ALPHA
INSURANCE

# SOLVENCY AND FINANCIAL CONDITION REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Version 2023

# Contents

# Preliminary Information

The following abbreviations have been used in this report:

| | |
|---|---|
| Alpha | Alpha Insurance NV |
| BCP | Business Continuity Planning |
| The Company | Alpha Insurance SA |
| EIOPA | European Insurance and Occupational Pensions Authority |
| ERM | Enterprise Risk Management |
| ER | Emerging Risks |
| EU | European Union |
| NBB | National Bank of Belgium |
| Enstar | Enstar Group Limited |
| EEUL | Enstar (EU) Limited |
| Enstar Group | Collectively the companies ultimately owned by Enstar Group Limited |

| | |
|---|---|
| NED | Non-Executive Director |
| ORSA | Own Risk and Solvency Assessment |
| RSR | Regular Supervisory Report |
| S&P | Standard & Poor’s |
| SFCR | Solvency and Financial Condition Report |
| SII | Solvency II Directive |
| SIMR | Senior Insurance Managers Regime |
| SIMF | Senior Insurance Management Function |
| SLA | Service Level Agreement |
| BE | Belgium |
| UK | United Kingdom |

## About this document:

***General:***

This Solvency and Financial Condition Report (SFCR) is prepared by Alpha Insurance (the Company) in accordance with the requirements and principles of Article 35, 51, 53, 54 of the Insurance Directive 2009 commonly referred to as the Solvency II Directive and Article 96 of the Belgian Law of 13 March 2016 on the Status and Supervision of Insurance and reinsurance companies.
Article 35 requires the Company to ensure that its SFCR considers:

a) qualitative or quantitative elements, or any appropriate combination thereof;
b) historic, current or prospective elements, or any appropriate combination thereof; and
c) data from internal or external sources, or any appropriate combination thereof.

The provided information shall comply with the following principles:

a) it must reflect the nature, scale and complexity of the business of the undertaking concerned, and in particular the risks inherent in that business;
b) it must be accessible, complete in all material respects, comparable and consistent over time; and
c) it must be relevant, reliable and comprehensible.

The Company's Reporting and Disclosure Policy follows these requirements and principles and the full requirements of the Solvency II Directive as they relate to the SFCR.
The SFCR is subject to the external audit requirements currently set out in the NBB circular 2017_20 and, requires the Board of Directors to approve this report prior to submission.

***Version:*** 2023

***Data as at:*** 31 December 2022

***Currency:*** The Company’s functional reporting currency is Euro.

***Consistency:*** This report contains information which is consistent with the Annual Report for the year ended 31st December 2022.

***Materiality principle:*** The information disclosed in the solvency and financial condition report is considered as material if its omission or misstatement could influence the decision-making or the judgement of the users of that document, including the supervisory authorities.

## Company Information

**Registered Office:** Sint-Michielswarande 30B,
B-1040 Etterbeek (Brussels)

**Company Registered Number:** 0403 274 332

**Regulator:**

1. National Bank of Belgium (NBB)
   14 Boulevard de Berlaimont, B-1000 Brussels
2. Financial Services and Market Authority (FSMA).
   12-14 Rue du Congrès, B-1000 Brussels

**NBB / FSMA Registered Number:** 0124

**External Auditors:**
Pricewaterhousecoopers ("PwC") Bedrijfrevisoren BV, represented by Gregory Joos, Culliganlaan 5, 1831 Diegem, Belgium

## Summary

### 1. Background

Alpha Insurance NV ("Alpha" or the "Company") is authorised and regulated in Belgium by two insurance regulatory bodies, the National Bank of Belgium (NBB) and the Financial Services and Market Authority (FSMA). It is ultimately owned by Enstar Group Limited ("Enstar"), a company domiciled in Bermuda and which is publicly quoted on the NASDAQ stock exchange in the USA under symbol ESGR. The Bermuda Monetary Authority ("BMA") is the Group Supervisor for Enstar and its subsidiaries.

The principal activity of the Company is the conduct of general insurance business. The Company is in run-off, having voluntarily ceased to underwrite new business as from March 2015. Following approval from the NBB, the Company transferred its Life insurance portfolio to Monument Assurance Belgium on the 31st of May 2019. As from then onwards the Company only conducts Non-Life insurance business. Following Brexit and the uncertainty associated with the passporting rights, Enstar completed in 2022 an Insurance Business Transfer under Part VII of the UK Financial Services and Markets Act 2000 ("Part VII"), in order to transfer a number of EEA policies from three UK domiciled entities to Alpha Insurance NV. The inward Insurance and reinsurance Business Part VII transfer from River Thames, Mercantile and Rombalds planned did not result in any significant reduction in the solvency ratio.

The Russian invasion of Ukraine has led to significantly increased market volatility in during 2022. Management has closely monitored the impact of the increased market volatility and inflation in 2022.

### 2. Performance

The Company's results for the year are shown below in section A Business and performance.

The BEGAAP result as reported in the Company's audited financial statements as per 31 December 2022 is a net loss of €1,573m compared to a net profit of €1,454m in 2021.The Non-Life technical result decreased from €356k to €7k. This decrease is mainly composed of:

- A decrease in the net claims paid of €377k.
- The provision for claims payable increased with €3.219k while last year there was a decrease of €3.215k. This is a difference of €6.434k. This difference is largely offset by the transfer of the Part VII portfolio with €6.770k.

The Non-Life investment results were negative due to the Covid-19 impact on financial markets beginning of 2022. On the 24th of February 2022 Russia invaded Ukraine which caused additional volatility in the financial markets resulting in the accounting of unrealised losses.

The negative net result was mainly driven by the significant unrealised investment losses.

The Solvency II Company's Own Funds increased to €27,20m as per 31 December 2022 compared to €26,18m in the previous year, mainly explained by a decrease in the liabilities: the Non-Life best Estimate and Risk Margin decreased following the actuarial review in Q4 2022, the run-off of the portfolio and the increase in the EIOPA curve.

During 2022 the solvency ratio significantly increased from 274% to 333%.

We observed the following movements:

- Total assets in Solvency II decreased from €61,89m at year-end 2021 to €59,02m at year-end 2022 which can be attributed to the cash outflow from the payment of claims and expenses. The decrease is less significant because of the receipt of additional assets following completion of the Part VII transfer in Q3 2022.
- Notwithstanding the Part VII portfolio transfer, the total liabilities in Solvency II decreased from €35,71 m in 2021 to €31,82m in 2022 due to the run-off of the portfolio and the provisions released as per actuarial review. Compared to 2021 the Non-Life Best Estimate liabilities and Risk Margin decreased from €32,43m at year-end 2021 to €29,20m at year-end 2022. Note that the Non-life Best Estimate and Risk Margin for Health (coming from the part VII transfer) is included and mentioned separately on the balance sheet.
- Alpha realised a statutory loss of €1,57m as per 31 December 2022.

The Company did not pay any dividend to its shareholders during the year 2022

Following approval from the NBB, the entirety of Alpha Life business transferred to Monument Assurance Belgium on 31 May 2019. Since the transfer, the Company is a 100% Non-Life run-off business, and the growth of the Company will be achieved through external growth by acquisition of new Non-Life run-off portfolios.

Whilst Alpha no longer issues new business, it does continue to service the remaining in-force business and open claims. Alpha's operations focus on efficient client servicing & claims management and ensure that service levels to existing policyholders are maintained. The result of the company depends on changes in actuarially determined ultimate claims reserves, which reflect the results of claims development throughout the year including claims related legal matters (Non-Life), release of old, redundant reserves, in line with regulation, internal policies and procedures, changes in bad debt provisions, investment performance and expense management.
The main geographical area where the company carries out its activities is Belgium.

Despite the continued challenges high market volatility and inflation, the Company can report a strong financial position.

## 3. Solvency position

The Company considers the Standard Formula methodology, prescribed by EIOPA, to be an appropriate basis for the calculation of the Company's Solvency Capital Requirement (SCR). Using this methodology, the Company's SCR is calculated to be €8,2m (2021: €9,6m).
The continued run-off activities explain the decrease of the SCR.

| in m€ | 2022 | 2021 | Δ |
|---|---|---|---|
| Market risk | 3,1 | 4,0 | -0,9 |
| Counterparty default risk | 0,8 | 0,6 | 0,2 |
| Non-life risk | 5,5 | 6,4 | -0,5 |
| Health risk | 0,4 | | |
| Life risk | 0,0 | 0,0 | 0,0 |
| | | | |
| Diversification | -2,3 | -2,3 | 0 |
| Operational risk | 0,7 | 0,9 | -0,2 |
| LAC DT | 0,0 | 0,0 | 0,0 |
| | | | |
| **SCR** | **8,2** | **9,6** | **-1,4** |

The following table shows the Company's solvency position as per 31 December 2022, with a comparison to the prior year.

| in m€ | 2022 | 2021 | Δ |
|---|---|---|---|
| Total eligible own funds to meet the SCR | 27,2 | 26,2 | 1,0 |
| Total eligible own funds to meet the MCR | 27,2 | 26,1 | 1,1 |
| Solvency Capital Requirement | 8,2 | 9,6 | -1,4 |
| Minimum Capital Requirement | 3,7 | 3,7 | 0% |
| Ratio of Eligible own funds to SCR | 333% | 274% | 59% |
| Ratio of Eligible own funds to MCR | 734% | 705% | 29% |

For 2022 the Company observed challenges in relation to its investment portfolio as a result of the volatility within financial markets and inflation. However, there is no indication that it poses a major threat for the future of the Company. We note that Alpha's Solvency ratio at year-end 2022 is significantly higher compared to year-end 2021. The solvency ratio is expected to further improve over the business planning period.

The Company does not use the matching adjustment or any other transitional arrangements. Nor does it use the Volatility Adjustment for the calculation of Alpha's solvency position. The use was no longer considered appropriate after the transfer of the Life portfolio (Non-Life portfolio has a short duration).

The eligible amount of own funds to cover the SCR and MCR is fully classified as unrestricted Tier 1, except for the Deferred Tax Assets (DTA) of €0.03m, which were classified as Tier 3.

Further details of the Company's Own Funds and SCR are provided in section E.

## 4. System of Governance

The Company's business is limited to the settlement of Non-Life insurance liabilities. The system of governance is proportionate to the nature, scale and complexity of these activities.

The Company has a unitary Board comprised of a combination of executives, non-executives, and independent non-executives. All Board members are selected based on their skills, competence and experience.

The Company considers the following key functions:

- Finance function: dealing with finance & investments
- Claims function: dealing with claims & reinsurance
- Actuarial function: dealing with reserving & capital modelling
- Risk management: dealing with the risk management and internal control systems
- Compliance: dealing with, regulatory, administration and supervisory compliance
- Internal Audit function: dealing with the evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance.

It is the responsibility of the key function owners to maintain the appropriate policy and procedures documentation which incorporate the function's responsibilities for operations, risk management, internal control, internal audit, outsourcing and reporting. All governance documentation is reviewed on a regular basis by either the management committee or the Board according to its nature. Section B provides a more detailed overview of the Company's system of governance.
There have been no significant changes to the Company's system of governance during the year and the system is compliant with the Belgian SII Supervision Law of 13 March 2016.

## 5. Risk Profile

The Company's business model and risk profile hasn't materially changed over the reporting period compared to the previous year. The risks remained the same in nature, but their relative importance increased with lower risk tolerance thresholds as a result. The fact that the size of the business decreased, logically makes the business more sensitive to various risks. The following represents a summary of the key risks:

- Underwriting Risk:
  - Non-Life Reserving Risk
  - Non-Life Claims Management Risk
- Market Risk
- Credit Risk
- Operational risk

Following the part VII transfer in July 2022, contracts and claims under the following Belgian insurance classes have been added to the business:

- Health Insurance
- Aircraft liability
- Liability for ships
- General and professional liability
- Non-Life (assumed) reinsurance activities

Alpha Insurance's capital risk profile is dominated by Non-Life Underwriting Risk and Market Risk. These risk categories are extensively reported through Alpha's ORSA.

These risks are discussed in more detail in section C below.

## 6. Other significant events during SFCR review period having a material impact on the Company on a forward-looking basis

Following Brexit and the uncertainty associated with the passporting rights, Enstar completed an Insurance Business Transfer under Part VII of the UK Financial Services and Markets Act 2000 ("Part VII"), in order to transfer a number of EEA policies from three UK domiciled entities to the Alpha Insurance. The UK domiciled companies are:

- Rombalds Run-off Ltd ("Rombalds")
- River Thames Insurance Company Ltd ("River Thames")
- Mercantile Indemnity Company Ltd ("Mercantile")

Alpha's governance structure didn't materially change following the Part VII. A process change relates to claims handling for the transferring portfolios, which has remained outsourced to the existing providers, whereas claims on the majority of Alpha's business are managed internally. As a risk mitigating management action, we have therefore reviewed the controls in place regarding these claims outsourcing arrangements and made sure that KPI monitoring of the services are covered by the newly established KPI monitoring dashboard. The relevant impact relates to increased importance of outsourcing and the enhanced monitoring of critical outsourcing providers.

# A. Business and Performances

## A.1 Business

Alpha Insurance NV is authorised and regulated in Belgium by two insurance regulatory bodies, the National Bank of Belgium ("NBB") and the Financial Services and Market Authority ("FSMA"). The Company is ultimately owned by Enstar Group Limited ("Enstar"), a company domiciled in Bermuda, and which is publicly quoted on the NASDAQ stock exchange in the USA (ticker ESGR). The Bermuda Monetary Authority ("BMA") is the Group Supervisor for Enstar and its subsidiaries and is located at BMA House, 43 Victoria Street, Hamilton, Bermuda.

The Company was acquired by Enstar on 13 November 2015. Enstar acquired the Company (previously a subsidiary of the Nationale Suisse Group) from the Helvetia Group.

