Accelerant Insurance Limited

Annual Report and Financial Statements for the year ended

31 December 2020

Company Registration Number: C92407

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Directors' Report

The Directors present the annual report and the audited financial statements of Accelerant Insurance Limited (the "Company") for the year ended 31 December 2020.

Principal activities

The Company's principal activity is that of carrying on business of insurance and reinsurance falling within Classes 1, 2, 3, 7, 8, 9, 10, 13, 14, 15, 16 and 17 of the Insurance Business Act, Cap.403 of the Laws of Malta.

Review of the business

This is the first year of operation of the Company, with business starting to be written as from 1st March 2020 onwards. The Company's underwriting strategy is to partner with a number of MGA's which will write significant premium.

During the year ended 31 December 2020, the Company wrote a total premium income of €126,384,052.

The Company's net investment income amounted to €9,044.

The Company sustained a loss amounting to €9,569,995 (2019: €2,232,380).

The Shareholders' Funds of the Company as at 31 December 2020 stood at €25,698,790 (2019: €17,268,785). During the year the shareholders injected a capital contribution amounting to €18,000,000 which is included as part of Shareholders' Funds.

As of 1 January 2016, the Solvency II Directive (2009/138/EC) came into force with new regulatory requirements that ascertain the level of capital required on the basis of the risks the Company undertakes. Solvency II also outlines how the own funds shall be derived by converting the Statement of Financial Position from an IFRS perspective to one where assets and liabilities are measured in line with their underlying economic value. As from this date, the solvency calculations under Solvency I regime are no longer applicable.

Based on the audited Solvency Capital Requirements ("SCR") calculations as at 31 December 2020, the Company has complied with the capital and solvency requirements as stipulated in the rules issued by the MFSA. Going forward, the Company is also expected to continue meeting the Solvency II requirements, based on the projected SCR calculations included in the 2020 Own Risk and Solvency Assessment ("ORSA") report.

Principal risks

The Company is exposed to a mixed blend of risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on the financial performance and position of the Company.

An established risk governance framework and ownership structure ensures oversight of accountability for the effective management of risk. In line with the Solvency II framework, the Company's risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

The Company's risk management framework is designed to provide appropriate risk monitoring and assessment. Specifically, the Company's main risks are insurance risk, credit risk, market risk and liquidity risk. A detailed review of the risk management policies employed by the Company are disclosed in Note 18 to the notes to these financial statements. While disclosures relating to exposures to insurance risk, credit risk, liquidity risk and market risk are included in Note 19 to the notes to these financial statements. These are also supplemented by Note 2.4 relating to significant accounting policies.

Directors' Report- continued

Future developments

The Board has considered the Company's operational performance and position as at year end, as well as business plans for the upcoming years. In line with this, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, the Board continues to adopt the going concern basis in preparing the financial statements.

Post balance sheet events

There were no important events or transactions which took place after the financial reporting date which would require disclosure or adjustment to the financial statements.

Results and dividends

The results for the year are set out in the Income Statement on pages 5 and 6. The Directors do not recommend the payment of a final dividend**.**

Directors

The Directors of the Company who held office during the year were:

Juanita Bencini
Etienne Borg Cardona
John William James Spencer *(appointed on 22nd July 2020)*
Christopher Lee Smith
Katie Katherine McKenzie *(resigned on 1st March 2021)*
Francis James O'Neill
Jeffrey Lee Radke

Auditors

The auditors, Mazars Malta, have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the annual general meeting.

Approved by the board of directors and signed on its behalf by:

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Etienne Borg Cardona
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Etienne Borg Cardona
Director

DocuSigned by:
Jeffrey Lee Radke
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Jeffrey Lee Radke
Director

Registered office
Office 2, SOHO The Strand,
Fawwara Building, Triq L-Imsida,
Gzira, GZR 1401
Malta

29 March 2021

Statement of Directors' Responsibilities for the financial statements

The Directors are required by the Companies Act (Cap. 386 of the Laws of Malta) and the Insurance Business Act (Cap. 403 of the Laws of Malta) to prepare financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, which give a true and fair view of the state of affairs of the Company at the end of each financial year and of the profit or loss of the Company for the year then ended. In preparing the financial statements, the Directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business as a going concern;
- account for income and charges relating to the accounting year on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting year.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable the Directors to ensure that the financial statements comply with the Companies Act (Cap. 386 of the Laws of Malta) and the Insurance Business Act (Cap. 403 of the Laws of Malta). This responsibility includes designing, implementing and maintaining such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Income Statement – Technical Account - general business
for the year ended 31 December 2020

