Liberty Mutual Insurance Europe Societas Europaea

Solvency and Financial Condition Report
As at 31 December 2019

Contents

SUMMARY

Introduction

The original CAA deadline for LMIE's Annual QRTs was 7th April 2020. In light of the evolving COVID-19 pandemic, the deadline has been revised in line with EIOPA recommendations, with the CAA splitting Solvency II deadlines into two tranches – the first with a 2-week delay and the later with an 8-week delay. As such, LMIE's revised Annual QRT deadlines are:

Tranche 1: 21 April 2020

The forms submitted to the CAA with a 2-week delay in the original submission include the following QRT's:

- S.01.01 – Content of the Submission
- S.01.02 – Basic Information
- S.02.01 – Balance Sheet
- S.22.01 – Impact on long term guarantees measures and transitionals
- S.23.01 – Own Funds
- S.25.01 – SCR Calculations

Tranche 2: 02 June 2020 (Remaining QRTs including SFCR and RSR)

This report is part of Tranche 2 submission.

Business summary

LMIE underwrites insurance and reinsurance business from its head office in the Grand Duchy of Luxembourg (referred to as Luxembourg) and its branches across Europe and in the UK.

LMIE is 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) whose ultimate parent company is Liberty Mutual Holding Company Inc. (hereinafter referred to as Liberty Mutual, LMHC, or the ultimate parent Company). Boston based LMHC is a diversified global insurer and one of the largest property and casualty insurers in the U.S. The Liberty Mutual Insurance group employs more than 50,000 people in over 800 offices throughout the world and, through its subsidiaries and affiliated companies, offers a wide range of property and casualty insurance products and services to individuals and businesses alike.

Functionally, the Group conducts substantially all of its business through two business units: Global Retail Markets and Global Risk Solutions. The Company is part of the Liberty Specialty Markets (LSM) segment, which is part of the Global Risk Solutions business unit.

In 2018 LMIE converted from a UK limited company to a UK public company and subsequently merged with a LSM Luxembourg public company to form Liberty Mutual Insurance Europe Societa Europaea (LMIE). This is to support both its ambitious European growth plans and significant London market operations post the UK leaving the EU (Brexit). Subsequently on 1 March 2019, the Company re-domiciled to Luxembourg.

As part of the Brexit strategy, LMIE has established and licensed an in-house coverholder in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME). LSME acts as an intermediary company which underwrites on behalf of LMIE and Liberty Syndicate 4472 from its branches throughout Europe.

COVID-19

The COVID-19 pandemic is a post-balance sheet event causing global economic uncertainty and social restrictions with significant impacts to the insurance industry. LMIE's Business Continuity Plan has been triggered and until further notice, all of LMIE's employees are working remotely. Systems and processes are in place to ensure that we continue to deliver a high level of service and responsiveness to brokers, clients and regulators. This is being closely monitored on an ongoing basis.

We are publishing this report at a challenging time where COVID-19 will test our customers, our partners, our people, our organisation and many other key stakeholders. However, taking into consideration current laws and regulations, we do not expect these to impact LMIE's ability to meet its regulatory solvency requirements. Additional disclosures on COVID-19 will be disclosed as part of LMIE's 2019 audited financial statements.

Business and performance

Transfer of the Company from the UK to Luxembourg

On 1 March 2019, the transfer of the registered office of the Company from the United Kingdom to Luxembourg took final effect. Throughout the conversion to a Societas Europaea and transfer to Luxembourg, the legal identity of the Company remained. The conversion and transfer did not result in liquidation of the Company or in the creation of a new legal identity.

Preparation of financial statements under Luxembourg legislation

We have sought to maintain consistency with previous accounting policy where possible, and in particular have maintained the approach to valuation of the investment portfolio at fair value and recognition of defined benefit pension scheme assets and liabilities. Unrealised gains and losses in respect of the investment portfolio are now held in a revaluation reserve, net of the appropriate tax charge.

The Company continues to select US dollar as the functional currency, and for this and the next period has been granted permission by the Commissariat aux Assurances to present these financial statements in US dollars.

In addition, a number of amendments to disclosures have been made, most obviously the adoption of appropriate Luxembourg reporting formats for the key statements, and including the separate reporting of salvages and subrogations from claims in the balance sheet and technical account.

The Company is not presenting comparative information for 2018, but is rather providing a copy of the 2018 financial statements as an addendum to the 2019 financial statements.

2019 Financial Performance

The Company's key financial performance indicators during the year were as follows:

Key Performance Indicators	2019 $000 Lux GAAP	2018 $000 UK GAAP	Variance $000	Variance %
Gross Premiums Written	2,128,935	1,601,356	527,579	33%
Net Earned Premium	1,325,600	826,868	498,732	60%
Underwriting Loss	(137,149)	(47,920)	(89,229)	186%
Investment Income	87,132	49,702	37,430	75%
Loss before taxation	(49,778)	(6,982)	(42,796)	613%
Net Claims Ratio %	**75.3%**	**64.9%**		10.4%
Gross Claim Raio %	**83.4%**	**60.4%**		23.0%
Net Expense Ratio %	**35.0%**	**40.9%**		-5.9%
Net Combined ratio % (i)	**110.3%**	**105.8%**		4.5%

	2019 $000	2018 $000	Variance $000	Variance %
Excess of assets over liabilities	1,456,259	1,250,505	205,754	16%
Solvency Capital Requirement	1,247,938	932,044	315,894	34%
Excess own funds	208,321	318,461 -	110,140	-35%

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

(ii) Note due to the decrease of LMIE's Own Funds, there will be a capital injection to address this. See Capital Management section for further details.

Underwriting performance

Gross written premiums increased by $528m in 2019, up 33% when compared from 2018. The increase in premium income reflects the success of LMIE's European growth strategy, driven by new business wins, increased line size, and favourable risk adjusted rate change. The Company's reinsurance business has also grown significantly, and reflects greater than expected business transfer from the Liberty Syndicate.

The claims ratio increased from 64.9% in 2018 to 75.3% in 2019, as technical reserves were increased to reflect the impact of US social inflation issues, in response to adverse emerging experience, and a perceived increase in frequency and severity of large losses in a number of classes, for example General Liability, Non-Proportional Reinsurance Casualty, Non-Proportional Reinsurance Property and Fire and other damage to property. Further details are found in Section A.2.2 Underwriting Performance.

Investment Performance

Overall, total investment income increased substantially from $50m in 2018 to $87m in 2019, as yields increased in key markets. The company has additionally benefited from increases in unrealised gains, for the same reasons, as reported through the revaluation reserve.

Foreign exchange losses

The Company made a small foreign exchange gain of $0.24m, compared to a loss in 2018 of $9m, which was driven by the strengthening of USD against GBP (Average rates 2019: $1.32/£1; Average rates 2018: $1.27/£1).

Review of financial position

Financial position	2019 $000	2018 $000
Gross technical provisions	3,398,886	2,546,927
Ceded technical provisions	1,188,927	890,217
Investments and cash	3,590,549	2,950,217
Shareholder funds	1,435,616	1,234,384

Gross Technical Provisions increased by $852m to $3,399m due to growth in income and reserve strengthening as referred to above. The increase in reinsurers' share of technical provisions was consistent with the increase in the gross figures.

Financial Investments and Cash have increased from $2,950m to $3,591m due to the capital injections during the year, growth in the business, and recognition of unrealised gains in the portfolio at December 2019.

Shareholder Funds increased by $201m in the year, mainly due to a capital injection of $200m on 29 March 2019 together with an increase in the revaluation reserves in recognition of unrealised gains within the investment portfolio at December 2019, offset by the overall loss for the year.

System of Governance

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

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
- Board Executive Committee (disbanded as of 1 March 2019)
- Investment Committee
- Nomination Committee
- Remuneration Committee
- Reserving Committee (disbanded as of 22 May 2019)

The Board and Committees are supported by LMIE key control functions of Actuarial, Risk Management, Compliance and Internal Audit. LMIE requires all persons who perform key functions to have adequate knowledge and experience to enable sound and prudent management of risks facing the company and to be of good repute and integrity.

Several changes to the system of governance took place during the course of 2019 including on 1 March 2019, the Company redomiciled from the UK to Luxembourg. Furthermore, a number of executive level committees known as “Legal Entity Committees” were formed to support the Board and its sub-committees, being:

- Management Committee
- Underwriting Risk Management Committee
- Chief Financial Officer Committee

Further details on the function of the Legal Entity Committees is provided in section B.1 below. Finally, during the 2019, the Board Executive Committee and the Reserving Committee were disbanded with their duties being re-distributed amongst the committee structure.

There have been no other material changes in the system of governance during the period.

The governance structure is reviewed on an annual basis by the Company Secretary in order to ensure that it is effective and appropriate to the organisation.

The Company operates within a Risk Management and Internal Control Framework (RMF) which is designed to enable the Company’s operations to manage risks in a controlled fashion consistent with the Board’s appetite and available capital capacity, in order to generate risk adjusted returns to the Liberty Mutual Group.

Risk profile

In order for LMIE to be able to properly reflect its risk profile, all material risks affecting it are considered as part of LMIE’s RMF, insofar as they may adversely impact the achievement of its goals.

The aforementioned exercise covers both quantitative as well as qualitative risks (e.g. Group / Contagion / strategic etc.), and is undertaken on ongoing conditions as well as part of stressed scenarios, informing LMIE Own Risk and Solvency Assessment (ORSA) policy, and 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 LMIE can withstand both plausible and extreme shocks over its planning horizon. The risk profile of the Company is described in Section C with regards to the following risk categories:

- Underwriting risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Other material risks

The LMIE Risk Management Framework, which applies to LMIE, sets out how the company undertakes the categorisation of exposed risks. The business objectives of the LMIE Risk Management Framework are to ensure that:

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

Risk Management is responsible for preparing the ORSA report.

Valuation for solvency purposes

Following redomiciliation to Luxembourg, LMIE adopted Lux GAAP in 2019 and therefore has prepared its annual financial statements for the year ended 31 December 2019 on this basis. Its financial statements are presented in US dollars, the functional currency of LMIE.

The Solvency II values are derived on a fair value basis under the EIOPA guidelines on valuation. In addition, Solvency II reporting formats require some reclassification of assets and liabilities from the categories reported in the financial statements. The valuation and reclassification differences are described in Section D of this report. The key valuation differences relate to the treatment of technical provisions.

Capital management

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 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 and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA, contains a two-year projection of funding requirements and this helps focus actions for future funding.

LMIE currently uses the standard formula (SF) as prescribed by the Solvency II Delegated Acts to assess its ability to meet all of its regulatory capital obligations under normal and stressed conditions. However, the internal model is used alongside the SF to help the Company understand and manage risks to its business, and challenge SF outputs where appropriate. The capital of LMIE comprises share capital, share premium and reconciliation reserves, categorised as Tier One.

As at 31st December 2019, LMIE had available own funds of $1,456.3m (2018: $1,250.5m) and an SCR of $1,247.9m (2018: $932.0m). The increase in own funds was mainly due to a capital injection of $200m in March 2019 to support the company's growth plans.

Due to above plan growth in 2019 and planned continued growth in 2020, the SCR has increased by 34% from the prior year with own funds supporting the SCR by 16% from the same period. As a result of these movements, the solvency coverage reported as at 31 December 2019 has reduced to 117%.

On 8 April 2020, our Ultimate Parent, Liberty Mutual Group approved additional capital for LMIE of up to $500m. Note that this may come in several tranches and tiers depending on the need and regulatory approval. This is in support of the growth of the company and also to provide additional assurance should LMIE experience a reduction in Own Funds as a result of COVID-19.

Capital Structure	2019 $(000)	2018 $(000)
Available Own Funds	1,456,259	1,250,505
SCR	1,247,938	932,044
Own Funds Surplus	208,321	318,461
SCR coverage ratio	117%	134%

SECTION A - BUSINESS AND PERFORMANCE

SECTION A. 1 – Business

A.1.1 Name and legal form of the undertaking

LMIE is a regulated insurance company incorporated in Luxembourg (Registration number B232280 (Registre de Commerce et des Sociétés)). The Company prior to its re-domicile to Luxembourg on the 1 March 2019, was a regulated insurance company incorporated in the United Kingdom (Registration number 1088268) and was known as Liberty Mutual Insurance Europe Limited Plc.

The immediate parent Company is Liberty Specialty Markets Holdco SL. The immediate parent was transferred from Liberty UK and Europe Holdings Limited in December 2017.

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

The smallest higher group of companies for which group accounts are drawn up and of which this Company is a member is Liberty International European Holdings S.L (Spain).

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

The Commissariat Aux Assurances (CAA) is responsible for the prudential supervision of the Company from 1 March 2019.

Commissariat aux assurances
7 Boulevard Joseph II
L-1840 Luxembourg

Prior to LMIE's redomicile to Luxembourg, the prudential supervision was the responsibility of the Prudential Regulation Authority (PRA).

Prudential Regulatory Authority
Bank of England
Threadneedle Street
London, EC2R 8AH

LMIE consolidates into the Spanish Entity Liberty International European Holding S.L. for Solvency II purposes and therefore is subject to Group Solvency II reporting via Liberty International European Holding S.L. The Solvency II group supervisor is "Direccion General de Seguros" (DGS, Spanish supervisor), which is located in Paseo de la Castellana, 44, Madrid, Spain. Furthermore, the consolidation is under the supervision of The Colleges of Supervisors which includes the PRA, DGS, CBI (Ireland supervisor) and ASF (Portuguese supervisor).

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 LLP, 35E Avenue John F. Kennedy, 1855 Grand Duchy of Luxembourg.

A.1.4 Holders of qualifying holdings

LMIE is wholly owned by the immediate parent company, Liberty Specialty Markets Holdco SL.

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

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

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

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

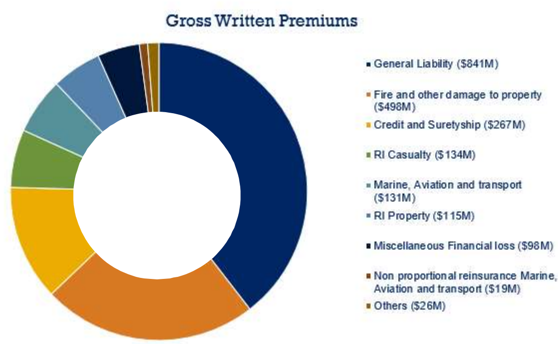
Unless otherwise stated ownership is 100%.

