Arch

Arch Insurance (EU) dac

Directors' Report and Financial Statements

Financial Year Ended 31 December 2020

CONTENTS

DIRECTORS AND OTHER INFORMATION

Board of Directors at 16 April 2021

Anthony Asquith (INED)
Ian Britchfield (INED)
H. Beau Franklin (British)
Michael Hammer (Swiss)
Mark Nolan
Ruth Sullivan (née Patterson) (INED)
Søren Scheuer (Danish)
Kirsten Valder (British)

Solicitors

A & L Goodbody
North Wall Quay
Dublin 1.

Secretary and Registered Office

Deirdre Casey
Level 2, Block 3, The Oval,
160 Shelbourne Road,
Ballsbridge,
Dublin 4.

Registered Number: 505420

Bankers

Danske Bank
3 Harbourmaster Place,
IFSC,
Dublin 1

Danske Bank London Branch
75 King William Street,
London, EC4N 7DT,
United Kingdom

Barclays Bank plc,
One Churchill Place,
London, E14 5HP,
United Kingdom.

Independent Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1.

Investment Manager

Arch Investment Management Ltd.
Ground Floor, Waterloo House,
100 Pitts Bay Road,
Pembroke HM 08,
Bermuda.

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2020.

Statement of directors' responsibilities
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with Irish law.

Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the company's assets, liabilities and financial position at the end of the financial year and the profit or loss of the company for the financial year. Under that law the directors have prepared the financial statements in accordance with Generally Accepted Accounting Principles in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including 'FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland') and Irish law.

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the company for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors
The names of the persons who were directors of the Company at any time during the financial year are;
Anthony Asquith
Ian Britchfield
H. Beau Franklin
Michael Hammer (appointed 9th October 2020)
Catherine Kelly (resigned 13th July 2020)
Mark Nolan
Ruth Sullivan (née Patterson)
Maamoun Rajeh (resigned 9th October 2020)
Søren Scheuer
Kirsten Valder (appointed 13th July 2020)

All directors served for the entire year except where stated otherwise.

DIRECTORS' REPORT – continued

Directors' and secretary's interests in shares and debentures

The Directors and Secretary who held office at the year-end did not have any interests in excess of 1% of the issued shares of the Company or any other Group Company at either the beginning or end of the year.

Disclosure of information to auditors

The directors in office at the date of this report have each confirmed that:

- as far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' compliance statement

The directors acknowledge that they are responsible for securing the company's compliance with its relevant obligations (as defined in the Companies Act 2014 (the "2014 Act") and, as required by section 225 of the 2014 Act, the directors confirm that they have:

- drawn up a compliance policy statement setting out the company's policies ensuring compliance by the company with its relevant obligations under the 2014 Act;
- put in place appropriate arrangements or structures that are designed to secure material compliance with the company's relevant obligations; and
- conducted a review, during the financial year ended 31 December 2020, of the arrangements and structures, referred to above.

Audit Committee

The Company has established an audit committee.

Accounting records

The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and engagement of competent persons. The accounting records are kept at Level 2, Block 3, The Oval, 160 Shelbourne Road, Ballsbridge, Dublin 4, Ireland.

Principal activity

Arch Insurance (EU) dac, formerly Arch Mortgage Insurance dac, (the "Company") was incorporated in Ireland on 28th October 2011. The Company received initial authorisation from the Central Bank of Ireland for 'Class 14 Credit' on 15th December 2011. Following receipt of authorisation from the Central Bank of Ireland, the Company was capitalised with €65 million. The Company began to write mortgage insurance business in October 2012.

As a result of Arch Capital Group's ("Group") Brexit strategy, on 6th March 2019, the Company received authorisation from the Central Bank of Ireland to expand its insurance licence, to write classes 1-17 insurance business. In addition, on 6th March 2019, the Company received permission from the Central Bank of Ireland to underwrite insurance business in all EEA and EU Member States under the EU Freedom of Services Acts and to open branches in the UK, Italy and Denmark on a Freedom of Establishment basis. The Company began to write motor insurance and specialty property & casualty ("P&C") business in March 2019.

Significant Events

On 2nd December 2020, the directors approved the transfer of a subset of the general insurance business of Arch Insurance (UK) Limited ("AIUK"), to the Company under an insurance business transfer scheme under Part VII of the UK's Financial Services and Markets Act 2000. The UK High Court approved the scheme on 18th December 2020 and the transfer of AIUK's business to the Company was effected on 31st December 2020.

The value of the assets and liabilities transferred were calculated on a Solvency II basis of predecessor value. The consideration received by the Company from AIUK as a result of the transfer was €18.4m, in return for total net liabilities transferred of €18.3m, measured on an Irish GAAP basis, leading to a gain of €0.1m for the Company.

DIRECTORS' REPORT – continued

Significant Events - continued

On 25th November 2020, the Company entered into a Reinsurance Trust Agreement with Arch Reinsurance Ltd. ("ARL") in accordance with the business transfer agreement. On 31st December 2020, collateral of €142.7m was released from the trust account held by ARL for the benefit of AIUK and was assigned to the trust account held by ARL for the benefit of AIEU. The collateral amount was determined based on AIUK's reasonable estimate of collateral held relating to transferring policies.

In December 2020, to support the growth in business activity, the Company received €30m capital contribution from the Company's parent Arch Financial Holding Europe II Limited.

Events since the end of the financial year

There have been no significant events affecting the Company since the end of the financial year.

Business review and outlook

General operations:

The results for the year ended 31st December 2020 are set out on pages 13 and 14. The Company wrote gross premium of €215,440,810 during the year to 31 December 2020. This is a significant increase in gross written premium relative to the prior year (2019: €100,169,642), reflecting the expanded classes of business. The financial statements for the year comprise the results of insurance operations, general operating expenses and investment income. The results of the business for the year show a loss after tax of €3,656,729. This compares negatively with the prior year profit of €2,859,827.

Strategy:

The Company's strategy is to develop a diversified portfolio of insurance business in those lines of business that have been identified as presenting profitable underwriting opportunities which meet the Company's return on equity targets.

Regulation:

The Company is regulated by the Central Bank of Ireland to write Classes 1-17 in Ireland and in a number of EU Member States under the EU Freedom of Services Acts. The Company has opened branches in the UK, Italy and Denmark on a Freedom of Establishment basis.

The Company is impacted by Brexit by virtue of its UK Branch presence. The UK Prudential Regulation Authority ("PRA") has introduced a Temporary Permissions Regime ("TPR") which enables existing Freedom of Service ("FOS") operations and Freedom of Establishment ("FOE") operations, such as the Company's UK branch, to apply to continue to operate whilst making an application to establish a Third Country branch. The Company has availed of the TPR and will be making an application for the approval of a Third Country branch. The TPR and ultimately the Third Country branch allow the Company to mitigate the impact of Brexit on its existing FOS and FOE operations into the UK. The Company's intention to establish a Third Country Branch has been formally notified to the PRA together with an indication of the intention to apply for approval of a branch over the short term.

Future outlook:

The Company will aim to continue to source profitable business opportunities and maintain underwriting discipline consistently, to meet its return on equity targets.

Financial performance

As noted above, the Company wrote gross premium of €215,440,810 (2019: €100,169,642) for the year ended 31 December 2020. The Company's net income for the year comprised its net underwriting result, investment income and operating expenses. The Company's profit and loss account also reflects unrealised foreign exchange gains and losses associated with its investment portfolio, the majority of which is denominated in USD. There were significant unrealised foreign exchange losses of €5,848,701 recognised during 2020, which compares with the unrealised foreign exchange losses of €454,489 in 2019. There has been minimal impact on the Company's financial performance as a result of COVID-19. The results for the year are set out in the Profit & Loss account on pages 13 and 14.

DIRECTORS' REPORT – continued

Total assets of the Company as at 31 December 2020 are €601,377,163 (2019: €231,061,923), total liabilities of the Company as at 31 December 2020 are €515,836,102 (2019: €171,864,133) leaving a net asset financial position of €85,541,061 (2019: €59,197,790). The Company's balance sheet is included on pages 15 and 16.