	Notes	2020 €	1 July to 31 December 2019 €
Earned premiums, net of reinsurance			
Gross premiums written		**126,384,052**	-
Premiums ceded to reinsurer		**(121,550,197)**	-
Net premiums written		**4,833,855**	-
Change in the gross provision for unearned premiums		**(93,037,750)**	-
Change in the provision for unearned premiums, reinsurer's share		**88,824,987**	-
		(4,212,763)	-
Earned premiums, net of reinsurance		**621,092**	-
Allocated investment return transferred from the non-technical account	**3**	**214**	-
Total technical income		**621,306**	-
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	**11**	**717,760**	-
- reinsurer's share	**11**	**(645,989)**	-
		71,771	-
Change in the provision for claims			
- gross amount	**11**	**16,122,341**	-
- reinsurer's share	**11**	**(14,510,113)**	-
		1,612,228	-
Claims incurred, net of reinsurance		**1,683,999**	-
Net operating expenses	**4**	**(348,479)**	-
Total technical charges		**1,335,520**	-
Balance on the technical account for general business (page 6)		**(714,214)**	-

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

Income Statement – Non Technical Account
for the year ended 31 December 2020

	Notes	2020 €	1 July to 31 December 2019 €
Balance on the technical account for general business (page 5)		**(714,214)**	-
Investment income	**3**	**9,044**	-
Allocated investment return transferred to the technical account	**3**	**(214)**	-
Foreign exchange (loss)		**(304,279)**	(4,436)
Administrative expenses	**5**	**(9,177,879)**	(2,227,944)
Other income	**7**	**617,547**	-
Loss before tax		**(9,569,995)**	(2,232,380)
Income tax expense	**8**	**-**	-
Loss for the financial year attributable to ordinary shareholders (page 7)		**(9,569,995)**	(2,232,380)

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

Statement of Comprehensive Income
for the year ended 31 December 2020

	2020 **€**	1 July to 31 December 2019 €
Profit for the financial year (page 6)	**(9,569,995)**	(2,232,380)
Total Comprehensive Income for the year attributable to ordinary shareholders	**(9,569,995)**	(2,232,380)

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital €	Capital contribution €	Share premium €	Retained earnings €	Total equity €
At 1 July 2019	-	-	-	-	-
Loss for the year	-	-	-	(2,232,380)	(2,232,380)
Total comprehensive income	-	-	-	(2,232,380)	(2,232,380)
Issue of Share Capital	1,166	-	19,499,999	-	19,501,165
At 31 December 2019	1,166	-	19,499,999	(2,232,380)	17,268,785

	Share capital €	Capital Contribution	Share Premium €	Retained Earnings €	Total Equity €
At 1 January 2020	1,166	-	19,499,999	(2,232,380)	17,268,785
Loss for the year	-	-	-	(9,569,995)	(9,569,995)
Total comprehensive income	-	-	-	(9,569,995)	(9,569,995)
Capital Contribution	-	18,000,000	-	-	18,000,000
At 31 December 2020	**1,166**	**18,000,000**	**19,499,999**	**(11,802,375)**	**25,698,790**

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

Statement of Financial Position
as at 31 December 2020

	Notes	2020 €	2019 €
ASSETS			
Deferred acquisition costs	12	**34,044,466**	-
Financial investments	9	**25,352,160**	-
Reinsurer's share of technical provisions	11	**103,335,099**	-
Insurance and other receivables	13	**58,315,684**	1,165
Prepayments		**11,452**	15,484
Cash and cash equivalents	14	**24,742,332**	19,500,000
Total assets		**245,801,193**	19,516,649
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	15	**1,166**	1,165
Capital contribution	16	**18,000,000**	-
Share premium	15	**19,499,999**	19,499,999
Retained earnings		**(11,802,375)**	(2,232,380)
Total equity		**25,698,790**	17,268,785
LIABILITIES			
Technical provisions	11	**109,160,090**	-
Deferred revenue		**35,418,270**	-
Insurance and other payables	17	**75,524,043**	2,247,864
Total liabilities		**220,102,403**	2,247,864
Total equity and liabilities		**245,801,193**	19,516,649

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

*The financial statements on pages 5 to 33 were authorized for issue by the Board on **29 March 2021** and were signed on its behalf by*

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Etienne Borg Cardona
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Etienne Borg Cardona
Director

