MARCO CAPITAL HOLDINGS LIMITED

GROUP SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDED DECEMBER 31, 2021

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Introduction

Solvency II Introduction and Basis of Preparation

Marco Capital Holdings Limited ("MCHL" or "the Company") is an insurance holding company and through its subsidiaries (together referred to in this report as "the Group" or "Marco Group"), provides legacy solutions for property and casualty business in run-off.

This is the first Solvency and Financial Condition Report ("SFCR") of Marco Group. Publication of the SFCR is a mandatory requirement of the Solvency II Directive[1] for all insurance companies and insurance groups domiciled in the European Union ("EU"). Solvency II, effective from January 1, 2016, is a harmonised EU-wide insurance regulatory regime that aims to improve customer protection and modernise supervision of insurance companies by their local regulators.

This SFCR has been prepared in compliance with Commission Delegated Regulation (EU) 2015/35 ("the Delegated Regulation"), being the applicable European Union regulation, using the structure set out in Annex XX of that document, and in accordance with the Guidelines on reporting and public disclosure (BoS-15/109) as issued by the European Insurance and Occupational Pensions Authority ("EIOPA").

The SFCR is made up of 5 key sections that together give a comprehensive overview of the Group's business strategy and performance, its system of governance, its risk profile, its current valuation for Solvency II purposes, and its capital management approach and current capital position.

[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51 – 56.

Executive Summary

Business and performance

Marco Capital Holdings Limited ("MCHL") is the insurance holding company for the Marco Group. It provides legacy solutions for property and casualty business in run-off through its licensed (re)insurance subsidiaries.

During 2021, the Group completed its first run-off transactions which resulted in MCHL owning six subsidiaries which comprised three (re)insurance carriers, a Lloyd's corporate member, a services company and a holding company. By 31st December 2021 the Group was conducting non-life reinsurance business activities through British Reserve Insurance Co. Ltd. ("BRIC") in the UK, Humboldt Re Limited in Guernsey and Marco Insurance Limited in Malta, a subsidiary of Marco Insurance PCC Limited, also in Malta. The Group had also signed a share purchase deal with Capita plc to acquire its Lloyd's Managing Agency and its insurance services company and obtained 'in principle' approval by Lloyd's for its corporate member to establish a Reinsurance To Close ("RITC")/run-off syndicate.

The Group's material exposures are all reinsurance including property through treaty catastrophe reinsurance, casualty, and marine, aviation and transport. The Group is subject to Asbestos, Pollution and Health ("APH") exposures through its UK subsidiary, BRIC, on which there is significant reinsurance coverage.

The Group provides coverage for worldwide exposures. The material exposures that the Group is subject to are currently largely in the US, UK, Europe and Japan.

There was a pre-tax profit for the year of €25.1m. The result was largely driven by bargain purchase gains of €32.1m on acquisitions in the year offset by operating expenses.

System of governance

The Group's Board of Directors have overall oversight of the business, while the day-to-day running is conducted by management within the confines of the System of Governance; a set of rules and processes to ensure that the business is run prudently and in compliance with the Solvency II regulations.

Risk profile

The Group is exposed to a number of risks including reserving risk, market risk, credit risk, liquidity risk, conduct risk and operational risk. These risks are proactively identified, managed and mitigated using appropriate risk analytic tools and metrics.

Valuation for solvency purposes

Section D reviews the balance sheet of the Group on a Solvency II valuation basis. The balance sheet is the main mechanism by which the solvency of the Group – the amount of capital it has available to protect it and its policyholders against a shock – is assessed.

Under Solvency II the assets and liabilities are reported at fair value; that is the price that would be received to sell an asset, or paid to transfer a liability, in an arm's length transaction between market participants at the measurement date. This valuation principle is broadly similar to that stipulated by International Financial Reporting Standards ("IFRS") and used for the preparation of the Group's 2021 Financial Statements. Section D provides a reconciliation between IFRS and Solvency II reporting and commentary to explain material differences.

Technical provisions represent the current amount required to transfer insurance obligations immediately to another insurance entity and include the funds the Group has put aside specifically to pay future claims. Section D.2 examines in detail the separate elements that make up the technical provisions and explains the actuarial methods and assumptions used.

Capital management

Own Funds refers to the capital available within the Group for the purpose of absorbing shocks. The amount of Own Funds required by Solvency II is defined by the Minimum Capital Requirement ("MCR") and the Solvency Capital Requirement ("SCR"). The MCR is the level of Own Funds below which the Group may no longer legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

The table below shows the breakdown of the Group's Eligible Own Funds and the SCR and MCR coverage at 31st December 2021:

	2021 Actual (€'000s)	2021 Economic* (€'000s)	2021 Proforma (€'000s)
Eligible own funds to meet SCR	115,118	115,118	172,495
Eligible own funds to meet MCR	115,118	115,118	172,495
Solvency Capital Requirement	100,418	29,058	103,275
Minimum Capital Requirement	25,105	7,265	25,819
Ratio of own funds to SCR	114.6%	396.2%	167.0%
Ratio of own funds to MCR	458.4%	1,584.5%	668.1%

* *The actual economic capital ratio ("ECR") stands at 396.2%, after taking into consideration that certain risk mitigation benefits are in place with secured funding, which are legally binding. These benefits could not be considered in the Solvency II standard formula calculation as they do not satisfy the form required by the said formula; however from an economic substance point of view these are relevant because the actual loss absorbing capacity is higher than that reported. The solvency coverage ratio was 167.0% on a proforma basis when considering transactions completed by the date of signing this report.*

As at 31 December 2021, the above total eligible Own Funds to meet the SCR is all classified as tier one capital.

Further information about the quality of the Own Funds and the makeup of the SCR is provided in sections E.1 and E.2.

The Group uses the Solvency II standard formula to determine its capital requirements.

Statement of directors’ responsibilities and auditors report

Finally, the SFCR contains a Statement of Directors’ responsibilities and auditors report.

A. Business and Performance

A.1 Business

Name and legal form

MCHL is a private limited liability company incorporated in Malta with registration number C95663. The Company is an insurance holding company and is the parent of three (re)insurance companies, one of which in turn owns a further subsidiary which is a (re)insurance company. MCHL also owns a services company and a holding company, both in the UK.

Supervision

The Group is supervised by a college of supervisors headed by the Malta Financial Services Authority ("MFSA) The contact details are as follows:

Malta Financial Services Authority
Mdina Road, Zone 1,
Central Business District,
Birkirkara, Malta, CBD 1010
Phone: +356 21441155
Website: www.mfsa.com.mt

External Auditors

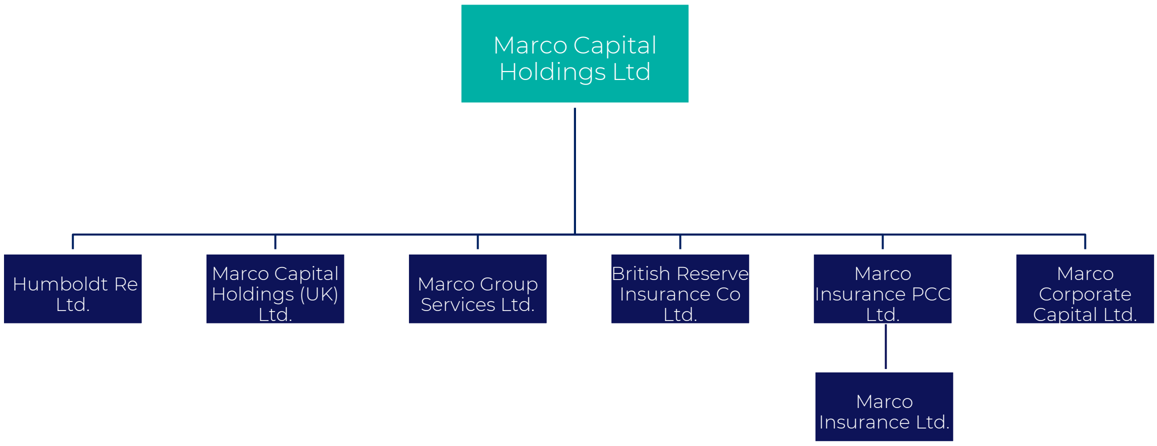
The external auditors of the Company are Mazars Malta. Their contact details are as follows:

The Watercourse, Level 2
Mdina Road, Zone 2,
Central Business District
Birkirkara, Malta, CBD 2010
Phone: +356 21345760
Website: www.mazars.com.mt

Holders of qualifying holdings and material related undertakings

MCHL is owned by private equity funds managed by Oaktree Capital Group Holdings GP, L.L.C. and Brookfield Asset Management Inc. which are considered to be the qualifying shareholders.