The incorporation of the Company into Enstar was done after the transfer of three lines of business of the insurance company Compagnie Européenne d'Assurance des Marchandises et des Bagages SA ("Européenne") which was also a subsidiary of the Nationale Suisse Group.

On 31 May 2019, after obtaining regulatory approval from the NBB, the Company transferred the entire Life business to Monument Assurance Belgium NV under a business transfer agreement. The transaction had a significant impact on the balance sheet total as the total Life reserves were transferred out the balance sheet, with the investments decreasing by a similar amount. The transaction was followed up by a capital decrease of €21,4m in the second half of 2019, to adapt the capital position of the Company to the decreased capital requirements.

Since the transfer of the Life business, the principal activity of the Company is the conduct of general (Non-Life) insurance business. The Company is in run-off, having voluntarily ceased to underwrite new business as from March 2015. Whilst Alpha no longer issues new business, it does continue to service the remaining in-force business. Alpha's operations focus on efficient client servicing & claims management and ensure that service levels to existing policyholders are maintained.

Following Brexit and the uncertainty associated with the passporting rights, Enstar commenced an Insurance Business Transfer under Part VII of the UK Financial Services and Markets Act 2000 ("Part VII"), to transfer a number of EEA policies from three UK domiciled entities to Alpha Insurance NV.

The UK domiciled companies are:

- Rombalds Run-off Ltd ("Rombalds")
- River Thames Insurance Company Ltd ("River Thames")
- Mercantile Indemnity Company Ltd ("Mercantile").

Following regulatory approval, the transfer was completed on 1 July 2022. The inward Insurance and reinsurance Business Part VII transfer from River Thames, Mercantile and Rombalds planned did not result in any significant reduction in the solvency ratio. The material geographical area where the company carries out its activities is Belgium. As the transferring liabilities are located in several EEA states the Company also obtained additional passporting rights.

The Non-Life underwriting business includes the following lines of business:

- Motor vehicle liability insurance
- Land vehicles
- Ships, aircraft and goods in transit (transport) insurance
- Fire and other damage to property insurance

- General liability insurance
- Suretyship insurance
- Legal expenses insurance
- Miscellaneous financial loss

Following the Part VII transfer in July 2022, contracts and claims under the following Belgian insurance classes have been added to the business:

- Health Insurance
- General and Professional Liability
- Aircraft liability
- Liability for ships
- Non-Life (assumed) reinsurance activities

The name and contact details of the Company's external auditor is shown in the section with company information.

The main trends and factors that contribute to the development, performance and position of the Company include:

- For Non-Life insurance activities, changes in actuarially determined ultimate claims reserves, which reflect the results of claims development throughout the year.
- Investment performance.
- Expense management.

**Alpha results on a Belgian GAAP basis**

The Non-Life business now consists of 1/ on the one hand the Alpha legacy portfolio that was obtained by Enstar in 2015 and is composed of business from brokers and business from underwriters and 2/ on the other hand the Part VII transfer portfolio that is composed of parts of the EEA business for which there were no longer passporting rights from the entities Mercantile, River Thames and Rombalds.

In the table here below, you can find the Belgian GAAP results of Alpha of financial year 2022 compared to financial year 2021.

| Alpha Result | 12/2022 | 12/2021 |
|---|---|---|
| Net earned premiums | -78 | 108 |
| Investment income | 2.042 | 3.020 |
| Net other technical income | 58 | 0 |
| Net claim expenses | 11 | 248 |
| Net operating expenses | -845 | -921 |
| Investment expenses | -2.855 | -1.159 |
| Net other technical expenses | 0 | 0 |
| Variation in equalization provision | 0 | 31 |
| **Net technical result - Non-Life** | **-1.667** | **1.327** |
| Life result | 0 | 0 |
| Exceptional result | 12 | -5 |
| Corporate tax | 82 | 131 |
| **Net result - Non-Life** | **-1.573** | **1.453** |

- In 2022 there is an increase in the unearned premium reserve and the reserve for premium deficiency. For the Alpha legacy business, the unearned premium reserve further decreases, but for the transferred Danish Disability Book, an unearned premium reserve and a premium deficiency reserve was set up, hence the negative result under premiums. At year end 2022 the company no longer has policies in force except in the Surety business (under class 15) and the Danish Disability Book (under class 2 "Health"), coming from the Part VII transfer. For the Danish Disability premiums will be issued as well.
- The investment income consists mainly off:
    - €1m of regular investment income such as interest income from bonds and dividends from the equity fund. €1m of reversal of unrealised losses.
- In 2021 the release of ULAE was limited to €0,2m because we already anticipated the required ULAE following the Part VII transfer. In 2022, the BEGAAP percentage for ULAE increased from 15% to 17%, and considering the LAT, the ULAE increased from €5m to €6,6m.  Notwithstanding, the Part VII transfer, the OLR increased only from €17,3m to €18,4m. This is due to releases in both the Alpha legacy portfolio and the Part VII portfolio. The IBNR increased from €2,1m to €2.7m. The claims paid decreased from €3,1m to €2,7m. The combination of these elements causes the cost of claims to increase from -€0,2m to €11k profit.

The increase in the investment expenses is mainly due to the unrealised losses on investments. These unrealised losses are mainly related to the investment funds. Under Belgian GAAP there are no impairments on bonds as long as there is no indication that the value of the bonds cannot be recuperated at maturity of the bonds.

## A.2 Underwriting performance

**Non-Life**

The following table analyses the technical result by line of business as presented in QRT S.05.01. Since the Part VII transfer there is assumed reinsurance and activity in various EEA states.

**2021**

| *amounts in k€* | 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 | Miscellaneous financial loss | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | | | | |
| Gross - Direct Business | | | | -36 | | | | -6 | **-42** |
| Reinsurers' share | | | | | | | | | |
| Net | | | | -36 | | | | -6 | **-42** |
| **Premiums earned** | | | | | | | | | |
| Gross - Direct Business | | | | -27 | | 154 | | -6 | **121** |
| Reinsurers' share | | | | 8 | | | | 0 | **8** |
| Net | | | | -34 | | 154 | | -6 | **114** |
| **Claims incurred** | | | | | | | | | |
| Gross - Direct Business | 241 | 3 | -60 | -370 | -66 | -441 | -25 | 447 | **-271** |
| Reinsurers' share | 0 | 7 | | -74 | | | | 482 | **416** |
| Net | 241 | -6 | -60 | -296 | -66 | -441 | -25 | -35 | **-688** |
| **Expenses incurred** | 961 | 24 | 71 | 198 | 374 | 54 | 0 | 19 | **1.701** |

**2022**

| *amounts in k€* | 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** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Income protection insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Miscellaneous financial loss | Casualty | Marine, aviation, transport | Property | |
| Rows | | | | | | | | | | | | | |
| Premiums written | | | | | | | | | | | | | |
| Gross - Direct Business | 1.507,10 | 0,00 | -92,53 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | | | | **1.414,57** |
| Reinsurers' share | | 0,00 | -60,16 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | | | | **-60,16** |
| Net | 1.507,10 | 0,00 | -32,37 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | | | | **1.474,73** |
| Premiums earned | | | | | | | | | | | | | |
| Gross - Direct Business | -181.458,23 | 0,00 | -92,53 | 0,00 | 0,00 | 0,00 | 103.057,41 | 0,00 | 0,00 | | | | **-78.493,35** |
| Reinsurers' share | | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | | | | **0,00** |
| Net | -181.458,23 | 0,00 | -92,53 | 0,00 | 0,00 | 0,00 | 103.057,41 | 0,00 | 0,00 | | | | **-78.493,35** |
| Claims incurred | | | | | | | | | | | | | |
| Gross - Direct Business | 2.018.545,53 | 678.375,99 | 104.753,25 | -951.875,19 | -1.106.490,55 | 238.663,94 | -531.295,36 | -55.729,30 | 93.799,43 | | | | **488.747,74** |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | 2.123.902,29 | 1.328.750,05 | 276.957,03 | **3.729.609,37** |
| Reinsurers' share | | 0,00 | 557,30 | | -153.937,09 | 0,00 | | | -17.831,27 | | | | **-171.211,06** |
| Net | 2.018.545,53 | 678.375,99 | 104.195,95 | -951.875,19 | -952.553,46 | 238.663,94 | -531.295,36 | -55.729,30 | 111.630,70 | 2.123.902,29 | 1.328.750,05 | 276.957,03 | **4.389.568,17** |
| Expenses incurred | 7.053,09 | 1.090.273,93 | 22.112,40 | -141.591,43 | 181.575,28 | 605.852,47 | -58.045,94 | 209,52 | 3.921,89 | 7.052,59 | 0,00 | 1.251,12 | **1.719.664,92** |

Gross claims paid in the run-off business are below budget. The remaining claims are more complex cases, and the timing of pay-out is difficult to estimate. Since the claim reserves in the Motor Line of Business were strengthened in 2017 there has been favourable development in both 2021 and 2022 on claims that were closed. There have also been delays in settlement of claims that have a pending litigation before court, as the Covid-19 pandemic caused a delay in court dates. With respect to the Part VII portfolio, the payments primarily related to the Danish Disability Book. In the remainder of the Part VII business there were limited payments. As a large part of the portfolio relates to assumed reinsurance the settlement of the claims is slower.

## A.3 Investment result

The Company holds all its investments in Euro and since the Part VII transfer also in DKK. The main asset classes are government and corporate bonds but as from 2017 there has also been invested in equity and bond funds following the revised investment strategy based on the annual asset liability management (ALM) study. There are no investments in real estate.

The following tables give an overview of the investment results in k€ as presented in QRT S.09 for 2021 and 2022.

**2021**

| Asset category | Dividends | Interest | Rent | Net gains and losses | Unrealised gains and losses | Total |
|---|---|---|---|---|---|---|
| **Government bonds** | | 668 | | | -963 | -295 |
| **Corporate bonds** | | 257 | | 7 | -386 | -122 |
| **Equity instruments** | | | | | | 0 |
| **Collective Investment Undertakings** | 432 | | | 1.284 | -275 | 1.441 |
| **Cash and deposits** | | -33 | | | | -33 |
| **Mortgages and loans** | | 17 | | | 16 | 32 |
| **Total** | **432** | **909** | **0** | **1.291** | **-1.610** | **1.022** |

**2022**

| Asset category | Dividends | Interest | Rent | Net gains and losses | Unrealised gains and losses | Total |
|---|---|---|---|---|---|---|
| **Government bonds** | | 606 | | 8 | -2.634 | -2.020 |
| **Corporate bonds** | | 298 | | 0 | -1.836 | -1.538 |
| **Equity instruments** | | | | 0 | 0 | 0 |
| **Collective Investment Undertakings** | 127 | | | 0 | -1.543 | -1.416 |
| **Cash and deposits** | | -14 | | 0 | 0 | -14 |
| **Mortgages and loans** | | 12 | | 0 | 29 | 41 |
| **Total** | **127** | **902** | **0** | **8** | **-5.984** | **-4.947** |

In 2022 the investment result is €6m lower than the year before. There were €0,3m less dividends, the interest received remained stable while the realised gains decreased with €1,3m. This, together with an increase of unrealised losses of €4.4m results in a total €6m lower investment result. The unrealised losses are due to the volatility of the financial markets following the Russian invasion in Ukraine and the inflation.

## A.4 Result of other activities

The Company did not engage in any material other activities in 2022. All income and expenses are attributed to the insurance and assumed reinsurance activities as described in the previous sections.

## A.5 Any other information

In 2022, the impact of the Covid-19 decreased compared to 2020 and 2021. The Alpha employees returned to the office, but with an agile working schedule. The Pandemic still has impact as there are still delays in the court cases and hence in the time required to run-off the claims files.
The invasion of Russia in Ukraine has had a significant impact on the financial markets. While financial markets were recovering from the Covid-19 in December 2021 and the first months of 2022, financial market volatility increased significantly again following the invasion of Russia in Ukraine, together with rising inflation, withdrawal of stimulus and an economic downturn. As mentioned here above there

was a significant impact on the financial results through the unrealised losses, mainly on the investment funds.
As the situation evolves the Company is regularly assessing the impact on solvency capital in line with established risk metrics and in compliance with the Company's risk appetite, including the impact following the recent volatility in the financial markets. Even though the longer-term impact of this situation is difficult to estimate, the analyses performed so far have not indicated that it poses a major threat for the future of the Company. As per 31 December 2022 the Solvency II ratio was 333%. Due to the nature of Alpha Insurance's Non-Life insurance activities in run-off, the impact on both liquidity and technical results is extremely limited. The only significant impact on profitability, is related to the investment portfolio which was exposed to extreme volatility during 2022. However, Alpha Insurance has an investment portfolio with a low risk profile, which as at year-end 2022 consisted primarily of investment grade bonds.
The Company maintains a very robust financial and operational position to deal with the current geopolitical and market volatile situation. The impact as described above does not threaten the continuity of the Company and the going concern assumption remains appropriate.

# B. Governance system

## B.1 General Information about the governance system

**B.1.1. Board of Directors**

Alpha Insurance is managed by a Board of at least seven members, all being natural persons, appointed for three or six years by the General Assembly of Shareholders. The Board convenes at least four times per year to fulfil its responsibilities effectively and prudently.
The current Alpha Board consists of:

- three Executive Directors;
- two Non-Executive Directors; and
- two Independent Non-Executive Directors.

The Alpha Board consists of an appropriate mix of Executive Directors and Non-Executive Directors. Two Non-Executive Directors fulfil the criteria of independence with provision 3.5 of the Belgian Code on Corporate Governance. The majority of the Board members are Non-Executive Directors.
In carrying out the duties of the Board, Directors act in accordance with all relevant and applicable legislative and regulatory rules.
The Board has adopted corporate governance practices and policies to promote the effective functioning of the Board.