DocuSigned by:
Jeffrey Lee Radke
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Jeffrey Lee Radke
Director

Statement of Cash Flows
for the year ended 31 December 2020

	Notes	2020 €	1July to 31 December 2019 €
Operating activities			
Cash generated from operating activities	**20**	**12,594,492**	-
Interest received		**-**	-
Taxation paid		**-**	-
Net cash generated from operating activities		**-**	-
Investing activities			
Purchase of financial investments		**(25,352,160)**	-
Net cash used in investing activities		**(25,352,160)**	-
Financing activities			
Issue of share capital		**-**	19,500,000
Capital Contribution		**18,000,000**	-
Net cash used in financing activities		**18,000,000**	19,500,000
Net movement in cash and cash equivalents		**5,242,332**	19,500,000
Cash and cash equivalents at beginning of year		**19,500,000**	-
Cash and cash equivalents at end of year	**14**	**24,742,332**	19,500,000

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

Notes to the Financial Statements

1. Corporate information

Accelerant Insurance Limited is a limited liability company incorporated and domiciled in Malta. The Company's principal activity is that of carrying on business of insurance and reinsurance falling within within Classes 1, 2, 3, 7, 8, 9, 10, 13, 14, 15, 16 and 17 of the Insurance Business Act, Cap.403 of the Laws of Malta.

The registered office of the Company is Office 2, SOHO The Strand, Fawwara Buildings, Triq L-Imsida, Gzira, Malta. The financial statements of Accelerant Insurance Limited for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 29 March 2021.

Accelerant Insurance Limited is a wholly owned subsidiary of Accelerant Malta Holdings Limited which is registered at Office 2, SOHO The Strand, Fawwara Buildings, Triq L-Imsida, Gzira, Malta. The immediate parent company of Accelerant Malta Holdings Limited is Accelerant Holdings Limited, a private company registered in Bermuda. The ultimate controlling party of the group is Accelerant Holdings LP.

2.1 Basis of preparation

The financial statements have been prepared on a historic cost basis except for financial investments that have been measured at fair value.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, the Insurance Business Act and the Maltese Companies Act, Cap 403 and 386 of the Laws of Malta respectively.

The Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented within the notes to the financial statements.

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the Income Statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

2.2 Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The accounting policies are consistent with those of the previous financial year.

Several other new standards, amendments and interpretations to existing standards, apply for the first time in 2020, whose adoption to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies and did not impact the financial statements.

Standards issued but not yet effective and not early adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning after 1 January 2021. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's Directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

2.2 Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year - continued

Standards, interpretations and amendments to published standards not yet effective

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)

- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Company’s financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments apart from those involving estimations and assumptions, which have a significant effect on the amounts recognized in the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of insurance contract liabilities

Ultimate liability arising from claims made under insurance contracts

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for claims.

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). Given the nature of the business of the Company, the ultimate cost of outstanding claims is based on a case-by-case estimate supplemented with additional provisions for IBNR.

The carrying value at the reporting date of insurance contract liabilities gross of reinsurance is €16,122,341.

2.4 Summary of significant accounting policies

(a) Product classification

Insurance contracts are those contracts in which the Company (the "insurer") has accepted significant insurance risk from another party (the "contract holder") by agreeing to compensate the contract holder if a specified uncertain future event (the "insured event") adversely affects the contract holder. As a general guideline, the Company defines significant insurance risk as the possibility of having to compensate the contract holder if a specified uncertain future event (the "insured event") adversely affects the contract holder. The Company issues contracts that transfer significant insurance risk and has defined all its contracts as insurance/reinsurance contracts.

Insurance business contracts

The results for insurance business contracts are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

1) Premiums written relate to business incepted during the year, less cancellations.

2) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the reporting date, calculated on a time apportionment basis.

3) Commissions and other acquisition costs that vary with and are related to securing new contracts are deferred over the year in which the related premiums are earned. These are capitalized and shown as deferred acquisition costs ("DAC") in the Statement of Financial Position. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognized as expenses when incurred.

4) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses.

5) Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analysis for the claims incurred but not reported.

6) Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the reporting date, in so far as the estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within insurance and other receivables), as well as longer term receivables (classified within reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

2.4 Summary of significant accounting policies- continued

(a) Product classification- continued

Reinsurance contracts held - continued

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the Income Statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

Receivables and payables related to insurance contracts

Receivables and payables are recognized when due. These include amounts due to and from intermediaries.