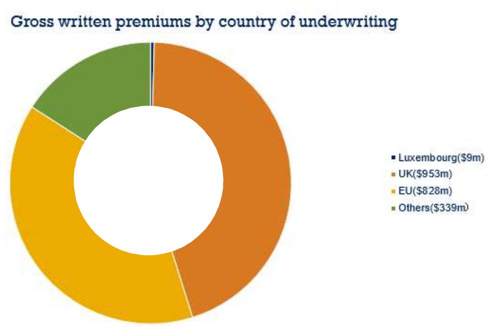
LMIE sits within the international holding structure of LMHC. The organisation chart shown is a summarised view of the overall Liberty structure and there are a number of companies within the hierarchy.

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

LMIE is one of the key insurance entities within LSM segment. LSM offers speciality and commercial insurance and reinsurance products across the UK, Europe, the Middle East, US and other international locations. The majority of LMIE's business is commercial and speciality insurance.

Under solvency II, insurance products are categorised into 16 non-life lines of business. General liability is the largest line of business in terms of written premiums.





From 1 March 2019, the Company operates from Luxembourg and through a branch structure in the UK and in mainland Europe, consisting of United Kingdom, Spain, France, Switzerland, Germany, Netherlands, Ireland, Belgium and Italy.

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

On 23 June 2016, through a referendum, the UK voted to leave the EU and on 29 March 2017, Article 50 of the Lisbon Treaty was triggered by the UK Government commencing the process of formal negotiation between the UK and the EU on the UK's withdrawal from the EU.

Brexit and PRA 3rd country branch application

On 1 March 2019 LMIE transferred its corporate seat from the UK to Luxembourg, while maintaining its UK presence as a branch, this is to support both its ambitious European growth plans and significant London market operations post the UK leaving the EU (Brexit).

After the expiry of the transition period LMIE's UK branch will automatically enter into the Temporary Permissions Regime (TPR) as an inbound passporting EEA branch. The TPR allows firms to continue to operate in the UK, within the scope of its current permissions, for a period of time whilst seeking full UK authorisation. An application has been submitted to the UK regulatory authorities for the LMIE UK branch to be authorised and regulated as a third country branch in 2021.

SECTION A. 2 – Underwriting Performance

A.2.1 Underwriting performance between 2019 and 2018

The overall summary of LMIE's underwriting performance on a LUX GAAP basis is provided in the table below for the years ended 31 December 2019 and 2018. Note that although 2018 figures were prepared on UK GAAP basis, there are no differences in the KPIs quoted below.

Key Performance Indicators	2019 $000 Lux GAAP	2018 $000 UK GAAP	Variance $000	Variance %
Gross Premiums Written	2,128,935	1,601,356	527,579	33%
Net Earned Premium	1,325,600	826,868	498,732	60%
Underwriting Loss	(137,149)	(47,920)	(89,229)	186%
Investment Income	87,132	49,702	37,430	75%
Loss before taxation	(49,778)	(6,982)	(42,796)	613%
Net Claims Ratio %	**75.3%**	**64.9%**		10.4%
Gross Claim Raio %	**83.4%**	**60.4%**		23.0%
Net Expense Ratio %	**35.0%**	**40.9%**		-5.9%
Net Combined ratio % (i)	**110.3%**	**105.8%**		4.5%

	2019 $000	2018 $000	Variance $000	Variance %
Excess of assets over liabilities	1,456,259	1,250,505	205,754	16%
Solvency Capital Requirement	1,247,938	932,044	315,894	34%
Excess own funds	208,321	318,461 -	110,140	-35%

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

(ii)Note due to the decrease of LMIE's Own Funds, there will be a capital injection to address this. See Capital Management section for further details.

Overview Summary

LMIE produced a loss before tax of ($50)m (2018($7)m) with a 60% increase in net earned premium and a combined ratio of 110% (2018: 106%).

The increase in GWP c.$528m, a 33% increase from prior year is primarily driven by growth in the underlying business across all the classes of business with the major driver LMIE's European growth strategy. The Company's reinsurance business has also grown significantly, and reflects greater than expected business transfer from the Liberty's Syndicate.

The Claims Ratio increased to 75% in 2019 from 65% in 2018 due to Catastrophe events such as Typhoon Faxai and Hagibis losses in Q4 2019. In addition to this, the majority of YTD losses are driven by attritional losses with the key drivers being General Liability compounded with US Social inflation challenges. Additional detail of this can be found in the following sub section.

LMIE was able to achieve a lower net operating expense ratio through a 6% improvement compared to prior year due to a change to the allocation of expenses. Whilst the expense ratio has decreased, the overall quantum of expenses has grown which is reflective of the increase in premium volume.

A.2.2 Underwriting performance by Solvency II Lines of Business

The following table outlines the Company's key financial performance indicators during the year ended 31 December 2019 by Solvency II lines of business.

2019	Gross Written Premiums $(000)	Net Earned Premiums $(000)	Net Incurred Claims $(000)	Expenses $(000)	Underwriting Performance $(000)
Medical expense	918	418	205	76	136
Income protection	3,214	1,413	677	259	478
Workers' compensation	0	0	0	0	0
Motor vehicle liability	3,702	1,603	3,153	531	(2,080)
Other motor	16,021	4,290	8,088	1,059	(4,856)
Marine, Aviation and transport	130,733	60,932	31,725	22,756	6,451
Fire and other damage to property	498,133	331,777	207,262	114,876	9,639
General Liability	840,876	565,812	461,632	206,465	(102,285)
Credit and Suretyship	267,315	127,702	75,547	51,655	500
Miscellaneous Financial loss	97,633	60,182	18,747	36,490	4,946
Non proportional reinsurance Health	2,026	631	208	145	278
Non proportional reinsurance Casualty	133,936	67,937	92,335	20,051	(44,449)
Non proportional reinsurance Marine, Aviation and transport	19,218	13,390	9,187	5,665	(1,463)
Non proportional reinsurance Property	115,211	89,514	58,400	40,731	(9,617)
TOTAL	**2,128,935**	**1,325,600**	**967,164**	**500,758**	**(142,323)**
Investment Income					79,415
Other expenses reported in the Financial Statements					13,130
Total loss for the period as reported in the Financial Statements					**(49,778)**

2018	Gross Written $(000)	Net Earned $(000)	Net Incurred $(000)	Expenses $(000)	Underwriting $(000)
Motor vehicle liability	188	11	728	35	(753)
Other motor	48	3	99	6	(101)
Marine, Aviation and transport	61,776	31,138	13,032	15,162	2,943
Fire and other damage to property	282,177	187,548	114,696	72,301	551
General Liability	704,168	484,103	314,624	202,487	(33,008)
Credit and Suretyship	340,359	102,597	36,151	51,654	14,793
Miscellaneous Financial loss	80,076	2,929	(2,099)	3,975	1,054
Non proportional reinsurance Casualty	30,176	8,658	20,514	2,765	(14,621)
Non proportional reinsurance Marine, Aviation and transport	19,058	244	6,357	782	(6,895)
Non proportional reinsurance Property	83,276	9,595	15,104	8,551	(14,060)
TOTAL	**1,601,302**	**826,826**	**519,205**	**357,718**	**(50,097)**

There are a four key material classes driving the underwriting performance for LMIE such as General Liability, Non Proportional Reinsurance Casualty, Non Proportional Reinsurance Property and Fire and other damage to property. Together, they make up 89% of the underwriting results. The table below is an analysis of Net combined ratios, Net Claims ratio and Net expense ratio.

	Contribution to 2019 U/W results	Net Claims ratio			Expense ratio			Net Combined ratio		
		2019	2018	+/-	2019	2018	+/-	2019	2018	+/-
Medical expense	0%	49%	-	49%	18%	-	18%	67%	-	67%
Income protection	0%	48%	-	48%	18%	-	18%	66%	-	66%
Workers' compensation	0%	-	-	-	0%	-	-	-	-	-
Motor vehicle liability	1%	197%	6912%	-6715%	33%	335%	-302%	230%	7247%	-7017%
Other motor	3%	189%	2875%	-2687%	25%	166%	-141%	213%	3041%	-2828%
Marine, Aviation and transport	3%	52%	42%	10%	37%	49%	-11%	89%	91%	-1%
Fire and other damage to property	**5%**	**62%**	**61%**	**1%**	**35%**	**39%**	**-4%**	**97%**	**100%**	**-3%**
General Liability	**55%**	**82%**	**65%**	**17%**	**36%**	**42%**	**-5%**	**118%**	**107%**	**11%**
Credit and Suretyship	0%	59%	35%	24%	40%	50%	-10%	100%	86%	14%
Miscellaneous Financial loss	3%	31%	-72%	103%	61%	136%	-75%	92%	64%	28%
Non proportional reinsurance Health	0%	33%	-	33%	23%	-	23%	56%	-	56%
Non proportional reinsurance Casualty	**24%**	**136%**	**237%**	**-101%**	**30%**	**32%**	**-2%**	**165%**	**269%**	**-103%**
Non proportional reinsurance Marine, Aviation and transport	1%	0%	2603%	-2603%	0%	320%	-320%	0%	2923%	-2923%
Non proportional reinsurance Property	**5%**	**65%**	**157%**	**-92%**	**46%**	**89%**	**-44%**	**111%**	**247%**	**-136%**
		73%	**63%**	**10%**	**38%**	**43%**	**-5%**	**111%**	**106%**	**5%**

Note that ULAE is included under LUX GAAP but not Solvency II.

General Liability

Overall, the General Liability class contributed to 55% of the total underwriting performance. The increase in underwriting loss of ($102)m compared to ($33)m loss reported in the prior year resulting in the net combined ratio for the class of 118% (2018: 107%). This increase is driven by frequency of claims for LMIE's Directors and Officers Liability (D&O) book compounded by the US Social inflation.

The class has had an improvement in expense ratio by 5% versus prior year. This is primarily due to the creation of the European cover holder LSME in 2019 resulting in a portion of the expenses that was previously borne by LMIE is now incurred by LSME. Net earned premiums has increased by 17% similar to Gross written premium growth of 19%.

Non Proportional Reinsurance Casualty

In 2019, the Non Proportional Reinsurance Casualty contributed to 24% of the underwriting performance of LMIE. The class had a favourable growth in Gross written premium of 347% compared to prior year.

Although there is an overall improvement in its' loss experience of 136% compared to prior year (2018: 237%) mainly due to a less significant Catastrophe experience in 2019. However, in 2019, the class was hit by D&O and the second half of the year Catastrophe events such as Typhoon Faxai and Hagibis. It also has a slightly improved expense ratio by 2% from previous year (2018: 32%).

Non Proportional Reinsurance Property

In 2019, the Non Proportional Reinsurance Property contributed to 5% of the underwriting performance of LMIE. The class had a favourable growth in Gross written premium of 135% compared to prior year.

Although there is an overall improved claim performance of 65% compared to prior year (2018: 157%) due to Catastrophe events such as Typhoon Faixa and Hagibis. These losses are slightly offset by an expense ratio driven primarily by the fall in the expense ratio of 44 points from a change to the allocation to expenses.

Fire and other damage to property

The Fire and other damage to property class achieved $9.6m underwriting profit and an overall contribution of 5% to LMIE's underwriting performance. This is the largest underwriting profit on a class of business level. It had a favourable growth in Gross written premium of 77% compared to prior year.

The combined ratio improved by 3 points to 97% driven primarily by the fall in the expense ratio of 4 points from a change to the allocation to expenses.

A.2.3 Underwriting Result by material geographical area

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

As at 31st December 2019	Gross Written Premiums	Net Earned Premiums	Net Incurred Claims	Expenses	Underwritting Performance
	$(000)	$(000)	$(000)	$(000)	$(000)
Luxembourg	9,045	4,629	994	689	2,947
United Kingdom	952,668	681,347	561,381	202,092	(82,126)
France	253,770	175,223	106,690	72,415	(3,881)
Germany	182,308	94,359	71,049	55,603	(32,293)
Netherlands	63,839	47,863	34,782	22,011	(8,930)
Spain	135,795	76,131	41,550	40,404	(5,823)
Other (Including US)	531,511	246,048	150,719	107,545	(12,216)
United States	112,856	51,932	61,600	4,708	(14,377)
TOTAL	**2,128,935**	**1,325,600**	**967,164**	**500,758**	**(142,323)**

As at 31st December 2018	Gross Written Premiums	Net Earned Premiums	Net Incurred Claims	Expenses	Underwritting Performance
	$(000)	$(000)	$(000)	$(000)	$(000)
United Kingdom	878,769	421,129	254,679	208,480	(42,031)
France	149,063	76,113	31,931	28,114	16,068
Germany	69,921	45,119	35,428	22,246	(12,555)
Spain	72,889	45,659	30,885	21,052	(6,278)
Italy	66,363	44,688	37,678	14,250	(7,240)
United States	99,795	32,659	29,523	10,738	(7,602)
Other	264,501	161,459	99,081	52,837	9,541
TOTAL	**1,601,302**	**826,826**	**519,205**	**357,718**	**(50,097)**

LMIE's geographical footprint continues to focus on Europe, UK and the US markets. The strategy focuses and supports its ambitious European growth plans and its continued presence post the UK leaving the EU (Brexit). As part of the Brexit strategy, LMIE has established and licensed an in-house cover holder in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME). LSME acts as an intermediary company which underwrites on behalf of LMIE and Liberty Syndicate 4472 from its branches throughout Europe.

This has all help support LMIE's 2019 growth which saw a 33% increase in Gross written premium across various classes with the biggest contributors from UK, Germany and France.

	Contribution to 2019 U/W results	Gross Written Premiums			Net Claims ratio			Expense ratio			Net Combined ratio		
		2019 $(000)	2018 $(000)	+/-	2019 $(000)	2018 $(000)	+/-	2019 $(000)	2018 $(000)	+/-	2019 $(000)	2018 $(000)	+/-
Luxembourg	2%	9,045	-	9,045	21%	-	21%	15%	-	15%	36%	-	36%
United Kingdom	55%	952,668	878,769	73,898	82%	60%	22%	30%	50%	-20%	112%	110%	2%
France	3%	253,770	149,063	104,707	61%	42%	19%	41%	37%	4%	102%	79%	23%
Germany	22%	182,308	69,921	112,387	75%	79%	-3%	59%	49%	10%	134%	128%	6%
Netherlands	6%	63,839	-	63,839	73%	-	73%	46%	-	46%	119%	-	119%
Spain	4%	135,795	72,889	62,906	55%	68%	-13%	53%	46%	7%	108%	114%	-6%
United States	10%	112,856	99,795	13,061	119%	90%	28%	9%	33%	-24%	128%	123%	4%

United Kingdom

The UK, where LMIE was domiciled before 1 March 2019 is currently the largest underwriting territory under Solvency II. It produced an underwriting loss of ($82)m despite achieving an increase in Gross written premium. Its underwriting performance are due to an increase in losses primarily from General Liability and Non-Proportional Reinsurance Casualty classes of business. These classes are described in the sub section before.

