Liberty Specialty Markets

LIBERTY MUTUAL INSURANCE EUROPE SOCIETAS EUROPAEA

Solvency and Financial Condition Report
As at 31 December 2023

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 2023 annual Quantitative Reporting Templates (QRTs) and narrative reporting templates to the Commissariat Aux Assurances (CAA) on the 8th of April 2024 as part of the Solvency II year-end reporting requirements.

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

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

Business summary

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

Liberty Mutual Insurance group operations are split into a management structure and a legal entity structure. Functionally, the management structure operates via three strategic business divisions (SBDs), strategic business units (SBUs) and management pillars which sit within the global corporate legal entity structure. The three SBDs are US Retail Markets (USRM), Global Risk Solutions (GRS) and Liberty Mutual Investments (LMI). GRS is made up of Liberty Specialty Markets (LSM), Liberty Mutual Reinsurance (LMRe), North America Specialty, Global Surety and Asia Retail Markets. .

GRS International (GRSI) is a business function responsible for supporting GRS' legal entities based outside North America (including LMIE), enabling an integrated approach to support GRS business segments and legal entities to fulfil their strategic objectives as part of One GRS.

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

On January 31, 2024, the sale of Liberty Seguros, Compañía de Seguros y Reaseguros, S.A. to the Generali Group was formalized. Following the sale, the LIEH SLU has been de-registered as the smallest sub-group subject to regulatory supervision by the DGSFP.

The UK Branch of LMIE had received full authorisation from the PRA as a Third Country Branch in December 2022. The UK Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority (registered number 829959). It is also subject to CAA regulation being a significant branch of the LMIE legal entity.

LMIE has licensed in-house cover holders in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME) and Liberty Specialty Markets Europe Two Sarl (LSME2), and in the Netherlands, Liberty Mutual Surety BV, which act as intermediary companies that underwrite on behalf of LMIE from their branches throughout Europe and the United Kingdom.

Macro-Economic and Geo-Political Factors

Throughout 2023, the macroeconomic and geopolitical environment has remained volatile. The conflict between Russia and Ukraine has continued into a second year and is expected to continue for some time. Sanctions continue to be actively monitored and applied. The more recent events between Israel and Hamas have added to the complexities and uncertainty within the geo-political landscape. The global economy continued its battle with sustained high levels of inflation throughout year, with Central banks responding, to increase base rates to dampen inflationary pressures. This in turn is impacting debt servicing for governments, companies, and individuals, leading to recessionary concerns, and adding to the potential for civil commotion with multiple global flash points. We continue to monitor the situation with regards to these systemic risk environment factors in accordance with our Risk Management Framework.

Business and performance

Branches and offices

LMIE operates from the head office in Luxembourg and through branches in the UK, Belgium, France, Germany, Ireland, Italy, the Netherlands, Spain, and Switzerland. During the year, the Company established branches in Norway and Sweden which have been subsequently authorised by the CAA in January 2024.

2023 Financial Performance

The Company's key financial performance indicators for the year ended 31 December 2023 were as follows:

Key Performance Indicators	2023 €'000	2022 €'000	Variance	Variance
	Lux GAAP	Lux GAAP	€'000	%
Gross Written Premiums	3,219,993	2,985,337	234,656	8%
Net Earned Premiums	910,087	833,790	76,297	9%
Net Incurred Claims	597,846	628,659	(30,813)	(4.9%)
Expenses	275,058	270,580	4,478	1.7%
Underwriting Result	37,184	(65,450)	102,634	(157%)
Net Claims Ratio %	65.7%	75.4%		(10%)
Net Expense Ratio %	30.2%	32.5%		(2.2%)
Net Combined ratio % (i)	95.9%	107.8%		(12%)

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

Underwriting performance

LMIE's underwriting result for 2023 represents a significant increase of €102.6m on the prior year, going from a €65.5m loss in the prior year to a €37.1m profit reflected in a improving of the Net Combined ratio by 11.8%.

The Company's underwriting result after expenses and excluding investment return was a profit of €37.2m (2022: loss of €65.5m). The combined ratio improved to 95.9% (2022: 107.8%). Overall, the result for the calendar year was a profit before taxation of €169.1m (2022: loss

€17.3m) driven by an underwriting profit of €37.2m (2022: loss of €65.5m), an investment return of €132.3m (2022: €68.7m return) and a foreign exchange loss of €0.4m (2022: €20.5m loss).

Gross written premium increased by 7.9% year on year, predominately driven by positive risk adjusted rate change (RARC) of 3.0% and favourable premium growth across several divisions.

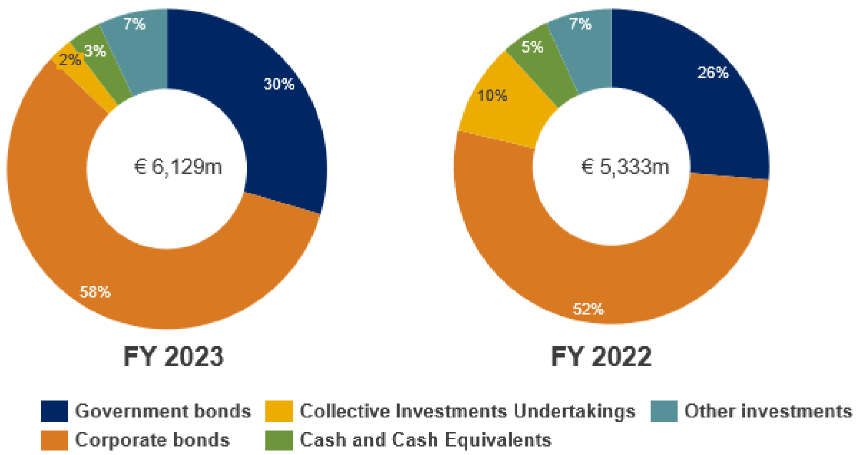
The Company's underwriting result for 2023 represents an improvement of €102.6m on 2022 results. This is largely driven by a reduction in the net loss ratio of 9.7%. The net loss ratio improved largely due to prior year reserve releases following favourable claims development. Additionally, the catastrophe loss ratio improved by 2.2% driven by the lower net exposure during the year. Material catastrophe events the Company was exposed to include the Italian Hailstorms (net €36.7m), Syria/Turkey earthquake (net €13.6m) and Hurricane Otis (net €1.8m).

The overall expense ratio reduced by 2.3%, which reflects lower acquisition costs driven by savings and a favourable class mix as well as a release of the RI bad debt provision during the year, compared to an adverse provision increase in the prior year.

Further details are provided in Section A.2.

Investment Portfolio and Investment Return

The composition of the portfolio by category of investments has remained largely consistent since 2022, largely comprising of fixed income government and corporate bonds, as illustrated in the exhibit below.



Overall, the value of the portfolio is higher by €796m during the year. This is driven by reinvestment of cash received through premium collections combined with the uplift in fund values as market conditions improved.

The Company's investment portfolio generated a return of €132.3m (2022: €68.7m). The uplift in investment income is largely driven by capital being reinvested at a higher yield, generating greater income on debt securities. The underlying interest income yield from bonds during the year was 2.5% (2022: 2.0%). The realised gains and losses on the portfolio remained relatively consistent compared with the prior year.

However, the most significant improvement in the Solvency II investment return was driven by a reduction in the unrealised losses on assets held to maturity of €180.3m during FY 2023, as opposed to an increase in the unrealised loss of €443.4m during FY 2022. The losses in prior year were mainly driven by rising bond yields (and hence falling bond prices) as inflation rose sharply in 2022, driven by macro-economic factors leading central banks to increase interest rates. Further details are provided in Section A.3.

Review of financial position (Lux GAAP Basis)

Financial position	2023 €'000	2022 €'000
Gross technical provisions	8,499,250	7,922,137
Ceded technical provisions	2,832,705	2,993,192
Investments and cash	6,129,880	5,333,247
Shareholder funds	2,179,326	1,900,538

Financial investments and cash have increased by €796m during the year , as explained above. Gross technical provisions increased in line with loss exposure experienced by the Company. Ceded technical provisions as a percentage of gross have reduced, due to the change in the reinsurance cover for catastrophe's which now trigger recoveries at higher attachment points.

Shareholder funds increased by €278.8m, mainly due to the Company's profit for the year and an improvement in the revaluation reserve, driven by a significant decrease in unrealised losses on available for sale investments.

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 LMIE SE Board is responsible for the long-term success of the business within the applicable legal and regulatory framework having regard to the interests of customers, long-term financial interests, solvency and the delivery of sustainable value to the shareholder, stakeholders and policyholders. The Board is headed by an independent non-executive chairman, who is responsible for leadership and ensuring its effectiveness. The Board delegates the responsibility for the day to day running of the Company's business to the General Manager.

Directors

Dirk Billemon	Authorised General Manager and Executive Director (resigned 1 April 2024)
Nigel Davenport	Non-Executive Director
Pierre-Edouard Fraigneau	Executive Director (appointed 18 January 2023)
Fernand Grulms	Chairman and Independent Non-Executive Director
Christopher Hanks	Independent Non-Executive Director (resigned 18 January 2023)
Pierre Hentgen	Independent Non-Executive Director
Virginie Lagrange	Independent Non-Executive Director
Christian Rola	Authorised General Manager and Executive Director
Mark Winlow	Independent Non-Executive Director (appointed 18 January 2023)

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

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

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

LMIE operates a Management Committee, the purpose of which is to provide the LMIE Dirigeant Agréé (otherwise known as the "General Manager") with oversight of the performance of LMIE and its branches.

Each branch of LMIE has a dedicated local management team, headed up by a Branch Manager. Further details on the Branches and Branch Management Committees reporting lines are provided in section B.1 below.

The UK Branch, as a Third Country Branch, operates a separate UK Branch Management Committee which is chaired by the UK Branch Manager and is made up of Branch's Key Function Holders (KFH). The UK Branch Management Committee provides the executive day-to-day branch business delivery within the strategic context set by the Board, reviews Branch performance and takes corrective actions within their delegated powers. The Committee supports the Branch Manager in discharging certain powers delegated to them in their capacity as the UK Branch Manager. The UK Branch Management Committee reports directly into the LMIE Management Committee, which is chaired by the LMIE General Manager.

The governance structure is reviewed on an annual basis by the Company Secretary to ensure that it is effective and appropriate for the organisation. There have been no changes to the structure of the Board and Board Sub-Committees in 2023. The Board effectiveness review conducted in 2023 found the Board and the Board sub-committees to be effective, with no material findings.

There were no material changes to the corporate governance structure in 2023.

Risk profile

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

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

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

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

The 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.

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

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

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

Valuation for solvency purposes

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

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

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

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

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

Capital Management

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

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

The CFO Committee on a quarterly basis, monitors the Solvency II ratio and manages the efficiency of LMIE's capital.

In March 2024, the Company received regulatory approval from the CAA to use its Internal Model to determine the Regulatory capital requirement. Authorisation was granted to use the Internal Model in assessing the solvency position as at 31 December 2023 and the solvency ratio benefited from the reduced capital requirement under an internal model basis.

. 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

Throughout 2023, LMIE continued to experience the benefit from capital actions undertaken in prior years, including the following:

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

At 31 December 2023, the Company's eligible own funds, determined in accordance with the Solvency II valuation rules, were €3,223.0m (2022: €2,813.8m), which was in excess of the Internal Model SCR of €1,239.4m (2022: €1,643.6m). This represented a solvency coverage ratio of 260.0% (2022: 171.2%). Further details of the IM SCR are provided in Section E.2.

The uplift in basic own funds is primarily driven by an increase in value of the investment portfolio of c.€796m, as explained above. This increase is partially offset by higher Net Solvency II Technical Provisions of c.€394m, which are explained in more detail in Section D.2.

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

Capital Structure		2023 €'000	2022 €'000
Share Capital	E.1.2.a	255,424	255,424
Share Premium	E.1.2.a	1,617,533	1,617,533
Reconciliation reserve	E.1.2.b	858,581	442,252
Available and Eligible Own Funds (to cover the MCR)		**2,784,925**	**2,315,210**
MCR	E.2.1	557,740	537,724
MCR Coverage Ratio		**499%**	**431%**
An amount equal to the value of net deferred tax assets		53,386	100,408
Ancillary Own Funds	E.1.2.c	384,736	398,221
Available and Eligible Own Funds (for SCR Coverage)		**3,223,046**	**2,813,839**
SCR	E.2.1	1,239,421	1,643,583
SCR Coverage Ratio		**260%**	**171%**

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

DIRECTORS' STATEMENT

Approval by the Liberty Mutual Insurance Europe SE (LMIE) Board of Directors of the Solvency and Financial Condition Report for the financial year ended 31st December 2023.

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 2023. 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 2023. 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

LMIE General Manager

8 April 2024

BUSINESS & PERFORMANCE

SECTION A - BUSINESS AND PERFORMANCE

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

Key elements of the section are:

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

SECTION A.1 – Business Information

A.1.1 Name and legal form of the undertaking

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

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

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

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

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

The CAA is responsible for the prudential supervision of the Company.

