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# LIBERTY MUTUAL INSURANCE EUROPE SOCIETAS EUROPAEA

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Solvency and Financial Condition Report  
As at 31 December 2021

# Liberty Mutual Insurance Europe Societas Europaea

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## 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 2021 annual Quantitative Reporting Templates (QRTs) and narrative reporting templates to the Commissariat aux Assurances (CaA) on 8th April 2022 as part of the Solvency II year-end reporting requirements.

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 more than 50,000 people in over 800 offices throughout the world. Through its subsidiaries and affiliated companies, it offers a wide range of property & casualty insurance products and services to individuals and businesses alike.

The ultimate parent company is Liberty Mutual Holding Company Inc. (hereinafter referred to as Liberty Mutual or, LMHC). Liberty Mutual is a diversified global insurer and one of the largest Property and Casualty (P&C) insurers in the U.S. Functionally, the two major business units of the Liberty Mutual Insurance group are Global Retail Markets (GRM) and Global Risk Solutions (GRS). LMIE is part of the Liberty Specialty Markets (LSM) segment, which in turn is part of the GRS business unit. LMIE 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”).

LMIE 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 1<sup>st</sup> March 2019. Following the incorporation of the Company as a Societas Europaea (SE), the Share capital was registered and subscribed in Euros.

Since 1 January 2021, LMIE UK Branch is operating within the UK Temporary Permissions Regime (TPR). The UK Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority (registered number 829959). The TPR allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation. The UK Branch application has been submitted to the PRA with a request for full authorisation from the 2<sup>nd</sup> quarter of 2022. In order to achieve the state of readiness, LSM has put in place a well-resourced project with senior business representation led by the Head of Compliance.

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 Two Sarl 2 (LSME2), which act as intermediary companies that underwrite on behalf of LMIE from their branches throughout Europe and the United Kingdom.

### Whole Account Quota Share

Over the course of 2021, LMIE reviewed long term capital solutions and as a result entered into a Whole Account Quota Share (WAQS) agreement with Liberty Mutual Insurance Company Inc (LMIC) which is expected to provide sustained benefit to LMIE’s solvency and a more efficient form of capital support from Liberty Mutual Group, by:

- Effectively managing LMIE’s Solvency II capital requirements; and
- Keeping business unit protection intact and in line with risk appetites.

The WAQS contract 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.

## COVID-19

The ongoing COVID-19 global pandemic made 2021 another challenging period for our people, our customers and economies around the world. LMIE has demonstrated impressive resilience during this challenging time. LMIE continues to pay out claims to our customers impacted and internally support our staff. Management has continuously monitored, reviewed and assessed the impacts of COVID-19. LMIE remains well capitalised to withstand the impacts of the pandemic.

Management will continue to monitor the pandemic closely, and pro-actively take action where necessary. Significant work has taken place around Operational Resilience during 2021, driven both by LSM's strategy and increased regulatory focus implying that LMIE is in a strong position to deal with future disruption.

## Russia & Ukraine Conflict

In February 2022, a number of countries (including the US, UK and EU) imposed new sanctions against certain entities (of which financial institutions) and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation.

Additional sanctions have been made following military operations initiated by Russia on 24th February 2022 against Ukraine including the restriction of the access of already sanctioned Russian banks to the international payments system SWIFT. Such sanctions can impact not only the sanctioned entities and individuals including entities under their control but also Business Counterparties of these sanctioned entities. The results of the sanctions and the geopolitical instability have created an important volatility in the financial markets with a potential to adversely impact global economies and increase instability across markets.

It is too early to quantify the overall impact to the Company with a high degree of certainty. LSM has set up an internal working group to monitor the fast-developing situation closely and will take all appropriate steps to manage the effect this has on the Company. The Board of Directors regards these events as non-adjusting events after the reporting period. At the date of this report, the Company's going concern is not impacted by the above. It is too early to quantify the overall impact to the Company with a high degree of certainty and the situation, including the possible impact of changing micro and macroeconomic conditions, will continue to be monitored.

## 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.

### 2021 Financial Performance

The Company's key financial performance indicators for the year ended 31 December 2021 were as follows:

Key Performance Indicators	2021	2020	Variance	Variance
	€'000	€'000		
	Lux GAAP	Lux GAAP	€'000	%
Gross Written Premiums	2,848,796	2,480,765	368,031	15%
Net Earned Premiums	808,596	1,500,728	(692,132)	-46%
Net Incurred Claims	501,275	1,101,410	(600,135)	-54%
Expenses	268,259	488,494	(220,235)	-45%
Underwriting Result	39,062	(89,176)	128,238	-144%
Net Claims Ratio %	62.0%	73.4%		-11.4%
Net Expense Ratio %	33.2%	32.6%		0.6%
Net Combined ratio % <sup>(i)</sup>	95.2%	105.9%		-10.8%

(i) The 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 2021 represents an improvement of €128m on the prior year, reflected in a reduction of the Net Combined ratio by 10.8%.

The Gross Written Premium (GWP) has increased by 15%, given the continued implementation of the European Growth strategy as well as new business wins and favourable rate changes in Financial Lines, Directors & Officers and Reinsurance business. The Net Earned Premium (NEP) is lower by 46%, primarily due to €1,176m of premium being ceded to LMIC as part of recognition of the WAQS, as explained above.

The Net claims ratio has moved favourably by 11.4%, primarily due to benign claims experience in several lines of business leading to an improvement in the attritional loss ratio of 11.5%. In addition, prior year recoveries of 2.9%, arising from recognition of the 'Enstar' Loss Portfolio Transfer (LPT) have been recognised. These improvements are partially offset by an increase in catastrophe losses by 3%, following significant exposure to Storm Berndt, Hurricane Ida, European Floods and Pacific Winter Storm. The largest loss for the prior year related to COVID-19.

The Net Expense ratio at 33.2% is slightly higher compared to prior year (32.6%), primarily driven by an increase in the volume of operating expenses due to higher staff costs, IT expenditure and consulting fees as well recharges from other group entities. Further details are provided in Section A.2.

### Investment Portfolio and Investment Return

LMIE's investment portfolio predominately consists of fixed income assets, which generated a return of €58m in 2021 (2020: €86m) on a Lux GAAP basis. The reduction in investment income is primarily driven by lower realised gains, while the income from bonds has remained relatively consistent.

Spreads have been volatile over 2021 but ended the year at a similar level to where they started. Investment income on a Solvency II basis amounted to a €17.8m loss (2020: €185m gain), primarily due to a large reduction in unrealised gains driven by the movement in risk-free rates. This was in turn driven by expectations of central bank interest rate increases as well as global inflation as major economies emerged out of lockdowns. Further details of investment performance are provided in Section A.3.

## Review of financial position

Financial position	2021 €'000	2020 €'000
Gross technical provisions	6,790,408	5,389,062
Ceded technical provisions	3,232,205	1,881,317
Investments and cash	4,655,869	4,108,615
Shareholder funds	1,767,710	1,764,921

Gross technical provisions on a Lux GAAP basis increased by €1,401m to €6,790m due to growth in the business and associated loss experiences. The proportion of ceded technical provisions is higher compared to 2020, due to the application of the WAQS which leads to recognition of c.60% recoveries on net incurred losses.

The investment portfolio has increased by €547m driven primarily by acquisition of new securities. 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) remains responsible for the governance of the Company and has 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 running of the Company's business to the General Manager.

### Directors

The following individuals served as Directors of LMIE from 1 January 2021 to the date of this report, unless otherwise indicated:

### Directors

Dirk Billemon	Authorised General Manager and Director
Graham Brady	Director (resigned 9 <sup>th</sup> December 2021)
Nigel Davenport	Director
Fernand Grulms	Independent Non-Executive Director
Christopher Hanks	Independent Non-Executive Director
Pierre Hentgen	Independent Non-Executive Director
Philip Hobbs	Director (resigned 31 <sup>st</sup> January 2022)
Virginie Lagrange	Independent Non-Executive Director
Matthew Moore	Director (resigned 9 <sup>th</sup> December 2021)
Christian Rola	Director

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.

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 2021. There have been some changes to the Legal Entity Committee structure following the establishment of the Operational Risk Committee in May 2021 and the Internal Model Governance Committee in January 2022. Further details on these are provided in section B.1 below.

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:

- Underwriting risk
- Market risk
- Credit risk
- Liquidity risk
- Environmental, Social & Governance Risk (ESG)
- Operational risk
- Other material risks



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 continues to prepare its annual financial statements on a Luxembourg GAAP (Lux GAAP) basis.

The Solvency II values are derived on a fair value basis under the EIOPA guidelines on valuation. In addition, Solvency II reporting requires some reclassification of assets and liabilities from the categories reported in the financial statements. Further details around valuation and reclassification differences are described in Section D of this report. The most significant valuation differences relate 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

The Solvency Working Group, which reports to the LSM CFO Committee on a quarterly basis, is tasked with monitoring the Solvency II ratio and managing the efficiency of LMIE's capital. Following capital remediation undertaken in 2020, LMIE entered 2021 with a strong solvency ratio of 143%. Throughout 2021, LMIE continued to experience the benefit from these capital actions including the establishment of an Ancillary Own Fund facility, collateral held with LMIC and a loss portfolio transfer of the run-off ECML book of business to Enstar Group. During the year, LMIE entered into the WAQS with LMIC to provide sustained capital benefit going forward, as explained above.

As at 31 December 2021, LMIE had eligible own funds of €2,205m (2020: €1,971m) and a Solvency Capital Requirement (SCR) of €1,284m (2020: €1,381m). The increase in basic own funds is primarily driven from an increase in the investment portfolio of c.€507m, as well as RI Technical provisions of c.€489m arising from higher recoveries following recognition of the WAQS. These movements are partially offset by an increase in Gross Technical Provisions of c.€873m, primarily arising from enhanced exposures due to increased business written by LMIE.

For 2021, this provides a Solvency Capital Ratio of 172%, 47% above the company's risk appetite for coverage of 125%, as illustrated in the following table. Further details are provided in Section E.

<b>Capital Structure</b>		<b>2021</b>	<b>2020</b>
		<b>€'000</b>	<b>€'000</b>
Share Capital	E.1.2.a	255,424	255,424
Share Premium	E.1.2.a	1,098,434	1,098,434
Reconciliation reserve	E.1.2.b	445,920	255,538
<b>Available and Eligible Own Funds (to cover the MCR)</b>		<b>1,799,778</b>	<b>1,609,396</b>
MCR	E.2.1	509,643	573,505
<b>MCR Coverage Ratio</b>		<b>353%</b>	<b>281%</b>
An amount equal to the value of net deferred tax assets		31,647	13,970
Ancillary Own Funds	E.1.2.c	373,724	347,348
<b>Available and Eligible Own Funds (for SCR Coverage)</b>		<b>2,205,150</b>	<b>1,970,715</b>
SCR	E.2.1	1,284,091	1,380,554
<b>SCR Coverage Ratio</b>		<b>172%</b>	<b>143%</b>

Latest views on 2022 year-end solvency projects LMIE to remain towards the higher end of its risk 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 required to support its continuing operation.