If there is objective evidence that an insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the Income Statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost.

The impairment loss is calculated following the same method used for these financial assets.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows as well as claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision as described above). Any DAC written off as a result of this test cannot subsequently be reinstated.

(b) Taxes

Current income tax

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

2.4 Summary of significant accounting policies- continued

(b) Taxes - continued

Deferred income tax – continued

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in Other Comprehensive Income or equity is recognised in Other Comprehensive Income or equity and not in the Income Statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(c) Financial assets

Initial recognition and subsequent measurement

The Company classifies its financial assets into financial assets at fair value through profit and loss and loans and receivables. The classification is dependent on the purpose for which the investments are acquired. The Company determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are part of the company's investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company has designated at fair value through profit or loss. They include, inter alia, reinsurers' share of technical provisions, insurance and other receivables, cash and cash equivalents.

(d) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

Financial assets at fair value through profit or loss and other available-for-sale investments are subsequently re-measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment. Realised and unrealised gains and losses arising from changes in the value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss account in the period in which they arise.

2.4 Summary of significant accounting policies- continued

(e) Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

The Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets at amortised cost, namely insurance and other receivables, and cash at bank.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company measures loss allowances for loans receivable and trade and other receivables without a significant financing component at an amount equal to lifetime ECLs. For loans receivable and trade and other receivables with a significant financing component, the Company applies the simplified approach for measuring the loss allowance.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be BBB equivalent or higher rating as per the rating description of reputable credit rating agencies.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset. In the case of interest-free short term financial assets, such as trade receivables, ECLs are not discounted.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2.4 Summary of significant accounting policies- continued

(e) Impairment of financial assets

Credit-impaired financial assets - continued

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, and accrued income, are presented separately in the statement of profit or loss and OCI.

(f) Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;

- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- The Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that, in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(g) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

2.4 Summary of significant accounting policies- continued

(g) Impairment of non-financial assets

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

(h) Reinsurance Ceded

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Income Statement.

Gains or losses on buying reinsurance are recognised in the Income Statement immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(i) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Income Statement.

(j) Deferred expenses

Deferred acquisition costs ("DAC")

Those direct and indirect costs incurred during the financial year arising from the writing or renewing of insurance business contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC are amortised over the year in which the related income is earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the Income Statement.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation year and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Income

2.4 Summary of significant accounting policies- continued

(j) Deferred expenses - continued

Statement. DAC are also considered in the liability adequacy test for each reporting year. DAC are derecognised when the related contracts are either settled or disposed of.

Reinsurance commissions

Commissions' receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums earned.

(k) Cash and cash equivalents

Cash and cash equivalents are carried at face value and comprise cash at bank in the Statement of Financial Position.

(l) Insurance contract liabilities

Non-life insurance liabilities

Non-life insurance and reinsurance contract liabilities are recognised when contracts are entered into and premiums are charged/estimated. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for insurance business risks that have not yet expired. Generally the reserve is released over the term of the insurance contract and is recognised as premium income.

At each reporting date the Company reviews its unexpired risk and a liability adequacy test is performed as laid out under IFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the Income Statement.

(m) Other financial liabilities and insurance payables

Other financial liabilities and insurance payable are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(n) Derecognition of financial liabilities and insurance payables

Financial liabilities and insurance payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Income Statement.

2.4 Summary of significant accounting policies- continued

(o) Provisions

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(p) Equity movements

Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

(q) Revenue recognition

Gross premium

Premium recognition is described in accounting policy (a) dealing with insurance and reinsurance contracts.

Reinsurance premiums

Premium recognition is described in accounting policy (a) dealing with insurance contracts.

Investment income

Interest income is recognised in the Income Statement as it accrues and is calculated by using the effective interest method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Realised gains and losses

Realised gains and losses recorded in the Income Statement on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(t) Foreign currency translation

These financial statements are presented in Euro, which is the Company's functional currency which reflects the economic substance of the underlying events and circumstances relevant to the Company.

Transactions during the period, including income and expenses are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

2.4 Summary of significant accounting policies- continued

(t) Foreign currency translation - continued

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Gains and losses arising from such foreign exchange translations are taken to the income statement.