Attendance and eligibility to vote at each meeting is evidenced in the minutes of each meeting.

The Chief Executive Officer ("CEO") and Company Secretary are responsible for maintaining the Board meeting calendar, invitations and for the circulation of relevant material in advance of Board meetings.

The roles of Chairman of the Board and CEO are undertaken by different Board members.

The Company Secretary is responsible for taking minutes each meeting.

Standing agenda items are listed at each quarterly Board Meeting.

The board possesses the required level of collective expertise which is evidenced by a skills matrix.

The board of directors has the final responsibility for the insurance company. More particularly, this concerns the following two functions:

- Determining the general company strategy, risk policy and integrity policy
  Firstly, as regards the company's strategy and objectives, the board of directors determines and validates:
  - the company's objectives
  - the main lines of its organisational structure and its internal control structure (which must be in proportion to the intended objectives)
  - the company's policies on governance
  - the reporting intended for the public (particularly the Solvency and Financial Condition Report or SFCR).

  Secondly, regarding the risk policy, the board of directors:
  - determines the company's risk appetite and general risk tolerance limits for all activities (risk appetite framework)

- approves the company’s general risk management policy and the specific risk policies
- is the first line as regards risk-based strategic decisions and is closely involved in the ongoing supervision of the development of the company risk profile
- approves the Regular Supervisory Report (RSR) and the Own Risk and Solvency Assessment (ORSA).

Thirdly, the board of directors also approves the integrity policy, which establishes the company’s fundamental ethical principles and includes at least the following: rules on conflicts of interest, rules on whistleblowing, rules on the prevention of money laundering and terrorist financing, codes of conduct, etc.

- Supervision of activities

  Supervising activities and regularly assessing the effectiveness of the insurance company’s governance system form another important pillar of the responsibilities of the board of directors. The supervision relates to all the insurance company’s areas of activity and in particular cover the management committee (supervision of the management committee’s decisions) and compliance with the risk policy.

  This supervision on the operation of the company is exercised through:
  - reporting by the independent control functions;
  - effective use of the investigative powers of the board of directors;
  - reporting by the management committee on the development of the company’s activity
  - assessments carried out in accordance with article 77 of the Belgian Solvency II Law (The Law of 13 March 2016 on the legal status and supervision of insurance or reinsurance companies).

**B.1.2. Management Committee**

The Company has a management structure that guarantees effective and prudent management, considering the nature, size and complexity of the risks inherent to the company’s business model and the activity of the Company. There is a clear division between the executive management of the insurance company and the supervision of this management in accordance with article 42, § 1, 1° of the Solvency II Law. There is a distribution of competences at the highest level between:

- the Board of Directors, which (i) determines the overall business strategy as well as the risk policy and (ii) supervises activities;
- the Management Committee (“the committee”), which is responsible for the specific management of the insurance company’s activity.

To enable the Board to carry out its objectives, authority and terms of reference are delegated to the committee.

The committee consists of persons who exercise a direct and decisive influence on the management of Alpha’s business.

In accordance with 1.3.4 of the Solvency II Governance Circular the committee undertakes the following responsibilities as a collegial body:

- Implementation of the strategy of the Board
- Implementation of the Risk Management System
- Set-up, follow-up and assessment of the organisational and operational structure
- Reporting to the Board of Directors and the National Bank of Belgium

In addition, the committee discusses, validates and approves the quarterly Quantitative Reporting Templates (QRTs) in accordance with the articles 80 §5, and 202 of the Belgian Solvency II-Law of 13 March 2016 (“the Belgian Solvency II Law”).

Members of the committee have day-to-day responsibility for risk management and establishing risk management practices within key functions.
To meet the requirements of the Belgian Solvency II Law of ensuring a direct link with the Board of Directors all members of the committee participate as an executive director in the Board of Alpha.

The committee's membership consists of:

| | | |
|---|---|---|
| Kim Torbeyns | Chief Executive Officer | Chairwoman of the committee |
| Maxime Ronsmans | Chief Finance Officer | Member of the committee |
| David Matthys | Compliance Officer/Chief Risk Officer | Member of the committee |

Minutes are held of all meetings of the committee.

### B.1.3. Audit/Risk/Remuneration Committees

As Alpha employs less than 250 employees and has an annual net turnover of less than €50m the establishment of a local Alpha audit/risk/remuneration committee is not required.
The Board of Directors performs all the tasks in accordance with the Belgian Solvency II Law. The Internal Audit Function as well as the Risk Management Function report directly to the Board of Directors and they submit detailed reports on a quarterly basis.

At group level, a UK/EU Management Risk Committee ('MRC') convenes on at least a quarterly basis or as directed. To accommodate key dates for approval of returns and information for the regulators, as well as, for the smooth operation of the business, a sub-committee may be formed. The purpose of the Committee is to enhance and to embed the Enterprise Risk Management Framework across the Non-Life Run-Off (NLRO) entities domiciled in the UK and Europe (such as Alpha insurance) and to assist the UK and European Boards in reviewing and evaluating the risks to which the UK/EU Group is exposed.

### B.1.4. Remuneration Policy

***Principles***

The Remuneration Policy reflects the remuneration requirements as set out in the Belgian NBB Circular "Circulaire over de prudentiële verwachtingen van de Nationale Bank van België inzake het governancesysteem voor de verzekerings-en herverzekeringssector" ("NBB governance circular").

The various remuneration components are combined to ensure an appropriate and balanced remuneration package. The four remuneration components are:
- fixed remuneration (including fixed supplements)
- performance-based remuneration (variable salary)
- pension schemes
- other benefits

Bonuses payable to employees are entirely discretionary based upon the success and financial performance of Enstar Group as a whole and the individual employee's contribution to that financial performance. The employee's or Executive Director's contribution will be measured (Yearly Appraisal Process) on individual realisation of objectives and Key Performance Indicators and is not related to the success of the individual Belgian regulated entity.
Performance based remuneration is disbursed as a cash or shares bonus.

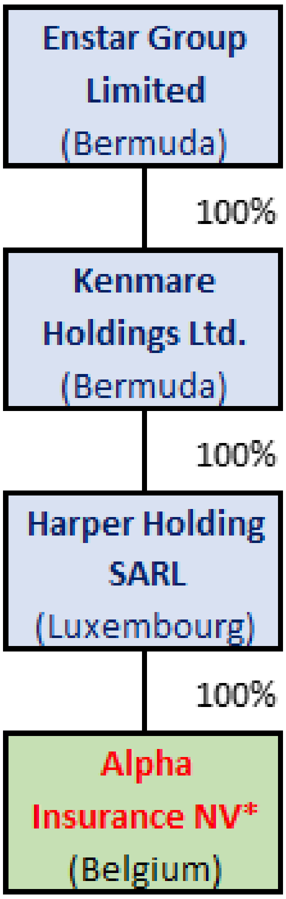
***Remuneration rights***

- (Independent) Non-Executive Directors
  Independent Non - Executive Directors (INEDs) are remunerated by the Company under the terms of a service agreement. Remuneration for INEDs is agreed by the Board of Directors and their fixed remuneration is paid on an annual basis. No variable remuneration may be granted to an independent director. Non-Executive Directors (NEDs) are remunerated by the Service Company they are contracted to. The contracting Company may recharge Alpha for the time and costs of the NEDs under the intragroup services agreement. Their remuneration is set by the Group Remuneration Committee.
- Members of the Management Committee
  As the remuneration scheme includes both fixed and variable components, such components are balanced so that the fixed or guaranteed component represents a sufficiently high proportion of the total remuneration to avoid employees/executive directors being overly dependent on the variable components. The fixed and variable components are specifically reflected in the employee's/director's contract. When evaluating performance as a basis for the variable compensation, a downwards correction can be applied when the employee or Director does not meet the requirements which have been set and agreed upon in the context of the appraisal process.

Pursuant to the principle of proportionality, identified staff receiving significant variable remuneration are subject to stricter requirements. 'Identified staff receiving significant variable remuneration' refers to identified staff that receive an annual variable remuneration which exceeds € 50,000 gross and represents more than a third of their total annual remuneration.
Exceedance of the threshold for significant variable remuneration of Alpha Directors or employees will give rise to additional prudential requirements as set out in point 8.4 of the NBB governance circular to which the Company will comply.

- Independent control functions
  The Internal Audit Function and the Actuarial Function are entirely outsourced to the group with the Company paying a fee for this service. In accordance with the solvency II requirements on outsourcing, the Company appointed a local person with overall responsibility for the outsourced independent control function ('contact person responsible').
- Reporting
  Following Board approval, the company reports the quantitative remuneration figures annually using the template provided by the Bank for all identified staff (including the risk-takers and the persons responsible for the independent control functions). This reporting should be submitted to the Bank through the NBB portal (cf. Communication NBB 2019_05).

**B.1.5. Shareholders**




Alpha is a subsidiary of Enstar Group Limited.

**Enstar Group Limited ("EGL")** registered in Bermuda (EC 30916), is a Bermuda based holding company established in 2001. EGL is a multi-faceted insurance group that offers innovative capital release solutions and specialty underwriting capabilities through its network of group companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia and other international locations. Enstar is listed on the NASDAQ Global Select Market under the ticker symbol « ESGR ». The Bermuda Monetary Authority ("BMA") is the Group Supervisor for Enstar and its subsidiaries.

A copy of the EGL Financial Statements can be found on the EGL website at:
https://investor.enstargroup.com/annual-reports

**Kenmare Holdings Ltd.("Kenmare"),** registered in Bermuda (EC 30917) is an intermediate holding company for Alpha and other EGL subsidiaries. Kenmare is a private company incorporated under the laws of Bermuda to acquire and manage insurance and reinsurance companies in run-off, and to provide management, consulting and other services to the insurance and reinsurance industry.

**Harper Holdings SARL** ("Harper") – is a "société à responsabilité limitée" incorporated under the laws of Luxembourg on October 15, 2004. Harper is incorporated for an unlimited period. The Company has its registered address at 25C Boulevard Royal, L-2449 Luxembourg and is registered at the Luxembourg Commercial Register under number R.C,S Luxembourg Mo B 103670. The purpose of the Company is the holding of participations, in any form whatsoever, in Luxembourg and foreign companies and any other form of investment, the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of securities of any kind and the administration, control and development of its portfolio. Harper may further guarantee, grant loans or otherwise assist the companies in which it holds a direct or indirect participation or which form part of the same group of companies as the company. Harper may carry out any commercial, industrial or financial activities which it may deem useful in accomplishment of this purpose.

EGL actively supports good corporate governance practices. Sound principles of corporate governance are critical to obtaining and retaining the trust of investors and to Enstar's goal of performance with integrity. The Board of Directors of EGL has adopted corporate governance practices and policies to promote the effective functioning of its own Board of Directors, its committees, as well as for group subsidiary Boards of Directors and all employees.
All group employees are required to always comply with the EGL Code of Conduct.

## B.2 Fit and proper requirement

### B.2.1. Description of the required skills

The Company expects all employees to meet the Company's internal and regulatory requirements applicable to their professional qualifications and integrity. The expectations of the National Bank of Belgium ("NBB") are set out in circular NBB_2018_25 which also refers to the Fit & Proper Handbook (section 4). Furthermore, the fitness expected of the person responsible for the compliance function is also specified in the NBB Regulation of 6 February 2018.
The Company adopted the Enstar Fit and Proper Policy of which the wide scope also covers the persons highlighted in the Overarching Circular on System of Governance NBB_2016_31. Appendix 1 of this Policy reflects the Belgian requirements as set out in circular NBB_2018_25 and the Fit & Proper Handbook.

The objective of the Fit and Proper Policy is to outline the procedures necessary to ensure that:

- The EGL Group applies an objective and consistent approach to assessing, maintaining and monitoring the fitness and propriety of Covered Persons;
- Covered Persons are aware of their responsibilities, and receive appropriate training;
- EGL and its Subsidiaries comply with regulatory obligations regarding fitness and propriety;
- EGL and its Subsidiaries have the full range of skills needed for the effective and prudent management of its business operations.

The Company expects all employees to meet the Company's internal and, where required, regulatory requirements applicable to their professional qualifications and integrity.

A Covered Person should have the necessary qualities, competencies and experience to perform its duty and carry out the responsibilities required of its position in an effective manner. Each Covered Person must meet the below outlined criteria, as well as any additional criteria relevant to local jurisdictions or entities, to be deemed fit and proper.  Determinations as to whether each Covered Person meets the necessary criteria are made in accordance with the process detailed in Section 2.1.2.

Each Covered Person shall:

- possess the necessary competencies, skills, experience, knowledge, expertise, diligence and soundness of judgement to undertake and fulfil the particular duties and responsibilities of the role;
- demonstrate the appropriate character, competence, honesty and integrity in fulfilling occupational, managerial or professional responsibilities previously and/or in the conduct of their current duties;
- demonstrate sufficient knowledge of and a willingness to comply with legal obligations, regulatory requirements, professional standards and fiduciary obligations;
- be aware of and be able to effectively ensure implementation and compliance with the underlying principles of laws, regulatory requirements and licence obligations applying to the relevant entity; and
- be able to identify and appropriately manage any conflicts of interest, in accordance with the conflict of interest policy.

No Covered Person shall:

- have (or have been involved with an entity that has) been refused admission, reprimanded, disqualified or removed by a professional or regulatory body due to matters relating to such Covered Person's honesty, integrity or business conduct;
- have been terminated, resigned or asked to resign from a position as a director or manager or professional service provider to an entity in circumstances which reflected adversely on their honesty or integrity in discharging their responsibilities in that role;
- have been the subject of civil or criminal proceedings or enforcement action, in which such Covered Person was determined in a final judgment to lack honesty or integrity; or
- have intentionally hindered, obstructed or misled, or failed to be truthful with a regulatory agency.