Given the above actions taken over the course of 2021 we believe there is appropriate headroom in capital to support the business across 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 31<sup>st</sup> December 2021**

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 2021. 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 2021. 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

8 April 2022



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# BUSINESS & PERFORMANCE

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## 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 2021.

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) 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 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.

*7 Boulevard Joseph II  
L-1840 Luxembourg*

The proposed UK third country branch will fall 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 "Dirección 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 Supervisão de Seguros e Fundos et Pensiones (ASF, Portuguese Supervisor).

Following the end of the Brexit transition period on 31 December 2020, the PRA is 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

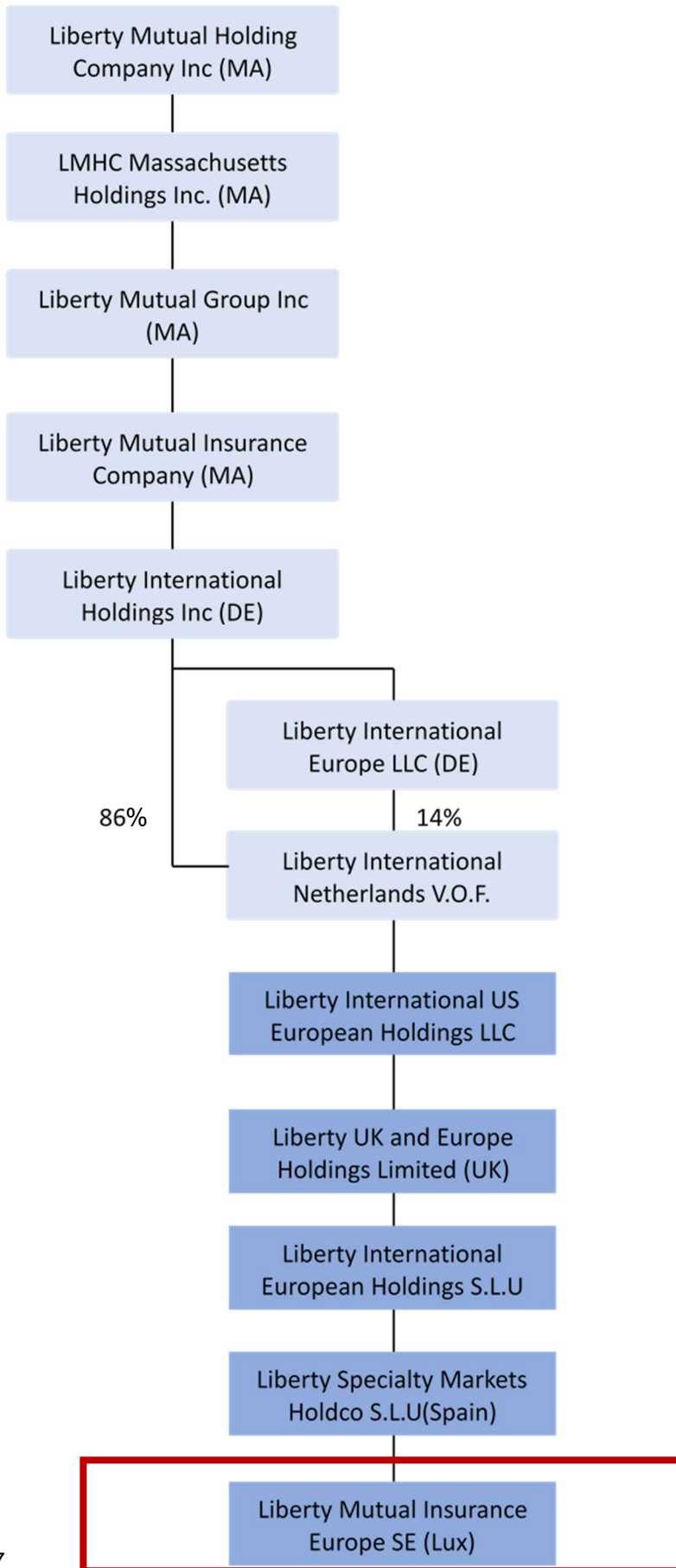
LMIE is wholly owned by the immediate parent company, LSMH.

The members of LMHC are persons or organisations appearing as the primary insured in an 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

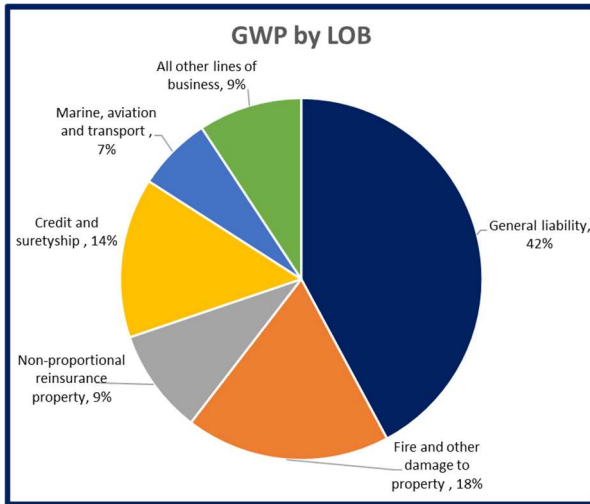
The following is a summarised organisation structure showing LMIE's positioning within the overall Liberty group structure.



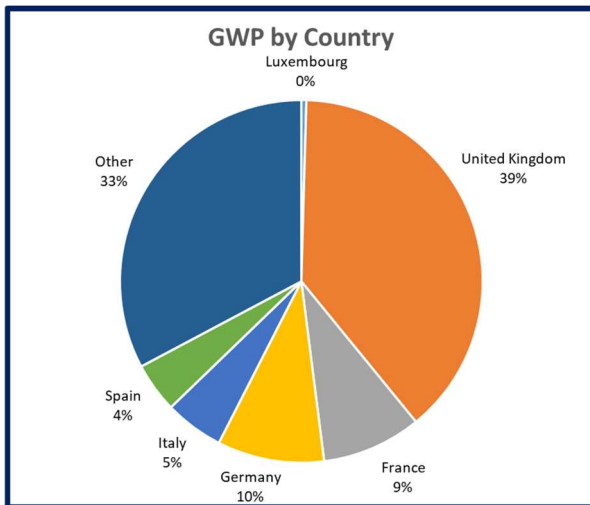
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### A.1.6 The undertaking's material lines of business and material geographical areas where it carries out business

LMIE is one of the key insurance entities within the LSM 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.



The Company operates with 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 represents 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.

### 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

The UK left the European Union on 31 January 2020, having entered a transitional period ensuring travel, trade and freedom of movement remain unchanged until 31 December 2020. LSM's chosen Brexit solution, to redomicile operations to Luxembourg has ensured uninterrupted business continuity.

Since 1 January 2021, LMIE UK Branch has been operating within the UK Temporary Permissions Regime and (TPR). The UK Branch is deemed authorised by the PRA and is 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 TPR allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation. The UK Branch application has been submitted to the PRA with a request for full authorisation with effect from the 2<sup>nd</sup> Quarter of 2022.

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 by Jane Warren as the UK Branch Manager, and Nathan Hardman as the UK Branch Compliance officer, was established in May 2021. 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 2021

LMIE’s underwriting performance on a Lux GAAP basis is summarised in the table below for the years ended 31 December 2021 and 2020.

Key Performance Indicators	2021	2020	Variance	Variance
	€'000	€'000		
	Lux GAAP	Lux GAAP	€'000	%
Gross Written Premiums	2,848,796	2,480,765	368,031	15%
Net Earned Premiums	808,595	1,500,728	(692,133)	-46%
Net Incurred Claims	501,275	1,101,410	(600,135)	-54%
Expenses	268,259	488,494	(220,235)	-45%
Underwriting Result	39,062	(89,176)	128,238	-144%
Net Claims Ratio %	62.0%	73.4%		-11.4%
Net Expense Ratio %	33.2%	32.6%		0.6%
Net Combined ratio % <sup>(i)</sup>	95.2%	105.9%		-10.8%

(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 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 2021 represents an improvement of €128m on the prior year, reflected in a reduction of the Net Combined ratio by 10.8%.

The Gross Written Premium (GWP) has increased by 15%, given the continued implementation of the European Growth strategy as well as new business wins and favourable rate changes in Financial Lines, Directors & Officers, and Reinsurance business. The Net Earned Premium (NEP) is lower by 46%, primarily due to €1,176m of premium being ceded to LMIC following recognition of the WAQS.

The Net claims ratio has moved favourably by 11.4%, primarily due to benign claims experience in several lines of business leading an improvement in the attritional loss ratio of 11.5%. In addition, prior year recoveries of 2.9%, arising from transfer of the ECML run-off Loss Portfolio to Enstar, have been recognised. These improvements are partially offset by an increase in catastrophe losses by 3%, the largest exposures relating to Storm Berndt (€40.5m), Hurricane Ida (€13.3m), European Floods (€5.9m) and Pacific Winter Storm (€4.3m). The largest CAT losses for 2020 related to COVID-19 exposures (c.€66m).

The Net Expense ratio is higher at 33.2% (2020: 32.6%) due to increased staff costs, IT expenditure and consulting fees as well as recharges from other group entities.

