



RSA Insurance Ireland DAC

Solvency and Financial  
Condition Report

(SFCR)

2021

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# Introduction

This Solvency and Financial Condition Report (“SFCR”) sets out the solvency and financial condition of RSA Insurance Ireland DAC (“RSAIL” or the “Company”) as at 31 December 2021, as required by Solvency II Regulations.

Those regulations prescribe the structure of this document and indicate the nature of the information that must be reported under a series of headings and sub-headings. Where information is not applicable to the Company, for completeness, the report still contains the heading, but with an appropriate note.

As a general insurance business, the Company does not place any reliance on transitional measures for technical provisions as referred to in Articles 308c and 308d of Directive 2009/138/EC, or on measures such as the matching adjustment and the volatility adjustment as referred to in Articles 77b and 77d respectively of Directive 2009/138/EC. Consequently, there will be no information regarding these measures in this report.

# Summary

The principal activity of the Company is general insurance underwriting of personal and commercial risks. The Company is a leading insurance undertaking in Ireland with particular strengths in property insurance and in direct sales through its 123.ie brand, operated by a wholly owned subsidiary of the Company.

The underwriting result for the year ended 31 December 2021 is set out below and in more detail in section A.2.

## Business and performance

The Company is one of a number of legal entities which, taken together, constitute the business of RSA in Ireland. This regulatory filing references only RSAII DAC, therefore it does not represent the financial performance and position of the RSA Ireland business as a whole.

In Q1 2021 the country experienced a severe lockdown as a result of the continuing Covid -19 pandemic. The Company maintained systems and procedures to facilitate employees to work safely from home, ensuring that we could continue to provide excellent service at a stressful time for our customers.

Gross premiums written increased by €13m in Commercial Lines over the year as the company retained strong underwriting discipline and a diverse business mix. This was offset by a reduction of €7m in Personal Lines largely due to a reduction in average motor premiums.

The Company has set aside €75m Gross (2020: €46m) to cover the expected costs resulting from Covid-19 Business Interruption claims. Allowing for reinsurance recoveries this reduces to €11m Net (2020: €9m).

The company welcomes the adoption of the Personal Injuries Guidelines on 6th March 2021 by the Judicial Council. These guidelines are expected to reduce claims payments for certain types of injuries in future. The company reflected the estimated impact of this benefit within its pricing strategy during 2021. Ultimately the claims costs will depend on how closely PIAB and the Judiciary implement these guidelines. The company will continue to monitor awards and update its pricing and reserving assumptions accordingly.

Motor claims increased through the year compared to 2020 as road usage returned towards a new normal. Household experienced inflation over the year causing an unexpected increase in claims. This was however offset by another year of benign weather. Commercial claims reduced over the year as 2020 included the net impact of Covid-19 Business Interruption claims.

Both the Company's variable quota share ('QS') and adverse development cover ('ADC') reinsurance arrangements with its immediate parent Royal & Sun Alliance Insurance Ltd ('RSAI Ltd.') continued in force during 2021.

## Underwriting result

The combination of the factors discussed above contributed to the Underwriting profit of €1.9m in 2021 (2020: €15m loss).

## Investment result

Total investment income of €0.1m decreased by €1.4m (2020: €1.5m). 123 Money Limited did not pay a dividend to the Company in 2021 (2020:NIL). There were no impairments recognised to the Company's investment in subsidiaries in 2021 (2020: NIL).

## Capital Management

### Capital position

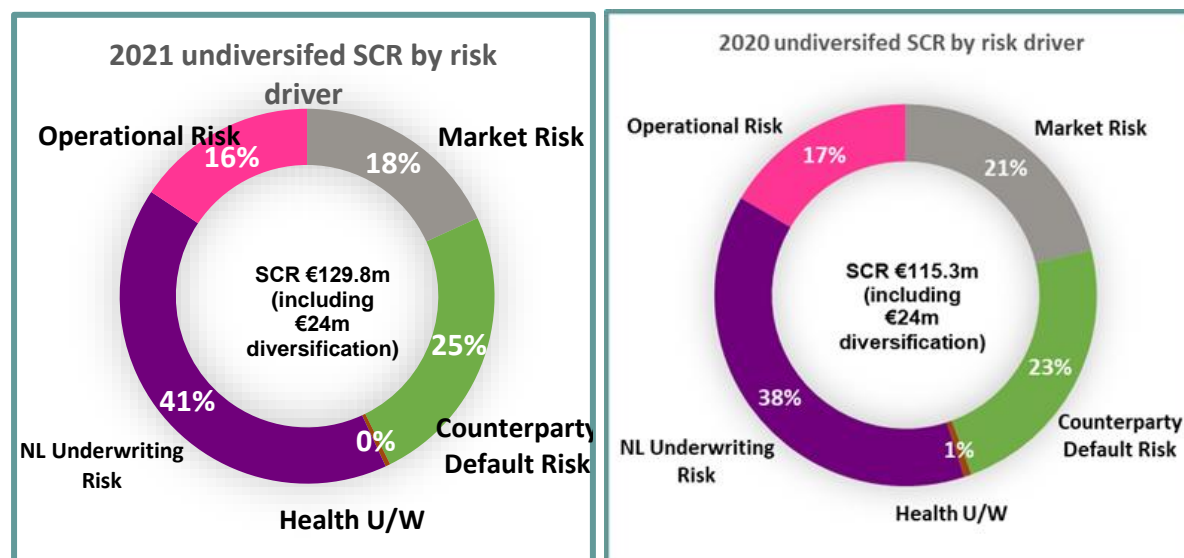
Solvency II position	Requirement (SCR) €'m	Basic own-funds €'m	Ancillary own-funds €'m	Eligible own-funds €'m	Surplus €'m	Coverage ratio %
31 December 2021	129.8	133.7	90.0	198.6	68.8	153
31 December 2020	115.3	126.9	90.0	184.5	69.2	160

The 2021 year-end basic own funds have increased by €6.8m (2020: €10.5m).

The Company has Unrestricted Tier 1 capital of €133.7m. Allowing for the impact of the Ancillary Own Funds, the ratio of Eligible Own Funds to the SCR stands at 153% which remains within the Company's Board approved risk appetite.

### Risk profile changes in the year – capital requirement

The SCR at €129.8m increased by approximately €14.5m at 31 December 2021 from year end 2020. Percentage splits are provided as per the diagram below and indicate that non-life underwriting risk, market risk and counterparty default risk remain the principal drivers of the SCR.



The year on year increase of €14.5m is driven by with the major contribution coming from the Non-Life Underwriting Risk Charge which increased by €9.7m and a €5.2m increase in Counterparty default risk.

### Capital activity and dividends

Following receipt of approval from the Central Bank of Ireland (29 August 2018), the Company continues to hold an ancillary own-funds ('AOF') facility within the meaning of the Solvency II Framework (Directive 2009/138/EC) with its immediate parent company, RSAI Ltd. This facility takes the form of issued but unpaid share capital callable on demand and has the effect of increasing the Company's available own-funds under Solvency II by €90m, during the financial year this AOF facility was re-approved until 2025.

The Company did not pay a dividend during the year and the directors do not recommend a payment of a dividend in respect of the year ended 31 December 2021.

## System of governance

The Company maintains a stable system of governance and has not experienced any material changes in how the business has been operated over the course of 2021. More detail is provided in section B.

## Risk profile

The Company is exposed to seven main categories of risk:

- Insurance risk, including underwriting, claims and reserving risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Group risk
- Pension risk.

The System of Governance includes a Risk Management System and this is detailed in section B.3. For each risk, measures are identified to assess and mitigate it to within the Company's Board approved risk appetite. Further information is detailed in section C.

The Covid 19 pandemic gives rise to increased reserving risk and is discussed in more detail in section C.1.3.

The company has no direct underwriting or investment exposure to the Russian invasion of Ukraine and is vigilant in its adherence to sanctions. The situation will continue to be closely monitored for any indirect impacts that could emerge.

## Brexit

A review was carried out throughout the business to assess the operational and reporting impacts Brexit will have. An application to set up a branch operation in Northern Ireland, which will be capable of servicing the Company's customers in that jurisdiction, has been submitted to the Prudential Regulatory Authority (PRA). RSA Insurance Ireland DAC operates under the Temporary Permissions Regime (TPR) while the application is being considered.

## Intact Takeover

On 1 June 2021 Intact formally completed the takeover of RSA Insurance Group Limited ("RSAIG" or "RSAIG Ltd"), formerly RSA Insurance Group plc. Thus making Intact Financial Corporation the ultimate parent company of RSA Insurance Ireland DAC (see section A.1.7 for simplified group structure).

# A. Business and performance

## A.1 Business

## A.2 Underwriting performance

## A.3 Investment performance

## A.4 Performance of other activities

## A.5 Any other information

The principal activity of RSA Insurance Ireland DAC ("RSAI" or "the Company") is general insurance underwriting for personal and commercial risks. The Company is a wholly owned subsidiary of Royal and Sun Alliance Insurance Limited ("RSAI"). In June 2021, Intact Financial Corporation ("IFC"), headquartered in Toronto, Canada and listed on the Toronto Stock Exchange, became the ultimate parent company of RSAI and in turn the Company.

This section of the report provides information about the business and performance of RSAI DAC, covering in particular the performance of underwriting and investment activities.

The quantitative analysis in section A has been extracted from the Company's statutory financial statements which have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and with the Companies Act, 2014. The financial statements have also been prepared in accordance with the provisions of Statutory Instruments No. 262 of the European Union (Insurance Undertakings: Financial Statements) Regulations 2015. There are some differences in presentation between the Underwriting performance in Section A.2 and the FRS 101 financial statements; however, the aggregate result for the year ended 31 December 2021 is unchanged.

RSAI DAC is one of a number of legal entities which, taken together, constitute the business of RSA in Ireland. This regulatory filing references only RSAI DAC, therefore it does not represent the financial performance and position of the RSA Ireland business as a whole.

## A.1 Business

### A.1.1 Company name & legal form

The specific entity covered by this SFCR is RSA Insurance Ireland DAC, a designated activity company incorporated in Ireland.

### A.1.2 Supervisory authority

#### RSA Insurance Ireland DAC

The Central Bank of Ireland ("the CBI") is the authority responsible for supervision of the Company.

The contact details for the CBI are as follows:

PO Box 559  
New Wapping Street  
North Wall Quay  
Dublin 1  
D01 F7X3

Telephone: +353 (0)1 224 6000  
Website: <http://www.centralbank.ie>

### A.1.3 External auditor

The external auditor of the Company is KPMG:

KPMG  
1 Harbourmaster Place  
IFSC  
Dublin 1

The contact details of KPMG are as follows:

Telephone: (01) 410 1000  
Website: <http://www.kpmg.ie>

### A.1.4 Holders of qualifying holdings

Royal & Sun Alliance Insurance Ltd holds 100% of the issued share capital of the Company.



## A.1.5 Position within the Group legal structure

### RSA Insurance Ireland DAC

The Company's immediate parent undertaking is RSAI Ltd, a company incorporated in England and Wales. The Company's ultimate undertaking and controlling party is Intact Financial Corporation.

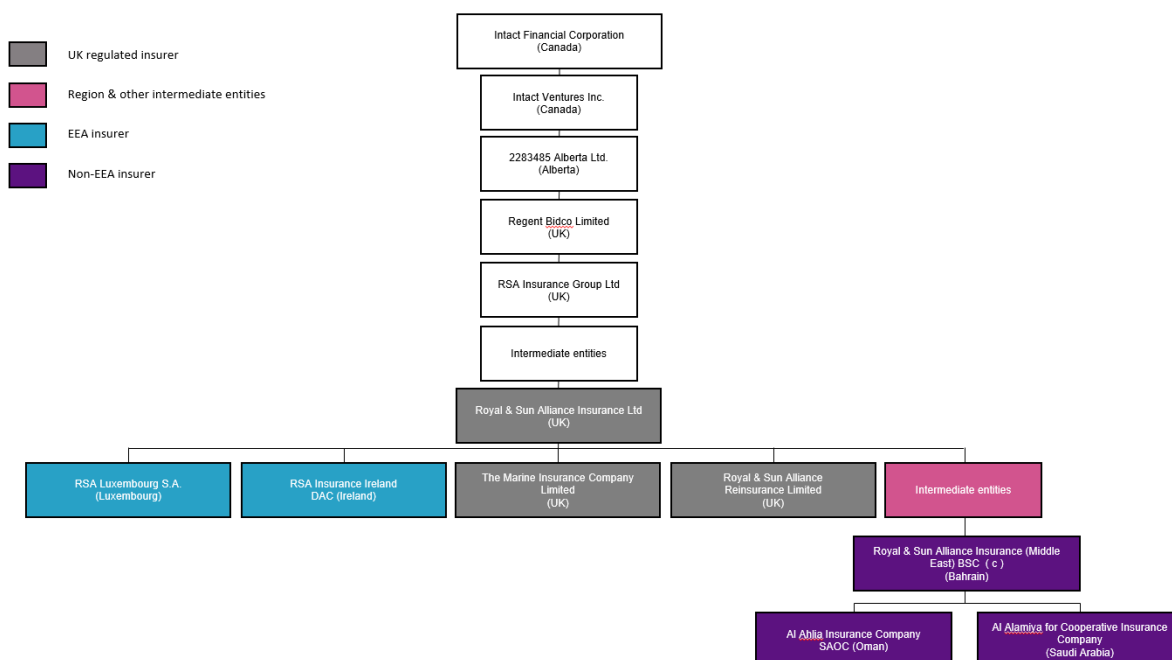
## A.1.6 Material related undertakings

See Appendix 1 of the Group SFCR for a list of all subsidiaries and associates of RSAI (including % ownership) and a list of all branches of each subsidiary.

Subsidiaries of RSAI are listed below. All are companies limited by shares:

Country	Name	Shares held
Ireland	123 Money Limited	100%
Ireland	Benchmark Underwriting Limited	100%

## A.1.7 Simplified group structure



## A.1.8 Business lines and geographical areas

The Company primarily writes business in Ireland, and to a lesser extent, the UK. In these geographies the Company's material lines of business are detailed in the table below:

#### Geographic regions:

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Ireland  
UK

#### Line of business: non-life

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Motor vehicle liability  
Other motor  
Fire and damage to property  
General liability

## A.1.9 Significant events

### Adverse development cover and quota share reinsurance arrangements

The following paragraphs describe two reinsurance transactions which were executed prior to the year ended 31 December 2021 and which have had a material impact on the Company's reported statutory financial performance for the current reported period.

These transactions align with the Group's strategy to optimise capital allocation and usage across its territories and they result in a transfer of risk from RSAI to its immediate parent entity, RSAI Ltd:

- (a) During the year ended 31 December 2015, the Company signed an adverse development cover ("ADC") contract with its parent company. The contract provides cover in respect of future development in relation to accident years 2014 and prior, it has an attachment point of €400m and it covers liabilities up to a limit of €325m. The premium for this cover was €250m and was written on a funds withheld basis.
- (b) During the year ended 31 December 2015, the Company signed a variable quota share contract with its parent company. Following subsequent amendments, the contract provides cover in respect of the 2016 through 2019 accident years, covering short tail exposures at a rate of 50%, long tail exposures at a rate of 90% and combined business at a rate of 70%. The contract was amended effective 1 January 2017 to reflect a change in the accounting treatment (recognising premiums written rather than earned) in order to align it with external contracts in place. The contract was renewed to also cover the year ended 31 December 2021.

### Ancillary own-funds facility

In August 2018, following receipt of approval from the Central Bank of Ireland, the Company executed an ancillary own-funds ('AOF') transaction within the meaning of the Solvency II Framework (Directive 2009/138/EC). This took the form of issued but unpaid share capital callable on demand and the counterparty was the Company's immediate parent undertaking, RSAI Ltd. This AOF facility remained available to the Company throughout the 2021 financial year and had the effect of increasing the Company's available own-funds under Solvency II by €90m. Under the Solvency II Framework, the approved AOF item is classified as Tier 2 capital which would convert to Tier 1 capital if it were called. There were no changes to the structure of the AOF arrangement during 2021. The AOF has subsequently been reapproved by the Central Bank of Ireland through to 2025.

## A.2 Underwriting performance

### A.2.1 Aggregate performance

This section contains an analysis of the underwriting profit for the Company for the year ended 31 December 2021 together with a comparison against the previous reporting period. Financial performance is measured in accordance with FRS 101; however, the presentation used below is that applied across the RSA Group which differs marginally from the presentation in the technical account in the statutory financial statements.

	2021 €'000	2020 €'000
Gross written premiums	398,791	392,728
Net written premiums	92,551	90,018
Net earned premiums	91,164	90,393
Net incurred claims	(69,711)	(76,560)
Commissions incurred	(65,151)	(68,262)
Commissions earned	90,402	88,862
Operating expenses	(44,722)	(49,493)
<b>Underwriting Profit / (Loss)</b>	<b>1,982</b>	<b>(15,060)</b>
Investment income	1,556	2,031
Investment expenses and charges	(1,271)	(1,136)
Interest on Lease Liabilities	(572)	(611)
Other charges including value adjustments (foreign exchange)	351	1,196
<b>Investment result</b>	<b>64</b>	<b>1,480</b>
Other operating expenses	(823)	255
<b>Operating result</b>	<b>1,223</b>	<b>(13,325)</b>
<b>Profit/(Loss) before tax</b>	<b>1,223</b>	<b>(13,325)</b>
Tax (charge)/credit	(31)	718
<b>Profit / (Loss) after tax</b>	<b>1,192</b>	<b>(12,607)</b>

The underwriting loss for the year ended 31 December 2021 amounted to a profit of €1.9m (2020 loss: €15m).

Gross premiums written increased by €13m in Commercial Lines over the year as the company retained strong underwriting discipline and a diverse business mix. This was offset by a reduction of €7m in Personal Lines largely due to a reduction in average motor premiums.

Earned premiums net of reinsurance increased by €1m year on year. The increase in reinsurance commission rate resulted in an increase of €2m in commission income in the year.

As described in section A.1.9, the Company has significant intra-Group reinsurance arrangements in place and they have a material impact on reported financial performance. The arrangements align with the Group's strategy to optimise capital allocation and usage across its territories and result in a transfer of risk from RSAI to its immediate parent entity, RSAI Ltd ('the reinsurer'). This transfer of risk to the reinsurer also materially reduces the Company's SCR – see Section E.

From a current accident year perspective, the effect of the variable quota share is to cede approximately 75% of premiums to the reinsurer. The percentage of claims ceded depends on the actual current accident year performance of individual classes. The Company receives a commission set on an arm's length basis and designed

to target that, based on the Board approved Operational Plan, the reinsurer will earn an agreed return on capital for the premium ceded.

Any prior year development experienced in the financial year falls within the scope of either the ADC (to the limit of €325m) or the 2015 quota share, depending on the accident year to which it relates.

The quota share contract remained in-force during 2021 with outward reinsurance premiums amounting to €261.9m (2020: €258.8m) and commission income earned amounting to €89.7m (2020: €88.0m) on an FRS101 basis. At 31 December 2021, the Company held €465m (2020: €441.3m) in reinsurance recoverables on the Balance Sheet in relation to this contract on a Solvency II basis and recognised a reinsurance recovery of €110.8m (2020: €108.9m) in the Income Statement on an FRS101 basis. In 2017, the ADC breached its attachment point (€400m), from which point all claims from 2014 and prior are fully recoverable through settlement of assets within the Company's funds withheld portfolio. At 31 December 2021, the Company held reinsurance recoverables on the Balance Sheet amounting to €92.1m (2020: €106.8m) in relation to this contract on a Solvency II basis. Investment funds withheld relating to the ADC as at 31 December 2021 amounted to €56.3m which comprise of €55.8m principal amount and €0.5m accrued interest (2020: €70.2m and €0.7m accrued interest).

The Company's reinsurance arrangements meant that only 26% of gross claims incurred were retained with net incurred claims for the year amounting to €69.7m.

Overall, outward reinsurance premiums for the year ended 31 December 2021 amounted to €306.2m (2020: €302.7m) or 76.8% of gross written premium.

Operating expenses of €44.5m were €5.0m lower than the same period last year reflecting that a restructure programme had taken place in 2020.

