 Tier 2 USD'000 |
|---|---|---|---|
| **Eligible own funds to meet the MCR** | 337,328 | 337,328 | — |
| **MCR** | **54,857** | | |
| **Ratio of eligible own funds to MCR** | **614.9 %** | | |

The inputs used to calculate the MCR of the Company are as follows:

| | Net (of reinsurance/ SPV) best estimate and TP calculated as a whole 2022 USD'000 | Net (of reinsurance) written premiums in the last 12 months 2022 USD'000 |
|---|---|---|
| **Direct business and accepted proportional reinsurance** | | |
| Income protection | 3,649 | 6,521 |
| Marine, aviation and transport | 39,713 | 40,352 |
| Fire and other damage to property | 44,316 | 64,045 |
| General liability | 98,948 | 34,607 |
| Credit and suretyship | — | 11,514 |

**E.3 Use of duration based equity risk sub module in the calculation of SCR**
Duration based equity risk sub module was not used in the calculation of the SCR.

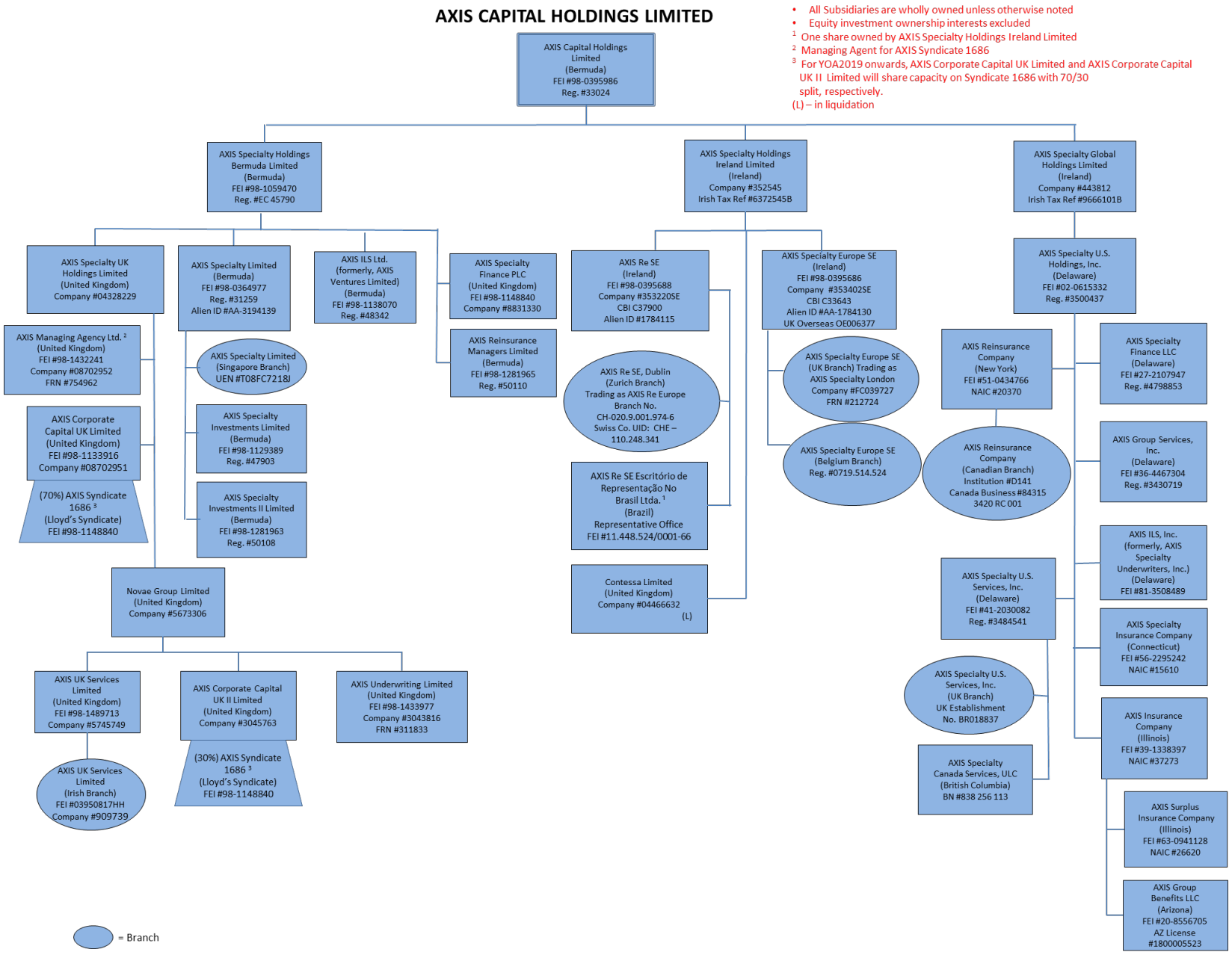
**E.4 Differences between standard formula and any internal model used**
No internal or partial internal model was used for the calculation of the SCR.