**B.2.2. Fit & proper assessment process**

With the assistance of the HR department, all Covered Persons are assessed against the Fit & Propriety criteria outlined in the policy and the NBB Fit & Proper Handbook.
The Board takes all reasonable steps to ensure that all Covered Persons are aware of and understand this Policy and their obligation to continue to meet the fit & proper requirements on an on-going basis.
Candidates for Covered Person positions will be pre-assessed prior to joining the Company using the following process:

- Individuals applying for Covered Person positions, including in an interim capacity, must be assessed with the assistance of the HR department against the Fit & Proper Policy and the NBB Fit & Proper handbook;
- References and proofs of industry/ professional qualifications are sought and retained; and
- Background checks to include criminal records check are sought and retained. These background checks are reperformed periodically during service.

Where a candidate for a Covered Person position is assessed as not fit & proper for a position, the candidate shall not be appointed to the position.
In principle, an assessment of fitness always deals with an individual. However, when the assessment relates to a directorship (whether executive or not) or membership of the management committee, account must also be taken of the composition and operation of the body as a whole. This means that there must be checks on whether the fitness within the body is sufficiently guaranteed with this person, in view of his or her knowledge and specific experience, skills and professional behavior. In this respect, Article 273(3) of Delegated Regulation 2015/35 provides that "the assessment of whether members of the administrative, management or supervisory body are fit shall take account of the

respective duties allocated to individual members to ensure appropriate diversity of qualifications, knowledge and relevant experience to ensure that the undertaking is managed and overseen in a professional manner.” In accordance with the EIOPA Guidelines, the board of directors and the management committee of an insurance or reinsurance undertaking must collectively have knowledge and experience of at least:

- insurance and financial markets;
- the undertaking’s strategy and business model;
- the governance system;
- financial and actuarial analysis;
- the regulatory context and requirements.

When a new person is deemed fit by the undertaking, the NBB will collect the necessary information and carry out an assessment on the basis of which it will decide on final approval. For the purposes of its own assessment, the NBB will first of all use the information supplied by the undertaking and by the person in question as a basis.
This information is collected using standard forms designed especially for this purpose. The NBB is free to ask for any additional information and, where applicable, to interview the person in question.
The longer that a person has held a position, the more practical information the undertaking and the NBB will have about the way that the person works within the undertaking (e.g. by looking at reports made by the statutory governing body, audits, etc.) The undertaking and the NBB both have a responsibility to reassess this information whenever this may appear necessary.
Any staff changes or business activities that could have an impact upon roles are monitored, and processes are in place to confirm ongoing fitness and propriety.
Covered Persons must immediately inform their local Compliance or HR Department of any event that may result in them no longer being able to meet the Fit & Proper criteria. Where it has been assessed by the institution or the NBB that a Covered Person is no longer fit & proper for a position, the Board of the relevant company shall take reasonable steps to remove the person from such position as soon as practicable possible and in the interim, institute necessary measures to mitigate risks associated with the person continuing to hold the position and inform the NBB.

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

### B.3.1. Principles

Risk Management is one of the key functions of the Company’s corporate governance. The Risk Management function’s key responsibilities are:

- Ensure independent review and challenge of first line activities;
- Develop, maintain, and implement the Enterprise Risk Management (“ERM”) Framework across the Company;
- Oversee the operation of the ERM framework, ensuring emerged and emerging risks are identified on an ongoing basis;
- Lead and facilitate the ongoing maintenance of a robust Risk Appetite Framework to provide a holistic view and ongoing assessment of risk for the Executives and Board, guiding and informing enterprise risk management;
- Report to the Board analysis of aggregate risk appetite, risk profile and capital adequacy as part of the ORSA where required;
- Identify, measure, manage and, monitor the risk profile of the Company to inform the decision-making process;
- Ensure high rated risks have appropriate controls which are tested on a frequent basis;
- Conduct comprehensive risk assessments on strategic initiatives;

- Investigate, remediate and (where appropriate) escalate both control failures risk appetite breaches to the appropriate governance forums;
- Establish a proactive risk culture within the Company and provide required risk management training;
- Analyse the SCR and develop the risk profile of, and interactions between, different risk categories;
- Promote the consideration of Environmental (specifically, Climate Change effects), Social and Governance (ESG) risks in the business planning and strategic priorities process;
- Oversee, collate and include stress and scenario testing into the wider framework, and where appropriate ensure risk mitigation measures are designed and implemented;
- Perform root cause analysis on reported incidents / risk events (as appropriate).

Effective risk oversight is a priority for the Company Board and the Company strongly emphasises facilitating the operation of a robust ERM Framework to identify, measure, manage, monitor and report risks that affect the achievement of all strategic, operational, and financial objectives.

The overall objective of the ERM Framework is to:

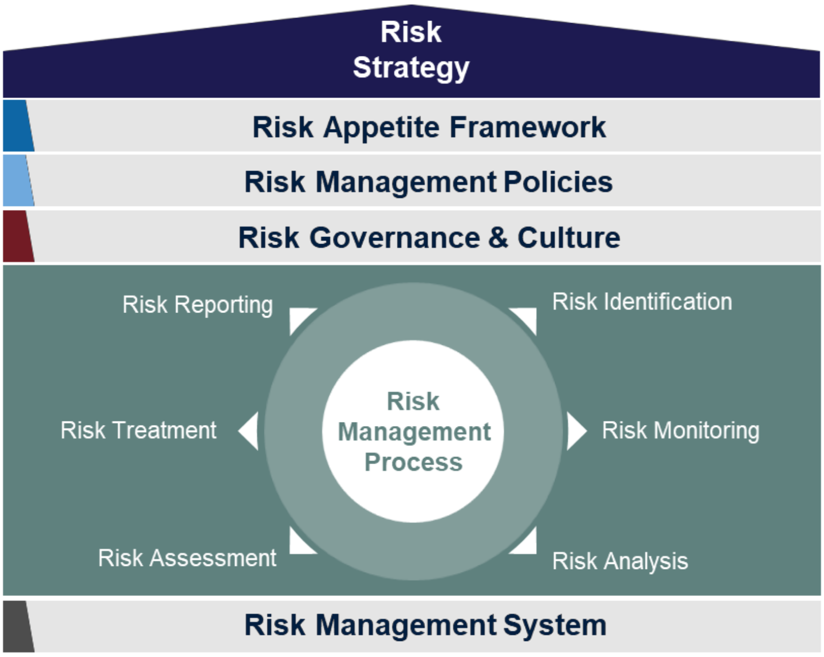
- Support the achievement of business strategy and objectives in accordance with the Board approved risk appetite.
- Ensure appropriate methods for the identification and mitigation of risk are in place and operating as intended.
- Support good risk governance, responsibility, and accountability.
- Ensure a consistent approach to risks management is embedded within the Company.

The Company uses its risk management capabilities in a strategic context to support the following three activities related to its operations:

- Identify, assess, and measure risks to understand value creating and value destroying risks and their associated risk levels for the purpose of capital allocation and business planning;
- Establish a risk appetite and underlying risk tolerances for key risks undertaken for the purpose of maintaining and controlling risk levels to be aligned to the Group's business strategy;
- Monitor and report risk levels to evaluate the Company's performance and appropriateness of the business strategy.

The overarching principle of the ERM Framework is to ensure the Company appropriately assesses and manages risk as it continues to take opportunities to meet its business objectives.

The ERM framework and its key components are outlined in the schematic below.


Risk
Strategy
Risk Appetite Framework
Risk Management Policies
Risk Governance & Culture
Risk Reporting
Risk Identification
Risk
Management
Process
Risk Treatment
Risk Monitoring
Risk Assessment
Risk Analysis
Risk Management System

### B.3.2. Risk Strategy

The main components of the Company’s Risk Strategy are:

- To support business objectives by ensuring appropriate solvency levels, liquidity and capital management;
- To ensure that an appropriate risk management framework and system of internal control is maintained according to policies agreed by the SISE Board of Directors;
- To secure appropriate reinsurance coverage, as needed, at a cost that is acceptable to the SISE Board of Directors:
- To oversee the business conduct of SISE in accordance with best practice and applicable regulations;
- Promote the consideration of Environmental (specifically, Climate Change effects), Social and Governance (“ESG”) risks in the business planning and strategic priorities process.

Several key principles underpin the design of the Company’s Risk Strategy. These are that Risk Management is:

- an integral part of the organisational processes;
- part of decision making;
- addresses uncertainty;
- systematic, structured and timely;
- based on best information;
- tailored;
- transparent and inclusive;
- dynamic, iterative and responsive to change;
- facilitating / driving continual improvement;
- focused on protecting the Company’s stakeholders and policyholders.

The Company’s Risk Strategy enables the proactive management of risks arising in day-to-day operations, primarily through the implementation and maintenance of an effective ERM framework to ensure a robust control environment.

### B.3.3. Risk Appetite Framework

The Company’s Risk Appetite Framework (“RAF”) monitors the Company’s risk taking by linking business strategy and planning with available capital and risk. It outlines the amount of risk that the Company is willing to accept based on the Company’s shareholders' equity, capital resources, potential financial loss and other risk-specific measures. The framework is designed to:

- Monitor and protect the Company from an unacceptable level of loss, compliance or operational failures and adverse reputational impact;
- Support the wider strategic decision-making process.

A qualitative risk appetite statement is set for each material risk and is supported by quantitative tolerances which align to the Company’s business plan. The RAF is reviewed and approved by the Board annually or as determined by the Board outside the annual review cycle in the event of a material change.

Accountability for the implementation, monitoring, and oversight of the RAF is aligned with individual corporate executives and monitored and maintained by the Risk Management function. Risk tolerance levels are monitored and any deviations from pre-established levels are reported to the Board via the quarterly risk report to facilitate responsive action or acceptance of the evolving risk profile.

**Risk Management Policy**

The Company maintains several Risk Management policies which supports:

- The proactive and consistent identification, assessment, and management of risks across operations;
- Management of risks within the limits of the Company's prescribed risk appetite and as directed by defined corporate policies;
- The Board notification process, where events may have, or are likely to, breach risk appetite.

These policies are reviewed and approved annually by the Board.

### B.3.4. Risk Governance

The Company operates under the "Three Lines" model to delineate accountabilities as illustrated below:

| | 1st Line | 2nd Line | | 3rd Line |
|---|---|---|---|---|
| | **Business** | **Risk Management** | **Compliance** | **Internal Audit** |
| **Responsibilities** | • **Take measured risks** commensurate with process and outcome whilst upholding responsibility for **day-to-day risk management**.<br>• **Identify and monitor** risks as well as implementing **mitigating actions** and effectively operating internal controls to manage risk. | • Assist risk owners **in defining the target risk exposure, setting risk appetite** and mitigating emerging issues<br>• Implement the **Enterprise Risk Management 'ERM' Framework**<br>• **Provide independent monitoring of risk** by comparing actual risk level to risk appetite | • **Monitor the accuracy and completeness** of compliance with laws, regulations, and internal policies<br>• **Advise on compliance** with emerging laws, regulations and internal polices<br>• **Regularly report on compliance risk** or exposure to penalties and/or breach to the Board | • **Uphold independence and maintain primary accountability** to the audit committee governing body<br>• **Provide assurance on the design and effectiveness** of the governance, risk and control frameworks<br>• **Provide assurance recommendations** and remediation |

The first line consists of Senior Corporate Executives and their function leaders and risk owners. They are accountable for executing the risk management strategy. They are responsible for the appropriate management of the activities and conduct of the business functions and for ensuring that staff understand the business strategy, risk mitigating policies, and procedures and have in place personal objectives focused on achieving these.

The second line comprises Risk and Compliance. The Risk Management function reports to the Board and focuses primarily on facilitating an efficient, effective, and consistent approach to risk management. The management assurance is further complemented by the Compliance function which seeks to mitigate legal and regulatory compliance risks and ensures that appropriate, effective, and responsive compliance services are available to the business units across the Company.

The third line comprises internal audit which independently reviews the effectiveness of the ERM Framework. The results of audits are monitored by the Board. Independent assurance from external Auditors also sits within our third line of defence. Adopting this framework ensures appropriate ownership of the risk from the business and allows for sufficient challenge from the second and third lines.

**Risk Management System**
The Risk Management team has a system in place to record key ERM related data such as, risk and control assessments.

### B.3.5. Emerging Risk Management

Emerging risks are defined as 'risks which may develop, or which already exist but are difficult to quantify. They are marked by a high degree of uncertainty. Emerging risks are not fully understood or explicitly considered within the day-to-day operations of the business given a lack of quantifiable data. Emerging risks can be expected to crystalise over time and therefore merit further analysis, assessment, monitoring, evaluation and, when appropriate, treatment.

A four-step process is in place for managing emerging risks:

1. **Identify**: All employees within the Company, the Risk Management Function and Risk Committees have responsibility for the initial identification of emerging risks which have the potential to have a financial, reputational and/or regulatory impact.
2. **Analysis**: Risk in conjunction with any identified SMEs have ongoing responsibility for ensuring emerging risks are analysed on an ongoing basis for their relevancy to the business, as well as their impact and speed of emergence.

3. **Assessment**: Emerging risks, once evaluated and adequately assessed, can be added to either the emerging risk or Company risk register. Outputs from emerging risk assessments are included within the quarterly risk report.
4. **Treatment**: Treatment plans are developed for emerging risks where required with a project lead assigned for completing the associated actions.