Analysis of key performance indicators

	2020	2019	Comment
Gross premium written	€215,440,810	€100,169,642	Expanded business written and renewed in 2020
Underwriting result	(€1,892,400)	(€2,418,421)	Combined ratio has improved year on year
Technical account	€31,243	€2,397,827	Impact of investment income in 2020
Net Investment return	(€1,757,761)	€5,684,108	Unrealised fx losses in 2020 - weakened USD
(Loss) / Profit after tax	(€3,656,729)	€2,859,827	Impact of investment income in 2020
Shareholder's equity	€85,541,061	€59,197,790	€30m capital received during 2020
Loss Ratio	66%	69%	
Expense Ratio	43%	86%	
Combined Ratio	109%	155%	

Going Concern

The directors have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue ('the period of assessment') and have prepared the financial statements on a going concern basis.

In making this assessment the directors considered the impact of COVID-19 on the Insurance industry and the Company's business, including:

- the Company's capital position and the surplus over its Solvency Capital requirements and minimum capital ratio reflect the fact that the Company expects to have sufficient Own Funds to meet its Solvency Requirements;
- the outcome of the stress and sensitivity tests carried out by the Company as part of its Own risk and solvency assessment ("ORSA") process;
- the impact of Covid-19 on the Company's business to date and the assessments of the potential future impact of Covid-19 on the Company's business including solvency position;
- forecasts for the period of assessment which are based on the Company's/Group's historic performance and its past record of achieving strategic objectives;
- the Company's level of reinsurance;
- the credit rating of the Company's ultimate parent and principal reinsurance counterparties; and
- the company's liquidity position and conservative investment strategy.

On that basis, the Directors consider it appropriate to prepare the financial statements on a going concern basis. As such the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Principal risks and uncertainties

The principal risks and uncertainties that the Company faces are insurance, investment, credit, operational and regulatory & fiscal risks.

Insurance risk

Insurance risk comprises underwriting risk and reserving risk.

Underwriting risk refers to the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate pricing or risk quantification assumptions which includes the fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of underwriting. This risk is managed by way of underwriting guidelines and a rigorous peer review process through a staff of sufficient

DIRECTORS' REPORT – continued

Principal risks and uncertainties - continued

Insurance risk- continued

experience and training and using pricing protocols that have been developed by underwriting managers and actuarial professionals with many years' experience.

Reserving risk refers to the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate reserving assumptions which includes the fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of initial loss and expense reserving. This risk is managed by reserving procedures and processes including peer review process.

Investment risk
Investment risk is the risk that the Company will not achieve its investment objectives due to liquidity risk, market risk, concentration risk or investment credit risk.

These risks are managed by investing the investments of the Company in accordance with clearly defined policy statements which have been approved by the Board and framed in the context of the requirements promulgated by our investment manager.

Credit risk
Credit risk is the unwillingness or failure of a counterparty to fulfill their obligations or the impairment of a counterparty. This risk is managed by assessment of the creditworthiness of potential counterparties and monitoring exposures to counterparties.

Operational risk
Operational risk means the risk of loss arising from inadequate or failed internal and or outsourced processes, or from personnel and systems, or from external events. It also includes the risk of loss resulting from failure to comply with laws and regulations as well as prudent ethical standards and contractual obligations, and the exposure to litigation from all aspects of business activities. Management of these risks is by the implementation of internal controls and procedures and the monitoring of the internal controls and procedures to ensure the risks are mitigated.

Regulatory and fiscal risk
These risks are faced by companies in all industries, particularly by companies operating in cross border markets. Management of these risks is by way of appointment of a Head of Compliance, who reports regularly to the Board and its sub-committees in respect of regulatory and fiscal (and other) developments within both the domestic and cross border markets and the Company's response thereto.

Statutory auditors
The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

On behalf of the Board

Mark Nolan
Director
16 April 2021

Ian Britchfield
Director
16 April 2021

Independent auditors' report to the members of Arch Insurance (EU) dac

Report on the audit of the financial statements

Opinion

In our opinion, Arch Insurance (EU) dac's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Directors' Report and Financial Statements, which comprise:

- the balance sheet as at 31 December 2020;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2020 to 31 December 2020.

Our audit approach

Overview

Materiality

- €2,010,000 (2019: €935,000)
- Based on 1% of gross written premium.

Audit scope

- We performed a full scope audit of the company's financial statements, based on materiality levels.

Key audit matters

- Valuation of the provision for outstanding claims

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of the provision for outstanding claims *Refer to note 3(e), note 4, note 5(a) and note 11 to the financial statements* The provision for outstanding claims are the company's largest liability and their valuation involves considerable judgement. Provisions for outstanding claims are established to cover the expected outstanding liability for losses in respect of all claims that have already occurred. The provisions established cover reported claims as well as claims incurred but not yet reported. The IBNR is the difference between the estimated ultimate cost of outstanding claims and the value of reported and paid claims. The ultimate cost of outstanding claims is estimated by using standard actuarial claims projection techniques. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future. We have focused on this matter because technical provisions are a significant liability of the company and valuation of the reserves involves considerable judgement.	We evaluated the methodologies and key assumptions. This involved: • testing the design and operating effectiveness of selected controls over claims processing and payment; • with the assistance of our actuarial specialists assessing the assumptions and methodology underpinning management's valuation; • carrying out our own independent valuations for selected classes of business; • reconciling of the valuation outputs to the financial statements; and • reconciling the data used in the actuarial models to the underlying systems on a sample basis. We concluded that the methodologies and assumptions adopted were appropriate and that the provision for outstanding claims was calculated in accordance with these.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	€2,010,000 (2019: €935,000).
How we determined it	1% of gross written premium.
Rationale for benchmark applied	We have applied this benchmark as it provides a more stable measure as the company's result has fluctuated significantly in recent years.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €100,500 (2019: €46,750) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining management's going concern assessment for the going concern period;
- Obtaining an understanding of the company's liquid assets and capital position and plans for the period of the assessment;
- Evaluation of the availability of liquidity as disclosed in the financial statements;
- Evaluation of the company's forecast capital positions over the period of the going concern period including an evaluation of the impact of Covid-19 on the financial outlook of the company; and
- Reviewing the going concern disclosures included in the financial statements in order to assess whether the disclosures were appropriate and in accordance with Irish GAAP.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

The other information comprises all of the information in the Directors' Report and Financial Statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 15 December 2011 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2012 to 31 December 2020.

Padraig Osborne
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
16 April 2021

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – NON-LIFE INSURANCE
Financial Year ended 31 December 2020

	Notes	2020 €	2019 €
Gross premiums written	6	215,440,810	100,169,642
Outward reinsurance premiums		(187,339,935)	(87,750,339)
Net premiums written		**28,100,875**	**12,419,303**
Change in the gross provision for unearned premiums		(41,935,807)	(60,981,869)
Change in provision for unearned premiums – reinsurer's share		36,097,639	53,173,692
Change in the net provision for unearned premiums		**(5,838,168)**	**(7,808,177)**
Earned premiums, net of reinsurance		**22,262,707**	**4,611,126**
Other underwriting income		**144,369**	**111,181**
Allocated investment return transferred from the non-technical account	7	**1,923,643**	**4,816,248**
		24,330,719	**9,538,555**
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(16,465,294)	(2,871,139)
Reinsurers' share		14,159,198	2,456,228
Net claims paid		**(2,306,096)**	**(414,911)**
Change in provision for claims:			
Gross amount	11	(92,893,263)	(23,322,547)
Reinsurers' share	11	80,443,900	20,565,743
Change in net provision for claims		**(12,449,363)**	**(2,756,804)**
Claims incurred, net of reinsurance		**(14,755,459)**	**(3,171,715)**
Net operating expenses	8	**(9,544,017)**	**(3,969,013)**
Balance on the technical account		**31,243**	**2,397,827**