(u) Events after the reporting date

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

3. Investment return

	2020	1 July to 31 December 2019
	€	€
Investment income		
Income from financial assets at fair value through profit or loss – net fair value gains	**9,044**	-
Total investment return	**9,044**	-
Analyzed between:		
Allocated investment return transferred to the technical account	**214**	-
Investment return included in the non-technical account	**8,830**	-
Total investment return	**9,044**	-

4. Net operating expenses

	Note	**2020**	1 July to 31 December 2019
		€	€
Acquisition costs		**46,556,846**	-
Reinsurer's commissions and profit commission		**(48,498,587)**	-
Deferred acquisition costs		**(34,044,466)**	-
Deferred reinsurer's commissions		**35,418,270**	-
Administrative expenses	**5**	**219,458**	-
Total net operating expenses		**(348,479)**	-

5. Administrative Expenses

	Notes	2020 €	1 July to 31 December 2019 €
Management fees		**122,288**	30,000
Directors' fees		**76,152**	152,392
Employee benefit expenses	**6**	**1,340,304**	-
Professional fees		**904,114**	48,212
Intercompany Service Recharge		**5,918,848**	1,961,062
Other expenses		**1,035,631**	36,278
		9,397,337	2,227,944
Allocated to:			
Technical Income Statement	**4**	**219,458**	-
Non technical Income Statement		**9,177,879**	2,227,944
		9,397,337	2,227,944

Professional fees include fees charged by the auditor for services rendered during the financial year ending 31 December relating to the following:

	2020 €	1 July to 31 December 2019 €
Annual statutory audit	**50,000**	5,000

6. Employee benefit expenses

	Note	2020 €	1 July to 31 December 2019 €
Wages and salaries		**1,327,619**	-
Social Security		**12,685**	-
Total employee benefit expenses	**5**	**1,340,304**	-

The average number of persons employed during the year was 5 (2019: 1)

7. Other income

	2020 €	1 July to 31 December 2019 €
Recharges of expenses for services provided to group undertaking	**617,547**	-
Total other income	**617,547**	-

8. Income tax expense

(a) Current tax expense for the year	**Notes**	**2020** **€**	1 July to 31 December 2019 €
Current tax expense	**8(b)**	**-**	-
Deferred tax expense	**10**	**-**	-
Total income tax expense		**-**	-

(b) Reconciliation of tax expense	**2020** **€**	2019 €
Loss before tax	**(9,569,995)**	(2,232,380)
Non allowable expenses	**-**	(2,232,380)
Taxable Loss for the year	**(9,569,995)**	
Tax credit at Malta's statutory income tax rate of 35%	**3,349,498**	-
Total income tax credit	**3,349,498**	-

The Company has elected not to recognize the tax credit, given that it has a negative retained earnings position.

9. Financial investments

	2020 **€**	2019 €
Fair value		-
Fair value through profit or loss	**25,352,160**	
Total financial assets	**25,352,160**	-

(a) Reconciliation

	2020 **€**	2019 €
At beginning of reporting year	**-**	-
Additions	**25,343,116**	-
Maturities	**-**	-
Fair value gains/loss recorded in profit or loss	**9,044**	-
At end of reporting year	**25,352,160**	-

9. Financial investments - continued

(b) Fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December	**2020 Level 1 €**	2019 Level 1 €
Financial investments	**25,352,160**	-
Total financial assets shown at fair value	**25,352,160**	-

Included in the Level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

10. Deferred Taxation

The Company has elected not to recognize any deferred tax due to the negative retained earnings position as at 31 December 2020.

11. Insurance liabilities and reinsurance assets

	2020 €	2019 €
Gross		
Insurance contracts		
- claims outstanding	**7,400,117**	-
- claims incurred but not reported	**8,722,224**	-
- provision for unearned premiums	**93,037,749**	-
Total technical provisions, gross	**109,160,090**	-
Recoverable from reinsurer		
Insurance contracts		
- claims outstanding	**6,660,109**	-
- claims incurred but not reported	**7,850,003**	-
- provision for unearned premiums	**88,824,987**	-
Total reinsurer's share of insurance liabilities	**103,335,099**	-
Net		
Insurance contracts		
- claims outstanding	**740,008**	-
- claims incurred but not reported	**872,221**	-
- provision for unearned premiums	**4,212,762**	-
Total technical provisions, net	**5,824,991**	-

Claims are classified as current liabilities. The claims are largely based on case-by-case estimates supplemented with additional provisions for IBNR, in those instances where the ultimate cost determined by estimation techniques is higher.