The structure chart below shows the Group and its subsidiaries as at 31 December 2021:



A list of all subsidiary undertakings at 31 December 2021 is included in the table below:

Name	Country of Incorporation	Type of undertaking	Ownership interest held
Humboldt Re Ltd.	Guernsey	Reinsurance company	100%
Marco Capital Holdings (UK) Ltd.	UK	Holding company	100%
Marco Group Services Ltd.	UK	Services company	100%
Marco Group Services (Malta) Ltd.	Malta	Maltese branch of Marco Group Services Ltd.	100%
British Reserve Insurance Co. Ltd.	UK	(Re)insurance company	100%
Marco Insurance PCC Ltd.	Malta	(Re)insurance company	100%
Marco Insurance Ltd.	Malta	(Re)insurance company	100%
Marco Corporate Capital Ltd.	UK	Holding company	100%

Material lines of business and material geographical areas

The Group's material lines of business and material geographical areas where it has exposures are detailed below:

Line of business	2021		2020	
	Gross €'000s	Net €'000s	Gross €'000s	Net €'000s
Marine, aviation and transportation	62,516	55,483	2,251	248
Fire and other damage to property	173,696	128,327	-	-
General liability	11,631	8,612	-	-
Credit and suretyship	46,915	46,915	-	-
Total	294,758	239,337	2,251	248

Territory	2021		2020	
	Gross €'000s	Net €'000s	Gross €'000s	Net €'000s
North America and Caribbean	61,048	52,281	1,076	-
Europe	46,915	45,993	1,175	248
Japan	47,772	17,967	-	-
Oceania	13,881	13,234	-	-
World-wide	125,142	109,862	-	-
Total	294,758	239,337	2,251	248

Significant events during the reporting period

During 2021, the Group completed its first run-off transactions (since its launch in 2020) which consisted of two share purchase deals (see below) and a reinsurance transaction. In addition, in 2021, the Group established a new risk carrier in Malta and a Lloyd's corporate member which was granted 'in principle' approval by Lloyd's Council to establish an RITC/run-off syndicate. In 2021, the Group also signed a share purchase deal with Capita plc to acquire its Lloyd's Managing Agency and its insurance services company. This transformational transaction will bring Marco Group headcount to just under 300 insurance specialists with additional revenue streams and significant enhancement to Marco's operational capabilities as the Group will become a client of both companies (to service its Lloyd's RITC syndicate and provide operational capability to the rest of the Group). The two acquired Capita companies will continue to provide third party services.

On 9 June 2021, the Company completed the acquisition of VA Insurance Services Limited ("VAISL"), an Isle of Man based captive insurance company with general liability exposures. On 15 October 2021, VAISL was redomiciled to Malta, granted an insurance licence and renamed Marco Insurance Limited ('MIL'). Shortly thereafter

Marco Insurance PCC Limited ("MIPCC"), a fellow subsidiary of the Company, acquired MIL from MCHL.

On 19 October 2021, the Group completed the acquisition of the entire share capital of Humboldt Re Limited, a company incorporated in Guernsey and licensed to carry on general insurance business with treaty catastrophe exposures. Humboldt Re continues to operate in Guernsey as a going concern.

In 2021 BRIC entered into a novation agreement over a reinsurance portfolio of general liability business with risks located in the United States.

A.2 Underwriting Performance

There was a pre-tax profit for the year of €25.1m. The result was largely driven by bargain purchase gains of €32.1m on the acquisitions in the year offset by operating expenses.

The Group is managing treaty catastrophe exposures through Humboldt Re in Guernsey. These exposures are protected via various reinsurance and guarantees. There are a number of ongoing legacy asbestosis, pollution and disease exposures in BRIC which have significant ceded reinsurance protection with third parties.

The Group currently has IFRS gross technical liabilities of €303.8m and net technical liabilities of €261.3m. The liabilities have increased in 2021 due to the acquisition of Humboldt Re and VAISL along with a reinsurance transaction in BRIC which includes additional APH business reinsured through participation in a pool assumed in 2021.

A.3 Investment Performance

The Group currently holds all its investable assets in fixed income securities, cash and cash equivalents and other highly liquid financial assets. In 2021, the Group earned net interest income of €1.1m from investment activities and incurred net realised/unrealised losses of €2.1m. A summary of the net investment income is noted below.

Category of Income	Year ended 31 December 2021 €'000s	Year ended 31 December 2020 €'000s
Net bank interest expense	(37)	-
Interest income	1,224	-
Dividend income	-	-
Fair value movements on financial assets at FVTPL	(2,073)	-
Investment management fees	(49)	-
Other investment income and fees	(7)	-
Total	(942)	-

A.4 Performance of Other Activities

In 2021, the Group was subject to FX movements generated largely on deferred consideration of €122.4m payable to the vendor of Humboldt Re in USD as shown below. In addition, the Group has recognised €2.0m of profit commission on certain reserve balances in Humboldt Re which are anticipated to reverse based on latest available information at the Balance Sheet date.

Group FX gain and loss	2021 €'000s
Realised Gain/(Loss)	1
Unrealised Gain/(Loss)	(1,844)
Total	(1,843)

A.5 Any Other Information

COVID-19 pandemic

The Group has continued to operate seamlessly throughout the COVID-19 pandemic. The Group has no known exposure to COVID-19 through the insurance liabilities it has assumed and the directors are confident that the Group will continue to operate with minimal disruption should there be any future COVID-19 variants.

Russian invasion of Ukraine

The invasion of Ukraine by Russia on 24 February 2022 has led to significant sanctions against Russia. The Group has no known material exposures to, or investments in, Russian or Ukrainian-related interests, and the conflict is not expected to have any material impact on the Group at this time.

B. System of Governance

B.1 General Information on System of Governance

The Marco Group general governance structure is based on the model that MCHL, as the parent company of the group, provides its subsidiaries with guiding principles through its decisions and the established group policies, which determine an internal governance framework within which the subsidiaries should carry out their business. Each subsidiary's Board is then responsible for the design of the company-specific governance structure on the basis of the steer provided by MCHL.

The Board and its Committees

The Board of Directors of MCHL maintains overall ownership and responsibility for decision making and the setting of Group strategic objectives and associated incentivisation; and provides the necessary oversight, governance and leadership to put them into effect. The Board of MCHL is responsible for controlling and directing the Group in line with expectations and requirements of its ultimate shareholders, and for ensuring that the business is compliant with all applicable legislative and regulatory requirements. It is also responsible for external reporting of the Group.

