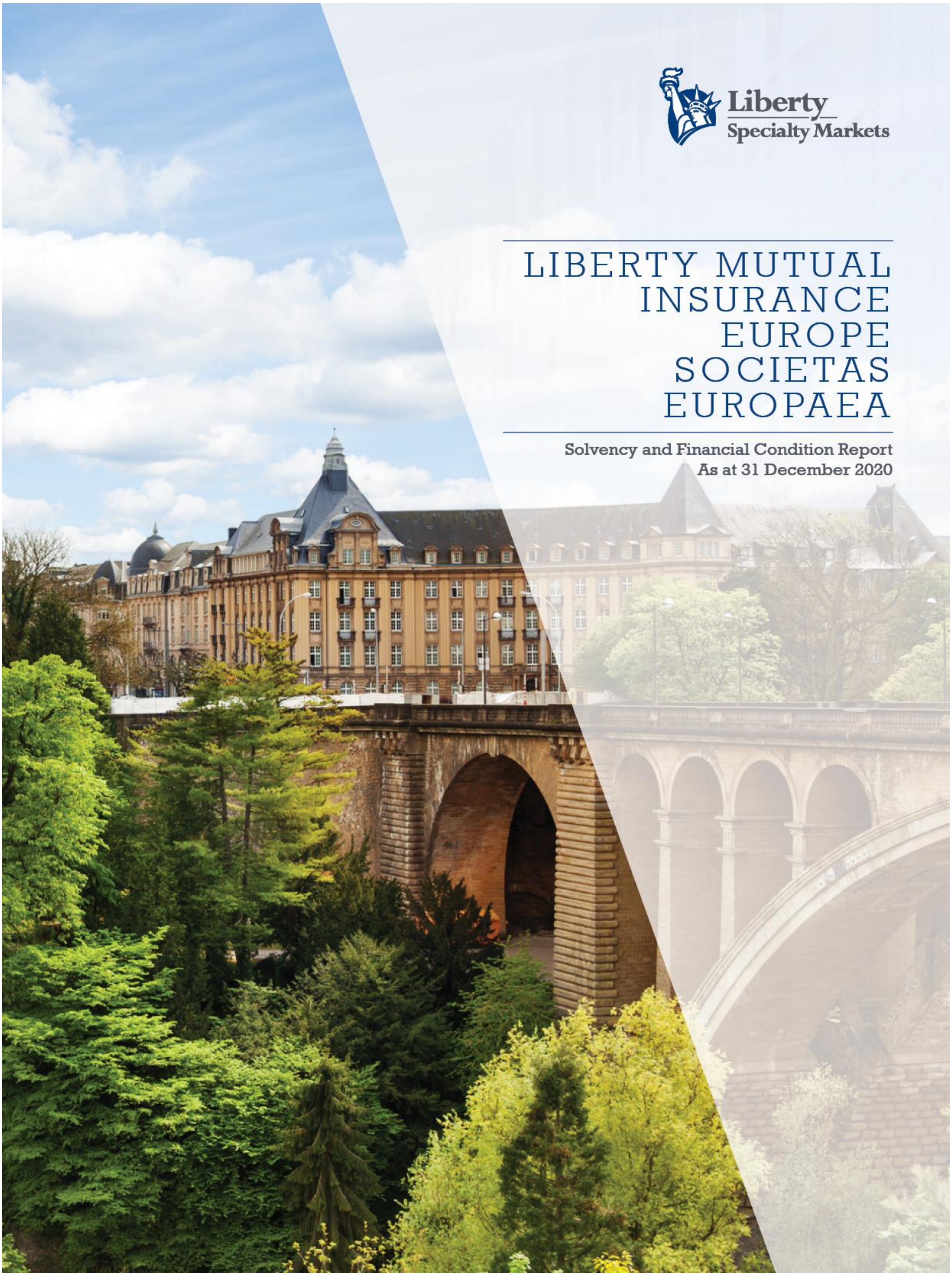

Liberty
Specialty Markets
LIBERTY MUTUAL INSURANCE EUROPE SOCIETAS EUROPAEA
Solvency and Financial Condition Report
As at 31 December 2020

Liberty Mutual Insurance Europe Societas Europaea

Solvency and Financial Condition Report
As at 31 December 2020

Contents

SUMMARY

Introduction

Liberty Mutual Insurance Europe Societas Europaea ("LMIE" also referred to as "the Company") is headquartered in Luxembourg. It is required to submit the 2020 annual Quantitative Reporting Templates (QRTs) and narrative reporting templates to the Commissariat aux Assurances (CaA) on 7th April 2021 as part of the Solvency II year-end reporting requirements.

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

Business summary

LMIE is part of the Liberty Mutual Insurance group, which employs more than 50,000 people in over 800 offices throughout the world. Through its subsidiaries and affiliated companies, it offers a wide range of property and casualty insurance products and services to individuals and businesses alike.

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

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

LMIE has been operating from its headquarters in Luxembourg since 1st March 2019. Following the incorporation of the Company as a SE, the Share capital was registered and subscribed in Euros. For 2019, LMIE was granted permission by the CaA to present the LMIE financial statements in US dollars. With effect from 1 January 2020 the Company changed its presentational currency to Euros and has therefore retranslated the opening reserves as at that date using the historic average rate, resulting in an initial provision of €137.9m. Further details are provided in Section D.

Since 1 January 2021, LMIE UK Branch is operating within the UK Temporary Permissions Regime and (TPR). The UK Branch is deemed authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority (registered number 829959).

The TPR allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation. The UK Branch application has been submitted to the PRA with a request for full authorisation for Q1 2022.

As part of the Brexit strategy, LMIE has established and licensed in-house cover holders in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME) & Liberty Specialty Markets Europe Sarl 2 (LSME2), which act as intermediary companies that underwrite on behalf of LMIE and Liberty Syndicate 4472 from their branches throughout Europe.

COVID-19

The ongoing COVID-19 global pandemic has made 2020 an exceptionally challenging period for our people, our customers and economies around the world. LMIE has demonstrated resilience and strength during this challenging time. LMIE continues to pay out claims to its customers impacted, and internally continues to support working from home for its staff. The pandemic has been treated as an event under LSM's Business Continuity Plan with effect from 24 February 2020. Management has continuously monitored, reviewed and assessed the impacts of the disruption caused by COVID-19 on LMIE for the year ended 31 December 2020.

A) Underwriting Exposure

The impact of COVID-19 losses on the underwriting portfolio was continually assessed during the year. An ad-hoc COVID-19 ORSA report was produced outside the normal ORSA reporting cycle, which ultimately helps inform capital planning. Any movements in COVID-19 losses, as discussed in Section A.1, continue to be carefully tracked through the claims and reserving process.

Specific underwriting measures were taken in response to COVID-19, including the introduction of pandemic wording exclusions. For the 2021 business planning cycle, the impact of COVID-19 was considered in relation to each line of business, both in terms of expected premium levels and loss ratios. This was subject to robust challenge at the executive and non-executive level.

B) Investment Portfolio and Economic Activity

LMIE's investment portfolio predominately consists of fixed income assets. The spreads widened at the onset of COVID-19 during Q1 2020 leading to a decrease in the market value of such assets. The spreads on these assets narrowed by the end of the year.

Given that LMIE's functional currency is USD, it was exposed to increased volatility in relation to FX rates as the US Dollar weakened against the Euro over the course of the year. Management has taken steps to continue to ensure that the LMIE balance sheet remains relatively well matched.

C) Financial Strength

As part of LMIE's ongoing capital monitoring and following the emergence of COVID-19 and the higher-than-anticipated premium performance in 2020, LMHC has injected additional capital of €577m ($675m) during 2020. In addition, a €347m ($425m) Ancillary Own Funds (AOF) facility has been approved by the CaA. LMIE thus remains well capitalised to withstand the impacts of COVID-19.

The Revolving Loan Agreement between LMIE and Liberty Mutual Insurance Company (LMIC) is the entity's most material liquidity line. As such it is held within the Liberty Group, rather than with external banks and credit institutions. LMIC is currently confident that these facilities can be met if required. We do not envisage that LMIE will need to draw down the liquidity or overdraft facilities at this time.

D) Business Continuity Planning

LMIE's Business Continuity Plan has been triggered since February 2020, and all staff are currently working remotely. A specific COVID-19 executive meeting has been set up, which meets on a bi-weekly basis. In addition to the underwriting factors mentioned above, this forum considers the operational impact on people, processes and systems to ensure these are in place, such that the entity continues to deliver a high level of service to brokers, clients and other external stakeholders.

Currently, there are no material uncertainties related to COVID-19 that may cast significant doubt about the ability of LMIE to continue as a going concern. The company's risk management activities are performed in a controlled fashion that is consistent with the Board's appetite and its available capital capacity while retaining the ability to implement its long-term business plans. Management will continue to monitor the pandemic closely and take action where necessary.

Business and performance

Branches and offices

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

2020 Financial Performance

The Company's key financial performance indicators for the year ended 31 December 2020 were as follows:

Key Performance Indicators	2020 €'000	2019 €'000	Variance	Variance
	Lux GAAP	Lux GAAP	€'000	%
Gross Written Premiums	2,480,765	1,901,884	578,881	30%
Net Earned Premiums	1,500,728	1,184,224	316,503	27%
Net Incurred Claims	1,101,534	891,721	209,813	24%
Expenses	487,737	414,026	73,711	18%
Underwriting Result	(89,176)	(121,522)	32,346	-27%
Net Claims Ratio %	73.4%	75.3%		-1.9%
Net Expense Ratio %	32.6%	35.0%		-2.4%
Net Combined ratio % (i)	105.9%	110.3%		-4.4%

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

Underwriting performance

LMIE's underwriting result for 2020 represents an improvement of €33.3m on 2019, partially driven by the improvement in the claims ratio of 1.9%. Although the net claims incurred are higher than the prior year by €209.4m, this is offset against an increased premium base leading to the improvement in the net claims ratio.

Claims incurred in relation to catastrophe events increased to 4.6%, driven by COVID-19 losses, compared to 0.4% in 2019. In the final quarter of 2020, reserves on prior year catastrophe losses were strengthened by €6.6m on Grenfell Tower & Typhoon Hagibis.

The attritional loss ratio has significantly improved year on year to 68.3% (2019: 74.9%). Attritional losses are higher in total but are less in proportion to overall premium volume.

The improvement in the underwriting result for 2020 compared to 2019 is also partially driven by a 2.3% reduction in the expense ratio. This can be attributed to premium growth moving faster than the expense base, as well as from savings on travel and entertainment expenses in the face of the COVID-19 pandemic.

Investment Performance

LMIE's investment portfolio generated a return of €96.6m in 2020. This strong performance was €18.8m /25% more than the prior year, largely driven by higher realised gains compared to 2019. Note that the investment performance on a Solvency II basis also includes unrealised gains, which are reported in the revaluation reserve in the financial statements. Further details are provided in Section A.3.

Review of financial position

Financial position	2020 €m	2019 €m
Gross technical provisions	5,389	4,426
Ceded technical provisions	1,881	1,439
Investments and cash	4,109	3,199
Shareholders' funds	1,765	1,139

Gross technical provisions on a Lux GAAP basis increased by €964m to €5,389m due to growth in the business and reserve strengthening. The increase in reinsurers' share of technical provisions was commensurate with the increase in the gross figures.

The capital injection of €577m ($675m) during the year, along with growth in business and the recognition of unrealised gains in the investment portfolio led to the increase of €625m in Shareholders' funds. Movements in capital on a Solvency II basis are discussed in the Capital Management sub-section, and a reconciliation of Shareholders' funds under GAAP to Solvency II net assets is provided in Section E.

System of Governance

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

Directors

The following individuals served as Directors of LMIE from 1 January 2020 to the date of this report, unless otherwise indicated:

Directors	
Dirk Billemon	Authorised General Manager and Director (appointed 26 February 2020)
Graham Brady	Director
Nigel Davenport	Director
Fernand Grulms	Independent Non-Executive Director
Christopher Hanks	Independent Non-Executive Director
Pierre Hentgen	Independent Non-Executive Director (appointed 2 October 2020)
Philip Hobbs	Director

Virginie Lagrange	Independent Non-Executive Director (appointed 2 October 2020)
Matthew Moore	Director (appointed 26 November 2020)
Keith Nicholson	Independent Non-Executive Director (resigned 30 September 2020)
Richard Reid	Independent Non-Executive Director (resigned 30 September 2020)
Christian Rola	Director (appointed 11 December 2020)

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

- Audit Committee
- Risk Management Committee
- Nomination Committee
- Remuneration Committee
- Investment Committee (disbanded as of 10 September 2020)**,** duties divided amongst the CFO Committee, Risk Management Committee and Board

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

The governance structure is reviewed on an annual basis by the Company Secretary in order to ensure that it is effective and appropriate for the organisation. Apart from disbandment of the Investment Committee and the re-distribution of its duties amongst the CFO Committee, Risk Management Committee and Board, there have been no other material changes in the system of governance during the year.