**E.5 Non Compliance with SCR and MCR**
The Company has maintained capital sufficient to meet its SCR and MCR over the reporting period.

The final SCR and MCR amounts remain subject to supervisory assessment.

**E.6 Any other information**
All material information regarding capital management has been disclosed in Sections E.1 - E.5 above.

## APPENDIX I - GROUP STRUCTURE



**S.02.01.02 Balance Sheet (USD '000s)**

| | | USD'000s |
|---|---|---|
| | | **Solvency II value** |
| **Assets** | | C0010 |
| Goodwill | R0010 | — |
| Deferred acquisition costs | R0020 | — |
| Intangible assets | R0030 | — |
| Deferred tax assets | R0040 | 2,384 |
| Pension benefit surplus | R0050 | — |
| Property, plant & equipment held for own use | R0060 | 52,970 |
| Investments (other than assets held for index-linked and unit-linked contracts) | R0070 | 557,006 |
| Property (other than for own use) | R0080 | — |
| Holdings in related undertakings, including participations | R0090 | — |
| Equities | R0100 | 2,714 |
| Equities - listed | R0110 | 2,714 |
| Equities - unlisted | R0120 | — |
| Bonds | R0130 | 407,314 |
| Government Bonds | R0140 | 185,415 |
| Corporate Bonds | R0150 | 193,840 |
| Structured notes | R0160 | — |
| Collateralised securities | R0170 | 28,059 |
| Collective Investments Undertakings | R0180 | 141,230 |
| Derivatives | R0190 | 206 |
| Deposits other than cash equivalents | R0200 | — |
| Other investments | R0210 | 5,542 |
| Assets held for index-linked and unit-linked contracts | R0220 | — |
| Loans and mortgages | R0230 | 9,429 |
| Loans on policies | R0240 | — |
| Loans and mortgages to individuals | R0250 | — |
| Other loans and mortgages | R0260 | 9,429 |
| Reinsurance recoverables from: | R0270 | 1,106,769 |
| Non-life and health similar to non-life | R0280 | 1,106,769 |
| Non-life excluding health | R0290 | 1,095,270 |
| Health similar to non-life | R0300 | 11,498 |
| 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 | — |
| Insurance and intermediaries receivables | R0360 | 98,075 |
| Reinsurance receivables | R0370 | 59,350 |
| Receivables (trade, not insurance) | R0380 | — |
| Own shares (held directly) | R0390 | — |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | — |
| Cash and cash equivalents | R0410 | 20,903 |
| Any other assets, not elsewhere shown | R0420 | 22,988 |
| **Total assets** | R0500 | **1,929,873** |

