Made possible

Solvency and Financial Condition Report

QBE Europe SA/NV

for the year ended 31 December 2021

Contents

Summary

This document (the Solvency and Financial Condition Report, or 'SFCR') sets out the 31 December 2021 solvency condition of QBE Europe SA/NV ('QBE Europe' or 'the Company'), a Belgium-based (re)insurer authorised by the National Bank of Belgium ('NBB'). QBE Europe underwrites (re)insurance business across the European Economic Area ('EEA') on Freedom of Services ('FOS') basis and Freedom of Establishment ('FoE') through its head office (based in Brussels, Belgium) and its European and Bermudian branch network.

The Company is a wholly owned subsidiary of QBE European Operations plc ('EO plc'), a wholly owned indirect subsidiary of the Sydney headquartered QBE Insurance Group Limited ('QBE Group'). QBE Group is listed on the Australian Securities Exchange ('ASX') and is a globally recognised general insurer and reinsurer.

As the intermediary holding parent of QBE Group's European operations, EO plc owns other subsidiary undertakings alongside QBE Europe, including QBE UK Limited ('QUK'), and manages two Lloyd's syndicates through its managing agent QBE Underwriting Limited ('QUL'). For the purpose of this document the EO Group is defined as EO plc and its subsidiary undertakings including QBE Europe.

The COVID-19 pandemic remained a significant area of focus for the Company during 2021, and the associated risks and the longer-term impacts on the economy were managed through ongoing action plans. The progress made in developing and deploying vaccines has begun to restore confidence and assist businesses in Belgium and other developed countries to recommence trading activity where this has been restricted by lockdowns, and uncertainty in the volatility in investments and the associated market risk reduced as markets and economies recovered. However, renewed waves and new variants of the virus continued to pose concerns, and could lead to further economic impacts and market disruption.

The safety and wellbeing of our people, customers, partners and their communities has remained our priority 2021. The business continuity framework has proven resilient to the operational challenges encountered during the prolonged COVID-19 situation. Alongside the lifting of COVID-19 restrictions and return to the office in the majority of our locations, flexible working arrangements were introduced to ensure staff wellbeing and enhance performance.

Business and Performance Summary

Key drivers of the business model and performance are the net income written by the Company, the net claims experience in relation to that net income, performance of investment portfolio and management of the underlying expense and commission base. In particular, management monitor the net claims experience on current and prior year underwriting. The key indicators used by management to monitor performance are gross written premium, net earned premium, claims, commission and expense ratios. Investment strategy is set and monitored on an absolute return basis, against the financial plan set during the planning process for each year.

The gross written premium generated by the non-life business amounts to €1.600m, 63% of which is insurance business being written out of the foreign insurance branches or on a Freedom of Services basis out of the head office in Belgium. Life business generated a gross premium income of €45m down from €70m following the cancellation of some major treaties. The life premium volume continues to be 100% generated by reinsurance business written out of the head office in Belgium. The increase in net earned premiums is in line with the increase of the gross written premium.

The claims ratio has been negatively impacted by the recent European floods and other natural catastrophes, despite benefitting from a small net release of built-up equalisation provisions.

The increase of the net operating expenses was lower than the growth of the net earned premium, resulting in a slightly lower commission and expenses ratio than in 2020.

Investment performance

Investment return returned to more normal levels in line with the composition of the investment portfolio and the Company's investment risk appetite. In 2020, the investment return was heavily impacted by COVID-19 related financial market volatility and the Company's decision to de-risking the investment portfolio during the first half of 2020. The investment portfolio continues to consist almost entirely of debt securities and other fixed income securities.

System of Governance Summary

The Board of Directors (the 'Board') of the Company is collectively responsible for the long-term success of the Company. The role of the Board is to provide leadership; to oversee the design and implementation of the Company's strategy in light of the strategy set by the EO Group and QBE Group and to set a framework of prudent and effective controls which enable risk to be assessed and managed.

The Board ensures that the necessary financial and human resources are in place for the Company and for EO Group to meet its objectives and reviews the performance of management in delivering on the Company and EO Group strategic aims, which are aligned with those of the QBE Group, the ultimate holding company of the EO Group.

The Board has established a Management Committee which is responsible for the day-to-day management and operations of the Company. In addition, the EO Executive Management Board ('EMB') supports the Chief Executive Officer of EO plc in providing executive management of the entire EO Group, including the Company.

Key changes to the corporate governance structure and in board composition during the year were:

- Mr David Winkett resigned as CFO of the EO Group to move to a QBE Group role and Mr Christopher Killourhy was appointed to this role with effect from 4th February 2021; and
- Mr Thierry Bourguignon resigned as a member of the Management Committee, Director and CFO of the Company on 31 December 2021.

In June 2021 a Board Effectiveness Review was carried out by Lintstock on behalf of QBE Group, encompassing the Divisional Boards, including that of the Company. Comments supporting continuous improvement of effectiveness of the Board arising from the review were discussed by the Boards and a number of minor actions were agreed.

During the year the Board Charter was reviewed with enhancements made to reflect ongoing assessment of key responsibilities and the requirements of Group Governance Framework ('GGF').

For more information on systems of governance, see section B.

Risk Profile Summary

The Company is exposed to various risks and uses a number of methods and techniques to identify, assess, evaluate and mitigate these risks on a continuous basis. The main risks comprise:

- Insurance Risk;
- Credit Risk;
- Market Risk;
- Liquidity Risk;
- Operational Risk;
- Compliance Risk;
- Group Risk; and
- Strategic Risk.

To address these risks, the Company uses a number of risk mitigation techniques, as described in section C. A dedicated risk management function ensures that these risks are fully understood and their impact on EO Group and the Company is comprehensively evaluated.

The Company's internal risk profile has seen divergent risk trends throughout 2021, while the external risk profile has remained predominantly stable with some risk increasing trends. Both the internal and external risk profiles were impacted as a result of increased uncertainty regarding inflation: HICP in Europe was 5,0% at the end of 2021 with an increasing trend. In addition, inflation was also hitting a 30 year high at this time in the UK, where the EO Group is based, as the Consumer Prices Index ('CPI') rose by 5,4% in the 12 months to December 2021, with a Bank of England forecast to be over 7% in spring

2022. As well as increasing the cost of claims and impacting reserving and creating economic uncertainty, price inflation could impact the Company and the EO Group through increased operating costs.

For more information on the risk profile, see section C.

Valuation Summary

As at 31 December 2021, the Company had excess assets over liabilities under Solvency II of €1.238m (2020: €1.249m) compared to €1.260m of net assets under Belgium Generally Accepted Accounting Practices ('BE GAAP') (2020: €1.182m). The adjustments made to move from BE GAAP balance sheet to Solvency II balance sheet are set out below:

Reconciliation from BE GAAP equity to SII Own funds	(€ 'm)
Total equity – statutory basis	**1.260**
Removal of net technical provisions balances on a BE GAAP basis	777
Inclusion of net technical provisions on a Solvency II basis	(827)
Valuation adjustment: investments	21
Valuation adjustment: other*	1
Excess of assets over liabilities – Solvency II basis	**1.232**
Adjustment: Subordinated liabilities	200
Adjustment: Foreseeable dividends	-
Adjustment: Restricted own fund items in respect of ring-fenced funds	(18)
Own Funds – Solvency II basis	**1.414**

* Other adjustments include deferred tax adjustments.

The valuation of assets, technical provisions and other liabilities is explained in section D. Investment assets are measured at fair value. Where other valuation methods are used the key assumptions and adjustments are included in section D.4.

Capital Management Summary

The Company's primary capital management objective is to maintain sufficient own funds to cover the Solvency Capital Requirement ('SCR') with an appropriate surplus. The Company has adopted a Capital Appetite Framework ('CAF'), setting out the target levels of capital and potential remediation actions in the event that capital falls below the stated appetite. The CAF has been approved by the Board of the Company and senior management carry out regular reviews, on at least a quarterly basis, to monitor the ratio of eligible own funds ('EOF') over SCR.

The Company has an approved Internal Model which it uses as the basis for the SCR.

As at 31 December 2021 and 2020, the Company reported the following EOF, SCR and SCR coverage ratios:

(€'m)	Eligible Own Funds to meet the SCR	SCR	SCR coverage ratio	MCR coverage ratio
2021	€1.414	€951	148,6%	302,5%
2020	€1.249	€937	133,3%	266,6%

As at 31 December 2021, the Company's eligible own funds available to cover the SCR are made up of Tier 1 unrestricted (85,6%), Tier 2 (14,1%) and Tier 3 (0,3%).

The Company satisfied and complied with the MCR and SCR requirements over the reporting period.

For more information on capital management, see section E.

Directors' Report

Statement of Directors' responsibilities

The Directors acknowledge their responsibility for ensuring that the Solvency and Financial Condition Report ('SFCR') has been prepared in all material respects in accordance with NBB rules and Solvency II regulations.

The Directors are satisfied that to the best of their knowledge and belief:

1) Throughout the financial year to 31 December 2021 QBE Europe SA/NV has complied in all material respects with the requirements of the NBB rules and Solvency II Regulations as applicable; and
2) It is reasonable to believe that in respect of the period from 31 December 2021 to the date of the publication of the SFCR, QBE Europe SA/NV has continued so to comply and that it will continue to so to comply for the remainder of the financial year to 31 December 2022.

By order of the Board:

Director

QBE Europe SA/NV

Registered Number 0690.537.456

Belgium

7 April 2022

Section A: Business and Performance

A.1 Business

A.1.1 Business Overview

The Company's name and legal form is QBE Europe SA/NV ('QBE Europe' or 'the Company') and its supervisory authority responsible for its financial supervision is the National Bank of Belgium ('NBB'). The Company is owned by EO plc, an intermediate holding company, incorporated in England and Wales and is the ultimate EEA parent at which group supervision is applied by the Prudential Regulation Authority ('PRA'). The entire issued share capital of EO plc is owned by QBE Insurance Holdings Pty Limited and is ultimately wholly owned by QBE Insurance Group Limited ('QBE Group'). QBE Group is listed on the ASX and is subject to supervision by the Australian Prudential Regulation Authority.

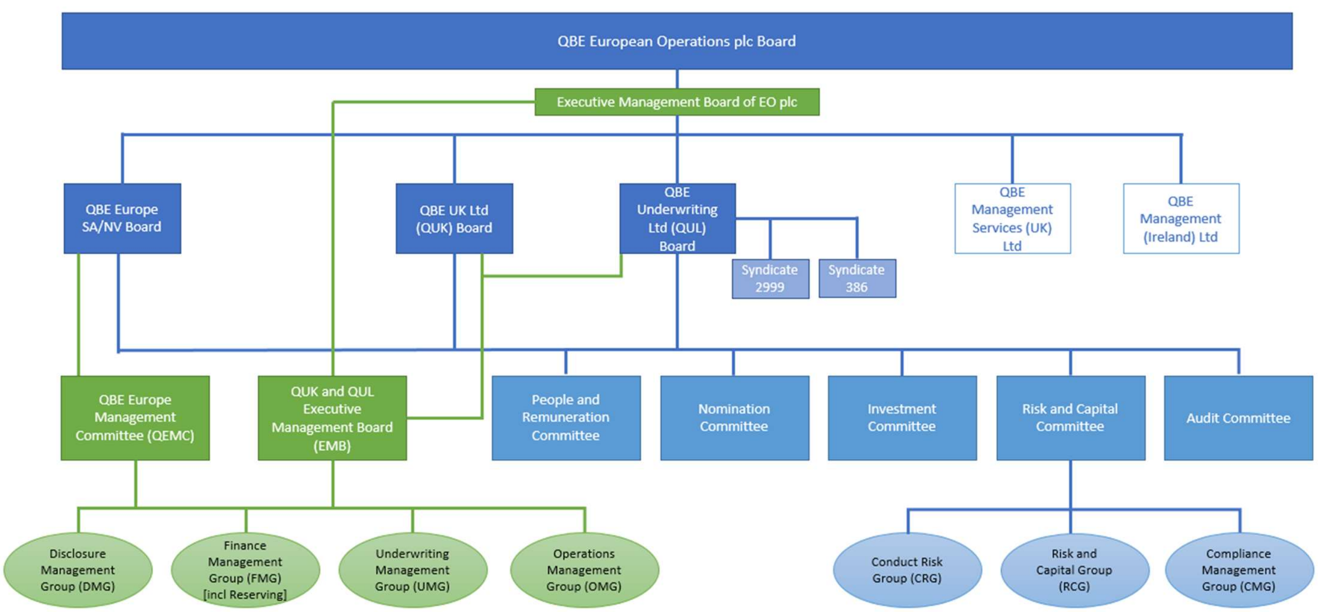
The principal activity of the Company is the transaction of insurance and reinsurance business. The Company continues this activity through the development of its existing lines of business, while actively seeking new opportunities for expansion and profitable growth. The strategic ambition of QBE Group, of which the Company forms a part, is to remain focused on further improving an already very strong business.

Geographical locations

The Company has its head office in Brussels, Belgium and has branches in Bermuda, Denmark, France, Germany, Ireland, Italy, Spain, Sweden and United Kingdom. The Company underwrites life and non-life reinsurance businesses, as well as trade credit and bunds, property, casualty, financial lines, marine and motor direct insurance business. All branches of the Company are separately authorised and regulated by the local regulators.

A.1.2 Organisational structure of the Company and EO Group

The following chart shows, in simplified form, the Company's position within the structure of the EO Group as at 31 December 2021, together with the governance forums within the group:



This is a high-level simplified structure showing ownership chain of key operational companies in the EO Group, of which the Company is a part.

A.1.3 Significant events in the reporting period

The following significant events and transactions impacted the Company and its business during the year:

- On 19 November 2021 the Company signed a commutation agreement in respect of its Divisional Large Risk & Catastrophe ('DLRC') intra-group reinsurance contracts, covering 2015 and 2017 accident years. The contracts were commuted at the contract limit. The consideration will be received by the Company in 10 equal quarterly instalments. The final payment is expected to be received in Q4 2023.

A.1.4 Significant post-balance sheet events

The following significant events and transactions impacted the Company and its business after the reporting period:

- As the insurance industry continues to assess the impact of the storms Dudley, Eunice and Franklin which affected parts of Western, Central and Northern Europe in February 2022, the Company has performed initial reviews of its exposure based on outputs of the Natural Catastrophe models it uses. Property classes of business being an integral part of the Company's strategic focus, the Company has a robust reinsurance programme in place which will reduce the net exposure to these events.
- The Company has performed an initial review of the potential impact of the conflict between Russia and Ukraine on the Company's operations and future results. The review performed included an assessment of the potential insurance exposures and the impact of sanctions as well as the potential impact on the valuation of financial assets. The situation will be kept under close review but at this stage there is not expected to be a material impact on the solvency of the Company.

A.1.5 Other information

A.1.5.1 External Contacts

The Company's supervisor is the NBB. Contact details for the NBB are as follows:

National Bank of Belgium

Boulevard de Berlaimont 14

1000 Brussels

Telephone: +32 (0)2 221 21 11

The Company's external auditor is PwC Réeviseurs d'Entreprises SRL / Bedrijfsrevisoren BV. Contact details are as follows:

PwC Réeviseurs d'Entreprises SRL / Bedrijfsrevisoren BV

Woluwe Garden

Woluwedal 18

1932 Sint-Stevens-Woluwe

Telephone: +32 (0)2 710 42 11

www.pwc.be

A.1.5.2 Rounding convention

The SFCR is presented in Euros rounded to the nearest million. The Quantitative Reporting Templates (‘QRTs’) are presented in Euros rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

A.2 Underwriting Performance

A.2.1 Underwriting performance during the year

A.2.1.1 Overview

The Company prepares its financial statements in accordance with Belgium Generally Accepted Accounting Practices (‘BE GAAP’). The table below presents the key performance indicators for the current and prior year.

Key metrics (€’m)	2021	2020
Gross written premium	1.645	1.463
Net earned premium	1.279	1.178
Claims ratio	67,7%	58,6%
Commission and expense ratio	30,2%	16,7%
Combined operating ratio	97,8%	92,0%

The gross written premium generated by the non-life business amounts to €1.600m, 63% of which is insurance business being written out of the foreign insurance branches or on a Freedom of Services basis out of the head office in Belgium. Life business generated a gross premium income of €45m down from €70m following the cancellation of some major treaties. The life premium volume continues to be 100% generated by reinsurance business written out of the head office in Belgium. The increase in net earned premiums is in line with the increase of the gross written premium.

The claims ratio has been negatively impacted by the recent European floods and other natural catastrophes, despite benefitting from a small net release of built-up equalisation provisions.

The increase of the net operating expenses was lower than the growth of the net earned premium, resulting in a slightly lower commission and expenses ratio than in 2020.

A.2.1.2 Underwriting performance by Solvency II line of business

The table below provides a summary of the key performance indicators for the material Solvency II lines of business underwritten by the Company. The values in the table are consistent with BE GAAP and are prepared on the same basis as QRT S.05.01.01, where claims management expenses are included in expenses incurred. The full QRT is included in Appendix A.

31 December 2021 €'m	General Liability Insurance	Fire and other damage to property insurance	Property	Casualty	Marine, aviation and transport insurance	Life re-insurance	Other	Total
Gross written premium*	569	456	200	141	73	45	161	1.645
Net earned premium	455	344	130	116	62	40	132	1.279
Net claims incurred	242	243	186	67	21	26	54	839
Expenses incurred	158	131	36	33	18	10	31	417
Underwriting performance	55	(30)	(92)	16	23	4	47	23

**Direct business and reinsurance accepted*

31 December 2020 €'m	General liability insurance	Fire and other damage to property insurance	Property	Casualty	Marine, aviation and transport insurance	Life re-insurance	Other	Total
Gross written premium*	504	383	158	105	78	70	165	1.463
Net earned premium	406	292	121	90	67	65	137	1.178
Net claims incurred	161	160	101	93	43	56	77	691
Expenses incurred	156	121	28	21	17	11	39	393
Underwriting performance	89	11	(8)	(24)	7	(2)	21	94

**Direct business and reinsurance accepted*

General liability insurance

Increase in gross written premiums for the year were driven by the rates achieved, particularly loss exposed Financial Lines account where rate adequacy was returning to the market. Underwriting performance remained strong but lessened with activity returning back to more normalised levels post the lockdowns seen as part of the COVID-19 pandemic.

Fire and other damage to property insurance

Gross written premiums increased with strong rating being achieved along with strong new business across Continental Europe. Overall profitability suffered reflecting Irish Business Interruptions exposure due to COVID-19.

Property

Property saw improved rate during 2021 in reaction to the continued Cat activity which has been above the previous norm for the past 5 years. Market conditions restricting competition gave opportunities for new business in addition to several policies transferred from Lloyd's to QBE Europe. Claims were significantly impacted by European Storms Volker, Storm Xero and Storm Bernd.

Bermuda premium levels stayed the same as 2020, whereas the claim reserves for Hurricane IDA, Texas Winter storms and the European storms were higher than last year, largely COVID-19 related.

Belgium non-proportional treaty also achieved rate increases on renewals, particularly in European countries where there was extreme loss activity in 2019 and 2020, which included the impact of COVID-19. European storms generated claims larger than last year's cat events.

Casualty

Increase in gross written premium for the year were driven by the rates achieved, particularly in France and Ireland. The uncertainty over future discount rates had fuelled some ability to increase premiums. Rate improvements generated better technical margins. Overall, the performance improved from prior year with better-than-expected claims activity against COVID-19 related claims in 2020.

Marine, aviation & transport insurance

Gross written premium was down compared to prior year driven by reduced retention where sub limits have been revised in reaction to COVID-19.

Life

The life reinsurance business is located in Belgium, where premium levels reduced due to unattractive renewal prices. The Discount rates continued to affect the ability to price risks at a desired level. Risks also declined in some cases where COVID-19 was still a factor, such as Latin America. The overall performance was a small loss as last year.

Other

The 'Other' Solvency II lines of business consist largely of credit and suretyship, health, and motor vehicle liability insurance. 'Other' lines of business represent 10% (2020: 11%) of QBE Europe's gross written premium.

A.2.1.3 Underwriting performance by material geographical areas

Underwriting performance within the Company's material geographical areas are shown in the table below for the current and prior year. The results are prepared on the same basis as QRT S.05.02.01 which requires the information to be reported by a mix of risk location and location from which premium is written. The full QRT is included in Appendix A.

Non-Life

31 December 2021 €'m	Belgium	France	United Kingdom	Spain	Germany	Italy
Gross written premium	197	361	193	122	101	82
Net earned premium	175	272	128	93	78	62
Net claims incurred	89	161	85	62	121	43
Expenses incurred	59	103	39	31	21	25
Underwriting performance	27	8	4	-	(64)	(6)

**Direct business and reinsurance accepted*

Non-Life

31 December 2020 €'m	Belgium	United Kingdom	France	Spain	Italy	Ireland
Gross written premium	38	337	302	95	77	73
Net earned premium	35	253	230	83	70	60
Net claims incurred	8	85	171	53	51	29
Expenses incurred	11	86	86	26	27	21
Underwriting performance	16	82	(27)	4	(8)	10

**Direct business and reinsurance accepted*

Life

31 December 2021 €'m	Belgium	United Kingdom	France	Mexico	Peru	Switzerland
Gross written premium	16	7	4	3	2	2
Net earned premium	14	6	3	3	2	2
Net claims incurred	12	6	(2)	8	(1)	1
Expenses incurred	3	1	1	1	-	1
Underwriting performance	(1)	(1)	4	(6)	3	-

**Reinsurance accepted*

Life

31 December 2020 €'m	Belgium	Peru	Mexico	Chile	United Kingdom	Spain
Gross written premium	20	9	7	6	5	4
Net earned premium	18	8	7	5	5	4
Net claims incurred	9	8	6	5	3	4
Expenses incurred	3	2	2	0	0	1
Underwriting performance	6	(2)	(1)	0	2	(1)

**Reinsurance accepted*

A.3 Investment Performance

A.3.1 Overview

The Company's investment portfolio allocations, and overall portfolio structure, is substantially unchanged during 2021. Connected with positive changes in the global growth outlook, and changes in expectations about the future path of government market interventions and global central bank interest rates, fixed income yields on Corporate and Sovereign debt holdings have increased during the year. These market increases have resulted in mark-to-market losses on the Company's fixed income assets during the year.

The majority of fixed income portfolios have an average credit rating equivalent to or better than Standard & Poor's 'A'. The minimum permitted credit quality per the guidelines is 'BBB-'grade instruments.

The Company and the EO Group follow the defined approach, risk framework and governance processes around the 'Prudent Person Principle' ('PPP') as set out in Solvency II regulation, with updates during 2020 and 2021 to reflect additional requirements of the investment function per NBB 2016_31 and PRA SS1/20, to the extent relevant to the Company. These principles are now embedded in processes and controls within the EO Group and the Company.

The information on investment performance below is presented under the fair value basis.

A.3.2 Investments in securitisation

The Company's investments are managed centrally within the EO Group. The EO Group's Investment Guidelines and Restrictions impose certain criteria for investment in relation to securitised assets in addition to that which exists for fixed income investment in general. Specifically, and to comply with Article 135 2(a) of the SII Directive 2009/138/EC the fund manager shall when investing in products specified as structured, ensure that:

- The originator of the product at all times retains a net economic interest of no less than 5%;

- That a dual rating is retained by each issue in order to avoid that issue being treated as having no rating; and
- Shall not invest in securities that are classified as 're-securitised' products.

As at 31 December 2021 the Company's investment in securitisation is €199m (2020: €202m), comprised of Asset Backed Securities ('ABS').

A.3.3 Investment performance

As at 31 December 2021, the Company's investments are primarily held in fixed income bonds and money market instruments, with a modest exposure to growth assets through investment funds in infrastructure debt and assets, unlisted property, private equity and exchange traded commodities (Gold).

The total investment returns achieved for the year are set out below. The combined currency total return for the year was -0,1% (2020: -0,3%) on a mark-to-market basis.