PROFIT AND LOSS ACCOUNT
NON TECHNICAL ACCOUNT
Financial Year Ended 31 December 2020

	Notes	2020 €	2019 €
Balance on the technical account		31,243	2,397,827
Investment income and charges:			
- Interest Income	7	1,570,006	1,850,524
- Investment expenses and charges	7	(158,006)	(146,516)
- Gains on the realisation of investments	7	511,643	3,112,240
Unrealised gains on investments	7	2,167,298	1,322,349
Foreign exchange losses on investments	7	(5,848,701)	(454,489)
Allocated investment income transferred to the technical account	7	(1,923,643)	(4,816,248)
(Loss) / Profit on ordinary activities before taxation		**(3,650,160)**	**3,265,687**
Tax expense on (loss) / profit on ordinary activities	9	(6,569)	(405,860)
(Loss) / Profit on ordinary activities after taxation		**(3,656,729)**	**2,859,827**

BALANCE SHEET
As at 31 December 2020

Assets	Notes	2020 €	2019 €
Investments			
Other financial investments	10	**111,289,133**	**77,118,300**
Reinsurers' share of technical provisions			
Provision for unearned premiums	11	107,652,295	71,549,853
Claims outstanding	11, 12	263,633,460	22,798,801
		371,285,755	**94,348,654**
Deposits with Ceding Undertakings		**8,001,347**	**1,150,218**
Debtors			
Debtors arising out of direct insurance operations	13	49,302,867	36,037,526
Debtors arising out of reinsurance operations	13	22,516,959	787,118
Other debtors		3,556	3,106
		71,823,382	**36,827,750**
Other assets			
Tangible fixed assets	14	29,679	21,685
Cash at bank and in hand		11,044,759	5,336,711
Deferred tax asset	15	208,864	145,013
Current tax recoverable		4,349	3,311
		11,287,651	**5,506,720**
Prepayments and accrued income			
Accrued interest		387,360	501,261
Deferred acquisition costs	16	25,690,204	15,084,705
Other prepayments and accrued income		1,612,331	524,315
		27,689,895	**16,110,281**
Total assets		**601,377,163**	**231,061,923**

BALANCE SHEET
As at 31 December 2020

Liabilities	Notes	2020 €	2019 €
Capital and reserves			
Called-up share capital	17	65,000,000	65,000,000
Capital contribution	17	32,512,928	2,512,928
Profit and loss account brought forward		(8,315,138)	(11,174,965)
(Loss) / Profit for the financial year		(3,656,729)	2,859,827
Shareholder's funds		**85,541,061**	**59,197,790**
Technical Provisions			
Provision for unearned premiums	11	123,159,897	81,224,090
Gross claims outstanding	11	293,284,725	25,782,453
		416,444,622	**107,006,543**
Creditors			
Creditors arising out of insurance operations	18	2,836,677	40,596
Creditors arising out of reinsurance operations	18	58,869,094	58,199,089
Other creditors including tax and social security	18	3,332,305	6,094,227
		65,038,076	**64,333,912**
Accruals and deferred income	18	34,353,404	523,678
Total liabilities and shareholder's funds		**601,377,163**	**231,061,923**

The financial statements were approved by the board of directors on the 16th of April 2021 and were signed on its behalf by:

Mark Nolan
Director

Ian Britchfield
Director

STATEMENT OF CHANGES IN EQUITY
Financial Year Ended 31 December 2020

	Notes	Share Capital	Capital Contribution	Profit & loss	Total
		€	€	€	€
As at 1 January 2019		65,000,000	2,546,843	(11,174,965)	56,371,878
Profit for the Year		-	-	2,859,827	2,859,827
Share based payments	17, 19	-	(33,915)	-	(33,915)
At 31 December 2019		**65,000,000**	**2,512,928**	**(8,315,138)**	**59,197,790**
As at 1 January 2020		65,000,000	2,512,928	(8,315,138)	59,197,790
Loss for the Year		-	-	(3,656,729)	(3,656,729)
Capital Contribution	17	-	30,000,000	-	30,000,000
At 31 December 2020		**65,000,000**	**32,512,928**	**(11,971,867)**	**85,541,061**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Arch Insurance (EU) dac, formerly Arch Mortgage Insurance dac, (the "Company") is a company incorporated in Ireland authorised by the Central Bank of Ireland to carry out insurance business. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the Directors' Report on pages 3-7.

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

The Company's ultimate parent and ultimate controlling party is Arch Capital Group Ltd., a company incorporated in Bermuda. Arch Capital Group Ltd. prepares group financial statements and is the largest group for which group financial statements are drawn up and of which Arch Insurance (EU) dac is a member. The financial statements of Arch Capital Group Ltd. are available on its website: www.archcapgroup.com.

2 Statement of compliance

The entity financial statements have been prepared on a going concern basis and in accordance with Irish GAAP (accounting standards issued by the Financial Reporting Council of the UK and the Companies Act 2014). The entity financial statements comply with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103) and the Companies Act 2014.

The directors have a reasonable expectation that the Company will continue in operational existence for twelve months from the date of approval of these financial statements (the "period of assessment") and have prepared the financial statements on a going concern basis.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of the entity financial statements are set out below. These policies have been consistently applied to all financial years presented, unless otherwise stated.

(a) Basis of preparation

The entity financial statements have been prepared under the historical cost convention, as modified by the measurement of certain financial assets and liabilities at fair value.

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 4.

(b) Going concern

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. See Note 24.

(c) Disclosure exemptions for qualifying entities under FRS 102

The Company is a qualifying entity for the purposes of FRS 102. Note 1 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with US GAAP may be obtained.

As a qualifying entity the Company has availed of a number of exemptions from the disclosure requirements of FRS 102 in the preparation of the entity financial statements.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(c) Disclosure exemptions for qualifying entities under FRS 102 - continued

In accordance with FRS 102 the Company has availed of an exemption from the following paragraphs of FRS 102:

- The requirements of paragraph 4.12(a)(iv) to disclose a reconciliation of the number of shares outstanding at the beginning and at the end of the period.
- The requirements of section 7 and paragraph 3.17(d) to present a statement of cash flows.
- The requirements of paragraphs 26.18(b), 26.19 to 26.21 and 26.23 to disclose certain information about share based payment arrangements.
- The requirement of paragraph 33.7 to disclose key management personnel compensation.
- The requirement of paragraph 33.9 to disclose related party transactions.

The financial statements of Arch Capital Group Ltd., prepared in accordance with US GAAP, have been prepared in a manner equivalent to consolidated financial statements drawn up in accordance with the provisions of the Seventh Directive (83/349/EEC).

(d) Foreign currency

(i) *Functional and presentation currency*

The Company's functional and presentation currency is the euro, denominated by the symbol "€" and unless otherwise stated, the financial statements have been presented in whole numbers.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At the end of each financial year foreign currency monetary items are translated to Euro using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss non-technical account.

(e) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. The majority of the Company's insurance products are classified as insurance contracts.

(i) *Premiums*

Premiums are earned on a basis that is consistent with the risks covered under the terms of the insurance contracts. The premiums written shall be earned over the exposure period and are recognised as revenue in the profit and loss account. Premiums written and ceded on certain types of contracts include estimates based on information received from the insured or brokers. Estimates of written premiums are re-evaluated over the term of the associated contracts as underwriting information becomes available and as actual premiums are reported by the insured or brokers. Subsequent changes to the premium estimates are recorded as adjustments to premiums written in the year in which they become known.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(e) Insurance contracts- continued

(ii) *Unearned premiums*

Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force. The change in the provision is recorded in the profit and loss account to recognise revenue over the period of the risk.

At each reporting date, unearned premiums net of related deferred acquisition costs (DAC) are tested to determine whether they are sufficient to cover related losses and loss expenses. If these tests show that net unearned premiums are insufficient, the premium deficiency is immediately charged to income initially by writing off DAC and by subsequently establishing a premium deficiency reserve.

(iii) *Claims incurred*

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

(iv) *Acquisition costs*

Commission expense consists of fees and commissions paid to brokers and are directly related to the acquisition and renewal of insurance contracts.