| **Liabilities** | | C0010 |
|---|---|---|
| Technical provisions – non-life | R0510 | 1,329,469 |
| Technical provisions – non-life (excluding health) | R0520 | 1,313,465 |
| Technical Provisions calculated as a whole | R0530 | — |
| Best Estimate | R0540 | 1,277,214 |
| Risk margin | R0550 | 36,251 |
| Technical provisions - health (similar to non-life) | R0560 | 16,004 |
| Technical Provisions calculated as a whole | R0570 | — |
| Best Estimate | R0580 | 15,147 |
| Risk margin | R0590 | 857 |
| Technical provisions - life (excluding index-linked and unit-linked) | R0600 | — |
| Technical provisions - health (similar to life) | R0610 | — |
| Technical Provisions calculated as a whole | R0620 | — |
| Best Estimate | R0630 | — |
| Risk margin | R0640 | — |
| Technical provisions – life (excluding health and index-linked and unit-linked) | R0650 | — |
| Technical Provisions calculated as a whole | R0660 | — |
| Best Estimate | R0670 | — |
| Risk margin | R0680 | — |
| Technical provisions – index-linked and unit-linked | R0690 | — |
| Technical Provisions calculated as a whole | R0700 | — |
| Best Estimate | R0710 | — |
| Risk margin | R0720 | — |
| Other technical provisions | R0730 | |
| Contingent liabilities | R0740 | — |
| Provisions other than technical provisions | R0750 | — |
| Pension benefit obligations | R0760 | — |
| Deposits from reinsurers | R0770 | 595 |
| Deferred tax liabilities | R0780 | 3,800 |
| Derivatives | R0790 | 497 |
| Debts owed to credit institutions | R0800 | 9,696 |
| Insurance & intermediaries payables | R0820 | — |
| Reinsurance payables | R0830 | 126,768 |
| Payables (trade, not insurance) | R0840 | — |
| Subordinated Liabilities | R0850 | — |
| Subordinated liabilities not in Basic Own Funds | R0860 | — |
| Subordinated liabilities in Basic Own Funds | R0870 | — |
| Any other liabilities, not elsewhere shown | R0880 | 89,337 |
| **Total liabilities** | R0900 | **1,560,161** |
| Excess of assets over liabilities | R1000 | **369,713** |

**S.05.01.01 - Premiums, claims and expenses by line of business (USD '000s)**

| | | Direct business and accepted proportional reinsurance | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Income protection insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Miscellaneous financial loss | Total |
| | | C0020 | C0060 | C0070 | C0080 | C0090 | C0120 | C0200 |
| **Premiums written** | | | | | | | | |
| Gross - Direct Business | R0110 | 28,509 | 202,395 | 386,981 | 459,859 | 75,249 | — | 1,152,992 |
| Gross - Proportional reinsurance accepted | R0120 | — | — | — | — | — | — | — |
| Gross - Non-proportional reinsurance accepted | R0130 | — | — | — | — | — | — | — |
| Reinsurers' share | R0140 | 21,987 | 162,043 | 322,936 | 425,252 | 63,735 | — | 995,952 |
| Net | R0200 | 6,521 | 40,352 | 64,045 | 34,607 | 11,514 | — | 157,039 |
| **Premiums earned** | | | | | | | | |
| Gross - Direct Business | R0210 | 29,171 | 187,291 | 365,495 | 410,299 | 46,079 | — | 1,038,336 |
| Gross - Proportional reinsurance accepted | R0220 | — | — | — | — | — | — | — |
| Gross - Non-proportional reinsurance accepted | R0230 | — | — | — | — | — | — | — |
| Reinsurers' share | R0240 | 22,717 | 150,037 | 306,671 | 386,063 | 39,191 | — | 904,679 |
| Net | R0300 | 6,454 | 37,255 | 58,824 | 24,237 | 6,888 | — | 133,657 |
| **Claims incurred** | | | | | | | | — |
| Gross - Direct Business | R0310 | 17,811 | 73,142 | 184,252 | 255,777 | 11,817 | 1,216 | 544,015 |
| Gross - Proportional reinsurance accepted | R0320 | | — | — | — | — | — | — |
| Gross - Non-proportional reinsurance accepted | R0330 | — | — | — | — | — | — | — |
| Reinsurers' share | R0340 | 13,822 | 56,246 | 155,244 | 257,854 | 9,856 | 912 | 493,935 |
| Net | R0400 | 3,989 | 16,896 | 29,008 | (2,077) | 1,961 | 304 | 50,080 |
| **Changes in other technical provisions** | | | | | | | | — |
| Gross - Direct Business | R0410 | — | — | — | — | — | — | — |
| Gross - Proportional reinsurance accepted | R0420 | — | — | — | — | — | — | — |
| Gross - Non- proportional reinsurance accepted | R0430 | — | — | — | — | — | — | — |
| Reinsurers' share | R0440 | — | — | — | — | — | — | — |
| Net | R0500 | — | — | — | — | — | — | — |
| **Expenses incurred** | R0550 | 2,565 | 9,823 | 20,978 | 18,297 | 905 | 4 | 25,920 |
| **Other expenses** | R1200 | | | | | | | — |
| **Total expenses** | R1300 | | | | | | | 52,571 |