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

Risk profile

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

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

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

- Underwriting risk
- Market risk
- Credit risk

- Liquidity risk
- Operational risk
- Other material risks

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

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

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

Valuation for solvency purposes

Following re-domiciliation to Luxembourg, LMIE adopted Luxembourg GAAP (Lux GAAP) in 2019 and has continued to prepare its annual financial statements for the year ended 31 December 2020 on this basis. The financial statements are being presented in EUR with effect from 1 January 2020.

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

Capital management

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

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

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

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

As at 31 December 2020, LMIE had eligible own funds of €1,971m (2019: €1,297m) and an SCR of €1,381m (2019: €1,112m). The increase in own funds was primarily due to capital injections totalling €577m ($675m) during 2020 to support the company's growth plans, and the approval of ancillary own funds of €347m ($425m). For 2020, this provides a Solvency Capital Ratio of 143%, 18% above the company's risk appetite for coverage of 125%.

Capital Structure		2020 €'000	2019 €'000
Share Capital		255,424	255,424
Share Premium	E.1.2.a	1,098,434	521,105
Reconciliation Reserve	E.1.2.d	255,538	511,965
Available and Eligible Own Funds (for MCR Coverage)		1,609,396	1,288,494
MCR		573,505	418,072
MCR Coverage Ratio		**281%**	**308%**
An amount equal to the value of net deferred tax assets		13,970	8,844
Ancillary Own Funds	E.1.2b	347,348	
Available and Eligible Own Funds (for SCR Coverage)		**1,970,715**	**1,297,338**
SCR		1,380,554	1,111,750
SCR Coverage Ratio		**143%**	**117%**

A Capital Working Group reporting to the LSM CFO has been established during the year. It is tasked with monitoring the Solvency II ratio and managing the efficiency of LMIE's capital. During the year, several capital remediation measures have been implemented which are described in more detail in Section E.2. The Capital Working Group will continue to investigate strategic capital solutions and provide updates to the Board to further improve LMIE's solvency position

DIRECTORS' STATEMENT

Approval by the Liberty Mutual Insurance Europe SE (LMIE) Board of Directors of the Solvency and Financial Condition Report for the financial year ended 31st December 2020

The Solvency II Directive, the Delegated Acts, related Implementation Rules, Technical Standards and Guidelines, as well as CaA rules provide the regulatory framework in which Liberty Mutual Insurance Europe SE operated in 2020. The Directors are responsible for preparing the SFCR in accordance with the regulatory framework.

Liberty Mutual Insurance Europe SE has complied with all Solvency II requirements throughout the financial year 2020. Furthermore, Liberty Mutual Insurance Europe SE reasonably believes that it will continue to comply with the Solvency II requirements for the foreseeable future.

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

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

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

Christian Rola

On behalf of the board.

Christian Rola

Director

7 April 2021


Liberty
Specialty Markets
BUSINESS &
PERFORMANCE

SECTION A - BUSINESS AND PERFORMANCE

This section of the report sets out the details regarding the company's business structure, key operations, market position and the financial performance for 2020.

Key elements of the section are:

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

SECTION A.1 – Business Information

A.1.1 Name and legal form of the undertaking

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

The immediate parent Company is Liberty Specialty Markets Holdco S.L.U (LSMH). LSMH was transferred from Liberty UK Holdings to Liberty International US European Holdings LLC, then to Liberty International European Holdings, S.L.U. on 22 December 2020.

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.U (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 2020.

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). The proposed UK third country branch will also fall under the jurisdiction of the PRA.

Bank of England
Threadneedle St.
London, EC2R 8AH

LMIE consolidates into the Spanish Entity Liberty International European Holding S.L.U (LIEH) 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, and is assisted by Subgroup Colleges of Supervisors for the coordination of supervisory activities.

The LIEH College of Supervisors includes the PRA, DGS, Central Bank of Ireland (CBI) and the Autoridade de Supervisao de Seguros e Fundos et Pensiones (ASF, Portuguese Supervisor). Following Brexit, the PRA is excluded from the College of Supervisors.

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

A.1.3 Name of the external auditor

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

A.1.4 Holders of qualifying holdings

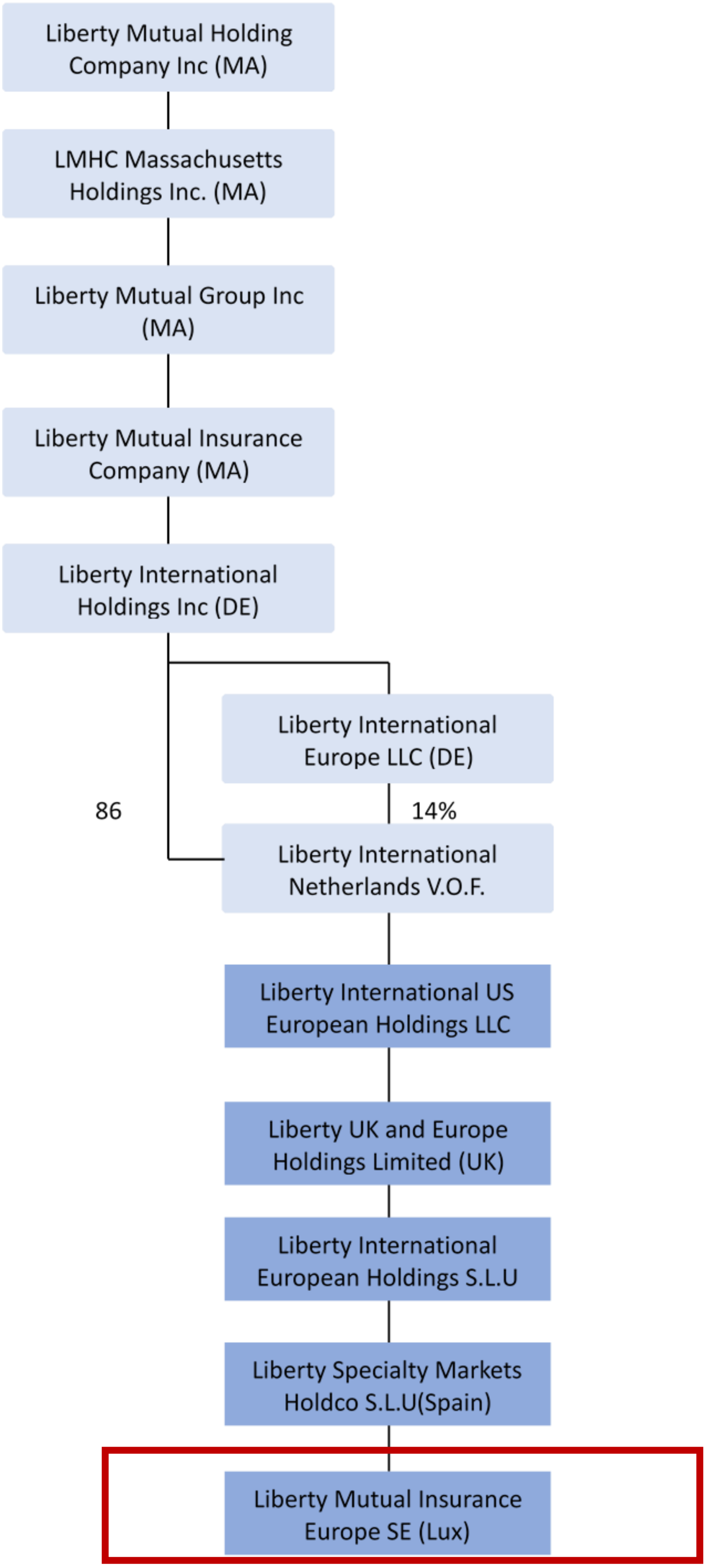
LMIE is wholly owned by the immediate parent company, Liberty Specialty Markets Holdco SL.

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:

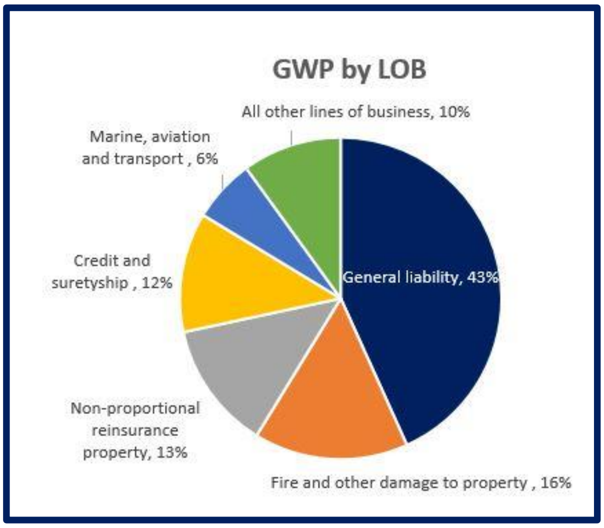
1. Liberty Mutual Insurance Company
2. Liberty Mutual Fire Insurance Company
3. Employers Insurance of Wausau and
4. Liberty Mutual Personal Insurance Company

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.

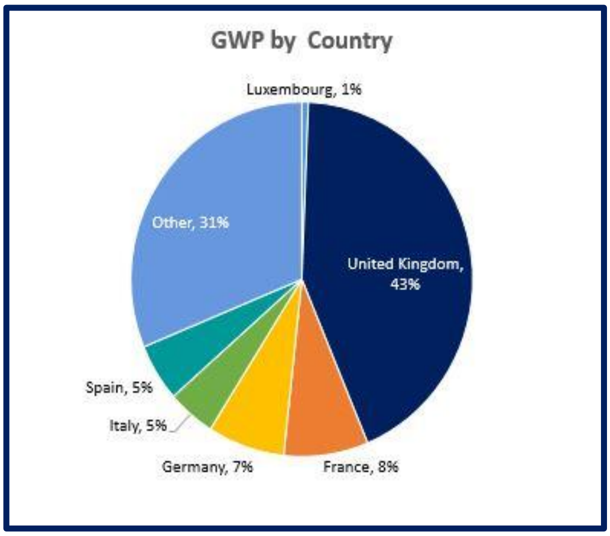

Liberty Mutual Holding Company Inc (MA)
LMHC Massachusetts Holdings Inc. (MA)
Liberty Mutual Group Inc (MA)
Liberty Mutual Insurance Company (MA)
Liberty International Holdings Inc (DE)
Liberty International Europe LLC (DE)
86
14%
Liberty International Netherlands V.O.F.
Liberty International US European Holdings LLC
Liberty UK and Europe Holdings Limited (UK)
Liberty International European Holdings S.L.U
Liberty Specialty Markets Holdco S.L.U(Spain)
Liberty Mutual Insurance Europe SE (Lux)

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



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

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



Since 1st March 2019, the Company has operated with its Head Office in Luxembourg, as well as through a branch structure in the UK and mainland Europe, consisting of Spain, France, Switzerland, Germany, Netherlands, Ireland, Belgium and Italy.

The exhibit alongside represents the split of GWP by major country and shows that the United Kingdom is the highest contributor to GWP using the country allocation basis set out by Solvency II.

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

Brexit and PRA Third country branch application

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).

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

Since 1 January 2021, LMIE UK Branch (is operating within the UK Temporary Permissions Regime and (TPR). The UK Branch is deemed authorised by the PRA and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (registered number 829959).

The TPR allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation. The UK Branch application has been submitted to the PRA with a request for full authorisation for Q1 2022.

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 Third Country Branch 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 while acting as the first line of defence for managing risk within its jurisdiction, while operating under the regulatory supervision of the PRA.

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

SECTION A. 2 – Underwriting Performance

A.2.1 Underwriting performance for the year ended 31 December 2020

LMIE's underwriting performance on a Lux GAAP basis is summarised in the table below for the years ended 31 December 2020 and 2019.

Key Performance Indicators	2020 €'000	2019 €'000	Variance €'000	Variance %
Gross Premiums Written	2,480,765	1,901,884	578,881	30.4%
Net Earned Premium	1,500,727	1,184,225	316,502	26.7%
Net Claims Incurred (i)	1,101,411	891,990	209,421	23.5%
Net Expenses Incurred (i)	488,494	414,756	73,738	17.8%
Underwriting Loss	(89,178)	(122,520)	33,342	-27.2%
Profit / (Loss) before taxation	22,026	(44,470)	66,496	-149.5%
Net Claims Ratio %	73.4%	75.3%		-1.9%
Net Expense Ratio %	32.7%	35.0%		-2.3%
Net Combined ratio % (ii)	106.1%	110.3%		-4.3%

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

Overview

LMIE's underwriting result for 2020 represents an improvement of €33.3m on 2019, partially driven by a reduction in the claims ratio of 1.9%. Although the net claims incurred are higher than prior year by €209.4m, this is offset against an increased premium base leading to the improvement in the net claims ratio.

Claims incurred in relation to catastrophe events increased to 4.6%, driven by COVID-19 losses, compared to 0.4% in 2019. In the final quarter of 2020, reserves on prior year catastrophe losses were strengthened by €6.6m on Grenfell Tower & Typhoon Hagibis.

The attritional loss ratio is significantly improved year on year to 68.3% (2019: 74.9%). Attritional losses are higher in total but are less in proportion to overall premium volume.

The net expense ratio has improved by 2.4% during 2020 to 32.6% (2019: 35%), despite acquisition costs increasing due to higher costs arising from our network of intermediaries through whom the business has grown in the current financial year.