(v) *Reinsurers' commission*

Reinsurance commission income is earned over the period during which the related premiums are expensed.

(vi) Provision for outstanding claims

Claims outstanding are balance sheet liabilities representing estimates of future amounts required to pay losses and loss adjustment expenses for insured claims which have occurred on or before the balance sheet date. These estimates involve actuarial and statistical projections at a given point in time and represent the expectations management has of the ultimate settlement and related administrative costs of losses incurred. It is likely that the final liabilities will differ from these estimates. Claims outstanding consist of reserves for incurred but not reported ("IBNR") losses, reserves for outstanding losses, and reserves for loss adjustment expenses ("LAE"). All loss and LAE reserves set up by management are recorded on an undiscounted basis.

Outstanding loss reserves represent estimated amounts required to ultimately settle individual claims. Case reserves are based on claims notifications received from the insured. In certain instances, management may establish additional case reserves, even when the insured does not report any liability on a known event. For example, if the event occurred and the affected contract is known (this is not treated as IBNR).

(vii) Unexpired risks provision

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision ("UPP") and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risks surpluses and deficits are offset where business classes are managed together, and a provision is made if an aggregate deficit arises. The unexpired risks provision is included within 'Other technical provisions'.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(e) Insurance contracts- continued

(viii)Deferred acquisition costs (DAC)

DAC is capitalised and amortised in a manner similar to that used for amortising unearned premiums. This ensures that these costs are capitalised and charged to expenses in proportion to the related premium revenues recognised.

The determination of the Company's DAC balance is based on the relationship of underwriting-related costs incurred to written premiums, essentially the "equity-in-unearned-premium method." The Company applies this relationship on a consistent basis throughout the terms of the policies unless adjustments for premium deficiencies are required.

A premium deficiency results if the sum of expected future incurred losses and loss adjustment expenses, deferred acquisition costs, expected future maintenance costs, and minus anticipated future investment income exceeds the related total unearned premiums at the measurement date. Management evaluates potential premium deficiencies at the level they deem appropriate. In the event of a premium deficiency, the deficiency is recognised through the Profit & Loss account by creating an unexpired risks provision.

(ix) Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

(f) Investment return

(i) Investment return

Investment income represents deposit interest and interest earned on fixed maturity investments and is credited to the non-technical account.

(ii) Allocated investment return transferred from the non-technical account

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account to reflect that proportion of the investment return arising on technical provisions and related shareholders' funds. This transfer is made so that the balance on the technical account is based on a longer-term rate of investment return and is not subject to distortion from short-term fluctuations in investment return.

(iii) Interest income

Interest income is recognised using the effective interest rate method. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(f) Investment return - continued

(iv) Realised gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original purchase price.

(v) Unrealised gains and losses

Unrealised gains and losses on investments are calculated as the difference between the market value at the end of the year and the market value at the beginning of the year or purchase cost for assets acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier periods which are now realised.

(g) Employee benefits

The Company provides a range of benefits to its employee, including short term employee benefits such as annual bonus arrangements and paid holiday arrangements and post-employment benefits in the form of defined contribution pension plans.

(i) Short term employee benefits

Short-term employee benefits, including paid holiday arrangements and other similar non-monetary benefits, are recognised as an expense in the financial year in which the employee renders the related service. The Company operates an annual bonus plan for its employee. An expense is recognised in the profit and loss account when the Company has a present legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(ii) Post-employment benefits: Defined contribution plan

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

(iii) Share-based payments

The Company's employee participates in a share-based payment arrangement established by the ultimate parent company. The employee is granted restricted share units and/or share options over equity shares and/or share appreciation rights over equity shares of Arch Capital Group Ltd. The Long-Term Incentive and Share Award Plan is measured at the fair value of the award at date of grant and charged in the profit and loss account over the vesting period. The corresponding entry is recognised within equity.

(h) Income tax

Income tax expense for the financial year comprises current and deferred tax recognised in the financial year. Income tax expense is presented in the same component of total comprehensive income (profit and loss account or other comprehensive income) or equity as the transaction or other event that resulted in the income tax expense.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the financial year or past financial years. Current tax is measured at the amount of current tax that is expected to be paid using tax rates and laws that have been enacted or substantively enacted by the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(h) Income tax- continued

(i) Current tax - continued

The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. A current tax liability is recognised where appropriate and measured on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax is recognised in respect of timing differences, which are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in financial years different from those in which they are recognised in financial statements.

(i) Tangible fixed assets

Tangible fixed assets, which consist of computer equipment and office furniture, are carried at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to the location and condition necessary for its intended use, applicable dismantling, removal and restoration costs and borrowing costs capitalised.

(i) Depreciation and residual values

Depreciation on fixed assets is calculated, using the straight-line method over their estimated useful lives, ranging from three to eight years.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each financial year. The effect of any change in either residual values or useful lives is accounted for prospectively.

(ii) Subsequent additions and major components

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.
The carrying amount of any replaced component is derecognised. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(iii) Derecognition

Tangible fixed assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents are initially measured at transaction price and subsequently measured at amortised cost.

Bank deposits which have original maturities of more than three months are not cash and cash equivalents and are presented as current asset investments.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(k) Financial instruments

The Company has chosen to apply the provisions of Sections 11 and 12 of FRS 102 to account for its financial instruments.

(i) Financial assets

Basic financial assets, including debtors arising out of insurance operations, other debtors, cash and cash equivalents, short-term deposits and investments in corporate bonds, are initially recognised at transaction price (including transaction costs), unless the arrangement constitutes a financing transaction. Where the arrangement constitutes a financing transaction the resulting financial asset is initially measured at the present value of the future receipts discounted at a market rate of interest for a similar debt instrument.

Debtors arising out of insurance operations, other debtors, cash and cash equivalents, investments in corporate bonds and financial assets from arrangements which constitute financing transactions are subsequently measured at amortised cost using the effective interest method.

At the end of each financial year financial assets measured at amortised cost are assessed for objective evidence of impairment. If there is objective evidence that a financial asset measured at amortised cost is impaired an impairment loss is recognised in profit or loss. The impairment loss is the difference between the financial asset's carrying amount and the present value of the financial asset's estimated cash inflows discounted at the asset's original effective interest rate.

If, in a subsequent financial year, the amount of an impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment was recognised the previously recognised impairment loss is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment loss not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such financial assets are subsequently measured at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are subsequently measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of ownership of the financial asset are transferred to another party or (c) control of the financial asset has been transferred to another party who has the practical ability to unilaterally sell the financial asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including creditors arising out of insurance and reinsurance operations and other creditors, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction. Where the arrangement constitutes a financing transaction the resulting financial liability is initially measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Summary of significant accounting policies – continued

(k) Financial instruments - continued

(ii) Financial liabilities- continued

Creditors arising out of insurance and reinsurance operations, other creditors, and financial liability from arrangements which constitute financing transactions are subsequently carried at amortised cost, using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is treated as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Creditors are classified as due within one year if payment is due within one year or less. If not, they are presented as falling due after more than one year. Creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Derivatives

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The Company does not apply hedge accounting for interest rate swaps or forward foreign exchange contracts.

(iv) Offsetting

Financial assets and liabilities are offset, and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

(l) Share capital presented as equity

Equity shares issued are recognised at the proceeds received. Incremental costs directly attributable to the issue of new equity shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) Distributions to equity shareholders

Dividends and other distributions to the Company's equity shareholders are recognised as a liability in the financial statements in the financial year in which the dividends and other distributions are approved by the Company's Board of Directors.

The ultimate parent company allocates for the cost of share-based payments arrangements to the Company and such amounts are treated as an increase in the capital contribution. If the amount allocated is in excess of the share-based payment charge the Company treats the excess as a notional distribution and charges this to profit and loss account in equity.

(n) Insurance business transfer

An insurance business transfer between Group companies is considered to be a transfer made of a business combination under common control. The assets and liabilities transferred are recorded at predecessor value which is a basis consistent with previous accounting for such transactions.