**B.3.2. Own Risk and Solvency Assessment**

The Solvency Self-Assessment ("SSA") process is a continuous one and is both quantitative and qualitative in nature. It consists of a number of processes and procedures employed to identify, assess, monitor, manage and report the short- and long-term risks that the Company faces or may face and to determine the capital necessary to ensure that overall solvency needs are met at all times. At a high level, these processes cover:

- Current Risk Profile Analysis
- Capital Requirements & Solvency Analysis
- Forward Looking Assessments
- Stress & Scenario Testing

Each of these are split into more granular processes as shown in the table below:

| Area | Annual Business Processes | Quarterly Business Processes |
|---|---|---|
| Current Risk Profile | • Strategy Setting & Business Planning<br>• Risk Appetite / Tolerance Setting<br>• Risk Identification & KRIs | • Risk Appetite/Tolerance Monitoring<br>• Risk Identification, Assessment & Monitoring<br>• Emerging Risk Identification, Assessment and Management<br>• Internal Control Assessment & Monitoring |
| Capital Requirements & Solvency | • Review of deviations of assumptions between the Internal Capital Model ('Own View of Capital Requirements') and the current risk profile<br>• Comparison of relevant Regulatory, Rating Agency and Economic Capital measures to determine risk coverage appropriateness and solvency | • Available Funds and Solvency Assessments–<br>• Review of compliance with relevant Regulatory Capital Requirements<br>• Technical Provisions Assessment & Monitoring, including compliance with requirements |
| Forward Looking Assessments | • Strategic opportunity assessment<br>• Available Funds Projections<br>• Capital Management / Liquidity Contingency Planning processes | • Ad-hoc, as necessary (e.g. at the time of Acquisitions/Transactions) |
| Stress & Scenario Testing | • Sensitivity analysis<br>• Stress & Scenario Analysis<br>• Reverse Stress Testing | • Ad-hoc, as necessary (e.g. at the time of Acquisitions/Transactions) |

Through an iterative process of information gathering, output and use, the Company seeks to develop the ORSA to support its strategic plans and objectives within the context of a consistent and Company-wide view of the potential risks and solvency impacts and the Company's appetite and tolerance to assuming such risks.

The ORSA process and report are an integral part of the business planning cycle; providing an assessment of the key risks associated with the plan. They also provide, from the Company's programme of scenario testing and the risk appetite, the corresponding solvency capital requirements for the short and long term. The ORSA process and report set out the Company's forward-looking risk profile and risk drivers and considers them against the Company's risk appetite and the capital resources required to support current and emerging risks.

The ORSA process itself involves a combination process through which the Board satisfies itself that the Company has appropriate capital (or plans for managing capital) to support the business and its risks on a forward-looking long-term basis and has adequate credible processes for managing risks. The ORSA process and report demonstrates to the Board that the risk profile and risk-based capital position of the Company is clearly reflected and understood and that the results have been validated.

The SSA policy sets out the process for determining its capital needs linked to its risk profile. The risk profile is determined by the Company with the assistance of the Risk Management function and is recorded in the Risk Management system. The Company uses the Standard Formula in line with regulatory requirements and the results are included in the ORSA report. An appropriateness exercise is performed on the main capital drivers to ensure that risks are considered alongside, capital and the appropriateness assessments. A forward-looking assessment of both the capital measures is made and actual performance is compared with forecasts over time.

The ORSA Report is the output of the Solvency Self-Assessment ("SSA") process which is an ongoing and continuous process that covers the entirety of the Risk Management processes and systems that have operated during the reporting period and are expected to operate during the prospective reporting period. There is annual ORSA Report and periodic updates, thereafter, as discussed below:

- Annual: The ORSA Report is prepared annually. The annual report goes through management review (through the "MRC"). The ORSA report will be provided to the entity Board on at least an annual basis;
- Quarterly: the SSA (or updates to key elements of it) are reviewed by the Risk team (which includes the Alpha CRO) via quarterly Enstar Risk management ('ERM') Reporting to the Board. The Risk team reviews the impact of any changes that may be required to capital requirements as a consequence of financial performance, new acquisitions, portfolio transfers and business and risk profile during the period and updates are provided to the Board as needed. This report includes details of specific quarterly SSA processes, including risk appetite monitoring, risk and control assessments and any updates in relation to emerging risks;
- Continual Ad hoc: following the occurrence of a trigger event; the SSA processes are performed to assess the impact of the event on the risk profile and capital and solvency position. The SSA processes performed will be proportionate to the significance of the trigger event. This may result in an ad hoc SSA Report which may reference other memos produced by the second line. For example, any independent risk reviews undertaken as outlined in the Acquisition/Transaction Policy and/or revised capital requirements could be considered to constitute the relevant sections of an ad hoc SSA.

The MRC reviews the SSA in advance of annual filing to the regulator or in the event of a material change and recommend to the Board for approval. It is the duty of the MRC to:

- Coordinate and oversee an effective SSA process, including ensuring effective challenge of its inputs, assumptions and outputs;
- Ensure that actions arising from the SSA process are addressed in a timely manner;
- Ensure that the SSA process operates in accordance with the SSA Policy;
- Review, challenge and recommend to the Board for approval with such amendments as it regards necessary, the draft SSA Report on an annual basis and following any significant change in the risk profile of the Company.

The Board of Directors of Alpha approve the SSA Report having considered the following:

- The current risk profile of the business (and its key drivers) is understood and appropriate in the context of the strategic objectives and risk appetite / risk tolerance limits
- All relevant risks falling within the scope of the ERM Framework have been regularly reviewed against the risk appetite and mitigation action taken where appropriate
- The requirements relating to capital calculation and technical provisions have been met
- The firm's risk profile and complexity are suitably reflected using the Standard Formula
- The calculation of its SCR is consistent with regulatory requirements
- The capital requirements as derived using the validated tool is appropriate for risk management and strategic decisions including those within the Business Plan

- The capital plans to meet solvency position as projected over the foreseeable period are appropriate under stressed conditions, and
- The funding and liquidity position of the Company is adequate.

**Standard Formula Appropriateness**

Standard Formula appropriateness is reviewed annually in conjunction with the ORSA production. Standard Formula appropriateness is evaluated by Subject Matter Experts ("SME's"), along with Risk Management and Compliance.

To ensure each risk area is considered equally, meetings and detailed reports are produced for each risk area (i.e., Insurance Risk, Counterparty Default Risk, Investment Risk and Operational Risk).

The analysis of each area includes qualitative comparison of the risks on the Company's risk register and those explicitly included in the Standard Formula assumptions.

The Company has not identified any key risks, that it considers, which are not fully included in the Standard Formula SCR calculation.

On a quarterly basis Alpha is required to evaluate and quantify its risks using a Standard Formula (SF) Model to derive its solvency capital requirements and its eligible own funds. The Company uses a validated Excel-based tool to make the calculations of the SCR and of the MCR in compliance with the Solvency II Directive and Delegated Act. The tool is maintained by the Enstar Capital Modelling Team in collaboration with Alpha management. Updates to the calculation tool can be approved in case of changes to the business or to fine-tune the calculations. A version control spreadsheet is maintained that gives details of adjustments made.

Updates from EIOPA are reviewed on an ongoing basis to ensure that the model reflects the latest guidance. The impact on the risk metrics and tolerances will feed back through to the ORSA, the risk management system and the risk governance arrangements.

The SF SCR follows a modular approach where the overall risk which the company is exposed to, is divided into sub-risks and in some risk modules also into sub-sub risks. For each sub-risk (or sub-sub risk) a capital requirement is determined. The capital requirement at sub-risk or sub-sub risk level is aggregated with the use of correlation matrices to derive the capital requirement for the overall risk.

## B.4 Internal control system

### B.4.1. Principles

The Company has an effective internal control environment which is established and governed through the Internal Control Policy and Procedures. The purpose of this policy is to provide a mechanism for the implementation, monitoring and reporting on the internal controls of the Company.

The internal control system focuses on key financial reporting, operational and compliance controls. The system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with laws and regulations and ultimately meet the business objectives. Non-adherence to such controls may cause the entities to fail to meet these objectives or to materially increase the costs or risks of operation.

There are several components to the internal control system which operate alongside the risk management system. Internal controls operate at many different points in the Company's business but can be summarised as follows:

- Each key function is required to document its operational procedures; these are owned by the relevant function heads, reviewed at least annually and approved by the executive body.
- Each key process across all key functions is required to have process flow documentation which is owned and approved by the function head in which the relevant process is located.
- All relevant controls are documented within the arrangements above and then recorded in the internal control library (which is within the risk management system) and given a control owner (who will usually be reporting to the function head). All these controls are then matched to the risks described in the risk register.
- At least on a quarterly basis, control owners assess the operation and effectiveness of the control operation and make an attestation which is recorded and filed. The control owner is encouraged to make any relevant comments about the control and may record its operation as 'effective', 'partially effective' or 'ineffective'. Any record of the control not being effective requires a narrative explanation as well as the assessment.
- The Internal Audit function may, from time to time, assess the operation of the controls and raise a report that suggests improvements can be made to the internal control environment. These are raised by way of an open action which is also recorded in the risk management system. An annual audit plan is agreed between the Company and the internal audit function. Over the several iterations of the audit plan, all key functions will be audited.
- The operation and effectiveness of internal controls is fundamental to the accurate assessment of the risks facing the Company; which is done both before ('inherent') and after ('residual') internal control operation. Alpha therefore can assess the impact of internal control problems or failures (if any) on the risk profile.
- Each quarter there is a process which starts with internal control attestation followed by risk attestation by which the risk owners can see the internal control operation prior to risk sign off. The data is then fed through to a series of dashboards through the risk management system and this is then included in the reporting to the Board together with risk and solvency information.

### B.4.2. Risk management system 'Magique-Galileo'

The Company's risk and control registers are maintained and managed in the risk management system 'Magique-Galileo' which records:

- Key business activities/processes: identified in discussion with management and recorded in process flow/policy documentation;
- Risks associated with those business processes and the relevant risk owners;
- Controls that are in place to mitigate those risks and the relevant control owners;
- Risk assessments: inherent (gross) risk and residual (net) risk;
- Emerging risk;
- Action generated and their status includes interaction with Internal Audit;
- Incidents and near misses;
- Risk tolerance levels/risk appetite (qualitative- in terms of impact and likelihood);
- Recommendations from Internal Audit Reviews.

## B.5 Internal Audit Function

The Internal Audit Function of Alpha Insurance has been outsourced to the Group, Enstar (EU) Ltd, represented by Martina Robinson. In accordance with the Solvency II requirements on outsourcing, the Company appointed a local person with overall responsibility for the outsourced independent control function ('contact person responsible'), Kim Torbeyns.

The Group head of Internal Audit has specific responsibility for leading the Internal Audit function for the Group and for Alpha. An Internal Audit Report is submitted to and presented at the occasion of each quarterly Alpha Board meeting.

The role of Internal Audit is to review, assess and report on the adequacy and effectiveness of the organisation's internal risk management and control environment through audit review and consultancy work. Internal Audit also assist the Audit Committee in discharging its responsibilities in respect of governance.

The scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management process, system of internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. It includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems to establish policies, plans and procedures and to ensure compliance with those policies, plans, procedures laws, and regulations which could have a significant impact on operations and reports and whether the organisation is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing specific operations at the request of the Audit Committee or management, as appropriate.
- Reviewing the quality and assurance provided by other internal governance functions and third-party providers.
- Reviewing the reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.
- Reviewing the internal control statement prepared by senior management and the related opinion by the attest auditor.

Annually, the Internal Audit Function submits to the Board an internal audit plan for approval that takes into account all activities and the complete system of governance. The plan includes a summary of the audit work schedule, staffing plan, and budget for the following year.

## B.6 Actuarial Function

Alpha operates its Actuarial Function in the context of the Enstar Group Actuarial Department with reporting lines to the local Alpha Board and the Management Committee.

The Actuarial function has been outsourced to the Group, Enstar (EU) Ltd represented by David Bishop.

In accordance with the Solvency II requirements on outsourcing, the Company appointed a local person with overall responsibility for the outsourced independent control function ('contact person responsible'), Maxime Ronsmans. This contact person responsible possesses the required expertise to put the performance and results of the service provider to the test.

The Company has put in place an Actuarial function terms of reference.

For the purpose of the carrying out this role the terms of reference are:
- to coordinate the calculation of technical provisions;
- to ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- to assess the sufficiency and quality of the data used in the calculation of technical provisions;
- to compare best estimates against experience;
- to inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- to oversee the calculation of technical provisions; and
- to express an opinion on the adequacy of reinsurance agreements.
- As per Solvency II regulations contribute to the effective implementation of the risk management system referred to in Article 44 of Level 1 (Risk management), in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5 and to the assessment referred to in Article 45 (Own risk and solvency assessment)
- To produce a written report to be submitted to the administrative, management or supervisory body, at least annually. The report shall document all tasks that have been undertaken by the actuarial function and their results and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.

## B.7 Outsourcing

### B.7.1. Main elements of the Outsourcing Policy

New outsourcing agreements (intragroup as well as external) have to be executed in full compliance with the Outsourcing Policy the requirements of article 92 of the Belgian Law of 13 March 2016 on the legal status and supervision of insurance or reinsurance companies ("the Solvency II Law"), section 7 of the Circular NBB_2016_31 on the National Bank of Belgium's prudential expectations concerning the governance system in the insurance and reinsurance sector (the "NBB Governance Circular".

The new Enstar Procurement, Outsourcing and Third-Party Management Policy ("the Policy") was adopted in 2022 by the Alpha board and is applicable to all Enstar Staff.