As at 31 December 2021, the Board of MCHL comprised five directors, with an independent non-executive director as Chair, three non-executive directors and one executive director - the Group CEO. The members of the Board bring significant experience and market knowledge that collectively provide leadership, integrity, judgement and sound values to direct and supervise the affairs of the Group.

The members of the Board of the Company are:

Executive

S Minshall	(appointed 27 May 2020)

Independent Non-Executive

D F J Wemmer	(appointed 27 May 2020)

Non-Executive

Christopher Boehringer	(appointed 27 May 2020)
Katherine Ralph	(appointed 27 May 2020)
Nidhish Mundra	(appointed 27 May 2020)

The Board meets at least on a quarterly basis. The Board has established one Board committee namely the Remuneration and Nomination Committee and also has a unified audit committee at the level of its insurance subsidiary Marco Insurance PCC Limited which also acts as the audit committee for the parent company.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for reviewing the remuneration arrangements for employees and Directors. This includes base salary and short and long-term incentives. The Committee is also responsible for reviewing and approving the composition of the Board, appointments of Directors and succession planning.

The Remuneration and Nomination Committee is composed of the entire Board of Directors of MCHL.

Unified Audit Committee

This committee is established at the level of Marco Insurance PCC Limited (MIPCC) and is responsible for the financial reporting, internal control framework and the selection process for auditors for both MIPCC and MCHL. The Unified Audit Committee ensures, as far as practicable, consistency of standards and approach with other audit committees in the Group to enable better communication, sharing of knowledge and experience. It reports to the Boards of MIPCC on its specific matters and to MCHL with respect to the Group.

The Unified Audit Committee is composed of 4 independent Non-Executive Directors

Key Functions

The key functions of the governance framework of the Group are the Compliance, Risk Management and Internal Audit functions. The Group also has a robust Actuarial function. MCHL is a holding company and does not carry out any insurance activities. Consequently, the Group Actuarial Function at MCHL level is mainly coordinating the activities performed by the actuarial functions established in each subsidiary that carries out insurance business activities.

The key functions were outsourced to third party service providers during the reporting period, and a description of their roles and responsibilities are detailed in the sections below.

Remuneration principles

The Board and the Remuneration Committee of MCHL review the Company's remuneration principles. The Board and the Committee are responsible for:

- setting and adhering to a transparent and fair process for remuneration;
- determining the remuneration package of Directors and recommending the remuneration package of executive officers and senior employees; and
- approving remuneration packages.

In performing these activities, the Board considers the regulatory remuneration requirements with particular focus on the following components of remuneration:

- base salary;
- benefits;
- variable pay - bonuses; and
- variable pay - long-term incentives.

No individual is involved in any discussions or decisions that relate to their own remuneration.

During the reporting period the Company did not have direct employees. A number of members of staff of Marco Group Services Limited (an intra-group services company) were seconded to the Company during the reporting period. Furthermore, there were no transactions concluded with shareholders, with persons who exercise a significant influence on the Company and members of the Board.

B.2 Fit and proper requirements

Members of the Company's Board, subsidiaries' Boards, all persons who effectively run the Company or its subsidiaries or have other key functions are required to possess the necessary competence, professional qualifications, experience and be of good repute and integrity (fit and proper criteria).

The Group assesses the fitness and propriety of an individual when that person is being considered for a key function or to run any Group company, and this is monitored on an ongoing basis. The ongoing evaluation consists of, as a minimum, a performance assessment and a self-certification and may also include external checks such as criminal record checks, depending on the individual's position. Training requirements are also monitored to ensure that the individuals' skills, knowledge and experience remain adequate and are kept up to date to enable them to perform their function effectively and in accordance with any relevant regulatory requirements.

Fitness for the Company's Board means that the Board's collective professional qualifications, knowledge and experience is adequate to enable sound and prudent management. To satisfy the fitness criteria, the Board should possess collective knowledge, competence and experience in the following areas:

- Market knowledge;
- Business model and strategy;
- System of governance;
- Financial and actuarial analyses; and
- Regulatory framework conditions and requirements.

In addition, the Board, Management and persons holding Key Functions shall possess the following, collectively and individually: adequate professional and personal skills, relevant experience, proper knowledge of the structure and business of the Group, and a proper understanding of the risks arising from the business, management skills aimed at calibrating the objectives of the Group and ability to avoid or manage conflict of interests within the Group.

The fitness of persons fulfilling Key Functions (including when a Key Function is outsourced) require professional qualifications as well as knowledge and experience to ensure that they can fulfil their roles and responsibilities. Being proper means that the person is honest and financially sound, based on character, behaviour and business practices, including a consideration of criminal records, financial and regulatory aspects. Behaviour not regarded as proper includes relevant criminal offences (such as money laundering, market manipulation, insider trading, usury, fraud, insolvency). Persons who effectively run the Company or hold Key Functions must be of good repute and integrity.

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

The three lines of defence

The Group has a comprehensive risk management system which includes a range of risk policies, procedures, measuring, reporting and monitoring techniques, and a series of stress tests and scenario analysis to ensure that the risk exposures that arise from operating the Group's businesses are managed appropriately. The risk management system is underpinned by the three lines of defence model. The Group Board are responsible for ensuring the effectiveness of the Group's risk management system, for setting the Group's overall risk strategy and risk appetite (including Group level risk limits and tolerances), and for approving the main risk management strategies and policies. The principle is to ensure a consistent approach across the group. To this end the Group adopts group risk policies that are applicable across the Group and adapted to the specific risk profile of the subsidiary, as appropriate.

Risk appetite and strategy

The Group Board is responsible for setting the business strategy which is used to form the risk strategy statement. The risk strategy statement, which is prepared by the Group Risk function and approved by the Group Board, describes the Group's overall strategy and objectives for managing risks. The Group risk appetite and risk limits and tolerances are set annually by the Group Board. This then cascades down the group to each Board of the subsidiaries where the risk appetite and risk limits and tolerances at solo level are determined within the group framework.

Risk management cycle

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

Risk identification

Risk identification is the process of understanding and capturing any material threats or opportunities that could have a significant impact on the achievement of business objectives. Risk can be identified using a range of techniques and builds on the wide range of risk related management information gathered through the wider risk management system. This includes policy management and control assessment including control validation and assurance, risk workshops, incident reporting, and any analysis of risk incidents including a root cause analysis.

Emerging risks are those risks that are starting to emerge or where the understanding is not sufficiently developed to assess it. Emerging risks are identified through a discrete process operated by the second line. These are reported to the Group Board on a quarterly basis.

Risk measurement

Once risks have been identified the first line functions assess how material the risks are and whether the risk is inside or outside the established risk appetite. At a functional, regional and legal entity level this is used to update the risk profile. The identified risks are documented in the business function's risk reports and risk profile 5x5 matrix. This records the likelihood of occurrence, the expected residual loss impact, and whether the residual risk is within risk appetite.

Managing, monitoring and reporting risk

All significant residual risks are assessed and monitored to determine if the risk is within risk appetite and, if not, whether there is a plan with an owner to bring within appetite within a reasonable timeframe. Action owners must track all action plans to ensure risk is brought within appetite within a planned timeframe and report progress at least quarterly. Risk reporting is done on a quarterly basis at solo subsidiary, committee and Board level and at the aggregate Group level is to the Group Board.

ORSA

The Group's ORSA provides an internal assessment of the Group's current and future capital requirement, taking into consideration the specific risk profile and strategy of the Group. Thus, it considers areas not fully reflected in the SCR calculation.

The ORSA considers business strategy and risk appetite in assessing the Group's on-going solvency. The ORSA framework is a series of processes to enable the Group to manage its risk profile against risk appetite and ensure there is appropriate capital to cover the risk faced in the medium term. The process is being developed further to take into consideration the nature and scale of portfolio being acquired by the Group as well as longer term risks such as ESG.