NOTES TO THE FINANCIAL STATEMENTS - continued

4 Critical accounting judgements and estimation uncertainty

(a) Critical judgement in applying the entity's accounting policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgement, apart from those involving estimates, made by the directors has had significant effect on the amounts recognised in the financial statements:

(i) Significant judgements in applying the accounting policies

(a) Significant insurance risk

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

(b) Allowance for risk and uncertainty within claims outstanding

In setting the provision for insurance liabilities, a best estimate is determined on an undiscounted basis and an allowance for risk and uncertainty is added.

(b) Sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the liability is €293,284,725 (2019: €25,782,453). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices and experience of development of similar claims.
The impact of COVID-19 on different lines of business has been considered.
Mortgage Insurance is expected to experience an increase in average severity of claims, although average indemnity is relatively low. The frequency of mortgage insurance claims is expected to increase due to macro-economic conditions, although claims will take time to emerge.
Loss experience for motor insurance is expected to decline temporarily due to lower vehicle miles per insured driver.
The impact of COVID-19 to date on general insurance has been benign although allowance has been made for future losses.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. See note 11 for disclosures relating to these provisions and note 5 for discussion of the related risks.

NOTES TO THE FINANCIAL STATEMENTS - continued

4 Critical accounting judgements and estimation uncertainty – continued

(b) Sources of estimation uncertainty - continued

ii) Pipeline premium

The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end ("pipeline premiums") based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within gross written premium is €12,782,660 (2019: €10,113,693), of that €11,193,128 is unearned at 31 December 2020 (2019: €8,653,307).

5 Management of insurance and financial risk

The Company issues contracts that transfer underwriting or financial risk or both. The Company is also exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. This section summarises these risks and the way the Company manages them.

(a) Underwriting risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. The actual number and value of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted across insureds and countries to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location covered.

Significant assumptions

For insurance risks, the Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.
The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent underwriting years or new classes of business).

NOTES TO THE FINANCIAL STATEMENTS – continued

5 Management of insurance and financial risk – continued

(a) Underwriting risk - continued

The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual underwriting years or groups of underwriting years within the same class of business.

For insurance contracts, the incurred but not reported loss reserve ("IBNR") is determined based on the sum of three components: contract-specific IBNR, bulk IBNR and unallocated loss adjustment expenses ("ULAE"). For earlier underwriting years, the contract-specific IBNR is calculated using a Bornhuetter-Ferguson ("BF") or initial loss rate methodologies with assumptions selected for each contract. For recent underwriting years, the contract specific IBNR is calculated using initial loss rate methodologies. The ULAE is calculated for all years as a percentage of IBNR, outstanding loss reserves ("OSLR") and additional case reserves ("ACR"). At each quarterly review, the assumptions are subject to change based on information that may come to light.

Using these methodologies, the estimated ultimate cost of claims, on a gross and net basis is set out below:

Claims development tables

Claims outstanding (gross)

Reporting year (Underwriting Year)	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of ultimate claims costs:										
-at end of reporting year	-	-	-	14	58	75	857	20,444	33,287	54,735
-One year later	-	4	9	100	287	419	4,009	105,462	-	110,290
-Two years later	2	18	24	213	752	989	37,044	-	-	39,042
-Three years later	4	36	38	353	1,240	25,193	-	-	-	26,864
-Four years later	5	17	52	468	19,497	-	-	-	-	20,039
-Five years later	2	19	76	26,019	-	-	-	-	-	26,116
-Six years later	2	20	11,861	-	-	-	-	-	-	11,883
-Seven years later	3	12,245	-	-	-	-	-	-	-	12,248
-Eight years later	12,517	-	-	-	-	-	-	-	-	12,517
Current estimate of cumulative claims	12,517	12,245	11,861	26,019	19,497	25,193	37,044	105,462	33,287	283,125
Cumulative payments to date	-	-	-	-	(82)	(75)	(54)	(15,695)	(3,431)	(19,337)
Liability recognised in the balance sheet	12,517	12,245	11,861	26,019	19,415	25,118	36,990	89,767	29,856	263,788
Provision in respect of prior years										29,497
Total provision included in balance sheet										293,285

Claims outstanding (net)

Reporting year (Underwriting Year)	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of ultimate claims costs:										
-at end of reporting year	-	-	-	1	6	6	85	2,535	4,537	7,170
-One year later	-	4	2	10	26	39	400	13,925	-	14,406
-Two years later	2	3	1	13	66	95	3,009	-	-	3,189
-Three years later	1	2	4	23	117	1,506	-	-	-	1,653
-Four years later	1	2	6	39	999	-	-	-	-	1,047
-Five years later	-	2	8	1,710	-	-	-	-	-	1,720
-Six years later	-	2	650	-	-	-	-	-	-	652
-Seven years later	-	887	-	-	-	-	-	-	-	887
-Eight years later	1,496	-	-	-	-	-	-	-	-	1,496
Current estimate of cumulative claims	1,496	887	650	1,710	999	1,506	3,009	13,925	4,537	28,719
Cumulative payments to date	-	-	-	-	(11)	(8)	(5)	(2,194)	(505)	(2,723)
Liability recognised in the balance sheet	1,496	887	650	1,710	988	1,498	3,004	11,731	4,032	25,996
Provision in respect of prior years										3,655
Total provision included in balance sheet										29,651

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Management of insurance and financial risk - continued

(b) Financial risk management objectives

The Company is exposed to a range of financial risks; in particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company faces due to the nature of its investment and liabilities are interest rate risk and currency risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It manages these positions within an asset liability management ("ALM") framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Company produces regular reports that are circulated to the Company's key management personnel. The principal technique of the Company's ALM is to match duration of assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the Company's ALM framework.

(c) Market risk

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The Company manages its exposure to Interest Rate Risk by matching assets and liabilities in terms of rates (fixed or floating) and duration. Quarterly reporting on the investment portfolio by Arch Investment Management ("AIM") to Senior Management of the Company and the Board includes duration and interest rate analysis. AIM personnel also run sensitivity analysis across portfolios for exposure to changes in interest rates under different market scenarios.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The sensitivity of the price of a bond is also closely correlated to its duration. The longer the duration of a security, the greater its price volatility.

Interest Rate shift in basis points

Interest rate risk	**2020**	**2019**
	€	**€**
Impact of 100 basis point increase on result	(3,208,000)	(2,559,000)
Impact of 100 basis point decrease on result	3,356,000	2,675,000
Impact of 100 basis point increase on net assets	(3,208,000)	(2,559,000)
Impact of 100 basis point decrease on net assets	3,356,000	2,675,000

Equity price risk

The Company does not hold investments in equity products (2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Management of insurance and financial risk – continued

(c) Market risk - continued

Currency risk
Currency risk is accepted by the Company as it chooses not to hedge foreign exchange exposures. Such exposures of the Company are monitored by management and reported on to Arch Capital Group Ltd., who manage currency exposures across the Group.

(d) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers; and
- bank and cash counterparties.

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the insured. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

Exposures to insureds are collected within the on-going monitoring of the controls associated with regulatory solvency.

Where there exists significant exposure to individual insureds, or groups of insureds, a financial analysis equivalent to that conducted for reinsurers is carried out by the management. An analysis of insureds and reinsurers by credit ratings produced by external rating agencies is produced periodically.

Credit distribution of invested assets and cash

	2020	2020	2019	2019
Standard & Poor's	**€**	**%**	**€**	**%**
AAA	820,770	1%	4,344,092	5%
AA	43,609,463	36%	38,809,826	47%
A	35,805,572	30%	25,943,666	32%
BBB	10,382,890	8%	-	0%
Non-rated S&P	1,683,827	1%	7,769,180	9%
Cash and cash equivalents	30,031,370	25%	5,588,247	7%
Total	**122,333,892**	**100%**	**82,455,011**	**100%**

The distribution of credit risk has changed compared to prior year following changes to investment guidelines during 2020. The concentration of credit risk is substantially unchanged. No credit limits were exceeded during the year. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties. The Company maintains strict control limits on invested asset positions, by both amount and term.