The key requirements are to:
- execute the Company's business ethically and in line with regulatory expectations globally
- preserve and enhance shareholder value
- manage the Company's risk relating to its relationships with Third Parties and the procurement of goods and services from Suppliers

The Company enters into arrangements with Suppliers and may outsource some activities on an ongoing basis. This may be for reasons such as obtaining access to expertise that the Company might not have in house, or for operational efficiency.
The Policy sets out the roles, responsibilities and requirements for when the Company commits funds to Third Parties, including in exchange for goods and services (Suppliers), and how Enstar creates, governs and exits its relationships with Third Parties. This includes the assessment of risk before entering the arrangement and onwards during onboarding, throughout the life cycle, and eventual

termination. This is to ensure that the arrangement does not present unreasonable risk to the Company and Enstar as the wider group. Poor Supplier Management or delivery could be detrimental to the Company's reputation, financial soundness, affect Enstar's system of governance, unduly increase operational risk, impair regulatory compliance, or undermine continuous and satisfactory service to policyholders or claimants.
It is paramount for every member of staff involved in dealing with Third-Parties, Suppliers, and Outsourcing arrangements to be aware of and adhere to this policy. Non-compliance may lead to disciplinary actions up to dismissal.

The policy also includes sub-outsourcing, or 'fourth party' arrangements and Intra-group Services.

The Policy should be read in conjunction with the Procurement, Outsourcing and Third-Party Management Procedures. The purpose of these procedures is to set out the steps to be followed in the selection, acceptance, and management of third parties, whilst ensuring compliance with Enstar's Internal Control Framework, reporting requirements and external regulatory requirements. The Policy specifies the requirements and these procedures detail how they should be achieved, to ensure:

- A consistent framework is used when assessing and selecting potential suppliers.
- Outsourcing decisions are supported by appropriate due diligence and risk management processes.
- Conflicts of interest are identified, managed and where possible avoided.
- Compliance with all applicable legal and regulatory outsourcing obligations is achieved; and;
- An appropriate level of governance, internal control, performance review and management practices are established on an on-going basis.

Enstar is a global organisation operating in many different jurisdictions. Differing regulatory requirements apply to Enstar depending on:

- the type of service Enstar is procuring
- Regulatory jurisdiction –different regulators view the risk of the same type of Service differently.
- Whether the Service is a "material" arrangement from the perspective of the regulators in each of the relevant regulatory jurisdictions.

Therefore, as a first step, it is mandatory for Cost Centre/Service Owners to complete an Initial Scoping Assessment ("ISA") and the applicable Materiality Assessment(s) ("MA(s)"), which are contained in the Supplier Engagement Form ("SEF"). Further information about the SEF, ISA and MAs can be found in the Procurement, Outsourcing and Third-Party Management Procedures. The ISA and the applicable MA(s) for each jurisdiction will confirm the applicable service category for that jurisdiction. The Belgian requirements and paragraph 5.174 of the consultation report of EIOPA Guidelines 13/431 on criticality have been integrated in the SEF. The ISA and MA(s) must be revisited and updated if there is a significant change in the scope of the Service or to the regulatory jurisdictions to which the Service is provided.

### B.7.2. Identification of all outsourced critical or important functions or activities

The strictness of the rules on outsourcing depends on whether it is critical, or important ("material") functions or activities being outsourced. Stricter rules apply to outsourcing critical or important functions or activities, than to outsourcing functions or activities that are not critical or important.

In view of the run-off status of the Company some functions have been (partly) outsourced to the intragroup service provider Enstar (EU) Ltd ("EEUL") (the main service provider of Alpha Insurance) and

other external providers/suppliers. An overview list is established on an annual basis and is qualified as "NBB reporting B.9".
In addition, reference is made to the organisation chart under section 4.1. The organisation chart reflects the main outsourced services/functions that have been notified to the NBB. For each critical outsourcing service, a local "service owner" or contact person has been appointed.
The Company that outsources important or critical functions, activities or operational tasks must also comply with mandatory requirements to be met after entering into an outsourcing agreement (cf. section 7.3.3. NBB governance circular).

In 2022 the Company has implemented a Key Performance Indicator ("KPI") monitoring dashboard for the post-contractual monitoring of critical services provided by EEUL and external providers.

For each service category a set of detailed KPIs (with Green, Amber and Red measurement) have been agreed. Quarterly sign-off and Commentary is needed for any services which were rated Amber or Red in this quarter and/or the previous quarter; the following rationale is required:

1. Why it has not been achieved
2. Path to Green (action plan)

The ratings from the KPI dashboard are then presented to the Alpha Board of Directors.

## B.8 Other information

No other information is considered relevant to report.

# C. Risk profile

**Introduction**

The Company's ERM Framework aligns risk measurement with capital in order to provide a consistent approach for the separate risks and allows the risk profile to be the driver of the solvency and any own economic capital requirements. Where risk is considered to be excessive, the Company may mitigate that risk. (See Section B.3). Where risk is considered to be excessive Alpha Insurance may mitigate that risk. The primary risk mitigation tool used by Alpha Insurance is effective claims management. All claims matters are reviewed regularly, with all material matters reviewed and authorised by management prior to any action being taken.

Risks in Alpha Insurance's risk profile are grouped into the Solvency II risk types. Because of Alpha Insurance's business the concentration profile is dominated by reserving risk and market risk.

The following extract from QRT form 25.01 summarizes the Solvency Capital Requirement for each type of risk as at 31 December 2022.

| Risk | Value in k€ |
|---|---:|
| Market Risk | 3.122 |
| Non-Life Underwriting | 5.518 |
| Health Underwriting | 379 |
| Counterparty Default Risk | 759 |
| ***Diversification*** | ***-2.319*** |
| Intangible assets | - |
| **Basic Solvency Capital Requirement** | **8.695** |
| Operational Risk | 710 |
| **Solvency Capital Requirement** | **8.169** |

Table 1: Risk components (x 1,000 EUR)

The table here above shows that Alpha Insurance's capital risk profile is dominated by Non-Life Underwriting risk and market risk. These risk categories are extensively reported through Alpha Insurance's ORSA.

A further description of Alpha Insurance's management of the risks is given below.

## C.1 Underwriting risk

### C.1.1 Non-Life underwriting risk

In accordance with Article 105 of the Solvency II Directive, underwriting risk is defined as "the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions". Underwriting risk is the risk that insurance premiums and/or reserves are ultimately insufficient to fully settle claims and associated expenses.

Underwriting risk spans many aspects of the insurance operations, including premium risk and risk associated with our reserving assumptions. Underwriting risk relates to the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities that have been assumed through the underwriting process.

Premium Risk is the risk that policy terms, premiums and RI protection will not be sufficient to cover ultimate loss and expense costs and achieve target rates of return.

Reserving risk is the risk that a Company's reserves are not sufficient to cover its unpaid loss and loss adjustment expense costs. The estimation of reserves is subject to uncertainty because the ultimate cost of settling claims is dependent upon future events and loss development trends that can vary with the impact of economic, social, and legal and regulatory matters.

The table below shows Non-Life underwriting risk components. Note that the lapse risk has been set to 0 as the Non-Life business of Alpha Insurance is in run-off since March 2015.

| Risk | Value in k€ |
|---|---|
| Premium and reserve risk | 5.501 |
| Lapse risk | - |
| Catastrophe risk | 64 |
| **Diversification** | **-47** |
| **SCR Non-Life underwriting risk** | **5.518** |

Table 2: Non-Life underwriting risk components (x 1,000 EUR)

Alpha Insurance Non-Life business is in run-off since March 2015 and therefore no new business is written since this date. However, Alpha Insurance must assure that it has adequate reserves to cover its liabilities for insurance policies that were written in prior years. To achieve this:

- The actuarial team uses statistical methods including industry benchmarking methodologies to estimate appropriate Incurred But Not Reported ("IBNR") reserves for Alpha Insurance various exposures. These methods are based on comparisons of Alpha Insurance loss experience on its various exposures relative to industry loss experience for comparable exposures.
- Alpha Insurance has implemented effective claims management and administration procedures. To ensure that claims are appropriately handled and reported accordingly (including with the Belgian regulatory requirements in this matters), all claims matters are reviewed regularly, with all material matters reviewing and authorized by management prior to any action being taken. The table below shows the gross best estimate liability by Solvency II lines of business determined by Alpha Insurance as at year-end 2022.
- The Solvency Capital Requirement and the Technical Provisions for Non-Life Underwriting Risk are at least calculated and monitored on a quarterly basis to ensure that the company can meet its obligations. In 2022 the Non-Life Best Estimate and Risk Margin decreased due to run-off, the actuarial review at year-end 2022, the release of the provision for 2022 expenses and the increased effect of discounting due the increase of the EIOPA curve. However, the decrease was less significant as the reported SII figures include the added Part VII transfer liabilities and expenses.

| Solvency 2 lines of business | Gross best estimate in k€ |
|---|---|
| Health | 3.088 |
| Motor vehicle liability insurance | 11.247 |
| Other motor insurance | 898 |
| Marine, aviation and transport insurance | 676 |
| Fire and other damage to property insurance | 658 |
| General liability insurance | 3.843 |
| Credit and suretyship insurance | 888 |
| Legal expenses insurance | 99 |
| Miscellaneous financial loss | 2.035 |
| Non-Proportional casualty | 2.539 |
| Non-Proportional property | 305 |
| **Total gross best estimate liability** | **26.276** |

Table 3: Technical provisions per solvency 2 lines of business (x 1,000 EUR).

## C.2 Investment/Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or investment will fluctuate because of changes in market prices. The market risk module shall reflect the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the undertaking. It shall properly reflect the structural mismatch between assets and liabilities, in particular with respect to the duration thereof.

Market risk may be triggered by multiple economic, political, and regulatory factors such as recessions, political upheavals, structural changes or regulatory changes. Additionally, Market risk may be amplified by excessive concentration and exposure to individual securities, asset types, or asset and fund managers through relative movements in the underlying valuations of the assets).

The management of the investments is partially outsourced to Candriam, a pan-European asset management company, and partially taken up by the Alpha CFO and CEO.

The Company manages Market risk in a number of ways, including use of investment guidelines; regular reviews of investment opportunities; market conditions; portfolio duration; oversight of the selection and performance of external asset managers; regular stress testing of the portfolio against known and hypothetical scenarios; established tolerance levels; and, where possible, foreign currency asset/liability matching.

The Prudent Person Principle is embedded in Solvency II and is used to guide the Company to invest in assets and instruments that can be properly identified, measured, monitored, managed, controlled and reported on. They are invested in a manner to ensure the security, quality, liquidity, and profitability of the portfolio, and such that they are available to the Company in the relevant currency as required. Assets held to cover technical provisions are also invested in a manner appropriate to the nature and duration of the Company's liabilities. They are invested in the best interest of all stakeholders, taking in particular into account the Company's customers. Assets are diversified in such a way that there is no over reliance on, or concentration of risk in, any particular asset, issuer, group of undertaking, geography, asset class or other risk attribute.

Risk treatment and mitigation strategies are driven by established risk appetite approved by the Board. Risk treatment/mitigation (e.g. establishing controls, procedures and the implementation of modified strategic activities designed to for example rebalance the portfolio into or away from specific asset classes given the underlying risk profile) or accepting risks to the extent at par with Board approved risk appetite is the responsibility of risk owners and oversight by senior management.

Appropriate controls and procedures are in place and monitored for on-going operational effectiveness to ensure that residual risk is maintained within approved risk appetite.

Alpha Insurance's policies and procedures for managing market risk have been developed within the Solvency II regulatory framework which requires sensitivities to risk to be identified and measured. Alpha Insurance manages market risk using a Value at Risk ("VaR") approach that reflects interdependencies between market risk types across the entire investment portfolio.

The assets in portfolio consist of investments like equity, bonds, collective investment undertakings and deposits other than cash, loans and mortgages, receivables and cash. Alpha Insurance does not hold any complex financial instruments such as derivatives or swaps and has no material off balance sheet positions subject to market risk. The cash flows from the investments therefore mainly consist of the coupon receipts, interest and repayments.

The solvency capital requirement ("SCR") that Alpha Insurance is maintaining for the market risk consists of the following components:

| Risk | Value in k€ |
|---|---:|
| Interest rate | 1.175 |
| Equity | 1.185 |
| Property | - |
| Spread | 1.891 |
| Currency | 12 |
| Concentration | - |
| **Diversification** | **-1.141** |
| **SCR Market risk** | **3.122** |

Table 5: Market risk components (x 1,000 EUR)

- **Interest rate***:* the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest. The capital requirement for the risk of a change in the term structure of interest rates is equal to the loss in the basic own funds that would result from that change in the basic risk-free interest rates at different maturities. Interest rate risk arises if the interest rate sensitivity of the assets and the liabilities are not completely matched. If the market interest rates change, this is reflected in changes in the result and / or the capital position. Interest rate risk exists for all assets and liabilities whose equity is sensitive to changes in the interest rate term structure or the interest rate term volatility. All fixed income investments and loans in the portfolio of Alpha Insurance are sensitive to the interest rate risk. The interest rate risk is applicable to the bonds (€40m), mortgage loans (€0,6m) and the Non-Life Best Estimate Liability (€23,2m). This risk is mitigated by controlling the duration structure of the assets in function of the liabilities.