This can be attributed to premium growth moving faster than the expense base, as well as from savings on travel and entertainment expenses in the face of the COVID-19 pandemic.

Excluding the impact of COVID-19 exposures, the net loss ratio further reduces to 69%. COVID-19 losses have mainly impacted the following classes: Fire and other damage to property (€12m), Income Protection (€12m), Marine, aviation and transport (€17m) and Non-proportional property reinsurance (€10.7m).

A.2.2 Underwriting performance by Solvency II Lines of Business

The following tables outline the Company's key financial performance indicators for the year ended 31 December 2020 and 31 December 2019 by material Solvency II lines of business. Note that this output is based on the S.05.01 QRT. The presentation of the underwriting result differs from the Lux GAAP reporting basis. A reconciliation to the Financial Statements has been tabulated below, for illustrative purposes.

	2020	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
	General liability	1,072,853	706,754	539,074	248,059	(80,380)
	Fire and other damage to property	384,710	225,899	144,452	74,908	6,538
	Non-proportional reinsurance property	319,586	213,879	117,201	64,930	31,747
	Credit and suretyship	298,455	139,580	98,095	50,830	(9,346)
	Marine, aviation and transport	157,480	94,902	75,668	31,840	(12,607)
	All other lines of business	247,680	119,713	93,270	55,432	(28,988)
A	**TOTAL**	**2,480,765**	**1,500,727**	**1,067,760**	**526,001**	**(93,034)**
B	Reclassification of ULAE to Expenses			33,650	(33,650)	0
*C**	Removal of Other expenses included in S.05.01				(3,856)	3,856
D	Revised Result (A+B+C)	2,480,765	1,500,727	1,101,411	488,494	(89,178)
E	**LUX GAAP Financial Statements**	**2,480,765**	**1,500,727**	**1,101,411**	**488,494**	**(89,178)**

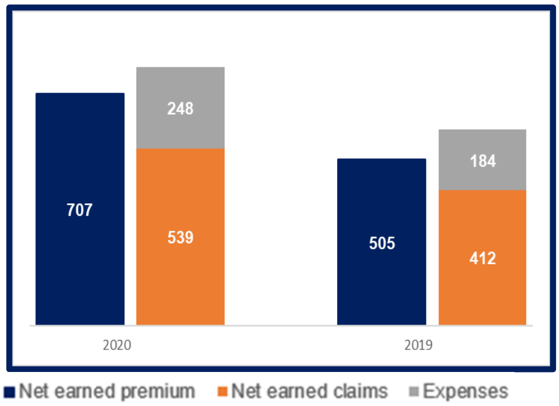
**Primarily investment management expenses*

	2019	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwriting Performance €'000
	General liability	751,197	505,468	412,399	184,446	(91,376)
	Fire and other damage to property	445,007	296,393	185,157	102,625	8,611
	Non-proportional reinsurance Property	102,924	79,967	52,171	36,387	(8,591)
	Credit and suretyship	238,806	114,082	67,490	46,146	447
	Marine, aviation and transport	116,790	54,433	28,342	20,329	5,763
	All other lines of business	247,161	133,881	118,458	57,420	(41,997)
A	**TOTAL**	**1,901,884**	**1,184,224**	**864,016**	**447,352**	**(127,144)**
B	Reclassification of ULAE to Expenses			27,974	(27,974)	0
C*	Removal of Other expenses included in S.05.01				(4,623)	4,623
D	Revised Result (A+B+C)	1,901,884	1,184,224	891,990	414,756	(122,521)
E	**LUX GAAP Financial Statements**	**1,901,884**	**1,184,225**	**891,990**	**414,756**	**(122,521)**

**Primarily investment management expenses*

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

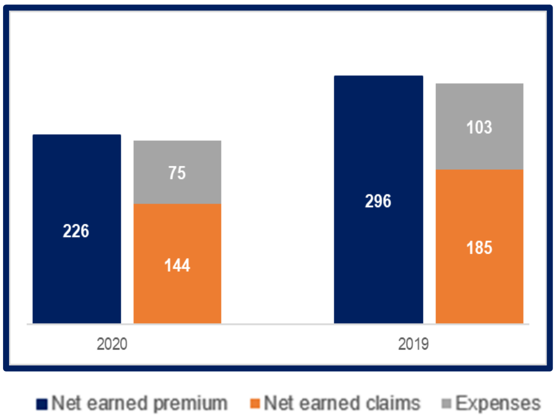
General Liability



General Liability incurred a net underwriting loss of €80m (2019: €91m), resulting in a net combined ratio of 111%.

There has been an improvement of 5 points in the net loss ratio to 77%, (2019: 82%), despite some large losses on the Directors & Officers and Financial Indemnity lines. This improvement is driven by strong rates on Professional Indemnity and lower losses on energy lines. Expenses ratio has remained relatively stable year on year. (2020: 35%, 2019: 37%).

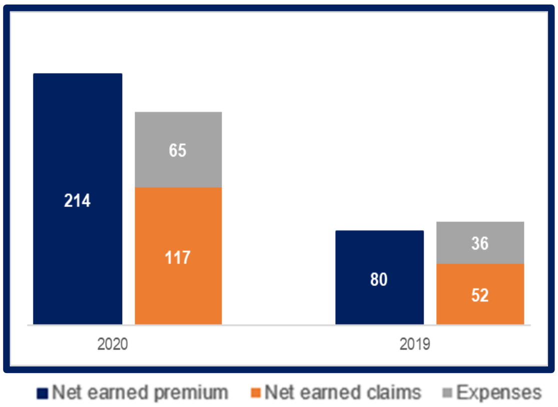
Fire & Other Damage to Property



Fire and other damage to property achieved an underwriting profit of €6.9m (2019: €8m) resulting in a net combined ratio of 97%.

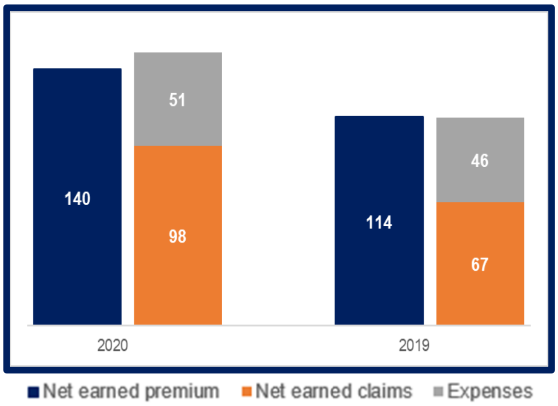
Both the net loss ratio and the expense ratio have remained consistent at 64% and 33% respectively.

Non-Proportional Reinsurance Property



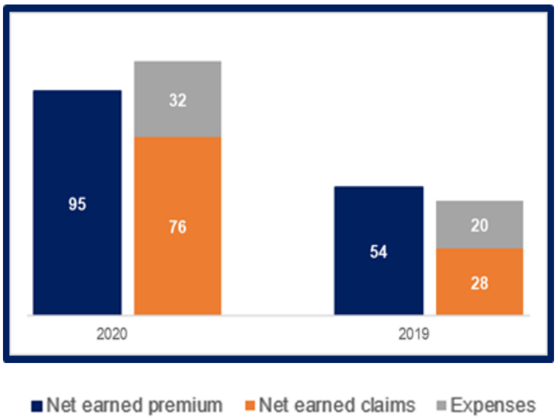
The Non-Proportional Reinsurance Property achieved an underwriting profit of €32m (2019: Loss of €9m), resulting in a net combined ratio of 85% making it the most profitable line of business in 2020. This is largely driven by a reduction in the loss ratio following benign claims experience combined with premium growth achieved through strong rates.

Credit and Suretyship



Credit and Suretyship incurred an underwriting loss of €9.4m (2019: Profit of €0.4m), resulting in a net combined ratio of 107%. The combined ratio reflects a worsening in the net loss ratio to 71% for 2020 (2019: 60%) due to some higher losses on Financial risk and Surety classes. This was partially offset by an improvement in the expense ratio to 36% for 2020 (2019: 40%). Although the total expenses have increased, the premiums have increased at a higher rate.

Marine, Aviation & Transport



The Marine, Aviation & Transport line of business incurred an underwriting loss of €13m (2019: Profit of €6m), resulting in a net combined ratio of 113%.

The net loss ratio deteriorated to 80% for 2020 (2019: 52%) mainly due to losses from COVID-19 which account for 18% of the deterioration in the loss ratio for this line of business. This was partially offset by an improvement in the expense ratio to 33% for 2020 (2019: 37%). Although the total expenses have increased, the premiums have increased at a higher rate.

A.2.3 Underwriting Result by material geographical area

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

As at 31st December 2020	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwritting Performance €'000
Luxembourg	15,504	11,363	855	3,270	7,238
United Kingdom	1,068,860	676,865	499,166	209,118	(31,419)
France	198,254	143,838	110,927	42,994	(10,084)
Germany	180,676	128,776	85,413	42,776	587
Spain	112,742	86,284	72,937	29,498	(16,152)
Italy	130,240	101,551	43,235	37,140	21,176
Other	774,488	352,051	43,235	161,204	(64,380)
TOTAL	**2,480,765**	**1,500,727**	**1,067,760**	**526,001**	**(93,034)**

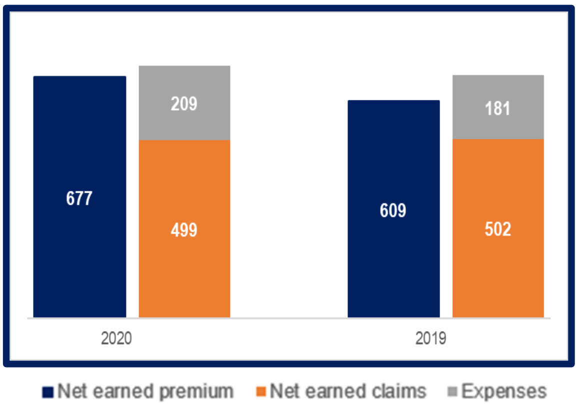
As at 31st December 2019	Gross Written Premiums €'000	Net Earned Premiums €'000	Net Incurred Claims €'000	Expenses €'000	Underwritting Performance €'000
Luxembourg	8,080	4,135	888	615	3,298
United Kingdom	851,066	608,681	501,510	180,538	(91,931)
France	226,705	156,536	95,311	64,692	(4,345)
Germany	162,865	84,296	63,472	49,673	(36,148)
Spain	121,312	68,011	37,118	36,095	(6,518)
Netherlands	57,031	42,758	31,072	19,663	(9,996)
Other	474,825	219,807	134,645	96,076	18,495
TOTAL	**1,901,884**	**1,184,224**	**864,016**	**447,352**	**(127,144)**

LMIE's geographical footprint continues to focus on the UK and European 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 in-house cover holders in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME) & Liberty Specialty Markets Europe Sarl 2 (LSME2) which act as intermediary companies that underwrite on behalf of LMIE and Liberty Syndicate 4472 from their branches throughout Europe.

As illustrated in the tables above, the UK remains the single largest contributor of GWP of €1,068m which represents 43% of total GWP (2019: €857m representing 45%) while the other top 4 European countries by GWP – France, Germany, Italy and Spain, contribute 26% of the total GWP (2019: contribution of 30% with Netherlands instead of Italy).

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

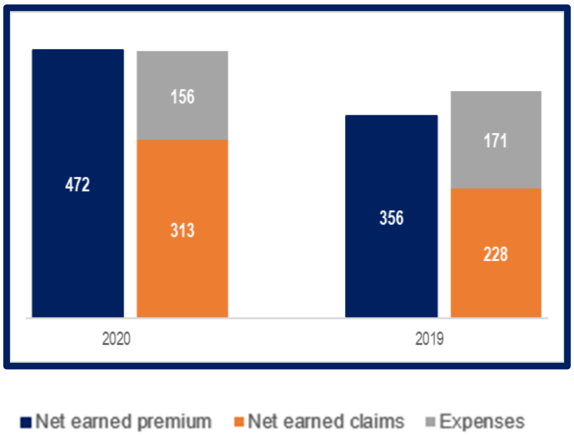
United Kingdom



The UK incurred an underwriting loss of €31m (2019: €73m), resulting in a net combined ratio of 105%.

Improvement was seen in the net loss ratio (2020: 74%, 2019: 82%) due to a change in the business mix as significant premium growth occurred on classes which have experienced strong rate increases on low plan loss ratios. There was a slight worsening of the expense ratio (2020: 32%, 2019: 30%) due to higher acquisition costs on UK business.

Europe



The Top 5 European countries reflected an underwriting profit of €3m (2019: €43m loss), resulting in a combined ratio of 99%.

Although the net loss ratio has remained relatively consistent at 66% (2019: 65%), the expense ratio has improved significantly at 33% (2019: 48%), following the onset of the pandemic and refinement in the expense allocation process.

