Liberty Specialty Markets

LIBERTY MUTUAL INSURANCE EUROPE SOCIETAS EUROPAEA

Solvency and Financial Condition Report
As at 31 December 2022

Liberty Mutual Insurance Europe Societas Europaea

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Contents

SUMMARY

Introduction

Liberty Mutual Insurance Europe Societas Europaea ("LMIE" also referred to as "the Company") is headquartered in Luxembourg. It is required to submit the 2022 annual Quantitative Reporting Templates (QRTs) and narrative reporting templates to the Commissariat Aux Assurances (CAA) on the 6th April 2023 as part of the Solvency II year-end reporting requirements.

It underwrites insurance and reinsurance business from its head office in the Grand Duchy of Luxembourg (hereinafter referred to as Luxembourg) and its branches across Europe and in the UK. LMIE has been operating from its headquarters in Luxembourg since 1st March 2019.

This document sets out the Solvency and Financial Condition Report (SFCR) for LMIE in accordance with the Solvency II Regulations.

Business summary

LMIE is part of the Liberty Mutual Insurance group, which employs approximately 50,000 people in over 800 offices throughout the world. Liberty Mutual is a diversified global insurer and one of the largest Property and Casualty (P&C) insurers in the U.S. Through its subsidiaries and affiliated companies, it offers a wide range of property & casualty insurance products and services to individuals and businesses alike.

Liberty Mutual Insurance group operations are split into a management structure and a legal entity structure. Functionally, the management structure operates via three strategic business divisions (SBDs), strategic business units (SBUs) and management pillars which sit within the global corporate legal entity structure. The three SBDs are Global Retail Markets (GRM), Global Risk Solutions (GRS) and Liberty Mutual Investments (LMI). GRS is made up of Liberty Specialty Markets (LSM), North America Specialty and Global Surety. During 2022, Liberty Mutual Reinsurance (LMRe) was elevated from being part of LSM to being a SBU which now directly reports to GRS.

This led to the establishment of GRS International (GRSI), a management construct that coordinates relevant parts of the LSM, LMRe and Global Surety business and enables an integrated approach to enable those SBUs to fulfil their strategic objectives as part of One GRS.

The ultimate parent company is Liberty Mutual Holding Company Inc. (hereinafter referred to as Liberty Mutual or, LMHC). LMIE is part of GRSI and is also part of a sub-group of companies consolidating into Liberty International European Holdings, S.L.U. (hereinafter referred to as LIEH or "the holding company").

At the start of 2022, the LMIE UK Branch ("UK Branch") operated within the UK Temporary Permissions Regime ("TPR"). The TPR allowed EEA-based firms to operate in the UK for a limited period while seeking full authorisation. The UK Branch received full authorisation from the PRA as a Third Country Branch on 01 December 2022. The UK Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority (registered number 829959). It is also subject to CAA regulation as part of the whole legal entity.

LMIE has licensed in-house cover holders in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME) and Liberty Specialty Markets Europe Two Sarl (LSME2), and in the Netherlands, Liberty

Mutual Surety BV, which act as intermediary companies that underwrite on behalf of LMIE from their branches throughout Europe and the United Kingdom.

Russia-Ukraine Conflict

Many observers predict that the conflict between Russia and Ukraine will continue for some time. A number of countries (including the UK, and EU) imposed new sanctions against certain entities (of which many are financial institutions) and individuals in Russia as a result of Russia's invasion of Ukraine. The results of the sanctions and the geopolitical instability have created significant volatility in the financial markets with the potential to adversely impact global economies and increase instability. At the current time, sanctions continue to be applied and are actively monitored.

The backdrop of this "long War" along with the aftereffects of the pandemic, the resulting impact of the energy crisis and sustained high levels of inflation have required a shift in monetary policy. The notable rise in economic inflation above Central Banks' targets was originally caused by factors including the post-Covid-19 stimulus, supply chain restrictions, rising energy prices and labour shortages. This in turn impacts debt servicing for governments, companies, and individuals, leading to global concerns regarding recession, the cost-of living crisis and civil unrest. We continue to monitor the situation with regards to these systemic risk environment factors in accordance with our Risk Management Framework.

Business and performance

Branches and offices

LMIE operates from the head office in Luxembourg and through branches in the UK, Belgium, France, Germany, Ireland, Italy, the Netherlands, Spain, and Switzerland.

2022 Financial Performance

The Company's key financial performance indicators for the year ended 31 December 2022 were as follows:

Key Performance Indicators	2022 €'000	2021 €'000	Variance	Variance
	Lux GAAP	Lux GAAP	€'000	%
Gross Written Premiums	2,985,337	2,848,796	136,541	5%
Net Earned Premiums	833,790	808,595	25,195	3%
Net Incurred Claims	628,659	501,275	127,384	25%
Expenses	270,580	268,259	2,321	1%
Underwriting Result	(65,450)	39,062	(104,512)	-268%
Net Claims Ratio %	75.4%	62.0%		13.4%
Net Expense Ratio %	32.5%	33.2%		-0.7%
Net Combined ratio % (i)	107.8%	95.2%		12.7%

(i) Note that ULAE is included within net incurred claims under Lux GAAP, however, is reclassified to expenses on a Solvency II basis.
(ii) The net combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

Underwriting performance

LMIE's underwriting result for 2022 represents a significant decrease of €104.5m on the prior year, going from a €39m profit in the prior year to a €65.5m loss in FY 2022, reflected in a worsening of the Net Combined ratio by 12.7%.

Gross written premium increased by 4.8% year on year. This is predominately driven by the risk adjusted rate change (RARC) of 6.9% achieved in 2022, along with €208m favourable movement in foreign exchange due to the strengthening of the US dollar (USD) against the Euro (EUR). This was partly offset by not deploying capital where risk adjusted returns were not deemed acceptable including remediation of loss-making lines.

The Net Result Quota Share (NRQS) contract with LMIC, which commenced in 2021, was renewed for 2022. It is a 60% cession of the net financial result after accounting for all other outwards reinsurance contracts. The contract excludes both LMIE's Direct Surety and the Energy Construction Marine Liability (ECML) book, and continues to provide sustained benefit to LMIE's solvency and a more efficient form of capital support from Liberty Mutual Group.

The Net claims ratio has moved unfavourably by 13.4%. A key driver was exposure to material catastrophe events during the year including the French Hailstorms (net €35m), UK Windstorms (net €19m) and the Ukraine-Russia conflict (net €10m). There was also deterioration on certain legacy catastrophe events (namely European June Events (net €8m), Covid-19 (€5.4m) and Storm Berndt (net €5m)) as more information became known and claims experience developed over the course of 2022.

Additionally, attritional losses also increased as worse than expected claims activity developed on Agriculture, Oil & Gas, D&O and E&O business, partially offset by relatively benign claims experience in RI Specialty.

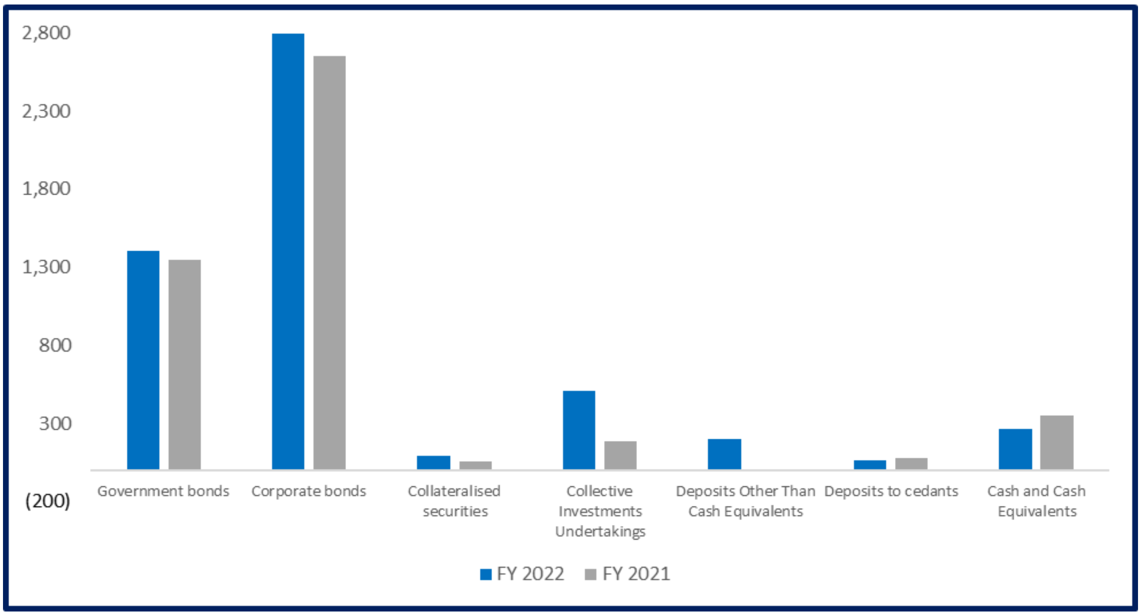
The elevated economic inflation outlook and its effect on claims inflation was one of the key areas of reserving uncertainty facing LMIE during 2022. As we noted increasing concern over economic inflationary pressures during 2021, our projected view of inflation has evolved during the year. This resulted in a net allowance for inflation in 2021 of €11m which we increased to €29m during 2022.

The overall expense ratio decreased by 0.6% which is due to a lower quantum of allocated expenses being recharged to the Company following an update to the cost allocation model and the drivers contained therein. This led to a reduction in expenses of €32m. This is partly offset by the impact of the review of internally generated acquisition costs that were being deferred, which resulted in an adjustment of €9.5m.

Further details are provided in Section A.2.

Investment Portfolio and Investment Return

The composition of the portfolio by category of investments has remained consistent since 2021, largely comprising of fixed income government and corporate bonds, as illustrated in the exhibit below.



Overall, the value of the portfolio is higher by €653.3m since FY 2021. The largest driver of the increase noted are capital injections of c.€519.1m during the year, which have in turn financed the acquisition of new bonds. Additionally, there were favourable foreign exchange movements on USD-denominated holdings as the USD strengthened in relation to the Euro (EUR).

The Company's investment portfolio generated a return of €68.7m (2021: €65.8m), which reflects a marginal increase of €2.9m since the prior year. This is driven by an uplift in investment income from bonds as the value of investment holdings increased during the year. The underlying interest income yield from bonds during the year was 2.0% (2021: 1.5%). The increase in investment income was partially offset by higher realised losses driven by rising interest rates which reduced the market value of the fixed income securities sold during the year.

In addition, a significant increase was noted in the unrealised losses on investments (2022: €443m, 2021: €101m). These losses arose primarily as a result of rising bond yields (and hence falling bond prices) as inflation rose sharply in 2022, driven by macro-economic factors leading central banks to increase interest rates. Note that Unrealised Gains & Losses are reported in the Other Comprehensive Income Statement (OCI) under Lux GAAP. Further details of investment performance are provided in Section A.3.

Review of financial position

Financial position	2022 €'000	2021 €'000
Gross technical provisions	7,953,273	6,790,408
Ceded technical provisions	2,993,192	2,905,718
Investments and cash	5,301,745	4,655,869
Shareholder funds	1,900,538	1,767,710

Gross Technical Provisions increased by €1,162.9m due to growth in the business and gross reserve strengthening, as a result of the loss experience outlined in the Underwriting Performance section. Ceded Technical Provisions as a proportion of Gross are lower at 38% (2021: 43%). This is because a higher value of claims recoverables in relation to the Net Result Quota Share

(NRQS) with Liberty Mutual Insurance Company (LMIC) remained on the Balance Sheet at FY 2021.

Financial investments and cash have increased by €645.9m during the year driven by the reinvestment of capital injections received by the Company, as explained above.

Shareholder funds increased by €132.8m during the year mainly due to an increase in share premium of €519.1m due to the capital injections received. This was partially offset both by a reduction in the Revaluation reserve of €339.4m, driven by a significant increase in unrealised losses on investments, as well as by the Company's loss for the year.

Details on movements in capital on a Solvency II basis as well as a reconciliation of Shareholders' funds under Lux GAAP to Solvency II net assets is provided in Section E.

System of Governance

The Board of Directors (the Board) remain responsible for the governance of the Company and have established a robust corporate governance framework as an effective means of meeting that responsibility. The Board is headed by an independent non-executive chairman, who is responsible for leadership and ensuring its effectiveness. The Board delegates the responsibility for the day to day running of the Company's business to the General Manager.

Directors

The following individuals served as Directors of LMIE from 1 January 2022 to the date of this report, unless otherwise indicated:

Directors

Fernand Grulms	Independent Non-Executive Director and Chairman
Dirk Billemon	Authorised General Manager and Director
Nigel Davenport	Non-Executive Director
Christopher Hanks	Independent Non-Executive Director (resigned 18th January 2023)
Pierre Hentgen	Independent Non-Executive Director
Philip Hobbs	Director (resigned 31st January 2022)
Virginie Lagrange	Independent Non-Executive Director
Christian Rola	Director
Mark Winlow	Independent Non-Executive Director (appointed 18th January 2023)
Pierre - Edouard Fraigneau	Director (appointed 18th January 2023)

The Board also delegates certain matters to the following Board sub-committees in accordance with the terms of reference of those committees:

- Audit Committee
- Risk Management Committee
- Nomination Committee
- Remuneration Committee

The Board and sub-committees are supported by LMIE's key control functions of Actuarial, Risk Management, Compliance, and Internal Audit. LMIE requires all persons who perform key functions to be of good repute and integrity, as well as possess adequate knowledge and experience to enable sound and prudent management of risks facing the company. The governance structure is further supported by Executive level “Legal Entity Committees”, further details of which are provided in section B.1 below.

Each branch of LMIE has a dedicated local management team, headed up by a Branch Manager. LMIE operates a Management Committee, the purpose of which is to provide the LMIE Dirigeant Agréé (otherwise known as the “General Manager”) with oversight of the performance of LMIE and its branches. Further details on the Branches and Branch Management Committees reporting lines are provided in section B.1 below.

The UK Branch, as a Third Country Branch, operates a separate UK Branch Management Committee which is chaired by the UK Branch Manager and is made up of Key Function Holders (KFH). The UK Branch Management Committee is advisory to the Chair and discharges certain duties as delegated to them in their capacity as the LMIE UK Branch Manager. The UK Branch Management Committee reports directly into the LMIE Management Committee, which is chaired by the LMIE General Manager.

The governance structure is reviewed on an annual basis by the Company Secretary to ensure that it is effective and appropriate for the organisation. There have been no changes to the structure of the Board and Board Sub-Committees in 2022. An independent externally conducted review in 2022 found the Board and the Board sub-committees to be effective, with no material findings.

During 2022, reporting lines between the Management Committee and the other Legal Entity Committees were enhanced to clarify how these Committees interact with each other.

There were no other material changes to the corporate governance structure in 2022.

The Risk Management Framework (RMF) and Internal Control Framework (ICF) have been designed to ensure that risks are managed in a controlled manner consistent with the Board's risk appetite and keeping in view the available capital, while generating risk adjusted returns to the Liberty Mutual Group.

Risk profile

All material risks affecting the entity are considered as part of LMIE's RMF, insofar as they may adversely impact the achievement of its goals.

The aforementioned framework covers both quantitative as well as qualitative risks (e.g., group / contagion / strategic) and is undertaken on ongoing conditions as well as part of stressed scenarios and informs both LMIE's Own Risk and Solvency Assessment (ORSA) policy, as well as its capital management strategy - including capital needs, transferability and fungibility as appropriate.

The Company has undertaken stress testing as part of its annual ORSA process. The results of this exercise provide assurance that the entity can withstand both plausible and extreme shocks over its planning horizon. The risk profile of the Company is described in Section C in relation to the following risk categories:

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Responsible Business and Climate Change
- Operational risk
- Other material risks, including Strategic Risk and Group Risk.

The LMIE RMF, sets out how the company undertakes the categorisation of exposed risks. The business objectives of the RMF are to ensure that:

- All risks that could impact the ongoing viability of the company are identified;
- Identified risks are measured and managed with the most appropriate method; and
- All risks are owned by the most appropriate member of the Executive and that each risk is reported through the correct committee or working group.

The Risk management function is responsible for preparing the ORSA report. Further details are provided in Section C.

Valuation for solvency purposes

LMIE prepares its annual financial statements in accordance with Luxembourg GAAP (Lux GAAP) being the applicable reporting framework generally accepted in Luxembourg.

The Solvency II value for assets and liabilities are determined in accordance with Article 75 of the Solvency II Directive:

(a) assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;

(b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

Further details around valuation and reclassification differences are described in Section D of this report. The most significant valuation difference relates to the treatment of technical provisions.

Capital management

The purpose of own funds management is to maintain, at all times, sufficient capital to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) with an appropriate prudence margin as approved by the LMIE Board.

The Company holds quarterly Board meetings, in which the proportion of own funds over SCR and MCR are monitored and managed. As part of own funds management, LMIE prepares ongoing annual projections in addition to reviewing the structure of own funds and future requirements. The business plan forms the base of the ORSA and contains a two-year projection of funding requirements which help identify and focus actions for future funding.

LMIE currently uses the Standard Formula (SF) as prescribed by the Solvency II Delegated Acts to assess its ability to meet its regulatory capital obligations under normal and stressed conditions. The Internal Model (IM) is used alongside the SF to help the Company understand and manage risks to its business, and challenge SF outputs where appropriate. The capital of LMIE comprises of the following components:

- **Tier 1:** Share capital, share premium and reconciliation reserves
- **Tier 2:** Ancillary own funds
- **Tier 3:** Deferred tax

LMIE is undergoing the pre-Internal Model Application Process (IMAP) with the CAA, and will potentially enter IMAP in September 2023, with a decision then expected by March 2024.

The CFO Committee on a quarterly basis, monitors the Solvency II ratio and manages the efficiency of LMIE's capital. Following capital remediation work undertaken in 2021, LMIE entered 2022 with a strong solvency ratio of 172%. Throughout 2022, LMIE continued to experience the benefit from capital actions undertaken in prior years, including the following:

- The establishment of an Ancillary Own Fund facility;
- The loss portfolio transfer of the run-off ECML book of business to Enstar Group; and
- The NRQS with LMIC to provide sustained capital benefit going forward, as explained above.

As at 31 December 2022, LMIE had eligible own funds of €2,814m (2021: €2,205m) and a Solvency Capital Requirement (SCR) of €1,644m (2021: €1,284m), leading to a Solvency Capital Ratio of 171%, 46% above the company's risk appetite for coverage of 125%.

The uplift in basic own funds is primarily driven by a higher value of the investment portfolio of c.€653m, as explained above. This increase is partially offset by an increase in Net Technical Provisions of c.€282m, which is explained in more detail in Section D.2 below. The movement in the SCR is explained in Section E.2 below.

The following table provides a snapshot of the key movements in the Solvency Coverage Ratio. Further details are provided in Section E.

Capital Structure		2022 €'000	2021 €'000
Share Capital	E.1.2.a	255,424	255,424
Share Premium	E.1.2.a	1,617,533	1,098,434
Reconciliation reserve	E.1.2.b	442,252	445,921
Available and Eligible Own Funds (to cover the MCR)		**2,315,210**	**1,799,779**
MCR	E.2.1	530,455	509,974
MCR Coverage Ratio		**436%**	**353%**
An amount equal to the value of net deferred tax assets		100,408	31,647
Ancillary Own Funds	E.1.2.c	398,221	373,724
Available and Eligible Own Funds (for SCR Coverage)		**2,813,839**	**2,205,150**
SCR	E.2.1	1,643,583	1,284,091
SCR Coverage Ratio		**171%**	**172%**

The latest view on 2023 year-end solvency projects LMIE to remain towards the higher end of its capital appetite. LMIE continues to be a key strategic asset of Liberty Mutual Group and it is expected that the group will continue to provide financial support to LMIE as and when required to support its continuing operation. Based on the existing solvency coverage, we believe there is appropriate headroom in capital to support the business over the next 12 months.

DIRECTORS' STATEMENT

Approval by the Liberty Mutual Insurance Europe SE (LMIE) Board of Directors of the Solvency and Financial Condition Report for the financial year ended 31st December 2022.

The Solvency II Directive, the Delegated Acts, related Implementation Rules, Technical Standards and Guidelines, as well as CAA rules provide the regulatory framework in which Liberty Mutual Insurance Europe SE operated in 2022. The Directors are responsible for preparing the SFCR in accordance with the regulatory framework.

Liberty Mutual Insurance Europe SE has complied with all Solvency II requirements throughout the financial year 2022. Furthermore, Liberty Mutual Insurance Europe SE reasonably believes that it will continue to comply with the Solvency II requirements for the foreseeable future.

Each of the Directors, whose names and functions are listed in Directors' Report of the Lux GAAP financial statements, confirm that, to the best of their knowledge:

(a) So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and

(b) Each Director has taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the Board.

Christian Rola

Director

6 April 2023

BUSINESS & PERFORMANCE

SECTION A - BUSINESS AND PERFORMANCE

This section of the report sets out the details regarding the company's business structure, key operations, market position and the financial performance for 2022.

Key elements of the section are:

- Business information;
- Underwriting performance;
- Investment performance; and
- Performance from other activities.

SECTION A.1 – Business Information

A.1.1 Name and legal form of the undertaking

Liberty Mutual Insurance Europe Societas Europaea (LMIE SE) is a regulated insurance company incorporated in Luxembourg (Registration number B232280 (Registre de Commerce et des Sociétés).

The immediate parent Company is Liberty Specialty Markets Holdco S.L.U (LSMH).

The ultimate parent Company is LMHC of Boston, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A. a Company incorporated in the United States of America.

The smallest higher sub-group of companies for which group accounts are drawn up and of which this Company is a member is LIEH, domiciled in Spain.

A.1.2 Name of the supervisory authority responsible for the financial supervision of the undertaking and external auditor

The Commissariat aux Assurances (CAA) is responsible for the prudential supervision of the Company.

11, rue Robert Stumper,
L-2557 Luxembourg

The UK Third Country Branch falls under the jurisdiction of the PRA.

Bank of England
Threadneedle St.
London, EC2R 8AH

LMIE consolidates into the LIEH for Solvency II purposes and therefore is subject to Group supervision by the "Direccion General de Seguros" (DGS), which is located in Paseo de la Castellana, 44, Madrid, Spain, and is assisted by Subgroup Colleges of Supervisors for the coordination of supervisory activities.

The LIEH College of Supervisors thus includes the DGS (as Chair), Commissariat Aux Assurances (as LMIE SE's home state regulator), Central Bank of Ireland (CBI) and the Autoridade de Supervisao de Seguros e Fundos et Pensiones (ASF, Portuguese Supervisor).

Following the end of the Brexit transition period on 31 December 2020, the PRA was invited to attend the College as an observer and has done so.