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Management of insurance and financial risk – continued

(d) Credit risk - continued

Credit Risk – time buckets

	Neither due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Total
		Up to three months	Three to six months	Six months to one year	Greater than one year		
	€	€	€	€	€	€	€
2020							
Shares and other variable yield securities and unit trusts	-	-	-	-	-	-	-
Debt securities	92,302,522	-	-	-	-	-	92,302,522
Reinsurer' share of claims outstanding	263,633,460	-	-	-	-	-	263,633,460
Insurance debtors	49,302,867	-	-	-	-	-	49,302,867
Reinsurance debtors	22,516,959						22,516,959
Deposits with ceding undertakings	8,001,347	-	-	-	-	-	8,001,347
Other debtors	2,003,247	-	-	-	-	-	2,003,247
Cash at bank and in hand	30,031,370	-	-	-	-	-	30,031,370
Total credit risk	467,791,772	-	-	-	-	-	467,791,772

	Neither due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Total
		Up to three months	Three to six months	Six months to one year	Greater than one year		
	€	€	€	€	€	€	€
2019							
Shares and other variable yield securities and unit trusts	-	-	-	-	-	-	-
Debt securities	76,866,764	-	-	-	-	-	76,866,764
Reinsurer' share of claims outstanding	22,314,613	-	-	-	-	-	22,314,613
Insurance debtors	32,334,406	-	-	-	-	-	32,334,406
Other debtors	1,028,682	-	-	-	-	-	1,028,682
Cash at bank and in hand	5,588,247	-	-	-	-	-	5,588,247
Total credit risk	138,132,712	-	-	-	-	-	138,132,712

(e) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Management of insurance and financial risk – continued

(e) Liquidity risk- continued

2020	Less than 1 year €	1-5 years €	5+ years €	Total €
Creditors arising out of insurance operations	2,836,677	-	-	2,836,677
Creditors arising out of reinsurance operations	58,869,094	-	-	58,869,094
Other creditors including tax and social security	3,332,305	-	-	3,332,305
Deferred ceding commission and acquisition costs	33,297,231	-	-	33,297,231
Accruals and deferred income	1,056,173	-	-	1,056,173
	99,391,480	**-**	**-**	**99,391,480**

2019	Less than 1 year €	1-5 years €	5+ years €	Total €
Creditors arising out of insurance operations	40,596	-	-	40,596
Creditors arising out of reinsurance operations	37,685,214	-	-	37,685,214
Other creditors including tax and social security	6,094,227	-	-	6,094,227
Deferred ceding commission and acquisition costs	20,513,875	-	-	20,513,875
Accruals and deferred income	523,678	-	-	523,678
	64,857,590	**-**	**-**	**64,857,590**

(f) Capital management

The Company maintains an efficient capital structure from equity shareholders’ funds, consistent with the Company’s risk profile and the regulatory and market requirements of its business.

The Company’s objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and

An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it. The Company considers not only the traditional sources of capital funding but alternative sources of capital such as reinsurance when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The Solvency II regime has been effective since 1 January 2016 and establishes a set of EU-wide capital requirements, risk management and disclosure standards. The Company is required to meet a Solvency Capital Requirement (“SCR”) which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile.

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Management of insurance and financial risk – continued

(g) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices in an active market (Level 1).
- Recent transactions in an identical asset if there is unavailability of quoted prices (Level 2).
- Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value (Level 3).

The following table presents the Company's assets measured at fair value at 31 December 2020 and at 31 December 2019. No liabilities were measured at fair value at 31 December 2020 or 31 December 2019.

As at 31 December 2020	**Level 1**	**Level 2**	**Level 3**
	€	**€**	**€**
Debt securities and other fixed income securities	24,539,000	67,763,520	-
	24,539,000	67,763,520	-

As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**
	€	**€**	**€**
Debt securities and other fixed income securities	13,006,000	63,860,764	-
	13,006,000	63,860,764	-

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in note 3(l). These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Government Treasury Bonds. If observable prices are available for recent arm's length transactions, the instrument is included in Level 2. The Company has asset backed securities and units in unit trust investments which are classified as Level 2. The valuations for these reflect the price of a recent transaction for an identical asset. The Company closely monitors the valuation of assets in markets that have become less liquid.

Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

NOTES TO THE FINANCIAL STATEMENTS - continued

6 Analysis of Premiums

(a) **Analysis of gross premiums written by geographic location of insured:**

	2020 €	2019 €
Europe	215,440,810	99,618,091
Other	-	551,551
	215,440,810	100,169,642

(b) **Analysis of gross premiums written by geographic location of underwriting office:**

	2020 €	2019 €
Ireland - Head Office	97,083,016	66,126,294
UK branch	61,424,666	15,258,093
Denmark branch	26,460,176	10,490,796
Italy branch	30,472,952	8,294,459
	215,440,810	100,169,642

(c) **Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and reinsurance balances by class of business:**

2020	Gross Premiums Written 2020 €	Gross Premiums Earned 2020 €	Gross Claims Incurred 2020 €	Gross Operating Expenses 2020 €	Reinsurance Balances 2020 €
Accident & Health	5,433,220	4,782,398	2,985,727	2,477,674	61,135
Motor, Third Party Liability	76,765,066	71,580,095	47,026,011	16,274,377	(8,153,158)
Motor, Other classes	8,529,452	7,953,344	5,225,112	1,808,264	(905,907)
Marine Aviation & transport	15,916,130	11,998,818	6,003,579	4,736,126	(923,417)
Fire and other damage to property	12,073,742	8,861,477	6,059,015	3,471,937	(837,862)
Third Party liability	72,366,266	54,673,493	32,615,226	22,003,096	(67,450)
Credit & suretyship	8,588,722	10,897,052	8,064,724	3,591,176	409,385
Miscellaneous	3,199,777	2,758,327	1,379,163	983,278	(420,014)
Part VII	12,568,435	-	-	-	-
	215,440,810	173,505,004	109,358,557	55,345,928	(10,837,288)

NOTES TO THE FINANCIAL STATEMENTS – continued

6 Analysis of Premiums - continued

2019	**Gross Premiums Written 2019 €**	**Gross Premiums Earned 2019 €**	**Gross Claims incurred 2019 €**	**Gross Operating Expenses 2019 €**	**Reinsurance Balances 2019 €**
Accident & Health	796,861	391,768	232,815	134,677	(1,192)
Motor, Third Party Liability	49,970,176	17,232,956	12,385,910	4,035,698	(967,171)
Motor, Other classes	5,552,242	1,914,773	1,376,212	448,411	(107,463)
Marine Aviation & transport	4,636,342	1,462,451	2,150,194	501,776	1,067,842
Fire and other damage to property	5,001,992	3,361,016	1,923,439	1,461,497	(150,456)
Third Party liability	23,608,153	5,278,680	3,540,352	2,085,074	257,582
Credit & suretyship	8,931,581	9,124,340	4,373,870	4,766,735	(1,929,622)
Miscellaneous	1,672,295	421,789	210,894	164,888	(94,452)
	100,169,642	39,187,773	26,193,686	13,598,756	(1,924,932)

7 Investment Return

	2020 €	**2019 €**
Investment income		
Interest income	1,570,006	1,850,524
Investment return		
Foreign exchange losses on investments	(5,848,701)	(454,489)
Unrealised gains on investments	2,167,298	1,322,349
Realised gains on investments	511,643	3,112,240
Total investment income and investment return	**(1,599,754)**	**5,830,624**
Investment expenses and charges	(158,006)	(146,516)
Total investment return	(1,757,760)	5,684,108
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	1,923,643	4,816,248
Net investment return included in the non-technical account	(3,681,403)	867,860
Total investment return	(1,757,760)	5,684,108

NOTES TO THE FINANCIAL STATEMENTS – continued

8 Net Operating Expenses

(a) Net operating expenses	2020	2019
	€	€
Acquisition costs	48,991,228	20,696,671
Change in deferred acquisition costs	(7,416,673)	(14,298,590)
Administration expenses	13,771,373	7,200,675
Gross operating expenses	55,345,928	13,598,756
Reinsurance commissions	(45,801,911)	(9,629,743)
Net operating expenses	**9,544,017**	**3,969,013**
Administration expenses include:		
Depreciation	12,168	5,866
Directors' fees	145,000	142,917
Foreign exchange losses - included in other operating expenses	203,303	14,845

(b) Auditors' remuneration	2020	2019
	€	€
Remuneration (including expenses) for the statutory audit and other services carried out for the Company by the Company's auditors is as follows:		
Audit of entity financial statements	76,260	70,550
Other assurance services	62,580	60,080
Statutory audit fees to other PwC offices*	50,274	25,964
Tax advisory services	5,000	5,900

*Fees quoted were GBP 45,000 (2019: GBP 22,000) and were converted at year end exchange rate.