Investments are monitored using the asset types below. The yields by asset type are:

Yield by Asset Type	2021		2020	
	Yield (%)	Yield €'m	Yield (%)	Yield €'m
Fixed Income	(0,7)	(26,1)	1,5	54,1
Equities	0,7	0,0	(25,4)	(26,1)
Infrastructure loans	(0,0)	(0,1)	3,3	1,1
Infrastructure assets	15,1	7,2	0,1	0,0
Unlisted property trusts	8,0	10,1	(3,4)	(2,7)
High yield debt	-	-	(14,3)	(11,8)
Emerging market equity	-	-	(21,3)	(5,0)
Emerging market debt	-	-	(26,0)	(18,8)
Private Equity	13,7	5,4	13,7	3,6
Other alternatives	(9,7)	(0,7)	12,9	2,2
Total investment return	**(0,1)**	**(4,3)**	**(0,3)**	**(3,2)**

Investment expenses and charges were €38m for the period (2020: €66m), reduced from prior year due to lower level of realised losses on investments.

A.4 Performance of other activities

A.4.1 Material leasing arrangements

The Company is not party to any material leasing arrangements.

A.4.2 Other material income and expenses

There is no other material income and expenses for the Company.

A.4.3 Gains and losses recognised directly in Equity

There is no gains and losses recognised directly in Equity for the Company.

A.5 Any other information

There is no other material information regarding business and performance of the Company.

Section B: System of governance

B.1 General information on the system of governance

B.1.1 Overview

For the purposes of this document the EO Group is defined as EO plc and its subsidiary undertakings including QBE Europe. EO plc is a wholly owned indirect subsidiary of the Sydney headquartered QBE Insurance Group Limited ('QBE Group').

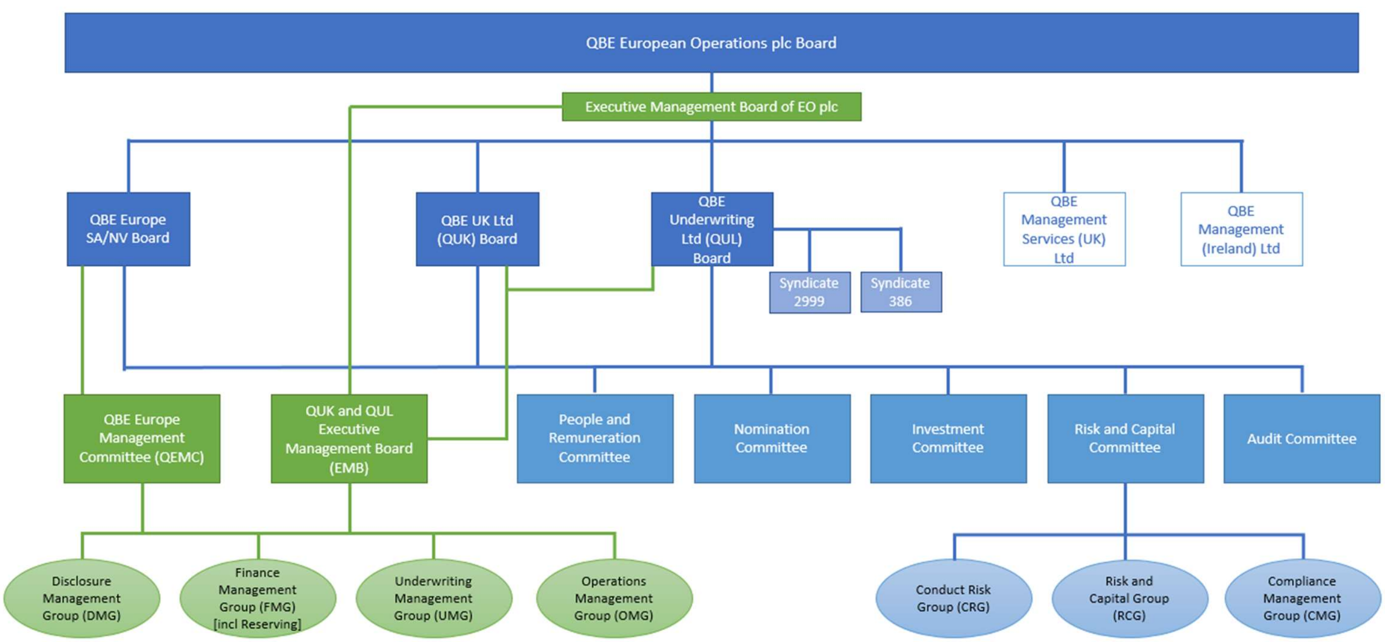
As part of the EO Group, the Company shares many of its key functions with other companies in the EO Group. Similarly, the governance and committee structure is broadly the same across companies within the EO Group. However, the Company has a dedicated Management Committee with Terms of Reference, established in July 2018, as illustrated in the Board and Committee structure chart below.

The Board charter of the Company (provided separately to the NBB) state that the Board of Directors is collectively responsible for the long-term success of the Company. The role of the Board is to provide leadership; to oversee the design and implementation of the Company strategy and to set a framework of prudent and effective controls which enable risk to be assessed and managed within it. The Board ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews the performance of management in delivering on the Company's strategic aims. The Board should set and instil the Company's values and culture in the light of those set by the QBE Group, the ultimate holding company of the EO Group and its subsidiaries and ensure that its obligations to its shareholder and other stakeholders are understood and met.

The Board of EO plc comprises four Board members: three executive directors and one non-executive director, Mr. Tim Ingram, who chairs the EO Group Boards.

The role of the Chair of the Board is distinct from that of the Chief Executive Officer, and each role is clearly established. The Board considers that the experience and areas of focus which each Board member brings to the Company results in a strong and balanced leadership team to set and monitor the strategy and values of the EO Group and the Company.

EO plc is the EEA holding company of the EO Group. The Board and Committee structure of EO plc and QBE Europe (as well as QUK and QUL) is illustrated below. As shown, the Company has a dedicated Management Committee.



The Board of the Company has four non-executive directors, including the Chair of the Company. All non-executive directors are members of the (jointly established) Audit Committee, the Risk and Capital Committee ('RCC'), the People & Remuneration Committee and Nomination Committee. Four of the non-executive directors of the EO Group are members of the Investment Committee. All the non-executive directors of the Company are considered to be independent of management and free from any relationship that could materially interfere with the exercise of the independent judgement.

In conjunction with QBE Group and led by the People and Remuneration Committee, succession planning is undertaken in accordance with the talent and culture objectives within the strategic priorities of the Company, EO Group and QBE Group whilst ensuring the Board has the right balance of skills, knowledge, experience and diversity to be effective.

B.1.2 Board Committees

The Boards of EO plc, QUK, QUL and QBE Europe (the 'EO Boards') have jointly constituted Board Committees. The Committees all comprise of appropriately skilled members and are supported by attendees as necessary.

The Board Committees comprise:

- **Audit Committee**
  The role of the Committee is to support the Boards in overseeing the effectiveness of financial reporting. In particular, the Committee oversees, monitors and keeps under review the transparency and integrity of financial reporting (including financial reporting to regulators and shareholders), financial reporting risks, systems and controls (including internal control and risk management systems), accounting policies, practices and disclosures and the scope and outcome of external and internal audit, whilst having regard for the broader strategy and frameworks set by QBE Group;
- **Investment Committee**
  The role of the Committee is to support the boards in overseeing the implementation and monitoring the effectiveness of the investment strategies of the EO Group, which form part of the overall QBE Group Strategy, taking into account local regulatory requirements and the Investment appetite of the QBE Group. The Committee monitors investment performance and investment risks, and the use of derivatives (where applicable). The Committee is also responsible for the overseeing and monitoring of the effectiveness of the asset-liability strategy with respect to the matching of: (i) investment assets and (ii) the liabilities generated by insurance activities;
- **People and Remuneration Committee**
  The Role of the Committee is to provide input to the design and operation of the QBE Group global remuneration framework and provide related recommendations to the Boards. The Committee assist the Boards in oversight of: (i) the effectiveness of the QBE Group Remuneration Framework; (ii) the remuneration of and incentive arrangements relating to Directors, Executive Management Board members, QBE Europe Management Committee members, QBE Europe Branch Managers, Senior Managers under the Senior Managers and Certification Regime ('SMCR'), Key Function Holders, Material Risk Takers, Heads of Control Functions and all individuals identified as Solvency II Staff or Identified Staff from time to time under the Solvency II Staff Identification Framework ('SII Staff'); and (iii) people programmes and projects including culture, employee engagement, diversity and inclusion and non-Board succession planning, in the context of the broader strategy and frameworks set by QBE Group;
- **Nomination Committee**
  The Role of the Committee is to review the balance of skills, knowledge, experience and diversity of each of the Boards and Committees (including succession planning) in the context of the broader strategy and frameworks set by QBE Group. The Committee oversees the selection process for appointment of any director to any of the Boards or Board Committees and make recommendations to the relevant Board(s) for approval, whilst having regard for the QBE Group Governance Framework; and

- **Risk and Capital Committee ('RCC')**
  The role of the Committee is to support the Boards in overseeing the integration and effectiveness of the risk and capital management framework (and management's implementation of those frameworks) in order to (i) support strategic objectives of EO Group and the Company, (ii) support and inform business plans, (iii) ensure that all risks are identified, assessed and monitored in line with risk appetite and (iv) ensure that adequate capital is maintained against the risks associated with business activities, whilst having regard for the broader strategy and frameworks set by QBE Group.

The membership of each Board Committee is comprised of independent non-executive directors only.

EO plc is also supported by the Executive Management Board (the 'EMB'). The EMB supports the Chief Executive Officer of EO plc in providing executive management of the entire EO Group. The Board of QBE Europe has established a separate Management Committee ('QEMC') to provide support with day-to-day management of the Company.

The role of the EMB is to support the CEO in the performance of their duties in accordance with the CEO delegated authorities in place from time to time (having been issued to the CEO and approved by the Boards ('Delegated Authorities'), including the following:

- Design, formulate and recommend to the Boards for approval the strategy and long-term planning of the Companies in the light of the broader strategy of the QBE Group;
- Implement and deliver approved strategies and plans; and
- Manage the day-to-day effective running of the Companies and their operations and resources (including financial and human resources) in accordance with objectives and controls set by the Boards, as applicable.

The role of the QEMC is to manage QBE Europe in accordance with the strategy, business plans and policies approved by the QBE Europe Board to achieve the Company's agreed objectives. This includes specific responsibilities in respect of strategy and management activities, risk management and company organisation and operation.

In addition, the following Management Groups are established to support the described above Boards and Executive Committees, and form the part of the Governance Structure of the EO Group:

- Compliance Management Group ('CMG'), Conduct Risk Group ('CRG') and Risk and Capital Group ('RCG'), accountable to the RCC and the EO Group Boards; and
- Disclosure Management Group ('DMG'), Finance Management Group (including Reserving) ('FMG'), Underwriting Management Group ('UMG'), Operations Management Group ('OMG') accountable to the EMB, QEMC and the EO Boards.

Delegation of responsibilities to the Committees and Management Groups is undertaken through Board or Committee approved Terms of Reference which are regularly (at least annually) reviewed.

The membership of the Boards and Executive Committees and Management Groups of EO plc and the Company are regularly (at least annually) reviewed.

EO plc and the Company have a robust System of Governance which includes:

- Board Charters for each company setting out the role and responsibilities of the Board;
- Terms of Reference for each Committee and Management Group referred to above setting out the areas of responsibility of each Committee and Management Group, the composition and meeting formality requirements and the frequency of meetings;
- Functional terms of reference for all control functions;
- A structured Board, Committee and Management Group meetings calendar (with a forward plan of regularly recurring items for review and approval);
- Agendas, minutes and action points for all Boards, Committees and Management Groups; and
- Key Board-approved policies and documents including the Own Risk and Solvency Assessment ('ORSA'), Internal Control Framework, Outsourcing Policy, Fit & Proper Policy and Management Responsibility Maps (as required under the SMCR).

The Boards of EO plc and the Company consider the system of governance to be appropriate and adequate in light of the business strategy and objectives.

B.1.3 Key Function Roles and Responsibilities

A description of the main roles and responsibilities of the key functions of the EO Group are shown below. These functions do not relate solely to any individual entity but operate across the EO Group.

Key Function	Main Roles and Responsibilities

Actuarial	• Establish and maintain a robust Actuarial control framework to ensure that the EO Group:
	    • Complies with all material legal and regulatory requirements; and
	    • Adheres to relevant Actuarial standards and best practice.
	• Provision of reserving data and analysis;
	• Calculation of technical provisions and capital requirements;
	• Responsible for pricing, benchmarking, portfolio analysis and support for business planning; and
	• The main roles and responsibilities of the Actuarial function are further detailed in section B.6.

Risk Management & Compliance	• Establishment and maintenance of robust enterprise risk management framework; • Production and performance of the EO Group's ORSAs; • Monitors the material risks the business faces and ensuring the adequacy of capital should these risks materialise; and • The main roles and responsibilities of the Compliance function are further detailed in section B.4.

Internal Audit	• Evaluate the adequacy and effectiveness of the risk management framework;
	• Evaluate management's assessment of risk exposures relating to QBE Group's governance, operations, and information systems regarding the:
	    • reliability and integrity of financial and operational information;
	    • compliance with laws, regulations, policies, procedures and contracts; and
	• The main roles and responsibilities of the Internal audit function are further detailed in section B.5.

Claims Management	• Implement and maintain effective leading-edge practices and processes to provide maximum value to the business and excellent customer service; • Work closely with underwriters and other business functions and lead the development of processes to ensure that the function is aligned to the needs of the business; and • Support decision making by developing and maintaining effective control reports based on the claims environment and claims activity.
Operations	• Implement change programmes related to IT outsourcing, service management, and cost savings to achieve cost, service and scalability targets; and • Execute and manage the operations strategy of the business.

Investments	• Implement and monitor the effectiveness of local investment strategies;
	• Monitor investment performance and investment risks; and
	• Oversee and monitor the effectiveness of the asset-liability strategy with respect to the matching of:
	    • Investment assets; and
	    • The liabilities generated by insurance activities.

Finance	• Establish and maintain a robust financial control framework; • Comply with all relevant legal and regulatory requirements; • Adhere to relevant accounting standards and good practice; and

Key Function	Main Roles and Responsibilities
	• Identify and effectively control financial risks (credit, market liquidity, commercial etc.),
Underwriting	• Establish and maintain a robust underwriting control framework; and • Adhere to relevant underwriting standards and best practice.
Legal	• Pro-actively monitor and evaluate legal risks, emerging/pipeline legal and regulatory developments, alert the business to specific associated risks and extend principles around legal risk management into wider business; • Provide high quality document execution, retention and administrative services to the Boards and business to ensure legal compliance, good internal governance and document control; and • The 'function of effectively running the firm', which is undertaken by the EMB.

Human Resources	• Establish and maintain a robust HR control framework to ensure the EO Group:
	  • Adheres to relevant HR standards and good practice; and
	  • Identifies and effectively controls People risks.

The four key Solvency II functions (Risk, Compliance, Actuarial and Internal Audit) all have representation at meetings of EO Group Boards, Committees and Management Groups, and independent decision-making rights within the management structure of the EO Group that provide them with the necessary authority, resources and operational independence to carry out their tasks.

B.1.4 Adequacy of the system of governance

The process of assessing the adequacy of the system of governance is explained in section B.3.13. From the November 2021 review, the EO Group Risk team concluded that the EO Group's Three Lines Model remains appropriate and represents an effective risk governance framework with adequate checks and balances to support appropriate consideration of risk management throughout the EO Group and the regulated subsidiaries within the EO Group including QBE Europe.

B.1.5 Remuneration

The Company, as part of the EO Group and the wider QBE Group, has a remuneration and reward framework and associated governance arrangements. This framework is designed to:

- Align remuneration and reward with robust risk management practices and strong governance principles; and
- Provide a market competitive remuneration structure that attracts, retains and motivates high quality and talented people whilst aligning their remuneration with the creation of sustained shareholder value.

The remuneration and reward framework is regularly reviewed to ensure that it evolves and remains appropriate in the context of:

- QBE Group's vision, values and strategy;
- The environments in which QBE Group operates;
- QBE Group's business model and geographical exposure; and
- Local market needs and regulatory requirements.

Within the framework is a remuneration policy, adopted by the Board of the EO Group, that is underpinned by QBE Group's remuneration strategy which integrates the various components of remuneration, reward and risk across the QBE Group.

QBE Group's global remuneration framework is intended to apply to all individuals employed by QBE Group on a permanent or contractual basis (including any controlled entity) to the extent possible and subject to local market conditions and regulatory requirements.

QBE Group's remuneration mix is reflective of each employee's ability to influence results. For all staff, fixed pay is designed to provide a predictable 'base' level of remuneration which is positioned at a level that reflects the contribution and value to the QBE Group whilst recognising capability and expertise.

Variable pay at QBE Group is focused towards the longer-term time horizon, enhancing alignment with the delivery of the long-term strategy and shareholders' interests.

The Remuneration Policy is designed to align with QBE Group's risk management framework, which operates on the following fundamental principles:

- Managing risk is everyone's responsibility;
- Managing risk is integral to informed decision making;
- Effectively managing risk is a mechanism to gain competitive advantage;
- Management of risk is clearly demonstrable; and
- Managing risk drives continuous improvement.

The use of minimum corporate standards also supports the QBE Group risk culture in a robust and consistent manner.

QBE Group's remuneration policy's guiding principles are designed to promote robust risk management practices and are applied effectively to manage remuneration and reward across QBE Group. Those principles are:

- Simple - at-risk reward methodology is easily understood by internal stakeholders with transparency for external shareholders;
- Linked to strategy - incentive performance measures provide significant alignment and linkage to QBE Group's key strategic priorities;
- Globally competitive - responsibly competitive when setting fixed remuneration by considering the appropriate market data, diversity and expertise of individual roles and the complexity of each operating environment; common global remuneration design that provides flexibility to calibrate local financial targets, enabling QBE Group to compete in key markets;
- Motivating - at-risk reward schemes combine 'stretch' targets and performance measures linked to statutory disclosures and business plans, which improves the line of sight and leverages participant motivation; locally competitive and flexible benefits designed to provide value to the employee and QBE Group; and
- Shareholder aligned - achievement of QBE Group divisional targets aligned to shareholder value; delivery of equity awards with significant levels of deferral align reward arrangements to shareholder interests; executive minimum shareholding requirements further link executive interests to those of shareholders.

Further information on remuneration is available in the 'QBE Group Annual Report 2021', in section 'Remuneration Report', on pages 56 to 78 inclusive.

B.2 Fit and proper requirements

B.2.1 Overview

There is an established Board approved Fit and Proper Policy that applies to the EO Group, of which the Company is a part. The policy is reviewed annually and updated as required. The Policy and supporting Guidelines incorporate the requirements of:

- The NBB Circular on the System of Governance, manual on assessment of fitness and propriety and various related NBB Regulations and Circulars on the Suitability of Directors, members of the Management Committee and individuals responsible for the Compliance and Independent Control Functions; and
- The UK Senior Managers and Certification Regime ('SMCR') in relation to those individuals who also perform regulated functions on behalf of the UK regulated entities and the QBE Europe UK branch in respect of those individuals performing roles and functions within the scope of the regime.

B.2.2 Requirements

The Fit and Proper Policy establishes minimum standards required of all Directors and key employees. The Solvency II guidelines describe these individuals as those who ‘effectively run the undertaking’. Supervisory approval is required for these individuals and it is necessary that they are of good repute, have integrity and possess the skills necessary to effectively discharge their responsibilities.

All employees of the EO Group and its subsidiaries, including the Company, are required to demonstrate the following:

- The requisite level of competence, knowledge and experience;
- The appropriate qualifications;
- The completion of, or current involvement in, relevant training to enable them to perform their role or function effectively and in accordance with all relevant regulatory requirements; and
- Good conduct (including business, financial, criminal and past supervisory conduct), supported where appropriate by satisfactory regulatory references.

Appointees to the Boards are further required to:

- Gain confirmation from the People & Remuneration and Nomination Committees that they are satisfied all relevant internal policies and procedures have been followed;
- Meet the minimum standards set out by the relevant regulatory authority for fitness, propriety and conduct; and
- Have gained approval from the regulatory authority (where applicable).

B.2.3 Assessment process

The Fit and Proper Guidelines are aligned with the EO Group’s HR and recruitment processes and apply both at the recruitment stage and throughout an individual’s career in the company. Regular assessments are carried out to ensure that the guidelines are being adhered to.

The frequency of assessments and the level of verification sought is determined by a risk-based approach that takes account of the following:

- The level of a person’s authority, influence or control;
- The reliance of the EO Group on a person’s role as an internal control (e.g. Enterprise Risk Management (‘ERM’), Compliance, Underwriting Governance, Actuarial and Internal Audit); and
- For regulated roles/functions, the regulatory and/or legal requirements for the role.

The assessment process encompasses a number of levels and stages and, for each of these, control checks are applied to ensure on-going adherence to the policies and guidelines. These stages and control checks include:

- Pre-employment, where the individual’s fitness and propriety is assessed prior to commencement of the role. Background checks are carried out using a risk-based approach with particular emphasis on the following roles:
    - NBB/FSMA approved functions;
    - Defined senior management and internal control roles;
    - Individuals holding a delegated authority;
    - Finance; and
    - IT.
- The rigour and detail afforded to the assessment of members of the Board of Directors are particularly stringent;
- Regular review of all employees, where performance and development assessments are carried out in line with the current QBE Group Performance Review process. Where individuals are, by virtue of their role and with reference to the risk-based approach previously noted, considered to represent a higher risk, the regularity of reassessments is increased. The performance management process incorporates appraisals of employee effectiveness, competency in role, and training requirements;

- Regular review of Board and Committee effectiveness and the fitness and propriety of individuals holding positions in these groups. Assessment of individuals in these roles is subject to more rigorous scrutiny; and
- Internal moves - where a change to a person's role may prompt a reassessment of their suitability.

The EO Group's Internal Control Functions, identified in accordance with published NBB rules (Actuarial, Compliance, ERM, Internal Audit and Underwriting Governance), are also required to ensure that they set out and maintain the competencies necessary to deliver the function to an adequate standard.

The framework of controls in this regard may include:

- Appropriate experience and skills mix;
- Verifications of any required qualifications specific to the role;
- Role profiles;
- Training and development;
- Centres of excellence (i.e., development of subject matter experts); and
- In-sourcing (e.g., joint projects, secondments etc.).

Where matters affecting a person's suitability are identified, the EO Group will consider the relevance to the person's role and the circumstances and seriousness of the matter. If a person is not deemed to be fit and proper, disciplinary action may be taken, and regulators are notified where appropriate.

B.3 Risk management system including the Own Risk and Solvency Assessment

B.3.1 Risk function

The EO Group and the regulated subsidiaries within the EO Group including the Company manage risk via a centralised risk function. This is an appropriate and effective way for the EO Group to assess, evaluate and control risks given the commonality of systems and processes throughout the EO Group. Functions and processes that are consistent across the EO Group including for the Company include:

- A common risk management framework applied consistently across all legal entities;
- Key risk assessment processes (e.g. business planning, reserving, exposure management, capital modelling), conducted by common functions using a consistent process across all trading entities;
- Key systems operate consistently across all trading entities, this includes systems in Underwriting, Finance, IT, HR and Risk Management;
- The three lines of defence model operates consistently across all trading entities. Identified control failures are legal entity specific, they are escalated to the appropriate legal entity Board as appropriate; and
- A consistent Internal Model operated across the regulated subsidiaries, the outputs from which are reviewed by EO's management groups before being reported to their relevant entity Boards.

Responsibilities of the Risk Function include the following:

- Development and implementation of the Enterprise Risk Management ('ERM') Framework;
- Oversight and challenge of the EO Group and underlying solo Internal Models, including the QBE Europe Internal Model; and
- Coordination of the Own Risk and Solvency Assessment ('ORSA').

B.3.2 Risk Management Strategy and Framework

The Company has adopted the QBE Group Risk Management Strategy ('RMS') to identify and assess the risks the Company faces in delivering on its strategic and business objectives or performance. Given the centralised nature of the Company's risk management framework, the RMS applies equally to all the Regulated Companies within the EO Group including QBE Europe and is approved by the QBE Europe

Board. The strategy sets out the high-level governance arrangements and key roles and responsibilities relating to risk management and identifies the key risk processes and reporting mechanisms.