## A.2.2 Underwriting result by geographic area

	Ireland		UK		Total	
	2021 €'000	2020 €'000	2021 €'000	2020 €'000	2021 €'000	2020 €'000
Gross written premium	352,577	349,788	46,214	42,940	398,791	392,728
Net earned premium	81,759	82,067	9,405	8,326	91,164	90,393
Net incurred claims	(62,662)	(68,265)	(7,049)	(8,295)	(69,710)	(76,560)
Underwriting expenses	(18,265)	(27,319)	(1,207)	(1,574)	(19,472)	(28,893)
<b>Underwriting profit / (loss)</b>	<b>833</b>	<b>(13,517)</b>	<b>1,149</b>	<b>(1,543)</b>	<b>1,982</b>	<b>(15,060)</b>

The business written in the UK is predominantly written in Northern Ireland.

## A.2.3 Performance by material line of business

An analysis of underwriting performance for the Company for the year ended 31 December 2021 by material line of business together with a comparison against the previous reporting period is detailed below:

Although there is no direct mapping between analyst class and SII lines of business, at a high level these classes can be aligned to SII lines of business to discuss material items in the result.

	Net written premium		Underwriting result	
	2021 €'000	2020 €'000	2021 €'000	2020 €'000
Motor vehicle liability insurance	13,891	13,932	(2,946)	(9,569)

Other motor insurance	2,950	3,021	(2,837)	(3,649)
Fire & other damage to property insurance	60,844	56,802	5,482	1,441
General liability insurance	12,133	13,301	1,646	(3,798)
<b>Total material lines of business</b>	<b>89,818</b>	<b>87,056</b>	<b>1,345</b>	<b>(15,575)</b>
Other	2,733	2,962	637	515
<b>Total</b>	<b>92,551</b>	<b>90,018</b>	<b>1,982</b>	<b>(15,060)</b>

Fire and other damage to property generated a profit of €5.4m during the period underpinned by benign weather during 2021 with no large weather events. This was dampened by underwriting losses on motor premium with the wider economic impact of Covid-19 reducing premiums and quota share commission in 2021.

## A.3 Investment performance

### A.3.1 Income and expenses by asset class

The asset classes shown in this section follow the definitions used in the Company's financial statements, which may differ from the definitions used in section D of this report.

A summary of income from participating interests, income from investments in debts and equity securities and net realised gains/(losses) in investments is given below together with a comparison against the previous reporting period. Net unrealised gains/(losses) on investments which have been recognised directly in equity are considered in section A.3.2.

	Investment income		Net realised gains/(losses)		Impairments		Total investment income	
	2021 €'000	2020 €'000	2021 €'000	2020 €'000	2021 €'000	2020 €'000	2021 €'000	2020 €'000
Income from Investment Property	251	-	-	-	-	-	251	-
Equity securities								
Available for sale	376	403	33	-	(259)	(292)	150	111
Debt securities								
Available for sale	1,177	2,143	246	(87)	-	-	1,423	2,056
Deposits, cash and cash equivalents	(44)	(67)	(224)	(70)	-	-	(268)	(137)
<b>Total net investment income</b>	<b>1,760</b>	<b>2,479</b>	<b>55</b>	<b>(157)</b>	<b>(259)</b>	<b>(292)</b>	<b>1,556</b>	<b>2,030</b>

The total investment income of €1.6m recognised in the income statement for the year ended 31 December 2021 was €0.4m lower than the prior year's €2.0m primarily as a result of a reduction in Income from debt securities caused by both a reduction in returns and a decrease in the absolute size of the Investment portfolio.

### Investment management expenses

A summary of investment management expenses by asset class together with a comparison against the previous reporting period is given below:

	<b>2021 €'000</b>	<b>2020 €'000</b>
Equity securities	(189)	(65)
Debt securities	(591)	(347)
<b>Total investment management expenses</b>	<b>(780)</b>	<b>(412)</b>

### A.3.2 Gains and losses recognised in equity

Unrealised gains and losses recognised in other comprehensive income for available for sale assets together with a comparison against the previous reporting period are as follows:

	<b>Net unrealised gains/ (losses)</b>		<b>Net realised (gains)/ losses transferred to income statement</b>		<b>Net movement recognised in other comprehensive income</b>	
	<b>2021 €'000</b>	<b>2020 €'000</b>	<b>2021 €'000</b>	<b>2020 €'000</b>	<b>2021 €'000</b>	<b>2020 €'000</b>
Equity securities	(28)	(201)	259	292	231	91
Debt securities	(3,273)	(113)	(246)	87	(3,519)	(26)
<b>Total</b>	<b>(3,301)</b>	<b>(314)</b>	<b>13</b>	<b>379</b>	<b>(3,288)</b>	<b>65</b>

Net losses of €3.3m (2020: €0.1m gains) were recognised in other comprehensive income. Primarily this is driven by an increase in adverse mark-to-market movements on the fixed income debt securities within the Investment portfolio.

### A.3.3 Investments in securitisation

The Company has no exposure to securitised investments.

## A.4 Performance of other activities

### A.4.1 Other material income & expenses

An analysis of the Company's other material income and expenses for the year ended 31 December 2021 together with a comparison against the previous reporting period is detailed below.

#### Other material income

The Company has no other material sources of income beyond that referred to in section A.2.1.

#### Other material expenses

	2021 €'000	2020 €'000
Integration costs	(904)	-
Defined benefit pension scheme:		
Pension gain	-	424
Interest income on scheme assets	1,472	1,397
Interest expense on scheme liabilities	(1,201)	(1,282)
Administrative expenses	(190)	(284)
<b>Other material (expenses) / income</b>	<b>(823)</b>	<b>255</b>

Other operating expenses were €0.8m in 2021, €1.1m lower than the same period last year (2020: €0.2m income). This decrease is largely driven by €0.9m in integration costs as a result of Intact Financial Corporation purchasing RSA Insurance Group Limited during the year.

#### Finance costs

	2021 €'000	2020 €'000
<b>Interest payable</b>	<b>491</b>	<b>724</b>

Interest of €0.5m (2020: €0.7m) was payable to RSAI Ltd on the ADC reinsurance contract funds withheld account.

### A.4.2 Financial leasing arrangements

#### Finance lease commitments

##### *Nature and effect of adoption of IFRS 16*

Under IFRS 16 the lease liability is recognised at the inception of a lease as the present value of the fixed and certain variable lease payments, plus any guaranteed residual values, any termination penalties if the lease term assumes termination options will be exercised and the purchase option value if it is reasonably certain that it will be exercised.

The company leases a property in Dundrum which has a remaining term of 17 years. The next break in the lease is in 2034. In 2020 a decision was made to sublet a portion of this property. The change in use meets the requirements of IAS 40 "Investment Property", the portion of the property the Company intends to sublet has been derecognised as a right of use asset under IFRS16 and will now be accounted for under IAS40 Investment Property.

Therefore €3.1m lease asset was reclassified as Investment Property, impairment of €6.5m is recognised in the profit and loss account.

Information on these leases for which the Company is a lessee is presented below.

#### Maturity Analysis – Contractual Undiscounted Cash Flows

	2021 €'000	2020 €'000
Less than one year	2,807	2,859
One to five years	8,040	9,072
More than five years	19,964	21,739
<b>Total</b>	<b>30,811</b>	<b>33,670</b>

#### Amounts recognised in profit or loss (Technical account)

	2021 €'000	2020 €'000
Depreciation	1,928	2,541
Expenses relating to short term leases	155	116
Expenses relating to leases of low value assets, excluding short term leases of low value assets	296	247
<b>Total</b>	<b>2,379</b>	<b>2,904</b>

#### Amounts recognised in profit or loss (Non technical account)

Interest on lease liabilities	572	611
<b>Total</b>	<b>572</b>	<b>611</b>

#### Net Operating Expenses

Impairment on ROU asset	-	6,560
<b>Total</b>	<b>-</b>	<b>6,560</b>

### Discontinued operations and disposals

Nothing to report.

## A.5 Any other information

Nothing to report



## B. System of governance

### In this section

B.1 General information on the system of governance

B.2 Fit and proper requirements

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

B.4 Internal control system

B.5 Internal audit function

B.6 Actuarial function

B.7 Outsourcing

B.8 Any other information

This section of the report describes the Company's System of Governance, including details of its Board structure and its risk management and internal control systems. It also provides information on the role of the four Key Control Functions being Risk, Audit, Compliance and Actuarial.

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

### B.1.1 Board structure

The business of RSAIL is normally overseen by a single Board comprising eight directors, six of whom are non-executive, four of which have been determined by the Board to be independent.

The Board has sole responsibility for determining the business conducted within the Company, i.e. the strategy and objectives of the Company, and is accountable to stakeholders for the creation and delivery of strong sustainable performance and long term shareholder value.

The Board meets at least six times per year. The Board is responsible for organising and directing the affairs of the Company in a manner that is most likely to promote success for the benefit of the shareholder and is consistent with the Memorandum and Articles of Association, the Corporate Governance Requirements for Insurance Undertakings, 2015 (effective 1 January 2016) and current corporate governance.

The Board promotes high standards of corporate governance and conduct throughout the Company and has a solid governance framework in place. Specific duties of the Board are clearly set out as a formal schedule of matters reserved to the Board, which can only be amended by the Board itself and which is reviewed annually.

The Board sets annual objectives for the business in line with the current Company strategy and monitors the achievement of Company's objectives through regular reports which include updates from the Chief Executive and the Chief Financial Officer on all material business matters.

The directors are responsible for monitoring Company performance and need to regularly attend Board meetings as evidence of this.

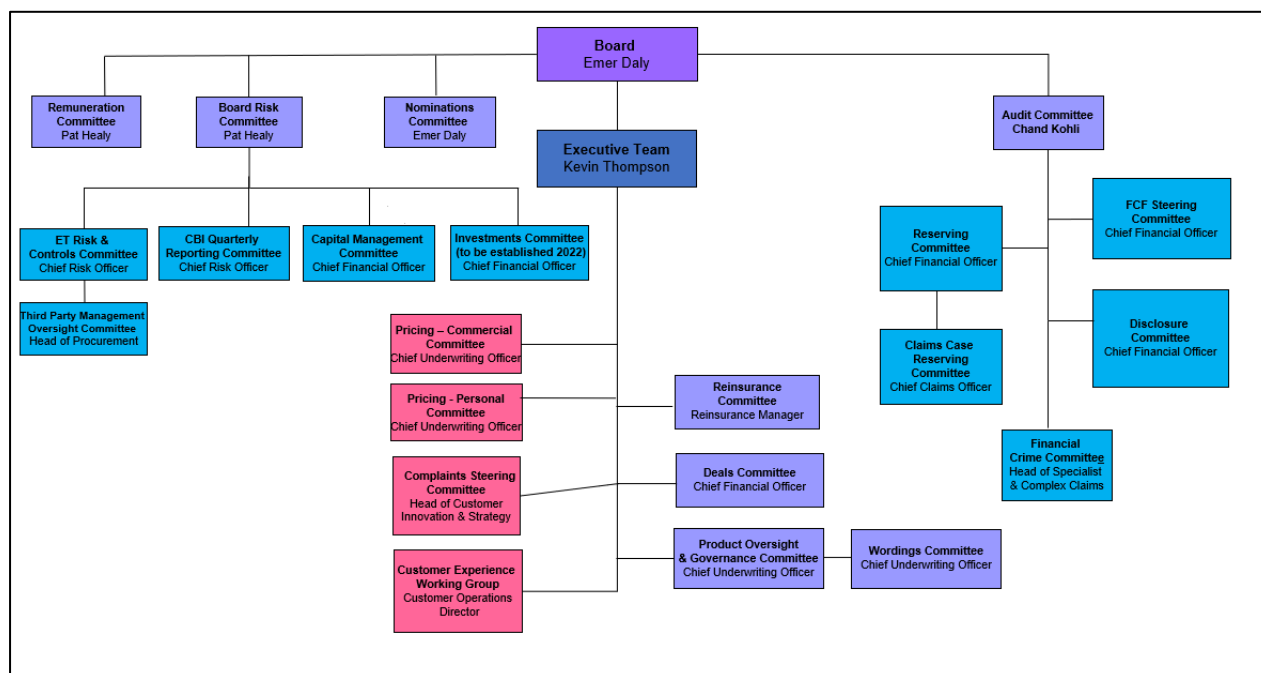
Directors have access to the services and advice of the Company Secretary, Head of Legal, Internal Audit, Regulatory Compliance, Actuarial and Risk functions and in addition may take independent professional advice at the expense of the Company in furtherance of their duties.

The Board operates in strict accordance with the Company's Conflicts of Interest policy which sets out the process and procedures to be followed in the event that a conflict has been identified. At the start of each Board meeting, the Chairman formally requests that any potential or actual conflicts of interest be declared (which is recorded in the minutes) and any director impacted then participates as allowed for in the policy. If during the course of the meeting any further potential or actual conflicts arise it is the responsibility of the director to declare such potential or actual conflict. The Board operates a Conflicts of Interest register which is maintained by the Company Secretary and reviewed annually.

The Chairman is responsible for leading the annual review of the effectiveness of the Board. The most recent external review was completed in the final quarter of 2020 by Deloitte, in accordance with the Corporate Governance Code requirement for an external review no less than every three years.

## Board committees

The Board focuses on strategy, performance and approval of material transactions. It therefore delegates authority and oversight to its Committees in certain areas. Each of the Company's Board appointed Committees operates within Terms of Reference approved by the Board and their structure and the relationships between them is set out below.



## The Remuneration Committee

The primary role of the Remuneration Committee is to determine the terms and conditions of employment, pay and benefits for each of the executive directors and members of the Executive Team of the Company, the Head of Actuarial Function and such other Material Risk Takers (as defined by regulation) as may be proposed for appointment.

## The Board Risk Committee

The primary role of the Board Risk Committee is to advise the Board on risk management issues, recommend the risk limits and risk appetite to the Board for approval and oversee the risk management arrangements of the Company generally. The Committee ensures that the material risks facing the company have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

## The Nominations Committee

The primary role of the Nominations Committee is to manage the process for advising and making recommendations to the Board on matters relating to the Board's membership and related appointments.

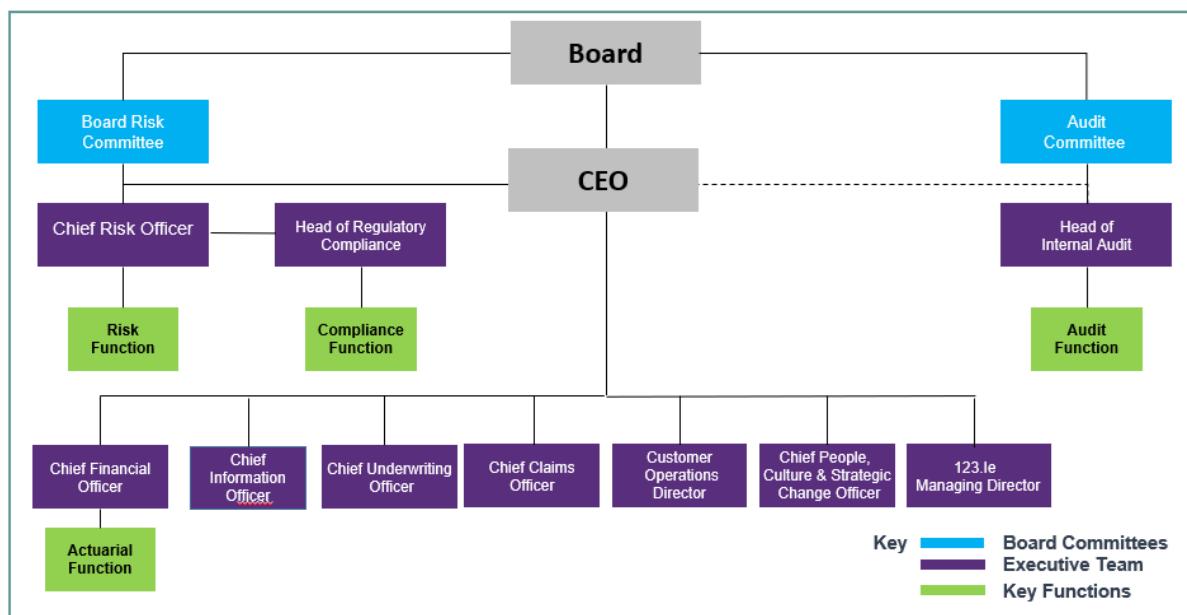
## The Audit Committee

The primary responsibilities of the Audit Committee are:

- Co-ordination and oversight of the integrity of the financial reporting process;
- Oversight of the internal audit functions and the external auditor;
- Oversight and challenge of the effectiveness of the Company's internal control including financial reporting and financial controls; and
- Providing assurance to the Board on the effectiveness of the Company's internal control arrangements.

## B.1.2 Independent key governance functions

The diagram below depicts the Executive management structure of the Company, and the day-to-day reporting lines of those functions that are designated by Solvency II as the Key Governance Functions being Risk, Audit, Compliance and Actuarial.



The Audit Committee is responsible for the oversight of the effectiveness of the systems of internal control and financial and regulatory reporting, and for monitoring the effectiveness and objectivity of the internal audit function. The Head of Actuarial Function, the Head of Internal Audit Function, the Chief Risk Officer and the Head of Compliance meet at least annually with the Audit Committee without the Executive Directors or management being present.

Those working in the key governance functions are subject to the provisions of the Fitness and Propriety policy (described in section B.2 below) which requires them to have the necessary skills, knowledge and experience to fulfil their position. This is assessed both on initial appointment and through annual performance appraisals.

### B.1.3 Changes in the system of governance

There have been no major changes to the Company's System of Governance during 2021.

- The RSA companies and their operations in the UK, Europe (excluding Scandinavia) and Middle East were purchased by IFC.

The following director appointments were made during 2021:

- Karl Helgesen – 5 May 2021
- Aidan Holton – 14 June 2021
- Anne Fortin – 3 September 2021

The following director resignations took place during the year:

- Jane Poole -11 January 2021
- Gavin Wilkinson - 16 April 2021

A series of appointments were made to the various Board Committees in 2021.

## B.1.4 Principles of remuneration policy

RSAll ensures that it has appropriate remuneration arrangements through the adoption of a Remuneration Policy. The Remuneration policy outlines RSAll's approach to remuneration and the governance for making remuneration decisions.

The policy is designed to support the business strategy by appropriately rewarding performance and promoting sound and effective risk management, compliance with external regulatory requirements and alignment to the long-term interests of the Company and its shareholders.

The policy establishes over-arching principles and standards to guide remuneration decision-making, which is aligned to local market norms and regulations. These principles are based around alignment to long-term Company success, pay-for-performance and risk alignment. A total reward approach is used, such that it includes both fixed remuneration elements (reflecting an employee's professional experience and responsibility, and can include elements such as base salary, benefits and pension) and variable elements (which can be awarded to eligible employees, reflecting performance).

The policy establishes specific remuneration provisions for jobholders whose professional activities have a material impact on the risk profile or have responsibility for Key Governance Functions. These provisions are intended to promote effective risk management and include:

- The balancing of fixed and variable remuneration to enable a fully flexible approach to incentives (including the possibility of paying no variable remuneration)
- The design of incentive plans to encourage performance within the Company's risk appetite, including the consideration of material risk factors in incentive award decisions, the operation of "deferral" and "malus" adjustment and the operation of clawback provisions for Executive directors and Executive Committee members, and customised arrangements for those accountable for Key Governance Functions to preserve the independence of their roles
- Arrangements to avoid reward for failure in termination payments, and to exclude personal hedging strategy usage
- Governance measures aimed at avoiding conflicts of interest are incorporated

The policy is reviewed regularly, to ensure that it complies with the principles of good risk management and reward governance, taking into account regulatory requirements and the nature of the business.

## B.1.5 Variable Remuneration Performance Criteria

Incentive plans encourage performance in line with the business strategy and the Company's risk appetite and take into account material risk factors and the Company's ability to maintain an adequate capital base.

Incentive plan performance measures:

- reflect RSAll's priority to create shareholder value through sustained growth and profitability, based on its risk profiles. Measures can include for example, profit, underwriting performance, capital, strategic and shareholder value measures; and personal objectives.
- are quantified on an 'underlying' basis where appropriate, to provide an undistorted view of business performance and avoid the creation of adverse incentives.