The Group's strategy is to run-off its existing books of business and to acquire (re)insurance portfolios in run-off through reinsurance transactions, loss portfolio transfers and acquisitions of other insurance entities. The Board manages the business, and has based risk appetites upon capital management and impact on capital and this approach will continue as the Group embarks on its growth strategy.

Governance

The Group Board is responsible both for approving the Group ORSA policy, steering the ORSA process and reviewing, challenging and signing off the Group ORSA outputs. The Board remains the principal audience for the ORSA and ensures that the outputs are embedded in the decision-making process of the Group. The Board requests and directs additional testing or alternative representations of risk, as needed, that they feel will provide a clearer representation of the risks faced by the Group.

The quality of data used during the Group ORSA process is vital. The Group ORSA report will contain a statement attesting to the data quality checks that have been carried out over the data used in the report.

Technical provisions are a key input to the Group ORSA. As such, each report will contain a statement from the Actuarial Function Holder confirming that technical provisions have been calculated in accordance with best estimates and reserving best practice and are in line with required Technical Accounting Standards (TASs).

ORSA Process

The Group ORSA process enables the Group Board to ensure risks are effectively managed and appropriate capital is held within the business. The process is reviewed at least once annually by management to ensure the process remains up to date and fits in with the profile of the business. In addition, the Group ORSA process helps to identify weaknesses, and future emerging risks and uncertainties. The following inputs are used in the Group ORSA process:

- Group business plan, including three-year projections with assumptions;
- Latest audited financial statements;
- Solvency II balance sheet and accompanying quarterly / annual quantitative reporting information;
- Actuarial reports;
- Group Risk register;
- Board approved risk appetites;
- Latest risk dashboards;
- Governance structures; and
- Any relevant regulatory correspondence.

The Group's risk function also supports the actuarial function to provide solvency analysis, which will include an assessment of the amount and quality of own funds held using testing of tiering. Stress and scenario testing is also performed to provide analysis of how robust the solvency position of the Group is in line with the SCR and current risk profile. The outcome of the internal solvency analysis will help the Group to ensure that it holds sufficient capital for the whole risk universe of the Group whilst continuously complying with regulatory solvency capital and technical provisions requirements.

Frequency of ORSA

This exercise is carried out at least annually by the Group or following a material change to the risk profile. This is to ensure the Group ORSA remains relevant and fit for purpose.

B.4 Internal Control System

The Group's internal control system is robust and appropriate for the nature, scale and complexity of the business. The three lines model is embedded in the internal control system of the Group and includes financial reporting controls, operationally independent key functions and support provided by external firms as required.

Management is responsible for first line processes and related controls with the Compliance and Risk Management functions acting as the key second line functions, monitoring and challenging the first line. Internal and External audit form the third line with responsibility for all activities including any outsourced activities.

Compliance Function

Compliance is a second line key function within the Internal Control System of the Group. This function is outsourced to Ganado Advocates, which is one of the leading Maltese law firms.

The function's primary responsibilities and activities are:

To fulfil the role of Group Compliance Officer and ensure compliance with applicable law, regulations and administrative provisions to protect the Group against compliance and conduct risks.

To advise senior management, committee and the Board on compliance with applicable laws and regulations including the Solvency II Directive and other relevant regulation.

The function achieves this by establishing and maintaining appropriate compliance policies, frameworks and procedures and through ongoing compliance monitoring and the provision of relevant and timely management information. The activities and processes of the compliance function are supported by, other key functions, such as Group Internal Audit, Group Risk, and Group Actuarial, or outsourcing partners.

The Group compliance function holder provides a compliance update to the Board on a quarterly basis.

B.5 Internal Audit function

The Group's internal audit function is outsourced to KPMG Malta which is part of a global network of professional services firms providing audit, tax and advisory services. KPMG Malta has easy access to territory-specific expertise in many different countries. This ensures independence of the internal audit function from operational activities.

The Group internal audit function reports to the Unified Audit Committee (of Malta Insurance PCC Limited) and also has direct access to the Group Board, whenever necessary. The Unified Audit Committee and the Group Board may request internal audit to conduct a review where they deem necessary, outside of the internal audit plan. KPMG reports its findings to the Unified Audit Committee, which in turn reports to the Group Board which determines what actions are to be taken as a result of those findings and shall ensure any actions are completed. The Group internal audit function may also report directly to the Group Board or hold meetings with the Group Board without the presence of executive management, as necessary.

B.6 Actuarial function

Solvency II requires that the Group has a Group actuarial function to:

- Coordinate the calculation and validation of technical items under financial reporting and Solvency II standards, including technical provisions calculations;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;

- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the Board of the reliability and adequacy of the calculation of technical provisions;
- Oversee the calculation of technical provisions;
- Express an opinion on the overall underwriting policies implemented by the risk carriers within the Group;
- Express an opinion on the adequacy of reinsurance arrangements; and
- Contribute to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

The Group actuarial function is outsourced to PwC UK ("PwC") through Marco Group Services Limited, a group entity that provides various intra-group services. The actuarial function reports directly to the Board and is overseen by the Chairperson of the Board..

B.8 Outsourcing

Background and regulatory expectations

The Group has implemented an Outsourcing Policy which defines the minimum requirements for outsourcing critical, important and key functions to service providers. The Policy defines principles, minimum requirements, responsibilities, processes and reporting outputs in accordance with relevant regulatory requirements.

Notwithstanding the outsourcing of certain important activities, the Group remains fully responsible for discharging all its obligations. It must manage the outsourcing prudently. In particular, the risks associated with outsourcing shall be identified, analysed, assessed and adequately managed and monitored.

The Outsourcing Policy establishes the process for assessing and appointing the service provider and the drafting of agreements to be entered into with such providers, subject to relevant regulatory requirements. It also outlines the monitoring processes for the effective governance and oversight of such outsourcing arrangements. For each outsourced key/critical function, the Group allocates responsibility for oversight of the outsourced service provider by a person or Committee of the Group.

Categorisation of outsourcing arrangements

Under Solvency II, there are four Key Functions: actuarial, risk, compliance and internal audit. MCHL has outsourced these key functions and oversight and control is maintained centrally.

In addition, the Group has determined that the following outsourced services are critical for the performance of services of the firm on a continuous and satisfactory basis:

- Finance
- Claims
- Data storage

- System maintenance and support
- Reinsurance
- Complaints handling
- Investment Management

The Group has also determined that the following outsourced services are important for the performance of services of the Group on a continuous and satisfactory basis:

- Accounting
- Tax
- Company Secretarial

During the reporting period, the Group has outsourced the following critical and important functions:

Function	Service Provider	Jurisdiction
Actuarial	PwC	UK
Compliance	Ganado Advocates	Malta
Internal Audit	KPMG	Malta
Risk Management	PwC	UK
Company Secretarial	Ganado Services Limited	Malta

B.9 Any other Information

The Group continuously monitors the effectiveness of its system of governance, including the effectiveness of specific functions, and considers them to be operating effectively.

C. Risk Profile

Risk is measured and steered using a number of qualitative and quantitative tools. There have been no material changes to the measures used to assess risks during 2021.

This section provides information on the Group's overall risk profile followed by a description of each risk category in detail.

The Group does not use special purpose vehicles to transfer risk. It is not exposed to risk from positions off its balance sheet.

C.1 Underwriting Risk

The Group does not underwrite any new insurance policies, as it acquires discontinued insurance business portfolios however some of these portfolios might have an element of unexpired risk. Therefore, the Group is primarily exposed to reserve risk i.e. the risk that case reserves are insufficient, untimely or inaccurate leading to unforeseen adverse development, or that claims handling practices have changed and give rise to different future development to that expected. The risk that more claims are reported in future than anticipated, or that settlements cost more than the Group expects and claims severity increases. Reserve risk also includes the risk that legislative changes have a retrospective effect on claim settlements.