Europe

As Illustrated on the tables above, all of our Top 5 contributors excluding UK are in Europe – France, Germany, Netherlands and Spain. Together, they delivered solid revenue growth of 221% increase in Gross written premium and account for 34% of the LMIE's total Gross written premium produced.

United States (US)

The US has produced a 13% increase in Gross written premium and resulting in $(14)m underwriting loss. Similar to the UK, the US suffered significant losses due to an increase in losses primarily from General Liability and Non-Proportional Reinsurance Casualty classes of business. In particular, the General Liability losses are compounded with US Social inflation challenges.

SECTION A. 3 – Investment Performance

The investment portfolio is managed by Liberty Mutual Investments, the specialist investment management arm of LMG. In accordance with investment guidelines, the investment strategy is approved by the LMIE Investment Committee, then by the LMIE Board. 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. In light of the current COVID-19 pandemic, it has been more favourable comparatively in holding bonds to holding equities which are more volatile in nature. The following table summarise the investment results for the year:

2019 $(000)	Dividends	Interest	Rent	Net gains and losses	Unrealised gains and losses	Total performance
Government bonds	0	19,847	0	1,687	9,081	30,615
Corporate bonds	0	57,417	0	50,564	31,289	139,269
Collective Investment Undertakings	50	0	0	1,441	125	1,616
Collateralised securities (interest)	0	152	0	(11)	64	205
Cash and deposits	0	23	0	0	0	23
Total Investment income	**50**	**77,440**	**0**	**53,679**	**40,559**	**171,728**

2018 $(000)	Dividends	Interest	Rent	Net gains and losses	Unrealised gains and losses	Total performance
Government bonds	0	15,555	0	(1,700)	(3,803)	10,052
Corporate bonds	0	46,682	0	(8,815)	(38,364)	(497)
Collateralised securities (interest)	87	0	0	2,100	111	2,299
Collective Investment Undertakings	0	201	0	(10)	(52)	140
Cash and deposits	0	(31)	0	0	0	(31)
Total Investment income	**87**	**62,407**	**0**	**(8,424)**	**(42,108)**	**11,962**

Overall, total investment income increased substantially from $12m in 2018 to $171m in 2019. The company has additionally benefited from increases in unrealised gains, as reported through the revaluation reserve, whereas in 2018 where there was an unrealised loss. The increase is a result of yields moving in a favourable direction in key markets.

Investments in Securitisations

The Company's holdings in securitised assets is shown in the following table:

$(000)	2019	2018
Residential Mortgage Backed Securities (RMBS)	6,393	1,585
Commercial Mortgage Backed Securities (CMBS)	888	3,714
Asset Back Security (ABS)	1,620	4,177
Total	**8,901**	**9,477**

SECTION A. 4 – Performance of Other Activities

Material Leasing arrangements for both finance and operating:

At 31 December 2019, the Company had future minimum rentals payable under operating leases rechargeable from its service company as follows.

Other obligations including Leases	2019 $(000)	2018 $(000)	2017 $(000)
Not later than one year	6,033	6,237	7,062
Later than one year and not later than five years	21,369	21,996	23,110
Later than five years	34,204	41,173	46,281
Total	61,606	69,406	76,453

SECTION A. 5 – Any Other Information

Brexit and PRA 3rd country branch application

LMIE's principal business is general insurance and reinsurance business which it underwrites in the UK (currently via passporting rights transferring to Third Country Branch "3CB" status following authorisation) and Europe via its European Economic Area (EEA) branch network.

Currently, each branch of LMIE has a dedicated local management team, headed up by a Branch Manager. LMIE intends for this model to be replicated for the UK Branch and has identified Jane Warren as the UK Branch Manager. LMIE also 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. As the UK will not form part of the European business model, it is proposed that LMIE UK 3CB will operate a separate UK Branch Management Committee which will feed directly into the LMIE Management Committee, which is chaired by the LMIE General Manager.

The UK Branch will be responsible for managing the underwriting and claims; acting as the first line of defence for managing risk within its jurisdiction. In terms of regulated supervision, the UK Branch will continue to be regulate by the UK regulators with LMIE regulated by the CAA overall. We note that after the transition period, it is expected that the EU will be treated as a third country. Supervision of LMIE will therefore depend on whether the CAA regulatory regime is deemed equivalent to that in the UK.

Overall, LMIE is a Solvency II compliant firm in the UK and will continue to be so whilst continuing to monitor the regulatory changes as a result of Brexit.

COVID-19

The COVID-19 pandemic is a post-balance sheet event and there is a non-adjusting event. The pandemic is causing global economic uncertainty and social restrictions which are directly impacting the market. LMIE's Business Continuity Plan has been triggered and until further notice, all employees are working remotely. Systems and processes are in place to ensure that we continue to deliver a high level of service and responsiveness to brokers, clients and regulators.

This is having a direct impact on the risks for LMIE and these are being regularly monitored, whether the controls currently in place are adequate to mitigate the evolving risks. Controls in place to manage the increased risk include:

- A dedicated contact point to provide our policyholders with assistance and to help them find the right person to process a claim, and detailed monitoring of key processes which impact our services provided to policyholders;

- Executive Committee meetings held weekly to consider development of the global pandemic and implement business continuity actions in line with government advice;

- Ongoing monitoring of the impact on LMIE’s assets and liabilities, claims, and solvency position with planned management actions in place to respond; and where appropriate regular engagement with the market and regulators via several forums.

Risk mitigation techniques

Given the emerging impacts of COVID-19, LMIE’s management is focused on ensuring that the business model is sustainable. This includes the management of financial risks, ensuring LMIE is able to withstand an extreme event and trade forward; the risk of operational and other events is also managed to ensure LMIE maintains its strong reputation.

Various risk mitigation techniques are used to manage the exposure to these risks by setting and monitoring a risk appetite framework which includes:

- **Risk exposure -** In addition to the above, LMIE has significant reinsurance coverage to transfer a material amount of exposure through various reinsurance arrangements such as its’ umbrella reinsurance and a Stop loss cover with Liberty Mutual Group.

- **Exchange rate risk -** LMIE’s administrative expense payments are transacted in Euro, Sterling and US Dollars and therefore the Company is exposed to fluctuations in the relevant exchange rates. In order to minimise this foreign exchange risk, cash assets are held in the aforementioned currencies.

- **Investment Portfolio & Economic risks -** LMIE’s investment positions are mostly fixed income and therefore are more immediately resilient to the recent market shocks. LMIE also maintains an Investment Grade bond portfolio with ample government and other highly liquid issuers to fund operational requirements. Liberty Mutual Investments (LMI) continues to monitor market liquidity and will continue to remain proactive.

With corporate spreads at multi-year highs, our market values are currently supported by risk free rates sinking to multi-year lows following central bank action. The Directors regularly monitor credit risk, interest rate risk and currency risk in respect of debtors and other assets.

The COVID-19 pandemic has created operational and economic uncertainty, with turbulence in financial markets which has impacted individuals and businesses. The full impact of this on the insurance industry is uncertain and our initial assessment has identified those lines of business most likely to be impacted, however the full extent of the losses and the impact upon pricing will become clearer as the year progresses. Management will regularly monitor developments in this area and take appropriate actions as needed.

SECTION B - SYSTEM OF GOVERNANCE

SECTION B. 1 – General Information on the System of Governance

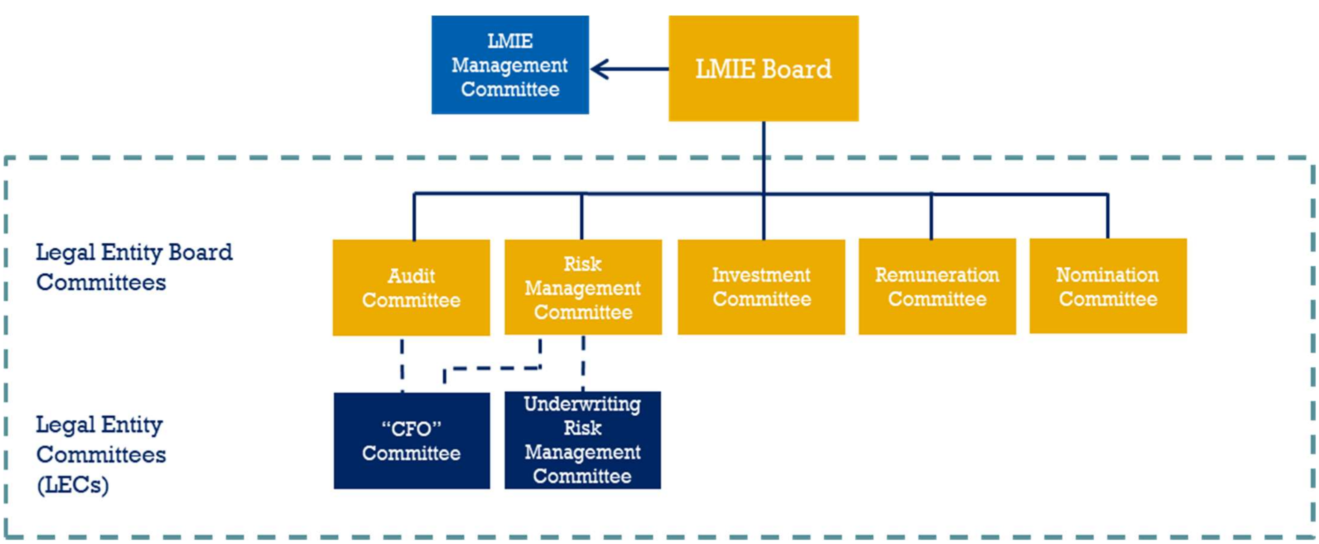
Liberty Specialty Markets (LSM) is a strategic business unit (SBU) of the Global Risk Solutions division of Liberty Mutual Insurance Group (the Group). LSM offers specialty and commercial insurance and reinsurance products across key UK, European, Middle East, US, Bermuda, Asia Pac & Latin America markets.

LMIE is one of the key legal entities that makes up LSM. LSM is also used as the trading name for LMIE.

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 they have established a corporate governance framework as an effective means of meeting that responsibility. LMIE adheres to the provisions of its Statutes, legal and regulatory requirements and principles of good corporate governance. The corporate governance framework was changed during the course of H1, 2019 to reflect the changes required to ensure compliance with the requirements of Luxembourg Law.

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 at the Board, sub-committees of the Board and throughout the organisation. The Board, Board sub-committees and Legal Entity committees are set out below with a description for each of its main roles and responsibilities.



B.1.2 Overview of the role of the Board

Segregation of Board Responsibilities

The Board is headed by an independent non-executive chairman, who is responsible for leadership of the Board and ensuring its effectiveness. The daily management of LMIE is delegated by the Board to the General Manager (GM) who is assisted by the Management Committee, primarily from the Company's headquarters in Luxembourg. The role of the independent non-executive directors is to scrutinise and challenge the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and effective. The Board is supported by the Company Secretarial team.

Overview of the Board sub-committees

A summary of the Board sub-committees is provided in summary section above. The Board delegates certain matters to these sub-committees in accordance with the terms of reference of those committees.

Below is an overview of each of the sub-committees.

B.1.2.1 Audit Committee

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

The Committee membership consists of four highly skilled and experienced independent Non-Executive Directors, one of whom acts as Chair of the Committee. The Chair of the Board was previously the Chair of the Committee (to 30 September 2019). The Chair of the Board is a member of the Committee. The Committee is attended by senior management including the Head of Internal Audit and lead partner of the external auditors.

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

The responsibilities of the Audit Committee include:

- Monitor the integrity of the financial statements of the Company relating to its financial performance in compliance with laws and regulations and appropriate generally accepted accounting practice and shall report to the Board on significant financial reporting issues and judgements which those financial statements contain having regard to matters communicated to it by the external auditor.
- Recommend for approval the draft financial statements and associated required documentation prior to submission to the Board; the Board will be informed of the outcome of the external audit, how this contributed to the integrity of financial reporting and what the role of the audit committee was in that process.
- Consider significant accounting policies and any changes to them together with any significant accounting judgements.
- Keep under review the adequacy and design of the Company's policies and procedures relating to whistleblowing and annually review whistleblowing activities.
- Consider and approve the Annual Internal Audit Plan and any proposed changes, assessing the effectiveness of Internal Audit and monitoring adequacy of its resources.

- Receive all significant reports relevant to internal controls and review and monitor management's responsiveness to the report.
- Act on behalf of the board to ensure premiums are based on reasonable actuarial assumptions and reviews quarterly Actuarial Reserve updates, review of the Solvency II Technical Provisions, Baseline Reviews and may review recommendations as part of the Actuarial Function Review reports on UW, RI and Technical Provisions.

B.1.2.2 Risk Management Committee

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

The Committee membership consists of four Independent Non-Executive Directors, one of whom acts as the Chair. The Chair of the Committee reports to the Board on the activities of the Committee. The main responsibilities of the Committee include:

- Review and recommend to the Board the risk management and internal control framework.
- Develop proposals, for consideration by the Board, of the Risk Appetite Statement to determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives within the context for the internal and external environment.
- Reviewing the Company's current and forecast performance against risk appetite.
- Advising the Board on risk aspects of proposed strategic transactions and implications for the risk appetite of the Company.
- Annually conduct an in-depth analysis of the Own Risk and Solvency Assessment (ORSA) and recommend this to the Board for review and approval.
- Review the risk management framework and approving significant risk policies including Financial Crime and Fraud.
- Consider, assess and approve the annual Risk Management and Compliance plans.
- Consider the effectiveness of the Risk Management functions.
- Receive reports on the performance of first line management in mitigating risks and adhering to company policies.
- Review any calculations of the SCR and where an internal model is applicable, oversee the methodology, assumptions, validation and governance.
- Review the adequacy and appropriateness of scenario and reverse stress tests.

B.1.2.3 Investment Committee

The Investment Committee is responsible for assisting the Board in overseeing the Company's Investment, Market and Liquidity Risk policies and procedures that are designed to ensure that the Company has sufficient assets to cover net liabilities as they fall due; optimises US GAAP income; preserves surplus; and achieves an appropriate total return based on an acceptable level of risk.

The Committee membership consists of one independent non-executive director who acts as Chair, and two executive directors.