11, Rue Robert Stumper,
L-2557 Luxembourg

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

Bank of England
Threadneedle St.
London, EC2R 8AH

LMIE consolidates into the LIEH for Solvency II purposes and therefore is subject to Group supervision by the "Direccion General de Seguros for Insurance and Pension Funds" (DGSFP), 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.

In July 2023 the Liberty Mutual Group entered into an agreement with Generali, for the purchase of Liberty Seguros This transaction was approved by the DGSFP and was finalised on the 31st January 2024. .

As at December 2023, the LIEH College of Supervisors included the DGSFP (as Chair), Commissariat Aux Assurances (as LMIE SE's home state regulator), Central Bank of Ireland (CBI) and the Autoridade de Supervisao de Seguros e Fundos et Pensiones (ASF, Portuguese

Supervisor). . DGSFP supervision of the LIEH subgroup ceased on 31st January 2024, following the disposal of Liberty Seguros. The CAA continues to supervise LMIE on a solo basis.

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

A.1.3 Name of the external auditor

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

A.1.4 Holders of qualifying holdings

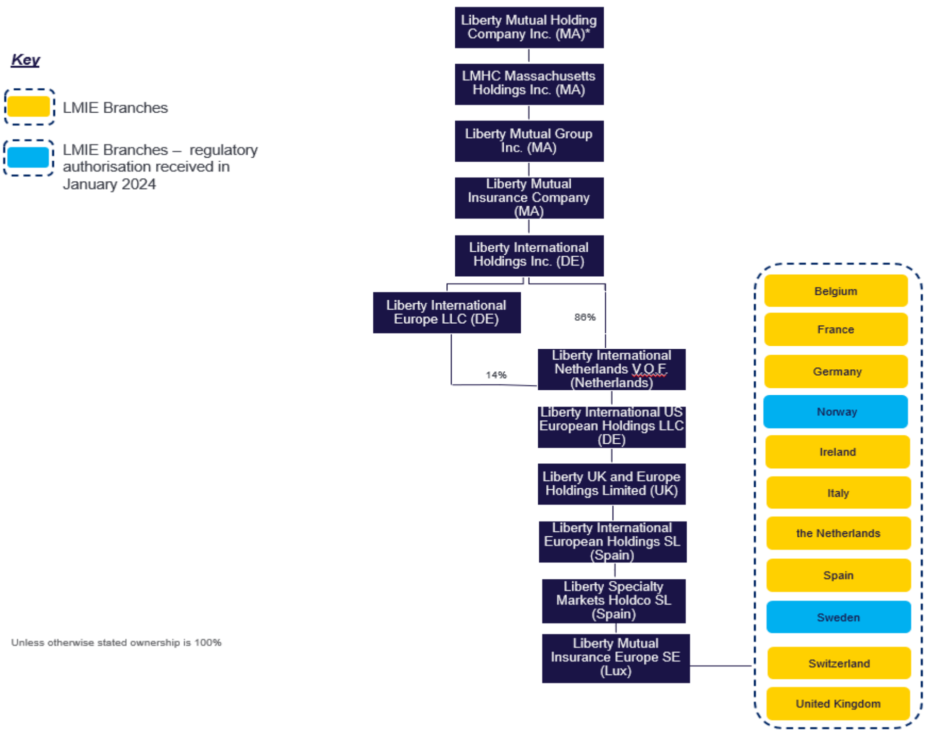
LMIE is wholly owned by its immediate parent company, LSMH.

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

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

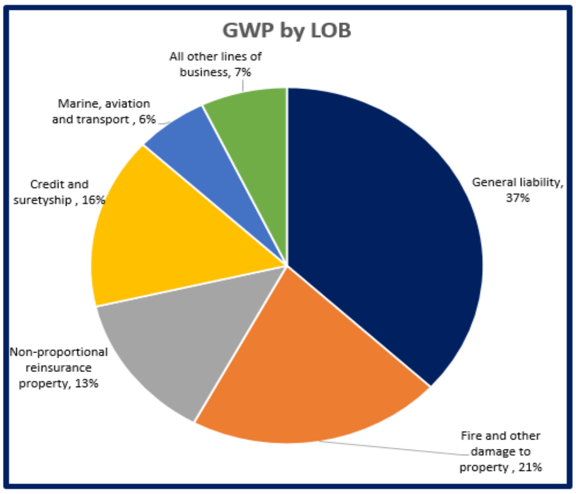
A.1.5 Details of the undertaking's position within the legal structure of the group

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

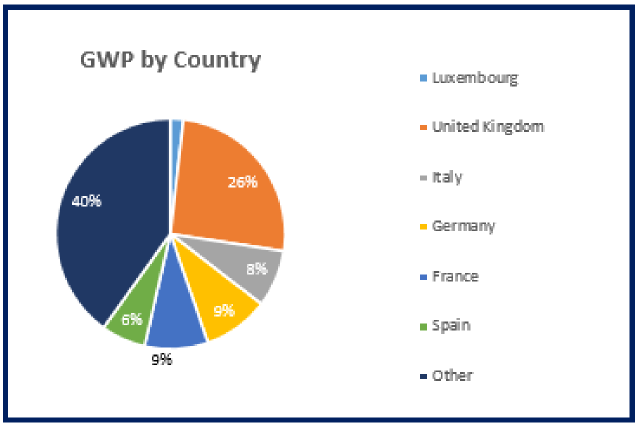


A.1.6 The undertaking's material lines of business and material geographical areas where it carries out business

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



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



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

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

In July 2023 the Liberty Mutual Group entered into an agreement with Generali, for Generali's purchase of Liberty Seguros, subject to regulatory approval. The Liberty Seguros transaction was approved by the DGSFP and closed on the 31st January 2024. Following the transaction, group supervision of the LIEH subgroup by the DGSFP ceased. The CAA is now supervising LMIE on a solo entity basis.

In March 2024 the CAA approved the nomination of Mr Christian Rola as the LMIE Licensed Manager, effective from 01 April 2024. Mr Rola's appointment is to succeed Mr Dirk Billemon, who announced his attention to retire from the Licensed Manager role to the LMIE Board in September 2023.

SECTION A.2 – Underwriting Performance

A.2.1 Underwriting performance for the year ended 31 December 2023

LMIE's underwriting performance on a Lux GAAP basis is summarised in the table below for the years ended 31 December 2023 and 2022.

Key Performance Indicators	2023 €'000 Lux GAAP	2022 €'000 Lux GAAP	Variance €'000	Variance %
Gross Written Premiums	3,219,993	2,985,337	234,656	8%
Net Earned Premiums	910,087	833,790	76,297	9%
Net Incurred Claims	597,846	628,659	(30,813)	-5%
Expenses	275,058	270,580	4,478	2%
Underwriting Result	37,184	(65,450)	102,634	-157%
Profit / (Loss) before taxation	169,075	(17,293)	186,368	-1078%
Net Claims Ratio %	65.7%	75.4%		-9.7%
Net Expense Ratio %	30.2%	32.5%		-2.2%
Net Combined ratio % (i)	95.9%	107.8%		-11.8%

(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 net combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

Overview

LMIE's underwriting result for 2023 represents a significant increase of €102.6m on the prior year, going from a €65.5m loss in the prior year to a €37.1m profit reflected in a improving of the Net Combined ratio by 11.8%.

The Company's underwriting result after expenses and excluding investment return was a profit of €37.2m (2022: loss of €65.5m). The combined ratio improved to 95.9% (2022: 107.8%). Overall, the result for the calendar year was a profit before taxation of €169.1m (2022: loss €17.3m) driven by an underwriting profit of €37.2m (2022: loss of €65.5m), an investment return of €132.3m (2022: €68.7m return) and a foreign exchange loss of €0.4m (2022: €20.5m loss).

Gross written premium increased by 7.9% year on year, predominately driven by positive risk adjusted rate change (RARC) of 3.0% and favourable premium growth across several divisions.

The Company's underwriting result for 2023 represents an improvement of €102.6m on 2022 results. This is primarily driven by a reduction in the net loss ratio of 9.7%. The net loss ratio improved largely due to prior year reserve releases following favourable claims development. Additionally, the catastrophe loss ratio improved by 2.2% driven by the lower net exposure during the year. Material catastrophe events the Company was exposed to include the Italian Hailstorms (net €36.7m), Syria/Turkey earthquake (net €13.6m) and Hurricane Otis (net €1.8m).

The overall expense ratio reduced by 2.3%, which reflects lower acquisition costs driven by savings and a favourable class mix as well as a release of the RI bad debt provision during the year, compared to an adverse provision increase in the prior year.

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 2023 and 31 December 2022 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.

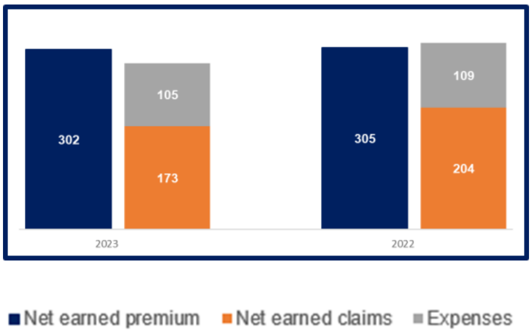
There are five material Solvency II Lines of Business (LOB) driving the underwriting performance for LMIE which together comprise in excess of 90% of the LMIE GWP. These are discussed in more detail below:

	2023	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
	General liability	1,188,956	301,505	173,072	105,081	23,352
	Fire and other damage to property	674,074	205,486	108,134	59,803	37,549
	Non-proportional reinsurance property	433,392	155,279	127,610	42,392	(14,723)
	Credit and suretyship	501,597	123,226	89,848	51,523	(18,145)
	Marine, aviation and transport	192,900	66,114	41,218	17,346	7,550
	All other lines of business	229,074	58,479	42,763	22,063	(6,347)
A	**TOTAL**	**3,219,993**	**910,087**	**582,645**	**298,208**	**29,234**
B	Reclassification of ULAE to Expenses			15,201	(15,201)	
*C**	Removal of Other expenses included in S.05.01				(7,949)	7,949
D	Revised Result (A+B+C)	3,219,993	910,087	597,846	275,058	37,183
E	**LUX GAAP Financial Statements**	**3,219,993**	**910,088**	**597,846**	**275,058**	**37,183**

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

**Primarily investment management expenses*

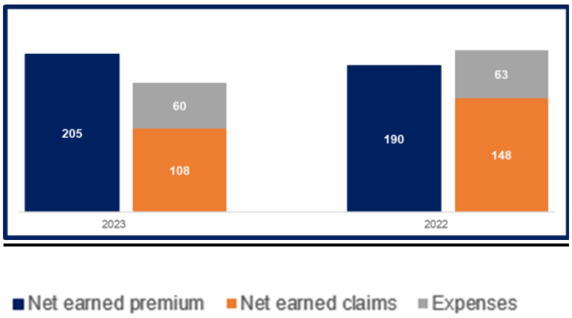
General Liability



General Liability is the largest Solvency II LOB contributing to c.36% of total GWP (Q4 2022: 38%). It generated an underwriting profit of €23m (Q4 2022: €8.2m loss), resulting in a net combined ratio of 92% (Q4 2022: 103%)

The net loss ratio has moved favourably to 57% (Q4 2022: 67%). This is driven both by relatively benign loss experience on D&O, Non-MGA & Dual, compared to Q4 2022. The net Expense ratio has remained comparable at 35% (Q4 2022: 36%).

Fire & Other Damage to Property

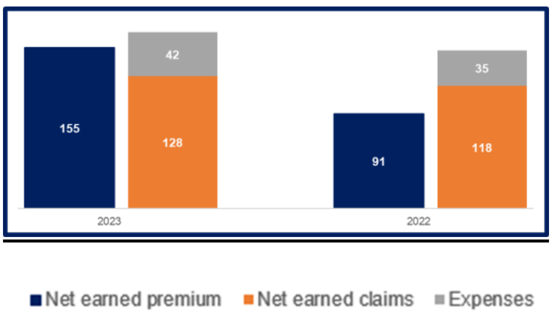


Fire and other damage to property generated an underwriting profit of €37.5m (Q4 2022: €20m loss) resulting in a net combined ratio of 82% (Q4 2022: 111%).

The net loss ratio is lower at 53% (Q4 2022: 78%). This is primarily due to lower CAT exposures in the current period (c.€ 10m) relating to Italian floods, Turkey Earthquake and Hurricane Otis against higher CAT losses at Q4 2022, arising from exposure to UK Windstorms, French Hailstorms, Ukraine-Russia war as well as deterioration on exposure to Covid-19 losses. In addition, there have been favourable movements in the attritional loss experience across the business portfolio comprising of Energy, Market Facilities, Property MGA & Construction.

The net expense ratio is lower at 29% (Q4 2022: 33%), driven by the revision in methodology leading to a more equitable spread of overhead and administrative expenses.