Assessment

Due to the application of reinsurance and/or guarantees in place as at the reporting date, the net level of underwriting risk is relatively low. Net reserves are valued at a best estimate of €245.7m on a Solvency II valuation basis and an additional risk margin is held of €15.5m to cover any adverse movement from best estimate.

Uncertainty naturally arises in any estimate of technical provisions owing to the volatility associated with the underlying claims process. The actuarial team has conducted in-depth actuarial assessments of the reserves including actual vs expected analysis and the portfolios are developing as expected with no increased reserve volatility risks.

Concentration

The Reserve Risk module has the highest impact on the overall Group SCR as it makes up to more than 75% of the Group's undiversified SCR. The material lines of business to which the Group is exposed to are outlined in the QRTs in the Annex to this report.

Management

The Group holds reserves for claims resulting from past events that have not yet been settled. If the claims reserves are not sufficient to cover claims to be settled in the future due to unexpected changes, losses would be incurred. Claims reserves could be under-estimated if, for example, more claims had occurred in the past than have been estimated.

The run-off portfolios on the Group's books are well covered by reinsurance and/or other guarantees. This effectively swaps the reserve risk of the Group for credit risk with respect to the recoverability of the reinsurance recoveries or guarantees.

The continuing effectiveness of this reinsurance is reviewed annually by the respective actuarial function and periodically by senior management and the members of the Group's Board.

After the application of reinsurance, there is a residual reserve risk remaining in the Group and this is managed through calculation and monitoring of development of the reserves and the holding of a risk margin on top of the best estimate of liabilities. This process is performed on a line of business level every quarter and reported to the respective subsidiaries' Audit Committees for review.

C.2 Market risk

The Group is exposed to market risk, which is the risk of potential losses from adverse movements in market prices including those of bonds and exchange rates as well as credit rating downgrade risk, credit spread risk, credit default risk and asset-liability matching risk.

Assessment

The Group assesses its market risk exposures through a number of factors including exposure by asset class, credit rating of counterparties, asset liability mismatch due to divergence in duration and currency exposures, and concentration exposures.

Exposures are controlled by the setting of investment limits and managing asset-liability matching. Each subsidiary's investment committee and/or the Board (as applicable) is responsible for reviewing and approving the investment strategy for that entity's investment portfolio.

i) Interest rate and credit spread risk

Interest rate risk includes fluctuations in interest rates and credit spreads that have a direct impact on the fair value of fixed term maturities. As at reporting date, interest rate and spread risk make up the majority of the Group's exposure to market risk due to the investments in bonds.

ii) Currency risk

The Group incurs claims in multiple currencies, significantly USD and GBP. Due to the nature of unpredictably of claims, in particular those not yet reported, there is an inherent currency risk exposure which the Group faces.

Concentration

Limits are set on the concentration of investments by single issuers and certain asset classes and hence the Group is not exposed to any particular concentration risks from a market risk perspective.

Management

The Group manages market risk in a conservative manner. Two of the risk carriers have held their investable assets all in cash while the other risk carrier was invested in well rated corporate bonds and money market funds.

The Group has a policy of broadly matching its currency liabilities with assets denominated in the same currency in order to minimise currency risk. Rebalancing of net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values.

Prudent Person Principle

The Group is required to invest in assets in accordance with the 'prudent person principle'. As part of its prudent person approach, when the subsidiary entities invest their assets these take into account the type of business carried on by the said entity, in particular the nature, the amount and the duration of the expected claims payments, in such a way as to secure sufficiency, liquidity, security, quality, profitability and matching of the entity's investments; diversification and adequate spread of assets so as to enable appropriate response to changing economic circumstances, in particular developments in the financial markets or large impact catastrophic events; consider proper diversification of the assets so as to avoid excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole; and do not invest in assets issued by the same issuer, or by issuers belonging to the same group, in such a way as to expose the undertaking to excessive risk concentration.

C.3 Credit risk

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

Assessment

At the reporting date, the credit risk relating to financial assets was low as the majority of assets are invested with issuers or held at banks with rating ranging from AAA to BBB-.

For reinsurance related credit risk, the majority of the reserves are reinsured with highly rated and regulated reinsurance companies however where the credit rating of outwards reinsurers does not meet the minimum criteria prescribed by the Group's guidelines, the protection is collateralised by a combination of cash advances, letters of credit and reinsurance trusts which, in turn, must satisfy minimum credit rating requirements.

Concentration

The Group is exposed to the following types of risk concentrations:

- Reinsurance counterparties
- Investment counterparties.

Management

The Group manages credit risk for financial assets and cash and cash equivalents by limiting the amount of exposure to individual counterparties. The Group reviews credit ratings of counterparties and other information considered relevant to assess the risks. The Group acts to limit exposures dependent upon credit rating with a broad strategy of maximising returns on assets with an acceptable level of risk.

In 2022 the Group has appointed Conning Asset Management Limited ("Conning") as its investment Manager. Conning has a Credit Research team with expertise in all major industry groups assigning proprietary Conning ratings and outlooks. The team assigns proprietary target ratings and outlooks to all issuers.

Reinsurance or retrocession is used to manage insurance risk. Reinsurance or retrocession does not discharge the Group's liability as primary insurer or reinsurer. If a reinsurer fails to pay a claim for any reason the Group remains liable for the payment to the policyholder. In view of the potential long-term exposure from insurance risks reinsurance security is limited to highly rated reinsurers that offer the best long-term security.

C.4 Liquidity risk

Liquidity risk refers to the risk of loss to the Group as a result of assets not being available in a form that can immediately be converted into cash or that conversion can only be achieved at excessive cost and therefore the consequence of not being able to pay its obligations when due.

Assessment

The Group has sufficient liquid assets to meet obligations as they fall due. The market value of the Group's cash and cash equivalents at 31 December 2021 amounted to €134.6m. All of the cash and cash equivalents are readily realisable. Furthermore, the Group has reinsurance arrangements in place to further reduce its liquidity risk. As a result, the Group's exposure to potential liquidity risk is low.

Concentration

No material risk concentration.

Management

The Group maintains suitable liquidity to meet claims and other obligations and this is managed through a risk tolerance measure. This includes the maintenance of a minimum level of cash in order to pay the likely claims obligations in the near future.

C.5 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Assessment

The first line business functions, supported by the solo and Group Risk functions, ensure that new risks are identified, which can include risks created by changes to the business strategy, and are appropriately reflected in the risk profiles. Once material risks have been identified the business function updates the risk register by including the risk gross (inherent risk) and net of mitigation (residual risk) and recorded on a 5x5 probability and impact Matrix. The assessment of impact that could be incurred should the risk arise is made using both quantitative financial measures and qualitative operational and reputational. Assessments are made by the first line risk owner supported (and challenged) by the risk function.

The biggest operational risk facing the Group is key man risk as a result of the current low headcount however this shall reduce significantly with the completion of the acquisition of the Capita insurance services company. The Group also relies a lot on outsourcing which in itself creates an additional risk i.e. outsourcing failure. The Group has in place an Outsourcing Policy which details the process of selecting service providers and overseeing the performance and risks potentially emerging from such arrangements.

Towards the end of 2021, the Covid-19 pandemic has hit the operations of the Group in that it has relied upon remote working, and remote meetings of the Boards and Committees. The Group has invoked elements of the Business Continuity Policy to ensure that staff and suppliers can continue to undertake all business services remotely. This has had no material impact on the Group in its pursuit of its strategy.