### 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 2021 and 31 December 2020 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 as follows:

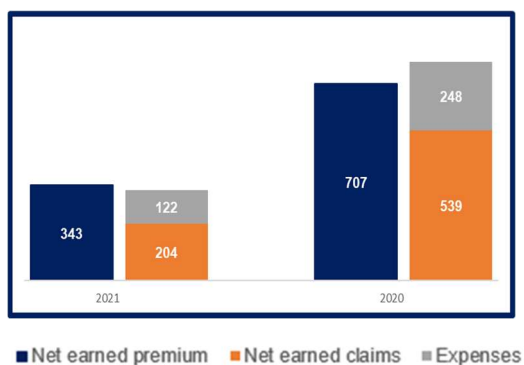
2021	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
General liability	1,201,025	342,968	204,063	118,583	20,322
Fire and other damage to property	520,340	169,729	118,334	56,208	(4,813)
Non-proportional reinsurance property	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
<b>A TOTAL</b>	<b>2,848,796</b>	<b>808,596</b>	<b>485,162</b>	<b>289,547</b>	<b>33,887</b>
<i>B</i> Reclassification of ULAE to Expenses			16,113	(16,113)	
<i>C*</i> Removal of Other expenses included in S.05.01				(5,175)	5,175
<i>D</i> Revised Result (A+B+C)	2,848,796	808,596	501,275	268,259	39,062
<b>E LUX GAAP Financial Statements</b>	<b>2,848,796</b>	<b>808,596</b>	<b>501,275</b>	<b>268,259</b>	<b>39,062</b>

\*Primarily investment management expenses

2020	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
General liability	1,072,853	706,755	539,074	248,059	(80,379)
Fire and other damage to property	384,710	225,899	144,452	74,908	6,538
Non-proportional reinsurance Property	319,586	213,879	117,201	64,930	31,747
Credit and suretyship	298,455	139,580	98,095	50,830	(9,346)
Marine, aviation and transport	157,480	94,902	75,668	31,840	(12,607)
All other lines of business	247,680	119,714	93,270	55,432	(28,989)
<b>A TOTAL</b>	<b>2,480,765</b>	<b>1,500,728</b>	<b>1,067,760</b>	<b>526,001</b>	<b>(93,034)</b>
<i>B</i> Reclassification of ULAE to Expenses			33,649	(33,649)	0
<i>C*</i> Removal of Other expenses included in S.05.01				(3,857)	3,858
<i>D</i> Revised Result (A+B+C)	2,480,765	1,500,728	1,101,410	488,494	(89,176)
<b>E LUX GAAP Financial Statements</b>	<b>2,480,765</b>	<b>1,500,728</b>	<b>1,101,410</b>	<b>488,494</b>	<b>(89,176)</b>

\*Primarily investment management expenses

### General Liability

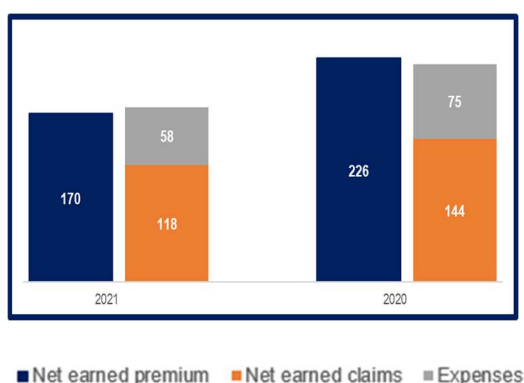


General Liability achieved an underwriting profit of €20.3m (2020: €80.4m loss), resulting in a net combined ratio of 94%.

The net loss ratio has reduced to 59% (2020: 76%). This is largely driven by an improved result in the Directors & Officers lines as well as favourable movements on run-off business. In addition, the €22m recoveries recognised from the ECML contract with Enstar also relate entirely to this class of business.

The net Expense ratio has remained consistent at 35%.

### Fire & Other Damage to Property

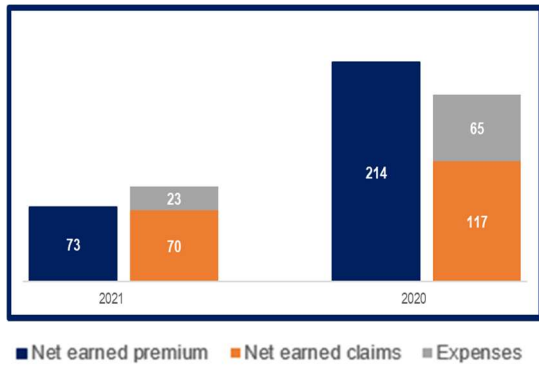


Fire and other damage to property incurred an underwriting loss of €4.8m (2020: profit of €6.5m) resulting in a net combined ratio of 103% (2020: 97%).

The net loss ratio is higher at 70% (2020: 64%), largely due to CAT losses of €16.7m, resulting from exposures to Storm Berndt (€9.4m), Pacific Winter Storm (€2.5m), European Floods (€2.3m) and Hurricane Ida (€2.5m). These are partially offset by favourable attritional claims experience in Construction, Property Non-MGA and proportional RI property lines.

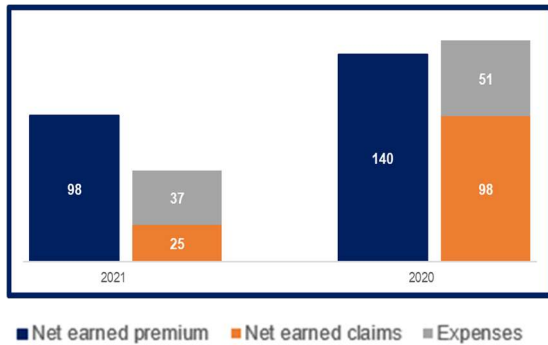
The net expense ratio remains comparable at 33% (2020: 33%).

**Non-Proportional Reinsurance Property**



The Non-Proportional Reinsurance Property incurred an underwriting loss of €24.6m (2020: Profit of €31.7m), resulting in a net combined ratio of 134% (2020: 85%). The net loss ratio is higher at 96% (2020: 55%). This is largely driven by unfavourable claims experiences in Property, Oil & Gas, and Specialty LMR business. In addition, CAT losses impacting this class of business aggregated to €37.5m, resulting from exposures to Storm Berndt (€30.4m), Pacific Winter Storm (€1.6m), European Floods (€3.5m) and Hurricane Ida (€1.8m). The expenses ratio is higher at 38% (2020: 30%) primarily due to higher claims management costs arising from increased loss exposure.

**Credit and Suretyship**

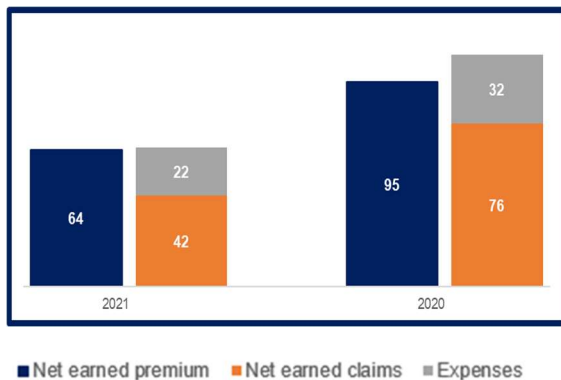


Credit and Suretyship achieved an underwriting profit of €36.7m (2020: Loss of €9.4m), resulting in a net combined ratio of 63% (2020: 106%).

The improvement in the result is largely down to a significantly lower net loss ratio of 25% (2020: 70%), which has arisen primarily due to net recoveries on Financial Risks, as well as benign claims experience in Short-term Credit lines.

The net expenses ratio has remained relatively consistent at 38% (2020: 36%).

**Marine, Aviation & Transport**



The Marine, Aviation & Transport line of business earned an underwriting loss of €0.8m (2020: Loss of €13m), resulting in a net combined ratio of 101% (2020: 113%).

The net loss ratio at FY 2021 is lower at 66% (2020: 80%) primarily due to lower CAT losses of €6.6m, arising from exposure to Hurricane Ida, against COVID losses of c.€17m at FY 2020. In addition, the attritional loss ratio is also lower due to relatively favourable loss experience in the Marine Cargo, Liability & Aviation lines.

The expense ratio has remained comparable at 35% (2020: 34%).

### 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 QRT S.05.02.01 Premiums, Claims and Expenses by country and is presented using the Solvency II criteria for determining activity by geographic location.

As at 31st December 2021	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
Luxembourg	12,822	7,879	2,641	2,492	2,746
United Kingdom	1,101,102	319,465	200,708	93,015	25,742
France	253,176	76,404	44,866	28,275	3,263
Germany	271,498	81,737	43,282	32,344	6,112
Spain	149,911	49,476	21,915	17,970	9,591
Italy	126,794	53,488	15,756	16,359	21,373
Other	933,493	220,146	155,993	99,092	(34,939)
<b>TOTAL</b>	<b>2,848,796</b>	<b>808,596</b>	<b>485,162</b>	<b>289,547</b>	<b>33,887</b>

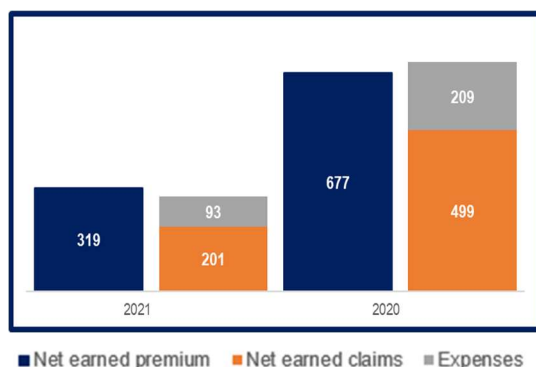
As at 31st December 2020	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
Luxembourg	15,504	11,363	855	3,270	7,238
United Kingdom	1,068,860	676,865	499,166	209,118	(31,419)
France	198,254	143,838	110,927	42,994	(10,084)
Germany	180,676	128,776	85,413	42,776	587
Spain	112,742	86,284	72,937	29,498	(16,152)
Italy	130,240	101,551	43,235	37,140	21,176
Other	774,488	352,051	255,227	161,204	(64,380)
<b>TOTAL</b>	<b>2,480,765</b>	<b>1,500,728</b>	<b>1,067,760</b>	<b>526,001</b>	<b>(93,034)</b>

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 post the UK leaving the EU (Brexit). As part of the Brexit strategy, LMIE has established and 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 of €1,101m which represents 39% of total GWP (2020: contribution of 43%) while the other top 4 European countries by GWP – France, Germany, Italy and Spain, contribute 28% of the total GWP (2020: contribution of 26%).

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

### United Kingdom

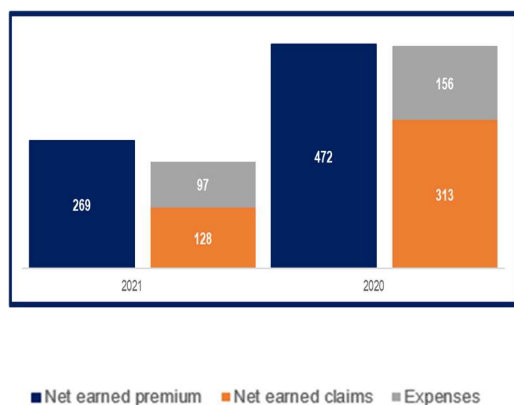


The UK earned an underwriting profit of €26m (2020: €31m loss), resulting in a net combined ratio of 92% (2020: 104%).

The net loss ratio is lower at 63% (2020: 74%). This is because the largest proportion of UK business relates to the General Liability line of business, which has noted a reduced claims exposure for 2021, as explained in the previous section.

The expenses ratio has also remained comparable at 29% (2020: 30%).

### Europe



The top 4 European countries by GWP, along with the Home country (Luxembourg) reflected an underwriting profit of €43m (2020: €3m profit), resulting in a combined ratio of 84% (2020: 100%).

The net loss ratio is lower at 48% (2020: 66%), consistent with the improvement in the UK result. Although Fire & Other Damage to Property and Non-Proportional Property LOBs comprise 33% of the business written, and are exposed to the CAT losses discussed above, favourable results are noted on other LOBs comprising the portfolio for business written in these countries.