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

The responsibilities of the Investment Committee include:

- Make recommendations to the Board regarding; the long-term framework and short-term strategy for the investment of assets and management of liquidity; and the appointment of Investment Manager(s).
- Approve the investment management policy covering market risk; liquidity risk; asset liability management; asset concentration and credit risk and investment strategy.
- Approve the translation of these policies into Investment Guidelines and ensure that they are incorporated into the Investment Management Agreement.
- Ensure, with reference to the policies, Investment Guidelines and procedure documents, that investment controls are adequate, including the supervision of Investment Manager(s).
- Review investments held and performance against stated investment objectives.
- Review the Investment Manager(s) operational performance.
- Review compliance with Investment Guidelines and Investment Management Agreement.
- In conjunction with the Investment Manager(s), set minimum liquidity levels across both invested assets and cash with due regard to cash flow needs and currency mix requirements.

B.1.2.4 Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration policy across the Company; and determining the total individual remuneration package of in scope executives, including basic salary and short and long-term incentive awards. The Chair of the Board is the Committee Chair, who with at least one other independent non-executive director comprises the committee.

The main responsibilities of the Committee include:

- Consider and approve annually the executives in scope for remuneration decisions (including those required for Solvency II and UK Senior Manager Regime requirements) in line with Liberty Mutual Group, legal and regulatory expectations and any others who are deemed as requiring additional overview; herein called Solvency II Executives
- Annually Review the Remuneration Policy Statement of the Company
- Review and, as appropriate, approve remuneration decisions relating to the Company including incentive schemes
- Determine the remuneration policy and review its ongoing appropriateness.
- Within the terms of the agreed policy determine the total individual remuneration package of each executive director and other designated senior executives as determined by the Committee from time to time as being in scope.
- When setting remuneration policy for directors, review and have regard to pay and employment conditions across the Company.
- Oversee any major changes in core employee benefit structures.
- Agree the policy for authorising expense claims from the directors.
- Ensure that all provisions regarding disclosure of remuneration are fulfilled.
- Ensure compliance with gender pay gap requirements and all legal and regulatory requirements relating to remuneration applicable to the Company.

B.1.2.5 Nomination Committee

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

The Committee membership consists of the Chair of the Board who also acts as Chair of the Committee, one independent non-executive director and one non-executive Director. The Chair of the Committee reports to the Board on the activities of the Committee.

The responsibilities of the Committee include:

- Regularly review the structure, size, diversity (in skill and person) and composition (including the skills, knowledge and experience) of the board and make recommendations to the Board with regard to any changes.
- Consider succession planning for senior executives in the course of its work, taking into account the challenges and opportunities facing the Company.
- Be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise.
- Keep under review the time required from non-executive directors and assess whether the non-executive directors are spending enough time to fulfil their duties.
- Make recommendations to the Board concerning the membership of the Board committees and any matters relating to the continuation in office of any director at any time.

B.1.2.6 Board Executive Committee (to March 2019)

The Board Executive Committee (BEC) was responsible for dealing with certain matters delegated to it by the Board relating to the day-to-day management of the business. The Committee membership comprised of Executive Directors. A report from the BEC was submitted to each quarterly Board meeting.

This Committee was disbanded from March 2019 in line with the re-domiciliation to Luxembourg with its duties being re-distributed amongst the committee structure.

B.1.2.7 Reserving Committee (to May 2019)

The Reserving Committee was responsible for overseeing the operational and functional integrity of the reserving process and monitoring conformity to the Reserving Risk Appetite specified by the Board. The Committee was responsible for making proposals to the Board regarding reserves for the purposes of financial reporting under US GAAP and UK GAAP, bringing together underwriting, claims, actuarial and finance professional knowledge and judgement. The Chair of the Committee reported to the Board on the activities of the Committee.

The main responsibilities of the Committee included:

- Review quarterly reports from the Actuarial Function (Head of Reserving) setting out its professional views on the level of reserves, together with the key uncertainties affecting the reserves and their potential financial impact.
- Oversee the actuarial reserving process and the Technical Provisions Policy.

- Review quarterly reserves booked by Finance on an accident year basis according to US GAAP and UK GAAP, taking into consideration the views of the Head of Reserving and the Chief Actuary.
- Review the booked reserves according to UK GAAP and US GAAP and verify that they are within the bounds specified in the Reserving Risk Appetite set out by the Board.
- Responsibility for reviewing reserving risk for the purpose of the Internal Model with particular reference to the Reserving Risk Policy and Procedures.
- Review and provide feedback on Key Risk Indicators and Key Control Indicators in conjunction with the Risk Management Function.
- Responsibility for briefing the Audit Committee on key judgements and uncertainties to inform its recommendation to the Board regarding the level of reserves for the UK GAAP purposes of the financial statements.

The Committee was disbanded in May 2019 with its duties being re-distributed amongst the committee structure. Enhanced actuarial reserving reports are now made to the Audit Committee to ensure continued Board oversight of all reserving activities.

Overview of the Legal Entity Committees

The Legal Entity Committees were formed in Q2, 2019 to ensure continued appropriate focus on LMIE as an autonomous legal entity. The Committees are provided with legal entity specific management information for oversight and management of LMIE's operational and regulatory performance. The Committees consider certain reports and information prior to presentation to the Audit Committee and Risk Management Committee. The aim of this is to ensure information and reporting of the appropriate quality is received by the Audit and Risk Management Committees

Below is an overview of each of the Legal Entity Committees.

B.1.2.8 CFO Committee

The Chief Financial Officer (CFO) Committee is a management level, legal entity specific committee which has been established to review reports and information relating to relevant aspects of Actuarial and Reserving, 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, one of whom is the LSM CFO who also acts as Chair and attends Board meetings. The Committee has reporting lines to the Audit Committee and Risk Management Committee and, in exceptional circumstances, the Board.

B.1.2.9 Underwriting Risk Management Committee

The Underwriting Risk Management Committee is a management level, legal entity specific committee which has been established to review reports and information relating to relevant aspects of delivering the Underwriting Strategy and coordinating the oversight of LMIE's underwriting activities; Ensuring LMIE is compliant with LSM's Conduct Risk Framework and Conduct Risk Appetite; and Providing comfort to the Board that LMIE's underwriting is within the insurance risk appetites

The Committee membership consists of senior executives, one of whom is the LMIE Executive Underwriting Officer who also acts as Chair and attends Board meetings. The

Committee has reporting lines to the Risk Management Committee and, in exceptional circumstances, the Board.

B.1.2.10 Management Committee

The Management Committee is a management level, legal entity specific committee which has been established to provide the executive day-to-day business delivery within the strategic context set by the Board. The Committee carries out all matters delegated from the Board, reviews performance and makes corrective actions within their delegated powers, and prepares papers for Board approval.

The Committee consists of the Key Function Holders and other relevant persons and, is Chaired by the General Manager who also attends Board meetings. The Committee reports to the Board and fully engages with the other Legal Entity Committees.

B.1.2.11 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 receive 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 Commission Aux Assurances (CAA).

B.1.3.1 Actuarial Function

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

The authority, resources and independence of the Actuarial Function are detailed in section B.7.1 Governance of the Actuarial Function. 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; providing an opinion on underwriting policy and reinsurance arrangements and 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, developing the calculation kernel 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 – Legal Entity, who is the approved Key Function Holder for the company and is resident in Luxembourg. The Head of Risk Management – Legal Entity reports to the LMIE General Manager and has an additional functional reporting line to the LSM Chief Risk Officer for wider LSM and legal entity responsibilities. The Head of Risk Management – Legal Entity 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 Risk Management. 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 and Underwriting Risk Management 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 – Legal Entity is also a member of the Management Committee, which supports the LMIE General Manager in discharging executive day-to-day business delivery within the strategic context for the Company set by the Board.

B.1.3.3 Compliance Function

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

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

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

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

B.1.3.4 Internal Audit

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

The Head of the Internal Audit Function reports functionally to the Chair of the LMIE Audit Committee and administratively to General Counsel with direct access to the LMIE General Manager. The authority, resources and independence of the Internal Audit Function are detailed in section B.5.3 Independence and Objectivity. The findings of the Internal Audit function are reported to the Audit Committee. The Chair of the Audit Committee provides a summary of the Committee's activities to the Board.

B.1.4 Group Structure

LMIE is part of Liberty Mutual Insurance Group (LMIG), which is currently listed on the Fortune 100 list of US corporations. Boston-based Liberty Mutual Insurance Group is a diversified global insurer and amongst the largest P&C insurers in the world based on gross written premium. Liberty Mutual Insurance Group offers a wide range of insurance products and services through two strategic business units (SBU): Global Consumer Markets and Global Risk Solutions.

The ultimate parent entity of LMIG is Liberty Mutual Holding Company Inc. (LMHC), a Massachusetts mutual holding company. As a mutual, LMHC does not have any shareholders. Members of LMHC are persons appearing as the named insured on an in-force policy, or as principal in the case of a surety bond, issued by any of the following stock insurance companies: (1) Liberty Mutual Insurance Company, (2) Liberty Mutual Fire Insurance Company, (3) Employers Insurance Company of Wausau, and (4) Liberty Mutual Personal Insurance Company.

B.1.5 Material changes in the system of governance

Several changes to the system of governance took place during the course of 2019. Material changes are as follows:

- As part of the Brexit strategy, on 1 March 2019, the Company redomiciled from the UK to Luxembourg.
- Formation of Legal Entity Committees in Q2, 2019
- Disbanding of the Board Executive Committee (Q1, 2019) and the Reserving Committee (Q2, 2019) with their duties being re-distributed amongst the committee structure.
- Changes to the corporate governance framework to reflect changes required to ensure compliance with Luxembourg law.

The governance structure is reviewed on an annual basis in a normal cycle of business; the next review will take place in 2020. Included in that review is a review of the Board sub-committee terms of reference to ensure that the Board and sub-committees are performing all of their duties and not acting outside of their authority. The annual effectiveness review ensures that the performance of the Board, its committees and individual directors are formally evaluated.

In 2019 the composition of the Board under a number of changes:

- Appointment of additional directors - Graham Brady and Fernand Grulms (2019).
- Resignation of Matthew Moore (2019).

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

The Remuneration Policy is overseen and approved by the Board Remuneration Committee and is reviewed annually to ensure alignment of pay practices with all relevant legislation and regulations.

The Remuneration Committee reviews and approve all elements of remuneration for subject employees and ensures that strong risk management practices are in place. It does this on an annual basis to ensure:

- A clear distinction between operating and control functions, to avoid conflicts of interest, both in the operating of the organisation, as well as in terms of remuneration.
- Impartiality when it comes to executive pay.
- That final decisions regarding remuneration are taken in such a way as to protect the long-term interests of the Company's stakeholders.

The Board Remuneration Committee may consult with key LMG and LSM corporate functions to ensure that incentive schemes do not expose the Company to undue risk taking.

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, perquisites and any allowances	Fixed/Variable
Annual Incentives	Variable
Long Term Incentives	Variable

B.1.6.3 Variable Remuneration

Variable remuneration – Short Term Performance

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

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

Variable remuneration – Long Term Performance

There are two long-term performance plans in operation: a cash plan (based on LSM performance) and a performance-derived unit value plan (based on LMG performance).

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

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 four-year performance period.

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

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

B.1.6.5 Material transactions during the reporting period

Material transactions include transactions with shareholders, with the parent entity, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body. During the reporting period there were no material transactions.

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 Commissariat Aux Assurances supervision) under the Law of 7 December 2015 on the Insurance Sector to fulfil the following requirements at all times:

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 also whether the person has demonstrated due skill, care, diligence and compliance with relevant standards in the area that he/she has been working in. Such a person should also be of good repute (**Proper**), and the assessment includes taking relevant references, criminal record checks and the making of appropriately witnessed declarations of honour.

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

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

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

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

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

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

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

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

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

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

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

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

B.3.1 Description of the Risk Management System

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

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

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

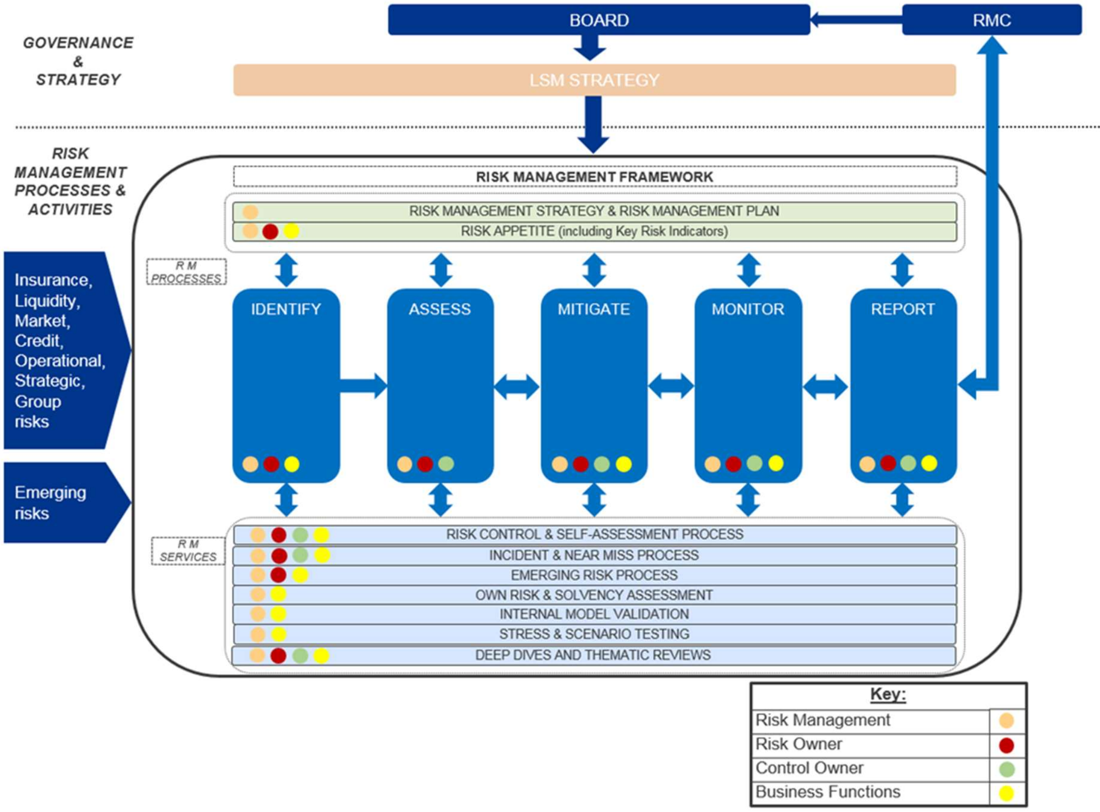
I. Identifying
II. Assessing
III. Mitigating
IV. Monitoring
V. Reporting

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

- Key roles and responsibilities highlighted to demonstrate ownership and shared responsibility between Risk Management and the business.