For jobholders whose professional activities have a material impact on RSAll's risk profile, a number of mechanisms are included to ensure remuneration does not encourage excessive risk taking:

- Total performance-related variable remuneration is based on a combination of the assessment of the performance of the individual, the business unit concerned and the overall result of the company or Group;
- Targets take account of the RSAll operating plan which is set with reference to the risk appetite with input from the Risk function;
- Incentive award funding is subject to risk adjustment for exposure to current and future risks, taking into account the company risk profile and cost of capital. An adjustment can take place prior to the payment of Annual Bonus awards, and prior to the vesting of long-term incentive award cycles;
- Individual performance assessments take account of financial and non-financial criteria, and are based on consideration of what is delivered and also how goals are achieved; and
- A portion of variable remuneration may be subject to deferral to ensure it is aligned with longer-term risk management. The percentage that is deferred, the type of deferred award(s) and the length of the deferral period are determined by taking into account regulatory requirements, the level of the jobholder and the business context.

There are provisions to apply malus adjustment and clawback. The Remuneration Committee has the ability to reduce or forfeit awards that have yet to be paid or vest in the case of shares, to delay the payment or vesting date, or to amend another form of award or benefit which has yet to be received (malus adjustment).

For cash bonuses, and long-term incentive awards, the Committee may also recover sums already paid to Executive Directors and Executive Committee members if it considers it appropriate to do so this can be applied during a two-year period after receipt (in the case of cash bonuses) or vesting (in the case of long-term incentives).

Variable remuneration arrangements for those accountable for Key Governance Functions are designed to be independent from the performance of the operational units and areas submitted to their control.

In addition to its short- and long-term incentive plans, RSAll operates all-employee share plans (Sharesave). Participation is voluntary and available to all qualifying employees. Sharesave is a Save as You Earn scheme under which options are not subject to performance conditions, but service conditions apply.

## B.1.6 Supplementary pensions/ early retirement

No supplementary pensions are operated for the members of the administrative, management or supervisory body and other Key Function holders. The Company's defined benefit pension plans are closed to all new entrants, but some employees have historic benefits accumulated which, in accordance with the current RSAll policies and the scheme rules, can be paid early without reduction in certain circumstances.

## B.1.7 Shareholder or Board transactions

The Company had the following significant transactions with RSAI Ltd, its sole Shareholder:-

- Quota Share and ADC Reinsurance arrangements
- AOF Facility
- the provision by RSAI of certain investment services to the Company under outsourcing arrangements

## Dividends

The Company did not pay a dividend during the year and the directors have not recommended the payment of a dividend in respect of the year ended 31 December 2021 (2020: Nil).

## Key management transactions

The following transactions were carried out with key management:

	2021 €'000	2020 €'000
Aggregate emoluments paid to or receivable by directors in respect of qualifying services	1,661	894
Employer contribution to defined contribution pension schemes	47	47
<b>Total</b>	<b>1,708</b>	<b>941</b>

Key management personnel comprise members of the Executive Team, Executive directors and non-Executive directors.

# B.2 Fit and proper requirements

## B.2.1 Specific fit and proper requirements

The Fitness and Propriety Policy sets out the requirements for assessment of fitness and propriety of all employees with more onerous requirements for both new and on-going appointees in the Key Control Functions, the Executive Management Team and Directors. The business must assess the fitness of the persons who:

- are effectively running and overseeing the business
- are key control function holders
- otherwise require approval due to local regulatory requirements

All other employees must be assessed on their skills and knowledge, expertise, and personal integrity prior to commencement, with a re-assessment annually through appraisals.

The Board believes that it has the appropriate balance of skills, experience and knowledge to enable it and its committees to discharge their duties and responsibilities effectively. The Board considers the skills, experience, independence and knowledge already represented when making decisions on new appointments. One of the key responsibilities of the Nomination Committee is to keep under review Board membership and succession planning to ensure that the balance remains appropriate.

## B.2.2 Assessment process

The Policy outlines the minimum requirements to assess and ensure fitness and propriety, including the governance over roles and responsibilities to ensure compliance.

This will include an assessment of the person's

- honesty, integrity and reputation
- competence and capability, and

- financial soundness

Responsibility for complying with local regulatory rules and requirements rests with the Board.

## Fit requirements

An assessment is completed on the 'fitness' of the individual, i.e. whether they have adequate professional qualifications, knowledge and experience to enable sound and prudent management. This will include an assessment of the person's professional and formal qualifications, knowledge and relevant experience in the insurance sector, other financial sectors or other businesses. It must also take into account the respective duties allocated to that person and their insurance, financial, accounting, actuarial and management skills (where relevant).

The requirements are to ensure the individual is fit for their role, so applies to internal promotions or internal moves to a Key Governance Function role.

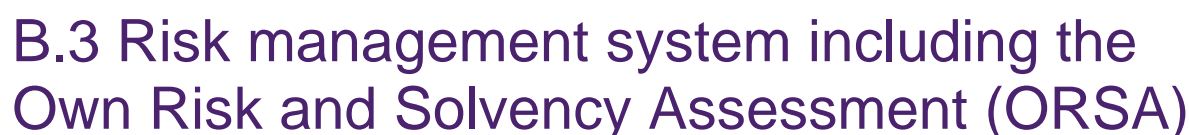
## Proper requirements

When assessing whether a person is 'proper', the following is considered:

<b>Relevant criminal offences</b>	Any offence under the laws governing banking, financial, securities or insurance activity, or concerning securities markets or securities or payment instruments. This includes, but is not limited to laws on money laundering, market manipulation, or insider dealing and usury, as well as offences of dishonesty such as fraud or financial crime. They can also include any other criminal offences under legislation relating to companies, bankruptcy, insolvency, or consumer protection.
<b>Other criminal offences</b>	Other criminal offences being tried or having been tried in the past may also be relevant, as they can cast doubt on the integrity of the person.
<b>Relevant disciplinary or administrative offences</b>	Offences made under an activity of the finance sector, including offences under legislation relating to bankruptcy, insolvency, or consumer protection.
<b>Other circumstances</b>	Other circumstances that may cast doubt on the reput and integrity of the person, e.g. current investigations or enforcement actions, the imposition of administrative sanctions for non-compliance with provisions governing banking, financial, securities or insurance activity, securities markets, securities or payment instruments or any financial services legislation.

The following diagram outlines the process for determining fitness and propriety for new appointments. The Fitness and Propriety Policy also requires continued assessment of both fitness and propriety post appointment.





## The three lines of defence

The risk management system is underpinned by the three lines of defence model where:

1<sup>st</sup> line

- Conducts activities to ensure that risks are identified and controlled to bring within appetite
- Delivers the business plan within risk appetite, identifying all material risks and monitoring and managing the risk profile
- Produces regular and timely reports on all material risk positions and associated action plans
- Is accountable for designing and implementing standard controls, operating the controls and performing control validation

- 2<sup>nd</sup> line**
  - Independently reviews and challenges 1<sup>st</sup> line activities, provides assurance that the controls and control validation are designed and operating effectively and sufficiently mitigates the risk to bring within risk appetite
- 3<sup>rd</sup> line**
  - Evaluates the effectiveness of the organisation's risk management, control and governance processes; auditing whether 1<sup>st</sup> line control and 2<sup>nd</sup> line assurance is effective and appropriate. Its assurance activities are cyclical and take a risk-based approach and as such are not a substitute for second lines of defence

The Board is responsible for ensuring the effectiveness of the Company's Risk Management System, for setting the Company's overall risk strategy and risk appetite (including Company level risk limits and tolerances) and for approving the main risk management strategies and policies.

## Risk appetite and risk strategy

The Board is responsible for setting the business strategy which is used to inform the risk strategy statement. The risk strategy statement describes the Company's overall strategy and objectives for managing risks based on a set of key principles.

The risk appetite is set annually by the Board. It establishes the appetite for risk by risk category plus high-level risk limits and tolerances, and drills down into more detailed risk statements. These are expressed through associated Key Risk Indicators with associated risk limits and risk tolerances.

## Risk control cycle

The risk control cycle describes the process used to set, identify, measure, manage, monitor and report on risks impacting the business.

## Risk identification (new and emerging risk)

Risks are identified through a range of activities that include policy and control design; stress and scenario testing; and an analysis of risk incidents including a root cause analysis. The identified risks, including emerging risks, are recorded in the business function's risk profile matrix which records the likelihood of occurrence, the expected residual loss impact, and whether the residual risk is within risk appetite or if not, whether there is an appropriate action plan in place.

## Risk measurement

Once risks have been identified the business must update its risk profile by including the residual risk (the risk of an event occurring which would crystallise a loss assuming existing controls and other mitigating actions are effective) on a standard 5 x 5 probability and impact matrix.

## Managing, monitoring and reporting risk

All residual risks are assessed and monitored to determine if the risk is within risk appetite and, if not, whether there is a plan with an owner to bring within appetite within a reasonable timeframe.

Action owners must track all action plans to ensure risk is brought within appetite within the planned timeframe and report progress at least quarterly.

Risk reporting at the aggregate Company level is to the Board Risk Committee and the relevant executive level committees.

## B.3.2 Implementation and integration

The Company operates under a common Group-wide framework through which risk management and control is embedded and where each business is required to follow consistent processes (using a common language) to identify, measure, manage, monitor and report its risks, in line with a consistent and comprehensive set of policies.

The policies set out risk assessment standards and risk appetite together with detailed procedures including minimum requirements to identify, measure, manage, monitor and report material risks, and any internal controls and control testing requirements.

Risk policies are linked to risk appetite and define the Company's material risk categories. Each policy is assigned a managing owner with responsibility for ensuring that the policy is embedded within the business.

Risk Management processes are mandated in an overarching Risk Management and Internal Controls policy, which is approved by the Company's Board Risk Committee and Board and is subject to regular update and review. The Risk Management policy establishes standard risk management processes and policies across the business and also defines the dependencies and interaction with the ORSA and the Company's approach to stress and scenario testing. Further detail is given in a comprehensive suite of policies, which cover all key activities and risk categories.

The Board is responsible for organising and directing the affairs of the Company, including the effectiveness of the Risk Management System, ensuring that an appropriate system of internal control is maintained.

The Board Risk Committee is responsible for ensuring that material risks are identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

The Executive Team is responsible for the day to day management of the Company in accordance with the strategy and Operational Plan which includes implementing systems and controls to manage risk exposures within risk appetite and to identify, measure, manage, monitor and report on its risks.

### Internal model governance and assurance

The Company uses the EIOPA Standard Formula to determine its regulatory SCR.

## B.3.3 Own risk and solvency assessment (ORSA)

### B.3.3.1 ORSA process

The ORSA process is a continuous process that takes input throughout the year, to assess how the risks of the business change over time and the consequential impact on the solvency needs of the business. During the year, the Board and Board Risk Committee consider a range of activities and a final report is presented to the Board Risk Committee and Board for review and approval. This summarises papers and associated decisions taken during the period and highlights key areas of action needed over the forthcoming year.

### B.3.3.2 ORSA review and approval

Papers are presented to the Board and Board Risk Committee throughout the year dealing with individual elements of the ORSA.

The ORSA report is presented for approval annually to management, the Board Risk Committee and the Board each year.

### B.3.3.3 Overall solvency needs

The level of risk exposure based on the projected risk profile is assessed by the Company as part of the ORSA process.

The level of capital required, including buffers to allow for adverse events, is compared against the amount of current and projected capital that the Company expects to hold based on the current or latest version of the Operational Plan. This takes into account strategy and risks and forms a key part of the ORSA process. The Company uses an internal economic capital model to inform the capital required (including buffers) to allow for adverse events.

Actual and projected capital shortfalls are reported in line with the requirements of the Capital Appetite and Capital Plan so that corrective action can be taken.

To ensure that the Company holds appropriate levels of capital in line with its overall risk profile the overall capital appetite is reviewed on an annual basis and proposed to the Board for approval. This review process considers regulatory capital requirements, stress and scenario analysis and outputs from the Company's internal economic capital model.

The overall solvency needs assessment is a core component of the ORSA process.

## B.4 Internal control system

### B.4.1 Description of the internal control system

The Company has put in place an effective internal control system which contains administrative and accounting procedures policy management - with appropriate validation, assurance and reporting arrangements at all levels of the Group, a delegated authority framework and a compliance policy. The internal control system is underpinned by the three lines of defence model. Since March 2020, the Risk Function has been working with all areas of the business to ensure the control environment continued to be effectively managed during the Pandemic.

Key to this has been the establishment of a 'Covid-19 Control Change Log' to capture and record approval of necessary changes to controls and processes; providing for Risk partnering, oversight and assurance over key control and process changes. This also ensures that changes are fit for purpose, and at the appropriate time, unwound in a sensible way or incorporated into the BAU control environment (in the event it is determined to adopt the control revision).

The internal control system comprises the following key elements:

- **Policy management** - whereby policies establish standard controls, which are implemented and operated by the business; supplemented by objective 1st line control validation and independent 2<sup>nd</sup> line assurance processes.
- **The Financial Control Framework** - is aimed at ensuring best practice in financial control and is the methodology and assurance process to mitigate material financial reporting misstatement and financial loss by identifying financial reporting risks, developing controls to mitigate those risks, assessing and monitoring the effectiveness of controls.
- **Delegated Authority Framework** - whereby authority is cascaded down from the Board to the business
- **Compliance policy** - sets out the standard control processes to minimise and/or prevent the risk of material loss, reputational damage or liability arising from the failure to comply with regulatory requirements. Ultimate responsibility for compliance with the relevant rules and regulations rests with the Board, the Executive and the senior management in each business. Advice, challenge, and interpretation is provided to these bodies by the Regulatory Compliance function.

## Policy management, control validation and assurance

Policy management is designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss.

Existing policies cover all material risk types to which the Company is exposed and set out both minimum requirements and standard control sets for business activities, including delegated activities, which allows the Company to achieve its objectives including effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Policies also establish control validation activities (1<sup>st</sup> line checks) which ensure controls are designed and operating effectively and assurance activities (2<sup>nd</sup> line) which examine and oversee business control validation activities to provide additional independent comfort that objectives are being achieved and adequate controls are in place and working effectively.

Adherence to the control sets and the progress and findings of assurance and validation activity are reviewed by a management Risk & Control Committee three times a year. Key issues identified in these committee meetings are escalated to the Board or Board Audit or Board Risk Committees as appropriate. Relevant trends and risks will also be notified to the Board Risk Committee as appropriate.

## Financial Control Framework

The Financial Control Framework is assessed by the 1<sup>st</sup> line (specifically Finance and Actuarial) on an ongoing basis with formal assessment of the effectiveness of controls and the reporting on same conducted quarterly. The process of risk refreshes is a core component of the annual Financial Control Framework process. Self-certification, provided by the Chief Financial Officer, is required to confirm there is no material financial misstatement in the financial statements.

## Delegated Authority Framework

The Delegated Authority Framework (“DAF”) specifies how executive authority is delegated from the Board to the Chief Executive Officer, and onwards to senior management within the Company. The Chief Executive Officer and senior executives across the Company receive an executive licence setting out their specific limits of authority in terms of entering into financial, underwriting, claims and other business commitments. Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility.

Effective management of Delegated Authority enables the business to:

- Ensure that all employees execute their responsibilities within a clearly defined set of limits and subject to specified terms and conditions appropriate to their role, competence, experience and technical capability so as to mitigate the risk of the Group being exposed/committed to material financial, operational, legal, reputational and/or regulatory risk and/or loss
- Ensure consistency is applied over separate policies that have been written covering operational and technical matters
- Ensure that the risks associated with managing and delegating authorities are mitigated through the use of appropriate preventative and detective controls and remain within risk appetite
- Ensure compliance with relevant regulatory and statutory requirements.

The powers of the Board, and the extent to which these powers may be delegated or must be retained, are set out in detail in the Matters Reserved for the Board or Terms of Reference for the Board Committees.

## Compliance policy

The Compliance policy is owned by the Regulatory Compliance function. Its purpose is to safeguard the Company, its customers, reputation and assets by creating a compliant culture, complying with regulatory requirements and identifying and mitigating regulatory risk.

The Compliance policy has been developed to deliver assurance around our compliance culture to both internal and external stakeholders. The policy defines the minimum standards and controls to be applied in order to identify and mitigate the risk of regulatory breaches and censure.

Each function within the business is responsible for implementing controls to comply with local regulatory requirements and ensuring these controls remain effective with ultimate responsibility resting with the Board, executive and senior management.

Legal control processes provide oversight of data protection, competition law, financial crime and other legal risk. Human Resources control processes primarily provide oversight of whistleblowing and people risk.

## B.4.2 Regulatory compliance function

The purpose of the Regulatory Compliance ("RC") function is to ensure that RSAI meets relevant regulatory requirements and uses similar tools as that of other country and regional Regulatory Compliance functions within the Group. RC must ensure there is a strong regulatory compliance culture and ensure mechanisms are in place to identify, report and resolve issues to avoid or minimise business impact and surprises.

RC manages and develops the relationship with the regulator, the Central Bank of Ireland ("CBI"). RC provides advice and assurance to the business on compliance with financial services legislation and the requirements of the regulator on both consumer and prudential matters. RC supports the business in assessing, monitoring and mitigating regulatory risk.

RC establishes, implements and maintains an annual Compliance plan which sets out the compliance work to be undertaken in the upcoming year. The Compliance plan is presented to the Board Risk Committee for approval and updates on progress and material changes are provided on a quarterly basis.

## B.5 Internal audit function

### B.5.1 Implementation

The primary purpose of the Corporate Audit Services ("CAS") function is "to keep the Company safe and improving". Specifically, it helps the Board and Executive management to protect the assets, reputation and sustainability of the Company.

CAS does this by assessing whether all significant risks are identified and appropriately reported by management and the second line of defence to the Board and Executive management; assessing whether they are adequately controlled; and by challenging Executive management to improve the effectiveness of governance, risk management and internal controls.

CAS is an independent and objective function reporting to the Board. The Head of Audit in Ireland has a primary reporting line to the UK & International Chief Auditor and the Chair of the Audit Committee, with a secondary reporting line to the Ireland CEO. The UK & International Chief Auditor reports directly to the Group Chief Auditor. The Head of Audit is an approved person within the CBI's regulatory regime.

CAS's scope of activities is unrestricted and its audit universe extends to all legal entities, joint-ventures and other business partnerships, outsourcing and reinsurance arrangements. Its scope includes first line control validation, second line control assurance and the system of governance as set out under Solvency II. While it is not the role

of CAS to second guess any decisions made by the Board and its Committees, its scope does include information presented to the Board and its Committees.

On a semi-annual basis the Head of Audit in RSAI will submit a six-monthly rolling risk-based audit plan (i.e. detailed plan for the upcoming six months, together with an outlook for the subsequent six months), including emerging and systemic risks to the Audit Committee for review and approval. The six-monthly rolling audit plan is developed based on CAS's independent risk assessment and a prioritisation of the audit universe, considering inputs from Executives, Senior Management and the Audit Committee, and CAS's assessment of various "planning lenses" which include fraud risk, culture trends and emerging issues that could impact the organisation.

CAS coverage of the audit universe should be based on the principles of a three-year rolling coverage in which it shall aim to cover all inherent high risks twice and all inherent medium risks once. Any high or medium risk areas not covered within the three-year time period shall be made transparent to the Audit Committee.

The Head of Audit will review and adjust the plan, as necessary, in response to changes in the business, risks, operations, programmes, systems and controls. Any material changes to the CAS plan will be communicated through quarterly reporting to the Audit Committee for approval. When necessary, CAS may conduct audit engagements which are not included in the audit plan, these may be carried out without notice.

In addition to the six-monthly rolling audit plan that is reviewed and approved by the Audit Committee, the Head of Audit ensures that the function has a multi-year outlook in line with the Company's strategic and Operational Plan.

The Head of Audit will ensure that CAS as it relates to the Company has the appropriate budget and resources and that CAS collectively has the skills and capabilities to effectively deliver its purpose and mandate. This includes consideration of trends and emerging issues that could impact the organisation. Where appropriate, independent internal or external co-sourced resources may be engaged to supplement the core team and deliver all or part of an audit engagement.

Annually, the Head of Audit provides the Audit Committee with an assessment of the skills and capabilities required to conduct the work needed, and whether the budget is sufficient to allow the function as it relates to the Company to recruit and retain staff with the expertise and experience necessary to provide effective challenge throughout the business and to Executive management. The Audit Committee is responsible for approval of CAS's plan and budget, and reviews and confirms annually that CAS is staffed appropriately and operating effectively.