## 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.

2021 €(000)	Dividends	Interest	Net gains and losses	Unrealised gains and losses	Total performance
Government bonds	0	10,478	(518)	(24,347)	(14,387)
Corporate bonds	0	59,167	8,261	(78,246)	(10,818)
Collective Investment Undertakings	63	0	2,115	672	2,850
Collateralised securities (interest)	0	328	0	(501)	(172)
Cash and deposits	0	4,637	0	0	4,637
Mortgages & Loans	0	108	0	0	108
<b>Total Investment income</b>	<b>63</b>	<b>74,718</b>	<b>9,858</b>	<b>(102,422)</b>	<b>(17,783)</b>

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 2021 generated a net loss of €17.8m (2020: €185m investment gain), as represented in the tabulation above. The downturn in investment performance was largely driven by a reduction in unrealised gains of €102m which is a stark contrast to the prior year which benefited from an increase in unrealised gains of €76m. This was due to an increase in yield rates, in turn driven by expectations of central bank interest rate increases as well as global inflation as major economies emerged out of lockdowns.

### Investments in Securitisations

The Company's holdings in securitised assets are shown in the below table. Given significant turnover during the year, the investment strategy has led to increased exposure in asset backed securities. The increase noted below is therefore driven by new acquisitions during 2021.

€'000	2021	2020
RMBS	2,582	3,284
CMBS	3,006	577
ABS	52,941	
<b>Total</b>	<b>58,529</b>	<b>3,861</b>

### SECTION A. 4 – Any Other Information

No other matters to report.



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# SYSTEM OF GOVERNANCE

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## 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:

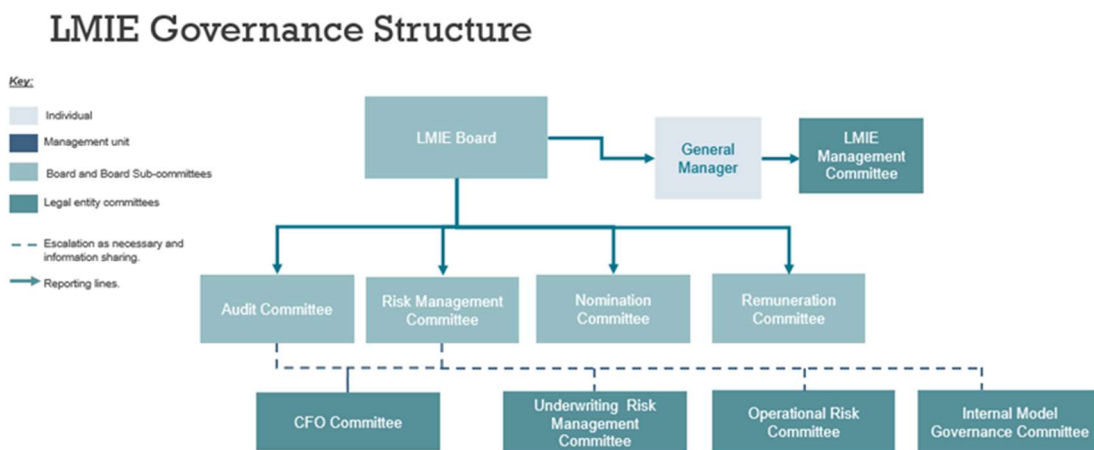
- Overview of the System of Governance.
- Fit and Proper Requirements.
- Risk Management Systems.
- Own Risk and Solvency Assessment; and
- Outsourcing Arrangements

### 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 was updated following an annual review during the year to ensure that it continues to remain effective.

#### 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 and Legal Entity 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 of the entity 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 Board is supported by the Company Secretarial team. The daily management of LMIE is delegated by the Board to the General Manager (GM) who has established a Luxembourg based Management Committee to assist in the discharge of certain duties as delegated to them by the Board.

### 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 Head of Internal Audit 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 terms of engagement.
- Reviewing and approving the role and mandate of internal audit, aside from monitoring and reviewing the effectiveness of its work.

- Considering and approving the internal Audit Plan ensuring adequate coverage of all activities and key risks to deliver an assessment of the efficacy of the internal controls, infrastructure, and systems.
- Reviewing Actuarial Function updates; reports on Solvency II technical provisions including adherence to Solvency II regulation, reports on Baseline Reserve Review; Analysis of actual Emerging Experience compared to actuarial reserve expectation; and Large Loss Working Group updates. The Committee provides reports to the Board and make recommendations on these matters, as appropriate.
- Keeping under review the adequacy and design of the Company's policies and procedures relating to whistleblowing and annually review whistleblowing activities.

#### 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, European Compliance Officer, Actuarial Key Function Holder, 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 in order 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.
- 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. This is overseen by the Risk Management Committee with ultimate responsibility resting with the Board.
- 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 relevant risk and compliance policies including Financial Crime and Fraud.
- Considering, assessing, and approving the annual Risk Management and Compliance plans.
- 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.
- 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.

### 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. The Chair of the Committee reports to the Board on the activities of the Committee.

The main responsibilities of the Committee include:

- Annually review and approve 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
- Reviewing and approving all elements of remuneration for Solvency II Staff and ensure that strong risk management practices are in place. Review and approve the grant size and vesting of awards under the LSM 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 two independent non-executive directors, one of whom acts as the Chair, and two non-executive Directors. 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.
- Reviewing the time commitment required for independent 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 director.
- Reviewing the Board Diversity Policy annually, including an assessment of the effectiveness of the Policy.

## 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 operational and regulatory performance. The Committees consider certain reports and information prior to presentation to the Audit Committee, Risk Management Committee and Board. The aim of this is to ensure information and reporting of the appropriate quality is received by the Audit and Risk Management Committees. Below is an overview of each of the Legal Entity Committees.

### B.1.2.5 CFO Committee

The Chief Financial Officer (CFO) Committee has been established to support 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 LSM CFO who acts as the Chair. The Committee has reporting lines to the Audit Committee and Risk Management Committee.

### B.1.2.6 Underwriting Risk Management Committee

The Underwriting Risk Management Committee supports the LMIE Chief Underwriting Officer with their duties in respect of monitoring LMIE's underwriting activities. The Committee is charged with the following responsibilities:

- Reviewing reports and other information relating to relevant aspects of delivering the Underwriting Strategy.
- Co-ordinating the oversight of LMIE's underwriting activities and ensuring that it remains within the insurance risk appetites.
- Ensuring compliance with LSM's Conduct Risk Framework and Conduct Risk Appetite.

The Committee membership consists of senior executives, one of whom is the LMIE UK Branch Manager and LSM UK Managing Director who also acts as Chair. The Committee has reporting lines to the Risk Management Committee.

### B.1.2.7 Management Committee

The Management Committee was established by the General Manager and is advisory to them in discharging certain of their duties for the day to day running of the Company as delegated to them by the Board. The Committee has a role working with the business to formulate the annual business plan and monitor 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 Key Function Holders and other relevant persons and is chaired by the General Manager who is also a member of the Board. The Committee reports to the Board and fully engages with the other Legal Entity Committees.

#### B.1.2.8 Operational Risk Committee (established May 2021)

The Operational Risk Committee has been established to enhance oversight of Operational risks and incidents, non-financial internal controls and compliance with applicable laws and regulations throughout the jurisdictions in which LMIE operates. The Committee is chaired by the LSM 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 has an escalation process of the key risks and incidents to the RMC.

The Committee membership consists of senior executives and has reporting lines to the Audit and Risk Management Committee.

#### B.1.2.9 Internal Model Governance Committee (established in January 2022)

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 LMIE Internal Model. The Committee is chaired by the LSM Chief Risk Officer and supports Management to discharge their responsibilities in relation to the Internal Model. The Committee membership consists of senior executives and has reporting lines to the Board and Risk Management Committee.

#### 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 LSM 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 LSM 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.

#### 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 Head of the Internal Audit Function reports functionally to the Chair of the LMIE Audit Committee and administratively to General Counsel with direct access to the LMIE General Manager. 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 two strategic business units (SBU): GRM and GRS.

#### 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. The material changes that occurred during the year were as follows:

- The Operational Risk Committee was established in May 2021.
- The Internal Model Governance Committee was established in January 2022.

#### 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:

<b>Compensation</b>	<b>Fixed/Variable</b>
Base Salary	Fixed
Benefits, perquisites 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 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 performance, long term performance is measured by reference to LSM'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.

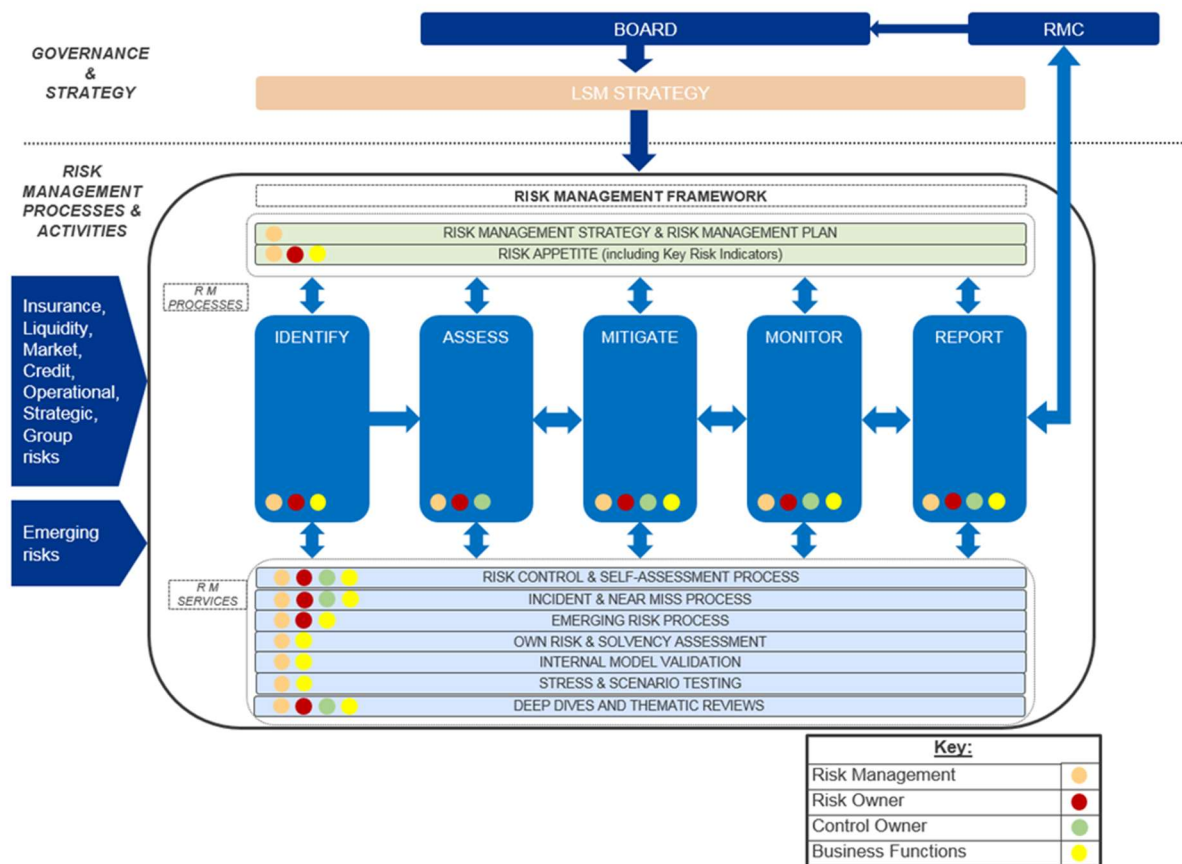
At a strategic level, the Board are supported in their risk-based decision-making process by the RMC, who provide quarterly updates on risk-related matters relevant to the Board. In turn, this enables the Board to consider key risks during the strategy setting and business planning processes (this then influences the risk appetite and Risk Management Strategy for LMIE, with input from the CRO). 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 as a result 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 31<sup>st</sup> December 2021.