It is supported by the EO Group's ERM Framework, EO Group Risk Policies and a number of more detailed procedures/standards, all of which apply to the Company, covering Risk and Control Self-Assessments, incident reporting, issues and actions management, scenario analysis, risk appetites, key risk indicators and risk reporting.

B.3.3 Risk and Control Self-Assessment framework

QBE Group has a Group-wide Risk and Control Self-Assessment ('RCSA') framework in place. This places responsibility on each business area and it is overseen by the ERM team. This framework ensures that risks are managed at a functional level and a wider risk category level to support the achievement of the EO Group's and the Company's objectives. The risk management framework provides further structure to the control environment, ensuring that risks have the appropriate controls in place with the appropriate owners. Control assessments are validated annually through a risk-based approach by the ERM team and verified through Internal Audit testing.

B.3.4 Risk categories

The Company identifies and assesses the risks to delivering on its strategic and business objectives. These risks are then categorised into one of eight material risk classes for aggregation, reporting and modelling purposes. The eight material risk classes are listed below. This categorisation enables the application of a specific risk policy for each type of risk and is an effective means of aggregating, monitoring, reporting and measuring those risks.

- Insurance Risk;
- Credit Risk;
- Market Risk;
- Liquidity Risk;
- Operational Risk;
- Compliance Risk (note for modelling purposes, Compliance risk is considered within Operational risk);
- Group Risk; and
- Strategic Risk.

Risk categories and sub-categories are reviewed regularly to ensure they continue to reflect the key risks faced by QBE Group. The Company recognise the interconnectedness of risk when assessing risk categories and the impact this may have.

B.3.5 Risk Appetite

The QBE Group's Risk Appetite Statement ('RAS') sets out the nature and level of risk that the QBE Group Board, QBE Group Executive Committee ('GEC') and EO Group Boards including the QBE Europe Board are willing to take in pursuit of the organisation's objectives. The RASs are used to support risk-based decision making by clearly defining QBE Group's appetite (what we should do) and tolerance (what we can do).

The Risk Appetite Statements define the thresholds for Risk Appetite. Each statement is accompanied by 'breach', 'caution', 'within appetite' and 'conservative' ranges (where relevant) to provide management and the Board with clear reporting.

The Group-level risk appetite is set by the QBE Group Board and is cascaded, as appropriate, to the Divisions, including the EO Group and its subsidiaries including QBE Europe.

The RASs are reviewed annually to ensure they reflect changes to strategic objectives and to the internal and external environment.

QBE Group's Risk Appetite Framework establishes the approach for setting, monitoring and reporting QBE Group's Risk Appetite at the Group and Divisional levels.

B.3.6 Risk Culture

The QBE Group is committed to, and supports, a strong risk culture. It recognises the importance of risk awareness and culture as being instrumental in the effectiveness of the QBE Group's ERM Framework and a part of the control mechanisms for the organisation. QBE Group's approach to managing risk culture is comprised of three key elements:

- Defining target risk culture – the behaviours and attitudes QBE Group expects from all employees;
- Measuring risk culture – the ERM function conducts an annual review of risk culture across the EO Group senior management and a dashboard with a number of risk metrics relating to risk culture are collated and reported quarterly. The findings are reported to the RCG and RCC; and
- Influencing culture – the actions and initiatives at an organisational or individual level that are undertaken to either maintain a positive risk culture or to remediate a situation where culture is not operating in line with expectations.

Risk culture metrics are reported regularly to the QBE Group RCC to ensure appropriate escalation of cultural issues and trends.

During 2021, the QBE Group have reviewed their target risk culture and framework to align to the target state culture, developed as part of the QBE Group Culture Accelerator Programme.

B.3.7 Internal Model

The Company has developed an Internal Model that can be used to identify and assess risk to ensure that adequate capital is held in relation to the risks faced by the business.

All business lines written within the Company are included within the scope of the Internal Model and are treated in a consistent manner, with differences only arising due to the specific risk profile of the business rather than a different approach to risk assessment. The Internal Model is supported by the ERM Framework, a number of processes within which feed the Internal Model directly as part of the EO Group's regulatory capital assessment.

There are five key processes that make up the Internal Model:

- Risk identification (including emerging risks);
- Internal control framework;
- Risk assessment;
- The economic capital model; and
- Internal Model governance.

B.3.8 Internal Model governance

The high level and detailed governance of the Internal Model is the responsibility of the RCC and the ERM function respectively.

The RCC is a formal committee of the QBE Europe Board and meets at least on a quarterly basis. The RCC is attended by members of the ERM function, who have oversight of the Internal Model, to ensure that adequate information regarding the Internal Model is reported to and disseminated from the RCC. A memo outlining the main points of discussion at each RCC meeting is presented to the QBE Europe Board to ensure that matters regarding the Internal Model are documented and escalated to the appropriate forum.

There is an annual cycle of model validation tests to independently review and challenge the key assumptions, methodology and output of the Internal Model. This is part of a three-yearly targeted validation plan including annual core tests and at least three-yearly full deep dives. The validation tests are developed and performed independently of the Capital Modelling team and other areas that design and/or operate Internal Model elements, with findings and any escalations reported through the Company's system of governance. The validation process is independently managed by the Risk function, with the Head of Model Validation role held by a senior member of the ERM team. There were no material changes to the Internal Model governance during the period.

Changes to the model are further monitored on a regular basis and reported to the RCC and Board, as applicable, for approval.

Use of the model in decision-making processes, for example through risk appetite monitoring and review of risk dashboards, is also monitored regularly.

B.3.9 Risk identification (including emerging risks)

The Company identifies on a continuous basis key risks that have the potential to affect the business' ability to achieve its objectives. Each risk is assigned an owner who is responsible for the overall management of that risk. Once a risk has been formally identified and included within the Framework, it is then integrated into the Company's risk and capital management processes.

Risk identification is implemented through the RCSA process and through the Risk Function's engagement with each business function as part of the emerging risks process. The ERM team also engage members of the QBE Europe Management Committee ('QEMC') in assessing new and emerging risks regularly, and reporting of Emerging risks assessments occurs quarterly to the Risk and Capital Group and the Risk and Capital Committee of the Board each quarter as part of the ORSA process.

This process is implemented by the Emerging Risk Group ('ERG') on behalf of the EO Group including for QBE Europe. The ERG co-ordinates the identification, assessment, monitoring, management and reporting of emerging risks applicable to the Company. The ERG has a sub-group that addresses non-insurance emerging risks. Emerging risks are included as a sub-category of Strategic risk, according to QBE Group's Group Risk Management Strategy ('RMS'). Emerging Risks can have a significant impact on the QBE Group achieving its strategic or business objectives, but are not adequately captured within other risk classes or risk sub-classes within QBE Group's RMS. The ERG is attended by Subject Matter Experts ('SMEs'), who participate in knowledge sharing, identification, assessment, monitoring and management of emerging risks. The ERG maintains a matrix of emerging risks that is used as the basis for the reporting to management on a quarterly basis via the ORSA, as described above.

B.3.10 Risk assessment

Risks (by sub-risk category) are assessed by committees using a combination of qualitative and quantitative techniques via the risk dashboard process. The assessment process brings together key information to support the analysis, including risk appetite statements, management key concerns/risks, control assessments, emerging risks, risk ranking (based on the Economic Capital Model) and issues and incidents including action plans.

Risk assessment is supported by the Company's Economic Capital Model ('ECM'), part of its Internal Model. The ECM assesses the material risks to which the business is exposed and evaluates the level of capital required to meet solvency requirements at a more granular level than that required by regulatory minimum standards. The role of the ECM in evaluating the solvency requirements of the Company and facilitating the Company's strategy, is detailed in the section B.3.15 'Determination of Solvency Requirements'.

Risks are further assessed on a functional level through the RCSA process.

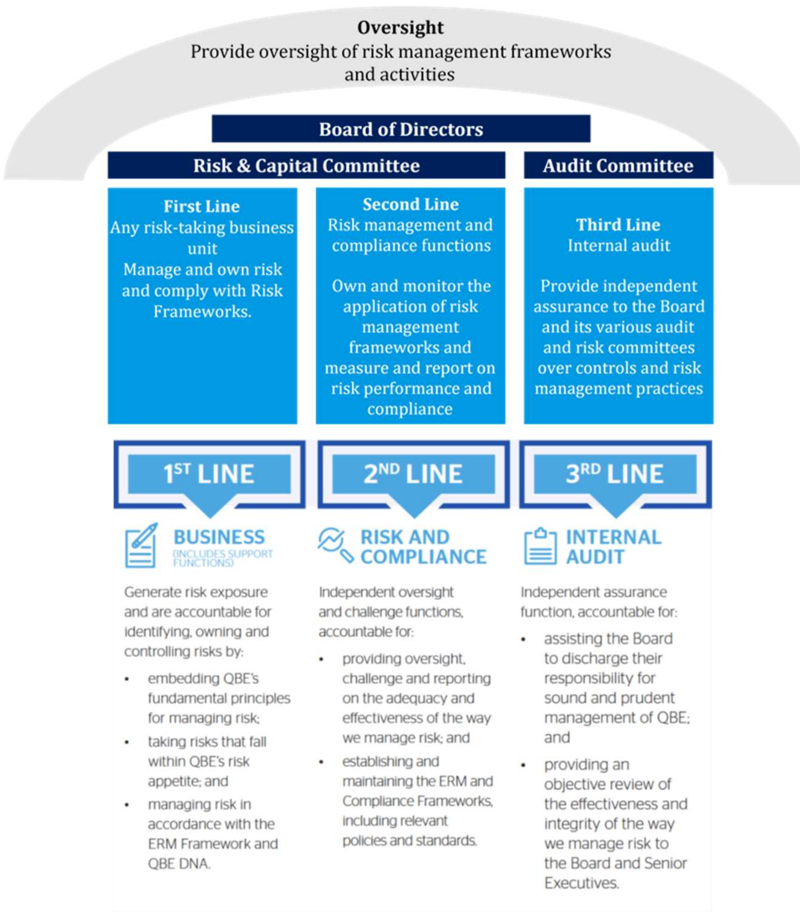
B.3.11 Risk Reporting

The Company's governance framework is supported by risk reporting, which is used to provide complete, accurate and timely risk data and analysis that can be used to support day-to-day business decisions. Key stakeholders for risk reporting include the Board, committees, forums, risk owners, business management and support functions. Risk and performance-related information is routinely reported to the Board and the RCC.

A key element of the Company's risk reporting is the ORSA, details of which can be found in section B.3.14.

B.3.12 Risk governance

Everyone within the QBE Group has responsibility for managing risks and as a result many people are involved in the risk management process. The EO Group including for QBE Europe employs the Three Lines Model to managing risk, as described below:



Included in the 1st Line is a 1b function providing:

- Review, challenge or provide oversight of 1st Line risk management activity. Although 1b functions are not fully independent of 1st Line management, they are one step removed from risk taking and decision-making activities led by 1st Line teams and are therefore able to provide an objective view;
- Provide a specialist business advice or service to the business, such as training or legal advice; and
- Monitor 1st Line's compliance with procedures, policies or frameworks set out by the 1st, 2nd or 3rd Line.

B.3.13 Assurance and governance forums

A fully documented assurance approach has been developed for each of the business functions within the EO Group including for QBE Europe to ensure that the application of the Three Lines Model is adequate and appropriate to identify and control risks that may arise in relation to those functions.

A RAG rating is used to assess each business function in relation to the adequacy of design for assurance activity across the three lines of defence. Where the assurance operating model needs improvement, a designated owner is identified to ensure any remedial or business improvement actions are effectively undertaken in a timebound manner.

The governance Committees and Management Groups, noted in section B.1, provide further challenge and assurance on risk taking and management activity. Members of the 2nd Line sit on all relevant Committees and Management Groups established by the EO Group Boards including the QBE Europe Board, and attend additional working groups and steering committees as appropriate to deliver risk and compliance oversight and challenge across the spectrum of business activity.

The EO Group's Three Lines Model provides an effective risk governance framework in which roles and responsibilities for risk management are clearly defined throughout the EO Group and its regulated subsidiaries including QBE Europe. It also ensures the existence of appropriate checks and balances and enables remedial actions to be taken where weaknesses are identified. Further, by embedding 1b teams within the 1st Line business functions, the EO Group enables:

- The strengthening of the risk culture throughout the organisation;
- The business functions to take accountability for managing risk; and
- The best expertise within the ERM framework to be made available to address risk matters.

From the November 2021 review, the EO Group Risk team concluded that EO Group's Three Lines Model remains appropriate including for QBE Europe and represents an effective risk governance framework with adequate checks and balances to support appropriate consideration of risk management throughout the EO Group including for QBE Europe.

B.3.14 The Own Risk and Solvency Assessment ('ORSA')

B.3.14.1 Overview

The Company produces an ORSA report to assess, on a continuous basis, the Solvency needs of the Company given the risks that it has identified and assessed.

QBE Europe has adopted a working definition of the ORSA to be "the entirety of the processes and procedures employed to identify, assess, control, manage, and report the short- and long-term risks the Company faces or may face and determine the assets necessary to ensure that the undertaking's overall capital needs (solvency and economic) are met at all times."

The ORSA incorporates outputs of key management processes, including business planning, capital management and solvency assessment, stress and scenario tests and modelling and governance. In addition, it summarises the Company's risk profile and contains risk assessments and the control effectiveness ratings for each risk within the risk governance framework, including non-quantifiable risks and those not mitigated with capital. The ORSA is considered in conjunction with any breaches of appetite and Key Risk Indicators to ensure that the Company can respond quickly to changes in its risk profile and take appropriate mitigating action where required. The method of production and process of review and approval of the ORSA ensures that it is well integrated into the Company's decision-making process.

ORSA reports are prepared quarterly for the EO Group including all relevant information for QBE Europe and annually for QBE Europe as well as the EO Group to reflect the way the Company manages its risks and also the commonality of risk assessment, governance, systems and control processes across the other Companies within the EO Group and its Internal Model. This ensures that risk management procedures are implemented consistently across all the undertakings within the scope of the EO Group.

The quarterly ORSA reports are reviewed and discussed by the RCG prior to recommendation to the RCC for approval, with a summary being provided to the QBE Europe Management Committee ('QEMC'). The annual QBE Europe ORSA report is reviewed by the RCC (supported by the RCG as appropriate) and the QEMC, committees which, in aggregate, contain all the Directors of the Company, prior to recommendation to the Board for review and approval. This process ensures that detailed discussion and review can be affected for the Company.

The annual ORSA provides the link between the Company's risk strategy, risk profile, risk appetite and overall solvency needs. The annual ORSA ensures that:

- The risk profile in the context of the business plans and strategy is understood;
- The regulatory and economic capital requirements can be met based on the current business plan and over the longer term, considering severe events;

- The management actions that may be necessary to reduce risk and subsequent capital requirements, (including contingency plans associated with a stressed environment) have been considered; and
- The Internal Model continues to be considered adequately suitable and robust to support the above assessment of risk and capital, and specifically to set regulatory capital.

The ORSA process has been designed to ensure that the Board is provided with all relevant risk and capital information to enable them to act in the best interests of their stakeholders. The frequency of production of the full ORSA and ORSA updates are noted below.

B.3.14.2 Annual ORSA

A full ORSA report is produced for each calendar year. This report captures changes in the Company's risk profile that have occurred during the previous year and incorporates detailed analysis of QBE Europe's risk and capital position both in the current and in the future. The report provides analytical breakdown by risk type and regulated entity.

The Annual ORSA is reviewed and approved by the QBE Europe Board.

B.3.14.3 Regular ORSA updates

ORSA updates are reported to the RCC on a quarterly basis and include analysis of:

- Risk Appetite Statements;
- Risk profile;
- Areas of management key concern / risks (including horizon key risks);
- Key Risk Indicators;
- Financial position and solvency ratios;
- The current and projected SCR for each legal entity;
- The on-going suitability of the Internal Model for capital setting purposes;
- Internal Model Usage;
- Transformation and project risk and the Company's Line 2 Risk Opinion;
- Emerging risks;
- Issues and Incidents analysis;
- Control environments; and
- Risk culture and Group Risk via the risk dashboards, as appropriate.

A summary of the ORSA updates is also reported to the QEMC, a Committee of the QBE Europe Board.

B.3.14.4 Ad-hoc ORSA updates

If there is a significant change to the Company's risk profile an *ad hoc* ORSA may be produced outside the normal production and update cycle. Examples of such a change include:

- Material acquisitions or business re-organisation;
- A significant change in the EO Group's business plan e.g., entering into new markets, products etc.;
- A significant loss event;
- Material change to EO Group's capital base; and
- Identification of a critical issue.

B.3.14.5 ORSA governance

The content of the annual ORSA is reviewed by various forums and committees before the full report is submitted to the QBE Europe Board for approval by:

- QBE Europe Board: The QBE Europe Board has the ultimate responsibility for the ORSA and must review, approve and formally sign off the report on an annual basis;
- RCC: The QBE Europe Board delegates its risk management oversight and monitoring activities to the RCC. The RCC is the primary forum for challenging both the ORSA content and process

and the committee will review and approve the quarterly ORSA updates and the RCC will also review and recommend the annual ORSA report to the Board for approval;

- RCG: The RCG consists of the EO Group's Executive Management Board and a number of QEMC members. The primary responsibility of the RCG is to review and challenge risk related papers prior to submission to the RCC;
- QEMC: The QBE Europe annual ORSA is further reviewed by the Management Committee for QBE Europe prior to QBE Europe Board approval. The QEMC also receive a summary of the quarterly ORSA updates; and
- Other Committees and Groups: Other Committees and Groups also have key roles, particularly the responsibility to challenge information that directly feeds the assessment of risk for the ORSA process. Their responsibilities in relation to risk management are included in the respective committee terms of reference.

B.3.15 Determination of solvency requirements

QBE Europe uses an Economic Capital Model ('ECM'), as part of its Internal Model, to measure the material risks to which the Company is exposed. As such, the ECM better informs decision making and the formulation of business strategy.

Output from the ECM is used to assist the Board and senior management in evaluating risk and understanding the capital implications of business decisions. Use of the ECM has been approved by the Board and the NBB as part of the approval of the Company's Internal Model in early 2019.

The ECM measures the risks specified in the QBE Group Risk Management Strategy ('RMS'), the basis for which is the risk management assessment process. Hence, the risk management system interacts with, and is closely aligned to, capital management activities. The ECM does not assess those elements of strategic and emerging risks that are captured through the ORSA process.

Capital is maintained over time to ensure that the risk appetite of the QBE Europe Board and applicable regulatory capital requirements are met. Other relevant strategic and business objectives are also taken into account.

The ECM and risk management framework are integrated through the following processes:

- Decision making: the use of the ECM in decision making is evidenced within the processes and principles of the risk management framework. Business decisions supported by the ECM include:
  - Business Strategy (for example through use for business planning / business plan stress testing);
  - Strategic asset allocation;
  - Capital Appetite Framework;
  - Setting and monitoring against risk appetite statements; and
  - Approval of regulatory reporting, including the ORSA;
- Capital setting: elements of the SCR are derived directly from the output of both the ECM and risk management processes;
- Risk appetite: some elements of the risk appetite for the entities is directly linked to capital metrics and monitored using outputs from the ECM through the risk management framework;
- Reporting: the outputs of the ECM are used in the reporting of risk dashboard assessments and appetites in the risk management framework;
- Operational risk: the parameterisation of operational risk for the ECM is conducted as part of the risk management process and is a direct feed into the ECM; and
- Model risk: the governance around the ECM is based on the risk management framework principles. Matters affecting any changes to the ECM such as methodology updates are included in the quarterly ORSA reports sent to the relevant committees, including the RCC and Board.

For further details about the Internal Model and the Economic Capital Model, refer to Section E: Capital Management.

B.4 Internal control system

B.4.1 Overview

The Company has implemented an internal control framework that seeks to ensure compliance with all relevant regulatory and legal requirements. These requirements include meeting the standards contained within Article 46 of the Solvency II Directive, and the NBB Overarching Circular on system of governance, and other NBB Regulations and Circulars including the *Regulation on the internal control system and the internal audit function* of 19 May 2015 which states that "Each institution must have an internal control system appropriate to its activities or planned activities, taking into account the nature, size and complexity of these activities and the associated risks".

As illustrated in the previous section, the Company has a defined structure to identify, assess, report and control risks that may affect the business.

The internal control mechanism at the core of this structure is the 'three lines of defence'. Refer to the Risk Management Section B.3.12 for further information.

B.4.2 Risk Governance

The risk governance forums within the Company represent further challenge and assurance on risk taking activity. They also generate strong practical working relationships between the 1a, 1b and 2nd line teams. Members of the 2nd line sit on all Committees and Management Groups established by the EO Group's the Company's Boards and attend additional working groups and steering committees to deliver challenge across the wide spectrum of business activity. Transparency of issues is achieved through Board Committee/Group reporting or escalation, all overseen by the Risk and Capital Committee. Refer to the Board Committee section B.1 for further detail on the various committees and their functions within the EO Group.

B.4.3 The Compliance Function

The Compliance function consists of specific local resources the Company's branches, supported by the EO Compliance team (including but not limited to three dedicated central teams: Regulatory and Assurance; Sanctions and Licensing; and Compliance Monitoring). The function reports through the Head of Compliance and to the Chief Risk Officer, who is a member of the Boards. Collectively, these individuals are members of, and/or report to, the Boards and key control committees within the EO Group. They have direct and unfettered access to any member of the Boards, the Management Committee or senior management or the EO Group Committees.

The principal purpose of the function is to ensure the business meets the standards set by its regulators and QBE Group, proactively support the development of a culture of compliance and appropriate management of regulatory risk across the Company, and to provide appropriate Second Line independent challenge in respect of first line activities. Accountabilities include advising the Boards on compliance with NBB requirements, other international regulatory requirements and the QBE Group standards and requirements established by the QBE Group Compliance Risk Policy and supporting Framework. This includes ensuring staff awareness of regulatory matters and providing best practice guidelines for key business topics including Conduct Risk, Sanctions and Licensing compliance, Money Laundering and Bribery. The function also produces and promotes awareness of the annual Compliance Plan, develops an annual Monitoring Plan, and in conjunction with other EO Group control functions (e.g., Underwriting Governance, Delegated Claims Management etc.) conducts a program of monitoring to challenge and test the effectiveness of internal controls.

The core objectives of the function are set out in the functional Terms of Reference and include:

- Promoting a robust and consistent compliance culture throughout the business including through on-going training and awareness;

- Providing assurance to the Board that relevant regulatory and legal requirements are being met through monitoring activities, knowledge of the business and regular reporting to governance forums;
- Monitoring regulatory developments and co-ordinating and supporting business responses to proposed regulatory changes; and
- Developing and embedding a framework of policies and procedures designed to support business practices, promoting ethical standards and ensuring regulatory and legal requirements are met.

The function has implemented the defined QBE Group Compliance Risk Policy. The Policy outlines QBE Group's approach to compliance and defines roles and responsibilities within the three lines of defence model for achieving a positive compliance culture and effective compliance management. The requirements of the QBE Group policy are applied as part of the EO Group Compliance Framework which includes but is not limited to:

- Developing, in conjunction with business units, a framework of policies and procedures to support business practices, promote ethical standards and ensure legal and regulatory compliance;
- Developing, or assisting in the development of, educational and training programs to promote a positive compliance culture and a greater awareness and understanding of the importance of compliance and the Company's legal and regulatory obligations;
- Providing advisory assistance and support to business units regarding the interpretation and impact of, and compliance with, relevant legal and regulatory requirements and obligations;
- Implementing an annual Compliance Monitoring Plan (which is approved by the RCC) to test and challenge the on-going suitability and effectiveness of controls across all relevant risks and business areas;
- Monitoring, assessing and reporting regularly on regulatory risks (via the established Insight Risk Management platform); and
- Ensuring that regular compliance management information is supplied to the Board and senior management to enable them to form a reasonable view of the standards of compliance across the business, know whether any material trends or issues have emerged and require redress, and be aware of any regulatory developments that may affect the business.