SECTION A. 3 – Investment Performance

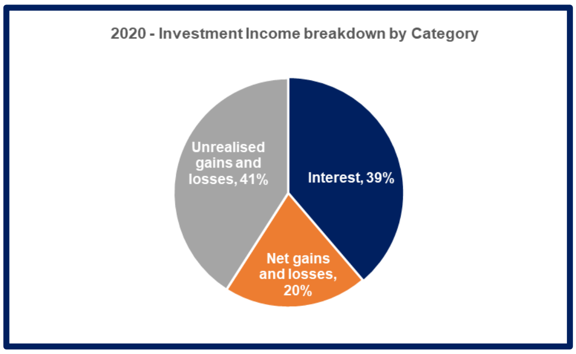
The investment portfolio is managed by Liberty Mutual Investments, the specialist investment management arm of LMG. In accordance with investment guidelines, the investment strategy was approved by the LMIE Investment Committee. In Q4 the Investment Committee was disbanded, with this responsibility being redistributed within the Board. Further details of this change are provided in Section B.1.2.3.

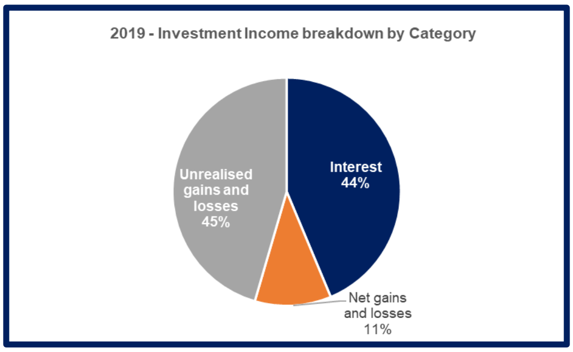
Limits are established by issue, counterparty, asset type and rating. Securities must be readily marketable. The Company's investment portfolio is made up predominantly of debt securities and other fixed income securities. The tables below represent the income, gains and losses arising out of various categories of Investments, in accordance with the QRT S.09.01 for 2020 and 2019.

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

2020 €(000)	Dividends	Interest	Net gains and losses	Unrealised gains and losses	Total performance
Government bonds	0	13,455	12,116	10,079	35,650
Corporate bonds	0	57,291	23,412	66,088	146,791
Collective Investment Undertakings	39	0	2,010	(549)	1,500
Collateralised securities (interest)	0	91	(19)	21	93
Cash and deposits	0	196	0	0	196
Mortgages & Loans	0	532	0	0	532
Total Investment income	**39**	**71,565**	**37,518**	**75,639**	**184,761**

The performance of LMIE's investment portfolio in 2020 generated a return of €185m. This strong performance was €27m more than the prior year, largely driven by higher realised gains on sale of investments, compared to 2019 as shown in the exhibits below.





Investments in Securitisations

The Company's holdings in securitised assets is shown in the following table. The reduction is driven by securities being sold during 2020.

€'000	2020	2019
RMBS	3,284	5,695
CMBS	577	791
ABS		1,443
Total	**3,861**	**7,929**

SECTION A. 4 – Any Other Information

No other matters to report.

SYSTEM OF GOVERNANCE

SECTION B – SYSTEM OF GOVERNANCE

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

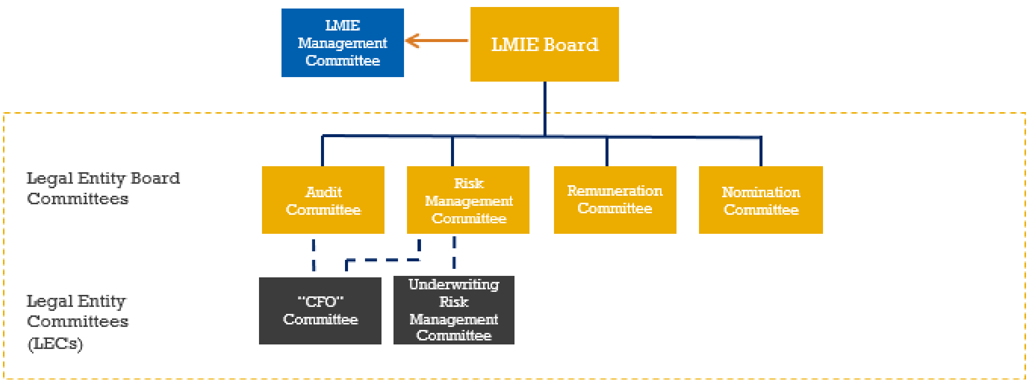
- Overview of the System of Governance.
- Fit and Proper Requirements.
- Risk Management Systems.
- Own Risk and Solvency Assessment; and
- Outsourcing Arrangements

SECTION B. 1 – Corporate Governance

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

B.1.1 Management and Governance Structure

The ultimate supervisory body of the Company is the Board which has the responsibility of ensuring that the principles of good governance are observed 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 from the Company's headquarters in Luxembourg. The composition of the Board includes four Independent Non-Executive Directors (INEDs) whose role it is to scrutinize and challenge the performance of management in meeting agreed goals and objectives, monitor the performance of the entity as well as oversee the integrity of financial information reported. In addition, the Board is responsible for ensuring that the financial controls and risk management systems are robust and effective. The Board is supported by the Company Secretarial team and has met remotely since the introduction of government travel restrictions due to the COVID-19 pandemic.

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 INEDs. The Committee is attended by senior management including the CFO, CRO, Chief Actuary and Head of Internal Audit, along with the lead external audit partner(s) and senior managers.

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

The responsibilities of the Audit Committee include:

- 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.
- Approve the Audit Plan including planned levels of materiality and proposed resources to execute the audit plan, appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team.
- Oversee the Company's relations with the external auditor including approval of the remuneration of the External Auditor**,** ensuring that the level of fees is appropriate to

enable an effective and high-quality audit to be conducted; and approval of the External Auditor terms of engagement.

- 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, Reserve reviews and may review recommendations as part of the Actuarial Function Review reports on UW, RI and Technical Provisions.

B.1.2.2 Risk Management Committee

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

The Committee membership consists of four INEDs, one of whom acts as the Chair. The Chair of the Board is a member of the Committee. The Chair of the Committee reports to the Board on the activities of the Committee.

The main responsibilities of the Committee include:

- 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.
- 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 and approve significant risk policies including Financial Crime and Fraud.
- Consider, assess and approve the annual Risk Management and Compliance plans.
- 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 (disbanded as of September 2020)

The Investment Committee was 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 consisted of one INED who acted as Chair, and two executive directors.

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

The key responsibilities of the Investment Committee included the following:

- Making 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).
- Approving the investment management policies and Guidelines and ensure adequacy of related controls.
- Reviewing compliance with Investment Guidelines and Investment Management Agreement.
- Setting minimum liquidity levels across both invested assets and cash with due regard to cashflow needs and currency mix requirements.

The responsibilities of the Investment Committee have been re-distributed amongst the CFO committee, Risk Management Committee and Board. The operational items were allocated to the CFO Committee and the Investment Working Group. The Investment Working Group feeds into the CFO Committee, which, in turn, feeds the RMC and Board, where appropriate. In addition, investment reports are delivered to the Board every quarter and the Investment Managers attend Board meetings twice per year.

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 senior management and Solvency II identified, including basic salary and short and long-term incentive awards. The Committee membership consists of four Independent Non-Executive Directors. The Chair of the Board is a member of the Committee. The Chair of the Committee reports to the Board on the activities of the Committee.

The main responsibilities of the Committee include:

- Consider and approve annually the Solvency II Identified Staff Identification Methodology document and the resulting Solvency II Identified Staff in scope for remuneration decisions in line with Liberty Mutual Group, legal and regulatory requirements.
- Annually Review and approve the Remuneration Policy and ensure its ongoing appropriateness.
- Review and approve the grant size and vesting of awards under the LSM Long Term Capital Plan and short-term incentive plan by those within scope of the Committee to support alignment with long-term shareholder interests.
- Annually review the ongoing appropriateness and relevance of the Remuneration Policy.
- Within the terms of the agreed Remuneration policies determine the remuneration arrangements for the Solvency II identified staff population and oversee any major changes in core employee benefit structures throughout the Company where and if there is a material compensation impact.
- When authorizing remuneration outcomes for Senior Management and other Solvency II Identified Staff, take account of pay and employment conditions across the Company.
- Review the Company gender pay gap report (and any other diversity and inclusion related disclosures) and agree this prior to submission, as appropriate.

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

The responsibilities of the Committee include:

- Regularly reviewing the structure, size, diversity (in skill and person) and composition (including the skills, knowledge and experience) of the board and make recommendations to the Board regarding any changes.
- Ensuring plans are in place for orderly succession to board and senior management positions and oversee the development of a diverse pipeline for succession, taking account of the challenges and opportunities facing the company, and the skills and expertise needed on the Board in the future. Being responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise and for approval of appointments for Senior Management Function (SMF) positions for the UK Branch.
- Keeping under review the time required from non-executive directors and assess if any changes are required.
- Making recommendations to the Board concerning any matters relating to the continuation in office of any director at any time, including the reappointment of INEDs if required under their service contracts, suspension or termination of service of any executive director as an employee of the Company subject to the provisions of the law and their service contract. Reviewing the Board Diversity Policy annually, including an assessment of the effectiveness of the Policy.

Overview of the Legal Entity Committees

The Legal Entity Committees ensure continued appropriate focus on LMIE as an autonomous legal entity. The Committees are provided specific management information for oversight and management of LMIE's operational and regulatory performance. The Committees consider certain reports and information prior to presentation to the Audit Committee 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.1.2.6 CFO Committee

The Chief Financial Officer (CFO) Committee is a management level committee which has been established to support the CFO in fulfilling their role. The Committee reviews reports and information relating to relevant aspects of Actuarial and Reserving, Investments, Risk Appetites, Strategy, Business Planning, Performance, Capital and Solvency and Regulatory Reporting, including the Financial Control environment for LMIE.

The Committee membership consists of senior executives, including the LMIE GM, LMIE CFO and the LSM CFO who acts as the Chair. The Committee has reporting lines to the Audit Committee and Risk Management Committee.

B.1.2.7 Underwriting Risk Management Committee

The Underwriting Risk Management Committee is a management level committee which has been established to support the LMIE Executive Underwriting Officer with his duties in respect of monitoring LMIE's underwriting activities. The Committee reviews reports and information relating to relevant aspects of delivering the Underwriting Strategy and coordinating the oversight of LMIE's underwriting activities, ensuring LMIE's compliance with LSM's Conduct Risk Framework and Conduct Risk Appetite, and 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.

B.1.2.8 Management Committee

The Management Committee is a management level 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 aside from preparing papers for Board approval.

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

B.1.2.9 Delegation of Board authority and decision making

The Board delegates certain decision-making powers to individuals and other bodies, including Board sub-committees and the day to day running of the Company to the General Manager, who is assisted by the Management Committee.

The Board itself remains responsible for all decisions taken and therefore receives reports on all delegated matters.

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

B.1.3 LMIE Key Functions

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

B.1.3.1 Actuarial Function

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

The authority, resources and independence of the Actuarial Function are detailed in section B.6.1 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, 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 LMIE, who is the approved Key Function Holder for the company and is resident in Luxembourg. The Head of Risk LMIE reports to the LMIE General Manager and has an additional functional reporting line to the LSM Chief Risk Officer for wider LSM and legal entity responsibilities. The Head of Risk LMIE also has a reporting line directly to the Chair of the Risk Management Committee who is an independent Non-Executive Director.

The authority, resources and independence of the Risk Management Function are detailed in section B.3. 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 LMIE is also a member of the Management Committee, which supports the LMIE General Manager in discharging executive day-to-day business delivery within the strategic context for the Company set by the Board.

B.1.3.3 Compliance Function

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

The 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 GWP. 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

The governance structure is reviewed on an annual basis in a normal cycle of business; the next review will take place in 2021. Included in that review is a review of the Board and its sub-committee terms of reference to ensure that they continue to be fit for purpose, perform their duties and are acting within their authority. The annual effectiveness review ensures that the performance of the Board, its sub-committees and individual directors are formally evaluated. The material changes that occurred during the year were as follows:

- A Capital Working Group reporting to the LSM CFO has been established during 2020 to monitor the Solvency II ratio and ensure capital efficiency.
  As part of the Annual review of the governance structure, the Board agreed to disband the Investment Committee as of September 2020 with its duties being re-distributed amongst the Board, it's sub-committees and the Legal Entity Committees.

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

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

The Remuneration Committee reviews and approves 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 organization, 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. Following Brexit, with effect from 1 January 2021, the PRA is no longer a part of the LIEH College of Supervisors, as explained in Section A.1.2 above.

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 be fulfilling the following requirements, on a continuous basis:

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

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

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

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

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

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

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

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

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 Risk Management Framework (RMF) is set to operate within the context of the strategic objectives of LSM.