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 e.g. the quarterly capital assessment forms part of the quarterly CRO report to the RMC and the Board.

As part of the ORSA embedding process, Risk Management, through the quarterly CRO 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.

We consider our Internal Model (IM) calculation to be more reflective of our own view of risk although we note that it has not been subjected to validation and has known limitations. The Standard Formula is therefore used for the setting of regulatory capital via the Solvency Capital Requirement. The Standard Formula Appropriateness Report is presented to the Board.

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 CRO 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.

## **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 2021 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 Internal Audit Function Holder reports to the Chair of the LMIE Audit Committee and administratively to LSM Head of Internal Audit and has direct access to the LMIE General Manager. 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. As such the work carried out will meet the independence and free from influence requirement of Solvency II. 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 opinion on underwriting policy will include the following issues:

- 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 Policy that ensures that all material outsourcing arrangements within LMIE are assessed properly and managed effectively throughout their lifecycle from inception to termination. The Outsourcing 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 business case must be made before inception of the arrangement. The LMIE outsourcing policy applies to all the Company's branches, including Switzerland.

There are multiple checks which a service provider must go through before inception to make sure that this is not the case:

- the provider must not adversely affect LMIE's ability to comply with regulatory obligations or service to policyholders,
- they must not adversely affect the ability of the regulators to carry out their supervisory powers; and,
- they must be able to meet all applicable legal and regulatory requirements (potentially involving fitness and propriety assessments on individuals)

Furthermore, there are several other components making up the rationale for outsourcing arrangements including consideration as to whether the agreement will allow LMIE to monitor and control its operational risk exposure, reviewing any conflicts of interest and ensuring that LMIE has appropriate contingency arrangements in place to allow business continuity should a significant loss of service from the provider occur.

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 located outside of the UK will undergo an assessment which is in keeping with LMIE's risk appetite. In the case of any provider located outside of the EEA, further advice must be sought from the LMIE Legal and Compliance function.

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 of companies or the LMIG. Providers within the LMIE group of companies or the LMIG will be dealt with at an appropriate 'arms-length'. Oversight of all outsourced functions will be carried out by LMIE's Luxembourg head office with support from the LMIE UK Branch.

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 Memorandum of Understanding ("MOU"). Service performance and compliance with MOU requirements is monitored by the LMIE Switzerland Branch Management Committee.

### 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. There have been some changes to the Legal Entity Committee structure with the establishment of the Operational Risk Committee in May 2021 and the Internal Model Governance Committee in January 2022, post year-end, further details on these are provided in section B.1 above. There have been no other changes to 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
- Environmental, Social & Governance Risk

### 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 – Investment guidelines compliance and limit on proportion of capital held in respect of Market and Liquidity risk combined.
- Market climate risk – Responsible Investment Policy compliance and limits on investments in companies that generate revenue from thermal coal mining or utility companies that generate electricity from thermal coal. For more details on ESG and Climate Change Risks, refer to Section C.6.

### 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 and liquidity 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 arises from the possibility of default by one or more counterparties. The principal source of credit risk arises from the inability of reinsurers and intermediaries to meet their contractual obligations if they become due.

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 – Appropriate due diligence supported by independent reviews and market feedback, taking into consideration qualitative, quantitative, financial, operational and reputational factors.
- Delegated authorities: limits on exposure to individual cover holders.

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.

This appetite is managed alongside the market risk appetite, using the same procedures as outlined in the market risk section above. In particular, the liquidity risk appetite cover.

- Minimum weighting of liquid investments;
- Maintaining sufficient liquidity to meet liabilities as they fall.

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.

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.

Operational risk was significantly impacted over the past year, but LMIE has demonstrated an effective operational resilience through the COVID-19 pandemic. 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.1.2.8.

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

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 2021 as required by the EU Taxonomy Regulation.

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

<b>ClimateWise Principles</b>	<b>Overview of the company's response</b>
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 and setting new policies, such as a responsible business and responsible investment policy.
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	Measuring, reducing, and disclosing our Scope 1-2 (and some scope 3) emissions and 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, from 2022, of our climate approach and key activities in the first LSM ClimateWise report

## SECTION C.7 – Other Material Risks

LMIE recognises that along with the benefits of being part of the LSM 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 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

In February 2022, a number of countries (including the US, UK and EU) imposed new sanctions against certain entities (of which financial institutions) and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation.

Additional sanctions have been made following military operations initiated by Russia on 24th February, 2022 against Ukraine including the restriction of the access of already sanctioned Russian banks to the international payments system SWIFT. Such sanctions can impact not only the sanctioned entities and individuals including entities under their control but also Business Counterparties of these sanctioned entities. The results of the sanctions and the geopolitical instability have created an important volatility in the financial markets with a potential to adversely impact global economies and increase instability across markets.

LSM has set up an internal working group to monitor the fast-developing situation closely and will take all appropriate steps to manage the effect this has on the Company. The Board of Directors regards these events as non-adjusting events after the reporting period. At the date of this report, the Company's going concern is not impacted by the above. It is too early to quantify the overall impact to the Company with a high degree of certainty and the situation, including the possible impact of changing micro and macroeconomic conditions, will continue to be monitored.



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# VALUATION

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## 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 basis & Solvency II 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 LMIE Financial Statements for the year-ended 31<sup>st</sup> December 2021.

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 headings and the approach to classifying assets and liabilities, for both periods under comparison. An explanation of the Solvency II valuation methods is provided in the following sections.

2021	Solvency II Adjustments				
	€'000	Section	Lux GAAP	Reclassification	Valuation
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
<b>Total Assets</b>		<b>10,285,256</b>	<b>0</b>	<b>(3,449,990)</b>	<b>6,835,266</b>
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
<b>Total Liabilities</b>		<b>8,517,547</b>	<b>0</b>	<b>(3,513,708)</b>	<b>5,003,840</b>
<b>Excess of assets over liabilities</b>		<b>1,767,709</b>	<b>0</b>	<b>63,718</b>	<b>1,831,426</b>

2020	Solvency II Adjustments				
	€'000	Section	Lux GAAP	Reclassification	Valuation
Deferred acquisition costs	D.1.1	245,337		(245,337)	0
Deferred tax assets	D.1.2	0		13,970	13,970
Pension benefit surplus	D.1.3	8,364			8,364
Property, plant and equipment held for own use	D.1.4	3,819		(3,819)	0
Investments	D.1.5	3,632,412	(109,930)		3,522,481
Loans and mortgages	D.1.5	39,521	1,067		40,588
Reinsurance recoverable	D.2	1,881,317		(770,384)	1,110,933
Deposits to cedants	D.1.6	83,928			83,928
Insurance and intermediaries receivables	D.1.7	1,472,503		(1,235,618)	236,885
Reinsurance receivables	D.1.8	107,706			107,706
Receivables (trade, not insurance)	D.1.9	134,347			134,347
Cash and Cash equivalents	D1.10	392,275	127,367		519,642
Any other assets	D1.11	25,353	(18,504)		6,849
<b>Total Assets</b>		<b>8,026,882</b>	<b>0</b>	<b>(2,241,188)</b>	<b>5,785,693</b>
Technical Provision	D.2	5,370,471		(1,531,880)	3,838,591
Deferred tax liabilities	D.1.2	31,077		(31,077)	0
Insurance & intermediaries payables	D.3.2	68,131			68,131
Reinsurance payables	D.3.1	536,675		(536,675)	0
Payables (trade, not insurance)	D.3.3	142,374			142,374
Any other liabilities, not elsewhere shown	D.3.4	113,231			113,231
<b>Total Liabilities</b>		<b>6,261,960</b>	<b>0</b>	<b>(2,099,633)</b>	<b>4,162,327</b>
<b>Excess of assets over liabilities</b>		<b>1,764,922</b>	<b>0</b>	<b>(141,555)</b>	<b>1,623,367</b>

## 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 has to provide for deferred tax in respect unrealised investment gains /losses and the asset surplus arising in respect of the defined benefit pension plan, leading to a Deferred Tax Liability (DTL). This will not be disclosed separately on the balance sheet but shown in the provision for taxation line item in the notes to the financial statements. This approach has been approved by the CaA.

On a Solvency II basis, the DTA / DTL has been calculated by reinstating the Deferred tax position on a fair value basis, which is supported at a 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 2021, the pension benefit surplus in respect of the defined benefit scheme is €14.3m (2020: €8.3m).

### 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 2021, 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	2021		
	Lux GAAP €'000	SII adjustments €'000	Solvency II €'000
Bonds	4,037,576	18,120	4,055,696
<i>Holdings in related undertakings</i>	0	0	0
<i>Government Bonds</i>	1,343,463	2,252	1,345,715
<i>Corporate Bonds</i>	2,635,657	15,795	2,651,452
<i>Collateralised securities</i>	58,456	73	58,529
Collective Investments Undertakings	187,807	0	187,807
Deposits other than cash equivalents	167,660	(165,712)	1,948
<b>Total Investments</b>	<b>4,393,043</b>	<b>(147,592)</b>	<b>4,245,450</b>
Cash and Cash Equivalents	182,516	165,712	348,228
<b>Total Investments and Cash and Cash Equivalents</b>	<b>4,575,559</b>	<b>18,120</b>	<b>4,593,678</b>

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 (€18m) 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** - to include both government and corporate bonds and collateralised securities. Valuation predominately in accordance with Level 2 as described below, with a small amount valued per Level 1 or Level 3.
- **Collective Investment Undertakings** – such as money market funds. 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.

#### 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 basis, 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. 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.

Bank balances that require more than 48 hours to withdraw are treated as deposits under Lux GAAP, resulting in presentational / classification differences between the LMIE Financial statements, and the Solvency II Balance Sheet.