- The 'Governance and Strategy' elements of the diagram (above the dotted line) set the overall approach and context around which risk management activities operate, as described within the RMF.

- The 'Risk Management processes and activities' elements of the diagram (below the dotted line) are all within the scope of the RMF.



B.3.2 Implementation of the Risk Management System

All of 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)

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

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

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

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 Risk Management Committee considers the ORSA reports in detail, provide comments and feedback to Risk Management and recommend the ORSA reports to the Board for final sign-off. The Strategic Planning and Analysis (SPA) 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 is a process as well as a report. The ORSA includes both the economic capital position of LMIE and its regulatory capital position, by reference to the SCR and the MCR, as at 31st December 2019.

ORSA reports for LMIE are prepared for review by the RMC and submission to the relevant regulator at least annually. Key elements of the ORSA, for e.g. the quarterly capital assessment forms part of the quarterly CRO report to the RMC and the Board.

As part of the ORSA embedding process, Risk Management, through the quarterly CRO report to the RMC and the Board, have presented some of the more fluid elements of the ORSA, such as capital and solvency positions. This is summarised in the annual ORSA report reviewed and signed off by the Board.

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

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

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

SECTION B. 4 – Internal Control System

B.4.1 Description of Internal Control System

LSM operates a centralised Operational Risk and Control Register, Magique, which is managed by Risk Management. Magique captures all operational risks and the controls used to mitigate them. Executive Operational Risk Owners are responsible for ensuring that the risks captured in Magique adequately cover the areas for which they have responsibility. In addition, they are required to assess whether the controls in these areas are appropriately designed to mitigate the risks to an acceptable level, as well as reporting any areas of concern to the relevant oversight committee. Control owners are required to provide an assessment of the design and performance of each control which drives an overall RAG rating.

LSM maintains a Liberty Attestation Process (LAP) control framework that is designed to mitigate the risk of financial misstatement. All LAP controls are signed off on a monthly basis, requiring attestation from all Executive Risk Owners that they are satisfied that the key controls for their respective areas have been performed and operating as expected. In addition to this they have to attest that they are not aware of any changes in their control environment.

B.4.2 Description of how the Compliance Function is implemented

The Compliance function has in place a Policy and Plan that was approved by the Risk Management Committee in February 2019. The LSM Compliance Policy and Plan is in scope of the LSM Documentation standards and therefore requires approval on an annual basis or when significant changes are made to them.

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

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

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

SECTION B. 5 – Internal Audit Function

B.5.1 Internal Audit Policy

The Internal Audit 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 2019 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 in compliance with the policies, procedures and applicable laws, regulations and governance standards;
- The results of operations or programs are consistent with established goals and objectives;
- Operations and programs are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact the business;
- Information and the means used to identify, measure, classify and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently and protected adequately.

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

B.5.3 Independence and Objectivity

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

The LMIE Internal Audit Function Holder reports to the Chair of the LMIE Audit Committee and administratively to LSM Head of Internal Audit. 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 SII 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 Executive Committee and/or the LMIE Board as appropriate.

The Head of Actuarial Function is a Fellow of the Institute and Faculty of Actuaries, with over 10 year post qualification experience and subject to professional standards. As such the work carried out will meet the independence and free from influence requirement of Solvency II. The Actuarial

Function consists of members of LSM's actuarial team. The Actuarial Function reports its recommendations to the LSM 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 used as well as the assumptions made in the calculation of technical provisions;
- 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, in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5 and to the assessment referred to in Article 45.

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 regard 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 regard to the specific lines of business they are applied to, taking into account 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;
- Assess whether the IT systems used in the actuarial reserving procedures are adequate for that purpose;
- 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;

- 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; and
- Determine when data is of insufficient quality to apply a standard actuarial method and a case-by-case approach should be followed instead. It must apply judgment to establish assumptions and safeguard the accuracy of the results.

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

The actuarial function's opinion on underwriting policy will include the following issues:

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

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

- Opinion on the adequacy of the reinsurance arrangements;
- Consideration of any concerns that the actuarial function may have as to the adequacy of the reinsurance arrangements, including recommendations for improvement and consideration of alternative structures;
- Assessment of consistency of the reinsurance arrangements with the risk appetite and underwriting policy;
- Analysis of effectiveness of risk mitigation including impact on capital requirements and claims volatility;
- Analysis of the adequacy of the reinsurance providers taking into account 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 risk management framework of LMIE;
- Highlight how the actuarial function contributes to the SCR calculations;
- Highlight how the actuarial function contributes to the ORSA; and
- For LMIE, indicate any inconsistencies between the technical provisions, the reinsurance arrangements, the overall underwriting policy and the related assumptions and values in the internal model.

SECTION B. 7 – Outsourcing Arrangements

B.7.1 Description of the Outsourcing Policy

LMIE has in place an Outsourcing Policy that ensures that all material outsourcing arrangements within LMIE are assessed properly and managed effectively throughout their lifecycle from inception to termination. The rationale for the Company's outsourcing is multi-faceted and depends upon a number of different considerations. From a business perspective, any outsourcing arrangement must be commercially viable, and a business case must be made before inception of the arrangement. The LMIE outsourcing policy applies to all of the Company's branches, including Switzerland.

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

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

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

Regardless of jurisdiction, the service provider will be expected to go through the same thorough assessment as to their suitability to engage in an LMIE outsourcing arrangement. LMIE will ensure that any service provider located outside of the UK will undergo an assessment which is in keeping with LMIE's risk appetite. In the case of any provider located outside of the EEA, further advice must be sought from the LMIE Legal and Compliance function.

Lastly, it should be noted that all outsourcing arrangements are subject to the thorough standards and processes regardless of whether or not the service provider is within or outside the LMIE group of companies or the LMIG. Providers within the LMIE group of companies or the LMIG will be dealt with at an appropriate 'arms-length'. Oversight of all outsourced functions will be carried out by LMIE's Luxembourg head office with support from the LMIE UK branch.

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

B.7.2 Outsourcing Register

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

Description of services provided	Jurisdiction
Head Office IT Support	USA
Binder Management services	UK
Exposure Management services	UK
Investment Management	USA
Various Support functions	UK

SECTION B. 8 – Any Other Information

The governance structure and corporate governance framework in place to ensure that LMIE meets a good standard of governance, is assessed annually by the board. There have been no material changes to the system of governance during the reporting period and the governance structure is deemed adequate for the company’s risk profile.

During the reporting period there was no other material information to disclose regarding LMIE’s system of governance.

SECTION C – RISK PROFILE

The LMIE Risk Management Framework sets out how the company undertakes the categorisation of exposed risks. The business objectives of the LMIE Risk Management Framework 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.

SECTION C. 1 – Underwriting Risk

Underwriting risk arises from two sources - adverse claims development (reserve risk) and inappropriate underwriting (premium risk).

a) Measures used to assess risks:

Reserve risk is mitigated through the use of detailed analysis performed by the Actuarial team and overseen by the Reserving Committee, including 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 the use 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 the insurance risk appetites and key risk indicators (KRIs), which cover the following areas:

- Exposure management – modelled exposure limits by natural catastrophe/other peril region (set at the LSM level) and cascaded to an entity level.
- Delegated authorities – limits on the level of premium to be written through delegated authorities.
- Broker exposure – limits on the level of premium from individual brokers.
- Underwriting – underwriting guidelines over pricing, business plan premium, line size limits etc.
- Portfolio concentration – limits on line of business concentration, short- and long-tail premium concentration, and long-tail reserves.

Actual levels of risk vs. 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) Material risks that LMIE is exposed to:

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

c) Risk concentration:

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. This is monitored by risk appetites by peril-region.

d) 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 the use 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 Operational Risk Policy and Internal Control Framework (see operational risk below).

e) Process for monitoring the effectiveness of Insurance risk mitigation techniques:

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 potential management actions to mitigate the effect of threats to the viability of the business. The results of the stress tests indicate that LMIE's capital was adequate to absorb the calculated losses.

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

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

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

SECTION C. 2 – Market Risk

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

Material risk exposures are managed through the market risk appetites, which are detailed in LSM's Risk Management and Internal Control Framework, which cover the following areas:

- Net interest rate risk – limit on interest rate-sensitivity measure as a proportion of total market risk.
- Credit and spread risk – limit on credit and spread-sensitivity measure as a proportion of total market risk and minimum security ratings.

- Alternative asset risk – limit on alternative assets-sensitivity measure as a proportion of total market risk.
- Exchange rate risk – limit on exchange rate-sensitivity measure as a proportion of total market risk.
- Portfolio duration risk – limit on yield curve sensitivity measure.
- Capital – limit on the proportion of economic capital held in respect of market risk.

Market risk remained broadly stable during 2019, which was in line with expectations given the conservative nature of the investment portfolio. There were no material changes in market risk appetite and planned exposure in the 2020 plan.

In addition, there are permitted investments guidelines and exposure limits which are approved by the Investment Committee.

LMIE has a dedicated outsourced investments team responsible for the oversight of its invested assets. Assets are selected and held subject to the market risk and liquidity risk appetites set by the Board.

From a market risk perspective this involves the investment of assets within agreed boundaries of interest, spread, credit, private equity, exchange rate and portfolio duration risk. LMIE also maintains sufficient liquidity to meet liabilities as they fall due.

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, in particular 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 portfolio as a whole.

The Investment Committee makes recommendations to the Board regarding the long term framework and short term investment strategy for the investment of LMIE’s assets. The Investment Committee’s market outlook will help inform the risk appetites that are recommended to the Board.

The investment portfolios are managed by Liberty Mutual Investments, the investment management arm of LMG, in accordance with investment guidelines approved by the Board of LSM. Limits are established regarding issue, counterparty, asset type and rating concentrations. Securities must be readily marketable.

In addition to managing market and liquidity risk through the use of risk appetites and monitoring the environment, there are specific operational processes related to the acceptance, measurement and management of market and liquidity risk exposures.

The overarching approach to the management of all operational risks is covered by the Operational Risk Policy and Internal Control Framework.

SECTION C. 3 – Credit Risk

Credit risk arises from the possibility of default by one or more counterparties. This risk is managed by carrying out appropriate due diligence on prospective counterparties, looking at the credit ratings of reinsurers and monitoring these over time (a minimum rating of ‘A’ is required for any of LMIE’s reinsurance programmes) and having in place a robust credit control system.

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

- Reinsurers – acceptance of credit concentration risk as a result of using a single reinsurance provider.
- Reinsurers – minimum credit ratings.
- Delegated authorities and brokers – due diligence process.
- Delegated authorities – limits on exposure to individual coverholders.
- Brokers – limit on Value at Risk (VaR) measure.
- Group reinsurance exposure – recoverable as proportion of capital resources.

The position against the Tier 2 risk appetites for the six areas above are monitored and reported on a quarterly basis to the RMC and Board. Tier 2 appetites are those that sit one level below the Core risk appetites which are set at the capital impact level.

LMIE’s reinsurers (both LMG and non LMG) at the time of placing the risk (i.e. during the live period of the contract) were at least of S&P A- rating or collateralised and moreover, no RI programme would be considered by LMIE with a carrier that was less than this rating, unless there was an appropriate level of security provided (e.g. collateral held) in line with LMIE’s risk appetite, the Company accepts that there will be a commensurate increase in its entity capital requirements (based on IM) due to the strategy of using LMG as a reinsurance provider and this is factored into the entity capital calculations. In addition, the RMC is provided quarterly information on ongoing Review of LMG Financial Statements and rating; LMG’s own reinsurance programme; periodic reports from LMG to board that there are no material risks likely to impact LMG credit ratings and underwriting and reserving risk exposures to LMG and related entities

In addition, the quarterly CRO report tracks the internal RI purchase as a % of GWP and LMG RI recoverable proportion to the available capital resources.

In addition to managing credit risk through the use 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 all operational risks is covered by the Operational Risk Policy and Internal Control Framework (see below).

SECTION C. 4 – Liquidity Risk

Liquidity risk refers to the possibility of LMIE having insufficient cash available to settle claims and other liabilities as they fall due.

Liquidity risk exposures are managed through the liquidity risk appetites, which focus on ensuring that highly liquid bonds 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 the assets and net-liabilities.

These appetites are managed alongside the market risk appetites, using the same procedures as outlined in the market risk section above. In particular, the liquidity risk appetites cover the following areas:

- Minimum weighting of liquid bonds;
- Maintaining a diversified and appropriately liquid portfolio aimed at minimising the mismatch in cash flows between assets and net liabilities.

Both these appetites also help meet the requirements of the ‘prudent person principle’ set out in Article 132 of the Solvency II Directive and discussed in the market risk section.

LMIE calculates expected profit in future premium (EPIFP) using a method proposed by an EIOPA task force (based on QIS5). This methodology is broken down as follows:

1. Take into account the best estimate calculation already computed, i.e. net technical provisions as at 31 December 2019;
2. Calculate a new best estimate under the assumption that no more premiums are to be received in the future, and other assumptions would be unchanged.
3. The difference between the two best estimates for homogenous risk groups (taking into account positive differences only) is the EPIFP.

Capital, liquidity and other contingency plans to mitigate risk and meet projected requirements over the planning period are deemed appropriate including under stressed conditions.

SECTION C. 5 – Operational Risk

Operational risk covers the risks arising from the failure of internal processes, people or systems, or from external events.

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

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

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

The primary mechanism for operational risk mitigation is controls, which are “a mechanism which supports the achievement of LSM'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

The Risk Management team work with control owners across the organisation to ensure that all the controls they are responsible for are appropriately documented.

A key control is one that is important to LSM or one of the legal entities at an overall level (rather than being a control which is just important for a specific function within LSM, however it is expected that there will typically be at least 1 key control for each function and risk).

Incident reporting is an important aspect of effective operational risk management. LSM allocates incidents into two categories:

- Loss event
- Near miss

A loss event is defined as an incident or occurrence that has led to loss or damage to finances, property or reputation which could impact the organisation's ability to achieve its objectives.

A near miss is defined as an event or occurrence that could have but did not result in loss or damage to finances, property or reputation which could impact the organisation's ability to achieve its objectives.

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

Magique is LMIE's Operational risk register which captures risks and controls against those risks. The Risk Management team will enter all reported incidents into Magique, in order to keep track of historical losses or near misses. This will allow oversight into areas where the aggregation of multiple incidents may give risk to a review of the controls in place.

SECTION C. 6 – Other Material Risks

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

LMIE's Risk Register 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 a number of 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. Identification of emerging risks comes from multiple sources and processes across LSM, and all identified emerging risks are recorded by the Risk Management team in the Emerging Risk Inventory.