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

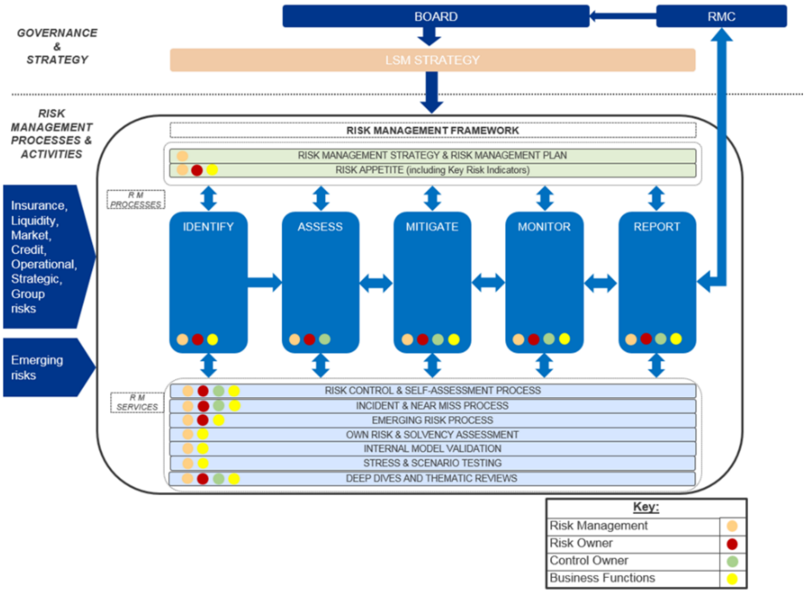
I. Identifying
II. Assessing
III. Mitigating
IV. Monitoring
V. Reporting

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

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

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

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



B.3.2 Implementation of the Risk Management System

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

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

B.3.3 Own Risk and Solvency Assessment (ORSA)

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

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

Methodology

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

LMIE projects its solvency 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 multiple 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.

ORSA Process

The ORSA process and reports are ultimately owned by the LMIE Board, which delegates some of its powers of challenge and review to its associated committees. The 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 CFO 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 2020.

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 several 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.

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

ORSA Report

The following components are in scope of the LMIE ORSA report and wider ORSA process:

- Strategy, performance and business plans.
- Risk identification and appetite.
- Capital requirement assessment.
- Forward looking assessment.
- ORSA process and Risk Management Framework.

SECTION B. 4 – Internal Control System

B.4.1 Description of Internal Control System

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

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

- Establish accountability for the ongoing management, monitoring, testing, remediation, and reporting of LMIE's controls.
- Support control owners in carrying out their control owner responsibilities, and to ensure they have an accurate view of the controls under their ownership.
- Provide assurance to Management that controls across LMIE are being managed effectively.
- Provide guidance and set consistent minimum standards for:
    - Documenting a comprehensive set of internal controls that are aligned to the risk register and the risks that LMIE is exposed to.
    - Setting out a robust, consistent, and comprehensive Control Self-Assessment process (as part of the Risk and Control Self-Assessment process), so that LMIE can periodically assess the effective design and operation of controls, with appropriate action plans for all control deficiencies. This should reduce residual risk exposures and create a more robust control environment.
    - The accurate identification and documentation of controls, including evidence that they are designed and operated effectively.

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 (RMC). 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 2020 reporting period.

B.5.2 Operations and Assurance

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

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

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

B.5.3 Independence and Objectivity

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

The LMIE Internal Audit Function Holder reports to the Chair of the LMIE Audit Committee and administratively to LSM Head of Internal Audit. The findings of the Internal Audit function are reported to the LMIE Audit Committee. The Chair of the Audit Committee is also a member of the LMIE Board and provides a summary of the Committee's activities to the Board.

Annually the Head of LSM Internal Audit and LMIE Internal Audit Function Holder will meet in isolation with the Audit Committee to confirm that their independence and objectivity has not been impaired by undue influence. In accordance with Article 271(2) of Delegated Regulation (EU) 2015/35 there are no persons within the Internal Audit function who assumes any responsibility for any other function or carry out activities that are inappropriate with respect to the nature, scale and complexity of the risks inherent in the business or poses a conflict of interest risk.

SECTION B. 6 – Actuarial Function

B.6.1 Governance of the Actuarial Function

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

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

The Head of Actuarial Function is a Fellow of the Institute and Faculty of Actuaries. As such the work carried out will meet the independence and free from influence requirement of Solvency II. The Actuarial Function consists of members of LSM's actuarial team. The Actuarial Function reports its recommendations to the LMIE Board in order to maintain its independence.

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

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

B.6.2 Co-ordinating the calculation of Technical Provisions

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

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

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

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

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

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

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

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

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

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

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

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

- Outline the actuarial function's role in the wider 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 several different considerations. From a business perspective, any outsourcing arrangement must be commercially viable, and a business case must be made before inception of the arrangement. The LMIE outsourcing policy applies to all the Company's branches, including Switzerland.

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

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

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

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

Lastly, it should be noted that all outsourcing arrangements are subject to the thorough standards and processes regardless of whether the service provider is within or outside the LMIE group of companies or the LMIG. Providers within the LMIE group of companies or the LMIG will be dealt with at an appropriate 'arms-length'. Oversight of all outsourced functions will be carried out by LMIE's Luxembourg head office with support from the LMIE UK Branch.

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

B.7.2 Outsourcing Register

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

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

SECTION B. 8 – Any Other Information

The governance structure and corporate governance framework is reviewed annually by all departments including Compliance to ensure that we incorporate any new regulatory developments, and that we meet the risk appetite set by the management and signed off by the Board. There have been 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.

RISK MANAGEMENT

SECTION C – Risk Management

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

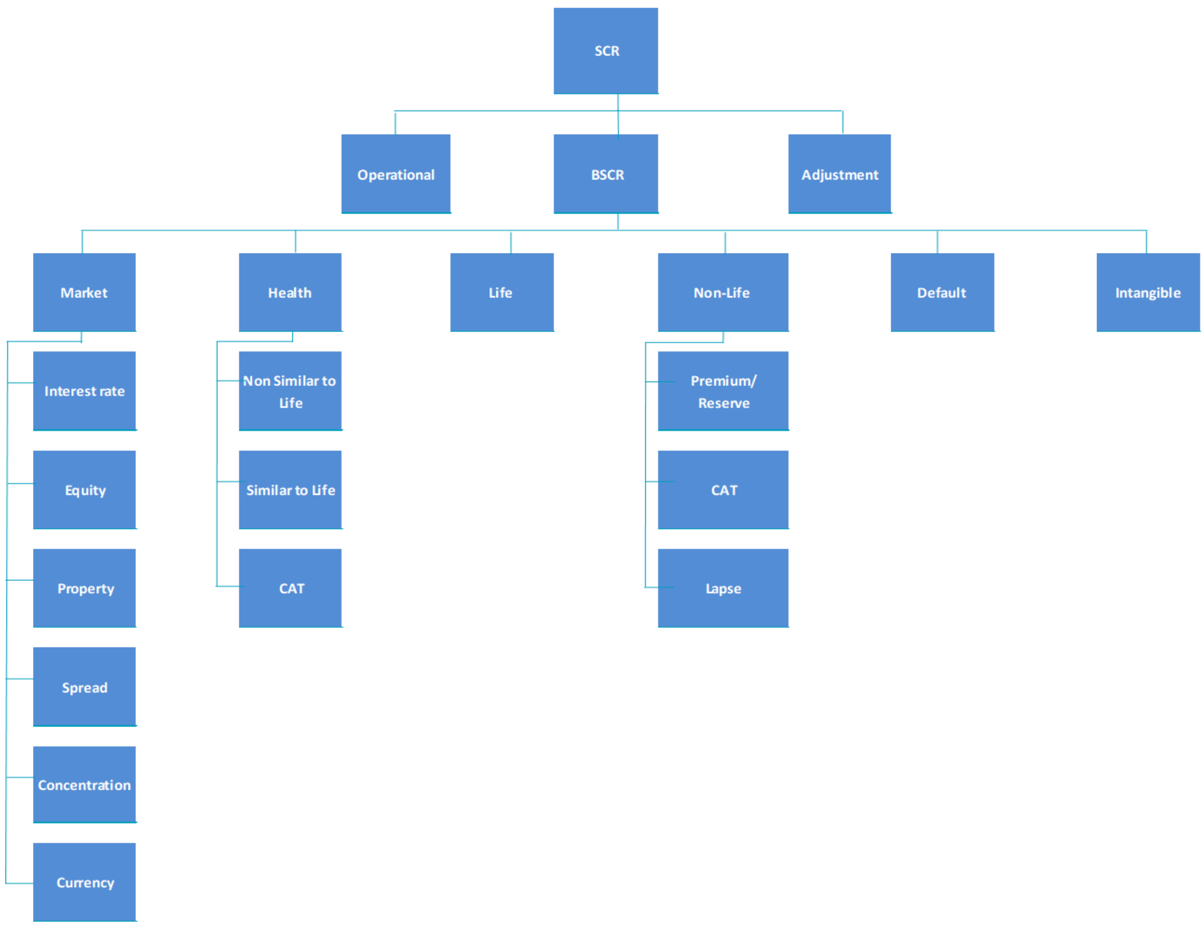
For each major risk grouping, this section provides a description of the following key aspects:

- Risk exposure;
- Measures used to assess the risk;
- Risk concentration; and
- Risk mitigation.

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

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

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



SECTION C.1 – Underwriting Risk

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

a) Risk Assessment

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

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

b) 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 usage of risk appetites and the purchase of reinsurance, there are specific operational processes related to the acceptance, measurement and management of insurance risk exposures. LMIE had no investment in Special Purpose

Vehicles during the reporting period, hence no risk transfer took place. The overarching approach to the management of all operational risks is covered by the Risk Management Framework and Internal Control Framework (see operational risk below).

e) Measures used to monitor effectiveness of Risk Mitigation

The RMC actively monitors the effectiveness of the above risk mitigation techniques. Sensitivity testing over the business plan has been performed along with the results of stress tests over capital, and reverse stress tests, where the focus is on identifying 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. We feed findings from the periodic General Insurance stress tests into our own stress and scenario testing.

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

- The business plan is appropriate as premiums are sufficient to cover expected claims and expenses in aggregate, taking expected investment income into account; and
- LMIE's outwards reinsurance strategy is in line with risk and underwriting policy.

SECTION C. 2 – Market Risk

Market risk 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.

a) Risk Assessment

Material risk exposures are managed through market risk appetites, which are detailed in LMIE's Risk Management Framework:

- 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.

b) Risk Mitigation

The Investment Working Group makes recommendations to the Board regarding the long-term framework and short-term investment strategy for the investment of LMIE's assets. The Investment Working Group'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 LMIE. Limits are established regarding issue, counterparty, asset type and rating concentrations. Securities must be readily marketable. In addition to managing market risk through usage of risk appetites and monitoring the environment, there are specific operational processes related to the acceptance, measurement and management of market risk exposures.

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

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

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

c) Measures used to monitor effectiveness of Risk Mitigation

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

The overarching approach to the management of all operational risks is covered by the Risk Management Framework 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.

a) Risk Assessment

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 rating of A-, unless the exposure is collateralised or partially collateralised.
- Delegated authorities and brokers – Appropriate due diligence supported by independent reviews and market feedback, taking into consideration qualitative, quantitative, financial, operational and reputational factors.
- Delegated authorities – limits on exposure to individual cover holders.
- Brokers – limit on Value at Risk (VaR) measure.
- Group reinsurance exposure – recoverable as proportion of capital resources.

The position against the 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.

b) Risk Mitigation

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. No reinsurance 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. This is factored into the entity capital calculations. In addition, the RMC is provided quarterly information on ongoing Review of LMG Financial Statements and ratings, LMG's own reinsurance programme, periodic reports from LMG to the board around any material risks likely to impact LMG credit ratings, as well as details of underwriting and reserving risk exposures to LMG and related entities.

c) Measures used to monitor effectiveness of Risk Mitigation

The quarterly CRO report tracks the internal reinsurance purchase as a % of GWP and LMG RI recoverable proportion to the available capital resources. This is in line with the PRA Prudent Person Principle.

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

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.

a) Risk Assessment

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.

b) Risk Mitigation

There are permitted investments guidelines and exposure limits which are approved by the Board.

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

LMIE 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, particularly those covering the Minimum Capital Requirement and the Solvency Capital Requirement, are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio.

c) Measures used to monitor effectiveness of Risk Mitigation

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

SECTION C. 5 – Operational Risk

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

LMIE's individual risks (Level 2 Risks) within Operational Risk are as follows:

- Data Quality Risk
- Business Continuity Management
- Third Party & Outsourcing Risk
- Information Security / Cyber Resilience
- Project / Change Risk
- IT / Systems Failure
- Physical Security Risk
- Inappropriate Tax Governance
- Payments and Billing Management
- Expenses Overrun
- Financial Misstatement Risk
- Conflict of Interest
- Regulatory Risk
- Financial Crime
- Fit & Proper People in Role
- Attract and/or Retain Talent
- Legal and Non-Dispute Risk
- Data Protection Risk
- Conduct Risk
- Health & Wellbeing Risk

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

a) Risk Assessment

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

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

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

Operational risk was significantly impacted over the past year. Several the above operational risks have increased considering COVID-19, including IT / Systems Failure, Third party & Outsourcing Risk, Payments and Billing Management, Regulatory Risk and Conduct Risk. Despite this, LMIE continues to be broadly operationally resilient through the COVID-19 pandemic.

b) Risk Mitigation

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

Examples of the types of controls are:

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

c) Measures used to monitor effectiveness of Risk Mitigation

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

A key control is one that is important to LMIE an overall level, rather than being a control which is important for a specific function within LMIE. 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. LMIE 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 enters all reported incidents into Magique, in order to keep track of historical losses or near misses. This allows oversight into areas where the aggregation of multiple incidents may give risk to a review of the controls in place. Magique will be replaced by Decision Focus during 2021.