Further specific objectives are also established by the Compliance function annually using a risk-based approach. These are detailed in the annual Compliance Plan and Compliance Monitoring Plan which are reviewed and approved by the RCC and Board. This identifies the key risks that the Company is likely to experience over the coming year and any changes to the function created by specific regulatory developments.

The Board has also asserted its commitment to ensuring that all compliance staff are "trained and competent to enable the function to carry out its objectives". Individual member's knowledge, experience and competency are routinely assessed and monitored through the internal Performance review process.

In addition to active engagement with market bodies such as Assuralia as a means of identifying potential areas of change, members of the function regularly participate in conferences, workshops and forums on specific legislative/regulatory developments. The function also routinely monitors legal and regulatory information sources, consultations and official publications to inform risk assessments/gap analyses against proposed changes, co-ordinating and supporting the business response.

The Compliance function has also been designated responsibility for contributing to the assessment and management of the following on behalf of the Board:

Material Risk Classes

- Compliance Risk;

Risk Sub-Classes

- Non-compliance with external and/or internal requirements (Compliance Risk);
- Improper business practice (Operational Risk); and
- Internal and/or external fraud (Operational Risk).

The function works with a number of other key assurance functions including Internal Audit, Risk, Legal, Underwriting and Claims Governance, Delegated Underwriting to ensure all significant areas of regulatory risk are addressed.

There is an established issue and incident reporting process as part of the wider Risk Management framework which includes guidelines on the identification and reporting of breaches of compliance policies. The reporting requirements include the timely escalation of issues to appropriate senior management or governance bodies. The Company Head of Compliance further escalate all material issues to the Boards and supervisory bodies through their regular discussion with the lead supervisors.

The EO Group's governance structure includes the Compliance Management Group ('CMG'), which supports the RCC in providing co-ordinated oversight and monitoring of the EO Group's adherence to the Compliance Framework. Key responsibilities include:

- Consideration of new policy requirements and management of existing policies within the Compliance Framework;
- Review of relevant policy related management information and reports;
- Recommendation of the annual Compliance and Monitoring Plans to the RCC; and
- Review of Compliance breach and incident reports.

The EO Group has implemented the QBE Group Conduct Risk Policy. The Conduct Risk Group ('CRG') is another key management group of the RCC and is responsible for identifying, assessing, mitigating and overseeing Conduct Risk, including application of the QBE Group Policy. Key responsibilities include:

- Monitoring high product risk ('HPR') areas of the business and providing proportionate and fair challenge in respect of the effects of that business;
- Assessing the conduct risk inherent in the Group's products and distribution methods and whether mitigating controls and oversight are appropriate;
- Designing and providing effective management information around conduct risk within the EO Group; and
- Reporting to the RCC on the design and effectiveness of the EO Group's conduct risk framework.

B.5 Internal audit function

B.5.1 Overview

QBE Group Internal Audit ('GIA') is a QBE group-wide function, in which divisional internal audit teams operate on a globally integrated basis and follow a global audit methodology which provides a framework for planning, performing, and reporting the results of assurance activities. The QBE Group Head of Internal Audit is responsible for the function, which operates under a written charter from the QBE Group Board Audit Committee. An annex to the charter governs GIA's dealing with the Company. In particular it sets out how GIA will operate under the relevant provisions and requirements of the Solvency II Act, EU and NBB regulations.

A dedicated Head of Internal Audit has responsibility for providing independent assurance to the Audit Committee, QBE Europe Board and QBE Europe Senior Management over the quality and effectiveness of the Company's internal control, risk management and governance systems and processes.

QBE Europe Internal Audit falls under the umbrella of EO Group Internal Audit division. Functionally the role reports into the Chair of the EO Group Audit Committee, the QBE Europe CEO and the EO Group Head of Internal Audit. The role uses GIA EO Group audit staff as necessary as part of an outsourcing agreement with the QBE Management Services (UK) Limited.

B.5.2 Independence

GIA maintains its independence through having no direct authority or responsibility for the activities it reviews. GIA has no responsibility for developing or implementing procedures or systems, except for those related to internal audit. It does not prepare records or engage in original line processing functions or activities. The QBE Group Head of Internal Audit reports to the Group Audit Committee at least annually on the organisational independence of the internal audit activity. The same principles apply to the QBE Europe Head of Internal Audit, which reports into the EO Group Head of Internal Audit and the QBE Europe Audit Committee Chair. This ensures the role remains independent from the 1st and 2nd line activities in the business.

B.6 Actuarial function

B.6.1 Overview

There is a dedicated Actuarial Function within the EO Group for the Company. At the core of all actuarial work, mathematical techniques are used to interpret the data that is available. This is collated from a wide variety of sources both internally and externally, including underwriting, claims, reinsurance and financial data.

The role of the Actuarial Function is defined in formal terms of reference. This document clearly outlines what areas of the Actuarial Function are performed by the EO Group's actuarial department as others are performed elsewhere in the operation.

The Actuarial Function is free from the external influence of other functions within the QBE Group and the formal terms of reference ensure that reserving analysis is performed independently of Underwriting decisions, which enables objective review and challenge.

In support of all primary activities, and to provide additional assurance in the completeness, appropriateness and accuracy of all data inputs received and all data outputs produced, the Actuarial Function performs data self-assessments in accordance with the Data Policy. This is carried out bi-annually. Results of the data self-assessment, including any issues identified, are reported in accordance with the standard data management processes.

All departments that form the Actuarial Function are subject to regular internal audits to ensure that the appropriate governance and processes are followed in their operation. External actuaries are contracted annually to provide an independent reserve review on a central estimate basis. The results are compared to the EO Group reserve results and differences discussed. Major differences are referred to the Reserving Working Group, Finance Management Group and relevant Board sub-committee. The external actuarial review is performed at the EO Group level and at the entity level.

B.7 Outsourcing

B.7.1 Overview

The Boards approved the QBE Group Outsourcing Policy in July 2020 in place of the previous EO Group Outsourcing Policy. The Policy is regularly reviewed (with input from the Company on any required content changes) and updated where appropriate. The policy details the QBE Group's principles of outsourcing, delineates responsibilities according to business function, provides guidelines regarding the maintenance of the outsourcing register, and sets out the process and requirements for reporting to QBE Group.

The Policy is supported by an approach document which details how the requirements of the QBE Group policy are implemented within the EO Group, of which the Company is a part. This approach document was formally adopted by the Company Boards in July 2021 and in combination with the QBE Group Policy now forms the Outsourcing Policy for the Company (the 'Outsourcing Policy'). Collectively these documents establish criteria for the recording and management of critical and important outsourcing arrangements, but also requires that the same core principles be applied to all outsourced relationships.

In particular, the Outsourcing Policy asserts QBE Group's comment to "managing any risks associated with outsourcing through appropriate systems and controls: and "ensuring compliance with regulatory requirements", stating that outsourcing should only be undertaken where:

- It does not significantly increase our risk exposure;
- Ensures we remain in line with the relevant Group risk appetite; and
- It supports QBE Group's strategic objectives and business plans.

The Policy and supporting approaching document also establish obligations around the periodic review of all outsourced arrangements, which will differ according to the nature, scale and scope of those arrangements. The documents collectively require that appropriate systems and controls should be in place to manage the outsourcing risk and sets criteria for the inclusion and monitoring of material contracts on the outsourcing register, including the regular review and challenge of materiality assessments to ensure the appropriate classification and management of arrangements. An Outsourcing Working Group ('OWG'), reporting to the OMG, oversees both the practical application of the policy within the Company and preparation of the material outsourcing register on an ongoing basis.

A separate Policy is also in place in respect of Delegated Underwriting / Coverholder arrangements. This details the required due diligence and on-going monitoring of delegated underwriting arrangements, including assessment of the Coverholder's competence and suitability, regulatory standing and financial strength.

The Operations Management Group ('OMG') monitor, review and report on matters relating to critical/important outsourcing and the service performance level of suppliers both directly to the Boards and indirectly through the QBE Group global contractual approach (whether provided by intra-group arrangements or from third party service providers).

Once a contract is in place, the OMG will monitor and review the performance of both internal and external service providers on behalf of the Boards in key service areas in order to ensure that the operation of the companies is delivered effectively and efficiently. Focussed support is provided to the OMG in this regard by the OWG. The OMG also will review and challenge the operational strategy of the Companies and ensure such strategy is aligned with the Company' business plans; monitor performance under outsourcing agreements and any other applicable arrangements (including performance against agreed service levels) and approve, monitor and oversee any corrective actions as required, identify risks and/or systemic performance issues in relation to the above areas and set and undertake any corrective action or recommend any corrective action, as necessary, to the QBE Europe Management Committee and EO Group EMB.

This enables the relevant internal forums to maintain appropriate oversight and challenge over outsourced critical/important functions and activities. It also ensures that that outsourcing has no detrimental impact on the overall standard of governance and control.

The governance and control framework established around critical/important outsourcing (as outlined above) is designed to ensure that the Company has appropriate ongoing oversight over third parties performing material functions on its behalf. This includes generating appropriate MI for review and assessment by the appropriate governance forums, and as a consequence, the Company's submissions and regulatory reporting will take full account of and be based on sound oversight of all material outsourced functions/activities.

The due diligence process around any proposed critical/important outsourcing will include an assessment of potential providers in the market and any decision will be based upon a range of factors including their regulatory authorisation, financial strength, business reputation, internal control environment, ability to perform the necessary functions and the experience and technical competence of the Company and its employees. The QBE Group Outsourcing Policy requires that such outsourced arrangements must also be monitored on an ongoing basis in line with the nature, scale and scope of the services provided including ongoing assessment of the factors outlined above.

For Claims relationships, any potential financial and staffing issues identified as part of these reviews are detailed in contract summary documentation prepared by the Procurement function. For other outsourced partners, assessment of financial resourcing is included in summary documentation detailing key contract points and pricing. This follows the selection process established via the internal procurement process. Assessment of staffing considerations is a default term as part of the 'Requested For Proposal' ('RFP') process and is evidenced as part of the tender/award process.

B.7.2 Critical or important outsourcing

A number of critical or important functions and activities are performed on the Company's behalf by third party providers in accordance with the requirements and principles set out in the Outsourcing Policy:

- Various class of business specific claims handling and loss adjusting services (including investigation and rehabilitation case management). These providers are delegated authority to manage claims on the Company's behalf and operate predominantly in the following territories:
  - Australia;
  - The European Union;
  - United Kingdom; and
  - United States.
- IT services, including Disaster recovery, IT hosting and data centre services, Infrastructure and operational services, specialist software provision. These providers are predominantly located in the United Kingdom, though some infrastructure support services are located in Australia, India, Malaysia, the Philippines and the United States.

Various functions are also outsourced within the QBE Group to a shared services centre located in the Philippines. The principal activities are:

- Certain limited claims administration and processing functions;
- Financial processing (including basic analysis, internal reporting and administrative reconciliation activities);
- Insurance Administration (including data entry, bordereaux support and some credit control processing); and
- Human Resources (including Service Desk support, joiner/leaver processes and lifestyle changes).

In addition, various intra-group outsourcings are implemented in accordance with the QBE Group Services Governance Framework. In all cases the QBE Group's Outsourcing Policy is applied in full to ensure a robust contractual framework is put in place:

- Information Technology services (consisting of Infrastructure services and the IT & Change function) are provided by the QBE Group Global IT function, with employees and infrastructure physically located within the EO Group. This intra-group outsourcing is governed by the QBE Group Master Services Agreement and is subject to formal on-going oversight by the EO Chief Operations Officer and OMG, with established SLAs and regular performance reviews;
- Treasury services are provided by the QBE Group Treasury function, with key employees physically located within EO Group. These services are also within the scope of the QBE Group Master Services Agreement, with SLAs in place and formal oversight provided by the EO Chief Financial Officer and FMG;
- Investment management services are outsourced to the QBE Group Investments Division based in Australia. These are governed by a formal investment management agreement and are subject to on-going oversight by the European Operations Investment Committee ('EOIC'); and
- Internal Audit support to the EO Group is provided by the QBE Group Internal Audit function. This arrangement is considered material outsourcing by the Company under the Belgian regulatory framework and the QBE Europe Chief Executive Officer serves as *Personne Relais* before the NBB in this regard. This intragroup outsourcing is also governed by the established QBE Group Master Services Agreement.

The QBE Group has entered into a number of global agreements for the provision of externally outsourced services which extend to its constituent divisions including the EO Group. Such agreements are predominantly associated with the provision of IT infrastructure and support services and are implemented in accordance with the QBE Group Services Governance Framework.

Prior to entering into any global agreement, the contracting QBE Group entity must obtain formal approval from the Boards and procedures are in place that require prior review of the proposed agreement by Legal and by the Company Head of Compliance. In all such cases, the requirements and associated governance arrangements of the QBE Group Outsourcing Policy apply.

B.7.3 Delegated Underwriting Authority ('DUA') Arrangements

The Company also operates a worldwide network of coverholders which are delegated authority to underwrite business on the EO Group's behalf. The primary sources of delegated authority business are:

- Australia;
- The European Union;
- United Kingdom; and
- United States.

All delegated underwriting arrangements are subject to extensive on-going oversight and a risk-based control framework which includes due diligence, risk assessment and the on-going audit and review of coverholder conduct and operations.

B.8 Any other information

No other information is considered material regarding the Company's system of governance.

Section C: Risk profile

The Company's internal risk profile has seen divergent risk trends throughout 2021, while the external risk profile has remained predominantly stable with some risk increasing trends. Both the internal and external risk profiles were impacted as a result of increased uncertainty regarding inflation: HICP in Europe was 5,0% at the end of 2021 with an increasing trend and inflation was also hitting a 30 year high at this time in the UK, where the EO Group is based, as the Consumer Prices Index ('CPI') rose by 5,4% in the 12 months to December 2021, with the Bank of England forecast to be over 7% in spring 2022. As well as increasing the cost of claims and impacting reserving and creating economic uncertainty, price inflation could impact the Company through increased operating costs.

Internal risk profile: Information Technology Governance and Security / Cyber risk remained 'High' but with a risk decreasing trend throughout the year, reflecting improvements in the control environment. The 2022 rating will consider the updated cyber security roadmap and the potential impacts of Russia's invasion of Ukraine, that will likely increase the external cyber risk. The provision of IT services is outsourced from the EO Group to QBE Group IT and a formal set of service outcomes exist and are closely monitored by the EO Group Operations.

In the second half of 2021, risk increased notably in relation to some insurance risk related key risks driven by increasing inflation. To a lesser extent, a risk increasing trend was also noted in relation some operational key risks.

External risk profile: COVID-19, which was the most significant risk that the Company and the EO Group faced in the first half of 2021 remains 'High' and moved from 'Uncertain' to 'Stable' for H2 2021. This reflects the reduced operational and investment market impact to QBE Europe, notwithstanding the high level of inherent uncertainty as to the ultimate impact on claims liabilities. Economic and Political uncertainty remained 'High' through 2021, with a risk increasing trend in Q4 2021. This is despite a rebound in global economic activity, as significant uncertainty remains regarding economic output, inflation and interest rates and the impact of geo-political tension, potential new variants and the withdrawal of government stimulus packages. An initial assessment has also been undertaken of the potential impact of the conflict between Russia and Ukraine, refer to section A.1.4. All other external risks across 2021 have remained stable.

Climate change represents a 'High' and 'Stable' risk to the Company. This refers to large-scale, long-term shifts in global weather patterns and average temperatures, which can manifest as physical, transition and liability risks. The focus on our climate change risk profile is intensifying, with increased attention from regulators, investors and other stakeholders.

As part of the EO Group which is regulated by the PRA, the Company is also subject to SS 3/19, the PRA's regulation governing the Financial Risks from Climate Change ('FRCC'). The EO Group's Chief Risk Officer ('CRO') and the Chief Underwriting Officer – Insurance ('CUO') are jointly accountable for the FRCC under the PRA Senior Managers Regime. The CRO continues to report quarterly to the Risk and Capital Committee on progress with implementing the Roadmap for SS 3/19, with further reporting as necessary to the Board. In 2021, further progress has been made towards meeting the requirements of SS 3/19. These improvements have been made across the EO Group, including for the Company.

The Company remains committed in this area over the medium- to long-term to strengthening our data and scenario analysis and adapting our modelling; pricing; capital management; financial reporting and disclosure, in partnership with QBE Group and external stakeholders.

In terms of risk mitigation, the Risk Control Self Assessments ('RCSAs') and Issues and Incidents ('I&I') processes, which were introduced between 2019 and H1 2021 as part of a risk transformation programme, are now fully embedded.

The Company is exposed to various risks and uses a number of methods and techniques to identify, assess, evaluate and mitigate these risks. The main categories of risk are detailed below. To address these risks, the Company uses a number of risk mitigation techniques, as described in section B System of governance.

The below table shows the SCR calculated under the Internal Model for the Company. More information is given on the risk types in this section.

Risk Components under Internal Model	(€'m)	
	2021	2020
Market risk	278	230
Counterparty Default risk	115	112
Non-life underwriting risk	841	852
Operational risk	102	83
Pension risk	4	4
Total undiversified components	**1.340**	**1.281**
Diversification	(389)	(344)
Solvency capital requirement	**951**	**937**

C.1 Insurance risk

Description

The Company defines insurance risk as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations.

Exposure measurement

Insurance risk is one of the key risks for the Company, for which exposure is measured mainly through the SCR derived from the Solvency II Internal Model. Insurance risk is modelled as three separate elements; risk around the proposed underwriting year (underwriting risk), risk around the balance sheet earned reserves (claims provision) and risk around the balance sheet unearned reserves (premium provision). Each of the risk elements including more specific exposure measurement information is detailed below in section C.1.1 - 4.

Risk mitigation

Risk mitigation is mainly achieved through reinsuring a portion of risks underwritten to reduce Company's exposure to individual losses or an accumulation of losses. This allows the Company to control exposure to insurance losses, reduce volatility of reported results and protect capital. The Company has in place systems, internal controls and processes to ensure that its reinsurance arrangements are appropriate to enable it to meet its obligations to its various stakeholders, including policyholders and shareholders.

Changes were made to the Company's reinsurance programme in 2021, which, whilst being a change in risk profile, had only relatively minor impact on the capital position.

Risk Concentration

Insurance risk concentrations consider the risks associated with accumulations of underwriting exposures within particular business lines, products, and geographies. This includes the risks from natural or man-made events that have the potential to produce insurance losses from many of the Company's policyholders at the same time (e.g., catastrophes).

The Company's exposure to concentrations of insurance risk is mitigated by maintaining a business portfolio that is diversified across countries and classes of business. Product diversification is pursued through a strategy of developing strong underwriting skills in a wide variety of core and specialty classes of business.

The Company currently uses a variety of methodologies to monitor aggregates and manage catastrophe risk. These include the use of catastrophe models from third party vendors such as RMS and Impact Forecast Elements, the Realistic Disaster Scenarios ('RDS'), and the QBE Group Aggregate Methodology ('GAM') and Realistic Event Methodology ('REM'). A risk appetite in relation to insurance concentrations has been determined using the QBE Group's capital model. This is monitored against on a regular basis.

C.1.1 Underwriting risk

Underwriting risk is the risk that the premiums received for the business written in the year following the model date will not be sufficient to cover future claims and related costs arising from that business.

The risk is modelled separately for each class of business and involves an assessment of the following sources:

- The underwriting cycle and the potential for business to be written at inadequate rates. This has been based upon the submitted business plans and makes allowance for variability. The data has been reviewed by experts within the business;
- The potential for losses in excess of the business plan caused by a difference between the frequency and value of expected claims compared to the frequency and value of actual claims (including inflationary trends). The losses have been split between:
  - Attritional losses - Historical experience combined with expert judgement is used to parameterise the potential distribution of outcomes;
  - Large losses - The frequency and severity of large loss distributions are modelled separately, including for COVID-19. The volatility is based on past experience with an overlay of expert judgement; and
  - Natural catastrophe losses - Catastrophe losses are modelled using a third-party catastrophe model combined with QBE Group's exposure profile. An uplift for catastrophe exposure not catered for by the third-party model is also applied.
- Reinsurance risk mitigation - Gross large and catastrophe claims are modelled explicitly and are passed through the reinsurance structure. The capital model uses the reinsurance structures that are currently in place to capture both the reinsurance recoveries due and reinstatement premiums payable from the modelled gross losses; and
- Commission and expenses - Commission and expense assumptions are aligned to the business plan and make an allowance for variability.

In addition, risk appetites are in place and monitored in relation to insurance risk, using for example probability of adequacy of claims reserves and insurance concentrations as a measure as well as performance from a more strategic perspective.

C.1.2 Catastrophe risk

The Company has material exposure to losses from natural catastrophe events as well as man-made catastrophe events (e.g., terrorism or casualty events). Whilst the risk assessment processes set out below cover natural catastrophe exposure, man-made catastrophe events are also covered under underwriting risk.

Extensive monitoring of aggregates and reinsurance are in place to control this risk.

A variety of methodologies are used to monitor aggregates and manage catastrophe risk on a gross and net basis.

Methodologies include:

- The use of catastrophe models from third party vendors, such as RMS;
- Realistic disaster scenarios ('RDS') - which may be property related events (e.g., windstorms and earthquakes), but can also be liability-based events such as a collapse in the housing market (and therefore used to measure man-made catastrophes); and

- The QBE Group realistic event methodology ('REM') - used to assess catastrophe risk in regions of the world that the Company do not have a licenced cat model to allow consideration of potential losses from these regions.

The output of each of the above is monitored and measured against internal limits. The Insurance Concentrations risk for the Company is monitored by the EO Group Aggregate Management Group and reviewed at a summary level via the Underwriting Management Group risk dashboard. In addition, catastrophe risk is reviewed at QBE Group level via the Group Aggregate Management Committee ('GAMC').

C.1.3 Claims provision risk

Claims provision risk is the risk that the outstanding claims provisions established are insufficient to cover the future claim payments and associated expenses for loss events which occurred before the balance sheet date. Claims provision risk is modelled separately for each class of business.

To calculate the risk around earned the provision, historical paid and/or incurred triangulations have been analysed using a variety of statistical methods, such as:

- Bootstrapping;
- Mack; and
- Hertig.

These statistical techniques are used to project historical gross variability into the future. A number of adjustments based on expert judgements are then applied to take account of the following risk factors:

- Internal systematic risk, such as data issues; and
- External systematic risk, such as claims inflation and legislative changes.

The gross variability is then netted down to produce the net variability. The netting down process allows explicitly for potential exhaustion of prior reinsurance programmes.

The Company takes account of, and ensures consistency with, the QBE Group capital allocation model and also makes use of other data available across the QBE Group where that data can improve the accuracy of the variability measure.

The opening reserves used with the capital model are consistent with the technical provision as at the balance sheet date.

C.1.4 Premium provision risk

Premium provision risk is the risk that the premium provisions established are insufficient to cover the future claim payments and associated expenses for losses which occur on the unexpired exposures.

Premium provision risk is modelled separately for each class of business. The volatility parameters are derived from the claim distributions from the underwriting risk section of the model and are modelled separately for attritional, large and cat claim types.

C.2 Market risk

Description

The Company defines market risk as the risk of adverse impacts on earnings resulting from changes in market factors. Market factors include but are not limited to: interest rates, credit spreads, foreign exchange rates and equity prices. The Company's exposure to market risk arises from movements in investment markets and foreign exchange rates.

Exposure measurement

Market risk is mainly measured based on the SCR derived from the Solvency II Internal Model.

Market risk modelling assesses the variability in asset returns, changes in asset values and changes to exchange rates over either a one-year period or a 'to-ultimate' timeframe. The calculation over the one-year period also includes the impact of the change in the discount on the Solvency II balance sheet between the opening and closing liabilities.

The average duration of the fixed income portfolio, around three years, is usually less than the duration of net technical liabilities. Average credit quality is high.

The risk of loss due to default of corporate bonds is considered a market risk.

The key part of market risk modelling is an Economic Scenario Generator ('ESG'). The ESG simulates different investment returns for a variety of different asset types and takes account of varying durations and inflation rates (both CPI and wages). The QBE Group including QBE Europe uses a market-leading third party ESG.