11. Insurance liabilities and reinsurance assets – continued

Amounts due from reinsurer in respect of claims already paid by the Company on the contracts that are reinsured are offset against the amounts due to the same reinsurer for the premium ceded under the respective treaties. The balances due from/to reinsurer are disclosed within receivables and payables in notes 13 and 19.

Movements in (re)/insurance liabilities
(a) Claims and loss adjustments

	2020	2019
Gross	**€**	€
At beginning of reporting year	**-**	-
Claims settled during the year	**(717,760)**	-
Increase in liabilities		
- arising from current year claims	**16,840,101**	-
- arising from prior year claims	**-**	-
At end of reporting year	**16,122,341**	-

	2020	2019
Reinsurer's share	**€**	€
At beginning of reporting year	**-**	-
Claims settled during the year	**(645,989)**	-
Increase in liabilities		
- arising from current year claims	**15,156,102**	-
- arising from prior year claims	**-**	-
At end of reporting year	**14,510,113**	8,362,771

	2020	2019
Net	**€**	€
At beginning of reporting year	**-**	-
Claims settled during the year	**(71,771)**	-
Increase in liabilities		
- arising from current year claims	**1,683,999**	-
- arising from prior year claims	**-**	-
At end of reporting year	**1,612,228**	-

(b) Provision for unearned premiums

The movements for the year are summarized as follows:

	2020	2019
	€	€
At beginning of reporting year	**-**	-
Premiums written during the year	**126,384,052**	-
Premiums earned during the year	**(33,346,302)**	-
At end of reporting year	**93,037,750**	-

12. Deferred acquisition costs

	2020	2019
	€	€
At beginning of reporting year	**-**	-
Expenses deferred during the year	**34,044,466**	-
At end of reporting year	**34,044,466**	-

12. Deferred acquisition costs - continued

Deferred acquisition costs are classified as follows:

	2020	2019
	€	€
Current	**34,044,466**	-
Non-current	**-**	-
At end of reporting year	**34,044,466**	-

13. Insurance and other receivables

	2020	2019
	€	€
Receivables arising from direct insurance operations		
- due from intermediaries	**56,133,235**	-
- due from claim handlers	**1,564,902**	-
Other loans and receivables		
- due from related party	**617,547**	-
At 31 December	**58,315,684**	16,484

Insurance and other receivables are all classified as current assets. A provision for ECL amounting to €182,385 has been recognised in the Statement of Comprehensive Income for the year ended 31 December 2020.

14. Cash and cash equivalents

	2020	2019
	€	€
Cash at bank	**24,742,332**	19,500,000
Total cash and cash equivalents	**24,742,332**	19,500,000

15. Share capital

	2020	2019
	€	€
Authorised ordinary shares		
1,166 (2019: 1,166) ordinary shares of €1 each	**1,166**	1,166
Ordinary shares issued and fully paid		
1,166 (2019: 1,166) ordinary shares of €1 each	**1,166**	1,166

Share premium amounted to €19,499,999 (2019: €19,499,999).

16. Capital contribution

This amount represents a contribution by the shareholder of the Company which is interest free and not subject to any financial or non-financial obligation on the part of the company.

17. Insurance and other payables

	2020	2019
	€	€
Creditors arising out of reinsurance held	**52,447,550**	-
Creditors arising out of direct insurance operations		-
- due to intermediaries	**5,368,738**	-
- due to related party	**3,718,087**	-
- due to tax authorities in respect of insurance premium taxes collected	**10,131,507**	
Other payables		
- due to related party	**9,070**	1,823,521
- accruals and other payables	**3,849,091**	424,343
	75,524,043	2,247,864

The carrying amount disclosed above reasonably approximate fair value at reporting date.

18. Risk management framework

Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed
  meet the requirements of its capital providers and of its shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The Company's capital management policy for its insurance business is to hold sufficient capital to cover the statutory requirements based on the MFSA Directives, including any additional amounts required by the Malta Financial Services Authority, the Regulator. The Company was compliant with the regulatory solvency requirements throughout the financial year.

The Solvency II Directive (2009/138/EC) came into force on 1st January 2016, with new regulatory requirements that dictate the capital required to service the risks the Company is currently undertaking. Solvency II also outlines how the own funds shall be derived by converting the Statement of Financial Position from an IFRS perspective to one where assets and liabilities are measured in line with their underlying economic value.

The Directors are actively involved in the implementation of the Solvency II rules and these are highly embedded in the Company's operations. Regular monitoring of the SCR is considered crucial and a Capital Management and Dividend Policy has been put in place to describe the principles governing capital management and dividend distribution of the Company, that is, the process to be followed prior to effecting any decision impacting the capital position of Accelerant Insurance Limited thereby ensuring that the Company has sufficient levels of capital at all times to be able to service existing and forseeable risks.