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 Management Framework also identifies sources of 'other risk' which are not fully captured via the quantitative risk modelling process:

- Strategic risk
- Group risk

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

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

The identification of emerging risks is an important part of LMIE's Risk Management process. 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

No other matters to report.

VALUATION

SECTION D – VALUATION FOR SOLVENCY PURPOSES

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

Key elements of the section are:

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

Solvency II requires an economic market consistent approach to the valuation of assets and liabilities sheet in accordance with Article 75 of the Solvency II Directive 2009/138/EC. This presents several differences in the valuation of assets and liabilities compared to the disclosures in LMIE Financial Statements for the year-ended 31st December 2020.

Preparation of financial statements under Luxembourg legislation

For 2019, LMIE was granted permission by the CaA to present these financial statements in US dollars. However, with effect from 1 January 2020 the entity has changed its presentational currency to Euros. Retranslation of the opening reserves as at that date using the historic average rate has resulted in an initial provision of €139.7m.

The results of each branch of the business where the functional currency is not Euro, are translated to the presentation currency on the following basis:

- Assets and liabilities are translated at the exchange rate of the date of the balance sheet.
- Income and expenses are translated at the average annual exchange rate for the period of the profit and loss account.
- Any resulting overall exchange gains are recognised as a foreign exchange translation provision on the balance sheet.
- Any resulting overall exchange losses are initially offset against any foreign exchange translation provision within the balance sheet. The closing provision as at 31 December 2020 is €3.6m. Any surplus over the provision going forward will be recognised as an exchange loss in the non-technical account of the profit and loss account.

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

2020 €'000		Lux GAAP	Solvency II Adjustments Reclassification	Valuation	Solvency II
Deferred acquisition costs	D.1.1	245,337		(245,337)	0
Deferred tax assets	D.3.1	0		13,970	13,970
Pension benefit surplus	D.1.2	8,364			8,364
Property, plant and equipment held for own use	D.1.3	3,819		(3,819)	0
Investments	D.1.4	3,632,412	(109,931)		3,522,481
Other loans and mortgages		39,521	1,067		40,588
Reinsurance recoverable	D.1.5	1,881,317		(770,384)	1,110,933
Deposits to cedants	D.1.6	83,928			83,928
Insurance and intermediaries receivables	D.1.7	1,472,503		(1,235,618)	236,885
Reinsurance receivables	D.1.8	107,706	0		107,706
Receivables (trade, not insurance)	D.1.9	134,347	0		134,347
Cash and Cash equivalents	D1.10	392,275	127,367		519,642
Any other assets	D1.11	25,353	(18,503)		6,850
Total Assets		**8,026,882**	**0**	**(2,241,188)**	**5,785,694**
Technical Provision	D.2	5,370,471		(1,531,880)	3,838,591
Deferred tax liabilities	D.3.1	31,077		(31,077)	0
Insurance & intermediaries payables	D.3.3	68,131			68,131
Reinsurance payables	D.3.2	536,675		(536,675)	0
Payables (trade, not insurance)	D.3.4	142,374			142,374
Any other liabilities, not elsewhere show	D.3.5	113,231			113,231
Total Liabilities		**6,261,959**	**0**	**(2,099,632)**	**4,162,327**
Excess of assets over liabilities		**1,764,923**	**0**	**(141,556)**	**1,623,367**

2019 €'000	Section	Lux GAAP	Solvency II Adjustments Reclassification	Valuation	Solvency II
Deferred acquisition costs	D.1.1	230,285		(230,285)	0
Deferred tax assets	D.3.1	0		8,844	8,844
Pension benefit surplus	D.1.2	7,873			7,873
Property, plant and equipment held for own use	D.1.3	4,714		(4,714)	0
Investments	D.1.4	2,987,217	(77,961)		2,909,256
Loans and mortgages		41,749	566		42,315
Reinsurance recoverable	D.1.5	1,439,061		(575,922)	863,139
Deposits to cedants	D.1.6	77,897			77,897
Insurance and intermediaries receivables	D.1.7	1,150,702		(866,893)	283,809
Reinsurance receivables	D.1.8	72,400			72,400
Receivables (trade, not insurance)	D.1.9	90,574			90,574
Cash and Cash equivalents	D1.10	133,632	97,489		231,121
Any other assets	D1.11	130,708	(20,094)		110,614
Total Assets		**6,366,812**	**0**	**(1,668,970)**	**4,697,842**
Technical Provision	D.2	4,410,221		(1,382,943)	3,027,278
Deferred tax liabilities	D.3.1	15,664		2,824	18,488
Insurance & intermediaries payables	D.3.3	69,998			69,998
Reinsurance payables	D.3.2	307,243		(307,243)	0
Payables (trade, not insurance)	D.3.4	160,560			160,560
Any other liabilities, not elsewhere show	D.3.5	124,181			124,181
Total Liabilities		**5,087,867**	**0**	**(1,687,362)**	**3,400,505**
Excess of assets over liabilities		**1,278,945**	**0**	**18,392**	**1,297,337**

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

D.1.1 Deferred acquisition costs (DAC)

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

D.1.2 Pension benefit surplus

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

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

As at 31 December 2020, the pension benefit surplus in respect of the defined benefit scheme is €8.3m (2019: €7.9m).

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

Plant and equipment consist of computer equipment, fixture, fittings and office equipment valued at historic cost less accumulated depreciation and accumulated value adjustments under Lux GAAP. PPE is presented at fair value on a Solvency II basis, the fair value being determined by reference to active market values for such assets. As at December 2020, there was deemed to be no active market for these assets. As such they are not recognised on the Solvency II BS.

D.1.4 Investments

Financial Investments and cash and cash equivalents

	2020		
	Lux GAAP	SII adjustments	Solvency II
	€000	€000	€000
Bonds			
Holdings in related undertakings	0	0	0
Government Bonds	1,120,052	2,236	1,122,288
Corporate Bonds	2,354,570	15,196	2,369,766
Collateralised securities	3,856	5	3,861
Collective Investments Undertakings	24,373	0	24,373
Deposits other than cash equivalents	129,561	(127,367)	2,194
Loans and mortgages	39,521	1,067	40,587
Total Investments	**3,671,932**	**(108,864)**	**3,563,069**
Cash and Cash Equivalents	392,275	127,367	519,642
Total Investments and Cash and Cash Equivalents	**4,064,208**	**18,503**	**4,082,711**

Financial investments are recognised at Fair Value, both under Lux GAAP and on a Solvency II basis. However, while under Lux GAAP, any accrued interest is reported separately under 'Other assets', it is reclassified and included with Market Value on the Solvency II balance Sheet.

Under Solvency II the financial investments are classified 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.

D.1.5 Deposits to cedants

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

D.1.6 Insurance and intermediaries receivables

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

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

D.1.7 Reinsurance receivables

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

D.1.8 Receivables (trade, not insurance)

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

D.1.9 Cash and cash equivalents

Cash and cash equivalents, comprising of cash-in-hand and on demand deposits with banks, are measured at amortised cost in the Lux GAAP financial statements, and fair value in the Solvency II Balance Sheet. Since fair value is derived from discounting expected future payments by a risk-adjusted discount rate, cash flows are not discounted where the time value of payments is not significant. Therefore, no valuation differences exist between the two reporting bases.

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

D.1.10 Any other assets

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

SECTION D. 2 – Technical Provisions

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

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

The TPs have been estimated at a homogeneous line of business level. The segmentation of lines is based on obligations that are managed together and which have similar characteristics. General Liability and Fire and Other Damage to Property business represent approximately 74% of the LMIE TPs. The Company has no Life TPs, including Periodic Payment Orders.

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	2,226,779	(632,281)	119,091	**1,713,589**
Fire and other damage to property	405,698	(131,856)	21,373	**295,215**
Credit and suretyship	337,509	(77,013)	29,549	**290,045**
Non-Prop RI - Casualty	192,895	(80,074)	18,534	**131,355**
All Other Lines	447,593	(189,709)	39,569	**297,454**
Total non-life obligation	**3,610,475**	(1,110,933)	**228,117**	**2,727,658**

General Liability Insurance

The General Liability Line makes up 63% of the Solvency II 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 Solvency II line. Reserves for Energy Liability and D&O have been impacted by US social inflation issues. LMIE has exited the Energy, Construction, Marine and Liability (ECML) portfolio and the reserves are net nil following a loss portfolio transfer (LPT).

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

- €119m for the Risk Margin which is highest for this line of business given the long-tailed nature of the underling business; and
- €31m for additional expense provisions and €27m 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 Solvency II TPs. The underlying reserves for direct property and energy lines contribute the majority of the TPs for this Solvency II line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. The most material adjustments that result in a small decrease in the TPs when compared to the Lux GAAP reserves include:

- €22m for the profit in the Premium Provisions; and
- Offset by €21m for the Risk Margin and €7m of additional expense provisions

Credit and Suretyship

The Credit and Suretyship Line makes up 11% of the Solvency II TPs. The underlying reserves for direct surety, financial, political and credit risk lines contribute the majority of the TPs for this Solvency II line. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. There has been a significant increase in the best estimate on this line over the year as it was heavily impacted by COVID losses, including approximately $88m of net unearned claims as at 20Q4.

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

- €30m for the Risk Margin and €7m of additional expense provisions.

Non-Proportional Reinsurance Casualty

The Non-Proportional Casualty Line makes up 5% of the Solvency II 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 Solvency II line. The US segment of High Excess, Energy Liability and D&O are impacted by US social inflation. LMIE had exited the majority of these exposures from 1.1.2020 with Energy Liability reserves now being net nil following a LPT. Solvency II adjustments are applied to the Lux GAAP reserves (net of future premium) to obtain the Solvency II TPs. The most material adjustments that result in a movement in the TPs when compared to the Lux GAAP reserves include:

- €49m for the expected loss in the Premium Provisions; and
- €19m for the Risk Margin and €3m of additional expense provisions.

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

D.2.2 Technical Provisions Valuation Methodology

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

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

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

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

D.2.2.1 Claims Provisions

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

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

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

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

D.2.2.2 Premium Provisions

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

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

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

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

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

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

D.2.2.3 Definition of an Existing Contract

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

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

D.2.2.4 Outwards Reinsurance

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

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

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

D.2.2.5 Future Premium

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

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

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

D.2.2.6 Expenses

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

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

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

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

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

D.2.2.7 Events not in Data (ENIDs)

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

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

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

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

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

D.2.2.8 Cashflows and Discounting

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

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

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

D.2.2.9 Risk Margin

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

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

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

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

D.2.2.10 Options and Guarantees

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

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

The table below presents a comparison of the Company's Lux GAAP provisions to those on a Solvency II basis as at 31 December 2020. Note that the Company's Lux GAAP reserve estimates contain margins when compared with the Solvency II best estimate.

€'000	SII Basis	Lux GAAP	Lux GAAP vs. SII Basis
Gross TP			
Claims reserve (incl Risk Margin)	(5,639,209)	(3,749,297)	1,889,912
ULAE (and other SII expenses)	(97,953)	(41,293)	56,660
UPR (Net of DAC)		(1,179,960)	(1,179,960)
Future Premium Cashflows	1,898,571	1,235,618	(662,953)
Gross TP	**(3,838,591)**	**(3,734,932)**	**103,660**
Reinsurance			
Claims reserve	2,115,900	1,366,937	(748,962)
Bad Debt	(13,237)	(13,237)	-
UPR (Net of RI DAC)		372,949	372,949
Future Premium Cashflows	(991,730)	(536,675)	455,055
Reinsurance TP	**1,110,933**	**1,189,974**	**79,041**
Net GAAP / SII TP (including future premium)	**(2,727,658)**	**(2,544,958)**	**182,701**

The material differences from moving from a Lux GAAP to Solvency II 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 Solvency II. The reinsurance reserves also include additional recoveries on ECML following the LPT, which could not be included in the GAAP reserves due to timing of the contract completion.

- An increase in gross claims reserves as a result of holding a Risk Margin under Solvency II 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 Solvency II to consider all existing, legally bound, contracts as opposed to incepted contracts under Lux GAAP. As with the RI Claims reserves, there is also an additional increase in the future premium cash flows for the premium related to the ECML LPT.

- In the Gross TPs ULAE and other Solvency II expenses, an increase in expense provisions under Solvency II to cover the wider definition of all expenses that will be incurred servicing the in-force policies over their lifetime.

D.2.4 Changes in Technical Provisions from prior Reporting Period

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

D.2.5 Assumptions and Use of Expert Judgement:

D.2.5.1 Future Management Actions within the Technical Provisions

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

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

D.2.5.2 Reserving Methods

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

D.2.5.3 Assumption Selection

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

D.2.5.4 Consistency with Financial Market Information

Assumptions:

- Future Inflation: Other than in the choice of the expected loss ratios, the Company's reserving methods for attritional claims do not generally make an explicit assumption for future claims inflation. Where historical development profiles are extrapolated into the future via the Chain

Ladder method, these projection methods include an implicit assumption that historical trends in inflation will persist in the future. Trends in superimposed inflation are closely monitored through claims analysis, and collaboration between claims, actuarial and underwriters. They are allowed for with additional judgment for impacted classes, both in the reserving of attritional and large claims.