A significant amount of work is undertaken by the Company to assess and validate the ESG and modelling of market risks to ensure this is fit for purpose for the Company. An assessment of the suitability of the ESG was completed in December 2021. This assessment concluded that the Market risk methodology, parameters, documentation, appropriateness of data and associated governance meet the appropriate regulatory requirements for each legal entity. The annual validation exercise during 2021 concluded that the ESG remained appropriate for use.

The split of assets held by asset type, on which the current capital assessment is based, is disclosed in the balance sheet reporting templates included in Appendix A.

In addition to the above, the adherence to market, credit and liquidity risk appetite statements as well as a number of key risk indicators for market and credit are monitored by the RCC and the EO Group Investment Committee ('EOIC'), both Committees of the Board, on a quarterly basis. A new risk appetite statement for Market risk was approved by the Board in July 2021. This allows the approved internal model to be used to measure and report market risk impacts on assets and liabilities.

Risk mitigation

See section C.2.2 below.

Risk Concentration

Concentration risks are managed through adherence to the EO Group's investment guidelines, which apply to QBE Europe and are designed to encourage diversification and prevent excessive exposure concentrations, for example in terms of sector. Counterparty exposures are managed through counterparty limits and monitored and reported to the EOIC.

C.2.1 Prudent person principle

The Company, as part of the EO Group regulated by the PRA, has a defined approach, risk framework and governance process around the Prudent Person Principle ('PPP') as set out in the Solvency II regulation, with updates during 2020 and 2021 to reflect additional requirements of NBB 2016_31 and PRA SS 1/20, to the extent relevant to the Company. These principles are now embedded in processes and controls within the Company. Requirements set out in the principle include that:

- The undertaking only invests in assets and instruments whose risks it can properly identify, measure, monitor manage, control and report and appropriately take into account in its overall solvency needs;
- All assets, in particular those covering the Minimum Capital Requirements and the SCR, shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole as well as the availability of the assets;
- That the nature and duration of assets held to cover the technical provisions should match with that of the undertaking's liabilities. The Company's policies are consistent and compliant with this rule;

- That the intention and effectiveness of any derivative instruments used within the portfolio are documented and reported upon;
- That the characteristics and valuation methodology, including levels of valuation uncertainty within new products and instruments are assessed prior to approval of the new products and instruments;
- That any valuation uncertainty within the portfolio is understood and monitored; and
- That the Company has internal capability to evaluate credit risk of the portfolio.

Restrictions on investments which are set out in specific Investment guidelines and Restrictions are primarily based on the Solvency II Directive, the PRA's Rulebook and guidance in Supervisory Statements and Belgian regulatory requirements, as applicable, which give a sound framework for a prudent approach. Occasionally the Company has applied more conservative limits where this is deemed necessary to better align with risk appetite.

The Investment Guidelines and Restrictions are approved by the Board and address market and credit risks; they are based on local regulatory requirements to ensure that principally all investment assets are admissible for solvency under the Solvency II Directive, Belgian regulatory requirements.

The Company's and the EO Group's investment philosophy is to protect the value of capital with a focus on gaining exposure to assets that are capable of producing a consistent and recurring flow of income over time, that also meet internally set targets.

In summary, the Company mitigates the level of market risk using the following:

- Active asset management;
- Diversified portfolio;
- Use of derivatives for efficient portfolio management;
- Hedging of residual non-functional currency exposure; and
- Monitoring of compliance with legal and regulatory requirements, including the PPP.

The responsibilities of the EOIC include the monitoring of compliance with legal and regulatory requirements including the Prudent Person Principle.

The EOIC monitor market and credit risk appetite statements on a quarterly basis. The Enterprise Risk Management ('ERM') function further reports on the adherence to the risk appetite statements to the RCC on a quarterly basis as part of the ORSA process, including relevant market, credit and liquidity risk appetite statements.

Risk dashboards, as part of the ORSA process, link risks across the EO Group including QBE Europe in line with the QBE Group Risk Management Strategy ('RMS'), including in respect of liquidity, capital and investment risks. In addition, all reports from business areas outlining identification and management of individual risks are reported and assessed by EO Group committees, in particular the EOIC, FMG and the RCC.

The CFO reports the following information to the EOIC on a quarterly basis:

- ESG modelled risk evaluation and probability of scenario outcome under certain stress tests via risk dashboards; and
- Detailed investment performance and market information including modified duration, spread duration, return versus business plan, asset distribution data, Asset-Liability matching information and compliance with the Company and QBE Group's Investment and Regulatory Guidelines.

Further detail regarding the Company's investment processes and risk mitigation is set out below in section C.2.4.

C.2.2 Investment Process including Risk Mitigation

C.2.2.1 Governance structure

The Board of QBE Europe delegates its authority to the EOIC, which is comprised solely of non-executive directors of the EO Group and its underlying entities including QBE Europe (a minimum of three non-executive directors), to make recommendations to the Board as to the appropriate investment policy and guidelines for the Company and to take responsibility for the implementation and monitoring of the agreed strategy. All material investment strategy decisions are reserved for the Board based on recommendations from the Committee.

C.2.2.2 Investments (including Investment and Treasury Credit Risk)

Day-to-day management of the investment portfolio is outsourced to specialist investment managers, QBE Group Services Pty Limited (referred to as QBE Group Investments). Appointment is formalised in an Investment Management Agreement (‘IMA’), which states the terms and conditions applying to the management of Company investment assets, including compliance with the Investment Guidelines and Restrictions.

The Investment Guidelines and Restrictions, which reflect the Company and EO Group’s strategy, permit the investment manager to procure assets on the basis that they comply with asset specific requirements, such as issuer, credit, counterparty and asset type constraints. The guidelines and restrictions include detailed limits by asset type, which are aligned to PRA and local regulations, or where appropriate are more restrictive. Derivatives are permitted within the investment portfolio for efficient portfolio management and risk reduction purposes and are not permitted within the guidelines for speculative investment. Monitoring of the investment portfolio against the guidelines is performed by QBE Group Investments and within the EO Group’s Finance team.

The Company’s investment asset holdings are relatively diverse by asset provider, asset type and currency. The maximum exposure to a single counterparty (excluding sovereign debt and short-term deposits) is 5% of funds under management for the majority of assets held, with a 10% maximum exposure permissible per counterparty; provided the total exposures, which exceed 5%, do not exceed 40%.

The Company investment guidelines with respect to fixed income securities and growth assets are aligned to regulations. Growth asset exposure is aligned to approved Board exposure limits. These limits are set using market and capital criteria e.g., maintaining a realistic margin of capital, liquidity considerations and related risk / reward ratios. It is usual to seek PRA ‘No Objection’ clearance in the UK; and to update the NBB via existing communication channels, when introducing major changes to the asset allocation model and this will include sharing proposed limits.

Under the terms of the IMA, the Investment Manager is required to adhere to the Investment Guidelines and Restrictions and have the systems in place to monitor the portfolio’s compliance with them, reporting any breaches as they occur. Limits are monitored on a day-to-day basis by the investment manager. Independent from the investment manager, the EO Group’s finance team obtains portfolio analyses at individual security level every month end and performs its own tests to verify compliance. Based on the output findings and the compliance reports from the Investment Manager, a monthly compliance report is sent to the EOIC.

In the event of a breach of the terms, the Investment Manager is expected to immediately contact the EOIC to ascertain whether or not to effect immediate action to resolve the breach, or whether the EOIC will issue a waiver with additional clauses, which is possible under certain conditions including regular monitoring. Waivers are reviewed and re-issued annually subject to the approval of the EOIC via delegated authority from the Board.

The Company and the EO Group utilise the expertise of the investment manager in assessing the credit risk of counterparties in which to invest. Credit assessment reports will include detailed information obtained from credit rating agencies, primarily S&P. Exposures through derivatives are included when calculating the EO Group’s overall exposure to a counterparty.

The average portfolio credit quality for the Company is 85,3% (2020: 83,4%) of its total fixed interest and cash investments are with counterparties having a Standard and Poor’s rating of A or better.

Absolute counterparty limits are set for Treasury balances and instruments. The majority of counterparty exposure details are fed into a central reporting system. In addition, there are specific settlement limits in place for foreign exchange derivatives relating to volumes executed with the QBE Treasury banking group.

The QBE Group Treasury team monitors all Treasury counterparty exposures against a counterparty limit report on a daily basis and also carries out a pre-deal check of limits.

The 2021 impact of COVID-19 on the investment portfolio has not been significant, with no separately identifiable impact of valuation or reported investment income, and no significant change in asset allocation during 2021.

C.2.2.3 Asset Liability Management

The Company and the EO Group's current investment strategy is to maintain fixed income asset duration which is broadly equal to average net technical liability durations to mitigate interest risk. Investment guidelines permit the investment manager to extend fixed income duration a maximum of 1 year greater than that of average net technical liabilities of each entity, with no restrictions for fixed income duration below the duration of average net technical liabilities.

Risks associated with Asset Liability Management are managed through the Economic Capital Model process, which calculates the capital requirement for the liabilities and assets of the EO Group based on the inter-dependencies of the insurance risk, market risk, credit risk, liquidity risk and operational risk to which the EO Group's assets and liabilities are exposed. Various scenarios are assessed as part of the determination of the appropriate level of capital.

An input into the Economic Capital Model is the actuarial assessment of the payment pattern of liabilities for each portfolio within each entity within the EO Group including QBE Europe. These are monitored and formalised by the EO Group FMG. Whilst there is not an explicit link to the investment strategy, the current focus is on investment grade quality bonds which can be liquidated within three days from request to QBE Group's internal asset management division.

For managing Asset-Liability mis-match risks, there is also a Risk Appetite Statement in place that is approved by the QBE Europe Board and that is reported against each quarter at the EOIC and at the EO Group Risk and Capital Committee.

C.2.2.4 Derivatives

Derivatives are permitted to be used for risk reduction purposes or for efficient portfolio management within the investment portfolio, to manage interest rate risk, foreign exchange movements and equity price movement, the restrictions on use are outlined in the QBE Group's Investment Guidelines and Restrictions. They are not used for speculative purposes and must be fully covered. Derivatives may be used by the fund manager to reduce or increase exposure as an alternative to transacting in the underlying securities, but such use must not result in gearing of the portfolio. Performance of the derivatives is included in reports submitted to the EOIC on a monthly basis. Ultimately, the success of the derivatives is preserving the value of the investment portfolio against adverse movements in markets.

Separate to derivative usage within the investment portfolio, foreign exchange derivatives are permitted to be used to mitigate operational foreign exchange gains and losses. Foreign exchange derivatives may be used to hedge residual foreign exchange exposure to monetary net asset positions. The effectiveness of the foreign exchange derivatives mitigating foreign exchange gains and losses is included in the CFO FX memo submitted to the FMG on a quarterly basis.

C.2.2.5 Foreign Exchange

The largest unhedged foreign currency exposure at 31 December 2021 for the Company is to the US Dollar. An operational hedging cycle is in place to ensure that residual exposure is identified, validated and appropriate adjustments to Forward foreign exchange derivatives are instructed, in order to hedge the residual exposure to foreign currencies.

A report on the foreign exchange impact on the Company, and other entities in the EO Group is provided to the CFO on a quarterly basis through the CFO FX Memo to the FMG. This report outlines movements in foreign exchange and the corresponding impact on operational results. The report also describes major currency exposures.

C.3 Credit risk

Description

Credit risk arises from a potential default of the Company's counterparties, mainly in respect of a reinsurer defaulting on reinsurance recoveries, or a broker on premiums. The credit risk arising from reinsurer defaults is much more material than the credit risk arising from broker defaults.

It should be noted that investment and treasury credit risk (including for example the default of corporate bonds), whilst being a sub-risk category of credit risk, are considered as part of market risk for modelling purposes and the relevant processes have been detailed in the market risk section C.2. However, some risk mitigation processes are included in the credit risk section here.

Exposure Measurement

Credit risk is mainly measured based on the SCR derived from the Solvency II Internal Model.

Credit exposures are monitored quarterly against Risk Appetite Statements ('RAS's') that apply to the Company and are reported on a quarterly basis, through the ORSA and the Finance Management Group and QBE Group Risk Dashboard (please also refer to section C.6.1 below). Further details of collateral amounts posted in favour of the Company are shown in the following section.

An annual credit risk review is also performed for Equator Re as a large internal reinsurer to the company. This report is submitted for review and approval to the RCC each year.

Risk mitigation

The Company mitigates credit risk using the following:

- The posting of collateral to the company as beneficiary by counterparties in respect of specific exposures.
- An annual review of Equator Re's financial performance by the Risk team, reported to the RCC;
- Various levels of credit risk limits that are monitored against on a regular basis;
- Regular counterparty monitoring through dedicated systems and procedures to manage and control exposure to counterparties;
- The monitoring on an on-going basis by QBE Group's Group Security Committee of external ratings and QBE Group ratings and updating as appropriate. A formal quarterly review of ratings is also conducted by the QBE Group Security Committee; and
- The regular review of receivables, the collectability of those debts, and the adequacy of associated impairments.

Specific controls over reinsurers include the following:

- The monitoring on an on-going basis of first loss exposure and Realistic Disaster Scenario ('RDS') by reinsurer and Reinsurance Debtors and Recoveries ('RIDAR');
- The management of counterparty concentration risk by referring to guidelines set down by the QBE Group Security Committee ('GSC'). Any use of a reinsurer outside of the guidelines must be approved by the GSC prior to use; and
- The use of a reinsurance reporting system to monitor and report on the concentration of risk. The system holds details of all reinsurances purchased by the QBE Group from 2003 onwards and enables EO Group to identify the maximum cumulative exposure to each single reinsurer.

Specific controls over brokers include the following:

- Outstanding premium debtor balances are monitored by credit control teams on a monthly basis, as a minimum. Concentration risk is also monitored for large brokers; and
- The monitoring of broker balances on the basis of uncollected debt and debt outstanding in excess of six months. Debt over three months is pursued at an individual item level. Specific bad debt provisions are considered and applied to aged debts in accordance with QBE Group policy. Brokers are also subject to due diligence.

Specific controls over investments include the following:

- Exposure limits for approved counterparties in relation to deposits and investments; and
- EO Group Finance Team perform monthly monitoring of exposure to investment counterparties against limits set out in the QBE Group Investment and Regulatory Guidelines, in addition to QBE Group Investment pre- and post-trade compliance processes.

Risk concentration

A key area of credit risk concentration is the exposure to the QBE Group's captive reinsurer as the Company's largest reinsurer. Credit risk concentration is monitored through the risk appetite monitoring (including the exposure to Equator Re). A separate risk appetite is in place for the credit risk exposure to Equator Re, and collateral is held to manage this exposure, as described under the Exposure Management section above. Risk concentration regarding external reinsurers is mitigated by the GSC on behalf of the Company, through application of approved criteria for placing reinsurance with highly rated reinsurance counterparties.

C.3.1 Reinsurance credit risk

Credit risk arising from potential default by reinsurers and increase in bad debt reserve due to rating downgrade is modelled to consider the likelihood of default on both existing and future reinsurance recoveries.

- Credit risk on reinsurance recoveries arising from future business - The capital model considers each individual layer on each programme in force and is able to calculate the aggregate reinsurance recoverable attributed to any one reinsurer. Credit risk ratings are applied to each reinsurer and assess the probability of downgrade or default over time. The downgrade and default probabilities are correlated, so one downgrading/reinsurer defaulting makes it more likely that other reinsurers will downgrade/default. There is also a link between the catastrophe losses incurred by the entire EO Group and the downgrade/default probabilities, making it more likely for reinsurers to downgrade/default when there is a large natural catastrophe; and
- Credit risk on the existing reinsurance asset - The model includes the amount of reinsurance recoveries due from each reinsurer. Combining this with the payment patterns for each class enables, at any point within the model, the calculation of the aggregate reinsurance recoverable attributed to any one reinsurer assuming a constant proportion of recoverable with each reinsurer is maintained. The modelling of potential credit risk then follows the same approach as for future reinsurance recoveries above. Thus, if a reinsurer downgrades or defaults the impact on both the current reinsurance asset and the future recoveries can be modelled. There is also a link applied between reserve deteriorations and the downgrade/default probabilities, making it more likely for reinsurers to downgrade/default when there are large reserve deteriorations.

As at 31 December 2021, 58,2% (2020: 65,0%) of the Company's reinsurers' share of claims outstanding was with QBE Group's captive reinsurer Equator Re and 97,9% (2020: 93,2%) of the remaining balance is with reinsurers with an S&P rating of A- or greater. The Company holds letters of credit as security to mitigate credit risk exposure to reinsurers. At 31 December 2021 the Company held €54m of letters of credit (2020: €37m) as collateral against credit risk. The Company also holds €40m (2020: €37m) of deposits from reinsurers.

C.3.2 Premium credit risk

The approach to modelling broker credit risk is very similar to the approach used to model reinsurer credit risk. The brokers are initially divided into groups, default probabilities are selected for each group, loss given default distributions are selected and the resulting credit losses are simulated.

C.4 Liquidity risk

Description

The Company defines liquidity risk as the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors, or only being able to do so at excessive cost.

Exposure measurement

The most likely causes of liquidity risk arise from shortfalls in liquid assets when liabilities are required to be paid. The Company ensures that sufficient unencumbered investments are held in liquid securities to ensure that there are funds available to meet obligations to policyholders and other creditors, as they fall due.

Risk Appetite Statements, approved and owned by the Board, are in place to ensure that minimum levels of eligible available assets are maintained at all times to meet remote but plausible stressed cash outflows. According to QBE Europe's Liquidity RAS, a minimum percentage of liabilities must be maintained in liquid assets. These apply to EO Group's individual legal entities and reporting of coverage is made on a regular basis, as well as quarterly through the ORSA. Typically, free assets are substantially higher than the minima RAS requirements and liquidity risk is considered to be low.

In addition, a Liquidity risk dashboard is reported to Finance Management Group ('FMG') on a regular basis. This dashboard reports liquidity metrics for each legal entity. In addition, key risk indicators, key concerns, cash-flow forecasts, risk mitigation options and details of the control environment for liquidity are also reported in this dashboard and reviewed by the FMG.

At 31 December 2021, the average duration of cash and fixed interest securities was 2.9 years (2020: 3,2 years) for the Company.

Within the ECM, liquidity risk is modelled considering any shortfall in the cashflow at the end of each future year of modelling leading to an overdraft being required at a penal rate of interest while generating cash through selling other investments to pay off the overdraft.

In light of the COVID-19 outbreak and associated economic shock, liquidity scenarios have been modelled to reflect potential severe stresses and the investment portfolio has been repositioned in light of these scenarios.

Risk mitigation

The Company mitigates liquidity risk using the following:

- Ensuring that appropriate levels of liquid assets are available and reporting these quarterly against the RASs approved by the Company's Board;
- Reporting the results of liquidity stress tests to the FMG via the Liquidity risk dashboard;
- Regular liquidity risk stress and scenario testing encompassing diverse scenarios across various risk types and return periods; and
- Implementation of the EO Group's Liquidity Contingency Plan, which details options available to the EO Group and QBE Europe to access alternative funding in the event of remote Liquidity events.

C.4.1 Expected Profit in Future Premium ('EPiFP')

The Company calculates the expected profit in future premiums ('EPiFP') by projecting the expected future net (excluding contractually obliged reinsurance) profits directly. This is carried out separately or each actuarial reserving class and only profit-making classes are taken into account.

The expected profit in future premiums for the Company is €258m (2020: €166m)

C.5 Operational risk

Description

The Company defines operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events”. From an exposure management perspective (as set out in the section below), operational risk includes compliance risk. The Company’s exposure to operational risk arises from various sub-risk categories as outlined in the section below.

Operational risk is a significant risk in the capital model, albeit one that is notably less important than underwriting and reserving risks (and of similar magnitude to credit risk).

Exposure measurement

Operational risk is assessed and modelled using the following seven operational and two compliance sub-risk categories:

- Internal fraud;
- External fraud;
- Employment practices and workplace safety;
- Improper business practice;
- Damage to physical assets;
- Business disruption and system failure;
- Execution, delivery and process management;
- Non-compliance with external requirements; and
- Non-compliance with internal requirements.

Each sub-risk has the attritional and large losses modelled separately using a compound distribution with a frequency and severity element for each. The frequency distribution is modelled using a Poisson distribution and the severity distribution is modelled using a lognormal distribution.

The input parameters for the model are set through the Total Risk Assessment (‘TRA’). The Total Risk Assessment brings together key risk assessment information for each of the EO Group’s operational and compliance risks, both at an extreme level (remote but plausible scenarios; for further detail on the scenario analysis please refer to the Risk Mitigation section below) and over the business planning period. The output from this process is, for each sub-risk category above, a frequency and lognormal distribution of attritional and large operational risk loss amounts.

The input parameters for the model are estimated in the TRA process for all entities within the EO Group, including QBE Europe, and the severity allocated at an entity level using a weighted average of net reserves and premiums.

The distributions for each sub-risk are then aggregated assuming 30% correlation between the sub-groups independence to determine the overall operational risk distribution.

Operational risk losses are assumed to be in local currency and take place in the first model year.

Risk mitigation

The Company recognises that certain operational risks are unavoidable and arise from various areas across the business. The Company seeks to limit exposure to operational risks through ensuring that an effective infrastructure, robust systems and controls and appropriately experienced and qualified individuals are in place throughout the organisation.

The Company mitigates operational risk using the following:

- Active monitoring of key processes;
- Closely monitoring rapid changes in the international sanctions regulatory environment, undertaking appropriate screening and due diligence, and communicating requirements to the business as required;
- Scenario reviews to identify and quantify potential exposures for mitigation; and

- Effective segregation of duties, access controls, authorisation and reconciliation procedures.

In the first instance, operational risk is managed by the first line of defence through various systems, controls and processes.

The Company uses several key processes to monitor operational risk, as follows:

Risk and control self-assessments

QBE Group introduced a Group-wide Risk and Control Self-Assessment ('RCSA') framework in December 2019 (replacing the previous Risk and Control Assessment process), which has now been fully embedded. The RCSA process places responsibilities for functional risk and control assessments on each business area and it is overseen, challenged and validated by the ERM team. This framework ensures that risks are managed at a functional level and a wider risk category level to support the achievement of the Company's objectives. The risk management framework provides further structure to the control environment, ensuring that risks have the appropriate controls in place with the appropriate owners. Control assessments are validated by the ERM team on an annual basis and verified through Internal Audit testing.

Key risk indicators ('KRI's)

The Company monitors its risk through KRIs, defined as "a tool to measure risk across the QBE Group, providing early warning signs when levels of risk are changing (both positively and negatively)". They are the common metrics agreed and used by all Divisions across the QBE Group to flag changing risk exposure.

Incidents

The RCSA process identifies expected operational risks. The incident process applies to operational risks that have materialised as incidents, which are defined as "an operational breakdown that arises from an inadequate or failed internal process, people or systems, or from an external event, that leads to financial impacts and/or non-financial impacts."

QBE Group classifies incidents into three categories:

- Actual loss events;
- Near-misses; and
- Boundary events.

A key component of the incident process is the event recording. The Company records incidents with a financial impact of £5.000 or greater within a risk management system.

On a quarterly basis, the ERM team collates incident data with analysis and reports this to the RCC and QBE Group.

Issue management

The Company has an issues management process in place including the identification and recording of weaknesses or gaps in the control environment as well as the monitoring of relevant remediation actions to closure and reporting to the executive management and relevant governance forums.

Scenario analysis

Scenarios explore events or a series of events that could cause extreme but plausible (though improbable) losses. Scenario analysis can be:

- Historical: involves applying adverse historical events to existing portfolios or exposures to understand the losses or other impacts that may result;
- Current or emerging: where there is already some evidence to support the potential for the risk developing over the foreseeable future and the impacts might potentially be extreme (such as COVID-19); and

- Hypothetical: plausible but severe scenarios that could impact the Company, informed by expert input, are applied to existing portfolios or exposures.

C.6 Other material risks

The other material risks to which the Company is exposed are detailed below.