- **Equity:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities. The capital requirement for equities is equal to the loss in the basic own funds that results from an instantaneous decrease in the market value of the equity. Alpha Insurance is exposed to the equity risk by applying the look-through on the collective investment funds. The market value of all equities in the funds is equal to 3,2m€ and mainly consists of type 1 equity. Alpha Insurance is not applying the equity transitional. This risk is mitigated by imposing strict exposure limits to this asset class.
- **Property:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate. The capital requirement for property risk is equal to the loss in the basic own funds that result from an instantaneous decrease of 25 % in the value of immovable property. Alpha Insurance is not exposed to any property risk.
- **Spread:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The capital requirement for spread risk is equal to the sum of:
  - the capital requirement for spread risk on bonds and loans;
  - the capital requirement for spread risk on securitisation positions;
  - the capital requirement for spread risk on credit derivatives

  As Alpha Insurance has no securitizations or derivatives, it is only exposed to the spread risk on the bonds (€40m). The capital requirement for spread risk on bonds and loans is equal to the loss in the basic own funds that results from an instantaneous relative decrease in the value of each bond or loan. This risk is mitigated by placing limits on its exposure to a single counterparty and by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by prominent rating agencies. Alpha Insurance has a policy of investing in mainly investment grade assets (i.e. those rated BBB and above). Any bonds with a rating below investment grade are those included in collective investment funds, which is acceptable due to the level of diversification and the low monetary value.
- **Currency:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates. The capital requirement for the risk of an increase in value of a foreign currency against the local currency is equal to the loss in the basic own funds that results from an instantaneous increase of 25 % in the value of the foreign currency against the local currency. Most of the investments are valued in EUR and are not exposed to currency risk. There is only a very minor currency risk exposure, coming from cash and investments in DKK (related to the Part VII Danish Disability portfolio). Any foreign currencies in the collective investment undertakings are fully hedged against currency risk within the fund.
- **Concentration:** additional risks to an insurance or reinsurance undertaking stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers. The capital requirement for market risk concentration is calculated on the basis of single name exposures and equal to the loss in basic own funds that result from an instantaneous decrease in the market value of the assets. Alpha Insurance is exposed to the concentration risk via its bonds (€40m) and equity (€3,2m). The concentration risk is managed by Alpha Insurance by maintaining an appropriate mix of investment instruments.

For 2022 the Company observed increased uncertainty in relation to its investment portfolio as a result of the Russian-Ukraine war and its continued impact on the volatility within financial markets. However, there is no indication that it poses a major threat for the future of the Company.

## C.3 Credit risk

Credit risk means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations.

The capital for counterparty risk considers potential losses due to unexpected default or deterioration of the creditworthiness of the counterparties and debtors of insurance and reinsurance undertakings in the following 12 months. The key areas of exposure to credit risk for Alpha Insurance are in relation to its cash and deposits (€2,5m), reinsurance program (€1,8m), mortgage loans (€0,6m), loans indirectly held through funds (€1,8m) and amounts due mainly from policyholders and intermediaries (€0,6m).
The Company's objective in managing credit risk is to ensure the risk is managed in a sound and prudent manner in line with the Company's risk profile and risk appetite and regulatory requirements. In fixed maturity and short-term investment portfolios, credit risk is mitigated through diversification and issuer exposure limitation. The Company's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's. The Company has a policy of investing in mainly investment grade assets (i.e., those rated BBB and above).

The Company has established policies and procedures in order to manage exposure to credit risk and methods to quantify exposure.

There are no material off-balance sheet positions subject to credit risk and no risk transfer transactions with special purpose vehicles.

Credit Risk is calculated using the standard formula and using an internal approach and is monitored through the quarterly risk report.

Appropriate controls and procedures are in place and monitored for on-going operational effectiveness to ensure that residual risk is maintained within approved risk appetite.

There were no material changes in Alpha Insurance's credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

**Credit risk management**

Type 1:

Alpha Insurance limits the amount of cash and cash equivalents that can be deposited with a single counterparty and maintains an authorised list of acceptable cash counterparties.

| Counterparty | Recoverable | Rating |
|---|---:|---:|
| ING | 1.733 | A |
| BNP Paribas | 2.896 | A |
| RES | 26 | Unrated |
| Investments Funds | 1.156 | AAA |
| Spar Nord | 175 | A |
| **Total deposits and cash** | **5.987** | |

Table 7: Cash and deposits (x 1,000 EUR)

Type 2:

Alpha Insurance has debtors arising from direct insurance and ceded reinsurance operations and may make a provision for non-recovery after undertaking an assessment of the counterparty's financial position and likelihood of recoverability.
An overview of the investments can be found in the Solvency II balance sheet in Chapter D.

## C.4 Liquidity risk

Liquidity risk is the risk that the Company is unable to realise investments and other assets in order to settle financial obligations when they fall due or that we would have to incur excessive cost to do so. Alpha Insurance follows an appropriately conservative investment strategy designed to emphasize the preservation of its invested assets and provide sufficient liquidity for the prompt payment of claims as they fall due and settlement of commutation and policy buyback payments. As Alpha Insurance is in run-off, future premiums do not materially impact its liquidity position.

The Company mitigates this risk by following an investment strategy designed to emphasize the preservation of invested assets and provide sufficient liquidity for the prompt payment of claims and contract liabilities. Alpha Insurance manages liquidity risk by maintaining banking facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities such that it will always have sufficient liquidity to meet its liabilities when they fall due. In practice, most of the assets are marketable securities which could be converted into cash when required. The assets are invested in liquid government and corporate bonds that exceed the legal entities liquidity needs.

On a forward-looking basis, the liquidity position remains safe. Prior to and in anticipation of the Part VII transfer an ALM study has been performed to assure assets and liability durations continue to agree in the future.

At management level liquidity risk is monitored and overseen by the Board which meets at least quarterly. The Management Board monitors liquidity against key risk indicators defined in the risk appetite statement.

Appropriate controls and procedures are monitored for on-going operational effectiveness to ensure that residual risk is maintained within approved risk appetite.

No material changes have been made to the liquidity risk management / mitigation process during the financial year.

## C.5 Operational risk

Operational risk means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk includes outsourcing risk. Outsourcing risk is defined as an arrangement of any form between a firm and a service provider by which that service provider performs a process or activity or provides a service which would otherwise be undertaken by the firm itself.

The key operational risk factors facing the business are as follows:

- Alpha Insurance is dependent on its Executive Officers, Directors and other key personnel and the loss of any of these individuals could adversely affect the business. Retaining sufficiently skilled resource to manage the business is a significant risk. In addition, the Company benefits from being majority owned by Enstar Group who have greater scale and may support functions in case of staff losses where a retention is not in place.
- Alpha Insurance has some internal systems and processes that rely on people and technology. These are not immune from potential failure. Alpha Insurance monitors operational risk through its risk management and internal control system.
- If outsourced service providers such as investment managers were to breach obligations owed to the Company, the business and results of operations could be adversely affected. The Company has reviewed and reinforced its control environment regarding critical outsourcing arrangements, such as Claims Third-Party Administrators. Key Performance Indicators ("KPIs") have been agreed and a KPI monitoring dashboard has been established; monitoring is taking place on a quarterly basis.
- If Alpha Insurance experiences difficulties with its information technology assets or cyber security, its business could be adversely affected.

All operational risks are assessed via the risk assessment process on a quarterly basis. Risk owners must provide an inherent and residual risk rating along with a supporting rationale. Key Risk Indicators are also assessed quarterly and all tolerances that have been exceeded or where the tolerance threshold is approaching, are reported to the Enstar Management Risk Committee and the Alpha Board.

Operational risk is mitigated through the application of policies and procedures, internal control and compliance processes throughout the Company, including but not limited to business continuity planning, information security procedures, change management processes, financial reporting controls and a review process for material third-party vendor usage. Controls which are executed throughout the Company's operations, to mitigate against their associated risks crystalizing, are assessed on a quarterly basis. Operational Risk is calculated using the standard formula and is monitored through the quarterly risk report. Operational stress tests are performed annually and reported through the ORSA process.

The business recognises the increased operational risk inherent in outsourcing and seeks to mitigate this risk by implementing strong management oversight over each individual outsourced arrangement, and a greater concentration of oversight for those arrangements which are considered material because of their size, the risks associated with their failure or because of their nature (i.e., the outsourcer is performing a regulated activity).

The Risk Management Function assist the business with these responsibilities by providing the framework and tools, assisting with monitoring risk levels within the defined risk appetite and providing other support as needed.

The Company maintains a business continuity plan outlining the process to minimize the financial, legal, reputational, operational and other material consequences arising from a natural or unscheduled disruption.

The capital requirement for operational risk shall reflect operational risks to the extent they are not already reflected in the previous risk modules. The operational risk for Alpha Insurance amounts to €0,7m.

No material changes have been made to the measures for managing and mitigating operational risk during the financial year.

## C.6 Other material risks

**Regulatory & Reputational Risk**

Regulatory risk is the risk of legal or regulatory sanctions resulting in a financial loss, or loss of reputation as a result of an insurer's failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct. We manage reputational risk through a focus on compliance with laws and regulations, adherence to our policies and procedures (including our Code of Conduct) and our internal controls, an established corporate governance framework and practices, and communication and engagement with external stakeholders.

**Group Risk**

Group risk arises from the Company being majority owned by Enstar Group. Enstar is a Bermuda-based holding Company, formed in 2001, that offers innovative capital release solutions and specialty underwriting capabilities through its network of Group companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations. Enstar is listed on the NASDAQ Global Select Market under the ticker symbol "ESGR".

Enstar focuses on the acquisition and management of insurance and reinsurance companies in run-off and the acquisition and management of portfolios of insurance and reinsurance business in run-off.

**Climate Change**

Given the Company is in run-off, exposure to climate-related risks emanates from existing insurance liabilities and the assets that back those liabilities.

Our Enterprise Risk Management ("ERM") framework defines the roles and responsibilities for effective oversight and management of environmental, social and governance ("ESG") and climate-related risks and opportunities at the Board and senior management levels.

Climate change presents risks and opportunities to the sustainability of the business. The Company's business strategy is exposed to the following risks over the short (<2030), medium (<2040) and longer (≥2040) term time horizons, across three major types of climate risk:

- ***Physical risks (Short to Longer term):*** These are the first order risks arising from weather-related events, such as floods and storms. Their impact may be felt directly through property damage, or indirectly through subsequent events such as disruption of global supply chains or resource scarcity. Our operations may be impacted by physical risks affecting key supporting infrastructure and/or our outsourced service providers. The impact and likelihood of this risk is considered low, given our global presence and the Business Continuity Framework and procedures we have in place.
- ***Transition risks (Short to Medium Term):*** These include financial risks deriving from the transition to a carbon net zero economy, and for Enstar this includes potential swift, adverse repricing of carbon-intensive financial assets.
  In the near term our investment portfolio could be exposed to the loss of value in specific investments due to disruption caused by transitioning to a lower carbon emitting economy to the underlying assets. The impact could increase over time if part of the transition to a greener economy is associated with increased production costs. Certain sectors could be subject to significant impairments due to changing consumer demand, the repricing of assets or changing regulatory requirements.

  The recent geo-political tensions resulting from the Russia-Ukraine conflict has the potential to accelerate these traditional risks through the need to diversify existing energy sources, including increased investment in energy derived from more sustainable sources.

- ***Liability risks (Short to Medium Term):*** These include third-party exposures such as claimants who have suffered climate-change related losses and damage, seeking compensation. Liability risks also include the unknown and potentially high costs of dealing with losses or damage from physical or transition risk factors. Liability risks are particularly high for those directors and officers who do not properly manage and report climate-related risks and commit errors and omissions.

  Our underlying portfolio contains lines of business that could, at the industry-wide level, be exposed to significant Climate Change risk (e.g., Environmental claims, etc.). Given the Company is in run-off, exposure to climate-related risks emanates from existing insurance liabilities and the assets that back those liabilities.

In order to quantify the financial impact of risks/opportunities brought about by the climate-related risks set out above, we undertake periodic analysis to quantify the potential impact on both our assets and liabilities. Stress and scenario testing conducted in 2022 indicates that the impact of physical, transition and liability risks on the Company is low.

## C.7 Other information

**Adjustment for the loss-absorbing capacity of deferred taxes**

The adjustment for the loss-absorbing capacity deferred taxes reflects potential compensation of unexpected losses through a simultaneous decrease in deferred taxes. That adjustment considers the risk mitigating effect provided by future discretionary benefits of insurance contracts, to the extent insurance and reinsurance undertakings can establish that a reduction in such benefits may be used to cover unexpected losses when they arise.

Alpha Insurance has a deferred tax asset (DTA) on the economic balance sheet. There is no Deferred Tax Liability (DTL) due to the fact that the Solvency II basic own fund position, excluding the DTA, is lower than the accounting own fund position. The DTA is due to the fact that Alpha Insurance has large losses carried forward from the past but, expects to make fiscal profits in the future. The deferred tax positions on the economic balance sheet result in a loss absorbing capacity for Alpha Insurance which is equal to zero, being the minimum of zero and the net deferred tax position. In Q4 2022 the DTA further decreased following the updated Budget Plan for 2023-2025. Whilst the DTA in Q1 2021 was at a substantial level of €554k, the DTA decreased to a low level of €29k in Q4 2022.

**Impact of Part VII transfer**

In July 2022 the Part VII transfer introduced additional Non-life Underwriting risks comprised mainly of general liability, property, income protection and assumed reinsurance business. A significant amount of the transferring business is Health business (Danish Disability Liability) which renews annually until the death or retirement of the policyholder or their decision to terminate. The impact of the planned portfolio transfer has been assessed in the context of the latest ORSA report and does not entail a material change of the risk profile. The inward Insurance Business Part VII transfer from River Thames, Mercantile and Rombalds did not result in any material change to the risk profile.