Non-Proportional Reinsurance Property



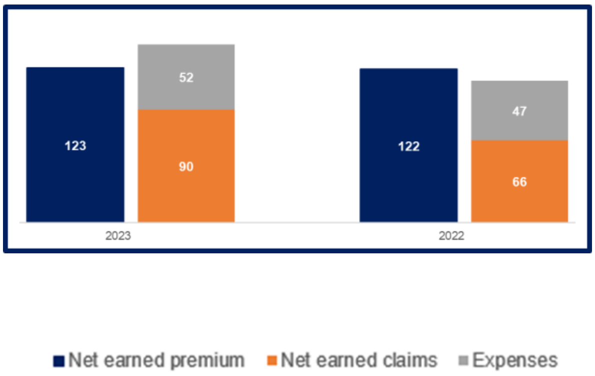
The **Non-Proportional Reinsurance Property** line of business incurred an underwriting loss of €14.7m (Q4 2022: €61.5m loss), resulting in a net combined ratio of 109% (Q4 2022: 168%).

The net loss ratio is significantly lower at 82% (Q4 2022: 130%). The favourable movement has been primarily driven by lower CAT losses in 2023 (c.€56m) largely arising from exposure to Turkey Earthquake & Italian Floods. The CAT losses at Q4 2022 were higher at €65m, arising from exposure to French Hailstorms, UK Windstorms, Russia-Ukraine conflict, Hurricane Ian and as well as deterioration on prior year exposure to European Floods & Storm Berndt. Additionally, similar to the Fire & Property Direct business LOB above, there has been favourable movement in attritional losses across the general business portfolio, compared to prior year.

The expenses ratio is lower at 27% (Q4 2022: 38%), following revision in the methodology leading to a more equitable spread of overhead and administrative expenses.

Both the loss and expense ratio are lower compared to prior year, given the significantly higher premium volume for FY 2023, following refinements to the process for allocation of underlying products between Direct & Non-proportionate Solvency II LOBS.

Credit and Suretyship

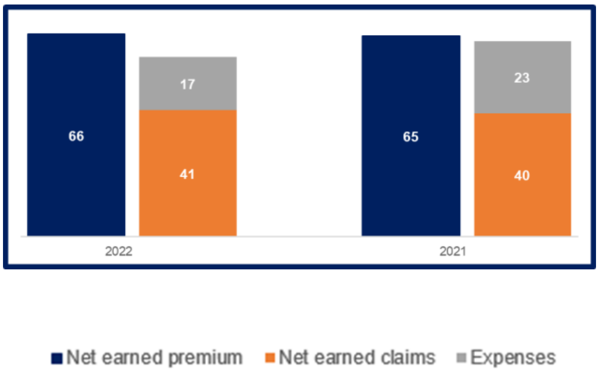


Credit and Suretyship incurred an underwriting loss of €19m (Q4 2022: €9.4m profit), resulting in a net combined ratio of 114% (Q4 2022: 93%).

The net loss ratio is higher at 73% (Q4 2022: 54%), largely due to higher attritional claims experience across the portfolio of business comprising Short Term Credit, Surety, Financial risk & Structured Risk.

The net expense ratio is higher at 42% (Q4 2022: 39%). This is both due to higher commission costs associated with the underlying products, as well as higher claims management expenses involved in servicing the losses reported.

Marine, Aviation & Transport



The Marine, Aviation & Transport line of business achieved an underwriting profit of €7.5m (2022: €1.7m loss), resulting in a net combined ratio of 89% (2022: 97%).

The net loss ratio is consistent at 62% (2022: 62%) as a reduction in CAT exposures (2022: €4m) has been offset by slightly higher attritional losses.

The expense ratio is favourable at 26% (2022: 35%) following a more equitable allocation of administrative and overhead expenses. The underlying acquisition costs are relatively consistent at 8% (2022: 9%).

A.2.3 Underwriting Result by material geographical area

The following table summarises the underwriting performance of the Company by its material geographic areas. The information is prepared in accordance with Solvency II QRT S.04.05.01 Premiums, Claims and Expenses by risk location.

As at 31st December 2023	Gross Written Premiums €'000	Gross Earned Premium €'000	Gross Claims Incurred €'000	Gross Technical Expenses €'000	Technical Result (Gross) €'000
Luxembourg	59,645	50,392	73,720	14,439	(37,767)
United Kingdom	821,264	821,657	459,148	267,135	95,375
Italy	258,134	246,881	69,213	101,104	76,565
Germany	297,617	296,536	187,353	105,134	4,049
France	288,457	281,814	188,391	85,724	7,699
Spain	201,371	173,223	81,848	60,433	30,942
Other	1,293,505	1,241,816	628,501	399,674	213,641
TOTAL	**3,219,993**	**3,112,319**	**1,688,173**	**1,033,644**	**390,502**

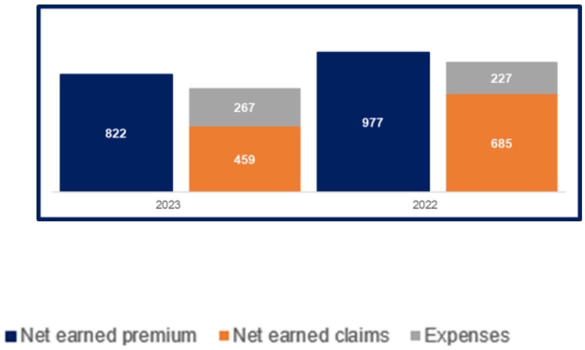
LMIE's geographical footprint continues to focus on the UK and European markets. The strategy focuses and supports its European growth plans and its continued presence in the UK post the UK leaving the EU (Brexit). As part of the Brexit strategy LMIE has licensed in-house cover holders in Luxembourg,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

As illustrated in the tables above, the UK remains the single largest contributor of GWP at €611m which represents 26% of total GWP (2022: contribution of 31%). Note that the comparative FY 2022 information has been presented in accordance with the S.05.02.01 QRT, which required information to be presented as a hybrid between country of underwriting and country of risk location. This template has been discontinued per the latest EIOPA taxonomy. As a result until prior year, the GWP for UK business included a proportion of risks which were written out of the UK branch but with risk location in other non-EEA countries.

Alongside the home country Luxembourg, the other top 4 European countries by GWP – France, Germany and Italy, contribute 34% of the total GWP (2022: contribution of 37%).

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

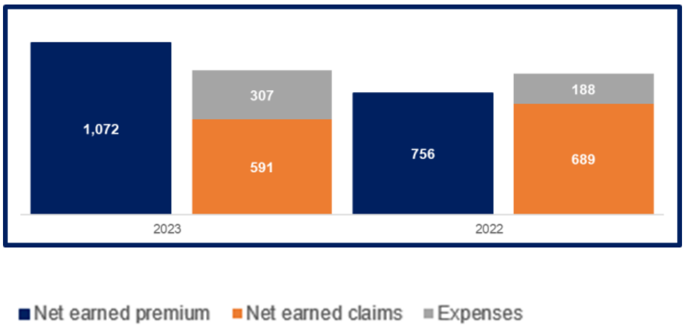
United Kingdom



The UK portfolio achieved a Gross Loss ratio of 56% (2022: 70%), and a Gross expenses ratio of 33% (2022: 23%).

A significant proportion of UK business comprises of the General Liability and Fire & Other Damage to Property LOBs, both of which have reported favourable underwriting results in 2023, as explained in the previous section. This accounts for the significantly lower Gross Loss ratio for risks located in UK. The expense ratio is comparatively higher as the earnings in 2022 were enhanced due to the impact of late bookings in 2021.

Europe



The top 4 European countries by GWP, along with the Home-country (Luxembourg) achieved a Gross Loss ratio of 57% (2022: 81%), and a Gross Acquisition expenses ratio of 35% (2022: 29%) .

A significant proportion of the business located in Europe relates to the Non-Proportional Property LOB, which generated significantly favourable results in 2023, compared to prior year due to lower CAT exposure, leading to favourable movements in the Gross Loss Ratio.

The Gross acquisition ratio is slightly higher due to changes in business mix and risk profile over the course of the year.

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.

2023 €(000)	Dividends	Interest	Rent	Net gains and losses	Unrealised gains and losses	Total performance
Government bonds	0	28,498	0	(3,770)	50,586	75,314
Corporate bonds	0	90,309	0	(7,450)	127,728	210,587
Collective Investment Undertakings	48	0	0	616	(19)	645
Collateralised securities (interest)	0	3,727	0	0	1,991	5,719
Cash and deposits	0	11,463	0	0	0	11,463
Mortgages & Loans	0	0	0	0	0	0
Total Investment income	**48**	**133,998**	**0**	**(10,604)**	**180,286**	**303,727**

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

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

The Company's investment portfolio generated a return of €123.4m (2022: €67.6m). The uplift in investment income is largely driven by capital being reinvested at a higher yield, generating greater income on debt securities. The underlying interest income yield from bonds during the year was 2.5% (2022: 2.0%). The realised gains and losses on the portfolio remained relatively consistent compared with the prior year.

However, the most significant improvement in the Solvency II investment return was driven by a reduction in the unrealised losses on assets held to maturity of €180.3m during FY 2023, as opposed to an increase in the unrealised loss of €443.4m during FY 2022. The losses in prior year were mainly driven by rising bond yields, and hence falling bond prices, as inflation rose sharply in 2022, driven by macro-economic factors leading central banks to increase interest rates.

Investments in Securitisations

The Company's holdings in securitised assets are shown in the below table. The largest reduction noted is in relation to ABS, due to disposals during the year.

€'000	2023	2022
CMO	15,592	2,193
CMBS	3,700	3,991
ABS	63,806	95,437
Total	**83,098**	**101,621**

SECTION A.4 – Any Other Information

No other matters to report.

SYSTEM OF GOVERNANCE

SECTION B – SYSTEM OF GOVERNANCE

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

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

SECTION B. 1 – Corporate Governance

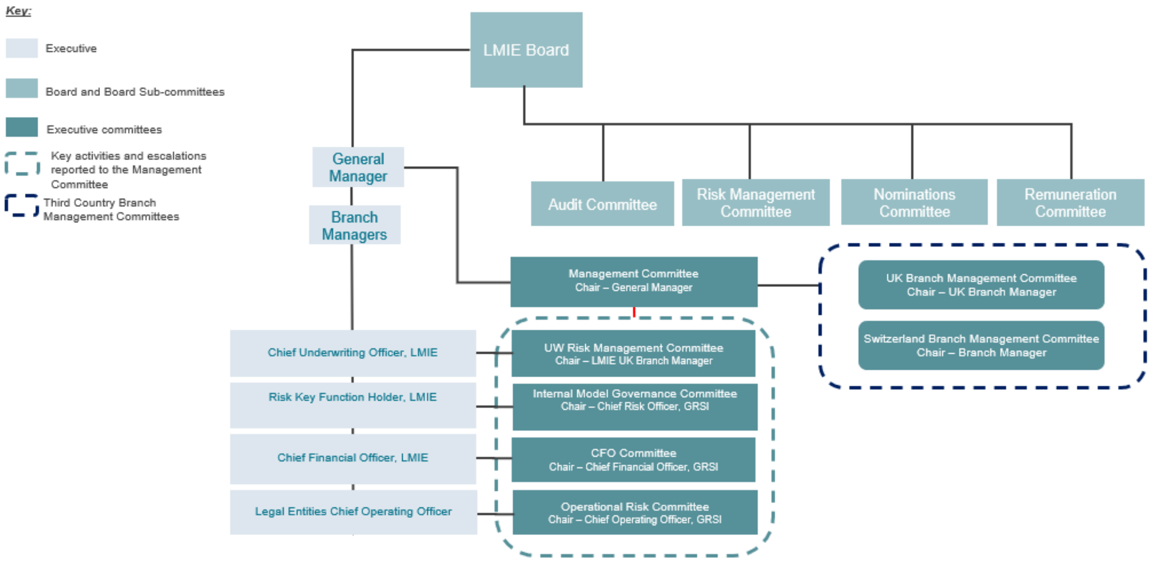
LMIE's corporate governance framework sets out the systems by which the Company is directed and controlled. The Board of Directors (the Board) is responsible for the governance of the Company and has established a corporate governance framework as an effective means of meeting that responsibility. LMIE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

The corporate governance framework is reviewed on an annual basis to ensure that it continues to remain effective. The 2023 review concluded that the corporate governance framework was effective, with no material findings.

B.1.1 Management and Governance Structure

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

LMIE Governance Structure



B.1.2 Overview of the role of the Board

Segregation of Board Responsibilities

The LMIE SE Board is responsible for the long-term success of the business within the applicable legal and regulatory framework having regard to the interests of customers, long-term financial interests, solvency, and the delivery of sustainable value to the shareholder, stakeholders, and policyholders.