SECTION C. 7 – Any Other Information

As part of the 2019 LMIE ORSA, the sensitivity of profits, own funds, capital requirements and solvency ratio to changes in premiums and other relevant variables was tested. This provides a forward-looking view of how the risk profile may change over the business planning horizon.

LMIE recognizes that along with the benefits of being part of the LMG there is also a risk that matters could arise in one part of the organisation that may negatively impact other parts of the organisation.

SECTION D – VALUATION FOR SOLVENCY PURPOSES

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. A number of assets and liabilities require different valuation methods to those used in the financial statements included in LMIE's financial statements for the year ended 31 December 2019.

Preparation of financial statements under Luxembourg legislation

Following LMIE's redomicile to Luxembourg on 1 March 2019, it adopted Lux GAAP and has prepared the financial statements for the year ended 31 December 2019 on this basis.

The Company continues to select US dollar as the functional currency, and for this and the next period has been granted permission by the Commissariat aux Assurances to present these financial statements in US dollars, therefore Solvency II reporting is reported in US$.

We have sought to maintain consistency with previous accounting policy where possible, and in particular have maintained the approach to valuation of the investment portfolio at fair value and recognition of defined benefit pension scheme assets and liabilities. Unrealised gains and losses in respect of the investment portfolio are now held in a revaluation reserve, net of the appropriate tax charge.

The conversion of opening balances from UK GAAP to Luxembourg accounting values resulted in a fall in shareholder equity of $3.3m, as a result of de-recognition of deferred tax assets. In addition, a number of amendments to disclosures have been made, most obviously the adoption of appropriate Luxembourg reporting formats for the key statements, and including the separate reporting of salvages and subrogations from claims in the balance sheet and technical account.

The Company is not presenting comparative information for 2018 due to the different GAAP used. In addition to this please note the functional currency the same as 2019 in US$.

The table below provides a summary of the Solvency II and the LUX GAAP valuation of assets, based on the Solvency II balance sheet headings and the Solvency II approach to classifying assets and liabilities. An explanation of the Solvency II valuation methods is provided in the following sections.

$(000)	Section	2019 Solvency II	Adjustment	2019 Statutory Accounts (Lux. GAAP)	2018 Solvency II	Adjustment	2018 Statutory Accounts (UK GAAP)	Variance	Variance %
Deferred acquisition costs	D.1.1	0	258,495	258,495	0	182,673	182,673		
Deferred tax assets		9,927	(9,927)	0	0	0	0		
Pension benefit surplus	D.1.2	8,837	0	8,837	8,943	0	8,943	(106)	-1%
Property, plant and equipment held for own use	D.1.3	0	5,292	5,292	0	6,219	6,219	0	0%
Investments	D.1.4	3,265,635	87,511	3,353,146	2,488,665	106,129	2,594,794	776,970	31%
Loans and mortgages		47,499	(636)	46,863	0	0	0	47,499	0%
Reinsurance recoverable	D.1.5	968,872	646,471	1,615,343	769,268	494,880	1,264,148	199,604	26%
Deposits to cedants	D.1.6	87,439	0	87,439	59,453	0	59,453	27,986	47%
Insurance and intermediaries receivables	D.1.7	318,575	973,086	1,291,661	109,423	768,303	877,725	209,153	191%
Reinsurance receivables	D.1.8	81,268	0	81,268	54,209	0	54,209	27,060	50%
Receivables (trade, not insurance)	D.1.9	101,669	0	101,669	45,847	0	45,847	55,823	122%
Cash and Cash equivalents	D1.10	259,433	(109,430)	150,002	420,546	(124,576)	295,970	(161,113)	-38%
Any other assets	D1.11	124,166	22,554	146,720	11,456	18,447	29,903	112,709	984%
Total Assets		**5,273,320**	**1,873,416**	**7,146,737**	**3,967,809**	**1,452,076**	**5,419,885**	**1,305,511**	**33%**
								0	
Technical Provision	D.2	3,398,114	1,552,351	4,950,465	2,591,662	1,211,514	3,803,176	806,453	31%
Deferred tax liabilities	D.3.1	20,753	(3,170)	17,583	5,979	(4,371)	1,608	14,774	247%
Insurance & intermediaries payables	D.3.3	78,572	0	78,572	47,362	0	47,362	31,210	66%
Reinsurance payables	D.3.2	0	344,880	344,880	0	261,035	261,035	0	0%
Payables (trade, not insurance)	D.3.4	180,228	0	180,228	48,184	0	48,184	132,044	274%
Any other liabilities, not elsewhere show	D.3.5	139,393	0	139,393	24,117	0	24,117	115,275	478%
Total Liabilities		**3,817,061**	**1,894,060**	**5,711,121**	**2,717,304**	**1,468,179**	**4,185,483**	**1,099,757**	**40%**
Excess of assets over liabilities		**1,456,259**	**(20,645)**	**1,435,615**	**1,250,505**	**(16,103)**	**1,234,402**	**205,754**	**16%**

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

D.1.1 Deferred acquisition costs

Acquisition costs represent commissions payable and other expenses related to the acquisition of insurance contract revenues written during the financial year. They are taken into consideration in the calculation of the Solvency II TP's, resulting in no separate asset or liability being recorded, hence, the value is Nil for Solvency II. Acquisition costs are deferred under LUX GAAP and amortised in line with the earning of the corresponding premiums.

D.1.2 Pension benefit surplus

LMIE operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of LMIE in an independently administered entity.

In addition, LMIE has a closed defined benefit pension scheme which provides retirement benefits based upon final salary. The scheme is administered by a separate board of Trustees which is legally separate from the Company.

The asset recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets as at the reporting date. The treatment is materially equivalent to the fair value required under Solvency II.

The company 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. As at 31 December 2019, the pension benefit surplus in respect of the defined benefit scheme under Solvency II valuation is $8.8m (2018: $8.9m).

D.1.3 Property, plant and equipment held for own use

Plant and equipment consist of computer equipment, fixture, fittings and office equipment. There is no active market or achievable exchange value for these assets, therefore under Solvency II the Company has elected to value the assets at Nil.

Under LUX GAAP these are valued at cost less accumulated depreciation and accumulated value adjustments.

D.1.4 Investments

The Company generates cash from its underwriting, trading and financing activities and invests the surplus cash in financial investments. These include government bonds, corporate bonds, pooled investments funds and deposits with credit institutions.

Financial Investments and cash and cash equivalents

	2019 Solvency II $(000)	2019 Solvency II valuation and classification adjustments $(000)	2019 Statutory Accounts (Lux GAAP) $(000)	2018 Solvency II $(000)	2018 Solvency II valuation and classification adjustments $(000)	2018 Statutory Accounts (UK GAAP) $(000)
Bonds						
Holdings in related undertakings	19	(0)	19	0	0	0
Government Bonds	1,052,291	(4,232)	1,048,059	659,312	0	659,312
Corporate Bonds	2,172,322	(17,670)	2,154,652	1,787,283	(18,744)	1,768,539
Collateralised securities	8,901	(17)	8,884	9,477	0	9,477
Collective Investments Undertakings	29,072	0	29,072	29,369	(15,425)	13,943
Deposits other than cash equivalents	3,029	109,430	112,460	3,225	140,299	143,524
Loans and mortgages	47,499	(636)	46,863	0	0	0
Total Investments	**3,313,133**	**86,875**	**3,400,009**	**2,488,665**	**106,129**	**2,594,794**
Cash and Cash Equivalents	259,433	(109,431)	150,002	420,546	(124,576)	295,970
Total Investments and Cash and Cash Equivalents	**3,572,566**	**-23**	**3,550,011**	**2,909,211**	**-18,447**	**2,890,764**

Solvency II requires the financial investments to be recognised in the Solvency II balance sheet using fair value principles, which includes adding the accrued interest to the value of the underlying investment. Under LUX GAAP the valuation is also at fair value, but excludes the accrued interest which is recognised in any other assets.

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

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

The following valuation hierarchy is used, 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.

All of the Company's assets are measured at fair value, therefore no measurement differences arise between Solvency II and LUX GAAP.

D.1.5 Reinsurance recoverable

Reinsurance recoverable represent the reinsurer's share of technical provisions. Refer to Section D.2 for further details on technical provisions.

D.1.6 Deposits to cedants

Solvency II requires Deposits to cedants to be reported at fair value. Fair value is considered to be equivalent to the valuation under LUX GAAP, which are stated at nominal value. Therefore, there are no valuation differences between Solvency II and LUX GAAP.

D.1.7 Insurance and intermediaries receivables

The valuation of Insurance and intermediary receivables required by Solvency II is materially equivalent to the valuation under LUX GAAP, where they are stated at their nominal value and subject to value adjustments where their recovery is compromised. Therefore, no valuation differences exist between the two.

As required by Solvency II, premiums receivable that are not yet due are re categorised to Technical Provisions' for the Solvency II balance sheet. Overdue premiums remain within 'insurance and intermediaries' receivables'.

D.1.8 Reinsurance receivables

The valuation of Reinsurance receivables required by Solvency II is materially equivalent to amortised cost required under LUX GAAP, therefore no valuation differences exist between the two. The future reinsurance premium amount is reported within the technical provisions in the solvency II balance sheet.

D.1.9 Receivables (trade, not insurance)

The valuation of Receivables (trade, not insurance) required by Solvency II is materially equivalent to the valuation under LUX GAAP, where they are stated at their nominal value and subject to value adjustments where their recovery is compromised. Therefore, no valuation differences exist between the two.

D.1.10 Cash and cash equivalents

Cash and cash equivalents in the Solvency II balance sheet consist of deposits that can be exchanged for currency on demand at par value and are valued at their par value. Cash equivalents are not recognised under Lux GAAP, whilst Cash at bank is made up of cash balances that requires less than 48 hours to withdraw. Bank accounts that requires more than 48 hours' notice are treated as Deposits This will result in presentational differences between Solvency II and LMIE financial statements.

There is no difference between the overall total cash and cash equivalent balances, however the split between cash and deposit will be different between Lux. GAAP and Solvency II.

D.1.11 Any other assets

Any other assets are made up of the following items:

Any other assets	2019 $(000)	2018 $(000)
Other Assets	122,556	1,879
Prepaid Expenses	1,610	9,578
Total	**124,166**	**11,456**

The fair value of any other assets required by Solvency II does not materially differ to the amortised cost required by Lux. GAAP, therefore no valuation differences exist between the two.

SECTION D. 2 – Technical Provisions

D.2.1 Technical Provisions by Line of Business

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 SII Directives.

The TPs consist of the claims technical provision, the premium 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 over 75% of the LMIE TPs. The Company has no Life TPs, including Periodic Payment Orders.

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

Solvency II Class of Business	Gross BEL $(000)	Reinsurance Recoverable BEL $(000)	Risk Margin $(000)	Total TP $(000)
General liability	2,071,761	-594,883	108,333	**1,585,210**
Fire and other damage to property	397,411	-149,421	21,635	**269,625**
Non-Prop RI - Casualty	195,450	-42,590	20,657	**173,517**
Credit and suretyship	182,763	-66,527	23,163	**139,399**
All Other Lines	350,424	-115,450	26,517	**261,491**
Total non-life obligation	**3,197,810**	**-968,872**	**200,305**	**2,429,242**

General Liability Insurance

The General Liability Line makes up 65% of the SII TPs. The underlying reserves for direct casualty (General Liability), Energy Liability, Financial Lines (D&O and E&O), and Professional lines contribute the majority of the TPs for this SII line. Reserves for Energy Liability and D&O have been impacted by US social inflation issues. LMIE has exited ECML and significantly reduced D&O exposures from 1.1.2020.

SII adjustments are applied to the LUX GAAP reserves (net of future premium) to obtain the SII TPs. The most material adjustments that result in an increase in the TPs when compared to the LUX GAAP reserves include:

- $108m for the Risk Margin which is highest for this line of business given the long-tailed nature of the underling business; and
- $34m for additional expense provisions and $23m for Events Not in the Data.

Fire and Other Damage to Property

The Fire and Other Damage to Property Line makes up 11% of the SII TPs. The underlying reserves for direct property and energy lines contribute the majority of the TPs for this SII line. SII adjustments are applied to the LUX GAAP reserves (net of future premium) to obtain the SII TPs. The most material adjustments that result in a small decrease in the TPs when compared to the LUX GAAP reserves include:

- $25m for the profit in the Premium Provisions; and

- Offset by $22m for the Risk Margin and $9m of additional expense provisions

Non Proportional Reinsurance Casualty

The Non-Proportional Casualty Line makes up 7% of the SII TPs. The underlying reserves for International Treaty Casualty, High Excess, Energy Liability Treaty and Financial Lines division contribute the majority of the TPs for this SII line. The US segment of High Excess, Energy Liability and D&O are impacted by US social inflation. LMIE has exited the majority of these exposures from 1.1.2020. SII adjustments are applied to the LUX GAAP reserves (net of future premium) to obtain the SII TPs. The most material adjustments that result in a decrease in the TPs when compared to the LUX GAAP reserves include:

- $17m for the profit in the Premium Provisions; and
- Offset by $21m for the Risk Margin and $3m of additional expense provisions.

Credit and Suretyship

The Credit and Suretyship Line makes up 6% of the SII TPs. The underlying reserves for direct surety, financial, political and credit risk lines contribute the majority of the TPs for this SII line. SII adjustments are applied to the UK GAAP reserves (net of future premium) to obtain the SII TPs. The most material adjustments that result in a decrease in the TPs when compared to the LUX GAAP reserves include:

- $23m for the Risk Margin and $6m of additional expense provisions.

No other Solvency II Line of Business make up more than 5% of the Company's total SII TPs, and the aggregate change relative to the LUX GAAP basis across all the other SII 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 and discounting.

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

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

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

D.2.2.2 Premium Provisions

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

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

- Earned (included in claims provisions)
- Unearned incepted
- Unincepted but legally bound (BBNI)
- Unbound

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

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

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

D.2.2.3 Definition of an Existing Contract

Under SII 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 SII 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

SII 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)

SII requires that the best estimate technical provisions be a probability weighted average of all possible future outcomes.

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

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

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

- An uplift factor is obtained by comparing the current claims best estimate to the best estimate excluding the observations beyond the 1 in 200-year point from internal analysis of reserve risk and underwriting risk.
- For claims relating to earned business the reserving risk distribution is used.
- For claims relating to premium provisions the attritional and large combined underwriting distribution is used.
- No uplift has been applied to catastrophe claims.
- The uplift factor has been applied to the undiscounted claims reserves.
- A minimum uplift is applied by line of business.