**S.05.02.01 - Premiums, claims and expenses by country (USD'000s)**

| | | Home country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
| | | | UNITED KINGDOM | UNITED STATES | NETHERLANDS | BELGIUM | GERMANY | |
| | | C0080 | C0090 | C0100 | C0120 | C0130 | C0130 | C0140 |
| **Premiums written** | | | | | | | | |
| Gross - Direct Business | R0110 | 34,436 | 656,599 | 168,772 | 64,645 | 30,586 | 26,899 | 981,937 |
| Gross - Proportional reinsurance accepted | R0120 | — | — | — | — | — | — | — |
| Gross - Non-proportional reinsurance accepted | R0130 | — | — | — | — | — | — | — |
| Reinsurers' share | R0140 | 29,746 | 567,169 | 145,785 | 55,840 | 26,420 | 23,235 | 848,195 |
| Net | R0200 | 4,690 | 89,430 | 22,987 | 8,805 | 4,166 | 3,664 | 133,742 |
| **Premiums earned** | | | | | | | | |
| Gross - Direct Business | R0210 | 34,641 | 583,083 | 167,376 | 57,991 | 26,984 | 27,462 | 897,537 |
| Gross - Proportional reinsurance accepted | R0220 | — | — | — | — | — | — | — |
| Gross - Non-proportional reinsurance accepted | R0230 | — | — | — | — | — | — | — |
| Reinsurers' share | R0240 | 30,182 | 508,027 | 145,831 | 50,526 | 23,511 | 23,927 | 782,004 |
| Net | R0300 | 4,459 | 75,056 | 21,545 | 7,465 | 3,473 | 3,535 | 115,533 |
| **Claims incurred** | | | | | | | | |
| Gross - Direct Business | R0310 | 13,504 | 318,616 | 97,014 | 29,704 | 7,106 | 12,691 | 478,635 |
| Gross - Proportional reinsurance accepted | R0320 | — | — | — | — | — | — | — |
| Gross - Non-proportional reinsurance accepted | R0330 | — | — | — | — | — | — | — |
| Reinsurers' share | R0340 | 12,261 | 289,285 | 88,083 | 26,969 | 6,452 | 11,523 | 434,573 |
| Net | R0400 | 1,243 | 29,331 | 8,931 | 2,734 | 654 | 1,168 | 44,061 |
| **Changes in other technical provisions** | | | | | | | | |
| Gross - Direct Business | R0410 | — | — | — | — | — | — | — |
| Gross - Proportional reinsurance accepted | R0420 | — | — | — | — | — | — | — |
| Gross - Non-proportional reinsurance accepted | R0430 | — | — | — | — | — | — | — |
| Reinsurers' share | R0440 | — | — | — | — | — | — | — |
| Net | R0500 | — | — | — | — | — | — | — |
| **Expenses incurred** | R0550 | 1,605 | 30,106 | 8,417 | 3,378 | 1,320 | 918 | 45,744 |
| **Other expenses** | R1200 | | | | | | | — |
| **Total expenses** | R1300 | | | | | | | 45,744 |