The Board ensures there is a sustainable business model, a clear strategy consistent with that set by Liberty Mutual Group (LMG) including Global Risk Solutions (GRS)., a system of governance and a risk framework which supports prudent and effective management, and delivery of strategic objectives and regulatory requirements applicable to the Company.

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 delivering strategic objectives, and regulatory requirements applicable to the Company. The daily management of LMIE is delegated by the Board to the General Manager (GM) who chairs a Luxembourg-based Management Committee to assist in the discharge of certain duties delegated to him by the Board. The Board is supported by the Company Secretarial team.

Overview of the Board sub-committees

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

B.1.2.1 Audit Committee

The Audit Committee (the "Committee") assists the Board of Directors in meeting its responsibilities that relate to the oversight and review of:

- financial reporting, internal controls, the audit process including monitoring the integrity of the financial statements and other statutory or regulatory financial reporting of the Company; and
- the adequacy of the design and operating effectiveness of the Company's internal controls, including the effectiveness, performance, and objectivity of the Internal and External Auditors.

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

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

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 RMC provides independent oversight of compliance with laws and regulations.

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

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 Head of HR, UK & EMEA and the Chief Financial Officer, GRS International. The Chair of the Committee reports to the Board on the activities of the Committee.

The main responsibilities of the Committee include:

- Annually reviewing and approving the Remuneration Policy and ensure its ongoing appropriateness.
- Setting remuneration policy and practices for LMIE and LSM, LMRe and GRSI 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 aspects related to remuneration disclosures, as applicable.
- Considering and approving annually, the Solvency II Identified Staff Identification Methodology document and the resulting Solvency II Identified Staff in scope for remuneration decisions in line with Liberty Mutual Group, legal and regulatory requirements.

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

B.1.2.4 Nomination Committee

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

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

Overview of the Legal Entity Committees

The governance structure is further supported by Executive level "Legal Entity Committees" which consider specific management information for oversight and management of LMIE operational and regulatory performance prior to presentation at the Board / Board Sub-Committees. Key activities and escalations from the Legal Entity Committees are reported to the Management Committee, and through the governance structure as appropriate. The aim of this is to support the General Manager in their oversight and day to day running of the business. Below is an overview of each of the Legal Entity Committees.

B.1.2.5 Management Committee

The Management Committee provides the executive day-to-day business delivery within the strategic context set by the Board; carries out all matters delegated from the Board; reviews performance and makes corrective actions within their delegated powers; and prepares papers for Board approval.

The Management Committee carries out the day-to-day activities of the Company within the strategic context set by the Board and those powers delegated to it. It is a forum for review and challenge with a focus on business planning, identifying and effectively remediating issues and continuous process improvement. The Management Committee reports to the Board and fully engages with the Legal Entity Committees.

Each Legal Entity Committee Chair or their nominated delegate also attends the Board or appropriate Board sub-committee.

B.1.2.6 Underwriting Risk Management Committee

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

The UWRMC assists the Chief Underwriting Officer, RMC, and Board in considering the delivery of the Underwriting Strategy and providing oversight of the underwriting operations. It coordinates the oversight of the underwriting activities whilst ensuring LMIE remains within the insurance risk appetites.

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

B.1.2.7 Internal Model Governance Committee

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

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

B.1.2.8 CFO Committee

The Chief Financial Officer (CFO) Committee supports the CFO in fulfilling their role. The Committee reviews reports and information relating to relevant aspects of Actuarial and

Reserving, Investments, Risk Appetites, Strategy, Business Planning, Performance, Capital and Solvency and Regulatory Reporting, including the Financial Control environment for LMIE.

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

B.1.2.9 Operational Risk Committee

The Operational Risk Committee oversees the operational risk Management framework, including operational risks and incidents, non-financial internal controls, and control assurance activity. In addition to this, the ORC oversees LMIE's approach to Operational Resilience, Business Continuity and Crisis Management, and ensures compliance with applicable laws and regulations throughout the jurisdictions LMIE operates in. .

The Committee is chaired by the GRSI Chief Operating Officer to assist them in carrying out their duties in respect of operations as they relate to LMIE. The Committee membership consists of senior executives including the LMIE Head of Risk, Legal Entities Chief Operating Officer and GRSI Chief Claims Officer.

B.1.2.10 Delegation of Board authority and decision making

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

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

B.1.3 LMIE Key Functions

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

B.1.3.1 Actuarial Function

The Head of Actuarial Function – Legal Entity, as the approved Key Function Holder for the company and resident in Luxembourg, reports into to the LMIE General Manager and has an additional functional reporting line to the GRSI Chief Actuary for GRSI 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. The Head of Risk Management LMIE reports to the LMIE General Manager and has an additional functional reporting line to the GRSI Chief Risk Officer for wider LSM and legal entity responsibilities. The Head of Risk Management LMIE also has a reporting line directly to the Chair of the Risk Management Committee who is an independent Non-Executive Director.

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

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

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

B.1.3.3 Compliance Function

The Compliance function is led by the European Head of Compliance, who is the approved Key Function Holder for the company and is based in Luxembourg. The European Head of Compliance reports to the LMIE General Manager and has an additional functional reporting line to the GRSI Head of Compliance. The European Head of Compliance is also the nominated Compliance Officer for LMIE UK Branch (SMF 16).

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

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

B.1.4 Group Structure

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

B.1.5 Material changes in the system of governance

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

B.1.6. Remuneration Policy

B.1.6.1 Principles of the Remuneration Policy

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

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

The Company is committed to ensuring that:

- Performance goals are clearly designed and communicated to all employees through a robust, but transparent, performance management process.
- Performance goals are aligned with the long-term strategy of the business and the requirements of each individual employee.
- Customers and the insurance markets are protected from any negative impact associated with mismanagement of remuneration at any level of the organization.

- Incentive schemes are designed in such a way as to reward short-term and long-term performance and ensure that employees are not incentivized to engage with inappropriate risk taking.

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

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

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

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

B.1.6.3 Variable Remuneration

Variable remuneration – Short Term Performance

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

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

Variable remuneration – Long Term Performance

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

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

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

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

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

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

B.1.6.5 Material transactions during the reporting period

No matters to report.

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 and applicable Circular letters.

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.

The required annual Fit and Proper assessments were performed for all LMIE Key Function Holders in Q4 2023. 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 Risk Management). The risk appetite process occurs during the business planning process.

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

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, at all times.

Methodology

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

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

The preparation of the ORSA report requires 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.

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 approval. 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 ORSA includes both the economic capital position of LMIE and its regulatory capital position, by reference to the SCR and the MCR, as at 31st December 2023.

ORSA reports for LMIE are prepared for review by the RMC/Board and submission to the relevant regulator at least annually.

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

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

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

ORSA Report

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

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 GRSI Compliance Policy and Annual Compliance Plan is in scope of the GRSI 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 GRSI Compliance Policy or Annual Compliance Plan outside of its normal annual review cycle.

The RMC has the following formal responsibilities in respect of GRSI'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 2023 reporting period.

B.5.2 Operations and Assurance

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

- Risks relating to achievement of strategic objectives are appropriately identified and managed;
- The actions of the officers, directors, employees, and contractors are compliant with the policies, procedures and applicable laws, regulations, and governance standards;
- The results of operations or programs are consistent with established goals and objectives;
- Operations and programs are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the business;
- Information and the means used to identify, measure, classify and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

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

B.5.3 Independence and Objectivity

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

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

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

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

SECTION B. 6 – Actuarial Function

B.6.1 Governance of the Actuarial Function

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

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

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

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

- Coordinate the calculation of technical provisions;
- Ensure the appropriateness of the methodologies and underlying models;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions, oversee the calculation of technical provisions in the cases set out in Article 82;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements; and
- Contribute to the effective implementation of the risk management system referred to in Article 44, particularly with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5 and to the assessment referred to in Article 45.

B.6.2 Co-ordinating the calculation of Technical Provisions

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

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

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

- Ensure that methodologies and models used to calculate the technical provisions are appropriate, both in themselves and with regards to the specific lines of business they are applied to, taking account of the way the business is managed and the available data;
- Ensure that management actions included in the calculation of technical provisions are objective, reasonable and verifiable;

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

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

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

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

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

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

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

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

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

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

SECTION B. 7 – Outsourcing Arrangements

B.7.1 Description of the Outsourcing Policy

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

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

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

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

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

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

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

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

B.7.2 Outsourcing Register

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

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

SECTION B. 8 – Any Other Information

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

RISK MANAGEMENT

SECTION C – Risk Management

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

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

Risk exposure:

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

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

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

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

- Insurance Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk
- Strategic risk (including Group risk, Responsible Business and Climate Change)

SECTION C.1 – Insurance Risk

Insurance risk arises from two sources:

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

a) Risk Assessment

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

including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual events.

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

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

Premium and Reserve risk have both continued to be impacted by the change in the inflationary outlook through 2023. The effects of inflation continue to be monitored and managed through the control environment and several forums which have been introduced during 2023 to review the effects of inflation on the underwriting portfolio. Inflationary pressures have also been considered within business planning, pricing, and reserving.

SECTION C.2 – Market Risk

Market risk is the risk of realised or unrealised investment losses or adverse net asset movements resulting from factors that affect the invested assets or insurance liabilities, including economic and financial variables. Market risk is subcategorised into asset-liability management risk (relating to mismatches in asset-liability currency mix and/or interest rate duration) and investment risk (which includes credit risk, spread risk, equity risk, property risk, concentration risk, alternative asset risk, illiquid asset pricing risk and inflation risk).

The Company has defined its investment objectives, to prioritise risk-adjusted investment return and policyholder protection, limit the capital requirement within Risk Appetite, and maintain sufficient liquidity. The Company reviews its investment strategy annually in line with these objectives.

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 are:

- Market risk – invest assets in line with investment guidelines. The investment guidelines are dependent upon the outcome of investment strategy reviews and are subject to Management's discretion.
- Market climate risk - invest assets in line with the Responsible Investment Policy. There is limited appetite to invest in companies that generate revenues from thermal coal mining, utility companies that generate electricity production from thermal coal, oil sands or new Arctic energy exploration. (Market Climate Risk is not listed as a separate risk in the LMIE Risk Taxonomy, with Climate Risk instead being viewed as a risk that cuts across all other risk categories.)

b) Risk Mitigation

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

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

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

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

c) Measures used to monitor effectiveness of Risk Mitigation

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

SECTION C.3 – Credit Risk

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

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

a) Risk Assessment

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

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

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

b) Risk Mitigation

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

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

c) Measures used to monitor effectiveness of Risk Mitigation

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

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

SECTION C.4 – Liquidity Risk

Liquidity risk defined as the risk of the Company being unable to meet its financial obligations as they fall due, as a result of the insufficient liquid resources.

a) Risk Assessment

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

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

Maintain sufficient liquidity to meet liabilities as they fall due. Cash will only be held for routine cash flow purposes, or where there is a specific regulatory requirement.

b) Risk Mitigation

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

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

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

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

c) Measures used to monitor effectiveness of Risk Mitigation

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

SECTION C.5 – Operational Risk

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

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

a) Risk Assessment

LMIE has an 'averse' appetite for operational risks, and recognises that some risks are unavoidable as a consequence of conducting and operating in a complex business environment, and therefore reduce exposure to these risks to as low as cost-effectively as possible and will have effective remediation plans, system of controls and appropriate risk culture to reduce these risks at the earliest opportunity if needed.

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 and Third-Party Supplier Management Policy, as discussed in Section B.7.

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 regularly assessed and 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. LMIE utilises 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-assessment of controls, details of incidents and near misses, and actions.

The Operational Risk Committee assists 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 the operational risk profile, control assurance, cyber and technology, operational resilience, and other key operational risk topics. Further details are provided in Section B.1.2.9.

SECTION C.6 – Strategic risk (including Group Risk; Sustainability Risk and Climate Change Risk)

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

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

- Strategic risk
- Group risk

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

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

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

Sustainability Risk

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

Integrating Sustainability across business and operations functions is an important part of Liberty's strategy. Risk management is aligned with LMIE's Sustainability priorities to identify, monitor, and report different types of Sustainability Risk. Sustainability Risk is classified as a cross-cutting risk, as such it is managed and mitigated through the existing Risk Management Framework. Governance structures, including dedicated working groups, are in place to discuss, escalate and respond to Sustainability topics.

As part of that governance, a Liberty-wide underwriting led, cross-functional council was established to monitor and manage a set of topics where we perceive elevated reputational and commercial risk. Several new topic-specific underwriting guidelines were introduced in 2023 that complement an over-arching sustainable underwriting risk framework of material environmental, social, and governance dimensions relevant across the portfolio.

LMIE continues to comply with evolving European and EIOPA 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 2023 as required by the EU Taxonomy Regulation.

LMIE has also met requirements established in EIOPA Amendments to Delegated Regulation (EU) 2015/35 - Sustainability risk, to include the identification and assessment of sustainability risks and the integration into relevant policies sustainability risks. In conjunction with this requirement, the addition of a standalone ‘Sustainability Strategy Risk’ was introduced in 2023.