CAS operates an ongoing Quality Assurance programme that is outsourced to Deloitte. Annually Deloitte reports a summary of the Quality Assurance results to the Audit Committee. Further, CAS performs an annual assessment of compliance with professional standards of which the results are reported to the Audit Committee. The function is governed by an Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria.

## B.5.2 Independence and objectivity

CAS must be independent from management at all times in order to be effective in delivering on its purpose and mandate. Internal Auditors shall have no operational responsibility or authority over any business activities, day-to-day risk management or control activities.

Internal Auditors are expected to remain independent and objective in all assignments and do nothing that might prejudice or be perceived as prejudicing independence and objectivity. Impairments to independence and objectivity may include, but are not limited to:

- Auditing business areas for which an individual previously worked or was previously responsible (auditors must refrain for a period of at least 12 months)
- Auditing an area where an individual has a close relationship with one of its staff (e.g. partner, family member).



Independence and objectivity may also be impaired if an individual is approached about, or receives, an offer of employment from an area that they will be, or are, auditing. To prevent undue influence, the Head of Audit must be advised of any approach and has the option to defer the offer for up to six months following completion of the audit.

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed immediately to the Head of Audit, who will determine whether the Audit Committee will need to be informed.

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 mind-set.

The Head of Audit reports, at least annually, to the Audit Committee on the independence of the Function and its staff. This is supported by a formal assessment of independence and objectivity for long serving staff, together with an independence self-certification signed by all members of CAS. The Head of Audit will disclose any interference and its implications to the Board via the Audit Committee.

Where the tenure of the Head of Audit exceeds seven years, the Audit Committee will discuss the Chairman of the Audit Committee's assessment of the Head of Audit's independence and objectivity. Thereafter the Audit Committee will consider the Head of Audit's independence and objectivity annually.

## B.6 Actuarial Function

The Actuarial Function undertakes the duties and responsibilities set out for an Actuarial Function in accordance with the CBI's Domestic Actuarial Regime and Related Governance Requirements under Solvency II.

The Actuarial Function coordinates the calculation of technical provisions. It provides assurance that the actuarial information to set technical provisions uses appropriate methods, models, and assumptions and it assesses the appropriateness, completeness and accuracy of the underlying data. It also confirms that the Solvency II technical provisions comply in all material respects with all relevant Solvency II requirements and informs areas where experience is different and how this has influenced methods, models and assumptions.

The Actuarial Function provides an opinion on the underwriting policy and the adequacy of reinsurance arrangements. It also provides an opinion on the appropriateness of the stress tests conducted during the ORSA and contributes to the effective implementation of the risk management system. On an annual basis the function produces an Actuarial Function Report summarising the key conclusions of the Actuarial Function's work during the year. This is presented to both the Audit Committee and the Board.

The Actuarial Function holder is appointed by the Company (approved by the CBI) and has unrestricted access to all relevant information necessary for the exercise of their function. The Actuarial Function holder has independent access to the Audit Committee and is represented in several other management committees.

## B.7 Outsourcing

### B.7.1 Policy and key activities

The Company's outsourcing arrangements are managed in accordance with the Company's Third Party Contracts and Outsourcing Policy (introduced in November 2021, integrating the Company's previously separate Third Party Contracts Policy and the Outsourcing Policy) and its associated process and procedures, adopting a risk-based approach by addressing the full life-cycle of an outsourcing process.

The Third Party Contracts and Outsourcing Policy and its associated process and procedures establishes the business and internal governance requirements, including risk management processes, that the Company will



apply to its respective outsourcing arrangements, whether within the Company's Group ("Intragroup Outsourcing") or externally ("Third Party Outsourcing").

The Third Party Contracts and Outsourcing Policy is aligned with applicable Company policies, while addressing the regulatory obligations applicable to the Company. It has been designed to satisfy the requirements in respect of European Union (Insurance and Reinsurance) Regulations 2015 (Solvency II Regulations). The Third Party Contracts and Outsourcing Policy applies to all outsourcing arrangements, irrespective of whether they are classified as critical, important or non-critical and is supported by the Company's outsourcing process and procedures.

The Third Party Contracts and Outsourcing Policy provides a definition of critical or important activities and functions to ensure consistency of approach. The policy sets out the provisions to be followed in relation to all outsourcing, with additional controls being imposed on critical and important outsourcing. It additionally specifies the operational responsibility and establishes the provisions to be taken into consideration in supplier agreements.

The policy also establishes the necessary responsibilities, maintaining a proper separation of activity, so as to ensure correct local service control through Group-approved local supply chain processes and maintenance of oversight within the Group.

The Company currently has five contractual arrangements which are deemed critical or important: two investment management contracts (one external and one intra-group); two external IT system maintenance and support contracts and one underwriting platform hosting contract.

### B.7.2 Intra-Group outsourcing arrangements

The Company enters into outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

The Company also enters into outsourcing agreements with other members of the RSA Group in relation to the efficient provision of services across the Group. Regardless of whether an intra-group or third party outsourcing arrangement has been entered into, ultimate responsibility for the outsourced activity and regulatory compliance lies with the Board of the Company.

Examples of material intra-group arrangements include the provision by RSAI of certain investment services to the Company and also the provision of cash and banking services from a shared service centre in Liverpool.

## B.8 Customer Experience

The Voice of the Customer Forum is responsible for ensuring that Customer Experience initiatives are driven out throughout the organization and that Consumer Risk is appropriately measured and challenged. The objective is to improve our customer's experience with the Company and to ensure that the Company operates within appetite so that our customers are treated fairly, with dignity and respect and that we take time to listen to their feedback and insights. The Forum reports on progress against Customer Experience initiatives to the Executive team on a monthly basis. The Forum also reports to the Executive team Risk & Control Committee ("RCC") three times a year providing a report on Consumer Risk. Following challenge from the Forum and from the RCC an updated version of the report is submitted to the Board Risk Committee for discussion. In 2019 the Company introduced a new Customer policy. The objective of this policy is to ensure the delivery of good customer outcomes is at the centre of the business model including in our strategy, people, products, services, systems, communications and pricing.

## B.9 Any other material information

### B.9.1 Adequacy of system of governance

The adequacy of the System of Governance is formally considered by the Board annually. This process considers both changes and recommendations previously made during the year (such as through internal audit reports) and any recommendations by the Group corporate centre departments based on their observations or regulatory change. Should it be deemed necessary, changes can also occur outside of this formal annual review process.

### B.9.2 Any other material information

Nothing to report.

## C. Risk profile

### In this section

C.1 Underwriting risk

C.2 Market risk

C.3 Credit risk

C.4 Liquidity risk

C.5 Operation risk

C.6 Other material risks

C.7 Any other information

The previous section of the report (B. System of Governance) included information on the Company's Risk Management System (see section B.3). This section of the report provides more detail on the risks faced, including how the Company measures and mitigates against them. The Company is exposed to the following main categories of risk:

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Group risk
- Pension risk

The first five categories are described in sections C.1 to C.5 respectively; since Pension risk and Group risk are not separate categories in the prescribed SFCR structure, they are addressed under the "C.6 Other material risks" heading. Insurance risk includes claims risk and reserving risk and these are all described under the prescribed heading "C.1 Underwriting risk".

Section C.7 addresses the Company's stress testing and sensitivity analysis across all categories of risk.

For quantification of the relative importance of each risk type to the Company see section E.2.2.

The Company has adopted the RSA Group's risk management system, reflecting the close alignment between RSAIL's risk strategy and risk appetite and that of the RSA Group.

# C.1 Underwriting risk

## C.1.1 Introduction

### Underwriting, claims and reinsurance risks

The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling.

The Company's risk appetite statement sets the high-level appetite for insurance risk.

The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

In addition, the Company's Portfolio Strategy Statements set the appetite for the writing of individual risks and the underwriting and claims policies define the controls implemented across the business to manage these risk categories.

### Reserve risk

The Company establishes technical provisions for claims to account for the anticipated ultimate cost of all claims and relevant expenses for claims that have already occurred. The Company establishes technical provisions for both reported and unreported claims. Technical provisions estimates are based on known facts and on interpretation of circumstances including the Company's experience with similar cases and historical claims payment trends. The Company also considers the development of claims payment trends, levels of unpaid claims, judicial decisions and economic conditions.

## C.1.2 Measures used to assess risk

### Underwriting and claims risk

The Company's underwriting strategy and risk appetite are reviewed, challenged and approved by the Board annually.

Key risk indicators assess risk against the Board risk appetite and these are reported at the quarterly Board Risk Committee. Underwriting risk indicators include measures for exposure control, pricing, the control environment and licences.

Portfolio strategy is reviewed quarterly under the Portfolio Risk Management process (Portfolio Review formerly known as the Insurance Risk Portfolio Classification - IRPC). This enables ongoing, proactive management of the implementation of portfolio strategies together with facilitation of forward looking portfolio risk assessments against measured key risk indicators. Risks and issues are escalated to the management Risk and Control Committee, the Pricing Committees and to the Board Risk Committee.

Claims risks are monitored separately to facilitate management within appetite. The scope of claims risk indicators covers financial control, technical quality, case reserving, fraud, and control of delegated authorities. Case reserving is monitored by the Case Reserving Committee.

Scenario and Stress testing and Risk Profiling are undertaken within each function and are reported through the management Risk and Control Committee and to the Board Risk Committee.

Accumulations for static exposures are modelled using the GAIA Exposure Data Management system to identify 'Per Risk' and 'Catastrophe risk' concentrations and to inform scenario modelling and reinsurance purchase. The

Exposure Management Working Group has formal oversight and reporting of the standards for data quality and the minimum requirements for identifying and controlling 'Per Risk' and 'Catastrophe risk' concentrations.

The effectiveness of pricing tools and process is measured through the Pricing Capability Assessment Questionnaire (PCAQ) to benchmark the capability against defined measures. The PCAQ defined measures include an assessment of the pricing components i.e. use of historical claims frequencies and severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns and allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance, and for a profit loading that adequately covers the cost of capital.

Underwriting and Claims Validation Reviews are held periodically to test the effectiveness of the processes and controls in the risk management system. Gaps in compliance with the controls require either a Remediation Plan Agreed (RPA) or a Risk Acceptance against the respective control(s) under the Policy Management process. Underwriting and Claims monitor the progress of RPAs and are the approvers for Risk Acceptances.

Breaches of controls are escalated and reported, with material Risk Events escalated to the Risk function.

## Reserve risk

The Company has a Reserving Committee chaired by the Chief Financial Officer and consisting of the Chief Executive, Underwriting Directors, Head of Actuarial Function, Chief Claims Officer and Chief Risk Officer. Independent Non-Executive Directors also attend the Reserving Committee.

The Reserving Committee monitors the decisions and judgements made by the Company as to the level of reserves to be held and recommends to the Board via the Audit Committee the final decision on the level of reserves to be included within the financial statements. In forming its collective judgement, the Committee considers the following information:

- An actuarial indication of ultimate losses together with an assessment of key assumptions, risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications
- Input from internal peer reviewers and other parties including actuaries, legal counsel, risk practitioners, underwriters and claims managers, and
- How previous actuarial indications have developed.

## C.1.3 Material risks

Material risks identified during the reporting period include:

- **Catastrophe Risk:** Covers the risk that a single event or series of events of major magnitude usually over a short period, leads to a significant increase in actual claims compared to total expected claims. Losses can arise from either natural perils, for example hurricane, windstorm, flood and earthquake, or from man-made perils, for example industrial accident
- **Pricing Risk:** The risk that portfolio pricing strategies, monitoring and rating are insufficient to generate sufficient returns in key portfolios to maintain profitability and pay claims
- **Reserving Risk:** The risk that reserves are insufficient, untimely or inaccurate leading to unforeseen adverse development. The risk that more claims are reported in future than anticipated. The risk that legislative changes have a retrospective effect on claim settlements
- **Underwriting Risk Selection:** Covers the risk that claims arising on exposures after the valuation date are higher (or lower) than assumed in the pricing other than due to catastrophes. This can arise as the result of bad experience, third party interventions, ineffective portfolio management, poor pricing, poor risk selection or failure to underwrite effectively, or failure to handle claims effectively due to management information or process deficiencies (claims leakage)

- **Claims Management Risk:** Financial losses through ineffective claims management processes.
- **Covid Risk:** The ultimate cost of Covid-19 Business Interruption (BI) claims remains uncertain for the Company. The estimated impact of the UK Supreme Court judgment on 15 January 2021 and subsequent Irish High Court judgments throughout 2021 is included in the Technical provisions. These judgments provided some clarity on the treatment of Covid-19 BI claims for selected policy wording. The heightened level of uncertainty relative to normal circumstances persists as claims notifications evolve, are assessed and work continues to fully understand the various implications of these rulings. In addition, in estimating the ultimate cost of Covid-19 BI claims a number of key assumptions have been made in relation to 1) Public behaviour, mobility and interaction prior to lockdowns, 2) Level of evidence required to demonstrate the existence of Covid-19 on or in the vicinity of the insured premises in line with policy terms and conditions, 3) Legal interpretations and regulatory expectations of the criteria for eligible claims.

### C.1.4 Application of the prudent person principle

The prudent person principle is not applicable to underwriting risk.

### C.1.5 Material risk concentrations

The Company is exposed primarily to risk concentrations associated with i) Motor injury classes of business in Ireland, and ii) weather and flood events, although these concentrations are in general well managed within appetite.

### C.1.6 Risk mitigation

The Company operates a comprehensive Risk Management System and policy management process. This system includes policies which govern key activities such as underwriting, claims, reinsurance and the assessment of insurance risks. The policies introduce a system of mandatory control frameworks which stipulate a system of minimum requirements and standard controls, and Key Risk Indicators which are used to measure the effectiveness of these controls in mitigating risk. Each quarter management are required to report on the operation and effectiveness of these controls to governance committees, key risks are escalated to the management Risk and Control Committee and to the Board Risk Committee. Controls which are not considered effective are subject to remedial action and risk oversight.

The underwriting and claims governance and control framework spans a number of key activities, including (but not limited to):

- The Delegation of Technical Authority (Internal and External) including Licensing and Referrals
- Portfolio Strategy, Performance and Risk Management
- Underwriting Product Development
- Pricing
- Accumulation and Exposure Management
- Multi-National Risks
- Risk Control / Inspection
- Underwriting and Claims File Review / Validation
- Claims Management Processes

- Case Reserving.

The management and mitigation of credit risk for reinsurance is described in section C.3.5 Risk Mitigation.

Reinsurance is a key tool used to mitigate the effect of catastrophe and underwriting risks. Reinsurance arrangements in place include facultative and treaty covers. External reinsurance protection is sourced centrally by Group and the Company participates in this centrally sourced reinsurance protection.

The Groups Reinsurance treaty is largely excess of loss in nature but also includes a small number of proportional covers. The effect of such reinsurance arrangements is that both the Company and the Group should not suffer total net insurance losses beyond risk appetite in any one year.

The Company is exposed to both multiple insured losses and losses arising out of a single occurrence.

The Group centrally purchases significant catastrophe cover, buying to a minimum return period of 1:200. All catastrophe reinsurance is placed with reinsurers with a Standard & Poor's credit rating of A- or better. The Group Catastrophe Treaty protects all the Group entities – including the Company - and any locally placed covers will sit beneath the Group cover and will comply with the Group standard of counterparty and minimum reinstatement provisions.

The Company remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer (and the Group) is liable to the Company to the extent of the insurance risk ceded.

In addition to the Company's share of externally purchased Group protection the Company has additional intra group reinsurance in place. The details of this intra group reinsurance are included in section C.6 below.

The combined impact of both the external and intra group reinsurance in place provides some mitigation to the Covid risk which emerged in 2020 and is discussed above in section C.1.3.

### C.1.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

## C.2 Market risk

### C.2.1 Introduction

The Company is exposed to Market risk which is the risk of potential losses from adverse movements in market prices including (where applicable) those of bonds, equities, property, exchange rates and derivatives as well as credit rating downgrade risk, credit spread risk, credit default risk and asset liability matching risk.

### C.2.2 Measures used to assess risk

The Company assesses market risk exposures through a number of factors including: exposure by asset class; credit rating of counterparties; asset-liability mismatch due to divergence in duration and currency exposures; and concentration exposures. In addition, stress and scenario analysis is undertaken to assess market risk exposures.

Exposures are controlled by the setting of "Investment Limits" and managing asset-liability matching in line with the Company's risk appetite.

Both the Capital Management and Investment Committee (CMIC) and the Board are responsible for reviewing and approving the investment strategy for the Company. They provide approval for all major changes of the Company's

investment strategy. In addition, asset-liability matching both by currency and duration is monitored and reported to the CMIC and the Board Risk Committee through the quarterly risk appetite scorecard.

The Board Risk Committee sets the Company's market risk appetite – with Group input.

This includes limits on asset class exposures, single counterparty exposures, aggregate bonds by credit rating, portfolio duration etc. These limits aim to keep exposures within the Company's risk appetite whilst ensuring the portfolio is sufficiently diversified. Investment exposures relative to these limits are regularly monitored and reported.

Currency risk is managed within the Company's individual lines of business by broadly matching assets and liabilities by currency.

There have been no material changes in market risk exposure over the reporting period.

### C.2.3 Material risks

The Company is exposed to the following material Market risks:

#### Interest rate risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa.

In assessing this risk, the Company will have reference to the interest rate exposures of its liabilities with risk being the difference between asset and liability exposures.

There have been no material changes in Interest rate risk throughout the reporting period.

#### Equity price risk

The Company does not have any material exposure to equity price risk outside of equity exposure within the Company's Defined Benefit Pension Scheme.

#### Property price risk

The Company does not have any material exposure to property price risk.

#### Currency risk

The Company operates in the Republic of Ireland and in Northern Ireland. Accordingly, its net assets are subject to foreign exchange rate movements mainly linked to movements in the Euro / Sterling exchange rate. If the value of the Euro strengthens then the value of non-Euro net assets will decline when translated into Euro and consolidated.

The Company incurs exposure to currency risk mainly by holding investments and other assets and by underwriting liabilities in currencies other than the currency of the primary environment in which the business operates - this can be termed operational currency risk.

There have been no material changes in currency risk throughout the reporting period.

### C.2.4 Application of the prudent person principle

The Company applies both Market Risk and Liquidity Risk policies that set out the minimum requirements for the identification, measurement, monitoring and reporting of Market and Liquidity Risk for the Company's investment



portfolio. A set of key risk indicators in the form of ‘investment limits’ have been developed alongside the policy, and to which the policy refers for investment risk management and reporting purposes.

In addition, the prudent person principle (“PPP”) requires prudence in relation to the management of the investment portfolio and to ensure assets are appropriate to the nature and duration of liabilities (ALM). The Company must also be able to show that it has appropriate systems and controls to hold and manage any such investments.

The PPP also requires a duty of care that must be applied for investments that are of non-routine nature, or that are not admitted to trading on a regulated financial market or to complex products such as derivatives or securitised instruments.

The Company follows a high quality, low risk investment strategy with limited exposure to higher volatility investment classes such as equities, or to balance sheet foreign exchange volatility. Asset and liability duration is broadly matched, with limited flexibility for tactical asset management.

## C.2.5 Material risk concentrations

The Company’s investment portfolio consists predominantly of high quality, investment grade, fixed income assets reflecting the duration of its underlying insurance liabilities.

## C.2.6 Risk mitigation

The Company maintains a low risk, high quality portfolio with exposure concentrated in bonds and cash. Credit risk exposure is mitigated by the high-quality nature of the portfolio with 99% investment grade and 84% rated A or above and less than 1% in sub investment grade at 31 December 2021. Counterparty concentration risk is limited through limits placed on single counterparties reflecting a number of criteria including the counterparties’ credit rating, industry and geography.

The Company ensures that it maintains sufficient liquidity for its needs by retaining at least a minimum exposure to highly liquid assets such as cash, bonds rated AAA and government and government guaranteed bonds.

Interest rate risk is limited through the Company maintaining a strong match of its bond asset duration relative to its liabilities. The Company maintains a limit of its asset duration being within one year relative to the duration of its liabilities. Exposures are monitored by the CMIC on a quarterly basis and reported to the Board Risk Committee through the risk appetite scorecard.

The Company does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes.

Refer to the Risk Management System in section B.3 for a description of how the Company manages and monitors Market risk.