## S.17.01.01 Non-life Technical Provisions (USD'000s)

| | | Direct business and accepted proportional reinsurance | | | | | | Total Non-Life obligation |
|---|---|---|---|---|---|---|---|---|
| | | Income Protection Insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Miscellaneous financial loss | |
| | | C0030 | C0070 | C0080 | C0090 | C0100 | C0130 | C0180 |
| Technical provisions calculated as a whole | R0010 | — | — | — | — | — | — | — |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | R0050 | — | — | — | — | — | — | — |
| Technical provisions calculated as a sum of BE and RM | | | | | | | | |
| Best estimate | | | | | | | | |
| **Premium provisions** | | | | | | | | |
| Gross - Total | R0060 | (2,803) | (21,605) | (8,185) | 39,468 | (16,839) | (84) | (10,046) |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0140 | (2,214) | (17,760) | (8,208) | 29,450 | (16,837) | (63) | (15,631) |
| Net Best Estimate of Premium Provisions | R0150 | (589) | (3,845) | 23 | 10,019 | (3) | (21) | 5,585 |
| **Claims provisions** | | | | | | | | |
| Gross - Total | R0160 | 17,950 | 205,734 | 300,283 | 798,247 | (19,807) | — | 1,302,407 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0240 | 13,712 | 162,176 | 255,990 | 709,318 | (18,797) | — | 1,122,400 |
| Net Best Estimate of Claims Provisions | R0250 | 4,238 | 43,557 | 44,293 | 88,929 | (1,010) | — | 180,007 |
| **Total Best estimate - gross** | R0260 | 15,147 | 184,129 | 292,098 | 837,716 | (36,646) | (83) | 1,292,361 |
| **Total Best estimate - net** | R0270 | 3,649 | 39,713 | 44,316 | 98,948 | (1,013) | (21) | 185,592 |
| Risk margin | R0280 | 857 | 8,813 | 8,962 | 17,993 | 483 | — | 37,108 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | |
| TP as a whole | R0290 | — | — | — | — | — | — | — |
| Best estimate | R0300 | — | — | — | — | — | — | — |
| Risk margin | R0310 | — | — | — | — | — | — | — |
| Technical provisions - total | | | | | | | | |
| Technical provisions - total | R0320 | 16,004 | 192,942 | 301,060 | 855,709 | (36,163) | (83) | 1,329,469 |
| **Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total** | R0330 | 11,498 | 144,416 | 247,782 | 738,768 | (35,634) | (62) | 1,106,769 |
| **Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total** | R0340 | 4,506 | 48,526 | 53,278 | 116,941 | (529) | (21) | 222,700 |

**S.19.01.21 Non-life insurance claims (USD'000s)**

| Accident year/ Underwriting year | Z0010 | Accident Year | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Claims Paid (non-cumulative) | | | | | | | | | | | | | | | | |
| (absolute amount) | | Development Year | | | | | | | | | | | | | | |
| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | | In Current year | Sum of years (cumulative) |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | | | C0170 | C0180 |
| **Prior** | R0100 | — | — | — | — | — | — | — | — | — | — | 3,953 | | R0100 | 3,953 | 3,953 |
| **N-9** | R0160 | 28,860 | 57,491 | 39,445 | 16,481 | 10,651 | 18,271 | 19,315 | 6,190 | 7,500 | 1,461 | | | R0160 | 1,461 | 205,665 |
| **N-8** | R0170 | 39,622 | 88,975 | 37,924 | 7,782 | 15,465 | 12,374 | 3,629 | 4,193 | 2,841 | | | | R0170 | 2,841 | 212,805 |
| **N-7** | R0180 | 70,025 | 82,338 | 70,760 | 43,494 | 16,889 | 15,399 | 12,141 | 8,514 | | | | | R0180 | 8,514 | 319,561 |
| **N-6** | R0190 | 56,739 | 88,015 | 65,083 | 24,398 | 30,519 | 18,673 | 27,886 | | | | | | R0190 | 27,886 | 311,314 |
| **N-5** | R0200 | 38,344 | 100,728 | 47,259 | 34,651 | 21,121 | 30,208 | | | | | | | R0200 | 30,208 | 272,311 |
| **N-4** | R0210 | 42,028 | 107,688 | 55,683 | 27,816 | 27,375 | | | | | | | | R0210 | 27,375 | 260,589 |
| **N-3** | R0220 | 46,927 | 75,964 | 40,580 | 44,485 | | | | | | | | | R0220 | 44,485 | 207,956 |
| **N-2** | R0230 | 106,433 | 230,814 | (21,931) | | | | | | | | | | R0230 | (21,931) | 315,316 |
| **N-1** | R0240 | 42,240 | 62,480 | | | | | | | | | | | R0240 | 62,480 | 104,719 |
| **N** | R0250 | 54,214 | | | | | | | | | | | | R0250 | 54,214 | 54,214 |
| | | | | | | | | | | | | | Total | R0260 | 241,487 | 2,268,404 |