At the global level, the Group supervision is undertaken by the Division of Insurance of the Commonwealth of Massachusetts, located in 1000 Washington Street, 8th Floor, Boston, MA 02118, US.

A.1.3 Name of the external auditor

The Company's external auditors are Ernst & Young S.A., 35E Avenue John F. Kennedy, 1855 Grand Duchy of Luxembourg.

A.1.4 Holders of qualifying holdings

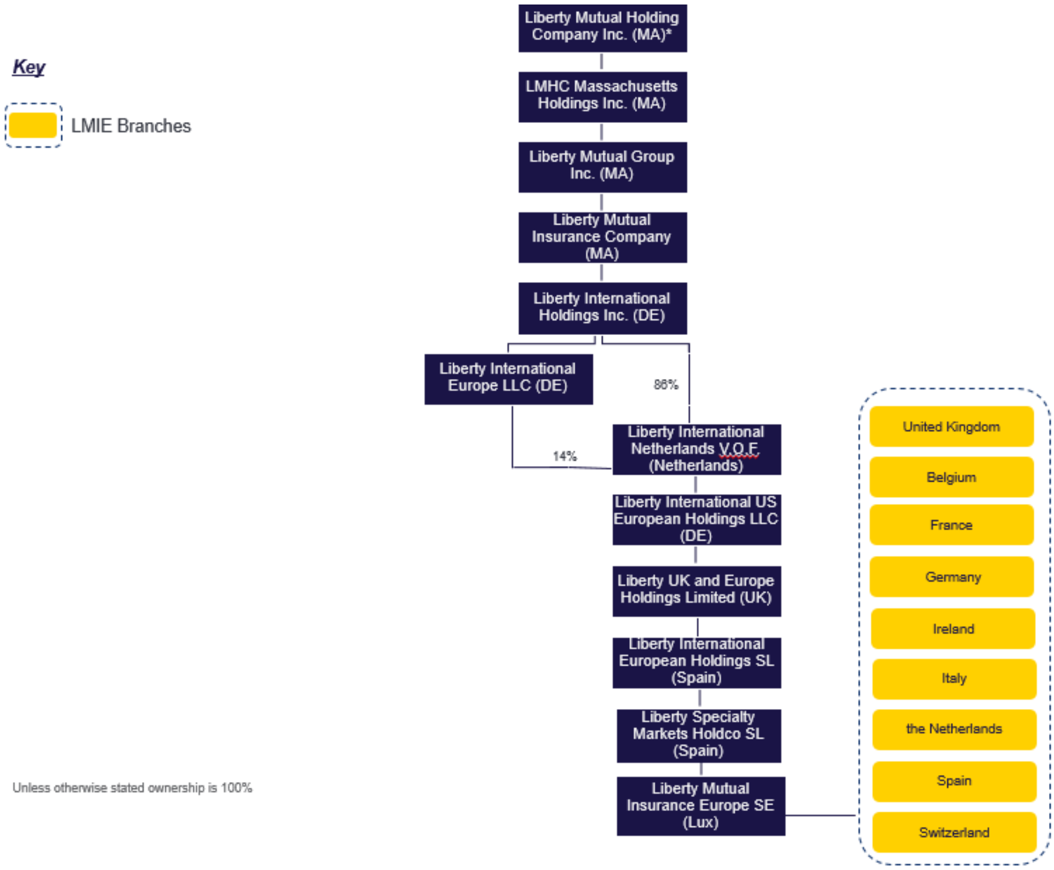
LMIE is wholly owned by its immediate parent company, LSMH.

The members of LMHC are persons or organisations appearing as the primary insured in any in-force policy, or as the principal in the case of a surety bond, issued by only the following stock insurance companies:

1. Liberty Mutual Insurance Company
2. Liberty Mutual Fire Insurance Company
3. Employers Insurance of Wausau and
4. Liberty Mutual Personal Insurance Company

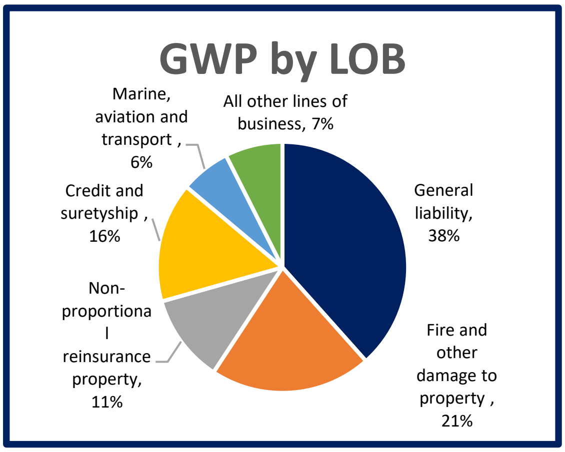
A.1.5 Details of the undertaking's position within the legal structure of the group

The following is a summarised organisation structure showing LMIE's positioning within the overall Liberty group structure.

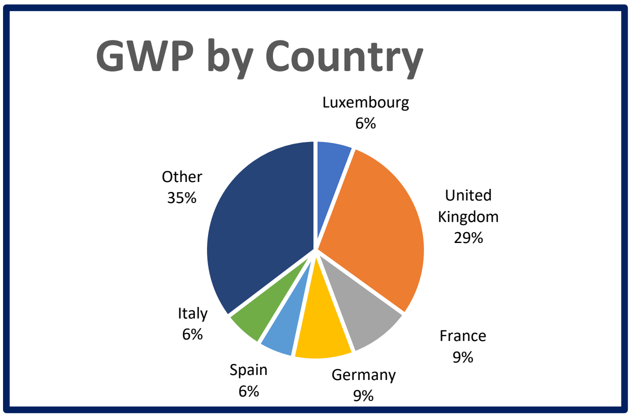


A.1.6 The undertaking's material lines of business and material geographical areas where it carries out business

LMIE is one of the key (re)insurance entities within the LSM / LMRe segment of the Liberty Mutual Group. LSM offers specialty and commercial insurance and reinsurance products across the UK, Europe, Middle East, US, and other international locations.



The majority of LMIE's business is commercial and specialty insurance. Under Solvency II, insurance products are categorised into 16 lines of business (LOB). General liability continues to be the largest line of business in terms of gross written premium (GWP) as illustrated in the exhibit alongside. Further details are provided in section A.2. below



The Company operates through its Head Office in Luxembourg, and through a branch structure in the UK and mainland Europe, consisting of Spain, France, Switzerland, Germany, Netherlands, Ireland, Belgium and Italy. The exhibit alongside details the split of GWP by major country and shows that the United Kingdom is the highest contributor to GWP using the country allocation basis set out by Solvency II. Further details are provided in section A.2. below.

A.1.7 Significant business or other events that have occurred over the reporting period and up to the date of the report

Brexit and PRA Third country branch application

Since 1 January 2021, LMIE UK Branch was operating within the UK Temporary Permissions Regime (TPR) until full authorisation was approved as ‘Third Country Branch’, effective 01 December 2022. The TPR allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation. Prior to full approval, the UK Branch was deemed authorised by the PRA and was subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (registered number 829959). The UK Branch is also registered with Companies House (registered number BR024143).

The LMIE Dirigeant Agréé (otherwise known as the “General Manager”) has established a Management Committee which is advisory to them, as Chair, in discharging certain duties as delegated to them in their capacity as General Manager. Currently each branch of LMIE has a dedicated local management team, headed up by a Branch Manager. As the UK does not form part of the European business model, a separate UK Branch Management Committee, chaired the UK Branch Manager was established in May 2021. In addition, there is a designated UK Branch Compliance officer. The UK Branch Management Committee is advisory to the Chair and discharges certain duties as delegated to them in their capacity as the LMIE UK Branch Manager. The UK Branch Management Committee feeds directly into the LMIE Management Committee. Further details on the LMIE Management Committee are provided in section B.1 below.

The UK Branch is responsible for managing the underwriting and claims while acting as the first line of defence for managing risk within its jurisdiction, while operating under the regulatory supervision of the PRA.

Overall, LMIE continues to act as a Solvency II compliant firm in the UK whilst the regulatory changes arising as a result of Brexit are being monitored.

SECTION A.2 – Underwriting Performance

A.2.1 Underwriting performance for the year ended 31 December 2022

LMIE’s underwriting performance on a Lux GAAP basis is summarised in the table below for the years ended 31 December 2022 and 2021.

Key Performance Indicators	2022	2021		
	€'000	€'000	Variance	Variance
	Lux GAAP	Lux GAAP	€'000	%
Gross Written Premiums	2,985,337	2,848,796	136,541	5%
Net Earned Premiums	833,790	808,595	25,195	3%
Net Incurred Claims	628,659	501,275	127,384	25%
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Net Claims Ratio %	75.4%	62.0%		13.4%
Net Expense Ratio %	32.5%	33.2%		-0.7%
Net Combined ratio % (i)	107.8%	95.2%		12.7%

(i) Note that ULAE is included within net incurred claims under Lux GAAP, however, is reclassified to expenses on a Solvency II basis.
(ii) The net combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

Overview

LMIE's underwriting result for 2022 represents a significant decrease of €104.5m on the prior year, going from a €39m profit in the prior year to a €65.5m loss reflected in a worsening of the Net Combined ratio by 12.7%.

Gross written premium increased by 4.8% year on year. This is predominately driven by risk adjusted rate change (RARC) of 6.9% achieved in 2022, along with €208m favourable movement in foreign exchange due to the strengthening of the US dollar (USD) against the Euro. This was partly offset by not deploying capital where risk adjusted returns were not deemed acceptable including remediation of loss-making lines.

The NRQS contract with LMIC, which commenced in 2021, was renewed for 2022. It is a 60% cession of the net financial result after accounting for all other outwards reinsurance contracts. The contract excludes both LMIE's Direct Surety and the Energy Construction Marine Liability (ECML) book, and continues to provide sustained benefit to LMIE's solvency and a more efficient form of capital support from Liberty Mutual Group.

The Net claims ratio has moved unfavourably by 13.4%. A key driver was exposure to material catastrophe events during the year inclusive of the French Hailstorms (net €35m), UK Windstorms (net €19m) and the Ukraine-Russia conflict (net €10m). There was also deterioration of certain legacy catastrophe events (namely European June Events (net €8m), Covid-19 (€5.4m) and Storm Berndt (net €5m)) as more information and claims experience developed.

Additionally, attritional losses also experienced some uplift as worse than expected claims activity developed on Agriculture, Oil & Gas, D&O and E&O business, partially offset by relatively benign claims experience in RI Specialty.

The elevated economic inflation outlook and its effect on claims inflation was one of the key areas of reserving uncertainty facing LMIE during 2022. As we noted increasing concern over economic inflationary pressures during 2021, our projected view of inflation has evolved during the year. This resulted in a net allowance for inflation in 2021 of €11m which we increased to €29m during 2022.

The overall expense ratio decreased by 0.6% which is due to a lower quantum of allocated expenses being recharged to the Company following an update to the cost allocation model and the drivers within. This led to a reduction in the expense base of €32m. This is partly offset by the impact of the review of internally generated acquisition costs that were being deferred, which resulted in an adjustment of €9.5m.

A.2.2 Underwriting performance by Solvency II Lines of Business

The following tables outline the Company's key financial performance indicators for the year ended 31 December 2022 and 31 December 2021 by material Solvency II lines of business. Note that this output is based on the S.05.01 QRT. The presentation of the underwriting result differs from the Lux GAAP reporting basis. A reconciliation to the Financial Statements has been tabulated on the following page, for illustrative purposes.

There are five material Solvency II Lines of Business (LOB) driving the underwriting performance for LMIE which together comprise in excess of 90% of the LMIE GWP and 70% of the underwriting result. These are discussed in more detail below:

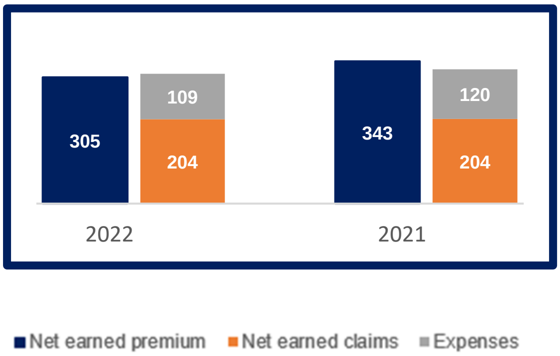
	2022	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
	General liability	1,146,802	304,715	203,646	109,270	(8,201)
	Fire and other damage to property	622,007	190,354	147,849	62,419	(20,088)
	Non-proportional reinsurance property	339,393	91,229	118,145	34,536	(61,451)
	Credit and suretyship	462,740	122,040	65,508	47,113	9,419
	Marine, aviation and transport	192,688	65,381	40,317	23,405	1,659
	All other lines of business	221,707	60,071	26,888	25,925	7,432
A	**TOTAL**	**2,985,337**	**833,790**	**602,353**	**302,667**	**(71,230)**
B	Reclassification of ULAE to Expenses			26,306	(26,306)	
*C**	Removal of Other expenses included in S.05.01				(5,781)	5,781
D	Revised Result (A+B+C)	2,985,337	833,790	628,659	270,580	(65,450)
E	**LUX GAAP Financial Statements**	**2,985,337**	**833,790**	**628,659**	**270,580**	**(65,450)**

***Primarily investment management expenses*

	2021	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
	General liability	1,201,025	342,968	204,063	118,583	20,322
	Fire and other damage to property	520,340	169,729	118,334	56,208	(4,813)
	Non-proportional reinsurance property	266,762	72,826	69,806	27,649	(24,629)
	Credit and suretyship	407,490	98,410	24,704	37,014	36,692
	Marine, aviation and transport	189,429	63,647	42,153	22,276	(783)
	All other lines of business	263,748	61,018	26,102	27,817	7,098
A	**TOTAL**	**2,848,796**	**808,596**	**485,162**	**289,547**	**33,887**
B	Reclassification of ULAE to Expenses			16,113	(16,113)	
*C**	Removal of Other expenses included in S.05.01				(5,175)	5,175
D	Revised Result (A+B+C)	2,848,796	808,596	501,275	268,259	39,062
E	**LUX GAAP Financial Statements**	**2,848,796**	**808,596**	**501,275**	**268,259**	**39,062**

***Primarily investment management expenses*

General Liability

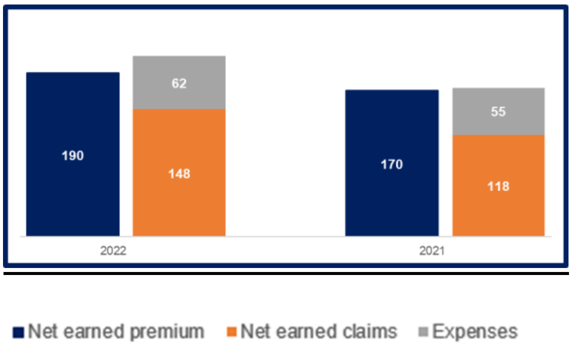


General Liability incurred an underwriting loss of €8.2m (2021: €20.3m profit), resulting in a net combined ratio of 103% (2021: 94%)

The net loss ratio has increased to 67% (2021: 59%). This is driven both by deterioration on exposure to prior year CAT events such as Grenfell Tower (€1.9m) as well as worse than expected claims activity on Directors & Officers (D&O) and Errors & Omissions (E&O) business. In addition, the €22m recoveries recognised from the ECML contract with Enstar are also significantly lower at c.€6m (2021: €22m).

The net Expense ratio has remained relatively consistent at 36% (2021: 35%).

Fire & Other Damage to Property

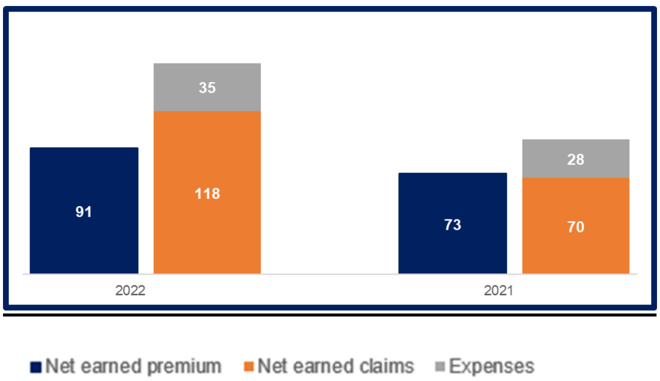


Fire and other damage to property incurred an underwriting loss of €20.1m (2021: €4.8m loss) resulting in a net combined ratio of 111% (2021: 103%).

The net loss ratio is higher at 78% (2021: 70%), largely due to CAT losses arising from exposure to UK Windstorms (€1.9m) as well as prior year deterioration on exposure to Covid-19 losses (€4.5m). Additionally, there has been unfavourable attritional claims experience in the Property Non-MGA and Oil & gas business.

The net expense ratio is comparable at 33% (2021: 32%).

Non-Proportional Reinsurance Property

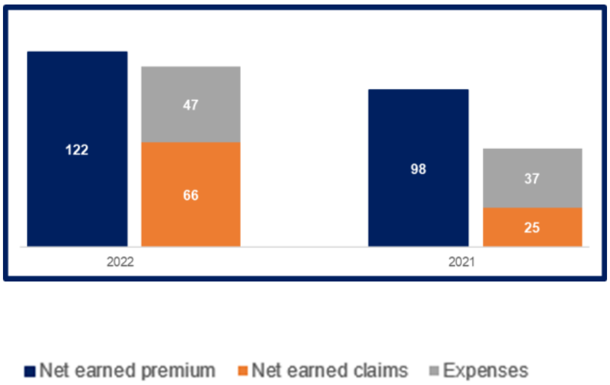


The Non-Proportional Reinsurance Property line of business incurred an underwriting loss of €61.5m (2021: €24.6m loss), resulting in a net combined ratio of 167% (2021: 134%).

The net loss ratio is higher at 130% (2021: 96%). This is largely driven by CAT loss exposure to French Hailstorms (€33m), UK Windstorms (€9.7m), Russia-Ukraine conflict (€4.7m) and Hurricane Ian (€7m), as well as deterioration on prior year exposure to European Floods (€8.7m) & Storm Berndt (€5m). Aggregate CAT exposure amounts to €73m, against €37.5m in 2021.

The expenses ratio has remained consistent at 38% (2021: 38%)

Credit and Suretyship

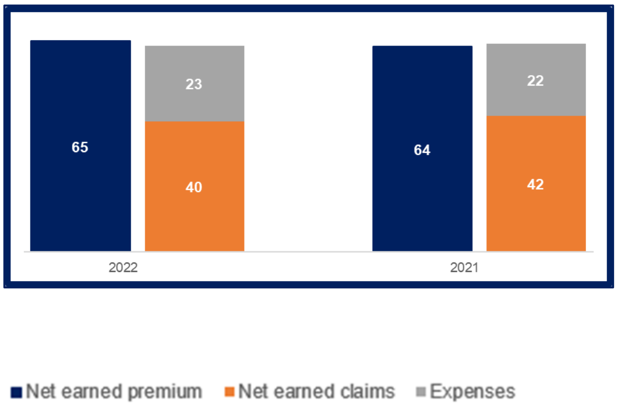


Credit and Suretyship achieved an underwriting profit of €9.4m (2021: €36.7m profit), resulting in a net combined ratio of 93% (2021: 63%).

The deterioration in the result is reflected in the significantly higher net loss ratio of 54% (2021: 25%), which is primarily due to unfavourable claims experience in Financial Risks, as well as some deterioration in Short-term Credit lines.

The net expenses ratio is comparable at 39% (2021: 38%).

Marine, Aviation & Transport



The Marine, Aviation & Transport line of business achieved an underwriting profit of €1.6m (2021: €0.8m loss), resulting in a net combined ratio of 98% (2021: 101%).

The net loss ratio is lower at 62% (2021: 66%). This is because exposures to CAT losses have been marginally lower at €3.2m, largely arising out of prior year deterioration on Hurricane Ida, compared to €6.6m during the prior year.

The expense ratio is comparable at 36% (2021: 35%).

A.2.3 Underwriting Result by material geographical area

The following table summarises the underwriting performance of the Company by its material geographic areas. The information is prepared in accordance with Solvency II QRT S.05.02.01 Premiums, Claims and Expenses by country.

As at 31st December 2022	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
Luxembourg	171,587	30,834	16,325	12,601	1,908
United Kingdom	872,229	256,375	178,349	74,360	3,666
France	278,385	77,624	101,559	30,988	(54,924)
Germany	269,927	78,907	76,583	33,592	(31,268)
Spain	160,969	45,073	14,369	20,674	10,030
Italy	177,163	69,518	34,817	22,194	12,506
Other	1,055,078	275,459	180,351	108,257	(13,149)
TOTAL	**2,985,337**	**833,790**	**602,353**	**302,667**	**(71,230)**

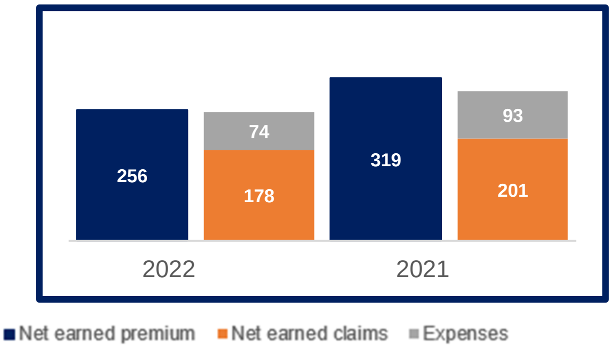
LMIE's geographical footprint continues to focus on the UK and European markets. The strategy focuses and supports its European growth plans and its continued presence in the UK post the UK leaving the EU (Brexit). As part of the Brexit strategy LMIE has licensed in-house cover holders in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME) & Liberty Specialty Markets Europe Sarl 2 (LSME2) which act as intermediary companies that underwrite on behalf of LMIE from their branches throughout Europe.

As illustrated in the tables above, the UK remains the single largest contributor of GWP at €872m which represents 29% of total GWP (2021: contribution of 39%). The decrease in proportion of UK business has occurred due to the transfer of EEA domiciled business written by the UK branch (c.€234m for FY 2022) into the Luxembourg branch, during the year. This is represented in the S.05.02.01 QRT in accordance with the Solvency II criteria for determining activity by geographic location.

The other top 4 European countries by GWP – France, Germany, Italy, and Spain, contribute 30% of the total GWP (2021: contribution of 28%).

The underwriting performance for the UK & European operations is represented by the exhibits below.