C.6.1 Group Risk

Description

The Company defines Group risk as the risk to a Division arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company. This includes potential default on inter-company loans. Note, however, that group risk (from a capital modelling perspective) excludes reinsurance credit risk exposure in relation to the QBE Group captive Equator Re, which gets incorporated in the credit risk assessment.

Group risk has little impact on the overall capital. The assessment of group risk is based on the following scenarios which are identified as the most significant group risks within the QBE Group and, in aggregate, representative of the overall group risk.

- A QBE Group company conducts business unlicensed/in breach of conduct rules in the name of another QBE Group company;
- Action taken in another division of QBE Group causes S&P to issue a one notch downgrade, from A+ to A; and
- Action taken in another division of QBE Group causes S&P to issue a two-notch downgrade, from A+ to A-.

These scenarios are reviewed in context with the Group Risk Dashboard which identifies the material group risks. The RCC are responsible for the Group Risk Dashboard and have specific responsibilities for assessing and validating group risk assessments. Each scenario is then modelled as a binary event and assumed to be independent.

A Group Risk Management Framework is in place, set out in the EO Group Risk Policy, which applies to QBE Europe and describes QBE Group's approach to the assessment, management, monitoring and reporting of group risks. Processes applied to managing group risk include:

- QBE Group Risk Dashboard: including monitoring of intra-group loans, intra-EO Group loans, exposure to Equator Re and Group Outsourced Services service level agreements ('SLA's) monitoring;
- Monitoring and reporting of group risk appetite statements;
- The RCSA process providing periodic assessment of risks as well as assurance over control design and performance;
- Key Risk Indicators ('KRIs') and SLA monitoring: provide a current and trending view on levels of exposure to key risks and performance over outsourced services;
- Incidents, Issues and Actions: identification of incident events, root cause analysis and management activity required to resolve problems or address improvements identified through various risk processes; and
- Economic capital models ('ECM'): the quantification of risk measurement for regulatory and economic capital purposes.

In addition to this, other risk processes are applied similarly to the processes set out in the Operational Risk section C.5.

A key area of group risk concentration for the Company arises from the use of the QBE Group reinsurance captive, Equator Re. This concentration is monitored on a regular basis via the risk appetite monitoring and reported to the RCC and Board through the ORSA.

C.6.2 Pension Risk

Pensions risk captures the risk of adverse balance sheet movements associated with the defined benefit pension schemes. The Company currently operates the Secura NV defined benefit pension scheme which relates to certain current and former employees based in Brussels. The Secura NV scheme is funded by the employer via group insurance contracts with KBC, a Belgian insurance company. Pension contributions relating to the scheme are assessed in accordance with the advice of independent qualified actuaries in order to spread the cost over the service lives of employees. Actuarial estimates of the scheme are completed each year end.

In addition, there is a post-employment medical care scheme related to the former Brussels-based employees of Secura/QBE Europe. This scheme is accounted for under a similar basis to the defined benefit pension scheme. The Company also operate defined contribution pension schemes.

Within the SCR calculation, the Company takes a prudent approach and treats these pension schemes in the same way as other defined benefit schemes within the EO Group and bears the economic and demographic risks associated with these schemes.

C.6.3 Strategic Risk

The Company defines strategic risk as “the current and prospective impact on earnings and/or capital arising from strategic business decisions and responsiveness to external change”. This includes for example strategic risk in respect of growth and performance, capital management risk and Environmental, Social and Governance (‘ESG’) related risks, with a focus on climate change risk (further detail on the ESG and climate change risk is outlined below in section C.6.4).

Whilst being within the scope of the Internal Model, strategic risk is not measured using the regulatory capital model, as strategic risk is not expected to materialise within the one-year timeframe applied in the capital model. Once strategic risks materialise, they transition to the relevant risk class where they are incorporated into the capital model.

Strategic risk is managed through several risk management processes such as:

- Risk appetite statements in relation to strategic risk and strategic risk preferences;
- Stress and scenario testing (for example long term horizon climate change stress testing);
- Performance monitoring; and
- Emerging risk management.

Other strategic risk processes include:

- Business Strategy;
- Capital Strategy and Capital Appetite Framework;
- Investment Strategy and Limits; and
- ESG management (please refer to the section C.6.4 below).

Ongoing monitoring, oversight and reporting of the QBE Group’s exposure to strategic risk and its sub risk categories are important to ensure that (potential) strategic issues are recorded, escalated and actioned in a timely manner. Risk reporting and analysis is provided to key stakeholders across the QBE Group. This includes boards, committees, forum and business management including strategic boards planning days and presentations.

C.6.4 Environmental, Social and Governance (‘ESG’) (including Financial Risks from Climate Change (‘FRCC’))

The Company defines ESG risk as “the risk that the Company’s strategic priorities or business objectives are negatively impacted by environmental, social or governance issues”. ESG risk management is a relatively new part of the QBE Group’s Risk Management Framework and is subject to further development and implementation in the EO Group. Our approach to managing ESG risks is guided by QBE Group’s sustainability commitments and memberships, and by our aim to play an active role in managing environmental and social risks, by pursuing the following objectives:

- Building resilience for our customers and communities;

- Investing towards a net-zero economy;
- Strategically integrating climate change risks and opportunities;
- Aligning our business operations and people to reduce our footprint and support climate action; and
- Being transparent about our governance and performance.

The QBE Group seeks to operationalise the Environment and Social Risk Framework through the QBE Group Underwriting Standards and the Responsible Investments Guidelines.

The Company and the EO Group, as part of the QBE Group, recognises the material risk that climate change poses to its business and is committed to embedding climate-related risks and opportunities in decision making.

In 2020, the QBE Group became the first Australian-based insurer to become a member of the UN-convened Net-Zero Asset Owner Alliance, committing to achieving net-zero greenhouse gas ('GHG') emissions by 2050 in our investment portfolio. QBE Group also joined the UN-convened Net-Zero insurance Alliance in 2022, committing to transition our underwriting portfolio to net-zero GHG emissions by 2050.

Climate change is a material financial risk in and of itself, and it can also act as a risk multiplier. For example, prolonged droughts combined with stronger winds are making bushfires in Australia and wildfires in California, and elsewhere, more intense. Coastal windstorms, together with increasing sea levels, may multiply the scale and intensity of damage within a coastal region. There are also risks associated with climate transition, as part of the adjustment to a low-carbon economy. The past may therefore no longer be a good guide to the future; risk models based on historic experience need to be adjusted to allow for the impact of climate change over time.

This represents a challenge where the EO Group and the QBE Group provide cover for physical loss or damage to assets. It also increases the potential for third party injury and/or damage. Given this, the QBE Group has invested in scenario analysis to assess the potential impacts of climate change from physical, liability and transition risk perspectives. For physical risks, the ability has been developed to model the frequency and severity of gross and net losses at different time horizons (for example in 2022, 2030 or 2050), based on the different reference climate scenarios (i.e. Representative Concentration Pathways). For transition risks, we are able to measure the extent that the Company's premium is exposed to industries considered sensitive to climate transition risks, and how this may change over longer time horizons under both orderly and disorderly transition scenarios. Similarly, we are able to apply scenario analysis to assess the implications that climate risks may have on the Company's investments. This analysis is supporting our responses to climate change, for example through the implementation of underwriting strategy and business planning, and by informing our risk appetite.

On 1 July 2020, the UK regulator PRA sent a 'Dear CEO' letter to the UK based subsidiary companies of the QBE Group stating that firms should have embedded their approaches to managing climate-related financial risks by the end of 2021. As part of the EO Group, the Company is also subject to these requirements. In summary, the PRA's requirements, which are set out in Supervisory Statement 3/19 ('SS 3/19') on the Financial Risks from Climate Change ('FRCC'), are for firms to:

- Embed the consideration of the FRCC in their governance arrangements;
- Incorporate the FRCC into existing financial risk management practice;
- Use (long-term) scenario analysis to inform strategy setting and risk assessment and identification; and
- Develop an approach to disclosure on the FRCC.

The EO Group's Chief Underwriting Officer ('CUO') – Insurance was approved in Q2 2021 as jointly accountable with the EO Group Chief Risk Officer ('CRO') for Climate financials risks under the Senior Managers Regime. The CRO continues to report quarterly to the EO Group's RCC on progress with implementing the EO Group's SS 3/19 Roadmap, with further reporting as necessary to the EO Group Boards. In 2021, further progress has been made towards meeting the requirements of SS 3/19, alongside the QBE Group's overall climate framework, for example:

- Board and RCC charters updated to include responsibility for overseeing climate financial risks;
- The Board / Executive Management Board ('EMB') received climate risk training in Q2 2021;

- Scenario assessments of physical and transition climate risks to estimate exposure materiality and to inform underwriting strategy updates for EO Group insurance products. Further analysis of physical, transition and liability scenarios is planned to develop additional capability and insights; and
- Development of a Climate Risk Dashboard for additional risk reporting capability from 2022.

These improvements have been made across the EO Group, including for the Company.

C.7 Any other information

C.7.1 Stress and scenario analyses

As part of the validation of the Internal Model extensive stress and scenario and sensitivity testing is performed around all of the risk types.

The one-year SCR is examined resulting from a range of sensitivities applied to the input assumptions as shown below.

Stress and scenario analysis is further used to help validate the overall level of capital and the following three approaches have been considered:

- Reverse stress testing - A series of ‘extreme’ reverse stress tests are already conducted within QBE Group and this considers their impact in relation to the capital distribution calculated as part of the Internal Model;
- Scenario analysis - This is an extension of the reverse stress testing but considers a specific scenario, covering multiple risk types, to test the modelled level of capital; and
- Return periods of diversified capital by risk type - The diversified capital by risk type has been compared against the undiversified risk distributions.

Stress and scenario testing are also used to test the reliability of the EO Group’s business plan.

C.7.2 Sensitivity tests

Sensitivity tests are a useful tool to assess the effect of parameter uncertainty and determine the material assumptions that are driving the capital assessment as well as confirming that the model is operating as expected. The sensitivity tests have been ranked in order of the absolute impact on the one-year SCR for the Company.

When comparing the relative impact of the sensitivity tests caution is advised as the severity of the tests varies and there will also be an element of simulation error within the results (note that the tests were run on 50.000 simulations).

The following table shows the impact on the one-year SCR of the top ten sensitivity tests:

Test No.	Test Type	Test Description	
1	Correlation	Increase all class dependencies by 5%	9%
2	Risk Emergence	Change in capital by emerging reserve risk more quickly	8%
3	Reserve Risk	Change in capital using increase reserve variability assessments	7%
4	Correlation	Reduce level of tail dependence	(5%)
5	Market Risk	Change in capital from a 1% reduction in assumed investment returns.	4%
6	Reserve Risk	Change in capital by using thinner tailed reserve risk distributions for outstanding claims	(4%)
7	Credit Risk	Change in capital from using A.M. Best default rates and transition matrix	(3%)
8	Reserve Risk	Change in capital by speeding up the reduction in future capital for the risk margin	(3%)
9	Credit Risk	Assume non-rated reinsurers are treated as A- rather than B-	(2%)
10	Credit Risk	Remove adjustments from S&P input parameters	(2%)

The sensitivity testing forms part of the model validation, ensuring that stressing input parameters results in explainable capital movements in terms of direction and quantum.

The expert judgement documents which form part of the risk management framework identify important expert judgements (such as emergence factors and dependencies) and identify alternative judgements that could have been adopted to understand their capital impact. Their purpose is to aid senior managers understanding of some of the key sensitivities, and also some of the limitations that might arise from judgements that are being made where there is limited data to statistically justify assumptions or methodologies.

Section D: Valuation for Solvency Purposes

D.1 Assets

The difference between the Solvency II balance sheet and the financial statement balance sheet arises due to consolidation, valuation and presentational differences.

The tables below show the value of assets held in the Company and set out the different valuation methods by individual material asset type.

D.1.1 Valuation and presentational differences

Although the valuation bases between statutory accounts and Solvency II may be consistent for certain asset classes, such as financial investments, there are presentational and reclassification adjustments made to arrive at Solvency II asset classifications, such as the following:

- Accrued interest is presented as receivables on the BE GAAP balance sheets but on the Solvency II balance sheet it is included within the appropriate investment asset classes; and
- Derivatives assets and liabilities are presented net on the BE GAAP balance sheets where the requirements permit, but on the Solvency II balance sheet derivative assets and derivative liabilities are presented on a gross basis.

Except where noted in the table, investment assets are valued at fair value. Where other valuation methods are used the key assumptions and judgements are included in section D.4.

There have been no material changes to the recognition and valuation bases on assets during the reporting period.

D.1.2 Balance Sheet

The Company held total assets of €5.365m (2020: €4.819m) and total liabilities of €4.133m (2020: €3.750m) at 31 December 2021 valued on a Solvency II basis. The table below shows the split of assets by summarised asset class.

Solvency II Balance Sheet items[1] (€'m)	BE GAAP	Presentational and reclassification differences	Valuation differences	SII
Investment assets	4.024	26	32	4.082
Cash and cash equivalents and deposits other than cash equivalents	59	2	6	67
Reinsurance recoverable (reinsurers' share of technical provisions)	697	-	(196)	501
Receivables (trade, not insurance)	92	-	(1)	91
Deferred tax assets	-	-	4	4
Any other assets[2]	1.159	(15)	(524)	620
Total assets	**6.031**	**13**	**(679)**	**5.365**
Technical provisions	4.144	-	(536)	3.608
Insurance and intermediaries payables	174	-	(92)	82
Reinsurance payables	124	-	(72)	52
Payables (trade, not insurance)	89	13	9	111
Subordinated debt	200	-	-	200
Any other liabilities[3]	40	-	40	80
Total liabilities	**4.771**	**13**	**(651)**	**4.133**
Excess of assets over liabilities	**1.260**	**-**	**(28)**	**1.232**

[1] Presentational and reclassification adjustments have been made to align the BE GAAP balance sheet items to Solvency II balance sheet classifications. The full Solvency II balance sheet is included in Appendix A.

[2] Any other assets include deposits to cedants, insurance and intermediaries receivables and reinsurance receivables.

[3] Any other liabilities include deferred tax liabilities.

D.1.3 Comparison of asset valuation methodology under Solvency II and BE GAAP

The below table sets out the material differences between the bases, methods and main assumptions between the statutory and Solvency II bases for its material classes of assets.

Balance Sheet item	BE GAAP valuation basis and comparison with Solvency II valuation basis and assumptions
Deferred acquisition costs (DAC)	Under BE GAAP, all components of DAC aside from expenses are recognised as assets. Under Solvency II, however, deferred acquisition costs are valued at nil as with all other intangible assets described above where it cannot be separately sold. Cashflows related to future acquisition costs are included in the calculation of technical provisions.
Government Bonds, Corporate Bonds and Collateralised Securities	All debt instruments are measured at fair value for Solvency II whilst under BE GAAP the valuation basis is amortised cost. Fair value is obtained from quoted market prices, or if quoted market prices are not available, then by using relevant valuation techniques, see section D.4 for more information on assets valued using an alternative method. Money market instruments (accumulating certificates of deposit, and discounted securities) are valued using an external pricing source. Where a market quote is not available, a mark to model using market-based inputs is used where possible.
Collective investment undertakings	Collective investment undertakings are measured at fair value for Solvency II whilst under BE GAAP the valuation basis is amortised cost. Fair value is obtained from quoted market prices, or if quoted market prices are not available, then by using relevant valuation techniques, see section D.4 for more information on assets valued using an alternative method.
Derivatives	Derivatives are carried on a fair value basis under Solvency II but under they are not recognised on the balance sheet.
Loans and mortgages	Loans and mortgages are fair valued under Solvency II using a mark to model valuation technique whereas under BE GAAP an amortised cost basis is used. Where observable market prices are not readily available for infrastructure loans, the market prices provided by fund managers are used, albeit delayed.
Cash and cash equivalents and Deposits other than cash equivalents	Cash and cash equivalents and deposits other than cash equivalents are valued at amortised cost under BE GAAP, which is deemed a good approximation for fair value for Solvency II. Other than reclassification adjustments, there are no valuation differences between the bases.
Reinsurance recoverable (Reinsurers' share of technical provisions)	Under Solvency II, reinsurance recoverables are calculated as the present value of future reinsurance cashflows plus allowances for default that relate to the best estimate liability. See section D.2 for further details.
Reinsurance receivables, Insurance and intermediaries receivables	The valuation basis under BE GAAP is recognition on a cost less impairment basis. The main difference between Solvency II and GAAP arises for items that are not considered to be "due" or "past due". In such instances Solvency II considers the receivables to be future cash flows and part of technical provisions and are therefore valued using discounted cash flows techniques adjusted for the risk of default.
Receivables (trade, not insurance)	The valuation basis is the same under Solvency II and BE GAAP. As these assets have a short-term maturity, the GAAP valuation basis is considered a close approximation to fair value.
Deferred tax assets	Deferred tax assets are recognised under Solvency II to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred taxation is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The valuation difference relates to the change in the value of deferred tax, caused by the impact of adjustments made to balance sheet items in compliance with Solvency II regulations. The largest impact arises from the revaluation of technical provisions. Under BE GAAP, however, deferred tax assets are not recognised except under very specific circumstances. See also D.3.6 for more information.

D.2 Technical provisions

D.2.1 Definition of technical provisions[4]

The Company Solvency II technical provisions amounted to €3.107m at 31 December 2021 (2020: €2.855m), after adjusting for the reinsurance recoverable amount. The technical provisions balance in the BE GAAP financial statements at 31 December 2021 were €3.433m (2020: €3.026m).

Line of business	(€ 'm)		
	Best estimate	Risk Margin (unaudited)	Total TPs
Motor vehicle liability	95	14	109
Fire and property damage	348	27	375
General Liability insurance	1.009	129	1.138
Non-proportional casualty reinsurance	667	149	817
Other non-life obligations	484	52	536
Total Non-Life obligations	2.604	371	2.974
Life obligations	116	16	132
Total Obligations	2.719	387	3.107

A quantitative breakdown of the technical provisions, split by Best Estimate liability and Risk Margin, for all Solvency II lines of business, is available in Appendix A, (QRTs S.12.01 and S.17.01).

Technical provisions are defined as the probability weighted average of future cashflows, discounted to allow for the time value of money considering all possible future scenarios. The key components of the technical provisions comprise:

- Claims Provisions: Best Estimate of future gross and reinsurance claims, premium and expenses relating to the earned exposure on insurance policies;
- Premium Provisions: Best Estimate of future gross and reinsurance claims, premium and expenses relating to the unearned exposure, i.e. based on unearned premium and policies that are bound but not incepted ('BBNI') at the valuation date; and
- Risk Margin: additional provision to bring the Best Estimates to the level required to transfer the obligations to a third-party undertaking.

D.2.2 Differences between TPs under SII and BE GAAP

The Best Estimate liabilities are calculated in accordance with Article 77(2) of the Solvency II Directive. The claims and premiums provisions are derived from the IFRS Best Estimate reserves and the unearned premium reserve respectively, and are adjusted to incorporate the following:

- Future Premiums: Represent cashflows relating to future premiums, i.e. receivable but not overdue. These cashflows are reclassified from the GAAP balance sheet to technical provisions;
- Bound But Not Incepted ('BBNI') policies: Represent premiums, expenses and claims relating to policies that the Company has entered into that have not incepted at the valuation date;
- Future Claims Costs: Unearned claims are obtained by applying unearned loss ratios to unearned premiums with allowance for the recessionary impact of COVID-19 on the economy;
- Expenses: Assumed expenses incurred in servicing (re)insurance obligations are derived using expense assumptions provided by the Finance Department. These expense loadings are applied

[4] Any references to the Risk Margin are unaudited as it is derived from the Solvency Capital Requirement prepared under an approved Internal Model which is also outside the scope of the audit.

separately to the earned and unearned future cash flows to obtain separate expense provisions for earned and unearned business;

- Events Not In Data ('ENIDs'): The Directive requires the Best Estimate to include allowance for "all possible outcomes", e.g. latent claims or extreme high severity, low probability claims. An ENID provision is calculated to allow for all possible scenarios where historical data may be lacking;
- Risk Margin: The Risk Margin is calculated using a cost of capital approach by applying the Best Estimate cashflow runoffs and the prevailing yield curve (as provided by EIOPA) to the Internal Model SCR capital measure; and
- Discounting: Future cashflows are discounted using the 31 December risk free yield curves provided by EIOPA. The yield curves used exclude the Volatility Adjustment. Future cash flows have been obtained by applying projected payment patterns derived for the Core Reserving process.

The table below shows the adjustments made to the technical provisions from statutory basis to Solvency II basis:

Reconciliation from GAAP TPs to SII TPs	€ 'm
Total TPs – BE GAAP basis	3.448
Removal of UPR, DAC and GAAP Reserve Margin	(946)
Addition of SII Future Premium, future claims costs, expenses, ENIDs and discounting	218
Risk Margin	387
Total TPs – Solvency II basis	**3.107**

D.2.3 Material changes during the period on the technical provision methodology

There were no material changes to the SII technical provision methodology during the year.

D.2.4 Currency

The Directive requires that the best estimate is calculated separately for obligations in different currencies to enable the calculation of discounted liabilities.

Currency allocations are performed by class of business via the Core Reserving process; each reserving class is typically analysed in one currency.

For Solvency II the claims and premiums by currency provided in the data are derived by Finance using the outputs from the Core Reserving process, and no additional judgement is required.

D.2.5 Options and Guarantees

The Company does not have any exposure to options and guarantees. Hence no allowance is made in the technical provisions for these items.

D.2.6 Uncertainty in Technical Provisions[5]

There are inherent uncertainties in the technical provisions, particularly in respect of the best estimate of unpaid claims and future premiums.

The estimation of unreported claims is generally subject to a greater degree of uncertainty than the estimate on of settlement costs for reported claims, where more information about the claims is usually

[5] Any references to uncertainty in technical provisions are unaudited

available. Furthermore, liability and other long tail classes of business, where claims settlement may not happen for many years after the event giving rise to the claim, typically display greater variability between initial estimates and final settlement due to delays in reporting claims and uncertainty in respect of court awards and future claims inflation.

Some of the main uncertainties are listed below:

- The impact of COVID-19 on estimates of past and future insurance claims;
- Claim cost inflation, in particular for classes of business with long terms to settlement;
- General levels of future new claim notifications which could differ from historical experience;
- Large natural or man-made catastrophic events, to the extent that claims have not been fully settled;
- Periodic Payment Orders;
- Future, and as yet unknown and unquantifiable, large market loss events that could impact the Company and the EO Group;
- Future premiums, especially for the most recent underwriting year, are based on the Company's business plans and discussions with underwriters;
- Plan loss ratio estimates;
- Estimates for Events not in Data;
- Timing of claim, premium, reinsurance and expense cashflows; and
- The appropriateness of the development tail factors applied to the Company's classes.

D.2.7 Matching adjustment[6], Volatility adjustment[7], Transitional risk-free interest rate term structure[8] and Transitional deductions

The Company does not apply any matching adjustments, volatility adjustments, transitional adjustments or transitional deductions.

D.2.8 Recoverables from reinsurance contracts and special purpose vehicles

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

An initial estimate is made of the reinsurance recoveries as a proportion of gross. This is derived originally from the reinsurance pricing basis and the business plan, along with a review that considers catastrophe/large/attritional losses and non-treaty cover. Any known large outstanding claims are considered on a case-by-case basis. Reinsurance IBNR is unwound in line with the gross to maintain a suitable net provision.

The technical provisions have been reviewed by members of the Actuarial Function to ensure that they adhere to the relevant Solvency II articles and texts.

The valuation of outwards reinsurance recoveries in the claims and premium provisions include an explicit allowance for counterparty default risk.

To adhere to the principle of reinsurance correspondence, the reinsurance recoveries are calculated such that they are consistent with the gross premium forecasts and implicitly allow for expected recoveries in respect of losses occurring during ('LOD') and risks attaching during ('RAD') policies. In line with regulatory guidance, the EO Group's approach is as follows:

- Incepted and bound reinsurance valued to the extent that it covers existing (i.e. incepted and bound) inwards business;
- Adjusted to allow for reinsurance minimum premium terms; and

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[6] Any references to matching adjustments are unaudited
[7] Any references to volatility adjustments are unaudited
[8] Any references to transitional adjustments are unaudited

- Allowance for future reinsurance purchase management actions to protect the run-off to expiry of existing inwards business, consistent with the current reinsurance structure.