9 Tax on ordinary activities

(a) Tax (expense) on (loss) / profit	2020	2019
Current tax:	€	€
Irish corporation tax on loss / profit for the financial year	(70,421)	(11,799)
Deferred tax:		
Origination and reversal of timing differences	63,852	(394,061)
Tax (expense) on loss / profit on ordinary activities	(6,569)	(405,860)

NOTES TO THE FINANCIAL STATEMENTS – continued

9 Tax on ordinary activities - continued

b) Reconciliation of tax expense

Tax assessed for the financial year is higher (2019: lower) than the standard rate of corporation tax in the Republic of Ireland for the financial year ended 31 December 2020 of 12.5% (2019:12.5%). The differences are explained below:

	2020	2019
	€	€
(Loss) / Profit on ordinary activities before tax	(3,650,160)	3,265,687
(Loss) / Profit multiplied by the standard rate of tax in the Republic of Ireland for the financial year ended 31 December 2020 of 12.5% (2019:12.5%)	456,270	(408,211)
Effects of:		
Current tax		
- Capital allowances	2,402	3,452
- Expenses not deductible for tax purposes	-	4,239
- Provision to return true up: prior year	(70,421)	(11,800)
- Tax on additional profits not previously calculated	72,086	(26,436)
- Group losses (carried forward) / utilised	(530,757)	426,957
Deferred tax		
- Provision to return true up	66,253	37,041
- Origination and reversal of timing differences	(2,402)	(431,102)
Tax (expense) on loss / profit on ordinary activities	(6,569)	(405,860)

10 Other financial investments

	2020 Market value	2020 Cost	2019 Market value	2019 Cost
	€	€	€	€
Debt securities and other fixed interest securities	92,302,520	95,803,425	76,866,764	76,631,526
Short Term Investments	18,986,613	18,989,860	251,536	253,714
	111,289,133	**114,793,285**	**77,118,300**	**76,885,240**

Short term investments include cash consideration of €18,440,029 received from AIUK under the Part VII business transfer agreement on 31st December 2020 and deposited to the investment portfolio. See Note 21 for more details.

NOTES TO THE FINANCIAL STATEMENTS – continued

11 Reconciliation of insurance balances

(a) The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2020	2019	2020	2019
	€	€	€	€
At 1 January	81,224,090	20,242,221	71,549,853	18,376,161
Increase in provision	29,418,145	60,794,927	24,921,246	53,173,692
Part VII transfer values	12,568,435	-	11,176,393	-
Foreign exchange movements	(50,773)	186,942	4,803	-
At 31 December	123,159,897	81,224,090	107,652,295	71,549,853

(b) The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2020	2019	2020	2019
	€	€	€	€
At 1 January	25,782,453	2,454,003	22,798,801	2,233,058
Increase in provision	92,893,263	23,322,547	80,443,900	20,565,743
Part VII transfer values	174,636,678	-	160,390,759	-
Foreign exchange movements	(27,669)	5,903	-	-
At 31 December	293,284,725	25,782,453	263,633,460	22,798,801

12 Reinsurance Assets

The Company benefits from an intra-group quota share agreement with Arch Reinsurance Limited, the level of which was set at 90% up until 25th March 2019 and is 85% from 26th March 2019. Reinsurers' share of technical provisions, as set out in the Balance Sheet, includes an asset of €263,633,460 (2019: €22,798,801) in respect of claims outstanding. Included in this figure is €173,175,609 (2019: €20,805,361) recoverable under the intra-group quota share agreement. The remainder of €90,457,851 (2019: €1,993,440) represents amounts recoverable from non-group reinsurers.

13 Debtors arising out of insurance operations

Debtors arising out of direct insurance operations	**2020**	**2019**
	€	**€**
Insurance premiums receivable	49,302,867	35,801,650
Commissions receivable	-	235,876
	49,302,867	36,037,526

Debtors arising out of reinsurance operations	**2020**	**2019**
	€	**€**
Paid losses and adjustment expenses recoverable	22,516,959	787,118
	22,516,959	787,118

All debtors arising out of insurance operations are due within one year.

NOTES TO THE FINANCIAL STATEMENTS – continued

14 Tangible Fixed Assets

	Computer Equipment €	Fixtures & Fittings €	Total €
At 1 January 2019			
Cost or deemed cost	4,312	-	4,312
Accumulated depreciation and impairment	(3,757)	-	(3,757)
Carrying amount	555	-	555
Financial year ended 31 December 2019			
Opening carrying amount	555	-	555
Additions	19,806	7,190	26,996
Disposals	-	-	-
Derecognition - cost	(4,312)	-	(4,312)
Derecognition - accumulated depreciation	4,312	-	4,312
Depreciation	(5,507)	(359)	(5,866)
Carrying amount	(283,237)	(50,723)	(333,960)
At 31 December 2019			
Cost or deemed cost	19,806	7,190	26,996
Accumulated depreciation and impairment	(4,952)	(359)	(5,311)
Carrying amount	14,854	6,831	21,685
Financial year ended 31 December 2020			
Opening carrying amount	14,854	6,831	21,685
Additions	16,972	3,190	20,162
Disposals	-	-	-
Depreciation	(10,571)	(1,597)	(12,168)
Carrying amount	21,255	8,424	29,679
At 31 December 2020			
Cost or deemed cost	36,778	10,380	47,158
Accumulated depreciation and impairment	(15,523)	(1,956)	(17,479)
Carrying amount	21,255	8,424	29,679

NOTES TO THE FINANCIAL STATEMENTS – continued

15 Deferred Tax Asset

	2020	2019
	€	€
Deferred Tax Asset	208,864	145,013
The reconciliation of opening and closing deferred tax asset is as follows:		
At 1 January	145,013	539,074
DTA effect of unrealised investment losses	-	(99,992)
DTA effect of capital allowance	(2,402)	(3,452)
DTA effect of Net Operating Losses	-	(303,865)
Provision - Return True up	66,253	13,248
At 31 December	208,864	145,013

16 Deferred acquisition costs

	2020	2019
	€	€
On insurance contracts	25,690,204	15,084,705
The reconciliation of opening and closing deferred acquisition costs is as follows:		
At 1 January	15,084,705	786,115
Expenses for the acquisition of insurance contracts deferred during the year	12,593,545	14,444,391
Amortisation	(5,176,872)	(145,801)
Part VII transfer values	3,188,826	-
At 31 December	25,690,204	15,084,705

17 Called up Share Capital and Reserves

Equity shares of €1.00 each	2020	2019
	€	€
Authorised:		
100,000,000 shares (2019: 100,000,000 shares)	100,000,000	100,000,000
Allotted and fully paid - presented as equity:		
65,000,000 shares (2019: 65,000,000 shares)	65,000,000	65,000,000

There is a single class of equity shares. There are no restrictions on the distribution of dividends and the repayment of capital. All shares carry equal voting rights and rank for dividends to the extent to which the total amount on each share is paid up.

A description of each reserve within equity is outlined below:

Profit and loss account
Profit and loss account represents accumulated losses for the financial year and prior financial years.