Climate Change Risk

Climate change risk arises from the impacts associated with an increase in global average temperatures, measured against pre-industrial levels. The risks to LMIE are multiple and will likely occur over an extended period of time i.e. (Short-term (1-5 years), Medium-term (5-15 years) and Long-term (15+ years)). Climate change risk has the potential to manifest in three forms:

- Physical risks result from the impacts of increasingly frequent and severe extreme weather events and longer-term shifts in climatic conditions.
- Transition risks arise from economy wide decarbonization efforts to mitigate against the most extreme physical impacts of climate change. Risks will stem from 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, meaning it impacts a number of the different risk areas outlined above, as such it is being managed through the existing Risk Management Framework.

Insurers have a pivotal role in supporting a just transition to a low carbon economy through their products, asset holdings and disclosures. The Group have set thermal coal thresholds within underwriting and investments to support this shift.

Since 2020, LMIE continues to be a member of voluntary initiative ClimateWise, a global insurance industry network focused on climate-related issues. In 2023, the second ClimateWise report was published, demonstrating how we respond to the ClimateWise Principles that are aligned with the Task Force on Climate-related Financial Disclosures (“TCFD”). This provides our policyholders and counterparties with additional climate change-specific information.

The ClimateWise score improved for 2023, in comparison to 2022 to 82% from 71%. There was particular improvement in Principle 5 – ‘Inform public policy making’ from 8% (2022) to 14% (2023).

The below table provides an overview of how LMIE is responding to the 7 ClimateWise Principles.

ClimateWise Principles	**Overview of the company’s response**
1. Be accountable	Embedding climate change into all relevant management / governance structures and responsibilities
2. Incorporate climate-related issues into our strategies and investments	Assessing our portfolio against different climate change pathways and evidencing material climate-related risks and

	opportunities. Applying a Responsible Investment Policy and establishing a Responsible Business Framework
3. Lead in the identification, understanding and management of climate risk	Making significant advancements in our climate risk capabilities through utilisation of data, stress and scenario testing, and undertaking a climate risk appetite and materiality assessment
4. Reduce the environmental impact of our business	Measuring, reducing, and disclosing our Scope 1-2 (and some scope 3) emissions, procurement policy and other environmental impacts; working with our suppliers and engaging our colleagues on environmental impact.
5. Inform public policy making	Engagement activities and leadership conducted throughout the year to influence public policy and prioritisation of activities to achieve impact related to material climate-related issues. Engaging with global regulators and actively contributing to several collaborative industry initiatives and working groups
6. Support climate awareness amongst our customers/ clients	Providing products and services to support a responsible energy transition and build resilience, communicating our climate strategy through Liberty Mutual TCFD report
7. Enhance reporting	Publishing an annual summary of our climate approach and key activities in our ClimateWise report. Aligning with the ESG strategy set by Lloyd's.

SECTION C.7 – Any Other Information

Macroeconomic and Geopolitical challenges

Throughout 2023, the macroeconomic and geopolitical environment has remained volatile. The conflict between Russia and Ukraine has continued into a second year and is expected to continue for some time. Sanctions continue to be actively monitored and applied. The more recent events between Israel and Hamas have added to the complexities and uncertainty within the geo-political landscape. The global economy continued its battle with sustained high levels of inflation throughout year, with Central banks responding, to increase base rates to dampen inflationary pressures. This in turn is impacting debt servicing for governments, companies, and individuals, leading to recessionary concerns and adding to the potential for civil commotion with multiple global flash points. We continue to monitor the situation with regards to these systemic risk environment factors in accordance with our Risk Management Framework.

VALUATION

SECTION D – VALUATION FOR SOLVENCY PURPOSES

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

Key elements of the section are:

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

Solvency II requires an economic market consistent approach to the valuation of assets and liabilities sheet in accordance with Article 75 of the Solvency II Directive 2009/138/EC. This presents several differences in the valuation of assets and liabilities compared to the disclosures in the LMIE Financial Statements for the year-ended 31st December 2023.

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

2023			Solvency II Adjustments		
€'000	**Section**	**Lux GAAP**	**Reclassification**	**Valuation**	**Solvency II**
Deferred acquisition costs	D.1.1	378,583		(378,583)	0
Deferred tax assets	D.1.2	53,386	2,228		55,614
Pension benefit surplus	D.1.3	6,186			6,186
Property, plant & equipement held for own use	D.1.4	3,619		(3,619)	0
Investments	D.1.5	5,554,136	339,268		5,893,404
Reinsurance recoverable	D.2	2,832,705		(1,149,264)	1,683,441
Deposits to cedants	D.1.6	24,707			24,707
Insurance and intermediaries receivables	D.1.7	2,193,669		(1,929,429)	264,240
Reinsurance receivables	D.1.8	225,135			225,135
Receivables (trade, not insurance)	D.1.9	119,803			119,803
Cash and Cash equivalents	D1.10	510,757	(300,458)		210,299
Any other assets	D1.11	115,153	(38,811)		76,299
Total Assets		**12,017,839**	**2,228**	**(3,460,895)**	**8,559,128**
Technical Provision	D.2	8,499,250		(3,030,977)	5,468,273
Deferred tax liabilities	D.1.2	0	2,228		2,228
Insurance & intermediaries payables	D.3.2	52,049			52,049
Reinsurance payables	D.3.1	903,170		(903,170)	0
Payables (trade, not insurance)	D.3.3	290,205		(185,775)	104,430
Any other liabilities, not elsewhere shown	D.3.4	93,837			93,837
Total Liabilities		**9,838,512**	**2,228**	**(4,119,922)**	**5,720,817**
Excess of assets over liabilities		**2,179,327**	**0**	**659,027**	**2,838,311**

Note: The table above represents the Balance sheet in accordance with applicable Solvency II regulations. There maybe classification differences against the Lux GAAP Financial Statements.

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

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

D.1.1 Deferred acquisition costs (DAC)

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

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

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

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

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

D.1.3 Pension benefit surplus

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

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

As at 31 December 2023, the pension benefit surplus in respect of the defined benefit scheme is €6.2m (2022: €7.1m).

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 2023, there was deemed to be no active market for these assets. As such they are not recognised on the Solvency II balance sheet.

D.1.5 Investments

Financial Investments and cash and cash equivalents

Financial Investments and cash and cash equivalents	Lux GAAP €'000	SII adjustments €'000	Solvency II €'000
Bonds	5,383,479	40,294	5,423,773
Government Bonds	*1,801,110*	*10,300*	*1,811,410*
Corporate Bonds	*3,499,469*	*29,796*	*3,529,265*
Collateralised securities	*82,900*	*198*	*83,098*
Collective Investments Undertakings	151,107	0	151,108
Deposits other than cash equivalents	19,549	298,975	318,523
Total Investments	**5,554,136**	**339,267**	**5,893,403**
Cash and Cash Equivalents	510,757	(300,458)	210,299
Total Investments and Cash and Cash Equivalents	**6,064,893**	**38,809**	**6,103,702**

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 (€40.3m) is reported separately under 'Other assets', it is reclassified and included with market value on the Solvency II balance Sheet.

Under Solvency II the financial investments are classified by their market characteristics, using specific Complementary Identification Codes (CIC):

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

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

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

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

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

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

- **Deposits other than Cash Equivalents -** Bank balances that require more than 48 hours to withdraw are treated as deposits under Lux GAAP. However, under Solvency II, the CIC definition is based on the legal form of the instrument. This results in a reclassification of €300.5m between Deposits and Cash & Cash Equivalents on the Solvency II Balance sheet, as noted in the tabulation above.

D.1.6 Deposits to cedants

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

D.1.7 Insurance and intermediaries receivables

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

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

D.1.8 Reinsurance receivables

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

D.1.9 Receivables (trade, not insurance)

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

D.1.10 Cash and cash equivalents

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

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

D.1.11 Any other assets

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

SECTION D. 2 – Technical Provisions

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

The TPs consist of the earned claims technical provision, the unearned 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 66% of the LMIE TPs. The Company has no Life TPs, including no Periodic Payment Orders.

D.2.1 Technical Provisions by Solvency II Line of Business

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

Solvency II Class of Business	Gross BEL €'000	Reinsurance Recoverable BEL €'000	Risk Margin €'000	Total Technical Provisions €'000
General liability	2,950,902	(1,058,807)	81,853	**1,973,948**
Fire and other damage to property	578,829	(75,071)	15,345	**519,103**
Non-Prop RI - Property	565,767	(139,836)	29,392	**455,324**
Credit and suretyship	540,239	(151,104)	25,477	**414,612**
Marine, aviation and transport	266,888	(56,240)	7,377	**218,025**
All Other Lines	386,691	(202,383)	19,513	**203,821**
Total non-life obligation	**5,289,316**	**(1,683,441)**	**178,957**	**3,784,832**

General Liability Insurance

The General Liability Line makes up 52% of the Solvency II TPs. The underlying reserves for direct Financial Lines (D&O and FI), DUAL, Professional Lines, Casualty and GTS 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 increase in the TPs when compared to the Lux GAAP reserves for this line, include:

- €82m for the Risk Margin and €36m for additional expense provisions; and
- €13m for Events Not in the Data.

Fire and Other Damage to Property

The Fire and Other Damage to Property Line makes up 14% of the Solvency II TPs. The underlying reserves for Property and Energy Lines contribute the majority of the TPs for this Solvency II line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. The most material adjustments, that result in a small increase in the TPs when compared to the Lux GAAP reserves, include:

- €15m for the Risk Margin and €13m of additional expense provisions; and
- €6m for Events Not in the Data

Credit and Suretyship

The Credit and Suretyship Line makes up 11% of the Solvency II TPs. The underlying reserves for Financial Risk, Reinsurance Financial Risk and Surety 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 other adjustments that result in a movement in the TPs when compared to the Lux GAAP reserves include:

- €25m for the Risk Margin and €17m of additional expense provisions
- €7m for Events Not in the Data

Non-Proportional Reinsurance Property

The Non-Proportional Property Line makes up 12% of the Solvency II TPs. The underlying reserves for Treaty Property, London Market Retrocession Reinsurance and Specialty Reinsurance Financial Risk 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. In 2023, Treaty Property classes were impacted by catastrophe losses such as Turkish Earthquake and Italian Hailstorm claims impacting unearned claims.

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

- €29m for the Risk Margin and €10m for additional expense provisions
- €5m for Events Not in the Data

Marine, Aviation and Transport

The Marine, Aviation and Transport Line makes up 6% of the Solvency II TPs. The underlying reserves for Specialty Marine classes, such as Cargo, Specie or Terror, contribute the majority of the TPs for this Solvency II Line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. The classes underlying this Solvency II Line have been adversely impacted by the uncertain macro-economic and political environment, impacting unearned claims.

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

- €7m for the Risk Margin and €4m for additional expense provisions
- €2m for Events Not in the Data

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

D.2.2 Technical Provisions Valuation Methodology

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

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

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

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

D.2.2.1 Claims Provisions

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

The methods used to estimate the Claims Provisions are deterministic claims-based, exposure-based and cashflow methods and are in line with best practice non-life actuarial techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. They allow explicitly for the impact of inflation on ultimate claims settlement.

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

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

D.2.2.2 Premium Provisions

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

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

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

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

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

- Unearned Incepted claims are calculated as the unearned incepted premium multiplied by the relevant underwriting year latest actuarial loss ratio; and
- BBNI claims are calculated as the BBNI premium multiplied by the actuarial 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.

- The uplift factor has been applied to the undiscounted claims reserves, as well as the attritional and large undiscounted premium reserves.

- A minimum uplift is applied by line of business.

D.2.2.8 Cashflows and Discounting

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

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

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

D.2.2.9 Risk Margin

The Risk Margin is calculated using a cost of capital approach implemented in our Internal Model. 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. The approach we implemented ensures that the Technical Provisions and SCR are calculated for each future year until the business is fully run off.

The risk margin was estimated in the Internal Model, which estimates future proxy Solvency Capital Requirements (“SCRs”) based on the LMIE’s current SCR and estimates of TP’s run-off. A cost of capital rate of 6%pa is used and then discounted using the risk-free yield curves.

The Risk Margin is calculated in aggregate for LMIE and allocated to Solvency II lines of business.

D.2.2.10 Options and Guarantees

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

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

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

		Lux GAAP €'000	SII Basis €'000	Lux GAAP vs. SII Basis €'000
Gross of Reinsurance				
	Claims reserve (incl Risk Margin)	(6,328,582)	(8,002,140)	1,673,558
	ULAE (and other SII expenses)	(88,965)	(183,611)	94,646
	UPR	(2,059,281)	-	(2,059,281)
	Future Premium Cashflows		2,717,478	(2,717,478)
Gross Technical Provisions		**(8,476,827)**	**(5,468,273)**	**(3,008,554)**
Reinsurance				
	Claims reserve	2,318,454	3,907,812	(1,589,358)
	Bad Debt	(14,413)	(14,413)	-
	UPR	528,664	-	528,664
	Future Premium Cashflows	-	(2,209,958)	2,209,958
Reinsurance Technical Provisions		**2,832,705**	**1,683,441**	**1,149,264**
(including future premium)		**(5,644,123)**	**(3,784,832)**	**(1,859,291)**

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

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

D.2.4 Changes in Technical Provisions from prior Reporting Period

Total net ENIDs have reduced following an update to the calculation of the 60% NRQS benefit, to be applied to the net amount of ENIDs.