United Kingdom

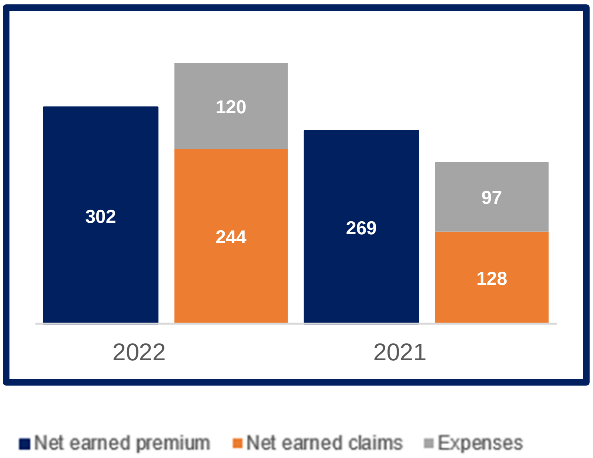


The UK earned an underwriting profit of €4m (2021: €26m profit), resulting in a net combined ratio of 99% (2021: 92%).

The net loss ratio is higher at 70% (2021: 63%). This is because the largest proportion of UK business relates to the General Liability line of business, which has noted increased claims exposure for 2022, as explained in the previous section.

The expense ratio has also remained comparable at 29% (2021: 29%).

Europe



The top 4 European countries by GWP, along with the Home-country (Luxembourg) reflected an underwriting loss of €62m (2021: €43m profit), resulting in a combined ratio of 121% (2021: 84%).

The net loss ratio is significantly higher at 81% (2021: 48%), This is because the Fire & Other Damage to Property and Non-Proportional Property classes comprise a significant component of the business written, and are exposed to higher CAT losses, compared to prior year, as discussed above.

The net expense ratio is higher at 40% (2020: 36%), reflecting higher claims management expenses and overhead expenses given the loss experience noted.

SECTION A.3 – Investment Performance

The investment portfolio is managed by Liberty Mutual Investments, the specialist investment management arm of Liberty Mutual Group, Incorporated (LMIG).

The Board approves the long-term framework and short-term strategy for the investment of assets and management of liquidity.

Limits are established by issue, counterparty, asset type and rating. Securities must be readily marketable. The Company's investment portfolio is made up predominantly of debt securities and other fixed income securities. The following table represents the income, gains and losses arising out of various categories of investments, in accordance with the QRT S.09.01.

2022 €(000)	Dividends	Interest	Net gains and losses	Unrealised gains and losses	Total performance
Government bonds	0	12,405	(10,191)	(97,777)	(95,564)
Corporate bonds	0	62,593	(1,471)	(336,664)	(275,542)
Collective Investment Undertakings	25	0	966	(335)	657
Collateralised securities (interest)	0	2,034	0	(8,650)	(6,616)
Cash and deposits	0	1,308	0	0	1,308
Mortgages & Loans	0	0	0	0	0
Total Investment income	**25**	**78,339**	**(10,696)**	**(443,426)**	**(375,757)**

Note that the Solvency II regulations require the change in unrealised gains to be recognised within investment performance, whereas unrealised gains under Lux GAAP are recognised in the revaluation reserve. This leads to a difference in the investment income noted in the Solvency II QRTs, and the LMIE Financial Statements.

The performance of LMIE's investment portfolio in 2022 generated a net loss of €376m (2021: net loss of €16.6m), as represented in the table above. The downturn in investment performance was largely driven by a significant increase in unrealised losses (2022: €443m, 2021: €101m). These losses were mainly driven by rising bond yields (and hence falling bond prices) as inflation rose sharply in 2022, driven by macro-economic factors leading central banks to increase interest rates.

Investments in Securitisations

The Company's holdings in securitised assets are shown in the below table. A significant increase is noted in ABS securities during the year, due to acquisition of new securities given favourable returns in 2022.

€'000	2022	2021
CMBS	3,991	3,006
ABS	95,437	52,941
CMO	2,193	2,582
Total	101,621	58,529

SECTION A. 4 – Any Other Information

No other matters to report.


Liberty
Specialty Markets
SYSTEM OF
GOVERNANCE

SECTION B – SYSTEM OF GOVERNANCE

The 'system of governance' section of the report sets out details regarding the administration and management of the company. It outlines the following key elements:

- Overview of the System of Governance.
- Fit and Proper Requirements.
- Risk Management Systems.
- Own Risk and Solvency Assessment; and
- Outsourcing Arrangements

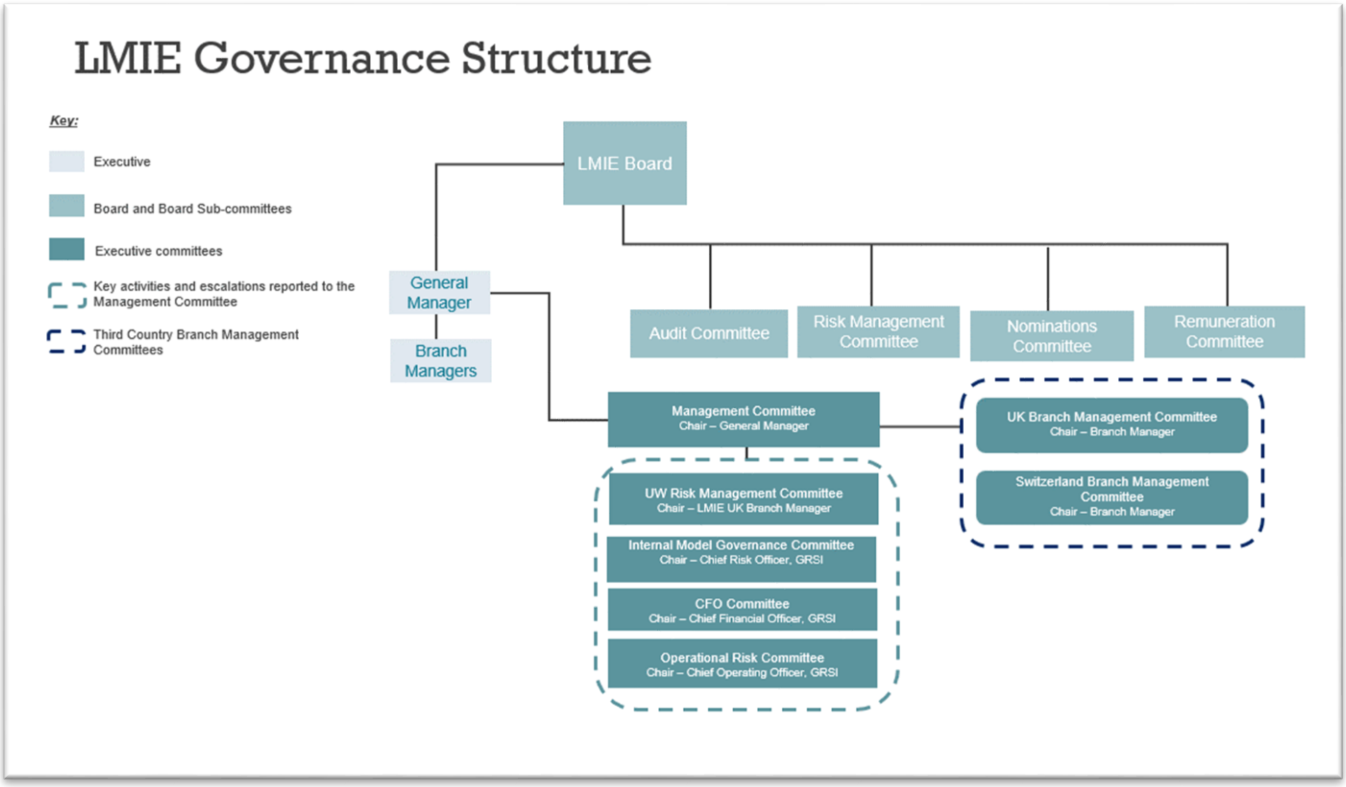
SECTION B. 1 – Corporate Governance

LMIE's corporate governance framework sets out the systems by which the Company is directed and controlled. The Board of Directors (the Board) is responsible for the governance of the Company and has established a corporate governance framework as an effective means of meeting that responsibility. LMIE adheres to the provisions of its statutes, legal and regulatory requirements, and principles of good corporate governance.

The corporate governance framework is reviewed on an annual basis to ensure that it continues to remain effective. The 2022 review which was an independent externally conducted review concluded that the corporate governance framework was effective, with no material findings.

B.1.1 Management and Governance Structure

The ultimate supervisory body of the Company is the Board which has the responsibility of ensuring that the principles of good governance are observed throughout the organisation. The structure of the Board, Board sub-committees, Legal Entity Committees and Third Country Branch Management Committees is visually represented below followed by a description of each committee.



B.1.2 Overview of the role of the Board

Segregation of Board Responsibilities

The Board is headed by an independent non-executive Chair who remains responsible for leadership of the Board and ensuring its effectiveness. The composition of the Board includes four Independent Non-Executive Directors (INEDs) whose role is to scrutinize and challenge the performance of management in terms of meeting agreed goals and objectives, monitoring the performance and solvency capital management of the Company as well as overseeing the integrity of financial information reported. In addition, the Board is responsible for ensuring that the financial controls and risk management systems are robust and effective. The daily management of LMIE is delegated by the Board to the General Manager (GM) who chairs a Luxembourg-based Management Committee to assist in the discharge of certain duties delegated to him by the Board. The Board is supported by the Company Secretarial team.

Overview of the Board sub-committees

The Board delegates certain matters to the Board sub-committees in accordance with the terms of reference of those committees. Below is an overview of each of the sub-committees.

B.1.2.1 Audit Committee

The Audit Committee is responsible for assisting the Board in assessing the financial reporting processes, internal controls, performance of the internal and external audit processes and any other matters that may impact the financial results of the Company.

The Committee membership consists of four highly skilled and experienced INEDs. The Committee is attended by senior management including the Chief Financial Officer, Head of Risk Management, Actuarial Key Function Holder, the General Manager, and Internal Audit Key Function Holder, along with the external audit partner(s) and other senior managers.

The Chair of the Committee reports to the Board on the activities of the Committee. The Committee meets with the external auditors and Internal Audit Key Function Holder without members of management present.

The responsibilities of the Audit Committee include:

- Monitoring the integrity of the financial statements of the Company, in compliance with laws and regulations and generally accepted accounting practice, as well as reporting to the Board on significant financial reporting issues and judgements contained therein having regard to matters communicated by the external auditor.
- Recommending for approval the draft financial statements and associated required documentation prior to submission. The Board will be informed of the outcome of the external audit, along with the impact on the integrity of financial reporting as well as the role of the Audit Committee in the process.
- Considering significant accounting policies and any changes to them together with any significant accounting judgements.
- Approving the external audit Plan including planned levels of materiality and proposed resources, ensuring consistency with the scope of the audit engagement whilst having regard to the seniority, expertise, and experience of the audit team.
- Overseeing the Company's relations with the external auditor including approval of the remuneration, including fees for both audit and non-audit services, ensuring that the level of fees is appropriate to enable an effective and high-quality audit, as well as approval of the External Auditor terms of engagement.
- Keeping under review the adequacy and design of the Company's policies and procedures relating to whistleblowing and annually review whistleblowing activities.
- Considering and approving the Annual Internal Audit Plan and any proposed changes, ensuring adequate coverage of all activities and key risks to deliver an assessment of the efficacy of the internal controls, infrastructure, and systems.
- Assessing the effectiveness of Internal Audit and monitoring adequacy of its resources.
- Receiving all significant reports relevant to internal controls and review and monitor management's responsiveness to the report.
- Acting on behalf of the Board to ensure ultimate premiums and claims are based on reasonable actuarial assumptions, and reviewing quarterly Actuarial Reserve updates, reviewing of the Solvency II Technical Provisions, undertakes Reserve reviews and may review recommendations as part of the Actuarial Function Review Reports on UW, RI, and Technical Provisions.

B.1.2.2 Risk Management Committee

The Risk Management Committee (RMC) is responsible for independent oversight of the risk systems in place and giving assurances to the Board that there is an effective risk-management system comprising strategies, processes, and reporting procedures, that is well integrated into the organisational structure and decision-making processes covering all of the business.

The Committee membership consists of four INEDs, one of whom acts as the Chair. The Committee is attended by senior management including the Head of Risk Management, Compliance Key Function Holder, Actuarial Key Function Holder, Chief Financial Officer, and the General Manager. The Chair of the Board is a member of the Committee. The Chair of the Committee reports to the Board on the activities of the Committee. The main responsibilities of the Committee include:

- Reviewing and recommending to the Board on the risk management and internal control framework.

- Developing proposals for consideration by the Board, of the Risk Appetite Statement to determine the nature and extent of the principal risks the Company is willing to take to achieve its long-term strategic objectives within the context for the internal and external environment.
- Advising the Board on the risk aspects of proposed strategic transactions and implications for the risk appetite of the Company.
- Annually conducting an in-depth analysis of the Own Risk and Solvency Assessment (ORSA) and recommend this to the Board for review and approval.
- Reviewing and approving significant risk and compliance policies including Financial Crime and Fraud.
- Considering, assessing, and approving the annual Risk Management and Compliance plans.
- Receiving reports on the performance of first line management in mitigating risks and adhering to company policies.
- Reviewing any calculations of the SCR and where an internal model is applicable, oversee the methodology, assumptions, validation, and governance.
- Keeping under review the adequacy and design of capital and solvency management arrangements.
- Reviewing the adequacy and appropriateness of scenario and reverse stress tests.
- Monitoring, assessing and managing all Environmental Social & Governance (ESG) and climate-related financial risks to the entity in line with its current Risk Appetite and the RMF.
- Providing oversight and challenge of the risk management processes and governance arrangements including forward looking aspects of risk exposure and reporting against key risk indicators.
- Monitoring compliance activities, including but not limited to sanctions, financial crime (anti-money laundering, anti-bribery, and corruption), gifts and hospitality, licencing, broker monitoring, training, Insurance Distribution Directive (IDD) and governance.

B.1.2.3. Remuneration Committee

The Remuneration Committee is responsible for governing the remuneration policy Company which is designed to appropriately reward performance and promote sound and effective risk management and to align it to the long-term interests of the Company, while complying with the firm's regulatory obligations under Solvency II and is in line with the 2015 Luxembourg Insurance Law.

The Committee membership consists of four Independent Non-Executive Directors one of whom acts as the Chair. The Chair of the Board is a member of the Committee. The Committee is attended by senior management including the Group Head of HR and the Chief Financial Officer. The Chair of the Committee reports to the Board on the activities of the Committee.

The main responsibilities of the Committee include:

- Annually reviewing and approving the Remuneration Policy and ensure its ongoing appropriateness.
- Setting remuneration policy and practices for LMIE and LSM employees seconded to or underwriting on behalf of LMIE.
- Determining the total individual remuneration of Executive Board Members.
- Determining the total individual remuneration package of Solvency II Identified Staff.
- Review the Company's diversity and inclusion related disclosures, as applicable
- Considering and approving annually, the Solvency II Identified Staff Identification Methodology document and the resulting Solvency II Identified Staff in scope for remuneration decisions in line with Liberty Mutual Group, legal and regulatory requirements.

Review and approve the grant size and vesting of awards under the LSM and LM Re Long Term Capital Plan and short-term incentive plan by those within scope of the Committee to support alignment with long-term shareholder interests.

B.1.2.4 Nomination Committee

The Nomination Committee is responsible for ensuring that the composition of the Board remains balanced both in terms of skill and experience, and between executive and non-executive directors. It leads the process for appointments to the Board and makes recommendations to ensure there is a formal, rigorous, and transparent procedure being followed.

The Committee membership consists of four independent non-executive directors, one of whom acts as the Chair, and one Group non-executive Director. The Chair of the Committee reports to the Board on the activities of the Committee.

The responsibilities of the Committee include:

- Regularly reviewing the structure, size, diversity (in skill and person) and composition (including the skills, knowledge, and experience) of the Board and making recommendations to the Board regarding any changes.
- Ensuring plans are in place for orderly succession to Board and senior management positions and overseeing the development of a diverse pipeline for succession, taking account of the challenges and opportunities facing the company, as well as the culture, skills and expertise needed on the Board in the future. Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise and approval of appointments for Senior Management Function (SMF) positions for the Company’s UK branch.
- Keeping under review the time commitment required from non-executive directors and assess if any changes are required.
- Making recommendations to the Board concerning any matters relating to the continuation in office of directors at any time.
- Reviewing the Board Diversity Policy annually, including an assessment of the effectiveness of the Policy.
- Review the Company gender pay gap report (and any other diversity and inclusion related disclosures) and agree this prior to submission, as appropriate.

Overview of the Legal Entity Committees

The Legal Entity Committees are management level committees which assist in ensuring continued appropriate focus on LMIE as an autonomous legal entity. The Committees are provided specific management information for oversight and management of LMIE’s business, operational and regulatory performance prior to presentation at the Audit Committee, Risk Management Committee and Board. Key activities and escalations from the Committee are reported to the Management Committee, and through the governance structure as appropriate. The aim of this is to ensure information and reporting of the appropriate quality is received by the Board or Board Sub-Committees. Below is an overview of each of the Legal Entity Committees.

B.1.2.5 Management Committee

The Management Committee provides the executive day-to-day business delivery within the strategic context set by the Board; carries out all matters delegated from the Board; reviews performance and makes corrective actions within their delegated powers; and prepares papers for Board approval. The Committee supports the General Manager in discharging powers delegated to them by the Board. The Committee plays a key role in the formulation of the annual business plan and monitors delivery against that plan following Board approval along with a range of other oversight duties over functional areas of the business.

B.1.2.5.1 UK Branch Management Committee

The UK Branch Management Committee provides the executive day-to-day branch business delivery within the strategic context set by the Board and reviews Branch performance and makes corrective actions within their delegated powers. The Committee supports the Branch Manager in discharging certain powers delegated to them in their capacity as the UK Branch Manager. The Committee plays a key role in the formulation of the annual business plan in so far as it relates to the Branch and monitors delivery against that plan following Board approval along with a range of other oversight duties over functional areas of the business.

The Committee consists of the Branch Key Function Holders and other relevant persons and is chaired by the UK Branch Manager who is also a member of the Management Committee. The Committee reports to the Management Committee which in turn reports to the Board and engages with the other Legal Entity Committees as appropriate

B.1.2.6 Underwriting Risk Management Committee

The Underwriting Risk Management Committee reviews, monitors and challenges the performance of the underwriting business of the Company against business plan and the delivery of the Underwriting strategy, and promotes an effective governance, risk, and compliance culture within decision-making.

The Committee membership consists of senior executives, including the LMIE Chief Underwriting Officer, LMIE CFO and LMIE UK Branch Manager who also acts as Chair.

B.1.2.7 Internal Model Governance Committee

LMIE currently uses the standard formula (SF) to calculate capital requirements as its internal model (IM) has not yet been approved. However, the internal model is used alongside the SF to help LMIE understand and manage risks to its business, and challenge SF outputs where appropriate.

The Internal Model Governance Committee has been established to consider, review, and oversee the initial application process for the LMIE Internal Model and the business-as-usual implementation of this thereafter. The Committee is chaired by the GRSI Chief Risk Officer and supports Management to discharge their responsibilities in relation to the Internal Model, and other uses as outlined in the Model Use Policy. The Committee membership consists of senior executives including the CFO, Head of Risk Management, and the Actuarial Key Function Holder.

B.1.2.8 CFO Committee

The Chief Financial Officer (CFO) Committee supports the CFO in fulfilling their role. The Committee reviews reports and information relating to relevant aspects of Actuarial and Reserving, Investments, Risk Appetites, Strategy, Business Planning, Performance, Capital and Solvency and Regulatory Reporting, including the Financial Control environment for LMIE.

The Committee membership consists of senior executives, including the LMIE GM, LMIE CFO, Chief Actuary and the GRSI CFO who acts as the Chair.

B.1.2.9 Operational Risk Committee

The Operational Risk Committee oversees operational risks and incidents, non-financial internal controls and compliance with applicable laws and regulations throughout the jurisdictions in which LMIE operates. The Committee reviews the annual Risk and Control Self-Assessment (RCSA) plan and monitors progress towards completion of the forementioned plan including the review of any significant changes and delivery of findings.

The Committee is chaired by the GRSI Chief Operating Officer and serves in an advisory capacity to discharge certain duties as delegated to them in their executive capacity by the General Manager of LMIE. The Committee membership consists of senior executives including the Head of Risk, Legal Entities Chief Operating Officer and GRSI Chief Claims Officer.

B.1.2.10 Delegation of Board authority and decision making

The Board delegates certain decision-making powers to individuals and other bodies, including Board sub-committees and the day to day running of the Company to the General Manager, who is assisted by the Management Committee. The Board itself remains responsible for all decisions taken and therefore receives reports on all delegated matters.

In addition to the above, there are a variety of protocols that operate across the Company.

B.1.3 LMIE Key Functions

The following sections set out a summary of the LMIE key control functions of Actuarial, Risk Management, Compliance, and Internal Audit. Each function is headed by an individual who performs the Key Function Holder role and has received the Fit and Proper approval from the CAA.

B.1.3.1 Actuarial Function

The Head of Actuarial Function – Legal Entity, as the approved Key Function Holder for the company and resident in Luxembourg, reports into to the LMIE General Manager and has an additional functional reporting line to the GRSI Chief Actuary for LSM responsibilities.

The authority, resources and independence of the Actuarial Function are detailed in section B.6.1. The activities of the Actuarial Function are reported to the sub-committees and to the Board via the Legal Entity Committees as appropriate.

The Actuarial function co-ordinates work carried out by the Actuarial, Capital Management, Underwriting, Exposure Management, Reinsurance and Finance teams in calculating technical provisions and providing an opinion on underwriting policy and reinsurance arrangements aside from contributing to the effective implementation of the risk management system. The Actuarial Function also performs capital management activities such as determining internal and regulatory capital requirements, and applying it to business planning, ORSA reporting and strategic decision making.

The Head of Actuarial Function – Legal Entity is also a member of the LMIE Management Committee, which supports the LMIE General Manager in discharging executive day-to-day business delivery within the strategic context for the Company set by the Board.

B.1.3.2 Risk Management

The Risk Management function is headed by the Head of Risk Management LMIE, who is the approved Key Function Holder for the company and is resident in Luxembourg. The Head of Risk

Management LMIE reports to the LMIE General Manager and has an additional functional reporting line to the GRSI Chief Risk Officer for wider LSM and legal entity responsibilities. The Head of Risk Management LMIE also has a reporting line directly to the Chair of the Risk Management Committee who is an independent Non-Executive Director.

The authority, resources and independence of the Risk Management Function are detailed in section B.3. The activities of the Risk Management function are reported to the Board or the Risk Management Committee as appropriate, as well as to the Management Committee, Underwriting Risk Management Committee, Internal Model Governance Committee, and Operational Risk Committee.

The Company's approach to risk management centres on the principle that 'risk' is fundamental to the way in which the Company operates. It is embedded in the roles and responsibilities of individuals and committees throughout the Company's first line functions. The Risk Management function role is purely a second line activity in line with Solvency II requirements. The role of the risk function is to ensure that all risks are identified, managed, monitored, and reported.

The Head of Risk Management LMIE is also a member of the Management Committee, which supports the LMIE General Manager in discharging executive day-to-day business delivery within the strategic context for the Company set by the Board.