## C.2.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

## C.3 Credit risk

### C.3.1 Introduction

Credit risk is defined as the risk of loss resulting from a counterparty failing to fulfil its contractual obligations to the Company or failing to do so in a timely manner. The Company is exposed to credit risk in respect of its reinsurance contracts; insurance operations (where counterparties include brokers, policy holders and suppliers); and investments (where counterparties include governments and corporate bond issuers).

### C.3.2 Measures used to assess risk

Credit risk arises any time the Company's funds are extended, committed, invested or otherwise exposed through actual and/ or implied contractual agreements with counterparties whether reflected on or off-balance sheet.

The Board Risk Committee is responsible for ensuring that the Board approved credit risk appetite is not exceeded. This is done through the setting and imposition of the Company's policies, procedures and limits.

In defining its appetite for counterparty credit risk, the Company distinguishes between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and risks to receiving premiums due from policyholders and intermediaries) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Company's overall credit profile and specific concentrations are managed and controlled within risk appetite.

Financial assets are graded according to company standards. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For invested assets, restrictions are placed on each of the Company's investment managers as to the level of exposure to various rating categories including unrated securities.

Exposure monitoring and reporting is embedded within the risk appetite scorecard with aggregate credit positions reported and monitored on a quarterly basis. Reinsurer counterparty credit risk is assessed and monitored at a Group level by the Reinsurance Credit Committee (RCC).

### C.3.3 Material risks

The Company is mainly exposed to the following types of credit risk:

- **Counterparty risk:** Defined to be the risk that a counterparty fails to fulfil its contractual obligations and/or fails to do so in a timely manner. This includes all types of counterparties such as Agents, Brokers, Reinsurers including the RSA Group and other third parties
- **Credit Concentration risk:** Defined to be an uneven distribution of exposure to counterparties, single-name or related entity credit concentration, and/or in industry and/or services sectors and/or geographical regions
- **Credit Downgrade risk:** Defined to be the loss or gain from a change in an investment's credit rating agency rating and/or an analyst buy, sell, hold opinion

- **Credit spread risk:** Defined as the spread in returns between Treasury and/or Government securities and/or any non-Treasury security that are identical in all respects except for the quality of the credit rating of the non-Treasury security's counterparty

Within the Company, the management of credit risk is divided into three key areas, which are governed by separate policies:

- Reinsurance
- Investments
- Insurance Operations

### C.3.3.1 Reinsurance credit risk management

Reinsurance Credit risk is defined as the credit risk arising from the purchase of all Group treaty reinsurance and at the local level (where applicable) for the purchase of treaty reinsurance and facultative reinsurance by underwriters in accordance with their licences.

In the case of the Company it also includes the risk of default of the RSA Group. This is particularly relevant to the Company given the internal reinsurance structures and Group support that is in place - see section A.1.9.

### C.3.3.2 Invested assets credit risk, credit downgrade and credit spread risk

Invested Assets Credit risk is defined as the non-performance of contractual payment obligations on invested assets, and adverse changes in credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives etc. Invested asset credit risk arises in all investment portfolios. Credit downgrade is defined to be the loss or gain from a change in an investment's credit rating agency's rating and/or an analyst's buy, sell, hold opinion. Spread risk is defined as the risk that arises from negative movement in price in a sector relative to the market resulting for example from the changes in the markets perceived view of the industry sector.

### C.3.3.3 Credit risk arising from insurance operations

Insurance Operations Credit risk is defined as credit risk arising from carrying out daily insurance business operations. This includes loss of principal or financial reward resulting from a counterparty's failure to pay or fulfil all or part of its contractual obligations. For example, if the Company trades with an insolvent broker there is a risk that the Company will not receive all the premiums due from that broker.

There have been no material changes in credit risk throughout the reporting period.

### C.3.4 Application of the prudent person principle

See section C.2.4 for the application of the prudent person principle to credit risk arising from investments. The prudent person principle is not applicable to credit risk in relation to reinsurance and insurance operations

### C.3.5 Material risk concentrations

The Company is exposed to the following types of credit risk concentrations:

- Reinsurance counterparties (including the Company's parent – RSAI Ltd)
- Investment counterparties

- Off balance sheet capital structures. The main off-balance sheet facility the Company has in place is €90m Tier 2 capital in the form of an Ancillary Own Funds facility. This was initially approved in March 2016 and subsequently in August 2018, during the financial year it was re-approved until 2025 and is subject to eligibility criteria in line with Solvency II rules. The facility increases the Company's reliance on its parent RSAI Ltd and this is monitored through the Company's risk appetite statement on a quarterly basis.

For material investment risks, see section C.2.5.

## Risk mitigation

The Company employs the following mitigating techniques and monitoring procedures in order to manage the different types of credit risk:

### C.3.5.1 Reinsurance credit risk management

#### Mitigation techniques

- **Reinsurance Credit Committee (RCC):** The Committee is responsible for the oversight of the Group's reinsurance counterparty credit risk
- **Approved Reinsurance Counterparties (ARC):** Group Reinsurance assess and approve all reinsurance counterparties. Group Reinsurance maintain information on all reinsurance counterparties used across the Group
- **Approved Reinsurance Counterparties (ARC) meet Corporate Standards:** Due diligence is performed, Group Reinsurance monitor and maintain the ARC lists as part of an ongoing risk assessment of reinsurance counterparties. Where a reinsurance counterparty credit risk metric is approached or breached, risk response actions must be effected and reported to the RCC
- **Appropriate Metrics:** Group Reinsurance establish metrics which are appropriate for quantifying reinsurance counterparty credit risk across the Group.

#### Company requirements

- **Contract initiation:** Before entering into an outward reinsurance contract the Company must ensure and document that it has followed all the requirements of the Reinsurance policy, this policy and the requirements of the Group's provisioning policy and reinsurer watch-list requirements, notifying Group Reinsurance of material recovery issues, or pending legal actions, so that the Group can ensure that the Group's interests are not jeopardised
- **Exposure approval:** The Company must seek approval for reinsurance exposures outside the Reinsurance Credit policy and standards through the Group's reinsurance appeals process
- **Risk mitigation techniques:** Where risk mitigation techniques, such as the acceptance of collateral, are used they should be well understood by the Company and appropriate processes and procedures must be established to operate the mitigant. The use of off balance sheet guarantees or letters of credit are approved on an individual basis. The principal risk to the Company is its credit risk exposure to RSAI Ltd, and in the event of the failure of RSAI Ltd, the negation of the reinsurance protection and ceded insurance. The risk is mitigated to some extent by the Company holding the premium for the Reinsurance policy covering claims before 1 January 2015 in a funds withheld account.

#### Monitoring process

- **Credit Risk profile:** Group Reinsurance review the reinsurance counterparty credit risk profile quarterly, and monitor reinsurance counterparty exposure against Maximum Probable Exposure (MPE) limit quarterly

- **Breaches:** Where a reinsurance counterparty credit risk metric is approached or breached, risk response actions are effected and reported to the RCC
- **Ongoing information on counterparties:** Group Reinsurance must maintain information on all reinsurance counterparties used across the Group
- **Quarterly reporting:** The Company must produce regular quarterly reinsurance counterparty credit risk reports covering their relevant counterparties and notify all known breaches of policy or appetite immediately to the Board. The Company also monitors its exposure to the RSA Group within its quarterly risk appetite reporting.

### C.3.5.2 Investment credit risk

#### Mitigation techniques

- The Company maintains a low risk, high quality portfolio with exposure concentrated in bonds and cash
- Credit risk exposure is mitigated by the high quality nature of the portfolio with 84% in securities rated A and above and less than 1% in sub investment grade. Limits are placed over the maximum aggregate exposure by credit ratings to ensure that the high quality nature of investments is maintained
- Single counterparty credit risk is mitigated through having minimum exposure limits to government bonds as well as having maximum exposure limits to individual counterparties that reflect a number of criteria including counterparties' credit rating and industry.

#### Monitoring process

The Company reviews its investment exposure against limits delegated by the Board and report these to the Capital Management and Investments Committee and onward to the Board Risk Committee on at least a quarterly basis in the risk appetite scorecard.

### C.3.5.3 Insurance operations credit risk

#### Mitigation techniques

- **Credit Risk Committee:** The Company must have a Credit Risk committee, responsible for identifying, assessing, maintaining, monitoring and reporting on Insurance Operations Credit Risk (IOCR) exposures.
- **Debt reconciliations:** Outstanding balances from the General Ledger have to be agreed to supporting documentation and overdue payments chasing letters sent to policy holders
- **Completion of due diligence activities:** The Company must confirm material facts about the counterparty by reviewing several elements such as annual and quarterly financial information for the past 3 years, financial projections, capital structure, summary of current tax positions and history, list of top 10 suppliers and history of the past 2 fiscal years (including current year to date)
- **Credit terms are set for each counterparty:** The Company must set credit terms prescribed by Group according to the nature and credit standing of each counterparty. These criteria and the acceptable credit terms are documented on the Insurance Operation Credit Risk policy (approved by the Board and Board Risk Committee).

#### Monitoring process

The Company has to provide the following on a quarterly basis:

- Aged debtors and balances

- Breakdown of debtors
- Assessment of the Top 20 debtors (how much they owe coupled with their credit rating)
- Aged debtors variance analysis
- Major credit concentrations by counterparty, counterparty groups or connected counterparties
- Key performance indicators, for example debtor days (movement against prior quarter and prior year) are monitored by the Finance function
- Bad debt provision is noted at the Credit Risk Committee together with an aging analysis.

### C.3.6 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

## C.4 Liquidity risk

### C.4.1 Introduction

Liquidity risk refers to the risk of loss to the Company as a result of assets not being available in a form that can immediately be converted into cash or the securing of such assets at excessive cost (whether through borrowing or overdraft arrangements for example), and therefore the consequence of not being able to pay its obligations when due.

### C.4.2 Measures used to assess risk

The Company breaks down liquidity risk into three subcategories:

- **Funding liquidity risk:** The risk that the Company may be unable to liquidate assets or secure funding and/or contingency funding arrangements, free from excessive or prohibitive clauses. Additionally, the risk of withdrawal and/or curtailment of funding facilities by third parties
- **Foreign currency liquidity risk:** The risk that actual and/or potential future outflows in a particular currency are unable to be met from likely available inflows in that currency or purchased in the foreign exchange market
- **Intra-day liquidity risk:** The risk that liquidity requirements increase during the course of a business day due to delays in settlement proceeds being received and/or problems in the workings of banking or other settlement systems

Suitable monitoring processes are in place to assess all of the above including:

- Creation and maintenance of short-term cash flow forecasts
- Regular dialogue with the Company's operational bankers where applicable and relevant
- Use of liquidity KPIs to measure the proportion of assets that can be liquidated within a specified time period

### C.4.3 Material risks

The Company considers that there are currently no material liquidity risks.

## C.4.4 Application of the prudent person principle

See section C.2.4 for information on the prudent person principle.

## C.4.5 Material risk concentrations

The Company considers that there are currently no material liquidity risk concentrations.

## C.4.6 Risk mitigation

The Company minimises this risk by operating a high quality, low risk investment strategy which matches a relatively short liability duration.

The Company adheres to a Liquidity policy that ensures that adequate liquid resources are maintained at all times such that liabilities can be met as they fall due.

In addition, the Company produces a range of cash flow forecasts from short-term operational plans to 3 year forecasts in conjunction with the Company's core planning processes.

UK&I Treasury maintain a contingency funding plan for the Company's parent RSAI Ltd that considers access to a range of funding options and sources under normal and stressed scenarios.

## C.4.7 Expected profit in future premiums

The Expected Profit in Future Premiums (EPIFP) is the profit relating to existing contracts with premium due in the future but not yet received at the valuation date. The EPIFP has been calculated for each homogeneous risk group – loss-making policies have only been offset against profit-making policies within a homogeneous risk group.

At 31 December 2021 the EPIFP gross of reinsurance was €11m.

## C.4.8 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

# C.5 Operational risk

## C.5.1 Introduction

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks are inherent in the Company's operations and are typical of all enterprises.

## C.5.2 Measures used to assess risk

Operational risk exists in almost every aspect of business within the Company, and the effective management of operational risk plays a significant role in enabling the business to meet its strategic objectives.

The Risk Management and Internal Controls policy documents both the policy requirements for the identification, measurement, management, monitoring and reporting of operational risk, as well as setting out the processes and procedures for the effective operation of the risk management system. The risk management system sets out the Company's approach to minimising and/or preventing the risk of material loss, reputational damage or liability arising from the failure to comply with risk requirements with a particular focus on operational risk.

In order to facilitate identification and control, the business breaks down operational risk into four sub-categories:

- **Process risk:** The risk of direct or indirect loss resulting from inadequate or failed internal processes
- **Systems risk:** The risk of direct or indirect loss resulting from inadequate or failed infrastructure of the organisation including network, hardware, software, communications and their interfaces
- **People risk:** The risk of direct or indirect loss resulting from the deliberate or unintentional actions of employees and/ or management of the business or from their inaction
- **External risk:** The risk of direct or indirect loss resulting from events outside the business control or from events that impact on an external relationship.

The 1<sup>st</sup> line business functions, supported by the Risk function, ensure that new risks are identified, which can include risks created by changes to the business strategy and are appropriately reflected in their risk profiles and risk appetite scorecards.

A number of information sources should be used to support identification processes. These include:

- Control assessments supported by testing such as validation and assurance activities
- Key risk indicators supporting the risk appetite framework
- Material business changes, including transformational activity
- Emerging risk assessments
- External incidents and internal incidents, which are supported by root cause analyses where appropriate

Once material risks have been identified the business function must update its risk profile by including the risk net of mitigation i.e. the residual risk (the risk of an event occurring which would crystallise a loss assuming existing controls and other mitigating actions are effective) and recorded on a standard 5x5 probability and impact matrix. The assessment of impact is made using both quantitative financial measures and qualitative reputational scales with consideration to potential impacts that could be incurred should the risk arise. Probability assessments run from Very High (more likely than not to happen) to Very Low (less than once in 200 years) and are made with reference to the probability of a scenario arising that would result in these impacts being incurred. Assessments are made by the line 1 risk owner supported (and challenged) by the Risk function.

The business function assesses all residual risks to determine if the risk is within risk appetite, and if not whether there is a plan with an owner to bring the risk within appetite within a reasonable timeframe.

Risk profiles, risk appetite scorecards and where applicable action plans are reviewed and challenged by the Risk function and at both the management Risk and Control Committee and the Board Risk Committee.

### C.5.3 Material risks

Some examples of material operational risks that the Company is exposed to are as follows.



Risk	Description
Legal/legislative non-compliance	<p>The Company incorrectly interprets law or legislation and/or erroneously excludes crucial T&amp;Cs (from non-insurance policy contracts) leading to minor sanctions, negative reputational consequences and/ or change in business practices/decisions.</p> <p>The Company fails to comply with changes in legislation, laws, supervisory directives, market directives, accounting practices, taxation requirements, or other requirements issued by relevant authorities within prescribed time.</p> <p>Receipt of bribes/inducements to secure business/opportunities, acting in a way considered anti-competitive.</p>
Inappropriate underwriting	<p>Failure (of the Company or management) to exercise appropriate levels of oversight on sales practices being adopted by individuals or related entities authorised to represent the Company or distribute its products and services directly to the market.</p>
Theft or corruption of data	<p>An external party attacks the Company's computer/electronic system with the purpose of defrauding the Company, theft or corruption of data, destroying systems, etc.</p> <p>A Company loses or discloses customer records/personal details as a result of staff negligence or loss of mobile media devices.</p>
Inaccurate or incomplete data entry/processing from EUCA	<p>A failure to correctly input, manipulate data/systems or in the transaction process has resulted in a significant reserving, or other error.</p> <p>Information communicated to reserving and claims teams is inaccurate, inadequate, poor quality or untimely, leading to inappropriate reserve projections and incorrect pricing decisions being made.</p>
Regulatory breach	<p>Regulatory breaches or failures that cause detriment to customers, clients or significant trading partners.</p> <p>Inadequate sanctions systems, processes or failed sanction controls.</p>
Business interruption	<p>A disaster event causing damage or disruption to business operations, assets, utilities and third parties, including natural disaster, war, riots, terrorism, explosion, vandalism, social unrest, fire, etc.</p> <p>Systems (software or hardware) failure resulting in staff being unable to use critical systems to work.</p>
Third Party Management	<p>A failure to manage, monitor and assess third parties, included outsourcing arrangements, can result in poor performance or service issues impacting the customer and resulting in error/breaches. In the worst cases this can lead to business interruption, regulatory or legislative fines, financial loss or reputational damage.</p>

Risk	Description
Financial Reporting and Accounting Errors	Inadequate financial processes that result in financial accounting and or reporting errors and misstatement of financial accounts.
Programme Transformation Change	<p>A major project critical to strategic business objectives is running behind schedule and/or incurring additional unbudgeted costs.</p> <p>Additional strain placed on business by key business as usual staff being enrolled on projects, resulting in work backlogs, untimely turnaround/response times, staff stress, pressure from increased workloads.</p>
Conduct Risk	<p>Conduct risk as the potential for failing to deliver good customer outcomes resulting from poor or inadequate products, practices or behaviours. In 2019 the Company introduced a new Customer policy. The objective of this policy is to ensure the delivery of good customer outcomes is at the centre of the business model including in our strategy, people, products, services, systems, communications and pricing. This is supported by our Customer Strategy and Voice of the Customer initiatives designed to ensure that the good customer outcomes are considered and controlled across all areas of our business. Delivering good customer outcomes is an essential requirement to ensure we achieve our ambition, values and customer focus with the business committed to making insurance easy for our customers. In 2021 the Company introduced a new Pricing Policy one of the objectives of which is to ensure that there is adequate and explicit consideration of the effect of pricing on the end customer.</p>

There have been no material changes to the material operational risks during 2021. IT and Cyber risk remains a key risk for the Company and is factored into multiple risks raised above, especially theft or corruption of data and business information. Brexit is another key risk area facing the Company, however the existing risks identified above are reflective of the potential operational risk impacts, especially business interruption, legal, regulatory and third-party management.

## C.5.4 Application of the prudent person principle

The prudent person principle is not applicable to operational risk.

## C.5.5 Material risk concentrations

Whilst there are many inter-dependencies between operational risks there are no material risk concentrations. Our IT outsourcer, Wipro, represents one of our bigger operational risk concentrations but this is not considered to be material in capital terms.

## C.5.6 Risk mitigation

The operational risk management strategy is achieved through the following:

- Policy management, which includes the Risk Management and Internal Control policy

- The operational risk process and procedures
- The risk appetite and/or risk limits and tolerance levels.

The Risk Management and Internal Controls policy, and other policies within policy management, are supported by a standard set of controls. The effective operation of the controls, control validation and assurance outlined is important to mitigate the risk of override at all levels, including that of management. Policies are developed to provide a consistent set of controls so that risks remain within risk appetite.

This is detailed in the Risk Management System outlined in the System of Governance.

- Assurance that the business complying with policy requirements is managed through control validation and assurance procedures which assess the effectiveness of the standard controls
- Policies are subject to regular review in line with materiality, led by the line 1 owner and supported by the Risk Function. Any major change is subject to review, challenge and agreement from the Board Risk Committee before formal approval from the Board. Minor changes are communicated to the BRC and Board for noting. Whether a change to a policy is major or minor is determined by RSA Group.
- Policy owners must ensure that the minimum requirements defined in the policies are in place across business functions to meet the requirements of the policy
- Requests for variation, risk acceptance and/or remediation plans agreed must follow the policy management lifecycle

The business manages risks on an ongoing basis in line with risk appetite. The business clearly documents the management and/or mitigation of the risk exposure through risk avoidance, risk reduction, risk transfer or risk acceptance. Where the risk exposure is judged to be unacceptable relative to risk appetite, actions must be taken to mitigate and/or manage the risk.

In managing and/or mitigating risk, the following four areas are considered.