18. Risk management framework - continued

Capital management objectives, policies and approach- continued

Based on the unaudited SCR calculations as at 31 December 2020, the Company has complied with the capital and solvency requirements as stipulated in the rules issued by the MFSA. Going forward, the Company is also expected to continue meeting the solvency II requirements, based on the projected SCR calculations included in the 2020 ORSA report. In the case of any solvency gap, the Directors have put in place a capital plan aimed to ensure that the Company will have adequate 'own funds' to meet the required SCR.

19. Insurance and financial risk

(a) Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims and actual benefits paid. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification of different classes of business across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines and claim review policies, as well as the use of reinsurance arrangements.

The Company underwrites various products through intermediaries on a direct basis. Risks under these insurance policies on average span over a period of one year. As at the end of the year, the Company was operating in Italy, the Netherlands, Norway, Sweden, Greece, Republic of Ireland and the United Kingdom.

The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. The Company's business is underwritten through an intermediary's network consisting of MGA's. Internal underwriting guidelines are in place to enforce appropriate risk selection criteria and are reinforced by controls that are in place at Company level. Strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

The Company purchases reinsurance on its direct business as part of its risk mitigation program. Reinsurance ceded is placed on both proportional and non-proportional basis. On the non-proportional reinsurance the Company has purchased reinsurance through excess of loss covers. On the proportional basis, the quota-share reinsurance is taken out to reduce the overall exposure of the Company to all classes of business in all countries. Amounts recoverable from the reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company has placed its reinsurance treaties with reinsurance companies that are rated as A- or better. The Company actively monitors the rating of the reinsurers. The Company has assessed the risks being underwritten through the reinsurance treaties. The Company has also limited its exposure due to policy limits and by entering into proportional reinsurance treaties.

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experienced by the Company.

The Company has therefore assumed an ultimate loss ratio in order to estimate its total claims cost and IBNR. Given the reinsurance treaties in place, a deterioration or improvement in this final loss ratio will not have a significant impact on the profit or loss for the year.

19. Insurance and financial risk - continued

(b) Financial risks - continued

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Company writes premium through a number of MGA's and it has assessed its credit risk as low.

Reinsurance is placed with counterparties that have a A- credit rating or better. At each reporting date, management performs an assessment of the creditworthiness of the reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

The credit risk in respect of customer balances incurred on non-payment of premiums, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

Credit exposure

The table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position and items such as future commitments as at 31 December.

	Notes	**2020**	2019
		€	€
Financial assets			
Financial investments	**9**	**25,352,160**	-
Reinsurer's share of technical provisions	**11**	**103,335,099**	-
Insurance and other receivables	**13**	**58,315,684**	1,165
Cash and cash equivalents	**14**	**24,742,332**	19,500,000
Total credit risk exposure		**211,745,275**	19,501,165

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company at 31 December by classifying assets according to the Standard and Poor's credit ratings (or equivalent) of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB- are not rated.

31 December 2020

			Neither past due nor impaired			
	AAA	**AA**	**A**	**BBB**	**Not rated**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Financial assets						
Financial investments	**4,408,766**	**4,490,130**	**8,971,640**	**7,460,840**	**20,784**	**25,352,160**
Reinsurer's share of technical provisions	**-**	**31,000,530**	**72,334,569**	**-**	**-**	**103,335,099**
Insurance receivables	**-**	**-**	**-**	**-**	**58,315,684**	**58,315,684**
Cash and cash equivalents	**-**	**-**	**14,453,851**	**-**	**10,288,481**	**24,742,332**
Total	**4,408,766**	**35,490,660**	**95,760,060**	**7,460,840**	**68,624,949**	**211,745,275**

During the year, no credit exposure limits were exceeded. The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

19. Insurance and financial risk - continued

(b) Financial risks - continued

(1) Credit risk – continued

Loss allowance

A loss allowance amounting to €182,386 has been recognised in profit and loss for the year ended 31 December 2020 (2019: Nil).

The Company measures the ECL of these trade and other receivables as follows.

For the amounts due from third parties, the Company measures ECL based on two different systems. For some counterparties, the Company has obtained a probability of default from a third party. These probabilities of default are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the amounts receivable.