B.1.3.3 Compliance Function

The Compliance function is led by the European Compliance Officer, who is the approved Key Function Holder for the company and is based in Luxembourg. The European Compliance Officer reports to the LMIE General Manager and has an additional functional reporting line to the LSM Head of Compliance. The European Compliance Officer is also the nominated Compliance Officer for LMIE UK Branch.

The authority, resources and independence of the Compliance Function are detailed in section B.4.2. The activities of the Compliance Function are reported to the Risk Management Committee and to the Board. It also provides monthly reports to the Management Committee and other Legal Entities Committees as appropriate.

The Compliance function provides advice and assurance to the LMIE General Manager and Board on regulatory matters. The Compliance Function is responsible for assisting the business in ensuring compliance and monitors and oversees the business in this regard. The Compliance Function interprets, advises, monitors and reports on all regulatory matters for LMIE. The Compliance Officer has direct access to the independent non-executive directors of LMIE should they need to raise any issues with them.

The European Compliance Officer is also a member of the Management Committee, which supports the LMIE General Manager in discharging executive day-to-day business delivery within the strategic context for the Company set by the Board.

The European Compliance Officer is also the nominated Compliance Officer for LMIE UK Branch and a member of the UK Branch Management Committee. The European Compliance Officer is also the approved Compliance Officer for LMIE UK Branch (SMF 16)

B.1.3.4 Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to help LMIE accomplish its objectives, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of Risk Management, Control and Governance processes.

The LMIE Head of Internal Audit has functional reporting lines to the Chair of the LMIE Audit Committee and into the wider Liberty Mutual Global Internal Audit Function with direct access to the LMIE General Manager. The GRSI Internal Audit function reports administratively to GRSI Group General Counsel.

The authority, resources and independence of the Internal Audit Function are detailed in section B.5.3 Independence and Objectivity. The findings of the Internal Audit function are reported to the Audit Committee. The Chair of the Audit Committee provides a summary of the Committee's activities to the Board.

B.1.4 Group Structure

LMIE is part of Liberty Mutual Insurance Group (LMIG), which is currently listed on the Fortune 100 list of US corporations. Boston-based Liberty Mutual Insurance Group is a diversified global insurer and amongst the largest P&C insurers in the world based on GWP. Liberty Mutual Insurance Group offers a wide range of insurance products and services through three strategic business units (SBU's): GRM, GRS and LMI.

B.1.5 Material changes in the system of governance

The governance structure is reviewed on an annual basis in a normal cycle of business. Included in that review is a review of the Board and its sub-committee terms of reference to ensure that they continue to be fit for purpose, perform their duties and are acting within their authority. The annual effectiveness review ensures that the performance of the Board, its sub-committees and individual directors are formally evaluated. No material changes occurred during the year.

B.1.6. Remuneration Policy

B.1.6.1 Principles of the Remuneration Policy

The Company's remuneration policy applies to all employees and is based on the Liberty Mutual Group's compensation philosophy: to be competitive to market, to pay for performance, and to provide pay growth through promotional opportunities.

The policy describes the components of fixed and variable pay delivered to employees and demonstrates how good corporate governance and sound risk management prevent excessive risk taking which are the keystones of LMIG's compensation philosophy.

The Company is committed to ensuring that:

- Performance goals are clearly designed and communicated to all employees through a robust, but transparent, performance management process.
- Performance goals are aligned with the long-term strategy of the business and the requirements of each individual employee.
- Customers and the insurance markets are protected from any negative impact associated with mismanagement of remuneration at any level of the organization.
- Incentive schemes are designed in such a way as to reward short-term and long-term performance and ensure that employees are not incentivized to engage with inappropriate risk taking.

The Remuneration Policy is overseen and approved by the Board Remuneration Committee and reviewed annually to ensure alignment of pay practices with all relevant legislation and regulations. Further details have been provided in Section B.1.2.3.

B.1.6.2 Share options, shares, or variable components of remuneration

The Board remains responsible for ensuring that all remuneration components comply with the Remuneration Policy. Remuneration programmes may be made available to company employees through and administered by one or more Liberty Mutual Group affiliates. Remuneration elements typically consist of the following categories:

Compensation	**Fixed/Variable**
Base Salary	Fixed
Benefits, pre-requisites, and any allowances	Fixed/Variable
Annual Incentives	Variable
Long Term Incentives	Variable

B.1.6.3 Variable Remuneration

Variable remuneration – Short Term Performance

Short term performance is measured by achievement of individual (personal) objectives and business objectives measured over a one-year timeframe.

Business unit and overall business performance is measured against annually established targets which take account of the prior year performance, business plans and the operating environment.

Variable remuneration – Long Term Performance

There are three long-term performance plans in operation: two cash plans (one based on LSM and LM Re performance and the other specific to one based on Business Unit Global Transaction Solutions (GTS) performance) and a performance-derived unit value plan (based on LMIG performance).

For the cash plan based on LSM and LM Re performance, long term performance is measured by reference to combined LSM's and LM Re's return-on-equity performance against the business plan over a period of three financial years, commencing with the financial year in which the award is made to eligible employees. Awards are paid at the beginning of the fourth year following the cycle.

For the cash plan based on GTS performance, long term performance is measured with reference to a three-year average of Year of Account (YOA) net underwriting results against a three-year average of planned net underwriting results, A proportion of the award is paid at the beginning of the fourth year following the cycle with the remaining proportion paid two years onwards, which is based on an actuarial reassessment of the net underwriting results for each YOA.

As an unlisted mutual holding company, LMIG has no share price that can be utilised or shares to be granted through stock options, so the unit value plan uses performance derived unit values for grants to eligible employees. Awards vest pro-rata over a three-year performance period.

B.1.6.4 Supplementary pension schemes for members of the Board and other key function holders

The Company's remuneration policy does not include any supplementary pension or early retirement schemes for members of the Board or other key function holders. The Company offers all staff the opportunity of making contributions into a defined contribution scheme, which the company will match up to a limit.

B.1.6.5 Material transactions during the reporting period

Material transactions include transactions with shareholders, with the parent entity, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body. Following Brexit, with effect from 1 January 2021, the PRA is no longer a part of the LIEH College of Supervisors. However, the proposed LMIE UK branch will fall within the supervision of the PRA, as explained in Section A.1.2.

SECTION B. 2 – Fit and Proper Requirements

B.2.1 Specific requirements concerning skills, knowledge, and expertise applicable to the persons who effectively run the undertaking

LMIE requires all persons who perform key functions and are classified as Authorised Persons, (being natural persons subject to supervision by the CAA) under the Law of 7 December 2015 on the Insurance Sector to be fulfilling the following requirements, on a continuous basis:

a) Their professional qualifications. knowledge and experience are adequate to enable sound and prudent management (**Fit**); and
b) They are of good repute and integrity (**Proper**)."

The professional competence (**Fit**) is based on the person's experience, knowledge and professional qualifications and is dependent on the person demonstrating due skill, care, diligence, and compliance with relevant standards in the area that he/she has been working in. Such a person should also be of good repute (**Proper**), and the assessment includes taking relevant references, criminal record checks and the making of appropriately witnessed declarations of honour.

For the propriety assessment, the person in question must be assessed by LMIE to establish that they meet LMIE's minimum requirements for a 'Fit & Proper' person. These requirements include being able to demonstrate appropriate levels of probity, honesty, integrity, reputation, competence & capability, previous experience, knowledge of their area and financial soundness. In order to establish this, a person's credit & criminal record, professional qualifications (including Continuous Performance Development or equivalent training requirements) and supervisory experiences will be checked, alongside the recruitment process which will involve a CV review, interview and reference check.

In addition, every person carrying out a Solvency II Key Function or holds a Directorship or other Office for LMIE must be approved by the CAA to do so. Directors and Key Function Holders Managers must also comply with all applicable regulatory conduct standards and rules including the requirements set by the Law of 7 December 2015 on the Insurance Sector.

Some requirements have been, or can be, assessed as 'collective knowledge', i.e., that not every member in the management body (or any function) are expected to possess expert knowledge, competence, and experience within all areas of LMIE, but that they as a whole have the ability to provide sound and prudent management of the Company.

Subsequently, on an ongoing basis, LMIE also considers whether a person remains fit and proper on their:

- Business conduct; and
- Whether the person performs their key functions in accordance with the applicable regulatory standards and requirements.

LMIE takes all reasonable steps to gather and consider information about the extent to which individuals are compliant with the requirements via a Fit and Proper annual attestation. Approved Persons shall also provide a copy of their criminal record on an annual basis as part of the Fit and Proper assessment. Compliance keeps a record of this assessment on file.

During the year, the CAA introduced Circular Letter 21/12 which required LMIE to perform annual Fit and Proper assessments for all Key Function Holders and to disclose assessment outcomes in the Regular Supervisory Report (RSR).

The required annual Fit and Proper assessments were performed for all LMIE Key Function Holders in Q4 2021. No concerns were identified for any of Key Function Holders. Assessment outcomes were reported to the LMIE SE Board as part of the European Compliance Officer's report.

B.2.2 Process for assessing the fitness and propriety of the persons who effectively run the undertaking

The specific requirements outlined above will be reviewed using the 'Fit & Proper' process adopted by LMIE. This evaluation will normally take place on an annual basis, or alternatively at any time that there is a material change such as promotion or internal move. The process is performed by the Compliance function and consists of the following:

- Assessment of the person's professional and formal qualifications, knowledge, and relevant experience within the insurance sector, other financial sectors, or other businesses and whether these are adequate to enable sound and prudent management; take account of the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person.

- Assessment of the person's honesty, integrity, reputation, and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purpose of the assessment.

Evidence of the outcomes of this assessment must be retained. The records of this will be maintained in the following places (where appropriate); within the performance review, within the record of the recruitment process, within minutes of Board meetings which record annual performance reviews, within training records & Continuous Performance Development, and within reports relating to annual Board effectiveness reviews.

In the case of recruitment, HR will be responsible for recruiting appropriate staff.

The procedures outlined above ensure that all those holding controlled functions:

- Meet the requirements of the Regulatory' 'Fit and Proper' test and follow its principles;
- Comply on an ongoing basis with their stated responsibilities; and
- Report anything that could affect their ongoing suitability.

SECTION B. 3 – Risk Management System including Risk and Solvency Assessment (ORSA)

B.3.1 Description of the Risk Management System

LMIE's approach to risk management centres on the principle that 'risk versus reward' is fundamental to the way in which it operates, including the way decisions are made. In order to support LMIE to make risk-based decisions, a fully defined risk management process is designed to be implemented and embedded across the business.

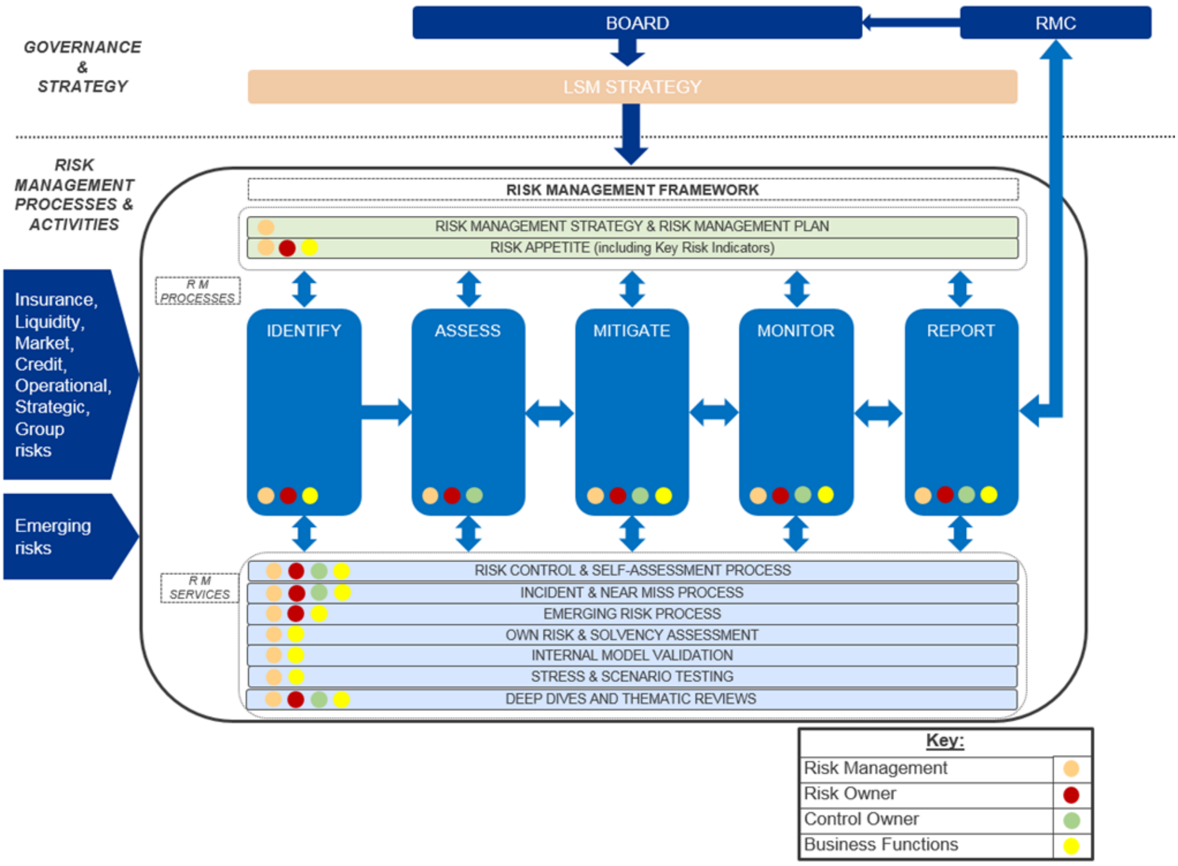
At a strategic level, the Board are supported in their risk-based decision-making process by the RMC, who provide quarterly updates on risk-related matters relevant to the Board. In turn, this enables the Board to consider key risks during the strategy setting and business planning processes (this then influences the risk appetite and Risk Management Strategy for LMIE, with input from the LSM CRO and Head of Risk Management). The risk appetite process occurs during the business planning process. The LMIE RMF is set to operate within the context of the strategic objectives of LSM.

The risk management process outlined in the RMF is focused around LMIE's five core principles of risk management:

I. Identifying
II. Assessing
III. Mitigating
IV. Monitoring
V. Reporting

The risk management process is outlined in the following diagram. This shows:

- Key roles and responsibilities highlighted to demonstrate ownership and shared responsibility between Risk Management and the business.
- The 'Governance and Strategy' elements of the diagram (above the dotted line) set the overall approach and context around which risk management activities operate, as described within the RMF.
- The 'Risk Management processes and activities' elements of the diagram (below the dotted line) are all within the scope of the RMF.



B.3.2 Implementation of the Risk Management System

All the key components of the risk management lifecycle (from identification to reporting) are undertaken on an ongoing basis to enable material risk exposures to be identified and addressed as quickly and effectively as possible. The risk register is a tool to enable the business to monitor its risk exposures.

The Risk Management process has multiple, iterative feedback loops to determine the significant risks to which LMIE is exposed. Risk management is considered during the strategy setting and business planning processes in identifying and assessing the underlying risks related to the strategy and business plan. Risk management is also considered during day-to-day business activities, processes, and systems, to ensure that appropriate risk-based decisions can be made. Therefore, a combination of a top-down (i.e., senior management, RMC, and Board oversight) and bottom-up (i.e., day-to-day operational management) approach helps the business to give due consideration to the inherent and unforeseen threats, residual risks, and opportunities, to make optimal risk versus reward decisions.

B.3.3 Own Risk and Solvency Assessment (ORSA)

The purpose of the ORSA is to provide input into LMIE's decision making process and confirmation to the Board and regulators of the adequacy of the solvency and capital profile against our risk profile on a forward-looking basis, thereby aiming to ensure that risk drivers during the coming year have been anticipated, and where necessary, contingency plans put in place.

LMIE takes the definition of the ORSA from EIOPA: The entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short-and-long term risks a (re)insurance undertaking faces or may face and determine the own funds necessary to ensure that the undertaking's overall solvency needs are met all times.

Methodology

Risk Management is responsible for preparing the ORSA report. This involves summarising the outcomes of the RMF, including the evolution of the risk profile and performance against risk appetites. Risk Management will also evaluate capital requirements as calculated by the Capital Management and Actuarial teams against actual levels of capital held by LMIE.

LMIE projects its solvency capital requirements for the next three years based on the approved LMIE business plan. It then tests the impact of certain scenarios on the projected solvency because of changes in projected profits, own funds, and regulatory capital requirements. The details on the solvency projections are reported in the LMIE ORSA.

The preparation of the ORSA report will, however, require input from multiple areas around the business, including Finance, Actuarial, Strategy, and Capital Management. Risk Management works with these teams to obtain the relevant information for the ORSA report. A mapping of ORSA report inputs to the business area responsible is maintained at a granular level via the ORSA Record, which assists in providing a roadmap for future iterations of the ORSA report. Data inputs are subject to data quality standards as set out in the Data Policy.

The ORSA Record captures sources of information used in producing the ORSA report, as a significant part of the ORSA process involves collating and referencing risk management activities and business decisions that have taken place throughout the year.

ORSA Process

The ORSA process and reports are ultimately owned by the LMIE Board, which delegates some of its powers of challenge and review to its associated committees. The Board considers the ORSA reports in detail, provide comments and feedback to Risk Management before final review and sign-off by the Board. The Internal Model Governance Committee provides expert challenge and sign-off of the quantitative inputs to the ORSA which are prepared as part of the business planning and regulatory capital-setting process. The LMIE Management Committee will perform a detailed review and challenge process of the ORSA report in its entirety.

The ORSA is a process as well as a report. The ORSA includes both the economic capital position of LMIE and its regulatory capital position, by reference to the SCR and the MCR, as at 31st December 2022.

ORSA reports for LMIE are prepared for review by the RMC/Board and submission to the relevant regulator at least annually. Key elements of the ORSA, for example the quarterly capital assessment, form part of the quarterly Risk report to the RMC and the Board. As part of the ORSA embedding process, Risk Management, through the quarterly Risk report to the RMC and the Board, have presented some of the more fluid elements of the ORSA, such as capital and solvency positions. This is summarised in the annual ORSA report reviewed and signed off by the Board.

The LMIE ORSA relies on the Standard Formula (SF) to assess the Company's ability to meet its regulatory capital obligations under normal and stressed conditions, as prescribed by the Solvency II Delegated Acts. The Standard Formula Appropriateness Report assesses the appropriateness of the Standard Formula annually and is presented to the Board. We consider the Internal Model (IM) SCR to be more appropriate, given the Company's diversified portfolio, to reflect LMIE's risk profile; to identify optimal risk, reinsurance, and capital structures; and to ensure efficient capital use and enhanced value of business returns. We note that the IM has not been subjected to full validation yet but has been through a comprehensive review through the pre- Internal Model Application Process (IMAP).

Ad-hoc ORSA reports may be prepared at any time following material changes to each entity's business. These can be identified through several ORSA triggers, including but not limited to:

- A material business decision is under consideration and the Board requires additional comfort that the modelled consequences are reasonably accurate.
- An incident whose impact is rated as 'material' according to risk rating methodology.

The evaluation of ORSA triggers is reviewed every quarter and summarised in the quarterly Risk report and reported to the RMC on an exception basis.

ORSA Report

The following components are in scope of the LMIE ORSA report and wider ORSA process:
- Strategy, performance, and business plans.
- Risk identification and appetite.
- Capital requirement assessment.
- Forward looking assessment.
- ORSA process and RMF.

Following the Prudential Regulation Authority's approval of the LMIE UK Third Country Branch with effect from 1st December 2022, a specific ORSA for LMIE UK Branch will be produced for the first time in 2023 and submitted to the Prudential Regulation Authority and CAA.

SECTION B. 4 – Internal Control System

B.4.1 Description of Internal Control System

The LMIE Internal Control Framework (ICF) is designed and implemented across all business areas of LMIE, in order to establish a control environment with controls that are designed and operated to materially reduce all risks that might have an adverse impact on LMIE's entity objectives and LSM's wider strategic objectives.

The ICF belongs to the RMF, which sets out the over-arching approach to risk management at LMIE, including the interactions between risk and control processes and practices. The ICF is a standalone document but strongly interrelates with the RMF, as LMIE recognises that a robust control environment materially reduces the risks to which LMIE is exposed. The main objectives of the ICF are to:

- Establish accountability for the ongoing management, monitoring, testing, remediation, and reporting of LMIE's controls.
- Support control owners in carrying out their control owner responsibilities, and to ensure they have an accurate view of the controls under their ownership.
- Enable control owners to have an accurate, real-time view of their control's performance – in turn this leads to good business practices, with minimal deviation from BAU processes and activities.
- Provide a dynamic control framework, as the control environment evolves over time with the impacts of change and technology.
- Provide management with better controls assurance across the control environment.
- Meet industry best practice and regulatory requirements.
- Provide guidance and set consistent minimum standards for:
  - Documenting a comprehensive set of internal controls that are aligned to the risk register and the risks that LMIE is exposed to.

- Setting out a robust, consistent, and comprehensive Control Self-Assessment process (as part of the Risk and Control Self-Assessment process), so that LMIE can periodically assess the effective design and operation of controls, with appropriate action plans for all control deficiencies. This should reduce residual risk exposures and create a more robust control environment.
- The accurate identification and documentation of controls, including evidence that they are designed and operated effectively.
- The practice of control testing, which includes control owners' responsibilities for conducting management testing, and Risk Management responsibilities for conducting independent control testing (in conjunction with other stakeholders).

B.4.2 Description of how the Compliance Function is implemented

The Compliance function has in place a Policy and Annual Compliance Plan that was approved by the RMC. The LSM Compliance Policy and Annual Compliance Plan is in scope of the LSM Documentation standards and therefore requires approval on an annual basis or when significant changes are made to them.

No changes have been made to the LSM Compliance Policy or Annual Compliance Plan outside of its normal annual review cycle.

The RMC has the following formal responsibilities in respect of LMIE's Compliance Function:

- Review annually the risk management and internal control frameworks.
- Review risk management principles and policies, and management's efforts regarding the establishment of cultural awareness of risk and compliance with such policies and consider approval of significant policies.
- Review reports on legal and regulatory compliance and development.
- Review the adequacy of regulatory risk mitigation programmes.

SECTION B. 5 – Internal Audit Function

B.5.1 Internal Audit Policy

The Internal Audit (IA) Policy provides a summarised view of the areas in which Internal Audit operates, its main objectives and the approach to reach these. The Internal Audit Policy is reviewed on an annual basis by the Internal Audit Department and approved by the Audit Committee. There have been no significant changes to the policy during the 2022 reporting period.