- **Risk avoidance:** Defined as not engaging in the activity that gives rise to the risk exposure. This may include a change in the scope of activities that present the risk exposure
- **Risk reduction:** Defined as a reduction in the probability and/ or impact of the risk exposure. This would be achieved by either:
  - Implementing new or enhancing existing controls, or
  - Transferring the business activity, for example to an outsourced provider
- **Risk transfer:** Defined as the movement of the risk exposure to another party who is more willing to bear the impact, for example through an insurance arrangement. Risk transfer must be assessed and referenced to the risk appetite, the type of risk, the scale of the potential impact and/or costs and exclusions
- **Risk acceptance:** Defined as an agreement by the business to retain and manage the risk exposure, for example where no mitigation is available to mitigate the risk or the cost of mitigation is deemed to be excessive in relation to the risk mitigation benefit

Action plans are developed by the functional business teams where needed to bring risks back within appetite, with action plans being reviewed and challenged by the Board Risk Committee. Action plans include assigned owners, actions to be followed and delivery dates.

The business functions, supported by the Risk Function, will:

- Review the reports presented to the management Risk and Control Committee and consider if any of the control weaknesses reported need to be reflected as residual risks out of appetite on the risk profiles reported to the Board Risk Committee

- Review the risk incident reports to assess trends and highlight any potential breaches of operational risk appetite
- Consider the impact of any major strategic or structural change within the organisation or the business environment on the risk profiles
- Consider the impact of any emerging risk reviews, scenario tests or other deep dives on the risk profiles

The business maintains and reports operational risk assessments in the risk profile to evidence regular monitoring and reporting against risk appetite. As a minimum, risk reporting provides sufficient data to:

- Inform risk exposure by key risks and control indicators
- Describe the impacts, including regulatory breaches, non-compliance with policies and overdue audit actions
- Monitor action plans that include improvements to the control environment
- Identify systemic operational risks
- Identify emerging risks
- Monitor and report material operational risk losses and near misses

### C.5.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

## C.6 Other risks

### C.6.1 Other material risks

Two additional material risks faced by the Company are described below. These are:

- Pension risk
- Group risk

Each of these is addressed in turn below.

### C.6.2 Pension risk

#### C.6.2.1 Introduction

Pension risk covers the risk that the defined benefit pension scheme poses to the Company due to the financial position of the scheme deteriorating resulting in an adverse impact on the capital strength of the Company and/ or an increase in the required level of deficit funding payable to the scheme.

The Company's defined benefit scheme is closed to new entrants and was closed to future accruals on 31 January 2016.

### C.6.2.2 Measures used to assess risk

The Company analyses the financial position of its defined benefit pension scheme on a number of different liability measures including:

- **IAS 19 “Employee Benefits”:** Benefit payments are projected using best estimate assumptions and then discounted using appropriate corporate bond yields
- **Ongoing Funding measure:** Liabilities are valued using prudent assumptions in line with local regulatory requirements for determining cash contribution requirements and reflecting actual agreed investment strategy
- **Wind-up/“buy-out” measure:** The position of the scheme, if the scheme was wound up and all liabilities were bought out with an independent third-party insurer

### C.6.2.3 Material risks

Risks to the financial position of the scheme can largely be categorised as market risks (for example assets not performing as well as expected) or demographic risks (for example, members living longer than expected).

Exposures to market risks depend significantly on the measure being used to assess the value of liabilities but broadly breakdown as follows:

- **Equity/property risk:** All measures are exposed to falls in the value of equity, property and other risk assets held by the scheme
- **Interest rate and Inflation risk:** The scheme has significant exposure to interest rates and inflation in both assets and liabilities. The net exposure of the scheme will depend significantly on which liability measure is being analysed. For example, the scheme maybe broadly matched against movements in interest rates and inflation on an IAS 19 measure of liabilities but significant exposure can remain on alternative bases
- **Credit spreads:** The IAS 19 measure has a particular exposure to credit spreads given the use of AA bond yields to discount the value of liabilities

### C.6.2.4 Application of the prudent person principle

The assets of the pension scheme are held under trust and investment strategy is ultimately controlled by the Trustees of the scheme after consultation with the Company. Therefore, the prudent person principle in respect of these exposures does not apply in relation to the Company’s risk profile.

### C.6.2.5 Material risk concentrations

The scheme holds a well-diversified portfolio of assets with extensive controls in place over the size of any single counterparty exposure.

### C.6.2.6 Risk mitigation

The Company and the Trustees of the scheme work together to reduce the risks identified above through agreement of investment policy.

The scheme has taken steps over recent years to de-risk from return seeking assets such as equities into bonds and other asset classes that produce a stable stream of cash flows that match liabilities. Market conditions and funding levels are also monitored dynamically on an ongoing basis to identify opportunities for further de-risking.

The scheme implemented a hedging programme in 2016 to mitigate the risk of market movements adversely impacting the financial position of the scheme with a particular focus on interest rate risk.

During 2017 and 2018 an Enhanced Transfer Value (ETV) exercise was conducted and completed which further de-risked the scheme.

Both the Company and the Trustees, with the support of their investment advisers, regularly review the performance of the scheme's assets against pre-agreed benchmarks to ensure that the scheme's assets are performing in line with expectations.

### C.6.2.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

## C.6.3 Group risk

### C.6.3.1 Introduction

The Company has a significant dependency on its parent RSAI Ltd. The two main sources of dependency come from:

- Internal reinsurance treaties between the Company and its parent RSAI Ltd
- Tier 2 capital in the form of Ancillary Own-Funds (callable on demand).

### C.6.3.2 Measures used to assess risk

The Company assesses this risk each quarter by considering the strength and liquidity position of its parent RSAI Ltd. The Company reports on its exposure to its parent through its quarterly risk appetite scorecard.

### C.6.3.3 Material risks

The Company's exposure to its parent RSAI Ltd is a material risk.

### C.6.3.4 Application of the prudent person principle

The prudent person principle is not applicable.

### C.6.3.5 Material risk concentrations

The Company's exposure to its parent RSAI Ltd is a material risk concentration.

### C.6.3.6 Risk mitigation

The Company considers this risk separately within its risk appetite statement.

Part of the risk is mitigated by holding the premium for the ADC reinsurance contract covering claims incurred before 1 January 2015 in a funds withheld account.

The Board pays close attention to the creditworthiness of RSAI Ltd and has the option not to extend the quota share agreement.

The Ancillary Own-Funds are callable on demand at the discretion of the Company.

### C.6.3.7 Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk

## C.7 Any other information

### C.7.1 Stress and scenario testing

Once a year, the Company performs a stress and scenario testing exercise aimed at quantifying the impact on own-funds of several scenarios, including a reverse stress test. The exercise is led by the Risk Function with input from other functions. The stress and scenario tests (and results) are agreed by the Executive Team and also by the Board Risk Committee and Board as part of the ORSA process.

The stress testing and sensitivity testing activities cover all material risk classes to which the Company has an exposure with the purpose of evaluating the Company's vulnerabilities to exceptional but plausible events. It is an opportunity to demonstrate that solid risk management processes are in place that would allow the Company to perform under mild and extreme strains on existing conditions.

The financial results post the application of the 2021 Stress and Scenario Testing (on 2020 Basecase) demonstrate that the Company's capital position is within the Company's risk appetite before any changes to the Reinsurance arrangements and AOF. They demonstrate that the Company is also in a very liquid position.

# D. Valuation for solvency purposes

## In this section

### D.1 Assets

### D.2 Technical Provisions

### D.3 Other liabilities

### D.4 Alternative methods for valuation

### D.5 Any other information

This section of the report sets out the value of the assets (D.1), technical provisions (D.2) and other liabilities (D.3) of the Company. Assets, technical provisions and other liabilities are broken down into material classes and lines of business as required by Solvency II. Two sets of values are presented:

- Figures prepared in accordance with Solvency II rules and guidance
- Figures prepared in accordance with the accounting standards used for the Company's statutory financial statements Irish GAAP (FRS 101).

A description of the differences between the Solvency II basis of preparation and the statutory accounts basis is also provided. Section D.4 sets out details of assets from D.1 that have been valued using alternative valuation methods in accordance with Article 10(5) of the Solvency II Delegated Regulation 2015/35 (as amended).

## The RSAII Solvency II Balance Sheet

	Statutory accounts value	Reclassifi- cation	SII Valuation adjustment	Solvency II value
	€'000	€'000	€'000	€'000
<b>Assets</b>				
Deferred acquisition costs	42,915		(42,915)	-
Intangible assets	17,814		(17,814)	-
Pension benefit surplus	20,076			20,076
Property, plant & equipment held for own use	16,649		(7)	16,642
Investments (excl. assets held for index/unit-linked contracts)	<b>412,890</b>		<b>(50,622)</b>	<b>364,175</b>
<i>Property (other than for own use)</i>	3,072			3,072
<i>Holdings in related undertakings/participations</i>	55,059		(50,622)	4,437
<i>Bonds</i>	274,649	1,907		276,556
<i>Collective investments undertakings</i>	79,608			79,608
<i>Deposits other than cash equivalents</i>	502			502
Reinsurance recoverables	811,187		(132,813)	678,374
Insurance and intermediaries receivables	55,278		(47,698)	7,580
Reinsurance receivables	7,551			7,551
Receivables (trade, not insurance)	38,816			38,816
Cash and cash equivalents	17,337			17,337
Any other assets, not elsewhere shown	4,059	(1,907)	(1,761)	391
<b>Total assets</b>	<b>1,444,572</b>	<b>-</b>	<b>(293,629)</b>	<b>1,150,942</b>
<b>Liabilities</b>				



Technical provisions - non-life	973,957	(158,263)	815,694
Provisions other than technical provisions	711	-	711
Deposits from reinsurers	56,318	-	56,318
Debts owed to credit institutions	9,002	-	9,002
Insurance & Intermediaries payables	8,688	5,435	14,123
Reinsurance payables	18,017	(14,982)	3,035
Payables (trade, not insurance)	87,442	-	87,442
Any other liabilities, not elsewhere shown	56,216	(32,902)	23,314
<b>Total liabilities</b>	<b>1,210,350</b>	<b>-</b>	<b>1,009,638</b>
<b>Excess of assets over liabilities</b>	<b>234,222</b>	<b>-</b>	<b>141,304</b>

## D.1 Assets

### D.1.1 Valuation of assets

The Company's assets are valued in accordance with Article 75 of the Solvency II Directive, related articles of the Delegated Act, i.e. Solvency II Delegated Regulation 2015/35 (as amended) and the guidelines issued by EIOPA on the valuation of assets and liabilities other than technical provisions.

The following pages describe, for each material class of assets, the bases, methods and main assumptions used in valuing those assets for Solvency II purposes and an explanation of any material differences from the bases, methods and main assumptions used for valuing those assets in financial statements.

#### Overview

Solvency II requires assets and liabilities to be valued on a basis that reflects their fair value (described as 'economic valuation') with the exception that liabilities should not be adjusted to take account of changes in an insurer's own credit standing.

The Company's financial information is prepared using FRS 101 recognition and measurement bases (which is consistent with IFRS), meaning the valuation of the other assets and liabilities for Solvency II purposes begins with the FRS 101 values and adjusts these for specific differences in valuation between Solvency II and FRS 101. The adjustments made are classified into two broad categories:

- Reclassifications of the FRS 101 balance sheet items into the appropriate Solvency II categories
- Revaluation adjustments for areas where the FRS 101 valuation techniques are not considered to be consistent with Solvency II requirements.

For further details of the accounting policies adopted for the purposes of preparing statutory accounts, see the accounting policies section of the Company's financial statements.

#### D.1.1.1 Goodwill

Goodwill is valued at €nil under SII. Goodwill reported under FRS101 is therefore eliminated in the SII Balance Sheet, with corresponding adjustment to deferred taxes.

#### D.1.1.2 Deferred acquisition costs

Deferred acquisition costs (DAC) recognised on the FRS101 balance sheet comprises the direct and indirect costs of obtaining and processing new insurance business, and is deducted from the provision for unearned

premiums. FRS101 DAC is valued to €nil under SII, as acquisition costs are included in the calculation of technical provisions.

### D.1.1.3 Intangible assets

Under SII, intangible assets are ascribed a value only where they can be sold separately and there are demonstrable quoted prices in an active market for the same or similar assets. Where this is the case, the asset is valued in accordance with the valuation hierarchy.

The Company's FRS101 intangible assets are deemed not capable of being sold separately and do not have quoted prices on an active market (nor do such prices exist for similar assets). Intangible assets are therefore valued at €nil in the SII balance sheet.

### D.1.1.4 Deferred tax assets and liabilities

The valuation method for deferred tax balances is the same under FRS101 and SII. Deferred tax is provided in full using the IAS 12 liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts on the SII balance sheet. FRS101 to SII valuation adjustments are therefore considered in assessing the temporary differences upon which the deferred taxes are derived.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax losses and temporary differences can be utilised.

See section D.1.2 for more information on deferred tax.

### D.1.1.5 Pension benefit surplus and deficits

Pension schemes are treated in the same way under both FRS101 and SII, as the requirements of IAS 19 are considered to be consistent with those of SII.

#### Defined contribution pension schemes

Contributions to defined contribution pension schemes are charged in the period during which the employment services qualifying for the benefit are provided.

#### Defined benefit pension schemes

The value of the net defined benefit asset/(liability) of each scheme is calculated individually as follows:

- The fair value at the end of the reporting period of the scheme assets from which the obligations are to be settled directly
- Less: the present value of defined benefit obligation of the scheme at the end of the reporting period

The present value of defined benefit obligations and the present value of additional benefits accruing during the period are calculated using the projected unit credit method (see below for further details).

The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates, which is used to discount the expected ultimate cost of providing the benefits. The discount rate is determined at the end of each reporting period by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations.

For those individual schemes in deficit, the resulting net liabilities are recognised in provisions.

For those individual schemes in surplus, an asset is recognised in the balance sheet to the extent that the Group can realise an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the scheme or when the scheme liabilities are settled.

Remeasurements of the net defined benefit asset or liability comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit asset or liability). Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits and from actual experience in respect of scheme liabilities.

The amounts charged (or credited where relevant) relating to post retirement benefits in respect of defined benefit schemes are as follows:

- The current service cost
- The past service costs and gains or losses on settlements
- Net interest on the net defined benefit liability/(asset)
- Administration costs of operating the pension schemes

#### Estimation techniques, risks and uncertainties

Independent actuaries calculate the value of the defined benefit obligations for the larger schemes by applying the projected unit credit method. The future expected cash outflows (calculated based on assumptions that include inflation and mortality) are discounted to present value, using a discount rate determined at the end of each reporting period by reference to current market yields on high quality corporate bonds (AA rated) identified to match the currency and estimated term of the obligations.

The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends.

If actual experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. As such, the valuation of the liability is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

#### D.1.1.6 Property, plant and equipment

Property, plant and equipment is included in the SII balance sheet at fair value.

The Company's property, plant and equipment comprises Company occupied land and buildings, fixtures, fittings and equipment (including computer hardware and motor vehicles).

In the SII balance sheet, all property and equipment, including lease assets recognised under IFRS 16, IFRS values (depreciated or amortised cost) are assumed to approximate fair value, except in specific instances where an adjustment is deemed necessary.

Under FRS101 reporting, Company occupied land and buildings are stated at fair value (calculated on a vacant possession basis by third-party valuers; see Section D.1.1.7 for further details), and therefore no adjustment is made on the SII balance sheet.

For all other property and equipment, FRS 101 values are assumed to approximate fair value, except in specific instances where an adjustment is deemed necessary.

### D.1.1.7 Property other than for own use

Investment property, comprising freehold and leasehold land and buildings is recorded at fair value for FRS101 and SII.

#### Estimation techniques, risks and uncertainties

Investment properties are valued, at least annually, at their highest and best use.

The fair value of property has been determined by external, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as at the financial positions date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amount in the financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

### D.1.1.8 Participations and related undertakings (subsidiaries, associates and joint ventures)

A “participation” is a SII term for a holding (direct or indirect) of at least 20% of the voting rights or capital of another undertaking, and therefore can therefore be a subsidiary, associate or joint venture.

Investments in directly owned subsidiaries and associates are valued at cost, including any deferred consideration, less any impairment losses.

For SII, investments in participations that are insurance companies and that do not have quoted market prices are valued using the adjusted equity method (calculated as the appropriate share of that participation's excess of assets over liabilities, using SII valuation rules). The balance sheet of that participation is adjusted to SII rules before the share of net assets in the investment is valued.

If the participation is not an insurance, or reinsurance, company, the same method is adopted. If this is not possible, the IFRS equity method (with any goodwill and inadmissible intangible assets valued at nil) is to be adopted instead. This applies irrespective of whether the participation is in a net assets or net liability position.

### D.1.1.9 Financial assets

Financial assets are valued at fair value for both FRS101 and SII. The methods and assumptions used by the Company in estimating the fair value of financial assets are:

- Bonds: fair values are based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Under SII, accrued interest is added to the relevant instruments, reclassified from other assets under FRS 101.
- Collective investment schemes: quoted market prices are used where available. Where this is not possible, funds are valued using data from third-party administrators or, in the case of loan funds, fund manager data. All funds are reviewed regularly for signs of underlying impairment. As such, it is considered that all FRS 101 values approximate to fair values, and no valuation adjustments are made under SII.
- Equity securities: fair values are based upon quoted market prices

- Derivatives: fair value is determined on a market basis by reference to underlying interest rate, foreign exchange rate, equity or commodity instrument or indices
- Prepayments: prepaid expenses that cannot be converted into cash are valued to €nil under SII
- Cash and deposits, loans and mortgages, receivables and other assets: FRS 101 carrying amounts approximate to fair values. For SII reporting, except for cash in hand, accrued interest is added to the relevant instruments and balances, reclassified from other assets. Premium debtors and recoveries falling due for payment after the balance sheet date are reclassified from receivables to technical provisions if within the contract boundary; or else removed entirely. See Section D.2 for more details.

## Reinsurance recoverables

The sub-categories in the SII balance sheet of reinsurers' share of technical provisions mirror those of the gross balances and the same mapping of SII lines of business is to be used. See Section D.2 for more details.

## D.1.2 Analysis of deferred tax

Net deferred tax asset position is below:

	2021	2020
	€'000	€'000
<b>Deferred tax asset</b>	<b>0</b>	<b>0</b>

The main categories of deferred tax assets / (liabilities) recognised by the Company are as follows:

	2021	2020
	€'000	€'000
<b>Deferred tax</b>		
Net unrealised gains on investments	(316)	(722)
Tax losses	1,486	1,392
Retirement benefit obligations	(2,510)	(2,375)
Capital Allowances	506	825
IFRS 16 leases	1,218	1,264
Investment property	(384)	(384)
<b>Net deferred tax at 31 December</b>	<b>0</b>	<b>0</b>

### Deferred Tax Assets

Deferred tax assets have been recognised to the extent that they are set off against deferred tax liabilities giving a nil net deferred tax position. The offset has been done on the basis that there is legally enforceable right to set off current tax assets against current tax liabilities.

Deferred tax was calculated at the Irish tax rate of 12.5% which is expected to apply in the period when the liabilities are settled and the asset are realised.

### Tax Losses

At the end of the reporting period, the Company had the following unrecognised tax assets:

	2021 Gross Amount	2021 Tax effect	2020 Gross Amount	2020 Tax effect
	€'000	€'000	€'000	€'000
Unutilised tax losses	353,672	44,209	352,624	44,078
Deductible temporary differences	35,660	4,457	43,011	5,376

	389,332	48,666	395,635	49,454
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The unutilised tax losses above may be carried forward indefinitely and the asset will be recovered when sufficient taxable profits are generated in future years.

The deductible temporary differences above for which no deferred tax has been recognised relate to the valuation adjustments predominately for technical provisions, reinsurance recoverables and insurance receivables.

### Procedure

The procedure for calculating Solvency II deferred tax figures for the Company utilises a walkthrough bridge from the figures reported on an FRS 101 basis in the Company Financial Statements. A tax analysis is performed of valuation adjustments made to the Financial Statements balances to arrive at the Solvency II Balance Sheet. Where these adjustments give rise to a temporary difference under IAS12, a deferred tax asset or liability is recognised in accordance with FRS 101 principles and Solvency II guidance.

## D.2 Technical provisions

### D.2.1 Valuation and comparison of FRS 101 to Solvency II

Technical provisions are valued using the methods and assumptions described in section D.2.2.