Concentration

The material operational risk concentration is in respect of key man risk due to the current headcount as highlighted above.

Management

The Group seeks to manage this risk through the Risk & Control Self-Assessment (RCSA) process which includes the maintenance of operational risk registers covering all aspects of operations, facilitated by the risk function. Through the RCSA process, each 'Risk Owner' is responsible for assessing the design and operating effectiveness of their control environment, and, to the extent any gaps or deficiencies exist, assessing the corresponding impacts and level of operational risk. The risk function provides a structured and consistent approach to the RCSAs across the organisation, including the approach/methodology for ratings, and also to provide some independent input and challenge to the risk owners as part of the process. This is supplemented by a structured programme of testing of processes and systems by internal audit.

C.6 Other material risks and emerging risks

The Group is also exposed to the following other risks:

Conduct risk

Conduct risk is considered separately to the rest of the Risk Management Framework of the Group. This is because conduct risk is principally considered as the risk to customers arising from the Group's practices. As a runoff insurer, the Group's conduct risk exposure is largely confined to the claims and complaints handling process and it is subject to conduct risk standards which are levied on all staff. During the reporting period, this risk was minimal since reinsurance business was mainly being written by the Group.

Acquisition risk

This is the risk associated with the acquisition of run-off portfolios or companies and could materialise either through failure to write new deals or writing non-profitable deals including mis-pricing; and portfolio integration/on-boarding.

Mitigation

The Group has a well-connected Head of Origination responsible to originate new business. The M&A department is headed by a very experienced M&A individual who ensures thorough due diligence processes. The Group has established an on-boarding management committee composed of the senior executive team responsible to develop integration plans and ensure these are followed and any integration risks are identified and managed immediately.

Reputational risk

Reputational Risk is associated with the potential for loss of economic value resulting from any reputation damaging incident.

Mitigation

The Group has zero tolerance for regulatory and compliance risks which could jeopardise the Group's reputation. It adopts best practice in relation to claims handling processes including in the selection of claims third party administrators and ensures proper oversight.

Emerging risk

The Group could be exposed to unexpected external changes to the legal, economic, social technical and environment systems as well as to internal changes which may arise from changes in business profile.

Mitigation

Emerging risks are monitored by the risk function and these include the impact of climate change on the strategy and exposure of the business and lately the invasion of Ukraine by Russia on 24 February 2022 which has led to significant sanctions against Russia. The Group has no ongoing exposures to, or investments in, Russian-related or Ukraine-based interests, and the conflict is not expected to have any impact on the Group at this time.

Emerging risks are kept under close scrutiny by the risk function and are reported on a quarterly basis to the respective subsidiary Risk and Compliance Committee.

C.7 Other information

There is nothing further to report regarding the risk profile of the Group.

D. Valuation for solvency purposes

Introduction

The scope of this section of the report is to represent the Group's financial position valued according to the Solvency II Directive.

The recognition, measurement and valuation policies for IFRS reporting purposes applied by the Group are summarised in the Group's Annual Report and Financial Statements. This report summarises any differences to those valuation policies for solvency purposes.

The table below shows the IFRS balance sheet as at December 31, 2021, and the key valuation and reclassification differences between that and the balance sheet used for solvency purposes.

(€000s)	IFRS	Reclassifications	Valuation differences	Solvency II
	(a)	(b)	(c)	(d)=(a+b+c)
Assets				
Intangible assets	431		(431)	-
Deferred Acquisition cost	855		(855)	-
Deferred tax asset	347	-	130	477
Financial assets at fair value	214.250	-	-	214.250
Reinsurance recoverables	56.090	(3.231)	(2.395)	50.464
Deposits with cedant	73.147		-	73.147
Insurance & Reinsurance	148.217	(101.470)	-	46.747
Cash and cash equivalents	134.558			134.558
Other receivables	5.941			5.941
Total Assets	633.836	(104.701)	(3.551)	525.584
Liabilities				
Technical provisions	303.743	(50.495)	8.033	261.281
Best Estimate	303.743	(50.495)	(7.502)	245.746
Risk margin			15.535	15.535
Reinsurance payables	73.761	(46.859)		26.902
Payables (Trade, not	129.630	(7.347)		122.283
Total Liabilities	507.134	(104.701)	8.033	410.466
Excess of Assets over	126.702	-	(11.584)	115.118

D.1 Assets

Deferred Taxes

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met. Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

The valuation difference relating to deferred taxes mainly results from differences in technical provisions and reinsurance receivables for Solvency II.

Financial assets

Financial assets include bonds and collective investment undertakings . The Group measures the fair value of financial assets using a fair value hierarchy that reflects the significance of the input used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In making the assessment, the Group considers factors specific to the asset or liability.

Fair value hierarchy table

An analysis of the Group's financial instruments at fair value through profit or loss by fair value hierarchy level is provided below.

Group (€000s) As at 31 December 2021	Level 1	Level 2	Level 3	Total
Debt Securities	152,192	47,304	-	199,496
Collective Investment Undertakings	14,754		-	14,754
Total				214,250

Reinsurance recoverables

For comments concerning this item, please refer to D.2 Technical Provisions.

Deposits with cedants

Deposits with cedants comprise premiums receivable, net of any claims payable, held in trust funds, for which access is restricted until the passage of time and claim experience, as defined by the contract, allows release of the funds to the Group. These have been valued at the same valuation basis as the financial assets described under Financial Assets above i.e. at fair value.

Insurance and reinsurance balances receivable

The IFRS balance largely consists of premiums receivable that are either not yet due as at the balance sheet date, and so are recognized within technical provisions in the Solvency II balance sheet, or funds withheld by cedants to collateralise reserves. These are measured at fair value as per the Solvency II requirement.

Cash and cash equivalents

Cash and cash equivalents are measured at face value. There is no difference in valuation between the Solvency II value and the IFRS accounts.

Other receivables (Trade, not insurance)

Other receivables are measured at fair value as per the Solvency II requirement. There are no differences between the Solvency II valuation and IFRS valuation of other receivables.

D.2 Technical Provisions

Basis

Technical provisions are calculated in respect of all insurance obligations to policyholders.

The value of the technical provisions corresponds to the current amount required to transfer insurance obligations immediately to another insurance entity.

The technical provisions consist of the claims provision, premium provision and risk margin, and these elements are calculated separately. Together the claims provision and the premium provision constitute the best estimate liabilities (“BEL”).

Technical Provisions by Line of Business

The calculation of the BEL is based on up-to-date and credible information and realistic assumptions and is performed using relevant actuarial and statistical methods.

The claims provision is based on the IFRS claims provision, with the addition of an allowance for future investment management expenses. A payment pattern is applied to each element of the claims provision to obtain future cash flows, which are discounted to reflect the time value of money in line with Solvency II requirements.

The table below shows technical provisions both gross and net of reinsurance by Solvency II line of business

€000	Gross		Net			
SII Line of business	Claims Provision	Premium Provision	Claims Provision	Premium Provision	Risk Margin	SII Technical Provisions
Non-proportional health	1,025		1,040		82	1,127
Non-proportional MAT reinsurance	11,229		9,431		742	10,219
General liability insurance	9,674		7,914		623	8,576
Fire and other damage to	38,522		36,876		2,902	39,958
Marine, aviation and transport	40,125	-543	40,417	-390	3,181	43,227
Credit and suretyship	26,908	-1,211	27,024	-871	2,127	28,015
Non-proportional property	120,904	-887	74,691	-852	5,878	79,693
Total	248,386	-2,641	197,394	-2,113	15,535	210,816

Uncertainty

The Solvency II basis has inherent uncertainty around the discount benefit arising from future movements in the yield curve and payment patterns. Other than discounting, the assumptions that have the greatest effect on the movement of provisions are those that affect the expected level of claims. These can come from a number of sources, including, but not limited to:

- claims reporting patterns being different from those expected;
- claims handling costs being different from those expected.