B.5.2 Operations and Assurance

The scope of the IA activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board Audit Committee, management and outside parties on the adequacy and effectiveness of governance, risk management and control processes. Internal audit assessments include evaluating whether:

- Risks relating to achievement of strategic objectives are appropriately identified and managed;
- The actions of the officers, directors, employees, and contractors are compliant with the policies, procedures and applicable laws, regulations and governance standards;
- The results of operations or programs are consistent with established goals and objectives;
- Operations and programs are being carried out effectively and efficiently;

- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the business;
- Information and the means used to identify, measure, classify and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

Whilst Internal Audit staff should have sufficient knowledge to identify the indicators of fraud, they are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

B.5.3 Independence and Objectivity

Internal Audit is an independent, objective assurance and consulting activity designed to help LMIE accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of Risk Management, Control and Governance processes.

The LMIE Head of Internal Audit has functional reporting lines to the Chair of the LMIE Audit Committee and into the wider Liberty Mutual Global Internal Audit Function with direct access to the LMIE General Manager. The GRSI Internal Audit function reports administratively to GRSI Group General Counsel. The findings of the Internal Audit function are reported to the LMIE Audit Committee. The Chair of the Audit Committee is also a member of the LMIE Board and provides a summary of the Committee's activities to the Board.

Annually the Head of LSM Internal Audit and LMIE Internal Audit Function Holder will meet in isolation with the Audit Committee to confirm that their independence and objectivity has not been impaired by undue influence.

In accordance with Article 271(2) of Delegated Regulation (EU) 2015/35 there are no persons within the Internal Audit function who assumes any responsibility for any other function or carry out activities that are inappropriate with respect to the nature, scale, and complexity of the risks inherent in the business or poses a conflict-of-interest risk.

SECTION B. 6 – Actuarial Function

B.6.1 Governance of the Actuarial Function

The Actuarial Function performs the effective implementation of Article 48 of the Solvency II directive 2009/138/EC.

The Actuarial Function reports to the LMIE Board. The Head of Actuarial Function reports to the LMIE General Manager and is responsible for the work carried out in the Actuarial Function. The work relied upon by the Actuarial Function is carried out by many different departments within LSM. The work is carried out by the Actuarial, Capital Management, Underwriting, Exposure Management, Reinsurance and Finance teams. The Head of Actuarial Function escalates any matters to the LMIE Board as appropriate.

The Head of Actuarial Function is a Fellow of the Institute and Faculty of Actuaries (IFoA) and holder of the Chief Actuary (non-Life without Lloyd's) IFoA certificate. The Actuarial Function consists of members of LSM's actuarial team. The Actuarial Function reports its recommendations to the LMIE Board in order to maintain its independence.

The actuarial function is implemented through carrying out the following tasks:

- Coordinate the calculation of technical provisions;

- Ensure the appropriateness of the methodologies and underlying models;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions, oversee the calculation of technical provisions in the cases set out in Article 82;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements; and
- Contribute to the effective implementation of the risk management system referred to in Article 44, particularly 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.

B.6.2 Co-ordinating the calculation of Technical Provisions

In coordinating the calculation of technical provisions, the actuarial function will, at a minimum:

- Apply methodologies and procedures to assess the sufficiency of technical provisions and ensure that their calculation is consistent with the underlying principles
- Assess the uncertainty in the estimates;
- Apply judgement as appropriate, using any relevant information and the knowledge and expertise of the individuals involved;
- Ensure that problems related to data quality are dealt with appropriately and that, where there are deficiencies in data quality, appropriate alternative methods are applied, subject to proportionality;
- Ensure that risks are appropriately categorised into homogeneous risk groups;
- Factor in relevant market information;
- Track against previous estimates and justify any material differences; and
- Ensure appropriate allowance is made for embedded options and/or guarantees.

With regards to technical provisions, the actuarial function will also:

- Ensure that methodologies and models used to calculate the technical provisions are appropriate, both in themselves and with regards to the specific lines of business they are applied to, taking account of the way the business is managed and the available data;
- Ensure that management actions included in the calculation of technical provisions are objective, reasonable and verifiable;
- Review revised best estimates against past best estimates and use the insights gleaned to improve the quality of current best estimates;
- Compare observed values against the assumptions used in the calculation of technical provisions, in order to evaluate the appropriateness of the data used and the methods applied in their estimation;
- Assess whether the IT systems used in the actuarial reserving procedures are adequate for that purpose;
- Inform the Board on the reliability and adequacy of the calculation of technical provisions, on the degree of uncertainty in the ultimate outcome and the circumstances that might lead to a significant deviation from the best estimate. It must clearly set out how it arrived at its opinion and explain any concerns it may have as to the sufficiency of technical provisions.
- Determine when data is of insufficient quality to apply a standard actuarial method and a case-by-case approach should be followed instead. It must apply judgment to establish assumptions and safeguard the accuracy of the results.

B.6.3 Providing an opinion on underwriting policy and reinsurance arrangements

The actuarial function's opinions and reports to the Board will include:

- Opinion on the overall business plan and sufficiency of premiums to cover future losses in expected and stressed scenarios;
- Inclusion of the analysis and results of the actuarial function's assessment;
- Consideration of any concerns that the actuarial function may have as to the adequacy of the business plan;
- Outline recommendations to improve the plan and considerations of realistic alternatives to the current business plan;
- Inclusion of an assessment of the consistency of the plan with the risk appetite;
- Assessment of the consistency of the plan with the assumptions used in the estimation of the technical provisions;
- Comment on the sufficiency of premium to cover any option or guarantees in the future;
- Consideration of exposures to external and internal influences such as inflation, legal risk, or changes in mix; and
- Consideration of anti-selection, of whether the underwriting process and controls used to manage the risk of anti-selection have been effective and of the likelihood of any anti-selection.

The actuarial function's opinion on the adequacy of reinsurance arrangements will include:

- Opinion on the adequacy of the reinsurance arrangements:
- Consideration of any concerns that the actuarial function may have as to the adequacy of the reinsurance arrangements, including recommendations for improvement and consideration of alternative structures
- Assessment of consistency of the reinsurance arrangements with the risk appetite and underwriting policy;
- Analysis of effectiveness of risk mitigation including impact on capital requirements and claims volatility;
- Analysis of the adequacy of the reinsurance providers considering their credit standing;
- Expected cover under stress scenarios in relation to underwriting policy; and
- The adequacy of the calculation of technical provisions arising from reinsurance.

The actuarial function will provide written reports to the Board at least annually documenting the tasks undertaken and highlighting any shortcomings identified, and how such deficiencies could be remedied.

B.6.4 Contribution to the effective implementation of the risk management system

In respect of the contribution to the effective implementation of the risk management system, the actuarial function's opinion on underwriting policy will include discussion of the following issues:

- Outline the actuarial function's role in the wider RMF of LMIE
- Highlight how the actuarial function contributes to the SCR calculations
- Highlight how the actuarial function contributes to the ORSA; and
- For LMIE, indicate any inconsistencies between the technical provisions, the reinsurance arrangements, the overall underwriting policy and the related assumptions and values in the internal model.

SECTION B. 7 – Outsourcing Arrangements

B.7.1 Description of the Outsourcing Policy

LMIE has in place an Outsourcing and Third-Party Risk Management Policy that ensures that all outsourcing arrangements within LMIE are assessed properly and managed effectively throughout their lifecycle from inception to termination. The Outsourcing and Third-Party Risk Management Policy also addresses the requirements of the EIOPA cloud outsourcing guidelines and applies to all critical and important cloud outsource service provider arrangements. The rationale for the Company's outsourcing is multi-faceted and depends upon several different considerations. From a business perspective, any outsourcing arrangement must be commercially viable, and a materiality assessment must be completed before inception of the arrangement. The policy applies to all the Company's branches, including Third Country Branches.

When engaging in any Outsourcing or Non-Outsourcing Third Party Arrangements the Company must ensure that the activities are not undertaken in a way that will lead to any of the following:

- Materially impair the quality of the Company's governance;
- Unduly increase operational risk;
- Impair the ability of the Company's supervisory authorities to monitor our compliance with our obligations; and/or
- Undermine the continuous and satisfactory service to the Company's policyholders.

Furthermore, there are several other components making up the rationale for outsourcing arrangements including:

- Analyse how the arrangement will fit with the Company's organisation and reporting structure, business strategy, overall risk profile and ability to meet its regulatory obligations
- Consider whether the agreements establishing the arrangement will allow the Company to monitor and control its operational risk exposure relating to the outsourcing
- Conduct appropriate due diligence of the service provider's financial stability and expertise;
- Consider how it will ensure a smooth transition of its operations from its current arrangements to a new or changed outsourcing arrangement (including what will happen on termination of the agreement);
- Consider any concentration risk implications, such as the business continuity implications that may arise if a single service provider is used by several firms.
- Ensure that we have appropriate contingency arrangements to allow business continuity in the event of a significant loss of service from the provider. Particular issues to consider include a significant loss of resources at, or financial failure of, the provider, and unexpected termination of the outsourcing arrangement.
- Ensure that testing has been carried out for exit in stressed circumstances – applicable to material arrangements only, e.g. following the failure or insolvency of the service provider (stressed exit); and through a planned and managed exit due to commercial, performance, or strategic reasons (non-stressed exit).
- Consider the extent to which the Company is able to control or influence a service provider that is part of the Group.

Regardless of jurisdiction, the service provider will be expected to go through the same thorough assessment as to their suitability to engage in an LMIE outsourcing arrangement. LMIE will ensure that any service provider is in keeping with LMIE's risk appetite.

Lastly, it should be noted that all outsourcing arrangements are subject to the thorough standards and processes regardless of whether the service provider is within or outside the LMIE group. Day to day Oversight of each arrangement will be the responsibility of the individual business owners. Business owners of Material Outsourcing Arrangements will have a reporting line to the LMIE General Manager and/or the Responsible LMIE Key Function Holder. This accountability will be documented in Business owner role descriptions and included in Business Owner annual performance objectives,

LMIE UK Branch provides services to the LMIE Zurich Branch (as well as LMIE head office) for a variety of support functions, which are governed through an Insourcing Memorandums of Understanding ("MOU"). Service performance and compliance with MOU requirements is monitored by the LMIE Management Committee and the LMIE Switzerland Branch Management Committee, as applicable.

B.7.2 Outsourcing Register

Outsourcing of any critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located are as follows:

Description of services provided	Jurisdiction
Head Office IT Support	USA
Binder Management services	UK
Exposure Management services	UK
Investment Management	USA
Various Support functions	UK
Underwriting, Claims and Various Support Functions	Luxembourg
Operational Support	India

SECTION B. 8 – Any Other Information

The governance structure and corporate governance framework is reviewed annually to ensure that we incorporate any new regulatory developments, and that we meet the risk appetite set by the management and signed off by the Board. An independent externally conducted review in 2022 found the Board and the Board sub-committees to be effective, with no material findings. The system of governance during the reporting period and the governance structure is deemed adequate for the company's risk profile.

RISK MANAGEMENT

SECTION C – Risk Management

The risk management section of the report captures the complexity of the overall risk status of the company, considering all the material risks to which the company is exposed

For each major risk grouping, this section provides a description of the following key aspects:

Risk exposure:

- Risk Assessment
- Risk Mitigation
- Measures used to monitor effectiveness of Risk Mitigation

The LMIE RMF sets out how the company undertakes the categorisation of exposed risks. The business objectives of the RMF are to ensure:

- All risks that could impact the ongoing viability of the company are identified.
- Identified risks are measured and managed in the most appropriate method.
- All risks are owned by the most appropriate Executive and that each risk is reported through the correct committee or working group.

LMIE has divided its risk exposures into high-level risk categories to enable the RMF to be focused on the most significant risks that impact on business objectives. These categories also help to provide an aggregated and holistic view of the LMIE risk profile. The key risk categories are listed below, each of which is discussed in more detail in this section.

- Insurance Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk
- Responsible Business and Climate Change

SECTION C.1 – Insurance Risk

Insurance risk arises from two sources:

- Adverse claims development (reserve risk); and
- Inappropriate underwriting (premium risk).

a) Risk Assessment

- Reserve risk is mitigated through usage of detailed analysis performed by the Actuarial Function, which is discussed at various working groups, such as the Pillar Reserving Working Groups, Large Loss Working Group and other discussion forums as required. The CFO Committee oversees reserving risk matters and reports into the Audit Committee. Discussion in the various forums includes regular assessment of the results of actuarial studies, claims analysis, underwriting reviews, and benchmarking exercises. In addition, business plans are developed to ensure that the long-term reserve profile of LMIE remains stable.

- Premium risk is mitigated through usage of a diversified business plan operating within Board risk appetites and supported through the Company's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual events.

Material risk exposures are managed through insurance risk appetites, which are detailed in LMIE's Board Risk Appetite Statements. LMIE has risk appetites covering exposure management, reserving, cyber insurance, and climate change risk. Appetite positions are reported quarterly to the Underwriting Risk Management Committee and Risk Management Committee.

LMIE is relatively more exposed to casualty and long tail liability business as opposed to natural catastrophe risks. Realistic Disaster Scenarios ("RDS") are prepared by the Exposure Management team and reviewed by the Exposure Management Working Group. These are reported quarterly by Risk Management to the Underwriting Risk Management Committee.

Insurance risk concentration occurs due to the concentration of an insurance operation in a particular geographic area, industry, or insurance peril. It may also occur as a result of a correlation between individual insured perils.

Actual levels of risk relative to risk appetite measures are continually monitored, and LMIE may either revise approved business plans to stay within appetite, or if appropriate, revise appetite where it is reflective of a change in the external / internal environment.

b) Risk Mitigation

LMIE manages insurance risks by monitoring and controlling the nature of an accumulation by geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums the Company charges for taking on the risk. Some of the key risk mitigation strategy for insurance risk are pricing guidelines, review of large and unusual transactions and purchase of reinsurance.

In addition to managing insurance risk through usage of risk appetites and the purchase of reinsurance, there are specific operational processes related to the acceptance, measurement, and management of insurance risk exposures. LMIE had no investment in Special Purpose Vehicles during the reporting period, hence no risk transfer took place. The overarching approach to the management of all operational risks is covered by the RMF and ICF (Refer Section C.5).

c) Measures used to monitor effectiveness of Risk Mitigation

The RMC actively monitors the effectiveness of the above risk mitigation techniques. Sensitivity testing over the business plan has been performed along with the results of stress tests over capital, and reverse stress tests, where the focus is on identifying the basis, impact, and potential management actions to mitigate the effect of threats to the viability of the business.

The LMIE Actuarial Function Opinions on the Underwriting Policy and the Adequacy of Reinsurance Arrangements were presented to the LMIE Board and concluded that:

- The business plan is appropriate as premiums are sufficient to cover expected claims and expenses in aggregate, taking expected investment income into account; and

- LMIE's outwards reinsurance strategy is in line with risk and underwriting policy.

SECTION C.2 – Market Risk

Market risk is the risk of fluctuations to the net asset value due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net liabilities. Market risk includes interest rate risk, credit and spread risk, alternative asset risk, portfolio duration risk, and exchange rate risk.

The Company has a clear investment strategy that is reviewed regularly, which has a number of objectives; to match investments to LMIE's claims liabilities in terms of both currency and duration, to hold a diversified portfolio of investment types and, within that overall context, to maximise the return generated at an agreed Board level of risk.

a) Risk Assessment

Material risk exposures are managed through the market risk appetite, which is detailed in LMIE's Board Risk Appetite Statements. The risk appetites cover the following areas:

- Market risk – invest assets in line with investment guidelines. The investment guidelines are dependent upon the outcome of investment strategy reviews and are subject to Management's discretion
- Market climate risk - invest assets in line with the Responsible Investment Policy. There is limited appetite to invest in companies that generate revenues from thermal coal mining, utility companies that generate electricity production from thermal coal, oil sands or new Arctic energy exploration.

b) Risk Mitigation

The Investment Working Group makes recommendations to the Board regarding the framework and investment strategy for the investment of LMIE's assets. The Investment Working Group's market outlook will help inform the recommendation to the Board.

The investment portfolios are managed by Liberty Mutual Investments, the investment management arm of LMIG, in accordance with investment guidelines approved by the Board of LMIE. Limits are established regarding issue, counterparty, asset type and rating concentrations. In addition to managing market risk through usage of risk appetites and monitoring the economic environment, there are specific operational processes related to the acceptance, measurement, and management of market risk exposures.

These procedures ensure that LMIE meets the requirements of the 'Prudent Person Principle' set out in Article 132 of the Solvency II Directive, namely that:

- LMIE only invests in assets and instruments whose risks LMIE can properly identify, measure, monitor, manage, control and report;
- All assets, particularly those covering the Minimum Capital Requirement and the Solvency Capital Requirement, are invested in such a manner as to ensure the security, quality, liquidity, and profitability of the entire portfolio.

The overarching approach to the management of all operational risks is covered by the RMF, ICF and the Operational Risk Policy.

c) Measures used to monitor effectiveness of Risk Mitigation

Risk appetites over market risk are set by the Board and align to the business plan. These, along with the related key risk indicators, are monitored by the Risk Management Committee. Sensitivity testing and stress and scenario testing form a key part of LMIE's RMF and cover all risk categories including market risk. These will assess the impact on the capital requirement and own funds of different scenarios that could impact these risks, and the management actions that would be taken.

SECTION C.3 – Credit Risk

Credit risk is defined as the risk of a financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations to LSM and is split into Reinsurer Credit Risk and Broker, Delegated Authority & Insured Credit risk.

Credit risk is mitigated through controls encompassing due diligence and continued monitoring to ensure the appropriate selection of counterparties, and Board risk appetites to prevent inappropriate credit risk concentrations.

a) Risk Assessment

Material risk exposures are managed through the credit risk appetites, which cover the following areas:

- Reinsurers: Minimum credit rating of A-, unless there is pre-authorisation by the LMIE Chief Underwriting Officer (CUO), and in some instances, the LMIE CFO.
- Delegated authorities and brokers – No appetite to conduct business with brokers or cover-holders who fail the initial or renewal due diligence, unless otherwise approved Delegated authorities: limits on exposure to individual cover holders on the watch list (5% of Gross Written Premium) and other individual cover-holders (1% of Gross Written Premium), unless otherwise approved.

The position against the risk appetites for the three areas above are monitored and reported on a quarterly basis to the RMC, and to the Board by exception.

b) Risk Mitigation

LMIE's reinsurers are at least of S&P A- rating at the time the contract was placed. No reinsurance programme would be considered by LMIE with a carrier that was less than this rating unless this has been through the appropriate preauthorisation. Where a reinsurance transaction is being considered with reinsurers that hold a rating of less than A-, a credit exposure review will be carried out to enable the LMIE CUO, and in some instances the LMIE CFO, to agree the level of collateralisation required.

LMIE's approach is to place a significant proportion of outwards reinsurance with LMIC. LMIE remains comfortable with the level of counterparty credit risk posed by such arrangements due to insight into LMIC and considering the above listed requirements for a third party. LMIE accepts that there will be a commensurate increase in its capital requirement for credit concentration risk due to the strategy of using LMIC as the primary reinsurance provider. This is factored into the entity's capital calculations.

c) Measures used to monitor effectiveness of Risk Mitigation

The Outwards Reinsurance Team tracks the internal (Liberty Mutual Group companies) reinsurance purchase as a % of GWP and, the quarterly Risk report to the RMC tracks the internal reinsurance recoverable relative to LMIE balance sheet assets.

In addition to managing credit risk through usage of risk appetites and monitoring thereof, there are specific operational processes related to the acceptance, measurement, and management of credit risk exposures. The overarching approach to the management of credit risks is covered by the Credit Risk Policies.

SECTION C.4 – Liquidity Risk

Liquidity risk is the probability of loss arising from situations where the Company either has insufficient cash or liquid funds to meet its financial obligations as they fall due or is required to sell assets below their fair value to meet cash flow demands.

a) Risk Assessment

Liquidity risk exposures are managed through the liquidity risk appetites, which focus on ensuring that highly liquid investments exceed a specified percentage of the total investment portfolio. The strategy is to maintain a diversified and appropriately liquid portfolio aimed at minimising the mismatch in cash flows between assets and net-liabilities.

Exposures are managed through a liquidity risk appetite with a risk preference to manage exposure with the aim of achieving an appropriate level of reward in exchange for exposure to these risks within the constraints of tightly defined limits.

Maintain sufficient liquidity to meet liabilities as they fall due. Cash will only be held for routine cash flow purposes, or where there is a specific regulatory requirement such as to ensure that the weight of investment assets within the liquidity tiers 1 & 2 exceeds 80% of the total investment portfolio.

This appetite also helps meet the requirements of the ‘prudent person principle’ set out in Article 132 of the Solvency II Directive and discussed in the market risk section.

b) Risk Mitigation

The Investment Working Group market outlook will help inform the recommendation to the Board on the investment strategy. There are permitted investments guidelines and exposure limits which are approved by the Board.

Assets are selected and held subject to the liquidity risk appetite set by the Board.

These procedures ensure that LMIE meets the requirements of the ‘Prudent Person Principle’ set out in Article 132 of the Solvency II Directive, namely that:

- LMIE only invests in assets and instruments whose risks LMIE can properly identify, measure, monitor, manage, control and report;
- Assets are invested in such a manner as to ensure the security, quality, liquidity, and profitability of the portfolio as a whole.

c) Measures used to monitor effectiveness of Risk Mitigation

The risk appetite over liquidity risk is set by the Board and aligns to the business plan. This is monitored by the Risk Management Committee. Sensitivity testing and stress and scenario testing form a key part of LMIE’s RMF and cover all risk categories including liquidity risk. These will assess the impact on the capital requirement and own funds of different scenarios that could impact these risks, and the management actions that would be taken.

SECTION C.5 – Operational Risk

Operational risk covers the risks arising from the failure of internal processes, people, or systems, or from external events. This includes cyber and security issues, and risks arising from outsourced functions.

Full details of the risks to which LMIE is exposed can be found in the LMIE Risk Register, which is a central repository of LMIE's risks by category, including Operational Risk.

a) Risk Assessment

LMIE has limited appetite for operational risks, which are an unavoidable consequence of conducting business, and therefore seeks to manage and reduce exposure through an appropriate system of controls and an appropriate risk culture.

Conduct risk considerations covering customer focus and market integrity are a specific area of operational risk.

Outsourcing is also noted as a specific area of operational risk, which is managed through the Outsourcing Policy maintained by Compliance, as discussed in Section B.7.

Operational risk was significantly impacted over the past year, but LMIE has demonstrated an effective operational resilience through the Russia-Ukraine conflict. The entity has not shown any significant decrease in productivity and has successfully continued to serve its clients.

b) Risk Mitigation

The primary mechanism for operational risk mitigation is controls, which are a mechanism which supports the achievement of LMIE's corporate objectives within its agreed appetite by either preventing or detecting issues. Controls are embedded into day-to-day business processes and mitigate business risks identified by the Risk Owners.