The main differences between Solvency II technical provisions and the FRS 101 equivalent are:

- Inclusion of a margin above best estimate in FRS 101. Solvency II technical provisions include a Risk Margin calculated on a different basis
- Differences in discounting. In Solvency II all technical provision cash flows are discounted using the EIOPA yield curve. In FRS 101 only some lines of business are discounted and these are discounted using a different discount rate
- Difference in the treatment of expenses for claim provisions, Solvency II being on an ongoing basis and FRS 101 assuming the business is put into run off
- Inclusion of an allowance for Events Not In Data ('ENIDs') in Solvency II, covering estimates of low frequency events that are not captured in historical data sets
- Solvency II technical provisions are net of future premium cash flows where premium income due in the future is covered within the bound contract terms and conditions
- For future exposures, Solvency II considers only the best estimate of liability cash flows and expenses and not an unearned premium reserve (as is covered in FRS 101). As a result, profit relating to future exposures (after allowance for ENIDs) will come through as a difference in the liability valuation, and
- Within Solvency II, an allowance for reinsurer default is calculated. This is particularly relevant to RSAll which has significant reinsurance arrangements in place

The following table quantifies the differences in the Solvency II net technical provisions (inclusive of Risk Margin) and the equivalent FRS 101 provisions (net of deferred acquisition costs) for each material Solvency II line of business. The table is followed by notes explaining how the different valuation approaches set out above contribute to the differences observed for each line of business:

	Best estimate €'000	Risk Margin €'000	Statutory accounts €'000	Difference €'000
Motor vehicle liability insurance	39,457	8,239	54,632	(6,936)
Other Motor Insurance	(329)	65	3,700	(3,964)
Fire and other damage to property insurance	44,830	943	62,243	(16,470)
General liability insurance	37,177	6,121	40,977	2,322
<b>Total Material Lines of Business</b>	<b>121,136</b>	<b>15,368</b>	<b>161,552</b>	<b>(25,049)</b>
Other	782	33	2,363	(1,547)
<b>Total</b>	<b>121,918</b>	<b>15,401</b>	<b>163,915</b>	<b>(26,596)</b>

1. Allowance for future premium within SII Technical Provisions is a significant difference impacting multiple lines of business. These are Medical Expenses, Motor Vehicle Liability, Other Motor, Marine Aviation & Transport, Fire & Other Damage to Property and Income Protection insurance.
2. Profit tied up in UPR under FRS101 is released in SII. This applies for most classes.
3. Risk Margin held under SII is higher than the margin in the Outstanding Claims Provisions under IFRS.
4. Discounting is used throughout SII reducing the SII Technical Provisions for most classes compared to the statutory accounts value. For annuities arising from non-life business, the discount rate used in SII is lower than that used in IFRS in calculating the best estimate.

## D.2.2 Basis of preparation of technical provisions

Under Solvency II, technical provisions are made up of:

$$\text{Claims provision} + \text{premium provision} + \text{Risk Margin}$$

The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the valuation date.

The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from policies that the Company has written, or bound but not incepted, at the valuation date.

The Risk Margin is calculated as per the Solvency II Directive as the cost of capital required to hold future SCRs over the life of the technical provisions as they run-off.

The valuation of the best estimate for claims provisions and for premium provisions are carried out separately. Claims and premium provisions are calculated both gross of outwards reinsurance and for outwards reinsurance. The Risk Margin is only calculated net of reinsurance.

### D.2.2.1 Bases, methods and assumptions used for valuation

The claims provision comprises the estimated cost of claims incurred but not settled at the end of the reporting period. The provisions are calculated by valuing future cash flows including claims payments, related expenses, salvage and subrogation recoveries and reinsurance transactions. The provision is determined using the best information available of claims development patterns, forecast inflation and estimated claims settlement amounts.

Future claims cash flows include an allowance for Events Not in Data ('ENIDs').



The premium provision comprises estimated cost of future claims and associated expenses for unearned business on a best estimate basis, offset by future premiums due. The cash flows also include profit commissions and the costs of policy administration.

All expenses that would be incurred to support existing liabilities, including a share of the relevant overhead expenses are taken into account. This share is assessed on the basis that the Company continues to write new business. The expense provision includes items such as investment expenses that would not be covered on an FRS 101 basis.

Future claims cash flows are generally determined by considering how past gross claims payments have materialised with separate explicit cash flows determined on a gross and net of reinsurance basis.

All cash flows are discounted for the time value of money using yield curves prescribed by EIOPA.

The Risk Margin is calculated by determining the present value of the cost of holding the solvency capital requirement ("SCR") necessary to support the Company's insurance obligations over their lifetime. This approach is intended to reflect the costs incurred by a notional (re)insurer, the reference undertaking, of holding the capital to accept a transfer of liabilities.

### D.2.2.2 Significant simplified methods

For the premium provision, under the legal obligation basis of Solvency II, all existing bound contracts are to be valued, whether the contracts have inception or not. This includes future premium and claims cash flows for policies not yet inception by the valuation date, but already forming part of contractual obligations (bound but not inception ('BBNI') business). Due to the low materiality of such contracts on the technical provisions, RSAI does not value bound but not yet inception contracts.

The reinsurer default allowance is calculated assuming a 1% load on all reinsurance recoverables. Given that the Company has a funds withheld arrangement, in respect of the ADC, with its parent RSAI Ltd., its most significant reinsurer, this simplification is considered prudent.

## D.2.3 Uncertainties and contingencies

There is an inherent uncertainty in estimating claims provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified.

Other uncertainties include the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation.

There is increased uncertainty in premium provisions as ultimate claims costs need to be estimated for future events. The ultimate level of future claims costs is significantly mitigated by reinsurance. Failure to recover outstanding assumed reinsurance recoveries in line with the expectations could lead to a material increase in the reported net technical provisions.

The ultimate cost of Covid-19 Business Interruption (BI) claims remains uncertain for the Company. The estimated impact of the UK Supreme Court judgment on 15 January 2021 and subsequent Irish High Court judgments throughout 2021 is included in the Technical provisions. These judgments provided some clarity on the treatment of Covid-19 BI claims for selected policy wording. The heightened level of uncertainty relative to normal circumstances persists as claims notifications evolve, are assessed and work continues to fully understand the various implications of these rulings. In addition, in estimating the ultimate cost of Covid-19 BI claims a number of key assumptions have been made in relation to 1) Public behaviour, mobility and interaction



prior to lockdowns, 2) Level of evidence required to demonstrate the existence of Covid-19 on or in the vicinity of the insured premises in line with policy terms and conditions, 3) Legal interpretations and regulatory expectations of the criteria for eligible claims.

## D.2.4 Use of adjustments and transitional arrangements

In valuing the Company's technical provisions, none of the following have been applied:

- The matching adjustment referred to in Article 77b of Directive 2009/138/EC
- The volatility adjustment referred to in Article 77d of Directive 2009/138/EC
- The transitional risk-free interest rate-term structure referred to in Article 308c of Directive 2009/138/EC
- The transitional deduction referred to in Article 308d of Directive 2009/138/EC.

## D.2.5 Recoverables from reinsurance contracts and SPVs

### External reinsurance

A range of excess of loss reinsurance treaties (including catastrophe cover) are in place. In addition the Company purchases facultative cover on selected risks.

### Internal reinsurance

As referred to in section A, the Company has significant reinsurance protection provided by its immediate parent. The cover is mainly provided by two contracts:

- An ADC reinsurance contract is in-force for claims incurred prior to 1 January 2015; and
- A variable quota share contract covers claims arising on premiums earned from 1 January 2015. The quota share cedes 90% of long-tail business, 50% of short-tail business and 70% on combined business to the reinsurer. This contract was converted from an earned to a written basis during the year ended 31 December 2017.

## D.2.6 Changes in assumptions

The Company, in conjunction with Group, routinely adjusts the assumptions underlying the calculation of technical provisions in light of emerging trends in the data. Many of these assumptions only have minor impacts on the level of technical provisions reported.

# D.3 Other liabilities

## D.3.1 Valuation of other liabilities

The Company's liabilities are valued in accordance with Article 75 of the Solvency II Directive, related articles of the Delegated Act, i.e. Solvency II Delegated Regulation 2015/35 (as amended) and the guidelines issued by EIOPA on the valuation of assets and liabilities other than technical provisions.

This section describes, for each material class of liabilities (other than technical provisions):

- The bases, methods and main assumptions used in valuing those liabilities for SII purposes
- Where relevant, details of estimation techniques, risks and uncertainties relating to these valuations
- An explanation of any material differences in SII valuations compared to FRS 101

There were no changes made to the recognition and valuation bases used or to estimation approaches during the period.

The following pages describe, for each material class of liabilities (other than technical provisions) the bases, methods and main assumptions used in valuing those assets for Solvency II purposes and an explanation of any material differences from the bases, methods and main assumptions used for valuing those liabilities in financial statements.

### D.3.1.1 Financial liabilities

Financial liabilities are valued at fair value for both FRS 101 and SII balance sheet valuation purposes. The methods and assumptions used by the Company in estimating the fair value of financial liabilities are:

- Other liabilities and accruals: carrying amounts approximate to fair values as they are short term liabilities

Upon subsequent measurement of financial liabilities, any changes in own credit risk are not reflected in the fair value.

Under FRS 101, debtors and payables relating to future premiums are included within insurance and reinsurance debtors and payables; however, under SII future premiums are included within SII technical provisions as future cash flows.

As per the principle of correspondence, the only insurance business to be recognised as ceded is bound business, i.e. business recognised within gross technical provisions. Reinsurance payables are adjusted for amounts that do not meet this criterion, unless the cost is sunk, in which case it must be recognised in full.

### D.3.1.2 Contingent liabilities

Material contingent liabilities (those where information about the current or potential size or nature of those liabilities could influence decision-making or judgement) are recorded on the SII balance sheet and are valued at the expected present value of future cash flows to settle the obligation liability over the lifetime of that contingent liability, using the relevant risk-free interest rate term structure.

This applies to non-insurance risks only, as insurance risks are captured by the best estimate component of technical provisions.

Contingent liabilities acquired in a business combination are valued on a basis consistent with that used for FRS 101 reporting.

### D.3.1.3 Provisions other than technical provisions

Provisions are valued in the same way under both FRS 101 and SII.

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### D.3.1.4 Deferred Tax Liabilities

See:

- Section D.1.1.4 for an explanation of the bases, methods and assumptions used for the valuation of deferred tax assets and liabilities
- Section D.1.2 for deferred tax analysis, including details of estimation techniques, risks and uncertainties relating to assets and liabilities

### D.3.2 Liabilities for employee benefits including defined benefit plan assets

#### Defined benefit pension schemes and other post-retirement benefits

The Company has a funded defined benefit pension scheme. The assets of the scheme are held in a separate trustee administered fund. The defined benefit scheme is subject to regular valuation using the Projected Unit Method which is the basis used to determine the pension cost in the profit and loss account. Independent, qualified actuaries carry out valuations of the defined benefit scheme for the purposes of assessing pension costs. The last actuarial valuation of the RSA Insurance Ireland Defined Benefit Pension Scheme was carried out at 31 December 2019.

The FRS 101 value of the net Defined benefit scheme asset included at 31 December 2021 in the financial statements is as follows:

	2021 €'000	2020 €'000
Equities	21,542	18,971
Bonds	34,997	49,820
Cash and Cash Equivalents	1,280	78
Alternatives	1,567	5,355
Other	59,689	31,446
<b>Fair value of assets with a quoted market price</b>	<b>119,075</b>	<b>105,670</b>
Present value of pension liabilities	(98,999)	(86,674)
<b>Net (deficit)/ surplus</b>	<b>20,076</b>	<b>18,996</b>
Related deferred tax asset/ (liability)	(2,510)	(2,375)
Pension fund asset	119,075	105,670
Pension fund liability	(98,999)	(86,674)
<b>Net pension (liability)/ surplus</b>	<b>20,076</b>	<b>18,996</b>

The main assumptions at 31 December 2021 were as follows:

	2021 %	2020 %
<b>Assumptions used in the calculation of retirement benefit obligation:</b>		
Interest rate used to discount liabilities	1.6	1.4
Annual rate of general inflation	2.2	1.35
Annual rate of increase in pensions	2.2	1.35
Revaluation	2.2	1.35
Post-retirement mortality table	S2PNA CMI 2016 [1.5%]	S2PNA CMI 2016 [1.5%]
<b>Assumptions used in calculation of profit and loss account charge:</b>		
Discount rate	1.4	1.5
Annual rate of general inflation	1.35	1.4
Annual rate of increase in pensions	1.35	1.4
Post-retirement mortality table	S2PNA CMI 2016[1.5%]	S2PNA CMI 2016[1.5%]

### D.3.3 Lease liabilities

See section A.4.2 for information on leases. No adjustments have been made to the FRS 101 valuation of lease liabilities.

## D.4 Alternative methods for valuation

Assets and liabilities valued using alternative valuation methods include collective investment schemes, taking the form of real estate funds, and a small number of corporate securities.

The collective investment schemes are illiquid credit investments. No market data exists for these investments and their valuation is not based on observable inputs (e.g. interest rate curves, etc.). In this regard, the Company has a valuation policy to use the latest net asset value provided by the fund manager for the investment as the valuation price, adjusted for any capital movements or distributions since the valuation date. This adjusted net asset value is compared to a discounted cash flow valuation to confirm that the net asset value is lower, and so provide comfort that the net asset value does not overstate the value of the investment.

The corporate securities using alternative valuation methods at 31 December 2021 are disclosed as such as, while broker prices are available, the markets on which they trade are not considered sufficiently active to qualify them as being traded on an active market.

There is no difference between the bases, methods and assumptions used when valuing these instruments for SII purposes and those under FRS 101 reporting. See section D.1 and D.2 for description of the valuation techniques used and how they are assessed.

## D.5 Any other information

Nothing to report.

# E. Capital management

## In this section

E.1 Own Funds

E.2 Solvency capital requirement and minimum Group consolidated capital requirements

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

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

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

E.6 Any other information

## E.1 Own-funds

### E.1.1 Objectives, policies, processes and material changes

#### Capital management: Policies and processes for managing own-funds

The primary objective of the Company's capital management is to ensure that the business has sufficient capital to meet its obligations. This is achieved by optimising the balance between return and risk, while maintaining economic and regulatory capital in accordance with the Company's risk appetite.

The Company's Capital policy identifies the roles and responsibility to govern, monitor and oversee capital resources, ensuring that these are within risk appetite and meet appropriate regulatory/accounting rules and guidelines. This includes the calculation, estimation and forecasting of capital resources and capital requirements such as Solvency II available and eligible own-funds and the Solvency II SCR and MCR.

Own-funds are comprised of items on the balance sheet (basic own-funds) and items that may be called upon to absorb losses (off balance sheet items referred to as ancillary own-funds). The main constituent of basic own-funds is the excess of assets over liabilities, as valued on a Solvency II regulatory basis.

The Company manages capital and solvency through a governance framework including methodology validation, monitoring and reporting processes, in support of the Company's ORSA process.

#### Business planning

Consistent with the Group's planning protocol, RSAII operates a three-year time horizon for business planning. Plans are refreshed and reviewed annually at local, regional and Group executive level.

#### Material changes over the reporting period

No material changes to the objectives, policies or processes for managing own-funds were made over the period.

## E.1.2 Structure, amount and quality of own-funds

### Classification and eligibility of capital

The Company's own-funds are classified per the Solvency II requirements as follows:

Solvency II Tier	Capital item
Tier 1	Paid in ordinary share capital, and the related share premium Reconciliation reserve
Tier 1 restricted	Not applicable
Tier 2	Approved ancillary own-funds in the form of unpaid and uncalled ordinary share capital callable on demand
Tier 3	Not applicable

### Capital composition

The Company's Solvency II balance sheet is derived from the FRS 101 balance sheet by making suitable adjustments in accordance with the detailed rules specified under the Solvency II Directive (2009/138/EC) and as further detailed in the Company's Basis of Preparation document. The resultant Solvency II basic own-funds are then used to derive the Company's eligible own-funds for assessing coverage of its SCR and MCR.

The Company's capital structure by tier is as follows:

		2021 €'000	2020 €'000
<b>Basic own funds:</b>			
Tier 1	Equity capital	623,756	623,756
	Reconciliation reserve	(489,966)	(496,833)
	<b>Total tier 1 capital</b>	<b>133,790</b>	<b>126,923</b>
Tier 1 restricted	Not applicable	-	-
Tier 2	Not applicable	-	-
Tier 3	Not applicable	-	-
<b>Total basic own funds</b>		<b>133,790</b>	<b>126,923</b>
<b>Ancillary own funds:</b>			
Tier 2	Unpaid and uncalled ordinary share capital callable on demand	<b>90,000</b>	<b>90,000</b>
<b>Total available own funds</b>		<b>223,790</b>	<b>216,923</b>

Tier 1 own-funds include the Solvency II reconciliation reserve; the key elements of which are:

- Excess of assets over liabilities as presented in the Solvency II balance sheet
- A deduction for amounts already included in Tier 1 own-funds, including ordinary share capital and share premium account

### Analysis of significant changes in own funds

The 2021 year-end basic own funds have increased by €6.8m (2020: €10.5m).

### Subordinated debt characteristics

The Company has no debt capital.

## E.1.3 Eligible own-funds to cover the SCR

### Basic own-funds to eligible own-funds

Solvency II requires that basic own-funds are first considered against availability rules, and then subjected to eligibility criteria based on both the SCR and capital structure. Eligible own-funds are considered available to cover the SCR.

The Company's basic own-funds are reconciled to eligible own-funds below:

	Basic Own Funds €'000	Ancillary Own Funds €'000	Availability restrictions €'000	Available Own Funds €'000	Eligibility restrictions €'000	Eligible Own Funds €'000	Eligibility Capacity €'000	Eligibility rule
Tier 1	133,790		-	133,790	-	133,790	n/a	
Tier 2	-	90,000	-	90,000	(25,093)	64,907	64,907	Tier 2/ 3 <= 50% of SCR
Tier 3	-		-	-	-	-	-	
<b>Total</b>	<b>133,790</b>	<b>90,000</b>	<b>-</b>	<b>223,790</b>	<b>(25,093)</b>	<b>198,697</b>	<b>64,907</b>	<b>-</b>
					SCR	133,790		
					Surplus	68,883		
					SCR Coverage	153.06%		

### Capital not available to cover the SCR

The Company has no capital which is not available to meet the SCR.

### Total eligible own funds to meet the SCR

The Delegated Act (Solvency II Delegated Regulation 2015/35 - as amended) requires that limits are imposed upon the eligible amounts of restricted Tier 1, Tier 2 and Tier 3 capital, according to the calculation of the SCR:

- Eligible Tier 1 items shall be at least 50% of the SCR
- Eligible Tier 3 items shall be less than 15% of the SCR
- The sum of eligible Tier 2 and eligible Tier 3 items shall be no more than 50% of the SCR

The limits on the sum of eligible Tier 2 and eligible Tier 3 available capital (i.e. no more than 50% of the SCR) per Article 82 of the Delegated Regulation are the only restrictions on the Company's available own-funds to meet the SCR.



## E.1.4 Eligible own-funds to cover the MCR

Solvency II requires that basic own-funds are first considered against availability rules and then subjected to eligibility criteria based on both the MCR and capital structure. Eligible own-funds are considered available to cover the MCR. A basic own funds to eligible own funds reconciliation is shown below:

	Basic Own Funds €'000	Ancillary Own Funds €'000	Availability restrictions €'000	Available Own Funds €'000	Eligibility restrictions €'000	Eligible Own Funds €'000	Eligibility Capacity €'000	Eligibility rule
Tier 1	133,790		-	133,790	-	133,790	n/a	
Tier 2 (AOF)	-	90,000	(90,000)	-	-	-	-	
Tier 3	-		-	-	-	-	-	
<b>Total</b>	<b>133,790</b>	<b>90,000</b>	<b>(90,000)</b>	<b>133,790</b>	<b>-</b>	<b>133,790</b>	<b>-</b>	<b>-</b>
					MCR	32,453		
					Surplus	101,337		
					MCR Coverage	412%		

## Capital not available to cover the MCR

Ancillary own-funds items do not form a part of basic own-funds and therefore cannot form a part of available own-funds to meet the MCR.

## Total eligible own funds to meet the MCR

The Delegated Act (Solvency II Delegated Regulation 2015/35 - as amended) requires that limits are imposed upon the eligible amounts of restricted Tier 1, Tier 2 and Tier 3 capital, according to the calculation of the MCR:

- Eligible Tier 1 items shall be at least 80% of the MCR
- Eligible Tier 2 items shall be no more than 20% of the MCR
- Tier 3 items are ineligible to cover the MCR.