| Gross undiscounted Best Estimate Claims Provisions | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (absolute amount) | | | | | | | | | | | | | | | |
| | | Development Year | | | | | | | | | | | | | |
| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | | Year end (discounted data) |
| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | | | C0360 |
| **Prior** | R0100 | — | — | — | — | — | — | — | — | — | — | 45,785 | | R0100 | 42,808 |
| **N-9** | R0160 | — | — | — | 92,069 | 67,491 | 58,438 | 36,884 | 27,238 | 19,374 | 16,822 | | | R0160 | 16,035 |
| **N-8** | R0170 | — | — | 120,727 | 67,530 | 55,412 | 43,279 | 42,381 | 29,360 | 28,879 | | | | R0170 | 25,526 |
| **N-7** | R0180 | — | 203,834 | 112,794 | 75,219 | 69,873 | 51,795 | 39,803 | 29,012 | | | | | R0180 | 26,110 |
| **N-6** | R0190 | 236,720 | 146,985 | 87,010 | 105,100 | 97,351 | 95,352 | 66,893 | | | | | | R0190 | 57,958 |
| **N-5** | R0200 | 269,322 | 194,463 | 174,566 | 159,016 | 156,196 | 107,015 | | | | | | | R0200 | 96,978 |
| **N-4** | R0210 | 227,880 | 180,463 | 160,869 | 143,881 | 114,931 | | | | | | | | R0210 | 102,278 |
| **N-3** | R0220 | 274,882 | 182,225 | 145,637 | 107,114 | | | | | | | | | R0220 | 96,925 |
| **N-2** | R0230 | 397,212 | 123,290 | 124,519 | | | | | | | | | | R0230 | 109,384 |
| **N-1** | R0240 | 402,396 | 307,503 | | | | | | | | | | | R0240 | 277,588 |
| **N** | R0250 | 503,043 | | | | | | | | | | | | R0250 | 450,818 |
| | | | | | | | | | | | | | Total | R0260 | 1,302,407 |

**S.23.01.01 Own Funds (USD'000s)**

| | | Total | Tier 1 - Unrestricted | Tier 1 - Restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 10,110 | 10,110 | | — | — |
| Share premium account related to ordinary share capital | R0030 | — | — | | — | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | — | — | | — | |
| Subordinated mutual member accounts | R0050 | — | | — | — | — |
| Surplus funds | R0070 | — | — | | | |
| Preference shares | R0090 | — | | — | — | — |
| Share premium account related to preference shares | R0110 | — | | — | — | — |
| Reconciliation reserve | R0130 | 357,802 | 357,802 | | — | |
| Subordinated liabilities | R0140 | — | | — | — | — |
| An amount equal to the value of net deferred tax assets | R0160 | — | | | | — |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | — | — | — | — | — |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | R0220 | — | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | — | — | — | — | — |
| **Total basic own funds after deductions** | R0290 | 367,912 | 367,912 | — | — | — |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | — | | | — | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | — | | | — | |
| Unpaid and uncalled preference shares callable on demand | R0320 | — | | | — | — |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | — | | | — | — |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | — | | | — | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | — | | | — | — |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | — | | | — | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | — | | | — | — |
| Other ancillary own funds | R0390 | — | | | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total ancillary own funds** | R0400 | — | | | — | — |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 367,912 | 367,912 | — | — | — |
| Total available own funds to meet the MCR | R0510 | 367,912 | 367,912 | — | — | |
| Total eligible own funds to meet the SCR | R0540 | 367,912 | 367,912 | — | — | — |
| Total eligible own funds to meet the MCR | R0550 | 367,912 | 367,912 | — | — | |
| **SCR** | R0580 | 240,577 | | | | |
| **MCR** | R0600 | 60,144 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 152.93 % | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 611.72 % | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| **Reconciliation reserve** | | | | | | |
| Excess of assets over liabilities | R0700 | 369,713 | | | | |
| Own shares (held directly and indirectly) | R0710 | — | | | | |
| Foreseeable dividends, distributions and charges | R0720 | — | | | | |
| Other basic own fund items | R0730 | 10,110 | | | | |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | 1,800 | | | | |
| **Reconciliation reserve** | R0760 | 357,802 | | | | |
| **Expected profits** | | | | | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | — | | | | |
| Expected profits included in future premiums (EPIFP) - Non-life business | R0780 | 13,103 | | | | |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | 13,103 | | | | |