### D.1.11 Any other assets

Other assets, comprising largely of unsettled securities, prepayments and accrued 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 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 technical provision, the premiums technical 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 74% 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 Best Estimate Liability (BEL), Technical provisions by Solvency II Line of Business is provided in the table below.

Solvency II Class of Business	Gross BEL	Reinsurance Recoverable BEL	Risk Margin	Total TP
	€'000	€'000	€'000	€'000
General liability	2,598,387	(889,015)	106,369	<b>1,815,741</b>
Fire and other damage to property	612,999	(160,560)	23,189	<b>475,628</b>
Credit and suretyship	346,198	(133,018)	27,273	<b>240,453</b>
Non-Prop RI - Property	360,043	(139,426)	27,873	<b>248,489</b>
All Other Lines	576,213	(277,686)	36,252	<b>334,779</b>
<b>Total non-life obligation</b>	<b>4,493,839</b>	<b>(1,599,706)</b>	<b>220,958</b>	<b>3,115,091</b>

### General Liability Insurance

The General Liability Line makes up 58% of the Solvency II TPs. The underlying reserves for direct casualty (General Liability), Financial Lines (D&O and E&O), and Professional lines contribute the majority of the TPs for this Solvency II line. Reserves for D&O have been impacted by US social inflation issues.

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 an increase in the TPs when compared to the Lux GAAP reserves include:

- €106m for the Risk Margin which is highest for this line of business given the long-tailed nature of the underlying business; and
- €30m for additional expense provisions and €34m for Events Not in the Data.

## Fire and Other Damage to Property

The Fire and Other Damage to Property Line makes up 15% of the Solvency II TPs. The underlying reserves for direct 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:

- €23m for the Risk Margin and €10m of additional expense provisions

## Credit and Suretyship

The Credit and Suretyship Line makes up 8% of the Solvency II TPs. The underlying reserves for direct surety, financial, political and credit 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 2 years, as it was heavily impacted by COVID losses, including approximately \$44m of net unearned claims as at Q4 2021.

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

- €27m for the Risk Margin and €12m of additional expense provisions.

No other Solvency II Line 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.

## Non-Proportional Reinsurance Property

The Non-Proportional Property Line makes up 8% of the Solvency II TPs. The underlying reserves for Treaty Property, London Market Reinsurance, Agriculture 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. The most material adjustments that result in a movement in the TPs when compared to the Lux GAAP reserves include:

- €27m for the Risk Margin and €6m for additional expense provisions.

## 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 and discounting.

The methods used to estimate the Claims Provisions are deterministic claims-based and exposure-based 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
- Unincepted but legally bound (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 taking into account 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.

### 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.
- No uplift has been applied to catastrophe claims.
- The uplift factor has been applied to the undiscounted claims 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 2021. Note that the Company's Lux GAAP reserve estimates contain margins when compared with the Solvency II best estimate.

	Lux GAAP	SII Basis	Lux GAAP vs. SII Basis
	€'000	€'000	€'000
<b>Gross TP</b>			
Claims reserve (incl Risk Margin)	(4,837,914)	(6,987,614)	2,149,700
ULAE (and other SII expenses)	(57,778)	(57,778)	-
UPR (Net of DAC)	(1,391,264)	-	(1,391,264)
Future Premium Cashflows	1,520,844	2,330,595	(809,750)
<b>Gross TP</b>	<b>(4,766,111)</b>	<b>(4,714,797)</b>	<b>(51,314)</b>
<b>Reinsurance</b>			
Claims reserve	2,654,240	3,973,387	(1,319,147)
Bad Debt	(12,485)	(12,485)	-
UPR (Net of RI DAC)	438,522	0	438,522
Future Premium Cashflows	(1,312,357)	(2,361,196)	1,048,840
<b>Reinsurance TP</b>	<b>1,767,920</b>	<b>1,599,706</b>	<b>168,214</b>
<b>Net GAAP / SII TP (including future premium)</b>	<b>(2,998,191)</b>	<b>(3,115,091)</b>	<b>116,900</b>

The material differences from moving from a Lux GAAP to Solvency II basis are:

- Gross claims reserves increased due to the ENID allowance and because the Risk Margin under Solvency II is generally greater than the removal of the Lux GAAP reserve margin. This is also greater than 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 gross and reinsurance claims reserves as a result of moving from the Lux GAAP concept of holding a UPR to the Premium Provisions concept in Solvency II, which allows for future expected profitability.
- An increase in gross pipeline premiums and reinsurance pipeline premiums as a result of the wider definition in Solvency II to consider all existing, legally bound, contracts as opposed to incepted contracts under Lux GAAP.
- 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 have been no material changes made to the relevant assumptions used compared to the previous reporting period.

#### 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 be equal to the current level.
- 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. All 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.
- Loss ratios used in projections may be subject to an additional degree of uncertainty following the significant growth of the Company's book. Over the years Liberty has expanded into new areas of business or changed the makeup of accounts. These classes may not have fully developed history on which to base projections. For these classes we have typically combined benchmarks and internal data where suitable. The accuracy of the results is dependent on the suitability of benchmarks used. The assessment of the appropriateness of these benchmarks may not be possible for some time. Additionally, long tail classes may still not be fully developed so the results will be dependent on the tail selected.
- Societal trends are impacting third party liability classes with exposure to the US, where there has been an increase in litigation funding and increased focus on social justice, which has seen elevated jury verdicts most notably in California, Illinois, Texas and Florida. The Actuarial Function is cognisant of the risk of trends deviating from historical long-term averages, and the impacts this has on reserving, pricing, solvency and capital management. Economic inflation, including supply chain disruption, wage inflation and commodity price surges impact different lines of business in different ways. The early 2021 expectation of increased inflation to be transitory and limited to supply chain factors post COVID evolved and is now being viewed as longer term, at least for the rest of 2022. The impact of supply chain shortages has been particularly noted in Property, Energy and Construction classes. This is seen worldwide but it is particularly prominent in the US. For large catastrophe losses, this inflation is further heightened. There is potential for this type of inflation to have knock on impacts on the economy more broadly and so other lines of business.
- Actuarial techniques rely on the appropriateness of historical data. The final outcome may rely on the development of individual claims reserves. It may take a considerable length of time for these claims to settle. Long tail lines of business may not have fully developed history on which to base projections so the results will be dependent on the tail selected.
- 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.
- 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.

- 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.
- Quantification of ENIDs are inherently difficult to value. The Actuarial Function has had to determine what is not included within its original best estimate and to determine what the best estimate would be for the very low frequency, high severity ENIDs. ENIDs are challenging to validate due to the absence of historical observations by their nature 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.
- No provision has been made in our estimates for post balance sheet events occurring after 31st December 2021. The conflict that has started in Ukraine in February in 2022 will likely have a significant impact on insurance business and also on the world economy. This creates a significant additional uncertainty within the estimates because of both direct and indirect impacts to insurance claims. As this occurred after our work was completed, we have not included any explicit allowance for these impacts within our reserve estimates.

#### 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 €5m at the opening balance sheet date. Following strengthening of the Dollar over the course of FY 2021, the value of provision at the balance sheet date amounts to €139m at the closing balance sheet date. However, the provision is not deemed a Solvency II concept as it 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 €14.2m (2020: €25.7m) 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.



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# CAPITAL MANAGEMENT

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## 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)	<ul style="list-style-type: none"> <li>• SCR updates in line with SF Policy and IM update cycle.</li> <li>• Potential to pay dividends subject to maintenance of green zone solvency.</li> <li>• Monitoring of risk of solvency deterioration over next three months.</li> </ul>
Yellow (115%-125% of reference SCR)	<ul style="list-style-type: none"> <li>• SCR updates in line with the SF Policy and IM update cycle.</li> <li>• No dividends will be paid.</li> <li>• Board approval of capital remediation plan sufficient to restore green zone solvency within three months (capital injection, reinsurance purchase).</li> <li>• Monitoring of risk solvency deterioration over next three months.</li> </ul>
Amber (110%-115% of reference SCR)	<ul style="list-style-type: none"> <li>• Full rerun of SF and IM calculations.</li> <li>• No dividends will be paid.</li> <li>• Board approval of capital remediation sufficient to restore green zone solvency within three months (capital injection, reinsurance purchase, risk reduction)</li> <li>• Monitor risk of solvency deteriorating over next three months.</li> </ul>
Red (100%-110% of reference SCR)	<ul style="list-style-type: none"> <li>• Full rerun of SF and IM calculations</li> <li>• No dividends will be paid.</li> <li>• Board approval of capital remediation plan sufficient to restore green zone solvency within three months (capital injection, reinsurance purchase, risk reduction).</li> <li>• Regular communication with the regulator.</li> </ul>
Grey (SF-SCR-MCR)	<ul style="list-style-type: none"> <li>• 2 months to submit a recovery plan.</li> <li>• 6 months to restore SCR cover (capital injection or reduce risk profile)</li> <li>• No dividends will be paid.</li> <li>• Regulator communication with the regulator</li> </ul>
Black (MCR-between 25%-45% of SCR)	<ul style="list-style-type: none"> <li>• 3 months to restore MCR cover.</li> <li>• Capital injection or reduce risk profile.</li> <li>• No dividends will be paid.</li> <li>• Regular communication with the regulator.</li> </ul>

At FY'21, 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 our 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 being monitored on an ongoing basis and taking into account 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'21 and FY'20 is illustrated in the table below.

		2021	2020
Capital Structure		€'000	€'000
Share Capital	E.1.2.a	255,424	255,424
Share Premium	E.1.2.a	1,098,434	1,098,434
Reconciliation reserve	E.1.2.b	445,920	255,538
<b>Available and Eligible Own Funds (to cover the MCR)</b>		<b>1,799,779</b>	<b>1,609,396</b>
MCR	E.2.1	509,974	573,505
<b>MCR Coverage Ratio</b>		<b>353%</b>	<b>281%</b>
An amount equal to the value of net deferred tax assets		31,647	13,970
Ancillary Own Funds	E.1.2.c	373,724	347,348
<b>Available and Eligible Own Funds (for SCR Coverage)</b>		<b>2,205,150</b>	<b>1,970,715</b>
SCR	E.2.1	1,284,091	1,380,554
<b>SCR Coverage Ratio</b>		<b>172%</b>	<b>143%</b>

A Solvency Working Group reporting to the LSM CFO Committee was established during 2020. It is tasked with monitoring the Solvency II ratio. Following capital remediation undertaken in the previous year, LMIE entered 2021 with a strong solvency ratio of 143%. Throughout 2021, LMIE continued to experience the benefit from these capital actions including the establishment of an Ancillary Own Fund facility, collateral held with LMIC and a loss portfolio transfer of the run-off ECML book of business to Enstar Group.