NOTES TO THE FINANCIAL STATEMENTS – continued

17 Called up Share Capital and Reserves - continued

Capital contribution
The capital contribution represents capital contributions received from 2011 to 2020.

A non-repayable capital contribution of €2,252,008 was received from Arch Financial Holdings Europe II Limited, on 6th December 2011. This represents the difference in Euro between the USD 90,000,000 deposited as payment of share capital and the EUR 65,000,000 paid up share capital, at the exchange rate prevailing on December 6th 2011.

Additional capital contributions were recorded from 2012 to 2019, in respect of share-based compensation allocations under Arch Capital Group Ltd.'s long term incentive schemes.

A non-repayable capital contribution of €30,000,000 was received from Arch Financial Holdings Europe II Limited, on 4th December 2020.

The table below provides details of the value and denomination of capital contributed and the Euro conversion rate used:

	Denomination/ Value	Conversion rate	Capital contributed €
Value as at 1 January 2019			**2,546,843**
Share based compensation - 2019	(USD 38,601)	0.8909	(33,915)
Value as at 31 December 2019			**2,512,928**
Capital contribution	EUR 30,000,000	1.0000	30,000,000
Value as at 31 December 2020			**32,512,928**

18 Creditors – amounts falling due within one year

Creditors arising out of insurance operations	**2020**	**2019**
	€	**€**
Losses payable	-	(47,158)
Commissions payable	2,836,677	87,754
	2,836,677	40,596

Creditors arising out of reinsurance operations	**2020**	**2019**
	€	**€**
Premiums due to group companies, net of commission	10,232,897	32,735,012
Premiums due to other reinsurers	9,238,477	4,950,202
Reinsurance balances due to group companies	39,215,148	-
Ceded deferred acquisition costs	-	15,211,296
Ceded deferred excess commission	-	5,302,579
Ceded funds held	182,572	-
	58,869,094	58,199,089

NOTES TO THE FINANCIAL STATEMENTS – continued

18 Creditors: amounts falling due within one year – continued

Other creditors including tax and social security	**2020**	**2019**
	€	**€**
Other creditors including tax and social insurance comprise:		
PAYE	333	1,121
PRSI	17	81
VAT	3,406	-
Corporate tax	70,753	-
Insurance premium tax	2,270,281	1,720,622
Amounts due to other group companies	987,515	4,372,403
	3,332,305	6,094,227

Accruals and deferred Income	**2020**	**2019**
	€	**€**
Accruals and Accounts Payable	1,056,173	523,678
Ceded deferred acquisition costs	28,305,071	-
Ceded deferred excess commission	4,992,160	-
	34,353,404	523,678

All creditors are due within one year.

19 Share-based payments

Share based payment movements amounting to €nil (2019: credit of €33,915) relate to the Long-Term Incentive and Share Award Plan (the "2018 plan") adopted by Arch Capital Group Ltd. in February 2018 and the Employee Share Purchase Plan ("ESPP") adopted by Arch Capital Group Ltd. in June 2007. To reflect unvested shares at the time of the former CEO's departure, an adjustment was made in 2019 to reverse the expense previously recharged.

Under the 2018 plan, Share Options and Share Appreciation Rights ("SAR") become exercisable over a period of not less than one year following the date the Option or SAR is granted. The exercise price per share option shall not be less than the Fair Market Value on the date of grant of the option. The term of the option shall not exceed ten years from the date of grant of the Option. Restricted Share Units vest over a period of not less than one year following the date the applicable award is granted. Employees are required to remain in employment with the group throughout the vesting period. Arch Capital Group Ltd. makes annual grants in May each year.

The ESPP allows all employees the opportunity to share in the success of the Company by purchasing Arch Capital Group Ltd. shares at a 15% discount of the fair market value of the share at the beginning of applicable offering period.

The current period effect of the 2018 Plan and the ESPP scheme on the profit and loss account is €nil (2019: credit of €33,915).

NOTES TO THE FINANCIAL STATEMENTS – continued

20 Employees and directors

The Company is resourced by employees of other Arch companies who are leased back to this company. The associated expense is recorded in administration expenses but is not categorised as staff costs.

(a) Employees	**2020 Number**	**2019 Number**
The average number of persons employed by the Company during the financial year was:		
CEO	1	1
	1	1

Staff costs comprise:	**2020 €**	**2019 €**
Wages and salaries	172,067	143,388
Severance pay	-	111,200
Social insurance costs	(32,615)	33,786
Staff costs	**139,452**	**288,374**

All staff costs have been treated as an expense in the profit and loss account.

(b) Directors

	2020	**2019**
Emoluments:	**€**	**€**
- For services as directors	145,000	142,917
- For other services	172,067	744,162
Total emoluments	**317,067**	**887,079**
Compensation for loss of office paid and payable by the Company and other termination payments	-	111,200

The remuneration of the following directors: Beau Franklin, Michael Hammer, Catherine Kelly, Mark Nolan, Maamoun Rajeh and Kirsten Valder is paid by their respective employer within the Arch group. Their services to this company and to a number of fellow subsidiaries are of a non-executive nature and their remuneration is deemed to be wholly attributable to their services to their employer. Accordingly, the above details include no remuneration in respect of the above listed directors.

21 General Insurance business transfer

On 31 December 2020, a subset of AIUK's general insurance business together with related assets and liabilities, were transferred to the Company by way of an insurance business transfer scheme under Part VII of the UK's Financial Services and Markets Act 2000.

The cash consideration was determined based on the value of the assets and liabilities transferred, calculated on a Solvency II basis of predecessor value. The Irish GAAP value, presented in these financial statements, of the assets transferred was €222.1m inclusive of cash consideration and exceeds the liabilities transferred of €222.0m by €0.1m, leading to a gain for the Company. The gain has been recognised within the 'Other Income' line of the Profit and Loss Technical Account.

NOTES TO THE FINANCIAL STATEMENTS – continued

21 General Insurance business transfer - continued

The assets and liabilities transferred were as follows:

Assets	**Notes**	**€**
Financial investments	10	18,440,029
Reinsurers' share of unearned premiums	11	11,176,393
Reinsurers' share of claims outstanding	11, 12	160,390,757
Deposits with ceding undertakings		3,854,471
Debtors arising out of direct insurance operations	13	6,570,320
Debtors arising out of reinsurance operations	13	18,536,093
Deferred acquisition costs	16	3,188,825
Total assets		**222,156,888**
Liabilities		
Provision for unearned premiums	11	12,568,435
Provision for claims outstanding	11	174,636,678
Creditors arising out of reinsurance operations	18	34,821,065
Total liabilities		**222,026,178**
Gain on transfer		**130,710**

22 Related party transactions

See note 20 for disclosure of the directors' remuneration.

The Company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within Arch Capital Group Ltd.

23 Events since the end of the financial year

No events have occurred since the year end.

24 Going concern

The directors have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue ('the period of assessment') and have prepared the financial statements on a going concern basis.

In making this assessment the directors considered the impact of COVID-19 on the Insurance industry and the Company's business, including:

- the Company's capital position and the surplus over its Solvency Capital requirements and minimum capital ratio reflect the fact that the Company expects to have sufficient Own Funds to meet its Solvency Requirements;
- the outcome of the stress and sensitivity tests carried out by the Company as part of its ORSA process;
- the impact of Covid-19 on the Company's business to date and the assessments of the potential future impact of Covid-19 on the Company's business including solvency position;

NOTES TO THE FINANCIAL STATEMENTS – continued

24 Going concern - continued

- forecasts for the period of assessment which are based on the Company's/Group's historic performance and its past record of achieving strategic objectives;
- the Company's level of reinsurance;
- the credit rating of the Company's ultimate parent and principal reinsurance counterparties; and
- the company's liquidity position and conservative investment strategy.

On that basis, the Directors consider it appropriate to prepare the financial statements on a going concern basis. As such the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

25 Approval of financial statements

The financial statements were approved by the Board of Directors on 16th April 2021.