Differences in valuation methodologies

For each line of business, the differences in the valuation of claims provisions best estimates from IFRS reporting to a Solvency II basis break down into a number of discrete adjustments to the net IFRS insurance liabilities comprising claims reserves and other technical provisions. The net IFRS insurance liabilities include unearned premium reserves net of deferred acquisition costs and reinsurance assets per the IFRS financial statements. These differ in materiality depending on the nature of the cash flows associated with each line of business.

For the claims provision, differences to IFRS are as follows:

- an additional loading in respect of events not in data is required to fulfil the Solvency II requirement that the technical provisions reflect a probability weighted average of all possible outcomes.

- allowance needs to be made for expenses in addition to the claims handling included within the IFRS reserves

- Unlike in IFRS reporting where claims reserve cashflows are not required to be discounted, Solvency II requires discounting of all future cashflows. This is done using risk-free yield curves published by the Prudential Regulation Authority.

For the premium provisions, this is a different concept to IFRS which allows for all future cashflows in respect of unearned business, discounted in the same way as the claims provision. This replaced IFRS concepts of an unearned premium reserve, deferred acquisition costs and an additional unexpired risk reserve, if needed.

In addition, a supplementary risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement (SCR) necessary to support the insurance obligations over their lifetime.

Our approach to estimating future SCRs as part of the risk margin calculation is based on the current SCR as a proportion of remaining best estimate provisions at each future time period. The cost of capital rate used in the calculation of the risk margin is set by EIOPA at 6%.

No matching adjustment or volatility adjustment is applied to the risk-free yield curve used to discount the technical provisions. No transitional arrangements are applied.

Reinsurance recoverables

Reinsurance recoverables are calculated for the claims and premium provisions based on the reinsurance in place. The Group has a range of reinsurance protections in place which includes full reinsurance of certain classes, excess of loss (including catastrophe excess of loss), quota share (variable and whole account), and industry loss warranties.

Material changes in assumptions

The key change this year has been the acquisition of Humboldt Re which requires significantly different reserving assumptions to the previously existing entities BRIC and MIPCC (which in the main continue to use industry benchmark survival ratios as their key assumption). These Humboldt Re assumptions are used to be appropriate for the mainly catastrophe and specialty business of this entity, including:

- event-specific reserves for catastrophe events,
- reserves for residual claims using a standard actuarial chain ladder approach,
- reserves for contracts where no losses have been notified by the cedant to-date set using a frequency-severity approach,
- for each contract application of applicable excesses and limits.

Simplifications

The calculation of the technical provisions is carried out using materially appropriate, complete and correct data and using valuation methods which are appropriate to the nature and complexity of the insurance technical risks. Their limitations are identified and understood. Selection of the appropriate method is based on expert judgement, considering the quality, quantity and reliability of the available data and analysis of all-important characteristics of the business.

The method used to calculate the Risk Margin is defined by the Solvency II regulation as a simplification.

Reinsurance payables

This balance relates to claims payable to (re)insureds and premiums payable to reinsurers. Where premiums payable to reinsurers are not yet due, the amounts are reclassified to technical provisions. There are no differences between the Solvency II valuation and IFRS valuation of reinsurance payables.

D.3 Liabilities other than Technical Provisions

Payables (Trade, not insurance)

Payables (trade, not insurance) largely consist of the provisions related to a run-off provision made against future costs of running off entities to expiry, or for balances received from third parties towards costs of future transactions, plus other accrued expenses. There are no differences between the Solvency II valuation and IFRS valuation of payables (trade, not insurance).

D.4 Other liabilities

The Group does not hold any off-balance sheet liabilities.

D.5 Alternative Methods of Valuation

No alternative methods of valuation are used.

D.6 Any other information

There is no other material information on the valuation of assets or liabilities.

E. Capital Management

E.1. Own Funds

The Group maintains a formal capital management policy, and capital management planning is embedded within the main planning process, with a time horizon of five years. Capital management protects the Group's Own Funds base in line with the Group's Risk Strategy and appetite.

The core element of the approach to capital management is the approval by the Group's Board of any dividends or requests for additional capital. This approval is subject to maintaining an adequate buffer over the SCR/MCR.

The actual economic capital ratio stands at 396.2%, after taking into consideration that certain risk mitigation benefits are in place with secured funding, which are legally binding. These benefits could not be considered in the Solvency II standard formula calculation as they do not satisfy the form required by the said formula; however from an economic substance point of view these are relevant because the actual loss absorbing capacity is higher than that reported.

The solvency coverage ratio was 167.0% on a proforma basis when considering transactions completed by the date of signing this report.

	2021 Actual (€'000s)	2021 Economic (€'000s)	2021 Proforma (€'000s)
Tier 1			
Ordinary shares	97,658	97,658	148,073
Reconciliation reserve	17,460	17,460	24,422
Total Tier 1	115,118	115,118	172,495
Total eligible own funds to meet	115,118	115,118	172,495
SCR	100,418	29,058	103,275
SCR coverage ratio	114.64%	396.16%	167.0%
Total eligible own funds to meet	115,118	115,118	172,495
MCR (see below)	25,104	7,265	25,819
MCR coverage ratio	458.55%	1,584.56%	668.1%

No Own Fund items for the Group rely on transitional measures for their inclusion in Tier 1. There are no restrictions on the availability of Own Funds to support the SCR and MCR, and no matching adjustment portfolio exists. The Group has no subordinated debt, or ancillary Own Fund items.

The reconciliation reserve is made up of retained earnings and reconciliation adjustments from IFRS to Solvency II balance sheet only.

E.2. Solvency Capital Requirement & Minimum Capital Requirement

The Group uses the Standard Formula to calculate its SCR. The SCR at December 31, 2021, amounts to €100.4m, and the MCR amounts to €25.1m (equal to the minimum requirement of 25% of the SCR). A split of the SCR by the different risk modules is shown in the following table.

Risk Category	2021 (€,000)
Market risk	7,300
Interest rate risk	1,299
Equity risk	-
Property risk	-
Spread risk	5,026
Concentration risk	624
Currency risk	3,101
Diversification benefit	(2,750)
Counterparty risk	11,546
Non-life underwriting risk	84,738
Premium and reserve risk	83,250
Catastrophe risk	5,320
Lapse risk	378
Diversification benefit	(4,210)
Operational risk	7,161
Sum of standalone risks	110,745
Diversification benefit	(10,327)
SCR before deferred tax	100,418
Deferred tax	-
SCR	100,418

The calculation of the MCR follows the methodology described in the Solvency II regulation. It uses the SCR as an input parameter for determining the possible range for the MCR, as well as the standard set of inputs required by the formula-based calculation.

E.3 Use of various options in the Standard Formula calculation

We have utilised the simplification for counterparty default risk regarding the allocation of the risk mitigating effect across counterparties.

Other simplifications, undertaking-specific parameters and the duration-based equity risk sub-module are not used.

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

No internal model is used by the Group.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Group has complied continuously with the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 Any other information

On 2 March 2022, MCHL issued and allotted a further 56,591,995 fully paid-up Ordinary "A" shares of €1 each, 2,669,773 fully paid-up Ordinary "B" shares of €1 each, and 5,000 fully paid-up Ordinary "C" shares of €1 each.

All other important information regarding the capital management of the undertaking is addressed in the above sections.