The key components of the Own Funds are discussed below:

- Share Capital & Share Premium:** There has been no change to the Share Capital & Share Premium, classified at Tier 1 Capital, through the year, following capital injections in December 2020.
- Reconciliation Reserve:** This is made up of the remainder of the excess of assets over liabilities and classified as Tier 1 capital in accordance with the Solvency II regulations, as illustrated in the following table.

Description	2021 €'000	2020 €'000
<b>Excess of assets over liabilities</b>	<b>1,831,426</b>	<b>1,623,367</b>
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	(1,098,434)	(1,098,434)
Other basic own fund items - An amount equal to the value of net deferred tax assets	(31,647)	(13,970)
<b>Reconciliation reserve</b>	<b>445,920</b>	<b>255,538</b>

- c) **Ancillary own funds** of €374m (\$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 collateralisation 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.

During FY 2021, LMIE entered into a 60% Whole Account Quota Share agreement with LMIC which is expected to provide sustained benefit to LMIE's solvency and a more efficient form of capital support from Liberty Mutual Group.

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.

Note that the Foreign Exchange Provision reduced during 2020 with its value at the end of that year amounting to c.€5m due to the weakening of the Dollar. This is in contrast to 2021 where the provision has increased back to €139.2m at the year-end following the strengthening of the Dollar.

	2021 €'000	2020 €'000
<b>Own Funds at 1 January</b>	<b>1,623,367</b>	<b>1,297,337</b>
Profit on ordinary activities after tax	80,839	(5,042)
Comprehensive (loss)/income for the year	(77,961)	59,663
Issue of ordinary shares	0	577,329
Movement in Fixed Assets Write off	191	895
Movements in Solvency II Adjustments to Technical Provisions	15,548	(100,791)
Movement in Solvency II Discounting Adjustments	42,206	(64,270)
Movement in Solvency II Risk Margin	7,159	(49,671)
Movement in FX Provision	134,536	(134,831)
Movement in Solvency II Deferred Tax Adjustment	464	53,892
Other	5,079	(11,144)
<b>Own Funds at 31 December</b>	<b>1,831,426</b>	<b>1,623,367</b>

### 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 2021 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.

	2021 €'000	2020 €'000
<b>Lux GAAP equity attributable to shareholders</b>	<b>1,767,710</b>	<b>1,764,922</b>
Valuation differences:		
Solvency II valuation adjustment movements:		
Fixed assets	(3,629)	(3,819)
Technical Provisions	45,353	29,806
Discounting	57,733	15,527
Risk Margin	(220,958)	(228,117)
FX Provison	139,705	0
Deferred tax	45,512	45,048
<b>Solvency II excess of assets over liabilities</b>	<b>1,831,426</b>	<b>1,623,367</b>

### 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.

Overall, the SCR has decreased by €96m / 7% over the year. The key drivers for this change are as follows:

	2021	2020	Variance	Variance %
	€'000	€'000		
Non-Life Underwriting Risk	909,844	1,051,711	(141,866)	-13%
Health	5,767	9,495	(3,729)	-39%
Market	268,289	248,776	19,513	8%
Counterparty Default	232,981	226,350	6,631	3%
Operational	134,815	108,314	26,501	24%
Diversification	(267,605)	(264,091)	(3,514)	1%
<b>SCR</b>	<b>1,284,091</b>	<b>1,380,554</b>	<b>(96,463)</b>	<b>-7%</b>

- Non-life underwriting risk is lower, primarily due to recognition of the WAQS which leads to a decrease in net premium volume and net best estimate of claims provisions.
- Market risk has also increased driven by increase in spread risk (arising from a larger portfolio of A & BBB bonds), offset by a lower currency risk.
- The Counterparty default risk has noted a marginal increase. This is because the premiums payable following the recognition of the WAQS are used to net-off any recoverables off LMIC, thus reducing the counterparty exposure.
- Operational risk has increased in line with the growth in gross best estimates.
- Loss Absorbing Capacity of Deferred Tax (LACDT): LSM'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'21, no benefit for LACDT has been recognized in the SCR calculations.

The MCR is lower by 11% at €509m compared to prior year, driven by a 16% increase in Technical Provisions offset by a 36% reduction in Net Written Premium as a result of the WAQS. The key inputs are tabulated in the following table by Solvency II line of business.

SII Classes	2021			2020		
	Net TPs	NWP	MCR Charge	Net TPs	NWP	MCR Charge
	€'000	€'000	€'000	€'000	€'000	€'000
Medical expense insurance	367	611	46	1,047	2,216	153
Income protection insurance	1,608	2,140	393	3,758	5,507	960
Workers' compensation insurance	0	0	0	0	0	0
Motor vehicle liability insurance	37,519	11,783	4,297	33,006	26,895	5,334
Other motor insurance	4,376	2,737	533	3,575	4,744	624
Marine, aviation and transport insurance	114,147	84,599	23,601	60,036	118,473	22,770
Fire and other damage to property insurance	452,439	297,110	64,812	273,842	329,903	50,484
General liability insurance	1,709,372	364,483	223,813	1,594,498	860,261	276,928
Credit and suretyship insurance	213,180	237,127	64,528	260,496	258,837	75,356
Legal expenses insurance	0	0	0	0	0	0
Assistance and proportional reinsurance	0	0	0	0	0	0
Miscellaneous financial loss insurance	28,244	70,555	13,861	21,858	56,158	10,917
Non-proportional health reinsurance	2,258	1,435	648	2,831	2,376	904
Non-proportional casualty reinsurance	101,297	31,974	23,925	112,821	56,704	30,001
Non-proportional marine, aviation and transport reinsurance	8,711	30,396	6,453	39,607	34,364	12,831
Non-proportional property reinsurance	220,616	262,248	82,732	92,166	434,593	86,243
<b>TOTAL</b>	<b>2,894,133</b>	<b>1,397,198</b>	<b>509,643</b>	<b>2,499,542</b>	<b>2,191,032</b>	<b>573,505</b>

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

## 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
		C0010
<b>Assets</b>		
R0030	Intangible assets	0
R0040	Deferred tax assets	37,373
R0050	Pension benefit surplus	14,300
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,245,450
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	4,055,696
R0140	Government Bonds	1,345,715
R0150	Corporate Bonds	2,651,452
R0160	Structured notes	0
R0170	Collateralised securities	58,529
R0180	Collective Investments Undertakings	187,807
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	1,948
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:	1,599,706
R0280	Non-life and health similar to non-life	1,599,706
R0290	Non-life excluding health	1,594,480
R0300	Health similar to non-life	5,226
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	80,318
R0360	Insurance and intermediaries receivables	263,031
R0370	Reinsurance receivables	139,559
R0380	Receivables (trade, not insurance)	98,884
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	348,228
R0420	Any other assets, not elsewhere shown	8,417
R0500	<b>Total assets</b>	<b>6,835,266</b>



## S.02.01.02 – Balance Sheet – Liabilities

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	4,714,797
R0520	<i>Technical provisions - non-life (excluding health)</i>	4,704,767
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	4,484,380
R0550	<i>Risk margin</i>	220,387
R0560	<i>Technical provisions - health (similar to non-life)</i>	10,030
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	9,459
R0590	<i>Risk margin</i>	571
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	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	5,726
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	15,887
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	159,752
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	107,677
R0900	<b>Total liabilities</b>	<b>5,003,840</b>
R1000	<b>Excess of assets over liabilities</b>	<b>1,831,426</b>

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	
<b>Premiums written</b>																	
R0110 Gross - Direct business	1,111	3,796	0	4,754	4,482	146,183	328,690	1,161,809	187,550			138,312					1,946,638
R0120 Gross - Proportional reinsurance accepted	4	567	0	32,877	2,732	45,244	191,660	39,217	219,941			2,387					532,268
R0130 Gross - Non-proportional reinsurance accepted													2,933	81,318	18,878	266,762	349,891
R0140 Reinsurers' share	540	2,202	0	30,587	4,574	107,911	284,502	874,753	265,485			46,445	1,780	62,771	3,245	166,380	1,051,154
R0200 Net	575	2,120	0	7,044	2,277	81,518	235,838	328,271	542,028			54,254	953	18,538	15,833	100,382	997,642
<b>Premiums earned</b>																	
R0210 Gross - Direct business	903	3,094	0	3,934	4,300	136,466	305,417	1,079,168	184,003			59,001					1,786,243
R0220 Gross - Proportional reinsurance accepted	5	602	0	32,993	2,431	37,403	187,348	34,010	170,747			2,793					467,530
R0230 Gross - Non-proportional reinsurance accepted													3,082	78,831	37,271	233,609	372,802
R0240 Reinsurers' share	555	2,260	0	29,931	4,637	110,222	323,034	770,209	256,341			47,095	2,011	61,774	29,131	180,784	1,017,982
R0300 Net	354	1,296	0	6,595	2,095	63,647	169,729	342,968	98,410			24,298	1,071	17,058	8,149	72,826	808,599
<b>Claims incurred</b>																	
R0310 Gross - Direct business	247	833	0	2,571	2,260	77,829	190,613	668,190	50,286			99,181					1,011,808
R0320 Gross - Proportional reinsurance accepted	4	183	0	28,925	2,995	21,212	190,649	24,333	62,095			2,022					332,418
R0330 Gross - Non-proportional reinsurance accepted													1,410	61,578	34,172	295,620	392,581
R0340 Reinsurers' share	212	1,104	0	25,929	3,928	56,687	262,928	488,460	87,677			21,599	2,011	47,792	27,263	225,814	1,251,643
R0400 Net	38	88	0	5,586	1,327	42,153	118,334	204,083	24,704			-377	-601	13,628	6,610	69,806	485,162
<b>Changes in other technical provisions</b>																	
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	0	0
R0550 Expenses incurred	156	546	0	3,206	1,230	22,276	56,208	118,583	37,014			12,835	163	6,866	3,016	27,649	281,547
R1200 Other expenses																	
R1300 Total expenses																	281,547