- Currency Rates of Exchange: Future exchange rates are assumed to be equal to the current level.
- Reserving Cycle: Where possible allowance has been made for the reserving cycle.

D.2.5.5 Expert Judgement

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

D.2.6 Uncertainty associated with the Technical Provisions

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

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

- **L**oss ratios used in projections may be subject to an additional degree of uncertainty following the significant growth of the Company's book. Over the years Liberty has expanded into new areas of business or changed the makeup of accounts. These classes may not have fully developed history on which to base projections. For these classes we have typically combined benchmarks and internal data where suitable. The accuracy of the results is dependent on the suitability of benchmarks used. The assessment of the appropriateness of these benchmarks may not be possible for some time. Additionally, long tail classes may still not be fully developed so the results will be dependent on the tail selected.

- Societal trends are impacting third party liability classes with exposure to the US, where there has been an increase in litigation funding and increased focus on social justice, which has seen elevated jury verdicts most notably in California, Illinois, Texas and Florida. Claim trends in frequency and severity are also likely to change and be sensitive to an economic downturn that may follow the COVID-19 pandemic across a number of product lines and leads to greater uncertainty in the current estimates.

- The onset of COVID-19 and the subsequent lockdowns may impact the emergence and development of claims in different ways. Some lines of business will see a slowdown of settlements due to operational challenges, or a slowdown of claims numbers or severity due to the slowdown in economic activity. Other might exhibit an acceleration of settlements due to behaviour of insureds to settle earlier. This increases the uncertainty around the reliability of actual claims emergence.

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

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

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

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

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

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

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

- No provision has been made in our estimates for post balance sheet events occurring after 31st December 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 on the next page shows the difference in the Technical Provisions, Own Funds, Basic Own Funds, Own funds eligible to cover the SCR and Own funds eligible to cover the MCR when using the volatility adjustment and without the volatility adjustment. The overall impact on own funds is a €10.8m benefit when using the volatility adjustment.

€'000	With Volatility Adjustment	Without Volatility Adjustment	Difference
Technical provisions	3,838,591	3,861,095	22,504
Basic own funds	1,623,367	1,612,576	(10,791)
Eligible own funds to meet Solvency Capital Requirement	1,970,715	1,959,924	(10,791)
Solvency Capital Requirement	1,380,554	1,383,230	2,676
Eligible own funds to meet Minimum Capital Requirement	1,609,396	1,598,605	(10,791)
Minimum Capital Requirement	573,505	575,219	1,714

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

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

D.2.10 Transitional Deduction

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

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

D.3.1 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. A deferred tax asset or liability can be recognised based on the temporary difference where it is probable that they will reverse in future periods.

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. The blended tax rate for 2020 Financial reporting is derived from the tax jurisdictions in which the LMIE branch structure operates or trades.

There is no requirement to account for the Deferred tax liability on a Lux GAAP basis. However, in order to minimise the impact of re-domiciling LMIE from the UK to Luxembourg, LMIE has elected to provide for deferred tax in respect realised investment gains /losses and the asset surplus arising in respect of the LMIE defined benefit pension plan. This approach has been approved by the CaA.

This will not be disclosed separately on the balance sheet but shown in the provision for taxation line item in the notes to the Financial Statements. Solvency II 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

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

D.3.3 Insurance and intermediaries' payables

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

D.3.4 Payables (trade, not insurance)

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

D.3.5 Any other liabilities not elsewhere shown

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

SECTION D. 4 – Alternative Methods for Valuation

There are no material assets or liabilities for which alternative valuation methods are used, other than the valuation of certain financial investments, as described in section D.1.4. Financial investments amounting to €25.7 (2019: €27.4m) were valued in accordance with Article 10(4) of the Delegated Acts (Level 3).

SECTION D. 5 – Any Other Information

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

CAPITAL MANAGEMENT

SECTION E – CAPITAL MANAGEMENT

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

Key elements of the section are:

- Own Funds; and
- SCR and MCR

SECTION E.1 – Own Funds

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

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

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

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

Solvency band	Actions
Green (>125% of reference SCR)	• SCR updates in line with the SF Policy. • Potential to pay dividends subject to maintenance of green zone solvency. • Monitoring of risk of solvency deterioration over next three months.
Yellow (115% - 125% of reference SCR)	• SCR updates in line with the SF Policy. • 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)	• Re-run of impacted components of SF calculation. • 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)	• Re-run of impacted components of SF calculation. • 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 CaA.
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 CaA.
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 CaA.

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

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

- They reflect a sufficient margin for the LMIE business model and risk profile, supported by a solvency monitoring plan (set out below);
- LMIE policyholders benefit from a guarantee from our parent company; and
  LMIE's parent company requires the entity to maintain appropriate solvency coverage as defined in Section E.1.1. The requirement is being monitored on an ongoing basis and taking into account future capital requirements, as indicated by the business plans.

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

Solvency II distinguishes between basic Own Funds and ancillary Own Funds. The Own Funds structure for FY'20 and FY'19 is illustrated in the table below.

Capital Structure		2020 €'000	2019 €'000
Share Capital		255,424	255,424
Share Premium	E.1.2.a	1,098,434	521,105
Reconciliation Reserve	E.1.2.d	255,538	511,965
Available and Eligible Own Funds (for MCR Coverage)		1,609,396	1,288,494
MCR		573,505	418,072
MCR Coverage Ratio		**281%**	**308%**
An amount equal to the value of net deferred tax assets		13,970	8,844
Ancillary Own Funds	E.1.2b	347,348	
Available and Eligible Own Funds (for SCR Coverage)		**1,970,715**	**1,297,338**
SCR		1,380,554	1,111,750
SCR Coverage Ratio		**143%**	**117%**

A Capital Working Group reporting to the LSM CFO has been established during 2020 which is tasked with monitoring the Solvency II ratio. The major capital remediation measures implemented during the year, aimed at pushing the Solvency II ratio into the green zone aside from improving capital efficiency, were as follows:

a) **Capital injections** aggregating to €577m ($675m) received in multiple tranches through the year from the parent Liberty Specialty Markets Holdco (LSMH), which have led to the increase noted in Share Premium. LMIE's ordinary share capital, related share premium and reconciliation reserve are classified as Tier 1 unrestricted capital available to meet the SCR and MCR.

b) **Ancillary own funds** of €347m ($425m), classified as Tier 2 Own Funds, are structured through an Equity Commitment Agreement between LMIC, LSMH, and LMIE. This arrangement was approved by the CaA in September 2020 and executed by December 2020. A pledge facility with a minimum funding to ensure that the Market Value of pledge accounts is at least $425m, remains in-force as collateralisation against this commitment. Note that Tier 2 Ancillary Own Funds are not considered eligible to cover the MCR requirements.

c) **ECML LPT:** LMIE has sought reinsurance run-off protection for its ECML portfolio from Cavello Bay Reinsurance Ltd (hereafter referred to as 'Enstar'). Through the LPT, LMIE transferred to Enstar retrospective loss reserves c.€327m.

As Enstar is domiciled in Bermuda, the LPT required the Regulatory approval by the Bermuda Monetary Authority ('BMA') which it received on 30 December 2020. The transaction was completed of 8 January 2021. Therefore, it is not recognised on a statutory basis for the year ending 31 December 2020 and is accordingly disclosed as a post-balance sheet event in LMIE 2020 financial statements. However, under Solvency II Article 23 Future Management Actions, it has been recognised on a Bound but not incepted basis.

d) **Reconciliation Reserve** – This is made up of the remainder of the excess of assets over liabilities and classified as Tier 1 capital in accordance with the Solvency II regulations, as illustrated in the following table.

Description	2020 €'000	2019 €'000
Excess of assets over liabilities	**1,623,367**	**1,297,338**
Other basic own fund items - Ordinary share capital (gross of own shares)	(255,424)	(255,424)
Other basic own fund items - Share premium account related to ordinary share capital	(1,098,434)	(521,105)
Other basic own fund items - An amount equal to the value of net deferred tax assets	(13,970)	(8,844)
Reconciliation reserve	**255,538**	**511,965**

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

E.1.3 Own Funds changes in the period

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

	2020 €'000	2019 €'000
Lux GAAP equity attributable to shareholders	**1,764,922**	**1,278,947**
Valuation differences:		
Solvency II valuation adjustment movements:		
Fixed assets	(3,819)	(4,714)
Technical Provisions	29,806	130,597
Discounting	15,527	79,798
Risk Margin	(228,117)	(178,445)
Deferred tax	45,048	(8,844)
Solvency II excess of assets over liabilities	**1,623,367**	**1,297,338**

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

LMIE prepared its financial statements for the year ended 31 December 2020 in accordance with Luxembourg legal and regulatory requirements. The financial statements have been prepared using generally accepted accounting policies applied within the insurance and reinsurance industry in the Grand-Duchy of Luxembourg. Aside from those laid down by the law of 19 December 2002, accounting policies and valuation rules are determined and applied by the Board of Directors. The table on the following page provides an explanation of the differences between Lux GAAP equity and the Solvency II excess of assets over liabilities.

	2020 €'000	2019 €'000
Own Funds at 1 January	**1,297,337**	**1,114,037**
Loss on ordinary activities after tax	(5,042)	(56,008)
Comprehensive (loss)/income for the year	59,663	58,662
Issue of ordinary shares	577,329	178,174
Movement in Fixed Assets Write off	895	826
Movements in Solvency II Adjustments to Technical Provisions	(100,791)	409
Movement in Solvency II Discounting Adjustments	(64,270)	12,906
Movement in Solvency II Risk Margin	(49,671)	(20,010)
Movement in Solvency II Deferred Tax Adjustment	53,892	9,913
Other	(145,975)	(1,573)
Own Funds at 31 December	**1,623,367**	**1,297,337**

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 on the next page shows the SCR split by risk category and in aggregate.

	2020 €'000	2019 €'000	Variance	Variance %
Non-Life	1,051,711	820,775	230,935	28%
Health	9,495	1,569	7,926	505%
Market	248,776	217,084	31,692	15%
Counterparty	226,350	227,311	(961)	0%
Operational	108,314	85,465	22,849	27%
Div. Benefits	(264,091)	(230,809)	(23,638)	10%
LAC DT	0	(9,645)	9,645	-100%
SCR	**1,380,554**	**1,111,750**	**268,804**	**24%**

Overall, the SCR has increased by €268m / 24% over the year. The key drivers for this 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 Spread (larger fixed income investments and durations) and Currency (larger investments and lower liabilities in GBP) risks.
- The Counterparty default risk has marginally decreased as result of decrease in the amount of premium debtors' exposures overdue by more than 3 months;
- Operational risk increased in line with the material growth in gross best estimates.
- Loss Absorbing Capacity of Deferred Tax (LACDT): Article 207 of the EIOPA Delegated Acts stipulates that the Solvency Capital Requirement, calculated per the Standard Formula, can be adjusted for the LACDT, which may be recognised up to the value of the Solvency II Balance sheet Deferred Tax Liability (DTL). The DTL represents the minimum future profits against which the LACDT can be offset. Given that there is no DTL in the Solvency II Balance Sheet at FY'20, no benefit for LACDT has been recognized in the SCR calculations.

The MCR is higher by 37% at €573m compared to prior year, driven by a 26% increase in TPs and a 38% growth in NWP as a result of increase in business volume. The key inputs are tabulated in the following table by Solvency II line of business.

			2020			2019		
SII Classes	TP Factor	Premium Factor	Net TPs €'000	NWP €'000	MCR Charge €'000	Net TPs €'000	NWP €'000	MCR Charge €'000
Medical expense insurance	5%	5%	1,047	2,216	153	2,394	5,237	359
Income protection insurance	13%	9%	3,758	5,507	960	928	3,198	393
Workers' compensation insurance	11%	8%	0	0	0	0	0	0
Motor vehicle liability insurance	9%	9%	33,006	26,895	5,334	36,362	17,905	4,774
Other motor insurance	8%	8%	3,575	4,744	624	1,852	3,696	416
Marine, aviation and transport insurance	10%	14%	60,036	118,473	22,770	56,879	96,256	19,334
Fire and other damage to property insurance	9%	8%	273,842	329,903	50,484	220,927	372,506	48,705
General liability insurance	10%	13%	1,594,498	860,261	276,928	1,315,706	557,245	208,517
Credit and suretyship insurance	18%	11%	260,496	258,837	75,356	103,551	215,437	42,673
Legal expenses insurance	11%	7%	0	0	0	0	0	0
Assistance and proportional reinsurance	19%	9%	0	0	0	0	0	0
Miscellaneous financial loss insurance	19%	12%	21,858	56,158	10,917	77,151	57,178	21,326
Non-proportional health reinsurance	19%	16%	2,831	2,376	904	1,440	3,502	825
Non-proportional casualty reinsurance	19%	16%	112,821	56,704	30,001	136,179	33,124	30,596
Non-proportional marine, aviation and transport reinsurance	19%	16%	39,607	34,364	12,831	6,243	15,219	3,581
Non-proportional property reinsurance	19%	16%	92,166	434,593	86,243	26,082	199,509.05	36,573
TOTAL			**2,499,542**	**2,191,032**	**573,505**	**1,985,694**	**1,580,012**	**418,072**

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

This section is not applicable.