Examples of the types of controls are:

- Preventative: e.g., underwriting guidelines/authorities, documented policies & procedures
- Detective: e.g., underwriting exception reports

c) Measures used to monitor effectiveness of Risk Mitigation

The Risk Management team works with control owners across the organisation to ensure that all the controls are appropriately documented.

Incident reporting is an important aspect of effective operational risk management. LMIE captures both loss events and near misses to ensure that these are fed into the overall view of risk.

Incidents will normally be identified by an individual or their manager/head of department as part of business-as-usual processes. In addition, the Risk Management team will validate completeness of incidents reported via an annual review of all controls for which the heads of departments are responsible.

LMIE uses Decision Focus which is a risk and compliance Strategic system to capture the LMIE Risk Register, and controls against those risks listed. It also contains management risk ratings, results from self-attestation of controls, details of incidents and near misses, and actions.

The Operational Risk Committee was created in 2021 to assist the Risk Management Committees, as appropriate, in its oversight of:

- Operational risks and incidents;
- Non-Financial internal controls and compliance with applicable laws and regulations throughout the jurisdictions in which it operates.

This committee provides a more detailed view and understanding on various operational risk topics, control assurance as well as business continuity and operational resilience. Further details are provided in Section B.1.2.9.

SECTION C.6 – Responsible Business and Climate Change

Environmental, Social & Governance Risk

Responsible business encompasses many business areas as well as interactions with the company's external stakeholders on ESG factors. Failure to address ESG factors may lead to reputational damage, loss of trust with customers, and regulatory and financial interventions.

LSM / LMRe's vision is to act as a responsible business. LSM/ LMRe's Responsible Business Policy outlines how ESG is incorporated into decision making processes to mitigate risk and LSM/ LMRe's Responsible Business Strategy ensures a holistic approach is taken to the management of these risks. Risk management is aligned with LSM/ LMRe's ESG priorities to identify, monitor and report different types of risk and governance structures such as internal groups are in place to discuss, escalate and respond to ESG topics.

LMIE continues to comply with evolving European and EIOPA ESG sustainability requirements.

As a member of the LIEH Solvency Reporting Group, LMIE has met the product disclosure requirements set out in Article 8 of the European Taxonomy Regulation (EU Taxonomy Regulation) on how and to what extent our insurance activities are associated with environmentally sustainable economic activities, across defined product classes. LMIE disclosure is reported in the LIEH financial statements for 2022 as required by the EU Taxonomy Regulation.

LMIE has also met requirements established in EIOPA Amendments to Delegated Regulation (EU) 2015/35 - Sustainability risk, to include the identification and assessment of sustainability risks and the integration into relevant policies sustainability risks.

Climate Change Risk

Climate change risk arises from the impacts associated with an increase in global average temperatures, measured against pre-industrial levels, and has the potential to manifest in three distinctive forms: physical risks, transitional risks, and litigation risks.

- Physical risks result from the impacts of increasingly frequent and severe extreme weather events and longer-term shifts in climatic conditions.
- Transitional risks arise from economic transitions to carbon neutrality, which are likely to include large-scale market, technological and policy changes.
- Litigation risks stem from parties seeking legal redress against those deemed to be responsible for the impacts of physical and transitional risks.

Climate change is classified as a cross-cutting risk, impacting a number of the different risk areas outlined above, as such it is being mitigated through the existing RMF. Insurers have a pivotal role in supporting the economic transition through their products, asset holdings and disclosures. The Liberty Mutual Group have set thermal coal thresholds within underwriting and investments to support this shift.

Since 2020, LSM / LMRe continues to be a member of the voluntary initiative ClimateWise, a global insurance industry network focused on climate-related issues. The LSM / LMRe ClimateWise score improved significantly for 2022 in comparison to 2021. In 2022, the first LSM / LMRe ClimateWise report is due to be published, demonstrating the Company's response to the ClimateWise Principles that are aligned with the Task Force on Climate-related Financial Disclosures (TCFD). This provides our policyholders and counterparties with additional climate change-specific information.

ClimateWise Principles	Overview of the company's response
1. Be accountable	Embedding climate change into all relevant management / governance structures and responsibilities
2. Incorporate climate-related issues into our strategies and investments	Assessing our portfolio against different climate change pathways applying a Responsible Investment Policy and establishing a Responsible Business Framework
3. Lead in the identification, understanding and management of climate risk	Making significant advancements in our climate risk capabilities through utilisation of data, stress and scenario testing, and undertaking a climate risk appetite and materiality assessment
4. Reduce the environmental impact of our business	In 2022 LSM committed to an operational net zero target by 2050 which includes measuring, reducing, and disclosing our Scope 1-2 and material Scope 3 emissions LSM also works to reduce other environmental impacts; working with our suppliers and engaging our colleagues on environmental impact
5. Inform public policy making	Engaging with global regulators and actively contributing to several collaborative industry initiatives and working groups
6. Support climate awareness amongst our customers/ clients	Providing products and services to support a responsible energy transition and build resilience, communicating our climate strategy through Liberty Mutual TCFD report
7. Enhance reporting	Publishing an annual summary of our climate approach and key activities in our ClimateWise report. Aligning with the ESG strategy set by Lloyd's.

SECTION C.7 – Other Material Risks

LMIE recognises that along with the benefits of being part of the LSM / LMRe organisation, there is also a risk that matters could arise in one part of the organisation that negatively impact the other parts of the organisation. To mitigate the impact of this, the chairman of any committee reviewing risk information ensures that due attention is given to each legal entity. LSM / LMRe recognises that this must continue even in times of stress to one entity.

LMIE's RMF also identifies sources of 'other risk' which are not fully captured via the quantitative risk modelling process:

- Strategic risk
- Group risk

Risk appetite statements for insurance risk incorporate several metrics that also cover elements of strategic risks (e.g., delegated authority arrangements and brokers); these are included and measured under insurance risk.

There are no quantitative risk appetite statements for group or strategic risk; they are either controlled to an acceptable level and/or monitoring measures are put in place, with reporting on an exceptions' basis.

The identification of emerging risks is an important part of LMIE's Risk Management process. The Emerging Risk Task Force ("ERTF") is an information and ideas sharing platform to facilitate a concerted approach to the timely and responsible management of emerging risks, enabling leaders at all levels to better understand future threats to growth and make more informed business decisions. The ERTF is made up of stakeholders from a number of departments and risk areas across LSM who have detailed knowledge of their specific areas of the business. The Risk Management team works with the ERTF members to consider the implications of emerging risks to LMIE.

The identified emerging risks are recorded by the Risk Management team in the Emerging Risk Radar.

SECTION C.8 – Any Other Information

Macroeconomic and Geopolitical challenges

Many observers predict that the conflict between Russia and Ukraine will continue for some time. Sanctions continue to be applied and are actively monitored. The backdrop of this "long War" along with the aftereffects of the pandemic, the resulting impact of the energy crisis and sustained high levels of inflation have required a shift in monetary policy. The notable rise in economic inflation above Central Banks' targets was originally caused by factors including the post-Covid-19 stimulus, supply chain restrictions, rising energy prices and labour shortages. This in turn is impacting debt servicing for governments, companies, and individuals, leading to global concerns regarding recession, the cost-of-living crisis and civil unrest. Additionally, the current volatility in the banking sector has increased market uncertainty which will be managed through our approach to counter market risk. We continue to monitor the situation with regards to these systemic risk environment factors in accordance with our Risk Management Framework.

VALUATION

SECTION D – VALUATION FOR SOLVENCY PURPOSES

This section describes the approach and methodology adopted for the valuation of Assets, Technical Provisions and Liabilities (other than Technical Provisions) under the Luxembourg GAAP accounting framework & the Solvency II valuation basis while outlining the key presentational and valuation differences.

Key elements of the section are:

- Assets;
- Technical Provisions (TPs); and
- Liabilities (other than TPs)

Solvency II requires an economic market consistent approach to the valuation of assets and liabilities sheet in accordance with Article 75 of the Solvency II Directive 2009/138/EC. This presents several differences in the valuation of assets and liabilities compared to the disclosures in the LMIE Financial Statements for the year-ended 31st December 2022.

The tables on the following page provide a summary of the Solvency II and the Lux GAAP valuation of assets, based on the Solvency II balance sheet line items and the approach to classifying assets and liabilities, for both periods under comparison. An explanation of the Solvency II valuation methodology is provided in the following sections.

2022			Solvency II Adjustments		
€'000	**Section**	**Lux GAAP**	**Reclassification**	**Valuation**	**Solvency II**
Deferred acquisition costs	D.1.1	370,217		(370,217)	0
Deferred tax assets	D.1.2	102,934	0		102,934
Pension benefit surplus	D.1.3	7,093			7,093
Property, plant and equipment held for own use	D.1.4	4,304		(4,304)	0
Investments	D.1.5	4,825,453	184,115		5,009,569
Reinsurance recoverable	D.2	2,993,192		(1,324,900)	1,668,291
Deposits to cedants	D.1.6	56,217			56,217
Insurance and intermediaries receivables	D.1.7	2,110,919		(1,800,599)	310,320
Reinsurance receivables	D.1.8	213,067			213,067
Receivables (trade, not insurance)	D.1.9	41,483			41,483
Cash and Cash equivalents	D1.10	420,076	(154,099)		265,977
Any other assets	D1.11	47,128	(30,016)		17,105
Total Assets		**11,192,083**	**0**	**(3,500,020)**	**7,692,057**
Technical Provision	D.2	7,922,137		(2,863,027)	5,059,110
Deferred tax liabilities	D.1.2	2,526	0		2,526
Insurance & intermediaries payables	D.3.2	67,336			67,336
Reinsurance payables	D.3.1	886,583		(886,583)	0
Payables (trade, not insurance)	D.3.3	336,356		(265,491)	70,864
Any other liabilities, not elsewhere shown	D.3.4	76,603			76,603
Total Liabilities		**9,291,540**	**0**	**(4,015,101)**	**5,276,439**
Excess of assets over liabilities		**1,900,543**	**0**	**515,081**	**2,415,618**

2021 €'000	Section	Lux GAAP	Solvency II Adjustments Reclassification	Valuation	Solvency II
Deferred acquisition costs	D.1.1	330,391		(330,391)	0
Deferred tax assets	D.1.2	0		37,373	37,373
Pension benefit surplus	D.1.3	14,300			14,300
Property, plant and equipment held for own use	D.1.4	3,629		(3,629)	0
Investments	D.1.5	4,393,036	(147,586)		4,245,450
Reinsurance recoverable	D.2	3,232,205		(1,632,499)	1,599,706
Deposits to cedants	D.1.6	80,318			80,318
Insurance and intermediaries receivables	D.1.7	1,783,875		(1,520,844)	263,031
Reinsurance receivables	D.1.8	139,559			139,559
Receivables (trade, not insurance)	D.1.9	98,884			98,884
Cash and Cash equivalents	D1.10	182,515	165,713		348,228
Any other assets	D1.11	26,544	(18,127)		8,417
Total Assets		**10,285,256**	**0**	**(3,449,990)**	**6,835,266**
Technical Provision	D.2	6,768,304		(2,053,507)	4,714,797
Deferred tax liabilities	D.1.2	13,865		(8,139)	5,726
Insurance & intermediaries payables	D.3.2	15,887			15,887
Reinsurance payables	D.3.1	1,312,357		(1,312,357)	0
Payables (trade, not insurance)	D.3.3	299,457		(139,705)	159,752
Any other liabilities, not elsewhere shown	D.3.4	107,677			107,677
Total Liabilities		**8,517,547**	**0**	**(3,513,708)**	**5,003,840**
Excess of assets over liabilities		**1,767,709**	**0**	**63,718**	**1,831,426**

SECTION D. 1 – Assets (other than Technical Provisions)

D.1.1 Deferred acquisition costs (DAC)

Acquisition costs represent commissions payable and other expenses related to the acquisition of insurance contract revenues written during the financial year. Acquisition costs are deferred under Lux GAAP and amortised in line with the earning of the corresponding premiums. Deferred acquisition costs (DAC) are not recognised on the Solvency II Balance Sheet, leading to a valuation difference.

D.1.2 Deferred Tax Assets (DTA) / Deferred Tax Liability (DTL)

Deferred tax is calculated on the difference between the values ascribed to certain assets and liabilities recognised and valued for Solvency II purposes and the values ascribed to assets and liabilities as recognised and valued for tax purposes. A deferred tax asset or liability can be recognised based on the temporary difference where it is probable that they will reverse in future periods.

On a Lux GAAP basis, LMIE SE provides for DTA in respect of unrealised investment losses, and a DTL in relation to the asset surplus arising in respect of the defined benefit pension plan. This approach has been approved by the CAA.

The net DTA calculated is considered reasonable on a Lux GAAP & Solvency II basis and is deemed to be recoverable at branch level.

D.1.3 Pension benefit surplus

LMIE operated a defined benefit plan for certain employees which closed to future accrual on 1 July 2012, with active members of the scheme becoming deferred pensioners in the Scheme from 2 July 2012. The scheme provides retirement benefits based upon final salary. The scheme is administered by a separate Board of Trustees which is legally separate from the Company. LMIE is able to recognise any scheme surplus on its balance sheet provided that it is able to recover the surplus either through reduced contributions in the future or through refunds from the Scheme.

The asset recognised in the balance sheet in respect of the defined benefit plan is the fair value of the plan assets less the defined benefit obligation at the reporting date. The valuation is uniform for both the Lux GAAP and Solvency II balance sheets.

As at 31 December 2022, the pension benefit surplus in respect of the defined benefit scheme is €7.1m (2020: €14.3m).

D.1.4 Property, plant and equipment held for own use (PPE)

Plant and equipment consist of computer equipment, fixture, fittings and office equipment valued at historic cost less accumulated depreciation and accumulated value adjustments under Lux GAAP. PPE is presented at fair value on a Solvency II basis, the fair value being determined by reference to active market values for such assets. As at December 2022, there was deemed to be no active market for these assets. As such they are not recognised on the Solvency II balance sheet.

D.1.5 Investments

Financial Investments and cash and cash equivalents

Financial Investments and cash and cash equivalents	Lux GAAP €'000	SII adjustments €'000	Solvency II €'000
Bonds	4,266,618	31,508	4,298,126
Government Bonds	*1,399,709*	*6,673*	*1,406,382*
Corporate Bonds	*2,771,614*	*24,424*	*2,796,038*
Collateralised securities	*95,295*	*411*	*95,706*
Collective Investments Undertakings	508,460	(0)	508,460
Deposits other than cash equivalents	50,368	152,616	202,983
Total Investments	**4,825,446**	**184,122**	**5,009,568**
Cash and Cash Equivalents	420,076	(154,099)	265,977
Total Investments and Cash and Cash Equivalents	**5,245,523**	**30,023**	**5,275,545**

Financial investments are recognised at fair value, both under Lux GAAP and on a Solvency II basis. However, while under Lux GAAP, any accrued interest (€31.5m) is reported separately under 'Other assets', it is reclassified and included with market value on the Solvency II balance Sheet.
Under Solvency II the financial investments are classified by their market characteristics, using specific Complementary Identification Codes (CIC):

- **Bonds** - includes government bonds, corporate bonds, and collateralised securities. These are valued predominately in accordance with Level 2 of the Fair Value Hierarchy (Quoted Market Prices for similar assets) as described below, with some securities valued using Level 1 (Quoted Market Prices) or Level 3 (Alternative Valuation Methods) inputs.
- **Collective Investment Undertakings** – refers to an undertaking for collective investment in transferable securities (UCITS) as defined in **Article** 1(2) of the UCITS Directive, or an

alternative investment fund (AIF) as defined in Article 4(1) of AIFMD. These are Valued in accordance with Level 3 as described below.

The following fair value hierarchy is used for reporting under Lux GAAP, which is consistent with the requirements of Article 10 of the Delegated Acts:

Level 1 – quoted market prices in active markets for the same assets.

Level 2 – quoted market prices in active markets for similar assets.

Level 3 – alternative valuation methods using a variety of valuation techniques that include the use of discounted cash flow models and/or other mathematical models. The inputs from these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values.

- **Deposits other than Cash Equivalents -** Bank balances that require more than 48 hours to withdraw are treated as deposits under Lux GAAP. However, under Solvency II, the CIC definition is based on the legal form of the instrument. This results in a reclassification of €152.6m between Deposits and Cash & Cash Equivalents on the Solvency II Balance sheet, as noted in the tabulation above.

D.1.6 Deposits to cedants

Deposits to cedants are carried at nominal value under Lux GAAP. This is equivalent to fair value for Solvency II purposes.

D.1.7 Insurance and intermediaries receivables

Insurance and intermediary receivables are held at fair value under both Lux GAAP and Solvency II reporting basis. The fair value of insurance receivables is derived from discounting expected future cash flows by a risk-adjusted discount rate, however where the time value of cash flows is not significant, cash flows are not discounted.

Premiums receivable that are not yet due are re-classified to Technical Provisions on the Solvency II balance sheet, while due and overdue premiums continue to be reported within 'insurance and intermediaries' receivables'.

D.1.8 Reinsurance receivables

Reinsurance receivables are held at amortised cost under Lux GAAP, and fair value under Solvency II. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the two reporting bases.

D.1.9 Receivables (trade, not insurance)

Trade receivables are valued at amortised cost under Lux GAAP, and Fair value under Solvency II. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the two reporting bases.

D.1.10 Cash and cash equivalents

Cash and cash equivalents, comprising of cash-in-hand and on demand deposits with banks, are measured at amortised cost in the Lux GAAP financial statements, and fair value in the Solvency

II balance sheet. Cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the two reporting bases.

D.1.11 Any other assets

Other assets, comprising largely of unsettled securities, prepayments, and accrued income. These are valued at amortised cost under Lux GAAP, and Fair value under Solvency II. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the two reporting bases.

SECTION D. 2 – Technical Provisions

The Company has applied appropriate methodologies and procedures to assess the sufficiency of the Technical Provisions (TPs) and the calculation is consistent with the requirements set out in Articles 76-86 of the Solvency II Directives.

The TPs consist of the claims provision, the premium provision (which together form the best estimate liability) and the risk margin.

The TPs have been estimated at a homogeneous line of business level. The segmentation of lines is based on obligations that are managed together and which have similar characteristics. General Liability and Fire and Other Damage to Property business represent approximately 72% of the LMIE TPs. The Company has no Life TPs, including Periodic Payment Orders.

D.2.1 Technical Provisions by Solvency II Line of Business

A quantitative summary of the Gross and Reinsurance Best Estimate Liability (BEL), Technical and Risk Margin by Solvency II Line of Business is provided in the table below.

Solvency II Class of Business	Gross BEL €(000)	Reinsurance Recoverable BEL €(000)	Risk Margin €(000)	Total Technical Provisions €(000)
General liability	2,784,648	(925,117)	118,607	1,978,137
Fire and other damage to property	558,246	(138,648)	22,200	441,799
Non-Prop RI - Property	500,130	(191,888)	39,558	347,800
Credit and suretyship	382,912	(113,409)	27,823	297,327
Marine, aviation and transport	250,473	(90,568)	10,525	170,430
All Other Lines	339,106	(208,661)	24,881	155,326
Total non-life obligation	**4,815,516**	**(1,668,291)**	**243,595**	**3,390,819**

General Liability Insurance

General Liability makes up 58% of the Solvency II TPs. The underlying reserves for direct Financial Lines (D&O and FI), DUAL, Professional Lines and Casualty contribute the majority of the TPs for this Solvency II line of business. Casualty, FinPro and High Excess are subject to volatility and large losses, and during 2022 saw late large loss developments on prior years.

Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. The most material adjustments, that result in a small increase in the TPs when compared to the Lux GAAP reserves, include:

- €118m for the Risk Margin and €26m for additional expense provisions; and
- €23m for Events Not in the Data.

Fire and Other Damage to Property

Fire and Other Damage to Property makes up 13% of the Solvency II TPs. The underlying reserves for Property and Energy Lines contribute the majority of the TPs for this Solvency II line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. The most material adjustments, that result in a small decrease in the TPs when compared to the Lux GAAP reserves, include:

- €22m for the Risk Margin and €9m of additional expense provisions; and
- €14m for Events Not in the Data

Credit and Suretyship

Credit and Suretyship makes up 9% of the Solvency II TPs. The underlying reserves for Financial Risk Lines contribute the majority of the TPs for this Solvency II line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. There has been a significant increase in the best estimate on this line over the past 3 years, as it was heavily impacted by Covid-19 and Ukraine losses, impacting unearned claims.

The most material other adjustments that result in a movement in the TPs when compared to the Lux GAAP reserves include:

- €28m for the Risk Margin and €12m of additional expense provisions.
- €9m for Events Not in the Data

Non-Proportional Reinsurance Property

Non-Proportional Property makes up 10% of the Solvency II TPs. The underlying reserves for Treaty Property, London Market Reinsurance and Specialty Energy division contribute the majority of the TPs for this Solvency II line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. Treaty Property classes were impacted by catastrophe losses such as Storm Bernd and French Hailstorm claims impacting unearned claims.

The most material other adjustments that result in a movement in the TPs when compared to the Lux GAAP reserves include:

- €40m for the Risk Margin and €6m for additional expense provisions.
- €10m for Events Not in the Data

Marine, Aviation and Transport

Marine, Aviation and Transport makes up 5% of the Solvency II TPs. The Underlying reserves for Specialty Marine contribute the majority of the TPs for this Solvency II Line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. The classes underlying this Solvency II Line have been adversely impacted by the uncertain macro-economic and political environment, impacting unearned claims.

The most material other adjustments that result in a movement in the TPs when compared to the Lux GAAP reserves include:

- €11m for the Risk Margin and €3m for additional expense provisions.
- €4m for Events Not in the Data

No other Solvency II Lines of Business make up more than 5% of the Company's total Solvency II TPs, and the aggregate change relative to the Lux GAAP basis across all the other Solvency II Lines is less than 1% of the total TPs.

D.2.2 Technical Provisions Valuation Methodology

The relevant Solvency II Directive and Delegated Acts text and associated guidance require the TPs to represent a best estimate plus a risk margin, where the best estimate corresponds to the probability-weighted average of future cash flows, taking account of the time value of money.

Technical Provisions valuation methodology of the Company groups the following key components:

- **Claims Provisions:** best estimate provisions that relate to earned exposure.
- **Premium Provisions:** best estimate provisions that relate to unearned exposure and include policies which are bound but not yet incepted at the valuation date.
- **Risk Margin:** additional provision to bring the above best estimate to the level required to transfer the obligations to a third-party undertaking.

The Claims and Premium Provisions would include allowance for future premiums, expenses and Events Not In Data (ENIDs). Payment projections are then derived for all the future cash in-flows and out-flows.