D.2.2.8 Cashflows and Discounting

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

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

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

D.2.2.9 Risk Margin

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

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

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

The Risk Margin is calculated for the whole business and allocated to SII 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 SII Valuation of Technical Provisions

The table below presents a comparison of the Company's LUX GAAP provisions to those on a SII basis as at 31 December 2019. Note that the Company's LUX GAAP reserve estimates contain margins when compared with the SII best estimate.

	Q4 2019		
	SII Basis [A] $(000)	Lux. GAAP [B] $(000)	Lux. GAAP vs. SII Basis [C] = [B] - [A] $(000)
Gross of Reinsurance			
Claims reserve (incl Risk Margin)	(4,932,483)	(3,359,452)	1,573,030
ULAE (and other SII expenses)	(102,540)	(39,434)	63,107
UPR (Net of DAC)		(1,146,111)	(1,146,111)
Future Premium Cashflows	1,636,909	973,086	(663,823)
Gross TP	**(3,398,114)**	**(3,571,911)**	**(173,797)**
Reinsurance			
Claims reserve	1,526,243	1,202,164	(324,079)
Bad Debt	(13,237)	(13,237)	0
UPR (Net of RI DAC)		279,443	279,443
Future Premium Cashflows	(544,134)	(344,880)	199,254
Reinsurance TP	**968,872**	**1,123,490**	**154,618**
Net GAAP / SII TP (including future premium)	**(2,429,242)**	**(2,448,421)**	**(19,178)**

The material differences from moving from a LUX GAAP to SII basis are:

- An increase in gross and reinsurance claims reserves as a result of moving from the LUX GAAP concept of holding a UPR to the Premium Provisions concept in SII.
- An increase in gross claims reserves as a result of holding a Risk Margin under SII being greater than the removal of the LUX GAAP reserve margin at this valuation date.
- In the RI TPs - claims reserve, an allowance for ENIDs and discounting for the time value of future cashflows partially offsetting each other at this valuation date.
- Similar to the above in the RI TPs – claims reserves, an increase in gross pipeline premium and reinsurance pipeline premiums as a result of the wider definition in SII to consider all existing, legally bound, contracts as opposed to incepted contracts under LUX GAAP.
- In the Gross TPs ULAE and other SII expenses, an increase in expense provisions under SII to cover the wider definition of all expenses that will be incurred servicing the in-force policies over their lifetime.

D.2.4 Changes in Technical Provisions from prior Reporting Period

There have been no material changes made to the relevant assumptions used compared to the previous reporting period.

There has been a change in the method to estimate the TPs from 2018 to 2019, with the 2019 TPs using the volatility adjustment to the relevant risk free interest rate term structures for discounting. The impact of this change is detailed in section D.2.8.

D.2.5 Assumptions and Use of Expert Judgement:

D.2.5.1 Future Management Actions within the Technical Provisions

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

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

D.2.5.2 Reserving Methods

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

D.2.5.3 Assumption Selection

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

D.2.5.4 Consistency with Financial Market Information

Assumptions:

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

D.2.5.5 Expert Judgement

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

D.2.6 Uncertainty associated with the Technical Provisions

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

1. For all actuarial projections there are a range of possible results. The final outcome will depend on the actual development of claims. All actuarial techniques use historical data to

predict the likely development by line of business. Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results. Whilst these are addressed as soon as they arise, such issues would include unexpected claims inflation, changes in legislation and the emergence of new types of claims.

2. Societal trends are impacting Casualty classes with exposure to the US, where there has been an increase in third party litigation funding and increased focus on social justice, which has seen elevated jury verdicts most notably in California, Illinois, Texas and Florida.

3. Actuarial techniques rely on the appropriateness of historical data. The final outcome may rely on the development of individual claims reserves. It may take a considerable length of time for these claims to settle. Long tail lines of business may not have fully developed history on which to base projections so the results will be dependent on the tail selected.

4. 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.

5. 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. Other credit and suretyship, and financial and professional lines, are sensitive to economic downturns. For these lines the ultimate claims are highly dependent on the future incidence of these events.

6. Loss Ratios used in projections may be subject to an additional degree of uncertainty in the current soft market conditions and following the significant growth of the Company's book.

7. Another feature of long-tailed casualty lines in a soft market is that they tend to exhibit a "reserving cycle" in that, for a number of reasons, there is strong empirical evidence suggesting claims development patterns show a tendency to lengthen.

8. The Company writes material and increasing amounts of business through coverholders 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.

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

10. 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.

11. 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.

12. No provision has been made in our estimates for post balance sheet events occurring after 31st December 2019.This includes the impact of Covid-19 on ultimate claims, which will be assessed during 2020.

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 been used by the Company. The table below shows the difference in the Net Technical Provisions, Own Funds, SCR and MCR when using the volatility adjustment and without the volatility adjustment. The overall impact on own funds is a $19.5m benefit when using the volatility adjustment.

$'000s	With Volatility Adjustment	Without Volatility Adjustment	Difference
Net TPs (inc Risk Margin)	2,429,242	2,453,258	24,015
Own funds	1,456,259	1,436,807	(19,452)
SCR	1,247,938	1,253,594	5,656
MCR	469,285	472,304	3,019

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 – Other Liabilities (other than Technical Provisions)

D.3.1 Deferred tax liabilities

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. Deferred tax asset or liability can be recognised on temporary difference where it is probable that they will reverse in future periods.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the reversal of the timing difference.

For Deferred tax liability under Lux. GAAP, there is no requirement to account for it. However, LMIE is only recognising deferred tax on unrealised investment gains and losses, and the unrealised gain on its pension surplus. This will not be disclosed separately on the balance sheet but shown in the provision for taxation line item. Please refer to Note 7 of the LMIE 2019 Financial Statements. SII adjustments are applied in areas such as provision for risk margin and discounting, resulting in an adjusted deferred tax amount under Solvency II.

D.3.2 Reinsurance payables

Solvency II requires reinsurance payables to be reported at fair value, the LUX GAAP reinsurance payables are held at amortised cost and are considered to be a close approximation to fair value. Therefore, there are no valuation differences between Solvency II and LUX GAAP.

D.3.3 Insurance and intermediaries payables

Solvency II requires insurance and intermediaries payables to be reported at fair value, the LUX GAAP insurance and intermediaries payables are held at their settlement value, except for loan from affiliated undertakings, which is valued at amortised costs. Therefore, there are no valuation differences between Solvency II and LUX GAAP.

D.3.4 Payables (trade, not insurance)

The valuation of Payables (trade, not insurance) required by Solvency II does not differ from the amortised cost required by LUX GAAP, therefore no valuation differences exist between the two.

D.3.5 Any other liabilities not elsewhere shown

Any other liabilities are made up of the following items:

	2019 $(000)	2018 $(000)
Accruals	84,399	13,822
Other liabilities	54,994	10,296
Total	**139,393**	**24,117**

The valuation of any other liabilities required by Solvency II does not differ from the amortised cost required by LUX GAAP, therefore no valuation differences exist between the two.

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 $15.6m 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.

SECTION E – CAPITAL MANAGEMENT

SECTION E. 1 – Own Funds

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

The purpose of own funds management is to maintain, at all times, sufficient own funds to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) with an appropriate margin in line with LMIE's Capital and Solvency risk appetite. The Company holds quarterly board meetings, in which the proportion of own funds over SCR and MCR are reviewed.

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

The solvency monitoring plan is set out below which will apply to both the Standard Formula (SF) and the Internal Model (IM) calculations. LMIE currently uses the standard formula (SF) to calculate capital requirements as its internal model (IM) is not an approved one. 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.

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

LMIE believe the selected margins above, the SF calculations are appropriate for the following reasons:

- They reflect a sufficient margin for the LMIE business model and risk profile, supported by a solvency monitoring plan (set out below);
- LMIE policyholders benefit from a guarantee from our parent company; and
- LMIE parent company has demonstrated a record of recapitalising LMIE, the directors believe that there is no reason to expect that the Company would not be recapitalised in the event that this is what is required in the future.

Business plans are prepared over a three-year time line. LMIE does not anticipate changes in future business plans that will significantly alter future capital requirements.

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

Capital Structure	2019 $(000)	2018 $(000)
Tier 1 Unrestricted		
Share Capital	290,269	290,269
Share Premium	660,000	460,000
Reconciliation Reserve	496,063	500,236
Total Available and Eligible Own Funds to meet the MCR	**1,446,332**	**1,250,505**
Tier 3		
Net deferred tax assets	9,927	
Total Available and Eligible Own Funds to meet the SCR	**1,456,259**	**1,250,505**
MCR	469,285	334,774
SCR	1,247,938	932,044
MCR Coverage Ratio	**308%**	**374%**
SCR Coverage Ratio	**117%**	**134%**

Solvency II distinguishes between basic Own Funds and ancillary Own Funds. LMIE's eligible Own Funds are all basic Own Funds.

LMIE's ordinary share capital and related share premium are classified as Tier 1 unrestricted capital and are available to meet the SCR and MCR.

The Own Funds have increased during the year as a result of a capital injection of $200m on the 29 March 2019 to support business growth of LMIE.

In addition to the above, on 8 April 2020, our Ultimate Parent, Liberty Mutual Group approved additional capital for LMIE of up to $500m. Note that this may come in several tranches and tiers depending on the need and regulatory approval. This is in support of the growth of the company and also to provide additional assurance should LMIE experience a reduction in Own Funds as a result of COVID-19.

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 to be fungible and not ring-fenced and immaterial.

The Reconciliation Reserve is made up of the remainder of the excess of assets over liabilities and classified as Tier 1 capital in accordance with the Solvency II regulations:

Description	2019 $(000)	2018 $(000)
Excess of assets over liabilities	1,456,259	1,250,505
Other basic own fund items - Ordinary share capital (gross of own shares)	(290,269)	(290,269)
Other basic own fund items - Share premium account related to ordinary share capital	(660,000)	(460,000)
Other basic own fund items - An amount equal to the value of net deferred tax assets	(9,927)	0
Reconciliation reserve	**496,063**	**500,236**

E.1.3 Own Funds changes in the period

The changes to Own Funds during the reporting period are:

	2019 $(000)	2018 $(000)
Own Funds at 1 January	**1,250,505**	**956,236**
Loss on ordinary activities after tax	(62,869)	(18,839)
Comprehensive (loss)/income for the year	65,848	(38,546)
Issue of ordinary shares	200,000	360,000
Movement in Fixed Assets Write off	927	3,583
Movements in Solvency II Adjustments to Technical Provisions	459	19,141
Movement in Solvency II Discounting Adjustments	14,487	11,475
Movement in Solvency II Risk Margin	(22,461)	(45,189)
Movement in Solvency II Deferred Tax Adjustment	11,128	2,599
Other	(1,765)	44
Own Funds at 31 December	**1,456,259**	**1,250,505**

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

LMIE prepared its financial statements for the year ended 31 December 2019 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.

Accounting policies and valuation rules are, besides the ones laid down by the law of 19 December 2002, determined and applied by the Board of Directors.

Following the redomiciliation, the conversion of opening balances from UK GAAP to Luxembourg accounting values resulted in a fall in shareholder equity of $3.3m, as a result of de-recognition of deferred tax assets.

The following table provides an explanation of the differences between LUX/UK GAAP equity and the Solvency II excess of assets over liabilities*:

	2019 $(000)	2018 $(000)
UK GAAP equity attributable to shareholders	**1,435,615**	**1,234,402**
Valuation differences:		
Solvency II valuation adjustment movements:		
Fixed assets	(5,292)	(6,219)
Technical Provisions	146,595	129,452
Discounting	89,573	75,086
Risk Margin	(200,305)	(177,844)
Deferred tax	(9,927)	(4,371)
Solvency II excess of assets over liabilities	**1,456,259**	**1,250,505**

*Note in the table above, the 2018 figures are performed under UK GAAP and 2019 are LUX GAAP.

E.1.5 Description of Deductions from Own Funds

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

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

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

The Company does not have an approved Internal Model and, as such, is required to use the Standard Formula to determine the regulatory Solvency Capital Requirement. The Company's SCR is subject to supervisory assessment.

The Company has not used undertaking specific parameters in the calculation of the standard formula Solvency Capital Requirement.

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

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

These articles are applied in the context of Article 88 on proportionality being complied with for the risk mitigation effect.

The table below shows the SCR split by risk category and in aggregate:

	YE 2019 $(000)	YE 2018 $(000)	Change $(000)	% Change %
Non-life	921,319	731,213	190,105	26%
Health	1,761	0	1,761	100%
Market	243,676	177,727	65,949	37%
Counterparty	255,156	132,409	122,747	93%
Operational	95,934	72,415	23,520	32%
Div. benefits/Tax offset	(269,908)	(181,719)	(88,189)	49%
SCR	**1,247,938**	**932,044**	**315,894**	**34%**
MCR	**469,285**	**334,774**	**134,511**	**40%**

Overall, the SCR has increased by 34% or $316m over the year.

Key drivers of change are as follows:

- Non life underwriting risk has gone up in line with material growth in technical provisions and written premiums, aligned with general growth in business underwritten on LMIE – see MCR table below.
- Market risk has also increased driven by Currency risk and larger investments in Euro denominated assets;
- The Counterparty default risk increase is a function of increasing overdue premium debtors' exposures overdue by more than 3 months;

The MCR has increased by 40%. The table below shows the MCR inputs by Solvency II line of business and how they have changed over the year:

	TP Factor	Premium Factor	2019			2018		
SII Classes			Net TPs $(000)	NWP $(000)	MCR Charge $(000)	Net TPs $(000)	NWP $(000)	MCR Charge $(000)
Medical expense	4.7%	4.7%	2,687	5,879	403	0	0	0
Income protection	13.1%	8.5%	1,041	3,590	442	0	0	0
Workers' compensation	10.7%	7.5%	0	0	0	0	0	0
Motor vehicle liability	8.5%	9.4%	40,816	20,098	5,359	24,989	126	2,136
Other motor	7.5%	7.5%	2,079	4,149	467	134	269	30
Marine, aviation and transport	10.3%	14.0%	63,847	108,048	21,703	88,914	30,122	13,375
Fire and other damage to property	9.4%	7.5%	247,990	418,137	54,671	220,342	255,369	39,865
General liability	10.3%	13.1%	1,476,877	625,507	234,060	1,149,516	589,887	195,675
Credit and suretyship	17.7%	11.3%	116,236	241,827	47,900	73,550	236,518	39,745
Legal expenses	11.3%	6.6%	0	0	0	0	0	0
Assistance	18.6%	8.5%	0	0	0	0	0	0
Miscellaneous financial loss	18.6%	12.2%	86,602	64,183	23,938	6,200	21,671	3,797
Non-proportional health	18.6%	15.9%	1,616	3,931	926	0	0	0
Non-proportional casualty	18.6%	15.9%	152,860	37,181	34,344	64,723	77,312	24,331
Non-proportional marine, aviation and transport	18.6%	15.9%	7,008	17,084	4,020	7,550	8,341	2,731
Non-proportional property	18.6%	15.9%	29,278	223,949	41,053	8,630	72,224	13,089
Total			**2,228,938**	**1,773,561**	**469,285**	**1,644,550**	**1,291,839**	**334,774**

* NWP are zeroised for the purpose of deriving the MCR charge if negative.