“Other” currency is now discounted using EUR yield curves. This is deemed most appropriate since EUR is the reporting currency for LMIE.

Following approval of the LMIE SCR Internal Model, the Risk Margin is calculated in the Internal Model. The LMIE Cost of Capital has remained consistent at 6%. The UK Third Country Branch Cost of Capital has been reduced to 4%, following updates to the PRA regulatory reporting requirements.

D.2.5 Assumptions and Use of Expert Judgement:

D.2.5.1 Future Management Actions within the Technical Provisions

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

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

D.2.5.2 Reserving Methods

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

D.2.5.3 Assumption Selection

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

D.2.5.4 Consistency with Financial Market Information

Assumptions:

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

D.2.5.5 Expert Judgement

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

D.2.6 Uncertainty associated with the Technical Provisions

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

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

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

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

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

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

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

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

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

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

- The Company is particularly exposed to FX volatility due to the mix of business, which is materially spread over three currencies (USD, GBP, EUR). FX rates were volatile over 2023, which adds to the uncertainty around projected reserves once consolidated in the reporting currency.

- Generally, provision is not made in our estimates for post balance sheet events occurring after 31st December 2023. However, the Technical Provisions at the 2023 year-end were updated to reflect the change in reinsurance placements following the 1 January 2024 renewals.

D.2.7 Matching Adjustment

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

D.2.8 Volatility Adjustment

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

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

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

D.2.10 Transitional Deduction

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

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

D.3.1 Reinsurance payables

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

D.3.2 Insurance and intermediaries' payables

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

D.3.3 Payables (trade, not insurance)

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

The only exception to the above methodology relates to the foreign exchange provision held on the Lux GAAP balance sheet. The foreign exchange provision, recognised on the balance sheet following the change of LMIE's reporting currency from Dollars to Euros, was valued at €265m at the opening balance sheet date. Following strengthening of the Euro against the USD over the course of FY 2023, the value of provision at the balance sheet date amounts to €186m at the closing balance sheet date. However, the provision is not deemed a Solvency II concept as it is does not have an impact on future cash-flows. It is therefore eliminated from the Solvency II Balance Sheet.

D.3.4 Any other liabilities not elsewhere shown

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

SECTION D. 4 – Alternative Methods for Valuation

There are no material assets or liabilities for which alternative valuation methods are used, other than the valuation of certain financial investments, as described in section D.1.4. Financial investments amounting to €27.4m (2022: €20.7m) 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.

CAPITAL MANAGEMENT

SECTION E – CAPITAL MANAGEMENT

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

Key elements of the section are:

- Own Funds; and
- SCR and MCR

SECTION E.1 – Own Funds

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

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

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

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

The solvency monitoring plan has been updated to reflect the Risk Appetite following adoption of the Internal Model (IM), as illustrated alongside.

Solvency Ratio	Management Action
> 180% of SCR	▪ SCR updates in line with the SF Policy. ▪ Potential to pay dividends subject to maintenance of green zone solvency. ▪ Monitoring of risk of solvency deterioration over next three months.
150% - 180% of SCR	▪ Business as usual. ▪ No dividends will be paid.
135% - 150% of SCR	▪ Update solvency forecast over the next three months. ▪ Board discussion on possible capital remediation to bring solvency levels within target range. ▪ No dividends will be paid. ▪ Monitoring of risk of solvency deterioration over next three months.
115% - 135% of SCR	▪ Board approval of capital remediation plan to restore solvency level to Green Zone within three months (likely capital call/reinsurance purchase). ▪ No dividends will be paid/revisit business planning. ▪ Reperform IM calculation following capital remediation. Monitoring of risk of solvency deterioration over next three months.
100% - 115% of SCR	▪ Board approval of capital remediation plan to restore solvency level to Green Zone within three months (necessary capital call/reinsurance purchase). ▪ No dividends will be paid/revisit business planning. ▪ Reperform IM calculation following capital remediation.
MCR – IM SCR	▪ Restore SCR cover within six months. ▪ Notify CAA of SCR breach within three months. ▪ No dividends will be paid.
<100% of MCR	▪ Capital injection to restore MCR cover with Tier 1 capital within three months. ▪ Notify CAA of MCR breach within one month. ▪ No dividends will be paid.

LMIE consider the IM calculations to be appropriate, as explained in further detail in Section E.4 below. LMIE policyholders benefit from a guarantee from the parent company; and LMIE's parent company requires the entity to maintain appropriate solvency coverage as defined in Section E.1.2. The requirement is monitored on an ongoing basis and takes account of future capital requirements, as indicated by the business plans.

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

Solvency II distinguishes between basic Own Funds and Ancillary Own Funds. The Own Funds structure for FY 2023 and FY 2022 is illustrated in the table below.

Capital Structure		2023 €'000	2022 €'000
Share Capital	E.1.2.a	255,424	255,424
Share Premium	E.1.2.a	1,617,533	1,617,533
Reconciliation reserve	E.1.2.b	858,581	442,252
Available and Eligible Own Funds (to cover the MCR)		**2,784,925**	**2,315,210**
MCR	E.2.1	557,740	537,724
MCR Coverage Ratio		**499%**	**431%**
An amount equal to the value of net deferred tax assets		53,386	100,408
Ancillary Own Funds	E.1.2.c	384,736	398,221
Available and Eligible Own Funds (for SCR Coverage)		**3,223,046**	**2,813,839**
SCR	E.2.1	1,239,421	1,643,583
SCR Coverage Ratio		**260%**	**171%**

A Solvency working group reporting to the GRSI CFO Committee was established during 2021. It is tasked with monitoring the Solvency II ratio. Following adoption of the Internal Model by the CAA, the SCR charge is significantly lower for FY 2023 compared to FY 2022, as explained in further detail in section E.2. In addition, LMIE has continued to experience the benefit from capital actions undertaken in prior years, including the following:

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

The key components of the Own Funds are discussed below:

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

b) **Reconciliation Reserve:** This is made up of the remainder of the excess of assets over liabilities and is classified as Tier 1 capital in accordance with the Solvency II regulations. The composition of the reconciliation reserve is illustrated in the following table. It also includes net deferred tax assets, calculated primarily of a charge on the Unrealised Gains and Losses for investments held to maturity.

Description	2023 €'000	2022 €'000
Excess of assets over liabilities	**2,838,311**	**2,415,618**
Other basic own fund items - Ordinary share capital (gross of own shares)	(255,424)	(255,424)
Other basic own fund items - Share premium account related to ordinary share capital	(1,617,533)	(1,617,533)
Other basic own fund items - An amount equal to the value of net deferred tax assets	(53,386)	(100,408)
Reconciliation reserve	**911,967**	**442,252**

c) **Ancillary own funds** of €385m (2022: €398m), classified as Tier 2 Capital, are structured through an Equity Commitment Agreement between LMIC, LSMH, and LMIE as approved by the CAA in 2020. A pledge facility with a minimum funding to ensure that the Market Value of pledge accounts is at least $425m, remains in-force as collateral against this commitment, which is revalued at the period end Euro rate. Tier 2 Ancillary Own Funds are not considered eligible to cover the MCR requirements in accordance with Solvency II rules.

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

E.1.3 Own Funds changes in the period

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

The increase of €422.7m in Own funds over the year is primarily driven by the underwriting profit of €144.5m as recognised in the Income statement, and an improvement in the Other Comprehensive income of €134.3m driven by a significant decrease in the unrealised losses for investments held to maturity. Additionally, favourable movements in the EIOPA yield curves have led to a discounting credit benefit of €102.8m, while the risk margin charge for the year is lower by €64m, following the adoption of the Internal Model for calculating the SCR.

The above favourable movements are partially offset by a reduction in the value of the foreign exchange provision by €79.7m, given the strengthening of the Euro against the USD over the course of the year.

	2023 €'000	2022 €'000
Own Funds at 1 January	**2,415,618**	**1,831,426**
Profit on ordinary activities after tax	144,490	(45,098)
Comprehensive (loss)/income for the year	134,299	(339,288)
Issue of ordinary shares	0	519,100
Movement in Fixed Assets Write off	685	(675)
Movements in Solvency II Adjustments to Technical Provision	55,501	103,703
Movement in Solvency II Discounting Adjustments	102,840	290,699
Movement in Solvency II Risk Margin	64,637	(22,637)
Movement in FX Provision / Other	(79,716)	123,906
Movement in Solvency II Deferred Tax Adjustment	0	(45,512)
Own Funds at 31 December	**2,838,311**	**2,415,624**

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 2023 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.

	2023 €'000	2022 €'000
Lux GAAP equity attributable to shareholders	**2,179,326**	**1,900,537**
Valuation differences:		
Solvency II valuation adjustment movements:		
Fixed assets	(3,619)	(4,304)
Technical Provisions	204,558	149,057
Discounting	451,271	348,431
Risk Margin	(178,957)	(243,595)
FX Provison	185,732	265,491
Solvency II excess of assets over liabilities	**2,838,311**	**2,415,618**

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

Following approval received from the CAA in March 2024, LMIE now uses an approved Internal Model to assess the Solvency Capital Requirement. The SCR is calculated using the Value at Risk subject to a confidence level of 99.5% over a one-year period, in line with Solvency II requirements.

Overall, the Year-End 2023 Internal Model (IM) SCR is at €1,239m. The IM SCR is calculated in USD, and converted to Euros, which is the reporting currency of LMIE. Overall, the SCR has decreased by €404m / 25% since FY 2022. Note that the 2022 SCR was calculated using the Standard Formula basis. The tabulation by key risk modules is provided below. Further details around differences between the Standard Formula and Internal Model basis are captured in section E.4.

	2023 €'000	2022 €'000	Variance	Variance %
Non-Life Underwriting Risk	1,242,046	1,198,012	44,033	4%
Health Underwriting Risk	0	7,131	(7,131)	-100%
Market Risk	306,209	350,778	(44,569)	-13%
Counterparty Default Risk	170,345	287,049	(116,704)	-41%
Operational Risk	275,513	144,465	131,048	91%
Diversification	(754,692)	(343,853)	(410,839)	119%
SCR	**1,239,421**	**1,643,583**	**(404,162)**	**-25%**

Note: Non-Life UW risk and Health UW risk are collectively considered under within the Insurance Risk (Non-Life Underwriting Risk) module

The main risk component for LMIE is **Insurance Risk**, viz. Non-Life Underwriting & Health Underwriting risk, which are in turn composed of Premium Risk (risk of insufficiency in both future written and unearned premium) and Reserve Risk (risk of insufficiency in the existing reserve).

Credit Risk is designed to reflect the change in value caused by unexpected default or deterioration in the credit standing of debtors and reinsurance counterparties.

The **Market Risk** is composed of various sub-risks, in particular credit and spread risks from financial instruments, as well as interest rate risk.

Operational Risk arises from inadequate or failed internal processes, personnel, systems, and external events.

Given that there is no Deferred Tax Liability (DTL) in the Solvency II Balance Sheet at Year-End 2023, no benefit for Loss Absorbing Capacity of Deferred Taxes (LACDT) has been recognized in the Internal Model SCR calculations.

The reported MCR is capped at €557.7m, driven by the SCR charge noted above.

The reported MCR is lower than the Linear MCR of €604.7m (2022: €537.7m) which represents a 15% increase in Technical Provisions offset by a 2% reduction in Net Written Premium. The key inputs are tabulated in the following table by Solvency II line of business.

SII Classes	2023 Net TPs €'000	2023 NWP €'000	2023 MCR Charge €'000	2022 Net TPs €'000	2022 NWP €'000	2022 MCR Charge €'000
Medical expense insurance	1,010	530	72	727	751	69
Income protection insurance	3,446	1,873	611	2,275	2,754	532
Workers' compensation insurance	0	0	0	0	0	0
Motor vehicle liability insurance	18,265	8,965	2,395	15,092	6,621	1,905
Other motor insurance	3,936	3,911	589	3,350	4,349	577
Marine, aviation and transport insurance	210,648	64,390	30,711	159,904	79,894	27,655
Fire and other damage to property insurance	503,758	314,809	70,964	419,599	321,944	63,588
General liability insurance	1,892,095	356,847	241,633	1,859,530	396,657	243,494
Credit and suretyship insurance	389,135	240,900	96,099	269,503	271,940	78,431
Legal expenses insurance	0	0	0	0	0	0
Assistance and proportional reinsurance	0	0	0	0	0	0
Miscellaneous financial loss insurance	19,972	49,051	9,699	10,105	25,836	5,032
Non-proportional health reinsurance	4,691	2,208	1,224	1,154	2,229	569
Non-proportional casualty reinsurance	110,790	37,773	26,613	95,290	25,723	21,814
Non-proportional marine, aviation and transport reinsurance	22,199	7,969	5,396	2,453	9,850	2,022
Non-proportional property reinsurance	425,931	248,241	118,694	308,242	218,248	92,035
TOTAL	**3,605,875**	**1,337,467**	**604,698**	**3,147,224**	**1,366,796**	**537,724**

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.