D.2.2.1 Claims Provisions

The gross claims provisions are calculated separately for attritional, large and catastrophe claims with no margin allowance for prudence. The methodology is the same as that used to estimate the Actuarial Function's view of the Lux GAAP reserves (with no margin for prudence), before allowance for ENIDs, expenses, discounting, and pipeline premium.

The methods used to estimate the Claims Provisions are deterministic claims-based, exposure-based and cashflow methods and are in line with best practice non-life actuarial techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods.

The process for estimating the reinsurance recoveries follows a netting-down approach of the gross claims provisions. The gross attritional, large and catastrophe splits do not apply. Instead, reinsurance claims provisions are estimated for Proportional and Non-Proportional outwards reinsurance treaties separately.

Reinsurance bad debt (counterparty default) is taken into account using the credit rating of each individual reinsurer and their ability to pay.

D.2.2.2 Premium Provisions

Premium provisions relate to claim events occurring after the valuation date and during the remaining in-force coverage period of policies.

The ultimate premium by year of account is broken down into the following components:

- Earned (included in claims provisions)
- Unearned incepted
- Bound but Not Incepted (BBNI)
- Unbound

The analysis and split of premium between unearned incepted, BBNI and unbound is carried out at the policy level. Earning patterns are calculated by policy considering inception and expiry date. The inception date of a policy is used to determine whether it is incepted or not, except for delegated authorities where the underlying inception profile is used. The commitment date recorded on source underwriting systems is used to determine whether a policy is bound or not except for delegated authorities – see Definition of an Existing Contract.

The ultimate premium that is unbound is not included in the Technical Provisions. The gross Premium Provisions are calculated separately for unearned incepted and BBNI risks:

- Unearned Incepted claims are calculated as the unearned incepted premium multiplied by the underwriting year loss ratio from the latest actuarial reserve analysis; and
- BBNI claims are calculated as the BBNI premium multiplied by the business plan loss ratio for each line of business.

There was a change in the methodology in reporting pipeline premium as highlighted under the section on Claims Provisions above.

D.2.2.3 Definition of an Existing Contract

Under Solvency II all existing contracts are included in the valuation as opposed to incepted contracts under Lux GAAP Technical Provisions. Contracts are recognised as existing once LMIE becomes a party to the contract or when the contract between the insurance undertaking and policyholder is legally formalised. The source underwriting systems record the commitment date, written date, and the inception date of the contract.

For binder and delegated authority business this is assessed on a “look through” basis with the boundaries of the actual underlying contracts of insurance being tested. The Company’s approach is to include one month’s worth of new business of underlying inceptions for each delegated authority.

D.2.2.4 Outwards Reinsurance

The key principle followed for LMIE reinsurance Premium Provisions is to ensure the best estimate underlying the Technical Provisions is consistent with the inwards policies (the Principle of Correspondence). In addition, for existing reinsurance contracts, any contractually bound contracts are also included in full, with no consideration to the future inwards business.

The Solvency II valuation assumes that future reinsurance purchases will be made in line with the current business plan (a future management action) and that an equivalent reinsurance spend, and benefit will be available to cover unearned and BBNI business.

The future claims inflow on unearned and BBNI business is adjusted for the probability of counterparty default. The methodology takes into account both the probability of default and the loss given default.

D.2.2.5 Future Premium

The estimation of the TPs allows for claims cashflows to be offset by premiums receivable (gross of reinsurance) and premiums payable (on outwards reinsurance) that are expected to occur in the future but are not overdue at the valuation date.

The premium receivable and payable for Claims Provisions and Premium Provisions are valued consistently with the Lux GAAP basis other than the additional allowance for BBNI business. Therefore, the premium receivable and payable are both larger than the GAAP basis.

Any potential lapses in premiums are taken account in the cashflow analysis.

D.2.2.6 Expenses

Solvency II requires the best estimate to include all cashflows arising from expenses that will be incurred servicing the policies over their lifetime.

Allocated loss adjustment expenses (“ALAE”) figures are included within the claims numbers used for premium provisions and claims provisions.

Expenses have been split for analysis purposes into acquisition costs, unallocated loss adjustment expenses (“ULAE”) and other additional expenses including Investment Management Expenses.

- Acquisition Costs: Gross and reinsurance acquisition costs by year of account and line of business are supplied from the underwriting source systems.
- ULAE: ULAE provision is estimated using the same methodology as the Lux GAAP reserves.
- Investment Management Expenses and Other Expenses: The actual and budgeted investment management expenses incurred by LMIE on a per annum basis are used as the basis to estimate the total investment management expense provision for the run-off of the current liabilities, assuming a future rate of management expense inflation and that the expenses will reduce in line with the managed assets.

Other expenses have been derived using the Company’s expense model to derive an estimate of the headcount and associated cost for each department which supports the legally bound contracts over the life of their future cash flows.

D.2.2.7 Events not in Data (ENIDs)

Solvency II requires that the best estimate Technical Provisions be a probability weighted average of all possible future outcomes.

The methods used such as Chain Ladder and Bornhuetter-Ferguson are based to a degree on historical information and therefore do not allow for all future outcomes.

ENIDs are those events of high severity, but very low frequency that are missing from our historical data sets and exposure information. An example of an ENID would be a latent claim such as the health hazard losses from asbestos and pollution that emerged in the 1980’s.

By their nature any methodology applied will be subjective for ENIDs. The Company has taken the following approach:

- An uplift factor is obtained by comparing the current claims best estimate to the best estimate excluding the observations beyond the 1 in 200-year point from internal analysis of reserve risk and underwriting risk.

- For claims relating to earned business the reserving risk distribution is used.
- For claims relating to Premium Provisions the attritional and large combined underwriting distribution is used.
- The uplift factor has been applied to the undiscounted claims reserves, as well as the attritional and large undiscounted premium reserves.
- A minimum uplift is applied by line of business.

D.2.2.8 Cashflows and Discounting

The best estimate Technical Provisions under Solvency II take into account the time-value of money using the relevant risk-free interest rate term structure. This is undertaken for each material currency.

Claims and Premium Provisions are converted to deterministic cash flows by application of quarterly payment patterns. Ceded cash flows are assumed to be equal to those applied to the gross with a quarter lag.

The term structures used for discounting have been supplied by EIOPA for each currency. The Company has relied upon EIOPA to prepare these yield curves.

D.2.2.9 Risk Margin

The Risk Margin is calculated using a cost of capital approach. The cost of capital approach requires the Risk Margin to be calculated by determining the cost of providing the Solvency Capital Requirement (SCR) necessary to support the Technical Provisions over their lifetime. Therefore, the approach requires the Technical Provisions and SCR to be calculated for each future year until the business is fully run off.

The claims run-off pattern applied to the Technical Provisions and SCR for each future year until the business is run-off is non-linear using a risk-based approach.

A cost of capital rate of 6% per annum is used as the cost of holding the projected SCR in the future.

The Risk Margin is calculated for the whole business and allocated to Solvency II lines of business.

D.2.2.10 Options and Guarantees

The Company has no material options and guarantees that require explicit consideration or adjustment within the TPs.

D.2.3 Comparison of GAAP and Solvency II Valuation of Technical Provisions

The table below presents a comparison of the Company's Lux GAAP provisions to those on a Solvency II basis as at 31 December 2022. Note that the Company's Lux GAAP reserve estimates contain margins when compared with the Solvency II best estimate.

	Lux GAAP €'000	SII Basis €'000	Lux GAAP vs. SII Basis €'000
Gross of Reinsurance			
Claims reserve (incl Risk Margin)	(5,870,558)	(7,427,539)	1,556,981
ULAE (and other SII expenses)	(90,394)	(154,098)	63,705
UPR	(1,961,186)		(1,961,186)
Future Premium Cashflows		2,522,528	(2,522,528)
Gross TP	**(7,922,137)**	**(5,059,110)**	**(2,863,027)**
Reinsurance			
Claims reserve	2,449,858	3,709,579	(1,259,721)
Bad Debt	(21,167)	(21,167)	-
UPR	564,501		564,501
Future Premium Cashflows		(2,020,121)	2,020,121
Reinsurance TP	**2,993,192**	**1,668,291**	**1,324,900**
(including future premium)	**(4,928,946)**	**(3,390,819)**	**(1,538,127)**

The largest difference in moving from a Lux GAAP to a Solvency II basis are due to the Premium Provisions concept in Solvency II, which considers cashflows, and consequently profits, on all existing, legally bound contracts as opposed to incepted contracts under Lux GAAP. Details of this, as well as other, less material, differences are explained below, in the order shown in the table above:

- Higher gross claims reserves due to the allowance for unearned future claims, ENIDs and because the Risk Margin under Solvency II is generally greater than the removal of the Lux GAAP reserve margin. This is partly offset by the benefit obtained from discounting for the time value of future cashflows.
- ULAE and other Solvency II expenses: An increase in expense provisions under Solvency II to cover the wider definition of all expenses that will be incurred servicing the in-force policies over their lifetime.
- A decrease in the Technical Provisions as a result of moving from the Lux GAAP concept of holding a UPR, to the SII allowance for Future Premium Cashflows on all existing legally bound contracts.
- Movements in Reinsurance Technical Provisions are generally in line and proportional to gross movements.

D.2.4 Changes in Technical Provisions from prior Reporting Period

There was a change in the methodology for reporting pipeline premium during 2022. Previously, all the pipeline premium was reported as unearned as a simplification. However, with the growing book of business on LMIE and the introduction of the LMIE NRQS, it was decided to update the approach to split pipeline premium between earned and unearned. The methodology change has no impact on the overall Net Technical Provision.

The Technical Provisions at the 2022 year-end were updated to reflect the change in reinsurance placements following the 2023 renewals.

D.2.5 Assumptions and Use of Expert Judgement:

D.2.5.1 Future Management Actions within the Technical Provisions

A key assumption within the valuation of the reinsurance Technical Provisions is that the reinsurance programmes will be renewed with similar terms to those currently in place. Deviations from this could have a material impact on the Technical Provisions required.

No other future management actions were explicitly allowed for in the Technical Provisions.

D.2.5.2 Reserving Methods

The methods used are in line with best practice non-life actuarial techniques such as Chain-Ladder method or Bornhuetter-Ferguson method.

D.2.5.3 Assumption Selection

All modelling assumptions are documented by the Actuarial Function in line with relevant professional standards. The assumptions used are appropriate for the work carried out by the Actuarial Function.

D.2.5.4 Consistency with Financial Market Information

Assumptions:

- Future Inflation: Other than in the choice of the expected loss ratios, the Company's reserving methods for attritional claims do not generally make an explicit assumption for future claims inflation. Where historical development profiles are extrapolated into the future via the Chain Ladder method, these projection methods include an implicit assumption that historical trends in inflation will persist in the future. Trends in superimposed inflation are closely monitored through claims analysis, and collaboration between claims, actuarial and underwriters. They are allowed for with additional judgment for impacted classes, both in the reserving of attritional and large claims.
- Currency Rates of Exchange: Future exchange rates are assumed to remain stable over the year, in line with the reserving rate of exchange set for year-end reporting
- Reserving Cycle: Where possible allowance has been made for the reserving cycle.

D.2.5.5 Expert Judgement

The use of Expert Judgement is documented by the Actuarial Function. All modelling selections contain judgement, and these reflect the nature of the insurance obligations, the material risks faced by the insurer and the purpose of that work.

D.2.6 Uncertainty associated with the Technical Provisions

There is a wide range of possible outcomes in assessing the Company's TPs. The TPs represent a best estimate plus a risk margin, where the best estimate corresponds to the probability-weighted average of future cash flows, taking account of the time value of money. Some of the key uncertainties in valuing the TPs include:

- For all actuarial projections there are a range of possible results. The final outcome will depend on the actual development of claims. Most actuarial techniques use historical data to predict the likely development by line of business. Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results. Whilst these are addressed as soon as they arise, such issues would include unexpected claims inflation, changes in legislation and the emergence of new types of claims.

At year-end 2022, we have supplemented traditional actuarial techniques with the implementation of a cashflow model to help us quantify additional loads to the reserves in respect of inflation.

- There is significant uncertainty around the future inflationary outlook and its impact on ultimate loss ratios. Elevated and persistent economic inflation may drive future loss cost increases, in particular in long tail classes and classes with multi-year exposures. The inflationary uncertainty has been exacerbated in 2022 by the Russian invasion of Ukraine and the ensuing sanctions imposed on Russia. This has resulted in further rises in energy costs and additional inflationary pressure on other goods and services.

- In the current uncertain macro-economic and political environment the risk of recession in the main territories where we underwrite exposures is heightened. This can introduce the risk of higher loss experience in some classes due to fraudulent claims/ an elevated propensity to claim and loosening of risk management and controls linked to budget cuts. This could result in more claims, or larger settlements across affected classes than allowed for in the Technical Provisions.

- Societal trends are impacting third party liability classes with exposure to the US. In particular, the US exposures on Treaty Casualty, D&O and Casualty Binders. The social inflation observed in the US is a type of super-imposed inflation mainly related to jury court awards related to auto, general liability and professional lines on primary, excess and umbrella risks. Although the reserves have been strengthened in response to this, intrinsic limitations exist similar to those imposed by economic inflation discussed above. The limitation is mitigated to an extent in the US as a result of the close GRSI links to the wider Liberty Mutual Group to validate assumptions used.

- Some of the Company's property, casualty and specialty lines of business are exposed to catastrophe events and are inherently uncertain in their nature. Some lines are exposed to natural catastrophes. Some underwriting classes could be exposed to increased insurance liabilities from climate change. This could take the form of increased frequency, severity and volatility of weather events, failure of firms to adapt leading to increased litigation, higher liability claims or damage to value of financial assets.

- Some underwriting lines of business have results that are dependent on the performance of certain key contracts, either through large exposures or through a large volume of business being written under the contract, relative to the size of the account.

- The Company writes material and increasing amounts of business through cover holders and facilities. This can lead to lengthened development in lines which are a combination of open market and binding authority business as the proportion of binding authority business increases.

- ENIDs are inherently difficult to value. The Actuarial Function has had to determine what is not included within its original best estimate, to avoid double counting, and to determine what the best estimate would be for the very low frequency, high severity ENIDs. ENIDs, by their nature, are challenging to validate, due to the absence of historical observations in the LMIE dataset.

- The timing of future payments is always uncertain and can greatly be affected by many variables. The timing of the Company's cashflows and the yield curves by currency provided by EIOPA impact the discounting credit within the TPs.

- The uncertainty associated with the Premium Provisions is greater than the earned reserves as a result of the greater impact of future economic & market conditions, plus the potential for insured unknown catastrophes.

- The Company is particularly exposed to FX volatility due to the mix of business, which is materially spread over three currencies (USD, GBP, EUR). FX rates were volatile over 2022, which adds to the uncertainty around projected reserves once consolidated in the reporting currency.

- Generally, provision is not made in our estimates for post balance sheet events occurring after 31st December 2022. However, the Technical Provisions at the 2022 year-end were updated to reflect the change in reinsurance placements following the 1 January 2023 renewals.

D.2.7 Matching Adjustment

The matching adjustment referred to in Article 77b of Directive 2009/138/EC has not been applied by the Company. Therefore, no quantification is provided of the impact of a change to zero of the matching adjustment on that undertaking's financial position, including on the amount of Technical Provisions.

D.2.8 Volatility Adjustment

The volatility adjustment referred to in Article 77d of Directive 2009/138/EC has not been applied by the Company. Therefore, no quantification is provided of the impact of not applying the volatility adjustment on the undertaking's financial position, including on the amount of Technical Provisions

D.2.9 Transitional Risk-free Interest Rate-term Structure

The transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC has not been applied by the Company. Therefore, no quantification is provided of the impact of not applying the transitional measure on the undertaking's financial position, including on the amount of Technical Provisions.

D.2.10 Transitional Deduction

The transitional deduction referred to as Article 308d of Directive 2009/138/EC has not been applied by the Company. Therefore, no quantification is provided of the impact of not applying the deduction measure on the undertaking's financial position, including on the amount of Technical Provisions.

SECTION D. 3 – Liabilities (other than Technical Provisions)

D.3.1 Reinsurance payables

Reinsurance payables are held at amortised cost under Lux GAAP and fair value under Solvency II. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the respective reporting bases.

D.3.2 Insurance and intermediaries' payables

The Lux GAAP insurance and intermediaries' payables are held at their settlement value, except for any loans due from affiliated undertakings, which are valued at amortised cost. Solvency II requires insurance and intermediaries' payables to be reported at fair value. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the respective reporting bases.

D.3.3 Payables (trade, not insurance)

Payables (trade, not insurance) are valued at amortised cost under Lux GAAP and fair value under Solvency II. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the respective reporting bases.

The only exception to the above methodology relates to the foreign exchange provision held on the Lux GAAP balance sheet. The foreign exchange provision, recognised on the balance sheet following the change of LMIE's reporting currency from Dollars to Euros, was valued at €139m at the opening balance sheet date. Following strengthening of the Dollar over the course of FY 2022, the value of provision at the balance sheet date amounts to €265m at the closing balance sheet date. However, the provision is not deemed a Solvency II concept as it is does not have an impact on future cash-flows. It is therefore eliminated from the Solvency II Balance Sheet.

D.3.4 Any other liabilities not elsewhere shown

Other liabilities, comprising largely of accruals and deferred income, are valued at amortised cost under Lux GAAP and fair value under Solvency II. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the respective reporting bases.

SECTION D. 4 – Alternative Methods for Valuation

There are no material assets or liabilities for which alternative valuation methods are used, other than the valuation of certain financial investments, as described in section D.1.4. Financial investments amounting to €20.7m (2021: €14.2m) were valued in accordance with Article 10(4) of the Delegated Acts (Level 3).

SECTION D. 5 – Any Other Information

LMIE does not have any other material information to be disclosed.

CAPITAL MANAGEMENT

SECTION E – CAPITAL MANAGEMENT

The 'Capital Management' section of the report describes the internal operational structures and procedures underlying capital management within the company. The capital plan is updated at least annually or more frequently if a material change occurs to the company's risk or capital profile, business strategy, the macro-economic outlook or if regulatory feedback warrants a change.

Key elements of the section are:

- Own Funds; and
- SCR and MCR

SECTION E.1 – Own Funds

E.1.1 Objective, Policies and Processes for managing Own Funds

The purpose of own funds management is to maintain, at all times, sufficient own funds to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) with an appropriate margin in line with LMIE's Capital and Solvency risk appetite.

The Company holds quarterly Board meetings, in which the proportion of own funds over SCR and MCR are reviewed.

As part of own funds management, LMIE prepares ongoing annual projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA, contains a three-year projection of funding requirements and this helps focus actions for future funding.

The solvency monitoring plan is set out alongside which will apply to both the Standard Formula (SF) and the Internal Model (IM) calculations. LMIE currently uses the standard formula (SF) to calculate capital requirements as its internal model (IM) has not yet been approved. However, the internal model is used alongside the SF to help LMIE understand and manage risks to its business, and challenge SF outputs where appropriate.

Green (>125% of reference SCR)	• SCR updates in line with SF Policy and IM update cycle. • Potential to pay dividends subject to maintenance of green zone solvency. • Monitoring of risk of solvency deterioration over next three months.
Yellow (115%-125% of reference SCR)	• SCR updates in line with the SF Policy and IM update cycle. • No dividends will be paid. • Board approval of capital remediation plan sufficient to restore green zone solvency within three months (capital injection, reinsurance purchase). • Monitoring of risk solvency deterioration over next three months.
Amber (110%-115% of reference SCR)	• Full rerun of SF and IM calculations. • No dividends will be paid. • Board approval of capital remediation sufficient to restore green zone solvency within three months (capital injection, reinsurance purchase, risk reduction) • Monitor risk of solvency deteriorating over next three months.
Red (100%-110% of reference SCR)	• Full rerun of SF and IM calculations • No dividends will be paid. • Board approval of capital remediation plan sufficient to restore green zone solvency within three months (capital injection, reinsurance purchase, risk reduction). • Regular communication with the regulator.
Grey (SF-SCR-MCR)	• 2 months to submit a recovery plan. • 6 months to restore SCR cover (capital injection or reduce risk profile) • No dividends will be paid. • Regulator communication with the regulator
Black (MCR-between 25%-45% of SCR)	• 3 months to restore MCR cover. • Capital injection or reduce risk profile. • No dividends will be paid. • Regular communication with the regulator.

At FY'22, the Solvency II Coverage Ratio is in the Green zone, discussed in more detail in Section E.1.2.

LMIE consider the SF calculations to be appropriate for the following reasons:

- They reflect a sufficient margin for the LMIE business model and risk profile, supported by a solvency monitoring plan (set out below);

- LMIE policyholders benefit from a guarantee from it's parent company; and LMIE's parent company requires the entity to maintain appropriate solvency coverage as defined in Section E.1.1. The requirement is monitored on an ongoing basis and takes account of future capital requirements, as indicated by the business plans.

E.1.2 Structure, Amount and Quality of Own funds by Tier

Solvency II distinguishes between basic Own Funds and ancillary Own Funds. The Own Funds structure for FY'22 and FY'21 is illustrated in the table below.

Capital Structure		2022 €'000	2021 €'000
Share Capital	E.1.2.a	255,424	255,424
Share Premium	E.1.2.a	1,617,533	1,098,434
Reconciliation reserve	E.1.2.b	442,252	445,921
Available and Eligible Own Funds (to cover the MCR)		**2,315,210**	**1,799,779**
MCR	E.2.1	537,724	509,974
MCR Coverage Ratio		**431%**	**353%**
An amount equal to the value of net deferred tax assets		100,408	31,647
Ancillary Own Funds	E.1.2.c	398,221	373,724
Available and Eligible Own Funds (for SCR Coverage)		**2,813,839**	**2,205,150**
SCR	E.2.1	1,643,583	1,284,091
SCR Coverage Ratio		**171%**	**172%**

A Solvency working group reporting to the LSM CFO Committee was established during 2021. It is tasked with monitoring the Solvency II ratio. Following capital remediation undertaken in the previous year, LMIE entered 2022 with a strong solvency ratio of 172%. Throughout 2022, LMIE continued to experience the benefit from capital actions undertaken in prior years, including the following:

- The establishment of an Ancillary Own Fund facility;
- The loss portfolio transfer of the run-off ECML book of business to Enstar Group; and
- The NRQS with LMIC to provide a sustained capital benefit going forward, as explained above.

The key components of the Own Funds are discussed below:

a) **Share Capital & Share Premium:** There has been an increase in the Share Capital & Share Premium, classified as Tier 1 Capital, during the year, following capital injections in 2022.

b) **Reconciliation Reserve:** This is made up of the remainder of the excess of assets over liabilities and is classified as Tier 1 capital in accordance with the Solvency II regulations. The composition of the reconciliation reserve is illustrated in the following table.