**S.25.01.21 Solvency Capital Requirement for undertakings on Standard Formula (USD'000s)**

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| Market risk | R0010 | 57,079 | | — |
| Counterparty default risk | R0020 | 89,429 | | |
| Life underwriting risk | R0030 | — | — | — |
| Health underwriting risk | R0040 | 4,721 | — | — |
| Non-life underwriting risk | R0050 | 127,747 | — | — |
| Diversification | R0060 | (65,516) | | |
| Intangible asset risk | R0070 | — | | |
| Basic Solvency Capital Requirement | R0100 | 213,460 | | |
| | | | | |
| **Calculation of Solvency Capital Requirement** | | **C0100** | | |
| Operational risk | R0130 | 38,771 | | |
| Loss-absorbing capacity of technical provisions | R0140 | — | | |
| Loss-absorbing capacity of deferred taxes | R0150 | (11,655) | | |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | | | |
| Solvency Capital Requirement excluding capital add-on | R0200 | 240,577 | | |
| Capital add-on already set | R0210 | | | |
| Solvency capital requirement | R0220 | 240,577 | | |
| Other information on SCR | | | | |
| Capital requirement for duration-based equity risk sub-module | R0400 | — | | |
| Total amount of Notional Solvency Capital Requirements for remaining part | R0410 | — | | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | — | | |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | R0430 | — | | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | — | | |
| **Approach to tax rate** | | **C0109** | | |
| **Approach based on average tax rate** | R0590 | Approach based on average tax rate | | |
| | | | | |
| **Calculation of loss absorbing capacity of deferred taxes** | | **LAC DT** | | |
| | | **C0130** | | |
| LAC DT | R0640 | (11,655) | | |
| LAC DT justified by reversion of deferred tax liabilities | R0650 | — | | |
| LAC DT justified by reference to probable future taxable economic profit | R0660 | (11,910) | | |
| LAC DT justified by carry back, current year | R0670 | 256 | | |
| LAC DT justified by carry back, future years | R0680 | — | | |
| **Maximum LAC DT** | R0690 | 11,655 | | |

**S.28.01.01 Minimum Capital Requirement - Only life or non-life insurance or reinsurance activity (USD'000s)**

Linear formula component for non-life insurance and reinsurance obligations

| | | C0010 | |
|---|---|---|---|
| **$MCR_{NL}$ Result** | R0010 | 35,767 | |
| | | **Non-life activities** | |
| | | **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 | R0020 | — | — |
| Income protection | R0030 | 3,649 | 6,521 |
| Workers' compensation | R0040 | — | — |
| Motor vehicle liability | R0050 | — | — |
| Other motor insurance | R0060 | — | — |
| Marine, aviation and transport | R0070 | 39,713 | 40,352 |
| Fire and other damage to property | R0080 | 44,316 | 64,045 |
| General liability insurance | R0090 | 98,948 | 34,607 |
| Credit and suretyship | R0100 | — | 11,514 |
| Legal expenses | R0110 | — | — |
| Assistance | R0120 | — | — |
| Miscellaneous financial loss | R0130 | — | — |
| Non-proportional health | R0140 | — | — |
| Non-proportional casualty | R0150 | — | — |
| Non-proportional marine, aviation and transport reinsurance | R0160 | — | — |
| Non-proportional property reinsurance | R0170 | — | — |

**Linear formula for life insurance and reinsurance obligations**

| | | C0040 | |
|---|---|---|---|
| **$MCR_L$ Result** | R0200 | — | |
| | | | |
| | | **Net (of reinsurance/SPV) best estimate and TP calculated as a whole** | **Net (of reinsurance/SPV) total capital at risk** |
| | | C0050 | C0060 |
| **Obligations with profit participation - guaranteed benefits** | R0210 | — | |
| **Obligations with profit participation - future discretionary benefits** | R0220 | — | |
| **Index-linked and unit-linked insurance obligations** | R0230 | — | |
| **Other life (re)insurance and health (re)insurance obligations** | R0240 | — | |
| **Total capital at risk for all life (re)insurance obligations** | R0250 | | — |
| | | | |
| **Overall MCR calculation** | | | |
| | | **C0070** | |
| Linear MCR | R0300 | 35,767 | |
| SCR | R0310 | 240,577 | |
| MCR cap | R0320 | 108,260 | |
| MCR floor | R0330 | 60,144 | |
| Combined MCR | R0340 | 60,144 | |
| Absolute floor of the MCR | R0350 | 4,284 | |
| | | **C0070** | |
| **Minimum Capital Requirement** | R0400 | 60,144 | |