D.3 Other liabilities

D.3.1 Overview

The values attributed to other liabilities on the Solvency II balance sheet differ from the valuations reported in the statutory accounts due to the different valuation methodologies required by the Solvency II legislation. The tables below show the value of those other liabilities for the Company and the Solvency II methodologies used.

There have been no material changes to the recognition and valuation bases on other liabilities during the reporting period.

See D.1.1 for the liabilities of the Company.

D.3.2 Comparison of liability valuation methodology under Solvency II and statutory bases

The below table sets out the material differences between the bases, methods and main assumptions between the statutory and Solvency II bases for its material classes of liabilities.

Balance Sheet item	BE GAAP valuation basis and comparison with Solvency II valuation basis and assumptions
Insurance and intermediaries payables	The valuation basis is the same under BE GAAP and Solvency II, being initially recognised at cost and subsequently remeasured at amortised cost. For the short-term nature of these liabilities, the carrying value is deemed to be a close approximation to fair value and therefore no adjustment is made. In addition, under Solvency II insurance payables are adjusted to exclude cash flows relating to future premiums which are taken into account when calculating the technical provisions, see D.2 for further information.
Reinsurance payables	The valuation basis is the same under BE GAAP and Solvency II, being initially recognised at cost and subsequently remeasured at amortised cost. For the short-term nature of these liabilities, the carrying value is deemed to be a close approximation to fair value and therefore no adjustment is made. In addition, under Solvency II insurance payables are adjusted to exclude cash flows relating to future premiums which are taken into account when calculating the technical provisions, see D.2 for further information.
Payables (trade, not insurance)	BE GAAP has the same valuation basis as Solvency II, except for additional liabilities recognised in relation to Leases & Pensions.
Deferred tax liabilities	Deferred tax asset/liabilities are recognised under Solvency II to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred taxation is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The valuation difference relates to the change in the value of deferred tax, caused by the impact of adjustments made to balance sheet items in compliance with Solvency II regulations. The largest impact arises from the revaluation of technical provisions. Under BE GAAP, however, deferred tax assets/liabilities are not recognised except under very specific circumstances.

Balance Sheet item	BE GAAP valuation basis and comparison with Solvency II valuation basis and assumptions
Subordinated liabilities	Under Solvency II subordinated liabilities are measured on a fair value basis whilst under BE GAAP they are measured at an amortised cost basis or at nominal value. Subordinated liabilities are recognised at their current replacement cost (fair value) in line with Article 10 of the Solvency II Delegated Regulation's 'valuation hierarchy'. Article 10 paragraph 7 (c) allows the use of the 'cost approach or current replacement cost approach' where an alternative valuation method is used.
Any other liabilities, not elsewhere shown	The valuation basis is the same under BE GAAP and Solvency II. Where amortised cost basis is considered a good approximation to fair value, no further adjustment is made.

D.3.3 Changes to the valuation of liabilities in the period

There have been no material changes to the recognition and valuation bases used or to estimations during the reporting period.

D.3.4 Employee Benefits

The Company operates both defined contribution and defined benefit pension plans. In addition, there is a post-employment medical care scheme related to the former Brussels-based employees of Secura/QBE Europe.

Pension contributions relating to each scheme are assessed in accordance with the policy conditions, the advice of independent qualified actuaries, and subject to relevant local legislation. Refer to section C.6.2 Pension Risks.

D.3.5 Future and other major sources of estimation uncertainty

The main source of estimation uncertainty concerns the valuation of Technical Provisions, which are discussed in section D.2.6 Uncertainty in Technical Provisions. Estimates have to be made for expected future claims. It can take a significant amount of time before the claims cost can be established with certainty. Estimates might be derived from underwriter experience, historical data and broker estimation. These estimates are judgemental.

D.3.6 Taxation

Management estimation is required to determine the amount of deferred taxes that can be recognised, based upon likely timing and level of future taxable profits.

Deferred tax assets are recognised only to the extent that they are recoverable from future taxable profits. Recoverability is assessed on a net basis, i.e. deferred tax assets and deferred tax liabilities are offset within each branch. A net deferred tax asset would be recognised by examining the following criteria:

- If there is not a history of recent losses in the branch a net deferred tax asset would only be recognised if it is considered probable that future taxable profits will arise. Currently, this is done with reference to the annual three-year business plan. Additionally, in the territories where group relief is available, consideration is also given to other profits likely to arise in other QBE Group companies within the same territory which would be available for group relief in the branch. Group relief is currently available with other companies in the UK and Ireland jurisdictions; and
- If there is a recent history of losses in the territory, management judgement would be exercised on a case by case basis. At the moment, there is little history available in the Company business, so management has referred to the history of the branches in the old structure together with an assessment of predicted future profits.

D.4 Alternative methods for valuation

Where quoted prices of the same or similar assets are not available at year end, there is a greater valuation uncertainty. For unquoted assets they are fair valued using models and observable inputs are used where they are available. The valuation methods used are based upon QBE Group's Valuation Standard which governs the valuation of investment assets throughout QBE Group. The QBE Group's Revaluation Committee is responsible for overseeing the valuation of investment assets through approval of valuation methodologies and the source of independent valuation including pricing vendors and external fund managers. The QBE Group's Revaluation Committee also reviews and approves significant judgments related to fair value measurements of investment assets.

D.4.1 Infrastructure Debt

The fair value of infrastructure debt is based on the following hierarchy, in accordance with QBE Group's Valuation Standard:

1. Quoted prices – Fair value measurements based on quoted prices (unadjusted) in active markets for identical instruments that the entity can access at the measurement date sourced from independent pricing vendors. Typically, there is no active market for infrastructure debt investments.

2. Observable inputs – Fair value measurements based on valuation techniques that use inputs other than quoted prices included in Level 1 that are observable for the financial instrument, either directly or indirectly. Where possible, infrastructure debt valuation is sourced from external pricing vendors based on market-based valuation approach.

3. Unobservable inputs – Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. In the absence of independent valuation sourced from recognised pricing vendors, the discounted cash flow model is used by the external fund manager to estimate fair values of infrastructure debt assets. Significant unobservable inputs include project future cash flows and the discount rates which are calculated by incorporating, as appropriate, market observable data, including leverage loan indices, government bond yields and corporate debt metrics.

As at 31 December 2021, €10m (2020: €23m) in the Company were valued under alternative valuation method ('AVM'), i.e. discounted cash flow method.

D.4.2 Short term treasury bonds

Short term treasury bonds are valued using quoted market prices where possible. Where a quoted price is not available, a modelled price based on observable inputs will be used. As at 31 December 2021, €50m (2020: €17m) of treasury bonds in the Company were valued under Quoted Market Price for Similar assets ('QMPS').

D.4.3 Money market instruments

Money market instruments (accumulating certificates of deposit, and discounted securities) are valued using an external pricing source, where a price is not available a value may be calculated using a Bloomberg yield curve utilising observable input. As at 31 December 2021, €54m (2020: €85m) in the Company of money market instruments were valued under QMPS.

D.4.4 Unlisted property trusts and other funds

The fair value of unlisted property trusts and other funds is determined by using the current unit price as advised by the responsible entity, trustee or equivalent of the investment management scheme. Year-end valuations are supplemented by independent third-party valuations being carried out on the underlying property portfolio. Due to the timing of data released from the scheme, period end valuations are one quarter in arrears. The valuation uncertainty associated with the unlisted property trusts and other funds is considered to be immaterial. Experience of those assets valued using alternative valuation methods is that the valuations have been materially correct.

As at 31 December 2021, the Company has investment in unlisted property trusts of €139m (2020: €125m), and infrastructure funds of €55m (2020: €50m).

D.5 Any other information

No other information is considered material regarding the Company's valuations for solvency purposes.

Section E: Capital Management[9]

E.1 Own funds

E.1.1 Objectives, policies and processes for managing own funds

The primary objective of the business from a capital management perspective is to maintain sufficient own funds to cover the SCR and MCR with an appropriate surplus. These funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation.

The Company has adopted a Capital Appetite Framework ('CAF'), setting out the target levels of capital and potential remediation actions in the event that capital falls below the stated appetite. The Capital Appetite Framework has been approved by the Board. Senior management carry out regular reviews, at least quarterly, to monitor the ratio of eligible own funds ('EOF') to the SCR.

The Company's own funds have been assessed against the criteria of Article 71 of the Delegated Acts and the majority of the capital has been classified as sufficient quality to meet the eligibility requirements of 'Tier 1' capital, 'Tier 2' subordinated debt and Deferred Tax Assets ('DTA') which have been classified as 'Tier 3' EOF.

The EOF calculated after adjusting for valuation basis differences between BE GAAP statutory financials and Solvency II and applying restrictions in relation to ring-fenced Funds ('RFF').

The Company has an approved Internal Model which it uses as the basis for the SCR. The Internal Model reflects the risk assessment processes that have been reflected across the business for several years and considers all classes of business underwritten. The Internal Model incorporates consideration of underwriting risk, reserving risk, credit risk, market risk, liquidity risk, operational risk and pension risk.

The data flows within the Internal Model are documented, self-assessed and output reported to the Data Quality Group, a sub-group of the Operations Management Group ('OMG'). Areas identified as requiring remediation are recorded on a Data Quality Issues Log and progress reported regularly to the Data Quality Group.

Available own funds, EOF and the ratio of EOF over the Solvency Capital Requirement ('SCR') and Minimum Capital Requirement ('MCR') for the Company are disclosed in QRT S.23.01 in Appendix A.

Changes in the reporting period

There were no material changes over the reporting period.

Available own funds

The Company's own funds comprise:

- The excess of assets over liabilities, determined from the Solvency II balance sheet; and
- Subordinated liabilities to the extent that these satisfy the Solvency II rules for recognition as part of basic own funds.

The Company does not have any ancillary own funds.

[9] Any references in 'Section E: Capital Management' to the SCR are unaudited.

E.1.2 Solvency Capital Requirement ('SCR') and Minimum Capital Requirement ('MCR') [10]

As at 31 December 2021 and 2020 the Company's eligible own funds ('EOF') to meet the SCR, the SCRs and the SCR coverage ratios were:

(€'m)	Eligible Own funds to meet the SCR				SCR	SCR Coverage Ratio (%)
	Tier 1	Tier 2	Tier 3	Total		
2021	1.210	200	4	1.414	951	148,6%
2020	1.040	200	9	1.249	937	133,3%

As at 31 December 2021 and 2020 the Company's EOF to meet the MCR, the MCRs and the MCR coverage ratios were:

(€'m)	Eligible Own funds to meet the MCR			MCR (€'m)	MCR Coverage Ratio (%)
	Tier 1	Tier 2	Total		
2021	1.210	85	1.295	428	302,5%
2020	1.040	84	1.124	422	266,6%

The Company has the following credit rating at 31 December 2021, as determined by S&P Global Ratings:

- Financial strength rating of A+, with a stable outlook

Eligibility of own funds

The eligibility of own funds to cover the Company SCR and MCR is subject to tiering limits, specifically:

- The eligible amounts of Tier 1 items must be at least 50% of the SCR and 80% of the MCR; and
- The sum of the eligible amounts of Tier 2 and Tier 3 items must not exceed 50% of the SCR or 20% of the MCR.

The eligible amounts of Tier 3 items must be less than 15% of the SCR.

Tier 1

Own fund items are assessed and classified into tiers in accordance with criteria defined by Solvency II regulations. The majority of the Company's own funds are classified as Tier 1 and consists of share capital, share premium and the reconciliation reserve. Tier 1 capital includes high quality instruments with features such as permanence, subordination, undated, absence of redemption incentives, mandatory costs and encumbrances.

Tier 2

As at 31 December 2021, the Company holds €200m of Tier 2 subordinated debt, comprising:

- €80m subordinated liabilities issued by QBE Holdings (EO) Limited ('QHEO'), the immediate parent of the Company. This loan has a maturity date of 10 December 2028; and
- €120m subordinated liabilities transferred from QBE Re (Europe) Limited to the Company as part of the Cross-Border Merger which took place as at 1 January 2019. This loan has a maturity date of 2 November 2028.

[10] Any references in 'Section E: Capital Management' to the SCR are unaudited.

Tier 3

Tier 3 own funds represent net deferred tax assets only.

E.1.3 Reconciliation reserve

The reconciliation reserve is comprised of the excess of assets over liabilities on a Solvency II valuation basis, less other basic own fund items and an adjustment for restricted own fund items in respect of immaterial ring-fenced funds. Other basic own fund items include ordinary share capital, related share premium account and an amount equal to the value of net deferred tax assets. The reconciliation reserve's volatility is materially dependent on the performance of the entity as well as any significant changes to the balance sheet. See QRT S.23.01 Own funds template in appendix A for full breakdown of the Reconciliation reserve for each company.

E.1.4 Deductions from own funds

The following restrictions in relation to Ring Fenced Funds apply:

- Letters of credit - Reflecting the margin required by the issuer over the level of LOCs issued. The level of restriction to own funds has been calculated on the basis that actual liabilities are equal to the LOCs issued and therefore that the only restriction relates to the margin required by the issuer.
- As a condition of writing US Excess and Surplus lines business, the Company is required to deposit cash, readily marketable securities or letters of credit into Trust with a "United States Qualified Financial Institution". This is considered within the RFF calculations which did not result in any restrictions as at 31 December 2021.

E.1.5 Material differences between Equity in the Financial Statements and the Excess of Assets over Liabilities

The valuation of a company's own funds under Solvency II legislation is different to that calculated in the Statutory Accounts. More detail around the different valuation methods used under Solvency II are in Section D: Valuation for Solvency Purposes. A reconciliation showing how the valuation methodologies differ between the different valuation approaches is shown below:

Reconciliation from BE GAAP equity to SII Own funds	(€ 'm)
Total equity – statutory basis	**1.260**
Removal of net technical provisions balances on a BE GAAP basis	777
Inclusion of net technical provisions on a Solvency II basis	(827)
Valuation adjustment: Investments	21
Valuation adjustment: other*	(1)
Excess of assets over liabilities – Solvency II basis	**1.232**
Adjustment: Subordinated liabilities / ancillary own funds	200
Adjustment: Foreseeable dividends	-
Adjustment: Restricted own fund items in respect of ring fenced funds	(18)
Own Funds – Solvency II basis	**1.414**

* Other adjustments include deferred tax adjustments.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Overview

The SCR for the Company is determined using an Internal Model and is shown in QRTs S.25.03.21 (unaudited) and S.25.03.22 (unaudited) in Appendix A. These QRTs also provide information around the breakdown of the SCR values into constituent components. These templates also contain information around the MCR.

At 31 December 2021 the SCR and MCR for the Company were €951 (2020: €937m) and €428m (2020: €422m) respectively.

Internal Model SCR

The SCR for Company have been calculated using the Internal Model for 2021 and 2020.

Risk Components under Internal Model	(€'m)	
	2021	2020
Market risk	278	230
Counterparty Default risk	115	112
Non-life underwriting risk	841	852
Operational risk	102	83
Pension risk	4	4
Capital adjustments	-	-
Total undiversified components	**1.340**	**1.281**
Diversification	(389)	(344)
Solvency capital requirement	**951**	**937**

E.2.2 Inputs to calculate the MCR

The MCR for the Company is calculated using inputs for the net (of reinsurance/SPV) Solvency II best estimate and the net (of reinsurance/SPV) written premium in the last 12 months. Factors are applied to these inputs based on the technical specifications from the long-term guarantees package.

E.2.3 Material changes to the SCR and MCR over the period

The minor model changes were approved by the Board in June 2021 which resulted in a revised Internal Model SCR of €951m for the Company from the date of approval.

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

The Company has a fully approved Internal Models and therefore does not use the duration-based equity risk sub-module.

E.4 Differences between the Standard Formula and the Internal Model used[11]

The Standard Formula and Internal Model are based on two different modelling approaches, resulting in differences in outputs. Some of the main differences, and similarities, are noted below. The Internal Model is based on a 99,5% confidence level over a one-year time period. The methods used in the Internal Model for the calculation of the probability distribution forecast and the SCR are included in Section C.

E.4.1 Market risk

There are a number of differences within the components of market risk. In particular, the Company has exposure to currency risk (i.e., net asset exposure in any non-EUR currency). Within the Internal Model, currency risk is modelled as the difference between the net assets at the end of the period converted at the end of period stochastic FX rates less the net assets at the end of the period converted at the average of the stochastic FX rates at the end of the period. The currency splits on the assets and liabilities are modelled separately and they are not forced to match within the model.

Concentration risk is implicitly allowed for in the Internal Model; the distributions in the ESG are based on the assets held, and the concentration of assets.

E.4.2 Counterparty default credit

The Internal Model and Standard Formula capitalise against reinsurance and premium defaults as described below:

- Within the internal mode, the methodology models the possible credit rating of each counterparty at the end of the first year and then sets up a bad debt reserve dependent on the credit rating. The Standard Formula is also based around the expected change in bad-debt provisions from credit rating migrations, with minimal actual default during the first year; and
- The primary difference in the credit risk assessment within the Standard Formula and the Internal Model is due to the treatment of the Type II credit risk (broker defaults). The Standard Formula applies a material capital charge against premium debtors, taking 90% of any debts overdue by 3 months or more, and 15% of all other debtors. In practise the credit risk on broker balances (which are the main part of the debtor exposure) are well mitigated, and the Internal Model capital assessment reflects this.

E.4.3 Non-life underwriting risk

The methodology differences between the two models include:

- The Internal Model considers insurance risk as an absolute loss amount, so any profit in the plan acts as an offset against capital. The Standard Formula just does a relative assessment, in essence assuming that the business has a 100% net combined ratio;
- The Internal Model does not separate out lapse risk, but it is included in the risk around the level of business written in the new underwriting year. When business does lapse, it both removes the profit associated with this anticipated business (which the Standard Formula and Internal Model both capture), and also the risk associated with the business (which the Standard Formula does not capture); and
- The overall level of catastrophe risk is broadly consistent between the two models, although the modelling treatment is different. The Internal Model allows for the full features of the reinsurance protections, whereas the Standard Formula approximates them, most notably through the lack of multiple reinstatements on protections, and the use of maximum line size losses within the man-made catastrophe component.

[11] Any references to differences between the Standard Formula and the Internal Model are unaudited.

E.4.4 Health underwriting risk

The Internal Model does not capture this separately from the non-life underwriting risk.

E.4.5 Operational risk

The capital model allows operational risk to diversify against other risk types, whereas it is additive in the Standard Formula. If the diversified operational risk is calculated in the Internal Model then the differences are smaller. This different treatment of operational risk also gives rise to an increased level of diversification benefit in the Internal Model compared to the Standard Formula.

E.4.6 Diversification benefit

Because of the differences between risk types, the Standard Formula has less diversification between risk types than the Internal Model.

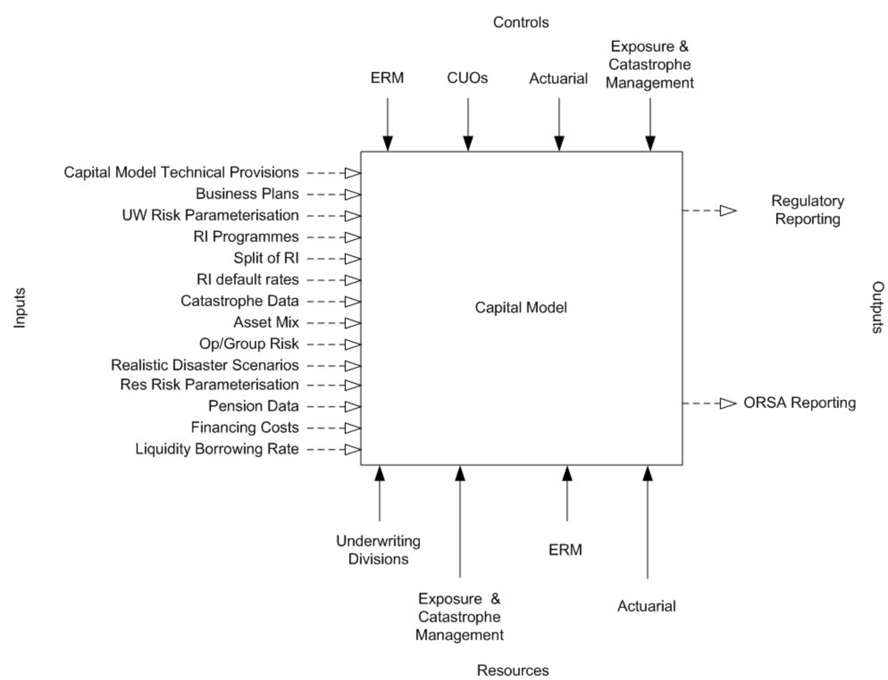
The Standard Formula does not capture group risk, whereas it does appear in the Internal Model. This risk is assumed to diversify well against the other risks, so it also increases the size of the diversification benefit in the Internal Model compared to the Standard Formula.

E.4.7 Data used in the Internal Model

The data flows within the capital model are documented within an Internal Model Dataflow Map. As part of data quality management in EO Group, a Data Governance Team carry out a self-assessment exercise regularly with those business areas that provide data flows into the capital model. The results of this work, in particular any areas for remediation, are recorded on a Data Quality Issues Log which is reviewed and managed by the Data Quality Group, a sub-Group of the OMG.

The technical specification details of the data extracts that form the inputs to the capital model are held in a Data Directory, which is also verified by business owners as part of the self-assessment review. This ensures that the data specifications are regularly kept up to date.

An overview of each of the data flows is illustrated below.



There are a number of data items that feed into the capital model. Each of these sources of data is subject to all of the requirements of the Internal Model:

- **Technical provisions.** These are provided by the Actuarial Function and comprise of undiscounted paid and incurred claim and ultimate premium and claims, by class, currency and year of account;
- **Claims development patterns.** These are taken from the actuarial technical provisions. They comprise of paid claim patterns by class of business and currency to support discounting of the liabilities in the capital model;
- **Reserve risk parameterisation**. This takes the output from the reserve variability analysis carried out by the Actuarial Function, with the parameters held at class of business level;
- **Business plans**. These are taken from the business planning database, and comprises the full business plan by class of business;
- **Large and attritional loss parameterisation**. This is the output from the large and attritional loss parameterisation process, which is currently carried out by the Actuarial Function;
- **Reinsurance programmes**. This is the data detailing the outwards reinsurance programmes that EO Group has in place, of which the Company is a part, and is taken from the reinsurance schematics produced by the Underwriting and Reinsurance Review Department;
- **Split of reinsurers on technical provisions**. This is taken from a query in the EO Group's reinsurance reporting system that produces the split of the reinsurance asset on the balance sheet at any quarter end by legal entity. The system itself is supported by QBE Group, although the Underwriting and Reinsurance Review Department maintain QBE Group ownership for the data;
- **Reinsurer and broker default rates**. These are taken from Standard and Poor's reports on the downgrade and default probabilities for differently rated companies and overlaid with any judgement by the QBE Group Security Committee;
- **Natural catastrophe model output**. This is predominantly the output from RMS, which comprises of event loss tables for different classes of business, and is received from the Exposure and Catastrophe Management team. AIR and Impact Forecast Elements is also used alongside Realistic Event Methodology ('REM') data to assess the risk from regions and perils not modelled by RMS;
- **Asset mix**. This data lists the different investments held by each legal entity within the EO Group. These assets are input into the model as the opening asset position;
- **Total Risk Assessment ('TRA').** This data is taken from within the ERM team and provides the operational risk parameters;
- **QBE Group Risk Dashboard.** Used to parameterise the group risk distributions. Data is taken from within the ERM team; and
- **Asset model output**. This data is the output from the asset model, which is the distribution of asset returns split by asset type, currency and term (as well as inflation and currency exchange rates in the future).

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

The Company satisfied and complied with the MCR and SCR requirements throughout the reporting period.

E.6 Any other information

No other information is considered material regarding the Company's capital management.