## E.1.5 Differences between equity and net assets

### Comparison between FRS 101 net equity and Solvency II basic own-funds

The comparison between the Company's FRS 101 net equity and its basic own-funds (excess of assets over liabilities as calculated for solvency purposes) is set out in section D, with valuation of assets, technical provisions and other liabilities on a Solvency II basis set out in sections D.1, D.2 and D.3 respectively. The below table shows the calculation of the SII basic own funds:

	€'000
Excess of assets over liabilities (see Section D)	141,304
Own shares (held directly and indirectly)	-
Foreseeable dividends, distributions and charges	-
Other non-available own funds items	(7,514)
	133,790
Subordinated debt	
<b>SII Basic Own Funds</b>	<b>133,790</b>

The non-available own fund items of (€7.5m) refer to restricted own fund items that cannot be included due to ring fencing, this restriction is applied when the pension surplus exceeds pension SCR.

## Foreseeable dividends

The Company did not pay a dividend during the period being reported on and the directors do not recommend that a dividend should be paid.

## E.1.6 Transitional arrangements

The Company has no own-funds items which are subject to transitional arrangements.

## E.1.7 Ancillary own-funds

On 29 August 2018 and following receipt of approval from the Central Bank of Ireland, the Company executed an ancillary own-funds transaction within the meaning of the Solvency II Directive (2009/138/EC). This took the form of issued but unpaid share capital callable on demand and the counterparty was the Company's immediate parent undertaking, RSAI Ltd. This AOF facility remained available to the Company throughout the 2021 financial year, and during the year it was re-approved until 2025, and had the effect of increasing the Company's available own-funds under Solvency II by €90m. These shares represent an off-balance sheet arrangement.

The ancillary own-funds represent Tier 2 capital and are subject to eligibility rules in terms of SCR coverage. They are not available for use against the Company's MCR.

## E.1.8 Deductions and restrictions

See sections E.1.3 and E.1.4 for a description of the nature and amount of restrictions on own-funds.

## E.1.9 Deferred Tax

For details on the availability and eligibility of deferred tax assets, see sections E.1.3 and E.1.5.

# E.2 Solvency Capital Requirement and Minimum Capital Requirement

## E.2.1 SCR and MCR

The Company has elected to use the Standard Formula to calculate its SCR. The Company's SCR and MCR at 31 December 2021 are as follows:

	SCR	MCR
	€'000	€'000
<b>Total</b>	129,814	32,453

## E.2.2 SCR split by risk

In December 2016, the Company received notification that the Central Bank of Ireland (“CBI”) expect standard formula firms to treat employee defined benefit pension schemes as ring-fenced funds for SCR market risk calculation purposes, with no diversification benefits across other ring-fenced funds or other funds of the Company. This treatment has been maintained for the calculation of the 2021 SCR.

The resultant aggregate SCR split by Standard Formula risk modules is provided in section F - QRT S.25.01.21.

## E.2.3 Standard formula simplifications

Duration input for interest rate risk: In Interest rate risk, A strict interpretation of the delegated acts text requires inputs by term of the assets. RSAIL has simplified the approach applying the shock at the implied weighted modified duration of the asset portfolio by currency.

Risk Mitigating Effect of reinsurance in Counterparty Default Risk: In line with Article 107 of the Delegated Acts, RSAIL has applied the simplification for Risk Mitigating Effect of reinsurance to simplify the calculation and inputs required for the calculation. This derives a Gross Underwriting Risk SCR from which the Net Underwriting Risk SCR is deducted to estimate the allowance of reinsurance on the SCR. This amount is apportioned across the current reinsurance exposures in line with the outstanding recoverable.

## E.2.4 Standard Formula undertaking specific parameters

Standard Formula Undertaking Specific Parameters (USP's) are not utilised.

## E.2.5 Capital add-on and USP non-disclosure

No capital add-ons were in place during the reporting period. Undertaking Specific Parameters are not utilised.

## E.2.6 Capital add-on and undertaking specific parameters impact

No capital add-ons were in place during the reporting period. Undertaking Specific Parameters are not utilised.

## E.2.7 MCR calculation inputs

The Solvency II MCR is the lower threshold on the “ladder of regulatory intervention” and was originally calibrated to provide an 85% probability of capital adequacy over the one year horizon. Bounded between 25% and 45% of the latest calculated SCR it represents the absolute minimum capital required under the Solvency II Directive. Capital eligibility for the MCR is restricted beyond the restrictions applied to the SCR, see section E.1.4.

The principal inputs to the MCR calculation are net technical provisions and net written premiums by Solvency II line of business.

## E.2.8 Movements in the SCR and MCR

### Movements in SCR

The year end 2021 SCR of €129.8m has increased by €14.5m (2020: €115.3m). The increase is driven by the Non-Life Underwriting Risk Charge which increased by €9.7m and a €5.2m increase in Counterparty default risk.

## Movements in MCR

The year-end 2021 MCR of €32.4m (2020: €28.8m) is determined by the 25% of SCR floor.

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

The duration-based equity risk sub-module is not used.

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

The Company uses the EIOPA Standard Formula to determine its regulatory SCR.

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

RSAIL has been fully compliant with the SCR and the MCR during the reporting period.

## E.6 Any other information

Nothing to report.

# Quantitative report templates

The Company is required to disclose the following templates as set out in the Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the Solvency and Financial Condition Report in accordance with the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009.

Template Code	Template Name
S.02.01.02	Balance sheet
S.05.01.02	Premium, claims, expenses
S.05.02.02	Premium, claims, expenses by country (Not required as >90% of business is in home country)
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own-funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

## S.02.01.02

## Balance sheet

		Solvency II value
Assets		C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	20,076,000
R0060	Property, plant & equipment held for own use	16,642,000
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	364,174,238
R0080	<i>Property (other than for own use)</i>	3,072,000
R0090	<i>Holdings in related undertakings, including participations</i>	4,437,000
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	276,555,913
R0140	<i>Government Bonds</i>	122,821,909
R0150	<i>Corporate Bonds</i>	153,734,004
R0160	<i>Structured notes</i>	
R0170	<i>Collateralised securities</i>	
R0180	<i>Collective Investments Undertakings</i>	79,607,599
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	501,726
R0210	<i>Other investments</i>	

R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	678,374,149
R0280	<i>Non-life and health similar to non-life</i>	678,374,149
R0290	<i>Non-life excluding health</i>	677,880,358
R0300	<i>Health similar to non-life</i>	493,792
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	7,580,000
R0370	Reinsurance receivables	7,550,894
R0380	Receivables (trade, not insurance)	38,816,607
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	17,337,111
R0420	Any other assets, not elsewhere shown	391,000
R0500	<b>Total assets</b>	<b>1,150,942,000</b>

## Solvency II value

## C0010

<b>Liabilities</b>		
R0510	Technical provisions - non-life	815,693,551
R0520	<i>Technical provisions - non-life (excluding health)</i>	815,850,339
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	800,458,024
R0550	<i>Risk margin</i>	15,392,315
R0560	<i>Technical provisions - health (similar to non-life)</i>	-156,788
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	-165,552
R0590	<i>Risk margin</i>	8,764
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0730	Other technical provisions	



R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	711,000
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	56,317,526
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	9,002,000
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	14,123,000
R0830	Reinsurance payables	3,035,000
R0840	Payables (trade, not insurance)	87,441,923
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	23,314,000
R0900	<b>Total liabilities</b>	<b>1,009,638,000</b>
R1000	<b>Excess of assets over liabilities</b>	<b>141,304,000</b>

## S.05.01.02

Premiums, claims and expenses by line of  
business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)										Total
Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	
C0010	C0020	C0040	C0050	C0060	C0070	C0080	C0090	C0110	C0120	C0200

## Premiums written

R0110	Gross - Direct Business		2,455,303	150,327,339	31,878,544	4,005,549	148,884,618	60,577,363		40,262	5,484	398,174,462
R0120	Gross - Proportional reinsurance accepted						576,995	39,692				616,687
R0130	Gross - Non-proportional reinsurance accepted											0
R0140	Reinsurers' share		1,655,784	136,436,250	28,928,166	2,094,076	88,617,498	48,484,332		20,796	2,958	306,239,859
R0200	Net	0	799,519	13,891,089	2,950,379	1,911,473	60,844,116	12,132,723	0	19,465	2,527	92,551,291

## Premiums earned

R0210	Gross - Direct Business		2,825,980	155,923,082	33,001,863	3,734,998	143,953,785	58,763,113		74,990	12,802	398,290,612
R0220	Gross - Proportional reinsurance accepted		55			391	546,873	40,010				587,330
R0230	Gross - Non-proportional reinsurance accepted											0
R0240	Reinsurers' share		1,843,677	141,452,343	29,934,993	1,973,390	85,038,002	47,425,286		38,160	6,855	307,712,707
R0300	Net	0	982,358	14,470,739	3,066,870	1,761,999	59,462,656	11,377,837	0	36,829	5,947	91,165,235

## Claims incurred

R0310	Gross - Direct Business	-7,247	523,631	99,093,350	20,527,339	1,374,936	98,046,627	34,191,847	-30,606	93,192	-15,532	253,797,537
R0320	Gross - Proportional reinsurance accepted					36	-362,810	-448				-363,222

R0330	Gross - Non-proportional reinsurance accepted										0	
R0340	Reinsurers' share	-6,115	428,046	87,942,891	17,008,227	717,140	65,256,276	30,893,585	-30,921	113,179	-14,700	202,307,652
R0400	Net	-1,132	95,585	11,150,459	3,519,112	657,832	32,427,542	3,297,814	316	-19,987	-832	51,126,663
R0550	Expenses incurred	0	627,751	6,972,676	2,554,070	816,885	22,043,863	6,703,514	0	116,760	1,440	39,836,958
R1200	Other expenses											-1,000
R1300	Total expenses											39,835,958

## S.05.02.01

## Premiums, claims and expenses by country

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	<b>Non-life</b>	<b>Home Country</b>	<b>Top 5 countries (by amount of gross premiums written) - non-life obligations</b>					<b>Total Top 5 and home country</b>
R0010			<b>GB</b>					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	<b>Premiums written</b>							
R0110	Gross - Direct Business	351,960,165.15	46,214,296.76					398,174,461.91
R0120	Gross - Proportional reinsurance accepted	616,687.41						616,687.41
R0130	Gross - Non-proportional reinsurance accepted							0.00
R0140	Reinsurers' share	269,786,599.68	36,453,259.10					306,239,858.77
R0200	Net	82,790,252.88	9,761,037.66					92,551,290.54
	<b>Premiums earned</b>							
R0210	Gross - Direct Business	352,974,580.61	45,316,031.74					398,290,612.35
R0220	Gross - Proportional reinsurance accepted	587,329.76						587,329.76
R0230	Gross - Non-proportional reinsurance accepted							0.00
R0240	Reinsurers' share	271,802,899.87	35,909,807.30					307,712,707.17
R0300	Net	81,759,010.50	9,406,224.44					91,165,234.94
	<b>Claims incurred</b>							
R0310	Gross - Direct Business	213,498,840.38	40,298,696.48					253,797,536.86
R0320	Gross - Proportional reinsurance accepted	-363,222.00						-363,222.00
R0330	Gross - Non-proportional reinsurance accepted							0.00
R0340	Reinsurers' share	166,239,171.50	36,068,480.29					202,307,651.79

R0400	Net	46,896,446.88	4,230,216.19					51,126,663.08
	<b>Changes in other technical provisions</b>							
R0410	Gross - Direct Business							0.00
R0420	Gross - Proportional reinsurance accepted							0.00
R0430	Gross - Non-proportional reinsurance accepted							0.00
R0440	Reinsurers' share							0.00
R0500	Net	0.00	0.00					0.00
R0550	Expenses incurred	35,792,689.47	4,044,268.75					39,836,958.22
R1200	Other expenses							-1,000.00
R1300	Total expenses							39,835,958.22

## S.17.01.02

## Non-Life Technical Provisions

Direct business and accepted proportional reinsurance									
Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	Total Non-Life obligation
C0020	C0030	C0050	C0060	C0070	C0080	C0090	C0120	C0130	C0180
0	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									0
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross - Total	-33,906	-631,261	24,741,895	5,088,275	477,947	18,909,827	7,484,323	4,853	56,049,675
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		173,359	27,546,878	6,235,258	153,488	11,128,796	6,156,875	1,729	51,419,240
Net Best Estimate of Premium Provisions	-33,906	-804,620	-2,804,983	-1,146,983	324,459	7,781,032	1,327,447	3,124	4,630,435
Claims provisions									
Gross - Total	1,706	497,909	385,773,065	6,124,650	1,574,890	126,967,804	222,705,565	574,832	744,242,797
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	1,263	319,170	343,510,882	5,306,182	740,685	89,918,904	186,855,558	281,533	626,954,909
Net Best Estimate of Claims Provisions	442	178,740	42,262,183	818,468	834,205	37,048,900	35,850,007	293,299	117,287,889

R0260	Total best estimate - gross	-32,200	-133,352	410,514,960	11,212,925	2,052,837	145,877,632	230,189,888	579,685	30,098	800,292,473
R0270	Total best estimate - net	-33,463	-625,880	39,457,200	-328,515	1,158,664	44,829,932	37,177,455	296,423	-13,491	121,918,323
R0280	Risk margin	20	8,744	8,238,752	64,655	18,652	943,082	6,121,256	5,409	509	15,401,079
R0320	Technical provisions - total	-32,179	-124,608	418,753,711	11,277,580	2,071,489	146,820,714	236,311,144	585,094	30,607	815,693,551
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	1,263	492,528	371,057,760	11,541,440	894,174	101,047,700	193,012,433	283,262	43,588	678,374,149
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	-33,443	-617,136	47,695,951	-263,861	1,177,315	45,773,014	43,298,710	301,832	-12,981	137,319,402

## S.19.01.21

## Non-Life insurance claims

## Total Non-life business

Z0020

Accident year / underwriting  
year

Accident Year

## Gross Claims Paid (non-cumulative)

(absolute amount)

Year		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
		Development year											In Current year	Sum of years (cumulative)	
		0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior												5,051,994	5,051,994	5,051,994
R0160	N-9	83,397,606	60,213,132	43,723,739	37,145,801	23,830,283	17,420,709	11,430,487	6,400,081	2,391,936	1,507,901		1,507,901	287,461,674	
R0170	N-8	91,840,421	72,154,265	49,414,699	43,710,168	36,051,191	17,405,259	9,077,511	5,296,179	4,332,556			4,332,556	329,282,250	
R0180	N-7	104,001,012	60,048,914	42,625,133	31,317,495	23,632,604	25,232,720	9,440,599	4,276,129				4,276,129	300,574,606	
R0190	N-6	82,697,194	59,886,692	31,569,648	28,798,773	19,782,483	9,831,898	9,815,144					9,815,144	242,381,834	
R0200	N-5	71,637,794	54,942,293	28,392,274	23,846,661	16,584,396	7,935,145						7,935,145	203,338,563	
R0210	N-4	55,793,835	41,926,743	33,838,339	18,390,395	12,152,864							12,152,864	162,102,176	
R0220	N-3	56,659,179	40,452,351	19,078,678	16,574,691								16,574,691	132,764,900	
R0230	N-2	60,165,057	43,978,516	31,205,873									31,205,873	135,349,446	
R0240	N-1	50,025,377	43,874,640										43,874,640	93,900,016	
R0250	N	52,262,254											52,262,254	52,262,254	
R0260													Total	188,989,190	1,944,469,714



## Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

C0360

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	Year end (discounted data)
Year	Development year												
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											66,142,740	66,148,077
R0160	N-9	0	0	0	0	61,229,181	37,594,287	27,217,614	15,913,433	13,880,557	11,660,793		11,522,652
R0170	N-8	0	0	0	113,492,337	70,960,555	54,306,405	40,242,049	38,531,496	36,024,944			35,865,011
R0180	N-7	0	0	131,989,798	96,155,997	71,762,915	37,335,060	25,779,988	23,378,727				23,385,836
R0190	N-6	0	137,743,820	106,104,257	66,990,454	47,151,421	39,536,031	28,544,981					28,511,929
R0200	N-5	192,384,033	136,763,261	100,493,543	73,518,099	53,093,628	38,837,102						38,836,847
R0210	N-4	175,914,801	121,466,694	90,409,714	63,851,121	51,764,750							51,720,745
R0220	N-3	151,913,205	103,004,137	78,367,156	66,184,995								66,088,566
R0230	N-2	184,341,239	134,711,291	108,432,655									108,242,628
R0240	N-1	194,427,440	175,407,481										175,580,956
R0250	N	138,728,550											138,339,550
R0260													
												Total	744,242,797

### S.23.01.01 Own Funds

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

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	48,811,000	48,811,000	0	
Share premium account related to ordinary share capital	574,945,000	574,945,000	0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0	0	
Subordinated mutual member accounts	0	0	0	0
Surplus funds	0	0		
Preference shares	0	0	0	0
Share premium account related to preference shares	0	0	0	0
Reconciliation reserve	-489,965,938	-489,965,938		
Subordinated liabilities	0	0	0	0
An amount equal to the value of net deferred tax assets	0			0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0

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

0
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#### Deductions

0	0	0	0	
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Total basic own funds after deductions

133,790,062	133,790,062	0	0	0
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#### Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand	90,000,000		90,000,000	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			
Unpaid and uncalled preference shares callable on demand	0			
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			
Other ancillary own funds	0			
Total ancillary own funds	90,000,000		90,000,000	0

#### Available and eligible own funds

Total available own funds to meet the SCR	223,790,062	133,790,062	0	90,000,000	0
Total available own funds to meet the MCR	133,790,062	133,790,062	0	0	

INTRODUCTION  
AND SUMMARY

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R0540	Total eligible own funds to meet the SCR	198,696,975	133,790,062	0	64,906,913	0
R0550	Total eligible own funds to meet the MCR	133,790,062	133,790,062	0	0	
R0580	<b>SCR</b>	129,813,827				
R0600	<b>MCR</b>	32,453,457				
R0620	<b>Ratio of Eligible own funds to SCR</b>	153%				
R0640	<b>Ratio of Eligible own funds to MCR</b>	412%				
	<b>Reconciliation reserve</b>	C0060				
R0700	Excess of assets over liabilities	141,304,000				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	623,756,000				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	7,513,938				
R0760	<b>Reconciliation reserve</b>	-489,965,938				
	<b>Expected profits</b>					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	11,208,621				
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>	11,208,621				

## S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

Gross solvency capital requirement	USP	Simplifications
------------------------------------	-----	-----------------

C0110

C0090

C0120

R0010	Market risk	27,922,448		
R0020	Counterparty default risk	37,715,482		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	641,191		
R0050	Non-life underwriting risk	63,447,777		
R0060	Diversification	-23,921,845		
R0070	Intangible asset risk	0		
R0100	<b>Basic Solvency Capital Requirement</b>	105,805,053		

## Calculation of Solvency Capital Requirement

C0100

R0130	Operational risk	24,008,774
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	<b>Solvency Capital Requirement excluding capital add-on</b>	129,813,827
R0210	Capital add-ons already set	0

R0220 Solvency capital requirement

129,813,827

## Other information on SCR

R0400 Capital requirement for duration-based equity risk sub-module

0

R0410 Total amount of Notional Solvency Capital Requirements for remaining part

117,251,765

R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds

12,562,062

R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios

0

R0440 Diversification effects due to RFF nSCR aggregation for article 304

0

## S.28.01.01

## Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

C0010

R0010

MCR<sub>NL</sub> Result

19,588,895

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020	C0030
0	
0	799,519
0	
39,457,200	13,891,089
0	2,950,379
1,158,664	1,911,473
44,829,932	60,844,116
37,177,455	12,132,723
0	
0	
296,423	19,465
0	2,527
0	
0	
0	
0	

Linear formula component for life insurance and reinsurance obligations

C0040

R0200

MCR<sub>L</sub> Result

0

Overall MCR calculation

C0070

R0300	Linear MCR	19,588,895
R0310	SCR	129,813,827
R0320	MCR cap	58,416,222
R0330	MCR floor	32,453,457
R0340	Combined MCR	32,453,457
R0350	Absolute floor of the MCR	3,700,000

R0400 Minimum Capital Requirement

32,453,457

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