LMIE uses its Internal Model, approved by the CAA, to calculate its Solvency Capital Requirements for the whole of the business of the Company.

E.4.1. Use of the Internal Model

The Internal Model is widely integrated within LMIE's Risk Management and Governance Framework. It is the primary tool used to understand the material and quantifiable risks associated with LMIE's insurance operations. Model outputs are used extensively in business decisions across LMIE, informing key business processes.

LMIE has identified a number of model uses for the Internal Model:

- **Capital Management**

The primary use of the Internal Model is to calculate capital requirements which reflect LMIE’s risk profile and own view of the risks. Additionally, the model is used to assess the uncertainty around other elements of the regulatory balance sheet such as technical provisions and its components.

- **Risk Management:**
  The Risk Appetite Statement approved by the Board defines scenarios and appetite limits within which the Company must operate, including the level of capital to hold over and above its regulatory capital requirements.
  Outputs from the Model are used and monitored, at a minimum quarterly, to identify any breaches in LMIE’s risk appetite. These breaches, if any, are reported to the Board and may lead to the Board issuing instructions that lead to changes in exposures, as appropriate.
  In addition, and on a forward-looking basis, the ORSA Report reviews the potential for aggregation of risks and breach of appetite, which includes several other areas where the Internal Model outputs are used (e.g., scenario and stress testing).
  The Internal Model is also used to produce the Profit & Loss Attribution Report, which looks at the variance between the original plan and subsequent actual performance and then checks that the variance is appropriately modelled in the relevant risk category of the capital model.

- **Reinsurance Management**
  The Internal Model is used to evaluate the capital and business plan impact of potential risk mitigation strategies. Changes in terms and conditions compared to the existing programme are taken into account, where possible. The Internal Model is also used outside of renewal season in the assessment of alternative capital mitigation solutions and in the Actuarial Function Report to the Board which provides an opinion on the reinsurance arrangements.

- **Portfolio Management**
  Key outputs produced by the Internal Model are used in the business planning process, such as loss ratios by class of business. Another use of the Internal Model is to evaluate the capital requirements needed to support the business plan.
  Where there is consideration given to underwriting a new class of business, the Internal Model is used to consider the potential impact that this opportunity would have on its capital requirements.

- **Investment Management**
  The Internal Model provides input to the investment strategy through the assessment of the capital impact of potential investment strategies. It is also used to evaluate the impact and value of potential mergers, acquisitions, or transfers of business, as well as other strategic decisions.

The Internal Model is also used by the Actuarial Function in the annual Actuarial Function Report to the Board, which provides an opinion on the plan and underwriting policy. This includes an assessment of the risk versus return of various classes, the risk of not making underwriting profit, as well as scenario and sensitivity tests around the business plan.

E.4.2. Scope of the Internal Model

The LMIE Internal Model has been developed in line with the European Insurance and Occupational Pensions Authority (‘EIOPA’) Solvency II Directive. LMIE’s model constitutes a full Internal Model and is used to calculate the Solvency Capital Requirement for LMIE as a standalone entity.

All classes of business within the LMIE business plan are included in the Internal Model. This is a shared model and as such some elements of the model are shared between LMIE and other GRSI legal entities.

The scope of the Internal Model covers its governance and the following risks, data, processes, and systems:

- All material quantifiable risks which LMIE is exposed to have been captured, more materially insurance risk, market risk, credit risk and operational risk (excluding risks arising from strategic decisions, as well as reputation risks),
- All Internal Model specific systems and processes used to calculate the SCR except for input that are governed by their own processes and policies (e.g., reserving process, pricing process, risk register process, exposure management process, reinsurance placement process, business planning process, ORSA process, GAAP financial reporting process),
- All material external models and external data sets that impact the calculation of regulatory capital,
- All data that is used in the calculation of the SCR or other model uses, and
- All related IT systems, relevant to the model.

Each risk is modelled to support an assessment of LMIE's risk profile, and the associated capital requirement considered. Risks from the Risk Register, which is updated and independently reviewed on a regular basis in line with the LMIE Risk Management Framework, are considered for inclusion in the Internal Model.

E.4.3. Partial Internal Model

LMIE does not use a Partial Internal Model.

E.4.4. Methodology used in the Internal Model

The LMIE Internal Model is a full stochastic model which produces an aggregate distribution of the change in basic own funds over a one-year time horizon from which the SCR can be directly derived (i.e., the SCR is the Value-at-Risk of basic own funds subject to a confidence level of 99.5%). The model also produces the same output over the full runoff period of liabilities.

The SCR covers existing business as well as new business expected to be written over the following 12 months. The model is initially run on an ultimate basis (i.e., until full runoff of liabilities) and for most of the risks, emergence patterns are used to translate the Ultimate SCR to a One Year SCR. Other risks are directly modelled on a one-year basis.

The core component of the Internal Model is known as the Calculation Kernel, which is the calculation engine that ultimately produces the capital outputs. Some inputs used in the Calculation Kernel are generated outside the kernel by ESG and Natural Catastrophe models.

Statistical distributions, calibrated based on historical experience, market data, and expert judgements, are used to model the behaviour of the different risks modelled within the Internal Model, whilst ensuring that sufficient simulations have been performed to ensure a stable result. Expert judgement is used to supplement the lack of relevant historical data.

The design of the Internal Model allows for projections of profits, losses, and basic own funds in monetary amounts for model use and regulatory reporting purposes. The starting point of the capital calculations is the Solvency II balance sheet and the allocation of each line item to risk categories.

The Calculation Kernel stochastically projects and applies a dependency structure for each Risk Category. Distributions are selected to reflect the underlying elements of each risk, ensuring richness across the distribution, whilst not impairing the reliability of estimates at extreme percentiles. The dependency structure between risks is parameterised using copulas and driver-based dependencies.

The Risk Category models (except operational risk and other credit risk), along with cash-flow assumptions (claims and premium payment patterns) and economic assumptions are combined to produce overall technical accounts. This feeds into the Accounts Model which combines the technical accounts for all classes of business, along with other items and risks that exist only at the aggregate level: Operational Risk, Credit Risk on Receivables, Liquidity risk, Reinsurance Disputes, and Risk Margin. The Internal Model then produces the following accounting statements: Opening Balance Sheet, Income Statement, Closing Balance Sheet, and Cashflow Statement. Currencies the Company is exposed to are modelled using information from the ESG, which are used to assess both the asset and liability positions. The individual currencies can then be converted to the reporting currency.

A wide range of testing and review processes are performed to ensure that the Risk Categories' calibrations are appropriate, and the Internal Model outputs are reasonable. Validation tests include risk ranking, analysis of change, risk coverage, business expert reviews, stress and scenario testing, reverse stress tests, sensitivity testing, benchmarking, back-testing as well as profit and loss attribution exercises.

E.4.5. Differences between Internal Model and Standard Formula

The key difference between the Standard Formula and Internal Model methodology is that the Internal Model methodology and assumptions reflect LMIE's risk profile more appropriately. The Standard Formula assesses the capital charge associated to each risk based on exposure-driven formulae, calibrated based on market-wide data and applied to a limited number of lines of business. These capital charges are then aggregated using a hierarchical correlation approach to combine risk sub-categories and risk categories. In the Internal Model, loss distributions are calibrated for each risk and defined class of business; a dependency structure is applied to reflect LMIE's view on the joint tail of these losses. Calibrating risks for the Internal Model, therefore, requires a deeper level of granularity of model inputs. It also gives LMIE more flexibility to select the most appropriate statistical models and derive a joint loss distribution that reflects better LMIE's risk profile.

The key drivers of the difference between LMIE's Internal Model SCR and the Standard Formula SCR are the dependency structure and the consideration of LMIE's reinsurance arrangements.

In particular:

- The Internal Model can explicitly capture key sources of diversification benefit within LMIE's portfolio which are not reflected in the Standard Formula.
- The Standard Formula models whole account reinsurance structures at the sub-risk level and the Internal Model at the overall net Insurance Risk loss level, which better reflects how this type of contract works in practice.
- The Internal Model captures the specific drivers to which LMIE's assets and liabilities are exposed to, as well as diversification benefit which these drivers benefit from. Additionally, the Internal Model allows for the impact of expected investment profit for interest rate risk on assets.
- The Standard Formula does not allow for any diversification benefit between Operational Risk and other risk types whilst the Internal Model relies on Operational Risk scenarios which are correlated to each other and to specific non-operational risks.

- The Standard Formula aggregation method is an approximation and implicitly assumed that different sources of Market Risk are normally distributed, whereas they are in fact mostly skewed (e.g., Credit / Spread Risks).
- Higher levels of diversification could also be observed at a sub-risk level given the Internal Model better capturing the tail nature of credit events and the different drivers of credit events.
- The Standard Formula uses a simplified approach to model natural catastrophe exposures, in particular outside of the EEA, where the Standard Formula risk charge is calculated as a function of premiums. Catastrophe risk can be more accurately modelled in the Internal Model through third-party models.
- The Internal Model offers a better flexibility to assess emerging risks, for example, the Standard Formula does not capture explicitly claims inflation volatility or cyber scenarios.

E.4.6. Data used in the Internal Model

Data feeding into and from the Internal Model are listed in a dedicated data inventory ('Data Directory'). Data items included in the Data Directory are based on the nature and scale of their likelihood to impact the Internal Model and associated reporting. This might include model inputs, model outputs, and calibration data (data used to calibrate risk categories) in a range of formats (Excel, Access Databases, etc,).

Key Data Controls exist to ensure the completeness, accuracy and appropriateness of data and are documented to include a description of the control activity; the frequency of that activity; the objective of the control; the evidence to indicate that the control is operating effectively; and the individual responsible for operating the control. A Statement of Validation is signed annually by each Data Owner in relation to the appropriateness, completeness and validity of their data and the operating effectiveness of Key Data Controls. All data deficiencies are reported and logged into the Data Deficiency Log.

Key data included in the Internal Model are:

Section	**Data items**
Data used for calibration, Actuarial & Finance data	e.g., Historical incurred and paid claims triangles, written premium, premium rate changes, business plan and actuarial loss ratios, maximum line size, payment, earned and earnings patterns, best estimate of claims reserves .
Non-Cat premium risk	e.g., Unbound business and ULO parameters, ENIDs parameters, attritional/large loss parameters
Catastrophe	e.g., CAT YLTs, CAT loss ladders parameters.
Reserve risk	e.g., Gross Reserve Risk volatility parameters, ENIDs parameters.
Market risk	e.g., Discount rates, asset portfolio, ESG parameters, exchange rates.
Counterparty Risk	e.g., Credit rating, transition matrix, loss given default – for each type of counterparty.
Operational risk	e.g., Frequency and severity parameters for a range of scenarios.
Dependencies	e.g., Correlation factors and Copulas parameters.

Reinsurance	e.g., Reinstatement premiums, Reinsurance programmes.

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

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

SECTION E. 6 – Any Other Information

No additional matters to report.

GLOSSARY OF TERMS

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

APPENDIX A – QRTs

All QRT's are €000's.