Statement of Directors' responsibilities

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the MFSA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the Group has complied in all material respects with the requirements of the MFSA Rules and the Solvency II Regulations as applicable to the Group; and
b) it is reasonable to believe that the Group has continued to comply subsequently and will continue to comply in future.

By order of the Board
Simon Minshall
Director
Marco Capital Holdings Limited
Registered Number: C95663

May 19, 2022

Appendix – Quantitative Reporting Templates

Marco Capital Holdings Limited

Solvency and Financial Condition Report

Disclosures

31 December

2021

(Monetary amounts in EUR thousands)

General information

Participating undertaking name	Marco Capital Holdings Limited
Group identification code	2549006L0H2000JRSF71
Type of code of group	LEI
Country of the group supervisor	MT
Language of reporting	en
Reporting reference date	31 December 2021
Currency used for reporting	EUR
Accounting standards	IFRS
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.23.01.22 - Own Funds
S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	477
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	214,250
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	199,496
R0140	*Government Bonds*	8,707
R0150	*Corporate Bonds*	190,789
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	14,754
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	50,464
R0280	*Non-life and health similar to non-life*	50,464
R0290	*Non-life excluding health*	50,464
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	73,147
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	46,747
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	134,558
R0420	Any other assets, not elsewhere shown	5,941
R0500	**Total assets**	525,584

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	261,281
R0520	*Technical provisions - non-life (excluding health)*	261,281
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	245,745
R0550	*Risk margin*	15,535
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	26,902
R0840	Payables (trade, not insurance)	122,283
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	410,466
R1000	**Excess of assets over liabilities**	115,118

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Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business																	0
R0120	Gross - Proportional reinsurance accepted						-128	-766	9,427									8,533
R0130	Gross - Non-proportional reinsurance accepted															-33	-1,421	-1,454
R0140	Reinsurers' share																346	346
R0200	Net						-128	-766	9,427	0						-33	-1,767	6,733
	Premiums earned																	
R0210	Gross - Direct Business																	0
R0220	Gross - Proportional reinsurance accepted						2,437	1,656	9,750	3,867								17,711
R0230	Gross - Non-proportional reinsurance accepted															33	988	1,020
R0240	Reinsurers' share																665	665
R0300	Net						2,437	1,656	9,750	3,867						33	323	18,067
	Claims incurred																	
R0310	Gross - Direct Business																	0
R0320	Gross - Proportional reinsurance accepted						-4,144	1,467	7,226	-964								3,585
R0330	Gross - Non-proportional reinsurance accepted															2,637	9,811	12,447
R0340	Reinsurers' share								1,852							1,294	1,893	5,039
R0400	Net						-4,144	1,467	5,374	-964						1,343	7,917	10,994
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net						0	0	0	0						0	0	0
R0550	**Expenses incurred**						609	414	3,291	947						2,750	2,328	10,338
R1200	**Other expenses**																	0
R1300	**Total expenses**																	10,338

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			US	GB	CH	FR	BM	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business							0
R0120	Gross - Proportional reinsurance accepted		0	-1,072	9,620	-14	0	8,533
R0130	Gross - Non-proportional reinsurance accepted		552	-1,594	-1,121	390	338	-1,435
R0140	Reinsurers' share		4	90	0	214	62	371
R0200	Net	0	548	-2,757	8,499	162	276	6,727
	Premiums earned							
R0210	Gross - Direct Business							0
R0220	Gross - Proportional reinsurance accepted		0	2,042	9,620	-14	6,087	17,735
R0230	Gross - Non-proportional reinsurance accepted		909	431	-1,053	390	338	1,015
R0240	Reinsurers' share		4	409	0	214	62	690
R0300	Net	0	904	2,064	8,568	162	6,363	18,060
	Claims incurred							
R0310	Gross - Direct Business							0
R0320	Gross - Proportional reinsurance accepted		0	312	7,351	-357	-11,073	-3,767
R0330	Gross - Non-proportional reinsurance accepted		644	10,227	491	3,685	1,604	16,651
R0340	Reinsurers' share		29	2,676	1,852	-392	915	5,079
R0400	Net	0	615	7,864	5,991	3,720	-10,385	7,804
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	1,744	536	1,052	2,785	2	1,936	8,054
R1200	**Other expenses**							0
R1300	**Total expenses**							8,054

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Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	97,658	97,658		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0				
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	0				
R0070	Surplus funds	0	0			
R0080	*Non-available surplus funds at group level*	0	0			
R0090	Preference shares	0		0	0	0
R0100	*Non-available preference shares at group level*	0				
R0110	Share premium account related to preference shares	0		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	0				
R0130	Reconciliation reserve	17,460	17,460			
R0140	Subordinated liabilities	0		0	0	0
R0150	*Non-available subordinated liabilities at group level*	0				
R0160	An amount equal to the value of net deferred tax assets	0				0
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0				
R0200	Minority interests (if not reported as part of a specific own fund item)	0				
R0210	*Non-available minority interests at group level*	0				
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**					
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	0				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0				
R0270	**Total of non-available own fund items**	0	0	0	0	0
R0280	**Total deductions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	115,118	115,118	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380	Non available ancillary own funds at group level	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	0	0	0	0	0

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Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	115,118	115,118	0	0	0
R0530	Total available own funds to meet the minimum consolidated group SCR	115,118	115,118	0	0	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	115,118	115,118	0	0	0
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	115,118	115,118	0	0	
R0610	**Minimum consolidated Group SCR**	25,105				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	458.55%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	115,118	115,118	0	0	0
R0680	**Group SCR**	100,418				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	114.64%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	115,118
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	
R0730	Other basic own fund items	97,658
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0750	Other non available own funds	
R0760	**Reconciliation reserve**	17,460
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

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Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	7,300		
R0020	Counterparty default risk	11,546		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	84,738		
R0060	Diversification	-10,327		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	93,257		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	7,161
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	100,418
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	100,418
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0470	Minimum consolidated group solvency capital requirement	25,105
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	0
R0520	*Institutions for occupational retirement provisions*	0
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	0
R0540	Capital requirement for non-controlled participation requirements	0
R0550	Capital requirement for residual undertakings	0
	Overall SCR	
R0560	SCR for undertakings included via D&A	0
R0570	**Solvency capital requirement**	100,418

USP Key

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

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

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk

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Undertakings in the scope of the group

Row	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	213800RTX5OTITEGRN53	LEI	British Reserve Insurance Company Limited	Non life insurance undertaking		Non-mutual	The Prudential Regulation Authority
2	MT	213800TN8UO98X7MBL94	LEI	Marco Insurance PCC Limited	Non life insurance undertaking		Non-mutual	Malta Financial Services Authority
3	MT	21380067H6JW7I46Y949	LEI	Marco Insurance Limited	Non life insurance undertaking		Non-mutual	Malta Financial Services Authority
4	GG	60597	Specific code	Humbodlt Re Limited	Non life insurance undertaking		Non-mutual	Guernsey Financial Services Commission

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Undertakings in the scope of the group

					Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	213800RTX5OTITEGRN53	LEI	British Reserve Insurance Company Limited	100.00%	100.00%	100.00%		Significant	100.00%	Included in the scope		Method 1: Full consolidation
2	MT	213800TN8UO98X7MBL94	LEI	Marco Insurance PCC Limited	100.00%	100.00%	100.00%		Significant	100.00%	Included in the scope		Method 1: Full consolidation
3	MT	21380067H6JW7I46Y949	LEI	Marco Insurance Limited	100.00%	100.00%	100.00%		Significant	100.00%	Included in the scope		Method 1: Full consolidation
4	GG	60597	Specific code	Humbodlt Re Limited	100.00%	100.00%	100.00%		Significant	100.00%	Included in the scope		Method 1: Full consolidation