## 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
		FR	DE	IT	ES	GB	
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>							
R0110 Gross - Direct Business	349	141,925	123,174	75,654	98,947	1,001,293	1,441,342
R0120 Gross - Proportional reinsurance accepted	9,191	48,237	53,749	24,169	29,869	84,253	249,468
R0130 Gross - Non-proportional reinsurance accepted	3,282	63,013	94,574	26,972	21,095	15,556	224,492
R0140 Reinsurers share	7,557	167,745	164,354	58,713	94,471	760,248	1,253,089
R0200 Net	5,265	85,430	107,143	68,081	55,440	340,853	662,213
<b>Premiums earned</b>							
R0210 Gross - Direct Business	713	133,367	103,962	68,646	91,074	907,062	1,304,823
R0220 Gross - Proportional reinsurance accepted	11,024	45,330	51,664	17,886	29,568	66,949	222,421
R0230 Gross - Non-proportional reinsurance accepted	3,482	61,689	89,457	24,107	20,663	35,813	235,212
R0240 Reinsurers share	7,339	163,982	163,346	57,151	91,829	690,359	1,174,006
R0300 Net	7,879	76,404	81,737	53,488	49,476	319,465	588,450
<b>Claims incurred</b>							
R0310 Gross - Direct Business	532	95,873	21,589	31,759	42,024	606,881	798,658
R0320 Gross - Proportional reinsurance accepted	2,757	39,041	93,383	14,288	23,628	49,639	222,737
R0330 Gross - Non-proportional reinsurance accepted	5,680	34,368	140,231	11,505	15,779	37,588	245,150
R0340 Reinsurers share	6,327	124,417	211,921	41,797	59,515	493,400	937,376
R0400 Net	2,641	44,866	43,282	15,756	21,915	200,708	329,169
<b>Changes in other technical provisions</b>							
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	2,492	28,275	32,344	16,359	17,970	93,015	190,455
R1200 Other expenses							
R1300 Total expenses							190,455

### S.17.01.02 – Non-Life Technical Provisions

1.17.01.02  
Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
	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	
	0010	0020	0040	0050	0060	0070	0080	0090	0100	0110	0120	0130	0140	0150	0160	0170	0180
00210 <b>Technical provisions calculated as a whole</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
00220 Total Recoverable from reinsurance/SPV and FltRe 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	0	0
<b>Technical provisions calculated as a sum of BE and RK Best estimate</b>																	
<b>Premium provisions</b>																	
00240 Gross	-85	-321	0	-2,433	-438	-33,513	-54,580	-185,420	-67,040			-40,501	-380	-7,914	-2,803	-41,167	-636,173
00243 Total recoverable from reinsurance/SPV and FltRe Re after the adjustment for expected losses due to counterparty default	-267	-1,134	0	-13,354	-1,688	-73,453	-208,648	-487,224	-115,326			-33,137	-1,341	-18,740	-13,718	-127,678	-1,070,601
00245 <b>Net Best Estimate of Premium Provisions</b>	182	813	0	16,921	1,251	40,941	151,067	277,804	46,384			-6,374	980	26,928	11,115	86,511	944,427
<b>Claims provisions</b>																	
00246 Gross	894	4,167	0	77,378	7,654	188,220	667,579	2,783,807	413,236			86,387	5,119	212,869	74,732	481,210	4,938,013
00243 Total recoverable from reinsurance/SPV and FltRe Re after the adjustment for expected losses due to counterparty default	713	3,313	0	30,681	4,539	120,039	366,328	1,346,239	248,344			49,660	3,841	132,590	77,136	267,105	2,676,306
00245 <b>Net Best Estimate of Claims Provisions</b>	181	795	0	36,597	3,114	68,206	301,252	1,437,568	164,894			36,610	1,278	80,269	-2,404	114,105	2,261,706
00246 <b>Total best estimate - gross</b>	813	3,787	0	74,844	7,216	161,724	612,960	2,588,387	346,198			-6,785	4,839	208,289	72,136	340,043	4,493,819
00247 <b>Total best estimate - net</b>	347	1,668	0	37,919	4,176	114,147	452,439	1,799,372	211,180			28,244	2,289	101,297	6,711	226,616	2,894,113
00248 <b>Risk margin</b>	146	200	0	2,416	213	7,079	23,189	106,369	27,272			3,902	356	14,789	5,192	27,873	336,958
<b>Amount of the transitional on Technical Provisions</b>																	
00249 Technical Provisions calculated as a whole	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
00250 Best estimate	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
00251 Risk margin	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
00252 <b>Technical provisions - total</b>	629	2,984	0	77,362	7,429	168,891	636,189	2,794,756	373,471			31,782	5,215	219,847	77,221	387,914	4,714,707
00253 Recoverable from reinsurance contracts/SPV and FltRe Re after the adjustment for expected losses due to counterparty default - total	447	2,179	0	37,327	2,640	47,570	160,560	889,015	133,018			17,541	2,601	103,758	63,418	139,426	1,599,706
00254 <b>Technical provisions minus recoverables from reinsurance/SPV and FltRe Re - total</b>	382	1,808	0	39,935	4,588	121,321	475,628	1,905,741	240,453			14,241	2,614	116,089	13,803	248,488	3,115,001

### S.19.01.21 – Non-Life Insurance Claims

S.19.01.21  
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	Development year					C0100	C0110	C0170	C0180	
	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)	
R0100	Prior											6,018	6,018	6,018
R0160	-9	22,280	54,105	87,899	57,697	36,961	25,261	10,036	6,608	9,845	13,910	13,910	324,600	
R0170	-8	15,259	66,702	54,020	56,272	30,071	30,368	15,344	-1,194	10,343		10,343	277,184	
R0180	-7	59,539	115,813	46,336	41,175	38,478	80,879	18,625	23,053			23,053	423,899	
R0190	-6	30,422	166,016	97,122	89,839	99,654	63,511	50,207				50,207	596,772	
R0200	-5	30,597	141,498	85,226	50,097	58,626	29,212					29,212	395,256	
R0210	-4	29,761	161,894	122,569	117,858	59,089						59,089	491,171	
R0220	-3	18,642	129,926	130,750	102,916							102,916	382,234	
R0230	-2	18,697	209,725	215,879								215,879	444,302	
R0240	-1	63,048	185,449									185,449	248,497	
R0250	2021	61,284										61,284	61,284	
R0260												<b>Total</b>	<b>757,359</b>	<b>3,651,216</b>

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	Development year					C0290	C0300	C0360	
	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)	
R0100	Prior											194,384	190,963
R0160	-9	0	0	0	0	143,367	99,804	75,912	83,055	84,051	94,867		92,911
R0170	-8	0	0	0	215,277	168,062	98,911	97,588	74,705	66,878			65,749
R0180	-7	0	0	353,213	285,101	245,095	177,886	172,142	142,295				138,927
R0190	-6	0	455,273	446,786	380,299	359,824	243,591	152,025					147,316
R0200	-5	310,652	464,997	379,401	348,946	287,463	234,786						229,039
R0210	-4	392,566	529,129	585,165	442,480	370,176							361,032
R0220	-3	323,955	690,484	601,779	568,486								555,703
R0230	-2	726,967	1,092,450	1,006,120									984,888
R0240	-1	792,729	1,101,858										1,080,956
R0250	2021	1,088,375											1,072,529
R0260												<b>Total</b>	<b>4,920,013</b>

## S.23.01.01 – Own Funds

5.23.01.01

## Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	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	1,098,434	1,098,434		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	445,920	445,920			
R0140 Subordinated liabilities	0		0	0	0
R0160 An amount equal to the value of net deferred tax assets	31,647				31,647
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	1,831,426	1,799,779	0	0	31,647
<b>Ancillary own funds</b>					
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	373,724			373,724	
R0400 Total ancillary own funds	373,724			373,724	0
<b>Available and eligible own funds</b>					
R0500 Total available own funds to meet the SCR	2,205,150	1,799,779	0	373,724	31,647
R0510 Total available own funds to meet the MCR	1,799,779	1,799,779	0	0	
R0540 Total eligible own funds to meet the SCR	2,205,150	1,799,779	0	373,724	31,647
R0550 Total eligible own funds to meet the MCR	1,799,779	1,799,779	0	0	
R0580 SCR	1,284,091				
R0600 MCR	509,643				
R0620 Ratio of Eligible own funds to SCR	171.73%				
R0640 Ratio of Eligible own funds to MCR	353.15%				
<b>Reconciliation reserve</b>					
R0700 Excess of assets over liabilities	1,831,426				
R0710 Own shares (held directly and indirectly)	0				
R0720 Foreseeable dividends, distributions and charges					
R0730 Other basic own fund items	1,385,506				
R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760 Reconciliation reserve	445,920				
<b>Expected profits</b>					
R0770 Expected profits included in future premiums (EPIFP) - Life business					
R0780 Expected profits included in future premiums (EPIFP) - Non- life business	388,305				
R0790 Total Expected profits Included in future premiums (EPIFP)	388,305				

## S.25.01.21 – Solvency Capital Requirement – Standard Formula

### S.25.01.21

#### Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	268,289		
R0020 Counterparty default risk	232,981		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	5,767		
R0050 Non-life underwriting risk	909,844		
R0060 Diversification	-267,605		
R0070 Intangible asset risk	0		
R0100 <b>Basic Solvency Capital Requirement</b>	<b>1,149,275</b>		
<b>Calculation of Solvency Capital Requirement</b>			
R0130 Operational risk	134,815		
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 <b>Solvency Capital Requirement excluding capital add-on</b>	<b>1,284,091</b>		
R0210 Capital add-ons already set	0		
R0220 <b>Solvency capital requirement</b>	<b>1,284,091</b>		
<b>Other information on SCR</b>			
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		
<b>Approach to tax rate</b>			
R0590 Approach based on average tax rate	Yes		
<b>Calculation of loss absorbing capacity of deferred taxes</b>			
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		

USP Key		
<b>For life underwriting risk:</b>		
1 - Increase in the amount of annuity benefits		
9 - None		
<b>For health underwriting risk:</b>		
1 - Increase in the amount of annuity benefits		
2 - Standard deviation for NGLT health premium risk		
3 - Standard deviation for NGLT health gross premium risk		
4 - Adjustment factor for non-proportional reinsurance		
5 - Standard deviation for NGLT health reserve risk		
9 - None		
<b>For non-life underwriting risk:</b>		
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		

C0100	
	134,815
	0
	0
	0
	1,284,091
	0
	1,284,091

C0109	
	Yes

LAC DT	
	0
	0
	0
	0
	0
	0
	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 <sub>NL</sub> Result	509,643	
		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	367	611
R0030	Income protection insurance and proportional reinsurance	1,608	2,140
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	37,519	11,783
R0060	Other motor insurance and proportional reinsurance	4,376	2,737
R0070	Marine, aviation and transport insurance and proportional reinsurance	114,147	84,599
R0080	Fire and other damage to property insurance and proportional reinsurance	452,439	297,110
R0090	General liability insurance and proportional reinsurance	1,709,372	364,483
R0100	Credit and suretyship insurance and proportional reinsurance	213,180	237,127
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	28,244	70,555
R0140	Non-proportional health reinsurance	2,258	1,435
R0150	Non-proportional casualty reinsurance	101,297	31,974
R0160	Non-proportional marine, aviation and transport reinsurance	8,711	30,396
R0170	Non-proportional property reinsurance	220,616	262,248
	Linear formula component for life insurance and reinsurance obligations	C0040	
R0200	MCR <sub>L</sub> 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	509,643	
R0310	SCR	1,284,091	
R0320	MCR cap	577,841	
R0330	MCR floor	321,023	
R0340	Combined MCR	509,643	
R0350	Absolute floor of the MCR	3,700	
R0400	Minimum Capital Requirement	509,643	