Description	2022 €'000	2021 €'000
Excess of assets over liabilities	**2,415,618**	**1,831,426**
Other basic own fund items - Ordinary share capital (gross of own shares)	(255,424)	(255,424)
Other basic own fund items - Share premium account related to ordinary share capital	(1,617,533)	(1,098,434)
Other basic own fund items - An amount equal to the value of net deferred tax assets	(100,408)	(31,647)
Reconciliation reserve	**442,252**	**445,920**

c) **Ancillary own funds** of €398m ($425m), classified as Tier 2 Capital, are structured through an Equity Commitment Agreement between LMIC, LSMH, and LMIE as approved by the CAA in 2020. A pledge facility with a minimum funding to ensure that the Market Value of pledge accounts is at least $425m, remains in-force as collateral against this commitment, which is revalued at the period end Euro rate. Tier 2 Ancillary Own Funds are not considered eligible to cover the MCR requirements in accordance with Solvency II rules.

LMIE is required to satisfy local solvency requirements in certain non-EU jurisdictions. In some cases, this requires holding funds in local custody accounts, but these funds are considered fungible, and not ring-fenced.

E.1.3 Own Funds changes in the period

The changes to Basic Own Funds during the reporting period are illustrated in the following table.

The increase of €586m in Own funds over the year is primarily driven by an increase in share premium following cash injections (€519m), partially offset by an increase in unrealised losses reported in OCI (€339m). Additionally, a significant increase is noted in the discounting adjustments, due to the EIOPA yield curves showing more benefit across all the material currencies.

	2022 €'000	2021 €'000
Own Funds at 1 January	**1,831,426**	**1,623,367**
Profit on ordinary activities after tax	(45,098)	80,839
Comprehensive (loss)/income for the year	(339,288)	(77,961)
Issue of ordinary shares	519,100	0
Movement in Fixed Assets Write off	(675)	191
Movements in Solvency II Adjustments to Technical Provisions	103,703	15,548
Movement in Solvency II Discounting Adjustments	290,699	42,206
Movement in Solvency II Risk Margin	(22,637)	7,159
Movement in FX Provision	130,660	134,536
Movement in Solvency II Deferred Tax Adjustment	(45,512)	464
Other	(6,760)	5,079
Own Funds at 31 December	**2,415,618**	**1,831,426**

E.1.4 Material Differences between Financial Statement Equity and Solvency II Excess of Assets over Liabilities

LMIE prepared its financial statements for the year ended 31 December 2022 in accordance with Luxembourg legal and regulatory requirements. The financial statements have been prepared using generally accepted accounting policies applied within the insurance and reinsurance industry in the Grand-Duchy of Luxembourg. Aside from those laid down by the law of 19 December 2002, accounting policies and valuation rules are determined and applied by the Board of Directors. The following table provides an explanation of the differences between Lux GAAP equity and the Solvency II excess of assets over liabilities.

	2022 €'000	2021 €'000
Lux GAAP equity attributable to shareholders	**1,900,537**	**1,767,710**
Valuation differences:		
Solvency II valuation adjustment movements:		
Fixed assets	(4,304)	(3,629)
Technical Provisions	149,057	45,353
Discounting	348,431	57,733
Risk Margin	(243,595)	(220,958)
FX Provison	265,491	139,705
Deferred tax Adjustment		45,512
Solvency II excess of assets over liabilities	**2,415,618**	**1,831,426**

E.1.5 Description of Deductions from Own Funds

No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.

SECTION E. 2 – Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Details and changes since the prior period reporting of the Solvency Capital Requirement and Minimum Capital Requirement

The Company does not have an approved Internal Model and, as such, is required to use the Standard Formula to determine the regulatory Solvency Capital Requirement. The Company's SCR is subject to supervisory assessment. The Company has not used undertaking specific parameters in the calculation of the standard formula Solvency Capital Requirement.

In deriving the SF SCR, the Company has relied on the simplifications set out in the following articles of the Delegated Acts:

- Article 90a: simplified calculation for discontinuance of insurance policies in the non-life lapse risk-module
- Article 107: simplified calculation of the risk mitigating effect for reinsurance arrangements or securitisation in respect of counterparty default risk
- Article 111: simplified calculation of the risk mitigating effect in respect of counterparty default risk
- Article 112: simplified calculation of the risk adjusted value of collateral in respect of counterparty default risk.

These articles are applied in the context of Article 88 on proportionality being complied with for the risk mitigation effect. The following table shows the SCR split by risk category and in aggregate.

The SCR is calculated in USD, and converted to Euros, which is the reporting currency of LMIE. Overall, the SCR has increased by €359m / 28% over the year. The key drivers for this change are as follows:

	2022 €'000	2021 €'000	Variance	Variance %
Non-Life Underwriting Risk	1,198,012	909,844	288,168	32%
Health Underwriting Risk	7,131	5,767	1,364	24%
Market Risk	350,778	268,289	82,489	31%
Counterparty Default Risk	287,049	232,981	54,069	23%
Operational Risk	144,465	134,815	9,650	7%
Diversification	(343,853)	(267,605)	(76,248)	28%
SCR	**1,643,583**	**1,284,091**	**359,492**	**28%**

The 2022 SCR is €1,644m reflecting an increase from prior year primarily driven by increase in Non-Life Underwriting Risk. The key drivers for the overall increase are as follows:

- Strengthening of USD versus Euro: the SCR increase is 20%, instead of 28%, when reported in our functional currency, USD.
- Non-life underwriting risk is higher, primarily due to a higher net best estimate of claims provisions - as a result of growth and the settlement of the NRQS at Q1 2022 - as well as to the 2023 renewal of the RI CAT Umbrella structure. The latter reduced the recoveries, leading to higher net catastrophe risk charges.
- Market risk has also increased, driven by an increase in interest rate risk (largely driven by higher yield curves) and currency risk (driven by a higher gap between assets and liabilities in Euro and GBP).
- The Counterparty default risk has increased mostly as a result of a higher aged debt greater than 3 months.
- Operational risk is stable since last year end. The gross technical provisions show offsetting movements between gross claims and premium provisions.
- Loss Absorbing Capacity of Deferred Tax (LACDT): GRSI's internal policy, derived from appropriate EIOPA regulation stipulates that the Solvency Capital Requirement calculated per the Standard Formula, can be adjusted for the LACDT which may be recognised up to the value of the DTL, if the Solvency II Balance sheet represents a net DTL. The DTL represents the minimum future profits against which the LACDT can be offset. Given that there is no DTL in the Solvency II Balance Sheet at FY 2022, no benefit for LACDT has been recognized in the SCR calculations

The MCR is higher by 5.5% at €537m compared to prior year, driven by a 9% increase in Technical Provisions offset by a 2% reduction in Net Written Premium. The key inputs are tabulated in the following table by Solvency II line of business.

SII Classes	2022			2021		
	Net TPs	NWP	MCR Charge	Net TPs	NWP	MCR Charge
	€'000	€'000	€'000	€'000	€'000	€'000
Medical expense insurance	727	751	69	367	611	46
Income protection insurance	2,275	2,754	532	1,608	2,140	393
Workers' compensation insurance	0	0	0	0	0	0
Motor vehicle liability insurance	15,092	6,621	1,905	37,519	11,783	4,297
Other motor insurance	3,350	4,349	577	4,376	2,737	533
Marine, aviation and transport insurance	159,904	79,894	27,655	114,147	84,599	23,601
Fire and other damage to property insurance	419,599	321,944	63,588	452,439	297,110	64,812
General liability insurance	1,859,530	396,657	243,494	1,709,372	364,483	223,813
Credit and suretyship insurance	269,503	271,940	78,431	213,180	237,127	64,528
Legal expenses insurance	0	0	0	0	0	0
Assistance and proportional reinsurance	0	0	0	0	0	0
Miscellaneous financial loss insurance	10,105	25,836	5,032	28,244	70,555	13,861
Non-proportional health reinsurance	1,154	2,229	569	2,258	1,435	648
Non-proportional casualty reinsurance	95,290	25,723	21,814	101,297	31,974	23,925
Non-proportional marine, aviation and transport reinsurance	2,453	9,850	2,022	8,711	30,396	6,453
Non-proportional property reinsurance	308,242	218,248	92,035	220,616	262,248	82,732
TOTAL	**3,147,224**	**1,366,796**	**537,724**	**2,894,133**	**1,397,198**	**509,643**

SECTION E. 3 – Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

This section is not applicable.

SECTION E. 4 – Differences between the standard formula and any internal models used

The Company does not have an approved full or partial internal model, according to Article 112(7), to calculate the Solvency Capital Requirement.

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

Compliance with both the MCR and SCR has been maintained during the reporting period.

SECTION E. 6 – Any Other Information

No additional matters to report.

GLOSSARY OF TERMS

Reference	Description	Reference	Description
ABS	Asset Backed Security	LMIG	Liberty Mutual Group
AF	Actuarial Function	LMIE	Liberty Mutual Insurance Europe SE
ALAE	Allocated Loss Adjusted Expenses	LOC	Letter of Credit
AOCI	Accumulated Other Comprehensive Income	LSM	Liberty Specialty Markets
BEC	Board Executive Committee	MCR	Minimum Capital Requirement
BBNI	Bound but Not Incepted	MI	Management Information
CAA	Commissariat Aux Assurances	NRQS	Net Result Quota Share
COR	Combined Operating Ratio	ORSA	Own Risk and Solvency Assessment
CP	Contingency Plans	P&C	Property & Casualty
CRO	Chief Risk Officer	PRA	Prudential Regulation Authority
CUO	Chief Underwriting Officer	PTOI	Pre-Tax Operating Income
DGS	Direccion General de Seguros	QRT	Quantitative Reporting Templates
EIOPA	European Insurance and Occupational Pensions Authority	RAG	Red, Amber, Green
EPIFP	Expected Profit in Future Premium	RDS	Realistic Disaster Scenario
ENID	Events not in Data	RM&ICF	Risk Management and Internal Control Framework
EWI	Early Warning Indicator	RMC	Risk Management Committee
FCA	Financial Conduct Authority	RMF	Risk Management Framework
GAAP	Generally Accepted Accounting Practices	RMS	Risk Management Solutions
GBP	Great British Pound	RST	Reverse Stress Test
GWP	Gross Written Premium	SII	Solvency II
IA	Internal Audit	S&P	Standard & Poor's
ICA	Individual Capital Assessment	SCR	Solvency Capital Requirement
IIA	Institute of Internal Audit	SF	Standard Formula
IFRS	International Financial Reporting Standards	SFCR	Solvency and Financial Condition Report
IM	Internal Model	SST	Stress & Scenario Test
LAP	Liberty Attestation Process	TPs	Technical Provisions
LMAL	Liberty Managing Agency Limited	ULAE	Unallocated Loss Adjusted Expenses
YOA	Year of Account	USD	United States Dollar

APPENDIX A – QRT'S

All QRT's are €000's

List of Reported Templates:

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.05.02.01 - Premiums, claims and expenses by country

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

S.22.01 - Impact of long-term guarantees measures and transitionals

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02 – Balance Sheet – Assets

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	102,934
R0050	Pension benefit surplus	7,093
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,009,569
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	4,298,126
R0140	*Government Bonds*	1,406,382
R0150	*Corporate Bonds*	2,796,038
R0160	*Structured notes*	0
R0170	*Collateralised securities*	95,706
R0180	*Collective Investments Undertakings*	508,460
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	202,983
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	1,668,291
R0280	*Non-life and health similar to non-life*	1,668,291
R0290	*Non-life excluding health*	1,665,743
R0300	*Health similar to non-life*	2,548
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	56,217
R0360	Insurance and intermediaries receivables	310,320
R0370	Reinsurance receivables	213,067
R0380	Receivables (trade, not insurance)	41,483
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	265,977
R0420	Any other assets, not elsewhere shown	17,105
R0500	**Total assets**	7,692,057

S.02.01.02 – Balance Sheet – Liabilities

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	5,059,110
R0520	*Technical provisions - non-life (excluding health)*	5,052,021
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	4,808,812
R0550	*Risk margin*	243,209
R0560	*Technical provisions - health (similar to non-life)*	7,089
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	6,704
R0590	*Risk margin*	385
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	2,526
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	67,336
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	70,864
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	76,603
R0900	**Total liabilities**	5,276,439
R1000	**Excess of assets over liabilities**	2,415,618

S.05.01.02 – Premiums, claims and expenses by line of business

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	1,680	5,680	0	1,396	0	113,380	355,088	1,065,536	184,605			68,397					1,795,761
R0120	Gross - Proportional reinsurance accepted	17	463	0	30,222	6,486	79,308	266,920	81,266	278,135			3,354					746,170
R0130	Gross - Non-proportional reinsurance accepted													3,611	84,010	16,392	339,393	443,406
R0140	Reinsurers' share	950	3,457	0	26,420	4,206	124,072	368,758	861,034	289,887			46,210	2,189	63,749	10,408	218,872	2,020,211
R0200	Net	747	2,686	0	5,198	2,280	68,616	253,249	285,769	172,853			25,540	1,422	20,261	5,984	120,521	965,126
	Premiums earned																	
R0210	Gross - Direct Business	1,508	5,100	0	1,414	0	109,772	304,767	1,102,685	189,083			67,139					1,781,468
R0220	Gross - Proportional reinsurance accepted	10	437	0	29,225	6,275	99,696	250,597	78,144	235,162			3,370					702,915
R0230	Gross - Non-proportional reinsurance accepted													3,614	80,264	16,561	313,169	413,607
R0240	Reinsurers' share	950	3,458	0	26,324	4,157	144,086	365,009	876,113	302,205			44,110	2,189	63,260	10,399	221,940	2,064,200
R0300	Net	568	2,079	0	4,316	2,118	65,381	190,354	304,715	122,040			26,399	1,425	17,003	6,162	91,229	833,790
	Claims incurred																	
R0310	Gross - Direct Business	780	2,637	0	3,438	0	54,111	193,966	755,519	109,205			5,032					1,124,688
R0320	Gross - Proportional reinsurance accepted	1	252	0	26,830	4,399	78,000	224,460	43,835	116,620			2,040					496,438
R0330	Gross - Non-proportional reinsurance accepted													3,795	71,991	643	381,243	457,672
R0340	Reinsurers' share	394	1,425	0	26,012	3,029	91,794	270,578	595,707	160,317			781	2,193	60,510	606	263,099	1,476,444
R0400	Net	387	1,464	0	4,256	1,370	40,317	147,849	203,646	65,508			6,291	1,602	11,481	37	118,145	602,353
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
R0550	**Expenses incurred**	291	1,011	0	2,536	1,003	23,405	62,419	109,270	47,113			11,850	341	7,415	1,478	34,536	302,667
R1200	**Other expenses**																	
R1300	**Total expenses**																	302,667

S.05.02.01 – Premiums, claims and expenses by country

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			DE	ES	FR	GB	IT	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	130,020	118,248	103,589	147,649	685,247	100,772	1,285,524
R0120	Gross - Proportional reinsurance accepted	34,307	42,303	34,083	56,453	157,052	41,063	365,261
R0130	Gross - Non-proportional reinsurance accepted	7,259	109,376	23,297	74,283	29,931	35,328	279,474
R0140	Reinsurers' share	74,372	186,918	106,996	192,528	641,340	84,375	1,286,531
R0200	Net	97,214	83,008	53,973	85,856	230,889	92,788	643,729
	Premiums earned							
R0210	Gross - Direct Business	57,977	114,775	92,694	141,964	825,464	78,416	1,311,290
R0220	Gross - Proportional reinsurance accepted	23,588	37,443	32,143	52,764	131,607	34,558	312,103
R0230	Gross - Non-proportional reinsurance accepted	5,842	105,324	22,355	69,613	20,262	33,861	257,259
R0240	Reinsurers' share	56,573	178,635	102,119	186,718	720,958	77,317	1,322,320
R0300	Net	30,834	78,907	45,073	77,624	256,375	69,518	558,331
	Claims incurred							
R0310	Gross - Direct Business	32,490	140,170	27,830	49,964	501,578	52,824	804,856
R0320	Gross - Proportional reinsurance accepted	7,189	33,234	4,475	104,991	142,022	34,694	326,606
R0330	Gross - Non-proportional reinsurance accepted	6,008	93,200	11,852	155,586	41,023	7,893	315,561
R0340	Reinsurers' share	29,362	190,021	29,789	208,982	506,273	60,595	1,025,021
R0400	Net	16,325	76,583	14,369	101,559	178,349	34,817	422,002
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0440	Reinsurers' share	0	0	0	0	0	0	0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	12,601	33,592	20,674	30,988	74,360	22,194	194,410
R1200	**Other expenses**							
R1300	**Total expenses**							194,410

S.17.01.02 – Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	78	219	0	-989	-480	-5,955	-36,700	-104,935	-9,524			-21,394	-345	-4,108	-1,125	-29,920	-215,178
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	18	4	0	-1,445	-254	-13,320	-53,931	-112,868	-70,858			-18,912	-424	-4,888	-803	-33,300	-310,981
R0150	**Net Best Estimate of Premium Provisions**	60	215	0	456	-226	7,366	17,231	7,933	61,335			-2,481	78	780	-322	3,379	95,803
	Claims provisions																	
R0160	Gross	906	3,037	0	52,454	5,698	256,427	594,946	2,889,583	392,436			54,682	2,810	220,922	26,743	530,051	5,030,694
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	238	978	0	37,818	2,122	103,888	192,579	1,037,985	184,267			42,095	1,734	126,412	23,968	225,188	1,979,273
R0250	**Net Best Estimate of Claims Provisions**	667	2,059	0	14,636	3,575	152,539	402,368	1,851,598	208,169			12,586	1,075	94,510	2,775	304,863	3,051,421
R0260	**Total best estimate - gross**	984	3,256	0	51,465	5,218	250,473	558,246	2,784,648	382,912			33,288	2,464	216,814	25,618	500,130	4,815,516
R0270	**Total best estimate - net**	727	2,275	0	15,092	3,350	159,904	419,599	1,859,530	269,503			10,105	1,154	95,290	2,453	308,242	3,147,224
R0280	**Risk margin**	17	159	0	1,762	170	10,525	22,200	118,607	27,823			4,081	210	16,487	1,996	39,558	243,595
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
R0300	Best estimate	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
R0310	Risk margin	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
R0320	**Technical provisions - total**	1,000	3,415	0	53,227	5,388	260,998	580,447	2,903,255	410,735			37,369	2,674	233,301	27,614	539,688	5,059,110
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	256	981	0	36,373	1,868	90,568	138,648	925,117	113,409			23,183	1,311	121,524	23,165	191,888	1,668,291
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	744	2,433	0	16,854	3,520	170,430	441,799	1,978,137	297,327			14,186	1,363	111,777	4,449	347,800	3,390,819

S.19.01 – Non-Life Insurance Claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											18,568	18,568	18,568
R0160	2013	15,621	67,203	54,709	56,883	29,266	29,365	15,632	-1,553	10,560	8,552		8,552	286,239
R0170	2014	58,540	114,888	46,240	41,365	38,613	80,351	18,412	23,682	25,197			25,197	447,289
R0180	2015	29,838	161,383	97,820	90,971	100,705	64,218	50,796	27,962				27,962	623,693
R0190	2016	30,523	139,230	86,438	51,012	59,820	29,590	40,663					40,663	437,276
R0200	2017	30,445	164,298	126,813	122,070	60,471	52,972						52,972	557,069
R0210	2018	18,942	133,110	132,822	106,670	74,914							74,914	466,458
R0220	2019	19,546	214,028	220,617	181,601								181,601	635,792
R0230	2020	64,116	187,811	186,363									186,363	438,289
R0240	2021	62,547	376,650										376,650	439,196
R0250	2022	51,585											51,585	51,585
R0260												Total	1,045,028	4,401,452

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											310,252	280,773
R0160	2013	0	0	0	217,199	168,274	98,587	98,023	75,450	66,820	71,736		64,747
R0170	2014	0	0	356,893	286,110	246,864	180,755	177,139	144,780	112,339			101,435
R0180	2015	0	458,573	450,348	383,826	359,681	245,949	153,285	123,374				109,727
R0190	2016	310,991	466,320	380,610	348,903	289,947	235,880	195,197					176,903
R0200	2017	404,124	537,566	596,019	450,087	374,715	333,856						304,289
R0210	2018	325,531	696,631	614,896	574,716	458,468							417,840
R0220	2019	737,082	1,118,749	1,017,765	910,389								814,904
R0230	2020	811,516	1,117,207	984,207									878,800
R0240	2021	1,105,096	1,272,901										1,148,289
R0250	2022	809,702											732,986
R0260												Total	5,030,694

S.23.01.01 – Own Funds

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	255,424	255,424		0	
R0030	Share premium account related to ordinary share capital	1,617,533	1,617,533		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	442,252	442,252			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	100,408				100,408
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	2,415,618	2,315,210	0	0	100,408
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	398,221			398,221	
R0400	**Total ancillary own funds**	398,221			398,221	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	2,813,839	2,315,210	0	398,221	100,408
R0510	Total available own funds to meet the MCR	2,315,210	2,315,210	0	0	
R0540	Total eligible own funds to meet the SCR	2,813,839	2,315,210	0	398,221	100,408
R0550	Total eligible own funds to meet the MCR	2,315,210	2,315,210	0	0	
R0580	**SCR**	1,643,583				
R0600	**MCR**	537,724				
R0620	**Ratio of Eligible own funds to SCR**	171.20%				
R0640	**Ratio of Eligible own funds to MCR**	430.56%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	2,415,618
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,973,366
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	442,252
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	852,643
R0790	**Total Expected profits included in future premiums (EPIFP)**	852,643

S.25.01.21 – Solvency Capital Requirement – Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	350,778		
R0020	Counterparty default risk	287,049		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	7,131		
R0050	Non-life underwriting risk	1,198,012		
R0060	Diversification	-343,853		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	1,499,117		

USP Key

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

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

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	144,465
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	1,643,583
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	1,643,583
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Yes

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

S.28.01.01 – Minimum Capital Requirement

S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	537,724

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	727	751
R0030	Income protection insurance and proportional reinsurance	2,275	2,754
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	15,092	6,621
R0060	Other motor insurance and proportional reinsurance	3,350	4,349
R0070	Marine, aviation and transport insurance and proportional reinsurance	159,904	79,894
R0080	Fire and other damage to property insurance and proportional reinsurance	419,599	321,944
R0090	General liability insurance and proportional reinsurance	1,859,530	396,657
R0100	Credit and suretyship insurance and proportional reinsurance	269,503	271,940
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	10,105	25,836
R0140	Non-proportional health reinsurance	1,154	2,229
R0150	Non-proportional casualty reinsurance	95,290	25,723
R0160	Non-proportional marine, aviation and transport reinsurance	2,453	9,850
R0170	Non-proportional property reinsurance	308,242	218,248

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	537,724
R0310	SCR	1,643,583
R0320	MCR cap	739,612
R0330	MCR floor	410,896
R0340	Combined MCR	537,724
R0350	Absolute floor of the MCR	4,000
R0400	**Minimum Capital Requirement**	537,724