Where the Company cannot obtain a probability of default from a third party, the Company measures the ECL based on an internally generated Z-score rating, which includes but is not limited to reviews of country rating and other public and non-public available information. Similarly to the other method, these internally generated ratings are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the amounts receivable.

Impaired financial assets

For assets to be classified as 'past-due and impaired' contractual payments must be in arrears for more than 90 days. At 31 December 2020 none of the Company's assets are impaired (2019: nil).

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A Company liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company Board. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.

The following table indicates the expected timing of cash flows arising from the Company's liabilities:

31 December 2020

	Up to 3 months	**Up to 1 year**	**Total**
	€	**€**	**€**
Technical provisions	**-**	**109,160,090**	**109,160,090**
Deferred revenue	**-**	**35,418,270**	**35,418,270**
Insurance and other payables	**75,524,043**	**-**	**75,524,043**
Total	**75,524,043**	**144,578,360**	**220,102,403**

19. Insurance and financial risk - continued

(b) Financial risks - continued

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Company invests in units within a number of bond funds thereby exposing itself to interest rate risk. The Company's assets and liabilities are all denominated in Euro thereby leaving the Company with no currency exposure.

(4) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In general, the Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets issued at variable rates expose the Company to cash flow interest rate risk. Assets issued at fixed rates expose the Company to fair value interest rate risk. The Company manages this risk by implementing detailed investment guidelines restricting the level of investment in any one instrument, and the maturity date of investments. Investment performance is regularly monitored against market-based benchmarks.

(5) Currency risk

Foreign currency transactions arise when the Company buys or sells goods whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The risk arising from foreign currency transactions is managed by regular monitoring of the relevant exchange rates and management's reaction to material movements thereto.

The company's exposure to foreign currency risk at 31 December is as follows:

31 December 2020

	GBP	NOK	SEK
Assets			
Insurance and other receivable	**28,475,096**	**4,341,197**	**28,242,208**
Cash and cash equivalents	**3,953,784**	**2,266,419**	**2,000,000**
Financial investments	**5,490,898**	**-**	**-**
Reinsurance share of technical provisions	**11,333,874**	**158,091**	**558,052**
Liabilities			
Insurance and other payables	**(8,117)**	**-**	**-**
Technical provisions	**(12,593,191)**	**(175,656)**	**(620,058)**
Total	**36,652,344**	**6,590,051**	**30,180,202**

20. Cash generated from operating activities

	Notes	**2020** **€**	2019 €
Loss before tax		**(9,569,995)**	(2,232,380)
Movements in items in the Statement of Financial Position			
Increase in reinsurer's share of technical provisions		**(103,335,099)**	-
Increase in deferred acquisition costs		**(34,044,466)**	-
Increase in insurance and other receivables		**(58,314,519)**	-
Increase in technical provisions		**109,160,090**	-
Decrease/(Increase) in prepayments		**4,032**	(15,484)
Increase in insurance and other payables		**73,276,179**	2,247,864
Increase in deferred revenue		**35,418,270**	-
Cash generated from operating activities		**12,594,492**	-

21. Contingencies and commitments

The Company has no capital commitments as at the reporting date.

22. Related party disclosures

(a) Transactions with related parties

The Company enters into transactions with its group undertakings and key management personnel in the normal course of business. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions.

Details of significant transactions carried out during the year with related parties are as follows:

	2020 **€**	2019 €
Recharge of expenses for services provided to group undertaking	**617,547**	-

	2020 **€**	2019 €
Recharge of expenses for back-office services provided by group undertaking	**5,918,848**	1,961,062
Brokerage fee paid to group undertaking for introducing business	**6,319,203**	-

Director's fees have been disclosed in Note 5. The Chief Actuary, Chief Financial Officer, Chief Risk Officer, Chief Underwriting Officer, Head of Distribution and Chief Compliance Officer are considered by the Company to be Key Management Personnel. The total payments to Key Management Personnel were €1,276,411 (2019: Nil).

22. Related party disclosures - continued

(b) Balances with related parties

(1) Receivables from and payables to related-parties are as follows:

	Notes	2020 €	2019 €
Receivables from related parties			
Insurance and other receivables			
- group undertaking	**13**	**617,547**	-

		2020 €	2019 €
Payables to related parties			
Creditor arising out of direct insurance operations			
- group undertaking	**17**	**3,718,087**	-

There was no provision for doubtful debts at the reporting date and no bad debt expense during the year.

23. Dividends

No dividends have been declared and paid during the year (2019: Nil).