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

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

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

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

SECTION E. 6 – Any Other Information

No additional matters to report.

GLOSSARY OF TERMS

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

APPENDIX A – QRT'S

All QRT's are €000's

List of Reported Templates:

S.02.01.02 - Balance sheet

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

S.05.02.01 - Premiums, claims and expenses by country

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

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

S.23.01.01 - Own Funds

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

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

S.02.01.02 – Balance Sheet – Assets

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	13,970
R0050	Pension benefit surplus	8,364
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	3,522,481
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	3,495,915
R0140	*Government Bonds*	1,122,288
R0150	*Corporate Bonds*	2,369,766
R0160	*Structured notes*	0
R0170	*Collateralised securities*	3,861
R0180	*Collective Investments Undertakings*	24,373
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	2,194
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	40,588
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	40,588
R0270	Reinsurance recoverables from:	1,110,933
R0280	*Non-life and health similar to non-life*	1,110,933
R0290	*Non-life excluding health*	1,108,542
R0300	*Health similar to non-life*	2,391
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	83,928
R0360	Insurance and intermediaries receivables	236,885
R0370	Reinsurance receivables	107,706
R0380	Receivables (trade, not insurance)	134,347
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	519,642
R0420	Any other assets, not elsewhere shown	6,849
R0500	**Total assets**	5,785,693

S.02.01.02 – Balance Sheet – Liabilities

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,838,591
R0520	*Technical provisions - non-life (excluding health)*	3,827,843
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	3,600,448
R0550	*Risk margin*	227,396
R0560	*Technical provisions - health (similar to non-life)*	10,748
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	10,027
R0590	*Risk margin*	721
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	68,131
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	142,374
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	113,231
R0900	**Total liabilities**	4,162,327
R1000	**Excess of assets over liabilities**	1,623,367

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

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

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	1,084	3,664		2,934	605	140,422	188,075	995,942	165,162			55,050					1,552,937
R0120	Gross - Proportional reinsurance accepted	696	0		25,808	4,553	17,058	196,635	76,911	133,294			6,498					461,453
R0130	Gross - Non-proportional reinsurance accepted													1,992	65,005	79,791	319,586	466,375
R0140	Reinsurers' share	541	1,123		17,049	2,976	64,117	171,130	303,692	158,441			13,759	896	30,404	51,742	71,022	886,893
R0200	Net	1,238	2,541		11,692	2,182	93,363	213,580	769,161	140,014			47,789	1,096	34,602	28,050	248,564	1,593,871
	Premiums earned																	
R0210	Gross - Direct Business	1,167	3,946		4,205	575	132,400	169,121	893,210	143,716			61,619					1,409,960
R0220	Gross - Proportional reinsurance accepted	1,136	0		23,947	4,513	15,027	184,393	69,193	110,911			6,573					415,694
R0230	Gross - Non-proportional reinsurance accepted													2,288	66,171	37,427	286,583	392,469
R0240	Reinsurers' share	712	1,211		16,964	2,951	52,525	127,616	255,649	115,047			12,248	915	33,900	24,951	72,705	717,396
R0300	Net	1,590	2,735		11,188	2,137	94,902	225,899	706,754	139,580			55,945	1,373	32,270	12,477	213,879	1,500,727
	Claims incurred																	
R0310	Gross - Direct Business	969	3,276		5,797	318	91,426	119,550	734,802	75,214			62,237					1,093,589
R0320	Gross - Proportional reinsurance accepted	649	0		12,911	2,131	55,483	83,663	69,480	66,872			11,320					302,509
R0330	Gross - Non-proportional reinsurance accepted													5,614	65,001	41,598	153,924	266,136
R0340	Reinsurers' share	512	1,128		17,931	2,245	71,240	58,761	265,207	43,991			31,874	1,412	34,160	29,289	36,723	594,473
R0400	Net	1,106	2,148		776	203	75,668	144,452	539,074	98,095			41,684	4,202	30,840	12,309	117,201	1,067,760
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0		0	0	0	0	0	0			0	0	0	0	0	0
R0550	**Expenses incurred**	598	1,312		3,561	848	31,840	74,908	248,059	50,830			31,732	459	12,588	4,335	64,930	526,001
R1200	**Other expenses**																	
R1300	**Total expenses**																	526,001

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			FR	DE	IT	ES	GB	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	1,864	86,016	81,825	63,638	74,907	890,367	1,198,617
R0120	Gross - Proportional reinsurance accepted	5,841	85,047	38,825	40,113	24,274	105,959	300,059
R0130	Gross - Non-proportional reinsurance accepted	7,799	27,191	60,027	8,991	31,059	72,534	207,601
R0140	Reinsurers' share	176	49,528	36,659	14,740	25,975	340,179	467,257
R0200	Net	15,328	148,727	144,017	98,002	104,265	728,681	1,239,020
	Premiums earned							
R0210	Gross - Direct Business	450	78,363	60,015	57,811	74,893	823,370	1,094,902
R0220	Gross - Proportional reinsurance accepted	3,943	80,301	38,420	34,914	21,187	69,475	248,240
R0230	Gross - Non-proportional reinsurance accepted	7,242	30,981	61,367	6,151	28,056	61,027	194,824
R0240	Reinsurers' share	271	45,808	31,025	12,593	22,586	277,007	389,290
R0300	Net	11,363	143,838	128,776	86,284	101,551	676,865	1,148,676
	Claims incurred							
R0310	Gross - Direct Business	225	60,597	119,147	31,261	34,748	645,854	891,832
R0320	Gross - Proportional reinsurance accepted	227	43,887	2,951	14,052	23,500	76,338	160,955
R0330	Gross - Non-proportional reinsurance accepted	506	47,017	25,394	3,559	26,808	95,743	199,027
R0340	Reinsurers' share	103	40,574	62,079	5,636	12,120	318,769	439,281
R0400	Net	855	110,927	85,413	43,235	72,937	499,166	812,533
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	3,270	42,994	42,776	29,498	37,140	209,118	364,797
R1200	**Other expenses**							
R1300	**Total expenses**							364,797

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	0		0	0	0	0	0	0			0	0	0	0	0	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	-33	-162		-775	-121	-11,149	-49,597	-79,470	6,215			-24,944	-139	-4,510	-6,721	-21,977	-193,382
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-135	-523		-4,392	-113	-5,171	-27,759	-286,228	-45,425			-5,014	-170	-53,637	-5,726	-15,468	-449,762
R0150	**Net Best Estimate of Premium Provisions**	102	361		3,617	-8	-5,978	-21,838	206,759	51,641			-19,930	31	49,127	-995	-6,509	256,379
	Claims provisions																	
R0160	Gross	1,496	5,210		64,023	7,882	110,083	455,295	2,306,249	331,293			95,027	3,654	197,405	91,864	134,375	3,803,857
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	551	1,813		34,634	4,300	44,068	159,615	918,509	122,438			53,238	855	133,711	51,262	35,700	1,560,694
R0250	**Net Best Estimate of Claims Provisions**	944	3,397		29,389	3,583	66,014	295,680	1,387,740	208,855			41,789	2,800	63,694	40,603	98,675	2,243,163
R0260	**Total best estimate - gross**	1,463	5,049		63,248	7,761	98,933	405,698	2,226,779	337,509			70,083	3,515	192,895	85,143	112,398	3,610,475
R0270	**Total best estimate - net**	1,047	3,758		33,006	3,575	60,036	273,842	1,594,498	260,496			21,858	2,831	112,821	39,607	92,166	2,499,542
R0280	**Risk margin**	35	342		2,705	296	5,684	21,373	119,091	29,549			8,922	343	18,534	8,625	12,616	228,117
	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**	1,498	5,391		65,953	8,057	104,618	427,071	2,345,870	367,058			79,005	3,858	211,429	93,768	125,014	3,838,591
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	416	1,290		30,242	4,187	38,897	131,856	632,281	77,013			48,224	684	80,074	45,536	20,232	1,110,933
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	1,082	4,101		35,711	3,871	65,721	295,215	1,713,589	290,045			30,780	3,174	131,355	48,232	104,783	2,727,658

S.19.01.21 – Non-Life Insurance Claims

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

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

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year 0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
R0100	Prior											14,794	14,794	14,794
R0160	-9	8,499	59,855	55,380	32,601	29,975	27,752	14,173	3,503	1,688	7,644		7,644	241,069
R0170	-8	21,839	51,883	82,534	54,342	34,646	23,811	9,493	6,312	9,622			9,622	294,483
R0180	-7	14,578	62,839	50,984	53,732	28,550	28,987	14,515	-973				-973	253,211
R0190	-6	57,937	110,484	44,035	39,388	36,282	76,395	17,471					17,471	381,993
R0200	-5	29,104	157,760	91,392	84,416	94,612	59,723						59,723	517,006
R0210	-4	29,562	134,296	80,595	47,241	55,148							55,148	346,842
R0220	-3	28,668	153,360	115,917	110,221								110,221	408,166
R0230	-2	17,965	122,889	124,755									124,755	265,609
R0240	-1	17,165	201,158										201,158	218,323
R0250	2020	60,962											60,962	60,962
R0260												Total	660,525	3,002,459

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year 0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
R0100	Prior											181,825	180,945
R0160	-9	0	0	0	0	0	108,456	72,480	67,687	59,090	28,781		28,953
R0170	-8	0	0	0	0	146,779	96,312	74,075	87,212	80,060			79,812
R0180	-7	0	0	0	220,449	162,660	96,990	102,939	72,284				72,196
R0190	-6	0	0	362,528	273,097	238,482	186,201	162,480					161,569
R0200	-5	0	466,112	427,851	370,123	361,400	231,700						229,525
R0210	-4	316,020	447,227	369,356	353,254	273,292							271,618
R0220	-3	376,566	517,701	613,871	418,753								416,021
R0230	-2	315,312	716,615	571,790									568,722
R0240	-1	763,709	1,040,343										1,034,801
R0250	2020	761,157											759,694
R0260												Total	3,803,857

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	3,838,591	0	0	22,504	0
R0020	Basic own funds	1,623,367	0	0	-10,791	0
R0050	Eligible own funds to meet Solvency Capital Requirement	1,970,715	0	0	-10,791	0
R0090	Solvency Capital Requirement	1,380,554	0	0	2,676	0
R0100	Eligible own funds to meet Minimum Capital Requirement	1,609,396	0	0	-10,791	0
R0110	Minimum Capital Requirement	573,505	0	0	1,714	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)	255,424	255,424		0	
R0030	Share premium account related to ordinary share capital	1,098,434	1,098,434		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	255,538	255,538			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	13,970				13,970
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	1,623,367	1,609,396	0	0	13,970
	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	347,348			347,348	
R0400	**Total ancillary own funds**	347,348			347,348	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,970,715	1,609,396	0	347,348	13,970
R0510	Total available own funds to meet the MCR	1,609,396	1,609,396	0	0	
R0540	Total eligible own funds to meet the SCR	1,970,715	1,609,396	0	347,348	13,970
R0550	Total eligible own funds to meet the MCR	1,609,396	1,609,396	0	0	
R0580	**SCR**	1,380,554				
R0600	**MCR**	573,505				
R0620	**Ratio of Eligible own funds to SCR**	142.75%				
R0640	**Ratio of Eligible own funds to MCR**	280.62%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	1,623,367
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,367,829
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	255,538
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	230,938
R0790	**Total Expected profits included in future premiums (EPIFP)**	230,938

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	248,776		
R0020	Counterparty default risk	226,350		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	9,495		
R0050	Non-life underwriting risk	1,051,711		
R0060	Diversification	-264,091		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	1,272,240		

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	108,314
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	1,380,554
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	1,380,554
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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

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

S.28.01.01 – Minimum Capital Requirement

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	573,505

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	1,047	2,216
R0030	Income protection insurance and proportional reinsurance	3,758	5,507
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	33,006	26,895
R0060	Other motor insurance and proportional reinsurance	3,575	4,744
R0070	Marine, aviation and transport insurance and proportional reinsurance	60,036	118,473
R0080	Fire and other damage to property insurance and proportional reinsurance	273,842	329,903
R0090	General liability insurance and proportional reinsurance	1,594,498	860,261
R0100	Credit and suretyship insurance and proportional reinsurance	260,496	258,837
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	21,858	56,158
R0140	Non-proportional health reinsurance	2,831	2,376
R0150	Non-proportional casualty reinsurance	112,821	56,704
R0160	Non-proportional marine, aviation and transport reinsurance	39,607	34,364
R0170	Non-proportional property reinsurance	92,166	434,593

	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	573,505
R0310	SCR	1,380,554
R0320	MCR cap	621,249
R0330	MCR floor	345,138
R0340	Combined MCR	573,505
R0350	Absolute floor of the MCR	3,700
R0400	**Minimum Capital Requirement**	573,505