Forward-Looking statements

This document may contain “forward-looking statements” including those relating to the Company’s future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about the Company’s beliefs and expectations and including, without limitation, statements containing the words “may”, “will”, “should”, “continue”, “aims”, “estimates”, “projects”, “believes”, “intends”, “expects”, “plans”, “seeks” and “anticipates”, and words of similar meaning, are forward-looking statements. Any such forward-looking statements in this document are based on plans, estimates and projections as at the date of this document, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. Many factors could cause the Company’s actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement.

Any forward-looking statements contained in this document speak only as of the date on which they are made. The Company expressly disclaims any obligations to update any forward-looking statement contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise.

Glossary

The following table details the definition of the terms and acronyms used in this document:

Term or Acronym	Definition
BE GAAP	Belgian Generally Accepted Accounting Principles
BCM	Business Continuity Management
CAF	Capital Appetite Framework
CMG	Compliance Management Group
COR	Combined Operating Ratio
CRG	Conduct Risk Group
EPiFP	Expected Profit in Future Premiums
EO Group	QBE European Operations Group, of which EO plc is the immediate parent holding company and subject to SII regulation
EOIC	Europeans Operations Investment Committee
ESG	Economic, Social and Governance
ERM	Enterprise Risk Management
FCA	Financial Conduct Authority
FOS	Freedom of Services
GAAP	Generally Accepted Accounting Principles
GAM	Group Aggregate Methodology
GEP	Gross earned premium
GIA	Group Internal Audit
GWP	Gross written premium
IBNR	Incurred But Not Reported
IFRS	International Financial Reporting Standards (including Australian International Financial Reporting Standards)
MCR	Minimal Capital Requirement
NBB	National Bank of Belgium
OMG	Operations Management Group
ORSA	Own Risk & Solvency Assessment
OWG	Outsourcing Working Group
PRA	Prudential Regulatory Authority
QBE Europe	QBE Europe SA/NV
QBE Group	QBE Group, of which QBE Insurance Group Limited is the ultimate parent holding company based in Australia
QEMC	QBE Europe Management Committee

Term or Acronym	Definition
QUK	QBE UK Limited
QRT	Quantitative Reporting Template
RCC	Risk and Capital Committee
RCG	Risk and Capital Group
RCSA	Risk and Control Self-Assessment process
RMS	Risk Management Strategy
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
UMG	Underwriting Management Group

Appendix A. QRTs

Template code	Template name
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business – Non-Life
S.05.01.02	Premiums, claims and expenses by line of business – Life
S.05.02.01	Premiums, claims and expenses by country – Non-Life
S.05.02.01	Premiums, claims and expenses by country – Life
S.12.01.02	Life and Health SLT Technical Provisions
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life insurance claims
S.23.01.01	Own Funds
S.25.03.21	Solvency Capital Requirement - for undertakings on Full Internal Models
S.28.01.01	Minimum Capital Requirement

(All values in €'000)

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	-
R0040	Deferred tax assets	4,565
R0050	Pension benefit surplus	-
R0060	Property, plant & equipment held for own use	9,021
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,073,683
R0080	*Property (other than for own use)*	-
R0090	*Holdings in related undertakings, including participations*	-
R0100	*Equities*	38
R0110	*Equities - listed*	-
R0120	*Equities - unlisted*	38
R0130	*Bonds*	3,836,481
R0140	*Government Bonds*	617,967
R0150	*Corporate Bonds*	3,019,004
R0160	*Structured notes*	-
R0170	*Collateralised securities*	199,510
R0180	*Collective Investments Undertakings*	223,900
R0190	*Derivatives*	11,534
R0200	*Deposits other than cash equivalents*	1,730
R0210	*Other investments*	-
R0220	Assets held for index-linked and unit-linked contracts	-
R0230	Loans and mortgages	10,000
R0240	*Loans on policies*	-
R0250	*Loans and mortgages to individuals*	-
R0260	*Other loans and mortgages*	10,000
R0270	Reinsurance recoverables from:	501,017
R0280	*Non-life and health similar to non-life*	502,509
R0290	*Non-life excluding health*	498,739
R0300	*Health similar to non-life*	3,770
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	(1,492)
R0320	*Health similar to life*	-
R0330	*Life excluding health and index-linked and unit-linked*	(1,492)
R0340	*Life index-linked and unit-linked*	-
R0350	Deposits to cedants	139,118
R0360	Insurance and intermediaries receivables	392,698
R0370	Reinsurance receivables	76,805
R0380	Receivables (trade, not insurance)	91,274
R0390	Own shares (held directly)	-
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
R0410	Cash and cash equivalents	65,408
R0420	Any other assets, not elsewhere shown	1,020
R0500	**Total assets**	**5,364,609**

(All values in €'000)

S.02.01.02 (continued)

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,476,987
R0520	*Technical provisions - non-life (excluding health)*	3,362,878
R0530	*TP calculated as a whole*	-
R0540	*Best Estimate*	3,007,738
R0550	*Risk margin*	355,140
R0560	*Technical provisions - health (similar to non-life)*	114,109
R0570	*TP calculated as a whole*	-
R0580	*Best Estimate*	98,286
R0590	*Risk margin*	15,823
R0600	Technical provisions - life (excluding index-linked and unit-linked)	130,588
R0610	*Technical provisions - health (similar to life)*	28
R0620	*TP calculated as a whole*	-
R0630	*Best Estimate*	14
R0640	*Risk margin*	13
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	130,560
R0660	*TP calculated as a whole*	-
R0670	*Best Estimate*	114,150
R0680	*Risk margin*	16,411
R0690	Technical provisions - index-linked and unit-linked	-
R0700	*TP calculated as a whole*	-
R0710	*Best Estimate*	-
R0720	*Risk margin*	-
R0740	Contingent liabilities	-
R0750	Provisions other than technical provisions	-
R0760	Pension benefit obligations	6,259
R0770	Deposits from reinsurers	39,673
R0780	Deferred tax liabilities	17,844
R0790	Derivatives	15,734
R0800	Debts owed to credit institutions	-
R0810	Financial liabilities other than debts owed to credit institutions	-
R0820	Insurance & intermediaries payables	82,230
R0830	Reinsurance payables	52,128
R0840	Payables (trade, not insurance)	111,329
R0850	Subordinated liabilities	200,000
R0860	*Subordinated liabilities not in BOF*	-
R0870	*Subordinated liabilities in BOF*	200,000
R0880	Any other liabilities, not elsewhere shown	-
R0900	**Total liabilities**	4,132,772
R1000	**Excess of assets over liabilities**	**1,231,837**

(All values in €'000)

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	Miscellaneous financial loss	Health	Casualty	Marine, aviation, 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)	-	17,503	3,587	71,279	335,968	537,651	28,414	(649)	-	-					993,752
R0120	Gross - Proportional reinsurance accepted	729	20,581	-	10,206	3,935	1,789	120,453	31,410	13,318	-	-	1					202,422
R0130	Gross - Non-proportional reinsurance accepted													22,487	141,296	40,188	200,331	404,302
R0140	Reinsurers' share	-	(13)	-	575	81	11,207	88,073	60,859	995	-	-	410	2,176	9,851	18,335	64,610	257,159
R0200	Net	729	20,593	-	27,134	7,441	61,861	368,348	508,202	40,737	(649)	-	(409)	20,311	131,445	21,853	135,721	1,343,317
	Premiums earned																	
R0210	Gross - Direct Business	(1)	200	-	17,883	3,923	71,392	311,870	484,456	28,295	(652)	-	(1)					917,365
R0220	Gross - Proportional reinsurance accepted	704	22,051	-	10,454	3,907	1,776	115,280	28,386	12,901	-	-	8					195,467
R0230	Gross - Non-proportional reinsurance accepted													22,558	124,300	38,736	194,411	380,005
R0240	Reinsurers' share	-	(19)	-	373	114	10,821	83,623	57,802	3,269	-	-	353	2,198	8,719	21,674	64,655	253,582
R0300	Net	703	22,270	-	27,964	7,716	62,347	343,527	455,040	37,927	(652)	-	(346)	20,360	115,581	17,062	129,756	1,239,255
	Claims incurred																	
R0310	Gross - Direct Business	22	(2,134)	-	7,168	84	14,030	225,219	292,905	8,790	(226)	-	(113)					545,745
R0320	Gross - Proportional reinsurance accepted	576	5,399	-	7,178	1,174	1,917	56,000	11,557	6,526	-	-	(200)					90,127
R0330	Gross - Non-proportional reinsurance accepted													11,060	73,490	10,347	337,851	432,748
R0340	Reinsurers' share	2	(53)	-	688	(1)	(5,188)	38,077	62,171	(3,231)	-	-	268	(33)	6,857	14,835	152,118	266,510
R0400	Net	596	3,318	-	13,658	1,259	21,135	243,142	242,291	18,547	(226)	-	(581)	11,093	66,633	(4,488)	185,733	802,110
	Changes in other technical provisions																	
R0410	Gross - Direct Business	-	-	-	-	-	-	-	-	-	-	-	-					-
R0420	Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-					-
R0430	Gross - Non-proportional reinsurance accepted													-	-	-	-	-
R0440	Reinsurers' share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0500	Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0550	**Expenses incurred**	50	8,417	-	8,562	2,947	17,838	130,959	158,040	14,606	(154)	-	85	4,259	32,536	(6,935)	35,954	407,164
R1200	**Other expenses**																	-
R1300	**Total expenses**																	407,164

(All values in €'000)

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	-	-	-	-	-	-	35	45,327	45,362
R1420	Reinsurers' share	-	-	-	-	-	-	-	5,234	5,234
R1500	Net	-	-	-	-	-	-	35	40,093	40,128
	Premiums earned									
R1510	Gross	-	-	-	-	-	-	35	45,327	45,362
R1520	Reinsurers' share	-	-	-	-	-	-	-	5,234	5,234
R1600	Net	-	-	-	-	-	-	35	40,093	40,128
	Claims incurred									
R1610	Gross	-	-	-	-	-	10,770	47	29,399	40,216
R1620	Reinsurers' share	-	-	-	-	-	-	-	3,779	3,779
R1700	Net	-	-	-	-	-	10,770	47	25,620	36,437
	Changes in other technical provisions									
R1710	Gross	-	-	-	-	-	-	-	-	-
R1720	Reinsurers' share	-	-	-	-	-	-	-	-	-
R1800	Net	-	-	-	-	-	-	-	-	-
R1900	**Expenses incurred**	-	-	-	-	-	-	11	9,638	9,649
R2500	**Other expenses**									-
R2600	**Total expenses**									9,649

(All values in €'000)

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					Total Top 5 and home country
R0010			France (FR)	United Kingdom (GB)	Spain (ES)	Germany (DE)	Italy (IT)	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	154,439	267,250	144,486	108,434	63,689	68,362	806,660
R0120	Gross - Proportional reinsurance accepted	25,056	22,080	3,925	6,108	2,818	4,515	64,502
R0130	Gross - Non-proportional reinsurance accepted	17,435	72,161	44,983	7,024	34,710	9,686	185,999
R0140	Reinsurers' share	31,633	39,914	51,877	19,724	17,060	10,793	171,001
R0200	Net	165,297	321,577	141,517	101,842	84,157	71,770	886,160
	Premiums earned							
R0210	Gross - Direct Business	162,473	222,022	135,711	97,169	59,483	60,228	737,086
R0220	Gross - Proportional reinsurance accepted	25,288	21,557	3,812	5,865	2,538	4,381	63,441
R0230	Gross - Non-proportional reinsurance accepted	16,471	67,834	39,381	6,582	33,367	9,266	172,901
R0240	Reinsurers' share	29,303	39,761	50,851	16,885	17,369	11,651	165,820
R0300	Net	174,929	271,652	128,053	92,731	78,019	62,224	807,608
	Claims incurred							
R0310	Gross - Direct Business	106,752	129,724	92,365	65,622	58,685	42,202	495,350
R0320	Gross - Proportional reinsurance accepted	10,119	20,470	2,515	2,550	1,961	(668)	36,947
R0330	Gross - Non-proportional reinsurance accepted	14,842	54,455	26,567	4,943	88,093	11,240	200,140
R0340	Reinsurers' share	42,971	43,253	36,328	11,485	27,460	9,976	171,473
R0400	Net	88,742	161,396	85,119	61,630	121,279	42,798	560,964
	Changes in other technical provisions							
R0410	Gross - Direct Business	-	-	-	-	-	-	-
R0420	Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-
R0430	Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-
R0440	Reinsurers' share	-	-	-	-	-	-	-
R0500	Net	-	-	-	-	-	-	-
R0550	**Expenses incurred**	58,611	102,622	38,835	31,333	21,063	25,318	277,782
R1200	**Other expenses**							-
R1300	**Total expenses**							**277,782**

(All values in €'000)

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
R1400			United Kingdom (GB)	France (FR)	Mexico (MX)	Peru (PE)	Switzerland (CH)	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	15,676	7,038	3,580	2,927	2,372	1,963	33,556
R1420	Reinsurers' share	1,810	813	413	338	275	227	3,876
R1500	Net	13,866	6,225	3,167	2,589	2,097	1,736	29,680
	Premiums earned							
R1510	Gross	15,676	7,038	3,580	2,927	2,372	1,963	33,556
R1520	Reinsurers' share	1,811	813	413	338	274	227	3,876
R1600	Net	13,865	6,225	3,167	2,589	2,098	1,736	29,680
	Claims incurred							
R1610	Gross	12,189	5,756	(1,076)	8,326	383	609	26,187
R1620	Reinsurers' share	487	202	429	195	1,389	53	2,755
R1700	Net	11,702	5,554	(1,505)	8,131	(1,006)	556	23,432
	Changes in other technical provisions							
R1710	Gross	-	-	-	-	-	-	-
R1720	Reinsurers' share	-	-	-	-	-	-	-
R1800	Net	-	-	-	-	-	-	-
R1900	**Expenses incurred**	3,206	887	1,040	1,100	(26)	636	6,843
R2500	**Other expenses**							-
R2600	**Total expenses**							**6,843**

(All values in €'000)

S.12.01.02

Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	-	-			-			-	-	-	-			-	-	-
R0020	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	-	-			-			-	-	-	-			-	-	-
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	-		-	-		-	-	-	114,150	114,150		-	-	-	14	14
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-		-	-		-	-	-	(1,492)	(1,492)		-	-	-	-	-
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	-		-	-		-	-	-	115,642	115,642		-	-	-	14	14
R0100	**Risk margin**	-	-			-			-	16,411	16,411	-			-	13	13
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	-	-			-			-	-	-	-			-	-	-
R0120	Best estimate	-		-	-		-	-	-	-	-		-	-	-	-	-
R0130	Risk margin	-	-			-			-	-	-	-			-	-	-
R0200	**Technical provisions - total**	-	-			-			-	130,560	130,560	-			-	28	28

(All values in €'000)

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**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	5	(1,064)	-	2,354	(149)	14,805	14,013	222,655	29,974	645	-	-	(6,958)	(39,181)	(6,671)	(46,029)	184,399
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	(126)	-	(190)	(47)	(4,115)	(42,259)	(18,453)	654	-	-	1,973	30	(2,296)	(136)	(34,126)	(99,091)
R0150	**Net Best Estimate of Premium Provisions**	5	(938)	-	2,544	(102)	18,920	56,272	241,108	29,320	645	-	(1,973)	(6,988)	(36,885)	(6,535)	(11,903)	283,490
	Claims provisions																	
R0160	Gross	478	49,506	-	87,908	5,188	96,347	374,521	999,415	44,552	58	-	455	56,318	781,579	40,052	385,248	2,921,625
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	1	2,320	-	(5,109)	(96)	5,974	83,116	231,739	8,651	-	-	5,041	1,546	77,297	19,069	172,051	601,600
R0250	**Net Best Estimate of Claims Provisions**	477	47,186	-	93,017	5,284	90,373	291,405	767,676	35,901	58	-	(4,586)	54,772	704,282	20,983	213,197	2,320,025
R0260	**Total best estimate - gross**	483	48,442	-	90,262	5,039	111,152	388,534	1,222,070	74,526	703	-	455	49,360	742,398	33,381	339,219	3,106,024
R0270	**Total best estimate - net**	482	46,248	-	95,561	5,182	109,293	347,677	1,008,784	65,221	703	-	(6,559)	47,784	667,397	14,448	201,294	2,603,515
R0280	**Risk margin**	80	3,438	-	13,593	812	9,306	27,053	129,227	9,542	26	-	-	12,304	149,248	1,070	15,263	370,962
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0300	Best estimate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0310	Risk margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0320	**Technical provisions - total**	564	51,881	-	103,854	5,851	120,457	415,587	1,351,296	84,068	729	-	455	61,665	891,646	34,451	354,482	3,476,986
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	1	2,194	-	(5,299)	(143)	1,859	40,856	213,285	9,306	-	-	7,014	1,576	75,001	18,933	137,926	502,509
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	563	49,687	-	109,153	5,994	118,598	374,731	1,138,011	74,762	729	-	(6,559)	60,089	816,645	15,518	216,556	2,974,477

(All values in €'000)

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Underwriting Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year					**Development year**							**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											45,996	45,996	45,996
R0160	2012	330,886	209,630	127,926	78,910	73,657	47,667	41,774	13,436	5,984	16,866		16,866	946,736
R0170	2013	39,290	104,175	76,065	57,673	14,956	14,884	8,239	10,678	4,742			4,742	330,702
R0180	2014	37,431	103,402	49,284	20,090	17,581	12,220	8,038	9,761				9,761	257,807
R0190	2015	32,136	105,720	51,812	32,993	17,584	20,684	27,639					27,639	288,568
R0200	2016	33,892	103,351	85,233	48,345	27,002	25,417						25,417	323,240
R0210	2017	39,872	112,770	72,659	41,572	17,546							17,546	284,419
R0220	2018	24,209	128,058	94,201	72,335								72,335	318,803
R0230	2019	44,770	161,234	152,065									152,065	358,069
R0240	2020	40,094	126,856										126,856	166,950
R0250	2021	67,780											67,780	67,780
R0260												**Total**	**567,003**	**3,389,070**

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year					**Development year**							**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											680,257	676,973
R0160	2012	-	-	-	-	-	-	-	77,852	75,521	73,692		72,640
R0170	2013	-	-	-	-	-	-	92,609	85,235	78,017			76,767
R0180	2014	-	-	-	-	-	94,590	108,133	99,757				98,375
R0190	2015	-	-	-	-	161,330	208,866	129,016					128,499
R0200	2016	-	-	-	167,920	215,945	198,919						195,143
R0210	2017	-	-	183,521	205,595	190,326							188,123
R0220	2018	-	289,924	305,101	239,246								237,311
R0230	2019	371,233	490,320	398,466									392,521
R0240	2020	409,505	514,116										507,297
R0250	2021	629,701											623,389
R0260												**Total**	**3,197,038**

(All values in €'000)

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	1,129,062	1,129,062		-	
R0030	Share premium account related to ordinary share capital	-	-		-	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	-	-		-	
R0050	Subordinated mutual member accounts	-		-	-	-
R0070	Surplus funds	-	-			
R0090	Preference shares	-		-	-	-
R0110	Share premium account related to preference shares	-		-	-	-
R0130	Reconciliation reserve	80,017	80,017			
R0140	Subordinated liabilities	200,000		-	200,000	-
R0160	An amount equal to the value of net deferred tax assets	4,565				4,565
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-
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**	-				
R0230	**Deductions for participations in financial and credit institutions**	-	-	-	-	-
R0290	**Total basic own funds after deductions**	1,413,644	1,209,079	-	200,000	4,565
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	-			-	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	-			-	
R0320	Unpaid and uncalled preference shares callable on demand	-			-	-
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-			-	-
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-			-	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-			-	-
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	-
R0390	Other ancillary own funds	-			-	-
R0400	**Total ancillary own funds**	-			-	-

(All values in €'000)

S.23.01.01 (continued)

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Available and eligible own funds	C0010	C0020	C0030	C0040	C0050
R0500	Total available own funds to meet the SCR	1,413,644	1,209,079	-	200,000	4,565
R0510	Total available own funds to meet the MCR	1,409,079	1,209,079	-	200,000	-
R0540	Total eligible own funds to meet the SCR	1,413,644	1,209,079	-	200,000	4,565
R0550	Total eligible own funds to meet the MCR	1,294,674	1,209,079	-	85,595	-
R0580	**SCR**	951,050				
R0600	**MCR**	427,973				
R0620	**Ratio of Eligible own funds to SCR**	148.6%				
R0640	**Ratio of Eligible own funds to MCR**	302.5%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	1,231,837
R0710	Own shares (held directly and indirectly)	-
R0720	Foreseeable dividends, distributions and charges	-
R0730	Other basic own fund items	1,133,627
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	18,193
R0760	**Reconciliation reserve**	80,017
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	7,057
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	250,925
R0790	**Total Expected profits included in future premiums (EPIFP)**	257,982

(All values in €'000)

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Consideration of the future management actions regarding technical provisions and/or deferred taxes
Row	C0010	C0020	C0030	C0060
1	10300I	Interest rate risk	95,701	
2	10400I	Equity risk	30,140	
3	10600I	Property risk	15,715	
4	10700I	Spread risk	245,346	
5	10900I	Currency risk	65,270	
6	11040I	Other market risk (Liquidity risk)	2,560	
7	19900I	Diversification within market risk	(176,629)	
8	20100I	Type 1 counterpart default risk (Reinsurance credit risk)	113,879	
9	20200I	Type 2 counterparty default risk (Premium credit risk)	14,272	
10	29900I	Diversification within counterparty risk	(12,699)	
11	50130I	Premium risk	290,383	
12	50240I	Reserve risk	737,581	
13	50300I	Non-life catastrophe risk	387,782	
14	59900I	Diversification within non-life underwriting risk	(574,839)	
15	70190I	Operational risk (excluding group risk)	87,882	
16	70110I	Group risk	56,851	
17	79900I	Diversification within operational risk	(43,044)	
18	8049BI	Debt servicing costs net of loan repayments	73	
19	8049DI	Capital adjustments	-	
20	80110P	Total pension risk including market and pension benefit risks	4,015	

(All values in €'000)

S.25.03.21 (continued)

Solvency Capital Requirement - for undertakings on Full Internal Models

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	1,340,240
R0060	Diversification	(389,190)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-
R0200	**Solvency capital requirement excluding capital add-on**	951,050
R0210	Capital add-ons already set	-
R0220	**Solvency capital requirement**	951,050
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	-
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	-
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	-
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	-
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-

(All values in €'000)

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	MCRNL Result	499,678

		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	482	531
R0030	Income protection insurance and proportional reinsurance	46,249	24,631
R0040	Workers' compensation insurance and proportional reinsurance	-	-
R0050	Motor vehicle liability insurance and proportional reinsurance	95,560	24,597
R0060	Other motor insurance and proportional reinsurance	5,182	8,112
R0070	Marine, aviation and transport insurance and proportional reinsurance	109,292	72,127
R0080	Fire and other damage to property insurance and proportional reinsurance	347,678	377,454
R0090	General liability insurance and proportional reinsurance	1,008,784	480,366
R0100	Credit and suretyship insurance and proportional reinsurance	65,220	28,196
R0110	Legal expenses insurance and proportional reinsurance	703	-
R0120	Assistance and proportional reinsurance	-	-
R0130	Miscellaneous financial loss insurance and proportional reinsurance	-	25
R0140	Non-proportional health reinsurance	47,785	19,336
R0150	Non-proportional casualty reinsurance	667,397	115,925
R0160	Non-proportional marine, aviation and transport reinsurance	14,448	-
R0170	Non-proportional property reinsurance	201,293	134,573

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	27,466

		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	115,657	
R0250	Total capital at risk for all life (re)insurance obligations		35,767,791

	Overall MCR calculation	C0070
R0300	Linear MCR	527,144
R0310	SCR	951,050
R0320	MCR cap	427,973
R0330	MCR floor	237,763
R0340	Combined MCR	427,973
R0350	Absolute floor of the MCR	3,700
R0400	**Minimum Capital Requirement**	427,973

QBE Europe SA/NV
Boulevard du Régent 37, 1000 Bruxelles
Regentlaan 37, 1000 Brussel
Belgium
tel +32 2 504 82 11
fax +32 2 504 82 00
www.qbere.com