# D. Valuation for solvency purposes

The structure of Alpha's balance sheet as per 31 December 2022 is the following:

| **Amounts in k €** | **Solvency II value** | **Statutory value** |
|---|---|---|
| | | |
| Intangible assets | 0 | 0 |
| Deferred tax assets | 29 | 0 |
| | 0 | 0 |
| Investments | 51.503 | 52.595 |
| Equities | 25 | 25 |
| Government Bonds | 19.952 | 19.957 |
| Corporate Bonds | 20.035 | 21.123 |
| Collective Investments Undertakings | 10.966 | 10.966 |
| Deposits similar to cash | 525 | 525 |
| | | |
| Mortgage loans and other loans | 608 | 566 |
| Share of the reinsurers in the TP Non-Life | 1.832 | 1.956 |
| Deposits to cedants | 314 | 314 |
| Receivables from insurance operations | 74 | 481 |
| Receivables from reinsurance operations | 29 | 29 |
| Other receivables | 191 | 191 |
| Cash and cash equivalents | 4.441 | 4.815 |
| **Total assets** | **59.021** | **60.948** |
| | | |
| Gross technical provisions Non-Life | 25.948 | 24.939 |
| Technical provisions - non-life (excluding health) | 25.948 | 24.939 |
| Best Estimate | 23.188 | 0 |
| Risk margin | 2.760 | 0 |
| | | |
| Gross technical provisions Life | 3.263 | 3.025 |
| Technical provisions - health (similar to life) | 3.263 | 3.025 |
| Best Estimate | 3.088 | 0 |
| Risk margin | 175 | 0 |
| | | |
| Provisions other than technical provisions | 483 | 483 |
| Deposits from reinsurers | 36 | 36 |
| Deferred tax liabilities | 0 | 0 |
| Liabilities from insurance operations | 513 | 513 |
| Liabilities from reinsurance operations | 802 | 802 |
| Other Liabilities | 645 | 645 |
| **Total liabilities** | **31.825** | **30.443** |
| **Excess of assets over liabilities** | **27.196** | **30.504** |

For comparison, the balance sheet as per 31 December 2021 was the following:

| **Amounts in k €** | **Solvency II value** | **Statutory value** |
|---|---|---|
| | | |
| Intangible assets | | 0 |
| Deferred tax assets | 91 | 0 |
| | | |
| Investments | 54.597 | 51.320 |
| Holdings | 0 | 0 |
| Equities | 25 | 25 |
| Government bonds | 22.442 | 19.804 |
| Corporate bonds | 18.954 | 18.374 |
| Collective Investments Undertakings | 12.552 | 12.494 |
| Deposits similar to cash | 624 | 624 |
| | | |
| Mortgage loans and other loans | 779 | 724 |
| Share of the reinsurers in the TP non-life | 2.216 | 2.207 |
| Share of the reinsurers in the TP life | | |
| Receivables from insurance operations | 45 | 965 |
| Receivables from reinsurance operations | 33 | 33 |
| Other receivables | 192 | 192 |
| Cash and cash equivalents | 407 | 407 |
| Other assets | 3.531 | 2.975 |
| **Total assets** | **61.892** | **58.824** |
| | | |
| | | |
| Gross technical provisions non-life | 32.432 | 24.664 |
| Best Estimate non-life | 29.091 | |
| Risk margin non-life | 3.341 | |
| TP calculated as a whole non-life | 0 | |
| | | |
| Gross technical provisions life | 0 | 0 |
| Best Estimate life | 0 | |
| Risk margin life | 0 | |
| TP calculated as whole life | 0 | |
| | | |
| Other technical provisions | 0 | |
| Provisions other than technical | 663 | 663 |
| Provisions for pension benefits and other advantages | 13 | 13 |
| Deposits reinsurers | 36 | 36 |
| Deferred tax liabilities | 0 | 0 |
| Liabilities from insurance operations | 559 | 559 |
| Liabilities from reinsurance operations | 49 | 49 |
| Payables (trade, not insurance) | 761 | 761 |
| Other liabilities | 1.200 | |
| **Total liabilities** | **35.714** | **26.746** |
| **Excess of assets over liabilities** | **26.178** | **32.078** |

The following sections provide an explanation of the bases, methods and assumptions used for the solvency II valuation purposes for the main balance sheet categories including explanations of important differences between the BEGAAP financial statements and the Solvency II balance sheet.

## D.1 Assets

The valuation method of the assets other than technical provisions depends on the classification:

- Intangible assets are valued at 0 for solvency purposes as no active market exists.
- Deferred tax assets: The Company has significant tax losses carried forward of about €24m at the end of the reporting year. For Solvency purposes, the Company performs a recoverability test to assess its ability to actually use the available tax losses. At this stage in the Non-Life run-off, DTA are calculated using the forecasted fiscal results of the next 3 years and the applicable corporate tax rate. The projected income tax that is expected to be offset by tax losses, is presented as DTA.
- Investments: The investments of Alpha are traditional non-complex financial instruments (i.e. no derivatives or other alternative investments) and are mostly listed on active stock markets. As from this reporting year we have investments in DKK to cover the health portfolio which is in DKK. The collective investment undertakings are holding assets in foreign currency which are fully hedged against currency risk. A major part of the investment portfolio is managed by an external asset manager. The market value and other relevant information provided by the asset manager is challenged and compared with independent sources. Note that the Company uses mid-prices for the market values of listed investments, as this results in consistent valuations regardless of market liquidity (bid-ask spread).
    - Listed equities: market value.
    - Unlisted equities: market value (internal valuation).
    - Bonds: market value including accrued interests. All bonds are investment grade.
    - Deposits: nominal value.
    - Mortgage loans and other loans: market value (internal valuation) based on future contractual cash flows net of any impairment.
- (Re)insurance and other receivables: valued at nominal value minus impairment, i.e. at their statutory value. The estimated recoveries on paid claims are not presented as an asset for solvency purposes but, considered in the gross best estimate calculation.
- Cash and cash equivalents: valued at nominal value, i.e. at their statutory level.
- Other assets: valued at their statutory level, except for:
    - Accrued interests which are valued at 0 for Solvency II as already included in the investment or loan value. Amount to €0,5m in the statutory accounts.
    - Real Estate and Equipment Rights of use of Assets (RoA) for €134k in line with the IFRS 16 guidelines. Not accounted for in the statutory accounts.

The main difference with BEGAAP valuation is the investment portfolio (including mortgage loans and other loans), which is valued at amortised cost under BEGAAP.

There were no material changes to the methodology of asset valuation during the reporting period, category.

## D.2 Technical provisions

**Non-Life activities**

For the Non-Life activities, the products are attached to the line of business as defined by the Solvency II regulation. A second level of segmentation is defined for the projection of the cash flows by distinguishing the broker activities broker and the business through underwriters. As from the 1st of July 2022, following the Part VII portfolio transfer, we also have other lines of business in other EEA states and assumed reinsurance

For most of the Non-Life insurance activities, the contract boundary is limited to one year with exception of the caution (credit insurance) activities for which the clients have paid a single premium for the whole term of the cover which is linked to the repayment schedule of underlying mortgage loans. This portfolio is in run-off since 2012.

**Life activities**

On 31 May 2019, the Life business was transferred to Monument Assurance Belgium through an asset deal, which was approved by the regulator. We don't have any actual life contracts anymore but the Danish disability book that was part of the Part VII portfolio transfer is considered as Non-Life with similar to life actuarial techniques to calculate the Solvency II provision.

**Valuation**

The technical provisions are valued in compliance with the requirement of the Solvency II directive. There is no application of valuation of technical provisions "as a whole".

For all Non-Life activities, the best estimate of the liabilities is calculated as the discounted value of the future (from the valuation date) cash flows related to the contracts.

These future cash flows are including:
- The expected claims payments
- The expenses for the claim management and for the administration of the contracts
- The commissions to be paid (none in run-off)
- The future premiums by reference to the contract boundaries definition (none in run-off)

As indicated here above the calculations for the provisions for the Non-Life book Danish disability is calculated with a similar to Life technique for Solvency II.

These projections are performed gross of reinsurance.

The cash flows of the ceded reinsurance are also projected allowing for the calculation of the ceded best estimate liability.

The projected cash flows are then discounted based on the pertinent yield curve defined by EIOPA. Note that as from 2020, the volatility adjustment is no longer applied as it was no longer considered appropriate following the transfer of the Life portfolio in 2019. Alpha is not using other transitional measures as allowed by the regulation.

The Non-Life risk margin is calculated conform article 37 of the Delegated Regulation by projecting the SCR for future years and discounting using the basic risk-free interest rate, after which a 6% cost of capital is applied.

The provision for equalisation and catastrophe of the statutory balance sheet is not considered in the solvency II balance sheet and is fully released in the statutory balance as from year-end 2021.

After the Life transfer there are no remaining Life liabilities that require valuation.

## D.3 Other liabilities

Liabilities other than technical provisions are valued at their statutory level for solvency purposes which is considered appropriate given the expected timing of outflows.

Provisions other than technical contain provisions for other risks and charges. Provisions for pensions benefits and other advantages are all related to early retirement (i.e. no defined benefit of defined contribution pensions plans).

Deferred tax liabilities (DTL) are calculated using the net difference in valuation between solvency II and the statutory reporting, to which the assumed average tax rate is applied. The resulting DTL has been 0€ in both 2022 and 2021.

Other liabilities consist of Real Estate and Equipment Lease Liabilities accounted for as per IFRS 16 guidelines.

There were no significant changes to the methodology of liability valuation during the reporting period. Given the composition of the balance sheet and the applied valuation methods, Alpha does not make any assumptions having a material impact on the valuation of liabilities other than technical provisions.

## D.4 Alternative valuation methods

Alpha does not use alternative valuation methods for solvency purposes.

## D.5 Other information

No other material information on valuation for solvency purposes.

# E. Capital management

## E.1 Own funds

One of Alpha's key objectives is to manage its business on a sound and prudent basis in accordance with regulatory expectations. Alpha has ceased underwriting and is placed into run-off which means Alpha has cancelled all contracts for the Non-Life business. The Life business has been transferred to Monument Assurance Belgium on the May 31st 2019. Prior to the transfer and since the run-off, Alpha had ceased to accept new Life business and continued to earn premiums on its in-force business up till the moment of the transfer as per end of May 2019.

Thus, a key risk mitigation for Alpha is the maintenance of adequate capital. For business planning, Alpha uses a 3-year period in its Medium-Term Capital Plan.

Alpha's capital structure is non-complex and is presented as follows under Solvency II, exclusively unrestricted Tier 1, except for the deferred tax assets presented as Tier 3:

| In k€ | Q4 2022 | Q4 2021 | Change during period |
|---|---|---|---|
| Ordinary share capital | 20.000 | 20.000 | 0 |
| Surplus funds | 0 | 0 | 0 |
| Reconciliation Reserve | 7.167 | 6.087 | 1.080 |
| Deferred tax assets | 29 | 91 | -62 |
| Total basic own funds after deductions | 27.196 | 26.178 | 1.018 |
| **Total eligable own funds to meet SCR** | **27.196** | **26.178** | **1.018** |
| **Total eligable own funds to meet MCR** | **27.167** | **26.087** | **1.080** |

Alpha does not make use of any transitional arrangements.

The evolution of own funds during the reporting period can be explained by the fact that the decrease in liabilities (following the actuarial review and the run-off of the business) was more significant than the decrease in assets (from the cash outflows from claims and expenses and a decrease in valuation due in the volatility in the financial markets).

Alpha's statutory financial statements as per 31 December 2022 show a net equity of €30,5m which is €3,3m higher than the excess of assets over liabilities as calculated for Solvency II purposes. This is mainly explained by:

- Investments which are valued at amortised cost for statutory reporting (in accordance with Belgian GAAP) but at market value under Solvency II. The impact under Solvency II is -€1,1m.
- Non-Life Technical provisions which are lower for statutory purpose than under Solvency II, for an impact of -€1m. For solvency purposes they are composed of the best estimate of the liabilities (claims reserve and premium reserve, which is the discounted value of the future expected cash flows for claims and all expenses) and a risk margin as required by the regulation. For statutory purposes, the unearned premium reserve is calculated on a pro rata temporis basis and the claims provision consists of a claim provision plus IBNR (with risk margin) and a provision for future costs

(ULAE). Since Alpha is in run-off, profits in future premiums cannot be considered to cover future administration expenses. As such, ULAE should be sufficient to cover all future costs (fully loaded). A Liability Adequacy Test (LAT) was performed for the Non-Life business to justify any difference with the SII expense provision.

## E.2 Solvency Capital Required (SCR) and Minimum Capital Required (MCR)

At the end of the reporting period, Alpha's MCR amounted to €3,7m, implying a ratio of eligible own funds to MCR of 734%. At the end of 2021, the MCR amounted to €3,7m for a ratio of 705%.

The SCR split by risk module, exclusively calculated using the standard formula, amounted to:

| In k€ | Q4 2022 | Q4 2021 | Change during period |
|---|---|---|---|
| Market risk | 3.122 | 3.981 | -859 |
| Counterparty default risk | 760 | 574 | 186 |
| Non-life risk | 5.518 | 6.459 | -941 |
| Health risk | 379 | 0 | 379 |
| **BCR** | **9.779** | **11.014** | **-1.235** |
| Diversification | -2.319 | -2.319 | 0 |
| Operational risk | 709 | 873 | -164 |
| LAC DT | 0 | 0 | 0 |
| **SCR** | **8.169** | **9.568** | **-1.399** |
| **Ratio of eligible own funds to SCR** | **332,91%** | **273,60%** | **59,31%** |

The evolution during the reporting period is consistent with the run-off of the Non-Life portfolio. The main variations are:

- The decrease in market risk is mainly explained by a decrease in the market value of the portfolio as a consequence of the rising inflation and geopolitical tension.
- A decrease in Non-Life underwriting risk as the decreasing impact of the run-off of the portfolio on the technical provisions.
- The increase of the Health risk is due to the Part VII portfolio transfer which contains a Danish disability book.

Alpha does not use undertaking-specific parameters for the standard formula.

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

Not applicable, Alpha does not use the duration-based equity risk sub-module in the calculation of the SCR.

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

Not applicable, Alpha does not use any internal or partial internal model for the calculation of the SCR.

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

Alpha has complied with both the MCR and SCR throughout the reporting year.

In the context of the Covid-19 pandemic and the current geopolitical tension, we would like to emphasise that the Company maintained compliance with both the MCR and SCR at all times during 2020, 2021 and 2022 despite very volatile markets. Management continues to monitor solvency adequacy on a regular basis.

## E.6 Other information

No other material information on capital management.