The main driver of change in the MCR year on year are the 37% increase in NWP and the 36% increase in Net TPs from 2018 to 2019 due to planned growth in LMIE.

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

This section is not applicable.

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

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

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

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

SECTION E. 6 – Any Other Information

On 8 April 2020, our Ultimate Parent, Liberty Mutual Group approved additional capital for LMIE of up to $500m. Note that this may come in several tranches and tiers depending on the need and regulatory approval. This is in support of the growth of the company and also to provide additional assurance should LMIE experience a reduction in Own Funds as a result of COVID-19.

GLOSSARY OF TERMS

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

APPENDIX A – QRT'S

All QRT's are $000's

List of Reported Templates:

S.02.01.02 - Balance sheet

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

S.05.02.01 - Premiums, claims and expenses by country

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

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

S.23.01.01 - Own Funds

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

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

S.02.01.02 – Balance Sheet – Assets

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	9,927
R0050	Pension benefit surplus	8,837
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	3,265,635
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	19
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	3,233,514
R0140	*Government Bonds*	1,052,291
R0150	*Corporate Bonds*	2,172,322
R0160	*Structured notes*	0
R0170	*Collateralised securities*	8,901
R0180	*Collective Investments Undertakings*	29,072
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	3,029
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	47,499
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	47,499
R0270	Reinsurance recoverables from:	968,872
R0280	*Non-life and health similar to non-life*	968,872
R0290	*Non-life excluding health*	969,510
R0300	*Health similar to non-life*	-638
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	87,439
R0360	Insurance and intermediaries receivables	318,575
R0370	Reinsurance receivables	81,268
R0380	Receivables (trade, not insurance)	101,669
R0390	Own shares (held directly)	
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	259,433
R0420	Any other assets, not elsewhere shown	124,166
R0500	**Total assets**	5,273,320

S.02.01.02 – Balance Sheet – Liabilities

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,398,114
R0520	*Technical provisions - non-life (excluding health)*	3,393,293
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	3,193,103
R0550	*Risk margin*	200,190
R0560	*Technical provisions - health (similar to non-life)*	4,822
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	4,707
R0590	*Risk margin*	115
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*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	20,753
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	78,572
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	180,228
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	139,393
R0900	**Total liabilities**	3,817,061
R1000	**Excess of assets over liabilities**	1,456,259

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

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	868	2,901		241	15,156	124,087	230,368	745,377	178,147			95,172					1,392,318
R0120	Gross - Proportional reinsurance accepted	50	313		3,460	865	6,646	267,764	95,499	89,168			2,460					466,226
R0130	Gross - Non-proportional reinsurance accepted													2,026	133,936	19,218	115,211	270,391
R0140	Reinsurers' share	311	1,101		1,923	9,960	49,355	104,081	201,462	77,330			36,423	762	66,689	6,974	7,662	564,031
R0200	Net	607	2,113		1,779	6,061	81,378	394,052	639,414	189,985			61,209	1,264	67,248	12,245	107,549	1,564,904
	Premiums earned																	
R0210	Gross - Direct Business	608	2,022		82	10,313	96,717	188,695	648,114	126,793			89,814					1,163,158
R0220	Gross - Proportional reinsurance accepted	35	217		3,102	776	4,803	247,901	77,595	75,308			2,416					412,153
R0230	Gross - Non-proportional reinsurance accepted													1,336	120,433	24,816	116,010	262,596
R0240	Reinsurers' share	226	825		1,581	6,798	40,589	104,818	159,897	74,400			32,047	705	52,496	11,426	26,496	512,306
R0300	Net	418	1,413		1,603	4,290	60,932	331,777	565,812	127,702			60,182	631	67,937	13,390	89,514	1,325,600
	Claims incurred																	
R0310	Gross - Direct Business	322	1,005		1,634	19,086	54,331	107,049	681,172	81,564			23,982					970,144
R0320	Gross - Proportional reinsurance accepted	19	99		3,380	845	5,823	162,907	67,588	45,501			1,183					287,344
R0330	Gross - Non-proportional reinsurance accepted													239	155,306	17,416	70,734	243,695
R0340	Reinsurers' share	135	428		1,861	11,843	28,429	62,694	287,128	51,518			6,418	30	62,971	8,228	12,334	534,019
R0400	Net	205	677		3,153	8,088	31,725	207,262	461,632	75,547			18,747	208	92,335	9,187	58,400	967,164
	Changes in other technical provisions																	
R0410	Gross - Direct Business					0	0	0	0	0			0					0
R0420	Gross - Proportional reinsurance accepted					0	0	0	0	0			0					0
R0430	Gross - Non-proportional reinsurance accepted													0	0	0	0	0
R0440	Reinsurers' share					0	0	0	0	0			0	0	0	0	0	0
R0500	Net	0	0		0	0	0	0	0	0			0	0	0	0	0	0
R0550	**Expenses incurred**	76	259		531	1,059	22,756	114,876	206,465	51,655			36,490	145	20,051	5,665	40,731	500,758
R1200	**Other expenses**																	0
R1300	**Total expenses**																	500,758

S.05.02.01 – Premiums, claims and expenses by country

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			GB	FR	DE	NL	ES	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	7,532	681,036	71,984	59,492	42,767	76,541	939,351
R0120	Gross - Proportional reinsurance accepted	0	164,979	132,777	60,241	10,028	33,730	401,756
R0130	Gross - Non-proportional reinsurance accepted	1,513	106,652	49,008	62,575	11,044	25,524	256,317
R0140	Reinsurers' share	2,713	266,783	64,892	68,634	15,873	30,930	449,826
R0200	Net	6,331	685,884	188,878	113,674	47,966	104,864	1,147,598
	Premiums earned							
R0210	Gross - Direct Business	5,160	669,551	68,958	48,058	50,374	65,780	907,880
R0220	Gross - Proportional reinsurance accepted	0	185,951	107,195	50,738	9,943	21,439	375,266
R0230	Gross - Non-proportional reinsurance accepted	1,453	109,280	46,948	56,631	2,888	12,902	230,101
R0240	Reinsurers' share	1,984	283,435	47,877	61,067	15,342	23,991	433,695
R0300	Net	4,629	681,347	175,223	94,359	47,863	76,131	1,079,552
	Claims incurred							
R0310	Gross - Direct Business	1,558	724,192	46,935	29,704	34,912	42,844	880,145
R0320	Gross - Proportional reinsurance accepted	0	99,458	80,296	34,499	4,351	14,061	232,665
R0330	Gross - Non-proportional reinsurance accepted	213	145,241	17,588	41,472	4,802	3,359	212,675
R0340	Reinsurers' share	777	407,509	38,129	34,626	9,283	18,715	509,039
R0400	Net	994	561,381	106,690	71,049	34,782	41,550	816,445
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0440	Reinsurers' share	0	0	0	0	0	0	0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	689	202,092	72,415	55,603	22,011	40,404	393,212
R1200	**Other expenses**							
R1300	**Total expenses**							393,212

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
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
Technical provisions calculated as a sum of BE and RM																	
Best estimate																	
Premium provisions																	
R0060 Gross	1,361	371		249	-418	5,117	-55,316	14,958	-72,333			60,012	737	-20,675	-14,586	-63,534	-144,057
R0140 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-385	-289		-548	-3	-9,718	-30,671	-47,336	-50,326			2,442	-399	-3,474	-2,127	-20,575	-163,411
R0150 **Net Best Estimate of Premium Provisions**	1,746	660		797	-416	14,835	-24,645	62,294	-22,007			57,571	1,137	-17,200	-12,459	-42,959	19,354
Claims provisions																	
R0160 Gross	1,168	523		67,688	5,465	88,718	452,727	2,056,803	255,097			55,923	547	216,125	42,735	98,348	3,341,867
R0240 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	227	141		27,669	2,971	39,707	180,092	642,220	116,853			26,891	67	46,065	23,268	26,112	1,132,283
R0250 **Net Best Estimate of Claims Provisions**	941	382		40,019	2,495	49,012	272,634	1,414,583	138,244			29,031	480	170,060	19,467	72,236	2,209,584
R0260 **Total best estimate - gross**	2,529	894		67,937	5,047	93,835	397,411	2,071,761	182,763			115,935	1,284	195,450	28,149	34,814	3,197,810
R0270 **Total best estimate - net**	2,687	1,041		40,816	2,079	63,847	247,990	1,476,877	116,236			86,602	1,616	152,860	7,008	29,278	2,228,938
R0280 **Risk margin**	28	35		2,911	209	4,453	21,635	108,333	23,163			5,345	52	20,657	4,084	9,400	200,305
Amount of the transitional on Technical Provisions																	
R0290 Technical Provisions calculated as a whole	0	0		0	0	0	0	0	0			0	0	0	0	0	0
R0300 Best estimate	0	0		0	0	0	0	0	0			0	0	0	0	0	0
R0310 Risk margin	0	0		0	0	0	0	0	0			0	0	0	0	0	0
R0320 **Technical provisions - total**	2,557	929		70,848	5,256	98,288	419,046	2,180,093	205,926			121,280	1,336	216,107	32,233	44,214	3,398,114
R0330 **Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-158	-148		27,121	2,968	29,989	149,421	594,883	66,527			29,333	-332	42,590	21,141	5,537	968,872
R0340 **Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	2,715	1,076		43,728	2,288	68,299	269,625	1,585,210	139,399			91,947	1,669	173,517	11,092	38,677	2,429,242

S.19.01.21 – Non-Life Insurance Claims

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

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

		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											18,982	18,982	18,982
R0160	2010	3,381	29,562	37,820	50,848	105,121	31,310	20,547	6,305	988	722		722	286,603
R0170	2011	10,087	68,521	63,873	38,864	34,795	33,568	16,620	3,943	1,924			1,924	272,196
R0180	2012	25,046	60,949	99,348	65,122	41,548	28,381	11,250	7,371				7,371	339,014
R0190	2013	17,212	74,967	60,539	64,346	33,496	34,041	17,295					17,295	301,898
R0200	2014	66,641	129,845	52,024	46,284	43,203	90,652						90,652	428,650
R0210	2015	34,045	185,590	109,201	101,171	112,489							112,489	542,496
R0220	2016	34,346	158,420	95,980	56,512								56,512	345,258
R0230	2017	33,525	182,411	138,590									138,590	354,526
R0240	2018	20,984	146,789										146,789	167,773
R0250	2019	21,151											21,151	21,151
R0260												Total	612,479	3,078,548

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											155,718	152,267
R0160	2010	0	0	0	0	0	0	49,643	36,970	24,395	23,140		22,672
R0170	2011	0	0	0	0	0	114,395	87,034	77,376	59,090			58,326
R0180	2012	0	0	0	0	154,816	115,651	84,678	87,212				85,208
R0190	2013	0	0	0	232,520	195,322	110,874	102,939					101,473
R0200	2014	0	0	382,378	327,934	272,620	186,201						180,787
R0210	2015	0	491,633	513,762	423,105	361,400							351,320
R0220	2016	333,323	537,030	422,228	353,254								346,027
R0230	2017	452,179	591,807	613,871									599,020
R0240	2018	360,447	716,615										701,373
R0250	2019	763,709											743,394
R0260												Total	3,341,867

S.22.01.01 – Impact of Long term guarantees measures and transitionals

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	3,398,114	0	0	33,430	0
R0020	Basic own funds	1,456,259	0	0	-19,452	0
R0050	Eligible own funds to meet Solvency Capital Requirement	1,456,259	0	0	-19,452	0
R0090	Solvency Capital Requirement	1,247,938	0	0	5,656	0
R0100	Eligible own funds to meet Minimum Capital Requirement	1,446,332	0	0	-19,452	0
R0110	Minimum Capital Requirement	469,285	0	0	3,019	0

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)	290,269	290,269		0	
R0030	Share premium account related to ordinary share capital	660,000	660,000		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	496,063	496,063			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	9,927				9,927
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	0	0	0	
R0290	**Total basic own funds after deductions**	1,456,259	1,446,332	0	0	9,927
	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	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,456,259	1,446,332	0	0	9,927
R0510	Total available own funds to meet the MCR	1,446,332	1,446,332	0	0	
R0540	Total eligible own funds to meet the SCR	1,456,259	1,446,332	0	0	9,927
R0550	Total eligible own funds to meet the MCR	1,446,332	1,446,332	0	0	
R0580	**SCR**	1,247,938				
R0600	**MCR**	469,285				
R0620	**Ratio of Eligible own funds to SCR**	116.69%				
R0640	**Ratio of Eligible own funds to MCR**	308.20%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	1,456,259
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	960,196
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	496,063
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	308,755
R0790	**Total Expected profits included in future premiums (EPIFP)**	308,755

S.25.01.21 – Solvency Capital Requirement – Standard Formula

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	243,676		
R0020	Counterparty default risk	255,156		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	1,761		
R0050	Non-life underwriting risk	921,319		
R0060	Diversification	-259,082		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	1,162,829		

USP Key

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

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

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	95,934
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-10,826
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**	1,247,938
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	1,247,938
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

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

S.28.01.01 – Minimum Capital Requirement

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	469,285

		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	2,687	5,879
R0030	Income protection insurance and proportional reinsurance	1,041	3,590
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	40,816	20,098
R0060	Other motor insurance and proportional reinsurance	2,079	4,149
R0070	Marine, aviation and transport insurance and proportional reinsurance	63,847	108,048
R0080	Fire and other damage to property insurance and proportional reinsurance	247,990	418,137
R0090	General liability insurance and proportional reinsurance	1,476,877	625,507
R0100	Credit and suretyship insurance and proportional reinsurance	116,236	241,827
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	86,602	64,183
R0140	Non-proportional health reinsurance	1,616	3,931
R0150	Non-proportional casualty reinsurance	152,860	37,181
R0160	Non-proportional marine, aviation and transport reinsurance	7,008	17,084
R0170	Non-proportional property reinsurance	29,278	223,949

	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	469,285
R0310	SCR	1,247,938
R0320	MCR cap	561,572
R0330	MCR floor	311,984
R0340	Combined MCR	469,285
R0350	Absolute floor of the MCR	4,127
R0400	**Minimum Capital Requirement**	469,285