List of Reported Templates:

S.02.01.02 - Balance sheet

S.04.05.21 - Premiums, claims and expenses by country: non-life insurance and reinsurance obligations

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

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

S.23.01.01 - Own Funds

S.25.05.21 - Solvency Capital Requirement - for undertakings using an internal model (partial or full)

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

S.02.01.02 – Balance Sheet – Assets

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	55,614
R0050	Pension benefit surplus	6,186
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,893,404
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*	5,423,773
R0140	*Government Bonds*	1,811,410
R0150	*Corporate Bonds*	3,529,265
R0160	*Structured notes*	0
R0170	*Collateralised securities*	83,098
R0180	*Collective Investments Undertakings*	151,108
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	318,523
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:	1,683,441
R0280	*Non-life and health similar to non-life*	1,683,441
R0290	*Non-life excluding health*	1,683,414
R0300	*Health similar to non-life*	28
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	24,707
R0360	Insurance and intermediaries receivables	264,240
R0370	Reinsurance receivables	225,135
R0380	Receivables (trade, not insurance)	119,803
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	210,299
R0420	Any other assets, not elsewhere shown	76,299
R0500	**Total assets**	8,559,128

S.02.01.02 – Balance Sheet – Liabilities

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	5,468,273
R0520	*Technical provisions - non-life (excluding health)*	5,458,734
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	5,280,142
R0550	*Risk margin*	178,592
R0560	*Technical provisions - health (similar to non-life)*	9,539
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	9,174
R0590	*Risk margin*	365
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	2,228
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	52,049
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	104,430
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	93,837
R0900	**Total liabilities**	5,720,817
R1000	**Excess of assets over liabilities**	2,838,311

S.04.05.21 – Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

S.04.05.21

Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

		Home Country	Top 5 countries (by amount of gross premiums written): non-life				
R0010			GB	DE	FR	IT	US
		C0010	C0020	C0021	C0022	C0023	C0024
	Premiums written (gross)						
R0020	Gross Written Premium (direct)	35,945	628,349	118,603	162,881	154,637	161,374
R0021	Gross Written Premium (proportional reinsurance)	5,942	49,662	118,574	86,453	55,129	16,271
R0022	Gross Written Premium (non-proportional reinsurance)	17,544	143,253	60,439	39,123	48,368	48,332
	Premiums earned (gross)						
R0030	Gross Earned Premium (direct)	25,446	643,713	115,336	161,536	149,808	131,607
R0031	Gross Earned Premium (proportional reinsurance)	6,318	46,481	119,188	85,049	53,504	16,704
R0032	Gross Earned Premium (non-proportional reinsurance)	18,419	131,463	62,013	35,228	43,569	49,640
	Claims incurred (gross)						
R0040	Claims incurred (direct)	60,216	331,990	61,271	34,061	14,762	9,642
R0041	Claims incurred (proportional reinsurance)	5,505	19,776	97,448	113,762	36,509	-30,217
R0042	Claims incurred (non-proportional reinsurance)	8,054	107,381	28,634	40,568	17,942	17,008
	Expenses incurred (gross)						
R0050	Gross Expenses Incurred (direct)	6,153	206,365	48,879	59,100	70,031	22,235
R0051	Gross Expenses Incurred (proportional reinsurance)	1,799	12,663	31,015	17,523	15,009	3,718
R0052	Gross Expenses Incurred (non-proportional reinsurance)	6,487	48,107	25,241	9,102	16,065	10,418

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

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	1,360	4,599	0	2,894	5,485	118,546	356,890	1,109,146	217,891			70,977					1,887,788
R0120	Gross - Proportional reinsurance accepted	0	189	0	15,494	858	74,353	317,184	79,810	283,706			2,131					773,724
R0130	Gross - Non-proportional reinsurance accepted													4,097	101,196	19,796	433,392	558,481
R0140	Reinsurers' share	957	3,368	0	16,187	3,367	138,463	419,962	902,030	338,592			52,821	2,640	85,577	12,116	272,676	2,248,756
R0200	Net	403	1,419	0	2,201	2,975	54,437	254,112	286,926	163,005			20,287	1,457	15,619	7,680	160,715	971,236
	Premiums earned																	
R0210	Gross - Direct Business	1,520	5,141	0	2,787	4,260	119,125	316,327	1,108,012	188,444			69,912					1,815,528
R0220	Gross - Proportional reinsurance accepted	0	210	0	17,789	860	77,812	307,509	77,536	248,422			2,115					732,254
R0230	Gross - Non-proportional reinsurance accepted													4,365	104,648	19,540	435,983	564,537
R0240	Reinsurers' share	976	3,434	0	17,413	3,432	130,823	418,351	884,043	313,641			48,100	2,667	86,506	12,143	280,705	2,202,232
R0300	Net	545	1,918	0	3,163	1,688	66,114	205,486	301,505	123,226			23,927	1,698	18,142	7,397	155,279	910,087
	Claims incurred																	
R0310	Gross - Direct Business	1,344	4,544	0	1,065	2,231	65,379	141,969	510,321	42,445			30,580					799,878
R0320	Gross - Proportional reinsurance accepted	3	73	0	26,845	1,352	39,785	234,640	56,719	120,615			2,392					482,424
R0330	Gross - Non-proportional reinsurance accepted													1,472	63,289	24,177	316,933	405,872
R0340	Reinsurers' share	745	2,568	0	23,444	2,338	63,946	268,475	393,968	73,212			20,269	1,361	50,159	15,719	189,323	1,105,528
R0400	Net	602	2,050	0	4,466	1,245	41,218	108,134	173,072	89,848			12,702	111	13,130	8,457	127,610	582,645
R0550	**Expenses incurred**	297	1,045	0	1,408	926	17,346	59,803	105,081	51,523			8,742	353	7,550	1,741	42,392	298,208
R1210	**Balance - other technical expenses/income**																	
R1300	**Total technical expenses**																	298,208

S.17.01.02 – Non-Life Technical Provisions

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0	0	0	0	0	0	0	0			0	0	0	0	0	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	-13	-51	0	-3,778	-785	-11,606	-58,439	-139,358	-16,632			-44,962	-221	-14,781	-408	-44,556	-335,589
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	8	18	0	267	-98	-15,719	-55,291	-77,858	-73,264			-14,716	-339	-642	-460	-29,493	-267,587
R0150	**Net Best Estimate of Premium Provisions**	-21	-69	0	-4,045	-687	4,112	-3,147	-61,500	56,632			-30,246	118	-14,139	52	-15,063	-68,003
	Claims provisions																	
R0160	Gross	1,059	3,618	0	74,270	6,298	278,494	637,268	3,090,260	556,870			67,620	4,782	261,225	32,817	610,323	5,624,905
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	29	103	0	51,960	1,676	71,958	130,363	1,136,665	224,368			17,403	208	136,297	10,669	169,329	1,951,028
R0250	**Net Best Estimate of Claims Provisions**	1,031	3,514	0	22,310	4,623	206,536	506,905	1,953,595	332,502			50,218	4,573	124,928	22,148	440,994	3,673,877
R0260	**Total best estimate - gross**	1,046	3,567	0	70,492	5,514	266,888	578,829	2,950,902	540,239			22,658	4,561	246,444	32,409	565,767	5,289,316
R0270	**Total best estimate - net**	1,010	3,446	0	18,265	3,936	210,648	503,758	1,892,095	389,135			19,972	4,691	110,790	22,199	425,931	3,605,875
R0280	**Risk margin**	13	122	0	1,610	121	7,377	15,345	81,853	25,477			3,257	230	12,580	1,580	29,392	178,957
R0320	**Technical provisions - total**	1,059	3,689	0	72,101	5,635	274,265	594,174	3,032,755	565,716			25,915	4,791	259,025	33,989	595,159	5,468,273
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	37	121	0	52,227	1,578	56,240	75,071	1,058,807	151,104			2,687	-130	135,655	10,209	139,836	1,683,441
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	1,022	3,568	0	19,874	4,057	218,025	519,103	1,973,948	414,612			23,228	4,921	123,370	23,780	455,324	3,784,832

S.19.01 – Non-Life Insurance Claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											40,631	40,631	40,631
R0160	-9	58,925	114,986	46,076	41,119	38,446	80,343	18,443	23,271	25,047	5,187		5,187	451,845
R0170	-8	30,048	163,089	97,399	90,299	98,664	63,650	50,372	27,556	1,492			1,492	622,569
R0180	-7	30,493	139,989	85,594	50,385	59,059	29,292	40,580	31,951				31,951	467,343
R0190	-6	30,108	162,622	124,360	119,492	59,604	52,254	43,960					43,960	592,398
R0200	-5	18,763	131,039	130,289	103,963	74,098	67,591						67,591	525,744
R0210	-4	19,061	211,231	217,599	178,219	136,397							136,397	762,506
R0220	-3	63,364	186,388	184,241	137,750								137,750	571,743
R0230	-2	62,059	372,862	341,425									341,425	776,346
R0240	-1	51,642	247,228										247,228	298,870
R0250	0	45,488											45,488	45,488
R0260												Total	1,099,100	5,155,483

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											318,221	296,986
R0160	-9	0	0	354,473	285,053	245,545	178,873	174,320	142,587	111,051	92,353		84,302
R0170	-8	0	456,635	448,083	381,436	359,271	244,427	151,749	122,229	131,987			118,775
R0180	-7	310,602	465,289	379,673	348,427	288,388	234,118	194,132	149,229				137,523
R0190	-6	397,923	532,778	589,819	445,483	370,649	330,435	299,262					274,992
R0200	-5	323,977	692,698	607,564	567,659	453,993	382,809						351,940
R0210	-4	730,726	1,104,046	1,006,559	901,129	808,356							734,646
R0220	-3	801,878	1,108,748	976,080	886,868								810,483
R0230	-2	1,092,180	1,265,656	1,094,409									998,085
R0240	-1	804,359	1,118,871										1,025,989
R0250	0	858,985											791,183
R0260												Total	5,624,905

S.23.01.01 – Own Funds

S.23.01.01
Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	255,424	255,424		0	
R0030	Share premium account related to ordinary share capital	1,617,533	1,617,533		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	911,967	911,967			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	53,386				53,386
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	2,838,311	2,784,925	0	0	53,386
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	384,736			384,736	
R0400	**Total ancillary own funds**	384,736			384,736	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	3,223,046	2,784,925	0	384,736	53,386
R0510	Total available own funds to meet the MCR	2,784,925	2,784,925	0	0	
R0540	Total eligible own funds to meet the SCR	3,223,046	2,784,925	0	384,736	53,386
R0550	Total eligible own funds to meet the MCR	2,784,925	2,784,925	0	0	
R0580	**SCR**	1,239,421				
R0600	**MCR**	557,740				
R0620	**Ratio of Eligible own funds to SCR**	260.04%				
R0640	**Ratio of Eligible own funds to MCR**	499.32%				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	2,838,311
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,926,344
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	911,967
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	1,175,462
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,175,462

S.25.05.21 – Solvency Capital Requirement – Internal Model

S.25.05.21

Solvency Capital Requirement - for undertakings using an internal model (partial or full)

	Risk type	Solvency Capital Requirement	Amount modelled	USP	Simplifications
		C0010	C0070	C0090	C0120
R0020	Total diversification	-754,692	0		
R0030	*Total diversified risk before tax*	1,032,410	0		
R0040	*Total diversified risk after tax*	1,032,410	0		
R0070	Total market & credit risk	613,074	0		
R0080	*Market & Credit risk - diversified*	306,209	0		
R0190	Credit event risk not covered in market & credit risk	170,345	0		
R0200	*Credit event risk not covered in market & credit risk - diversified*	170,345	0		
R0270	Total Business risk	0	0		
R0280	*Total Business risk - diversified*	0	0		
R0310	Total Net Non-life underwriting risk	2,918,885	0		
R0320	*Total Net Non-life underwriting risk - diversified*	1,242,046	0		
R0400	Total Life & Health underwriting risk	0	0		
R0410	*Total Life & Health underwriting risk - diversified*	0	0		
R0480	Total Operational risk	275,513	0		
R0490	*Total Operational risk - diversified*	275,513	0		
R0500	Other risk	0	0		

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	1,994,113
R0060	Diversification	-754,692
R0120	Adjustment due to RFF/MAP nSCR aggregation	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	Solvency capital requirement excluding capital add-on	1,239,421
R0210	Capital add-ons already set	0
R0211	*of which, capital add-ons already set - Article 37 (1) Type a*	0
R0212	*of which, capital add-ons already set - Article 37 (1) Type b*	0
R0213	*of which, capital add-ons already set - Article 37 (1) Type c*	0
R0214	*of which, capital add-ons already set - Article 37 (1) Type d*	0
R0220	Solvency capital requirement	1,239,421
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	0
R0310	Amount/estimate of the loss absorbing capacity for deferred taxes	0
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 Requirement for ring-fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	No adjustment
R0460	Net future discretionary benefits	0

USP Key

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

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

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

	Approach to tax rate	Yes/No
		C0109
R0590	Approach based on average tax rate	Yes

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

S.28.01.01 – Minimum Capital Requirement

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	604,698

		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	1,010	530
R0030	Income protection insurance and proportional reinsurance	3,446	1,873
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	18,265	8,965
R0060	Other motor insurance and proportional reinsurance	3,936	3,911
R0070	Marine, aviation and transport insurance and proportional reinsurance	210,648	64,390
R0080	Fire and other damage to property insurance and proportional reinsurance	503,758	314,809
R0090	General liability insurance and proportional reinsurance	1,892,095	356,847
R0100	Credit and suretyship insurance and proportional reinsurance	389,135	240,900
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	19,972	49,051
R0140	Non-proportional health reinsurance	4,691	2,208
R0150	Non-proportional casualty reinsurance	110,790	37,773
R0160	Non-proportional marine, aviation and transport reinsurance	22,199	7,969
R0170	Non-proportional property reinsurance	425,931	248,241

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	604,698
R0310	SCR	1,239,421
R0320	MCR cap	557,740
R0330	MCR floor	309,855
R0340	Combined MCR	557,740
R0350	Absolute floor of the MCR	2,700
R0400	**Minimum Capital Requirement**	557,740