Made possible QBE

Solvency and Financial Condition Report

QBE Europe SA/NV

for the year ended 31 December 2022

Contents

Summary

This document (the Solvency and Financial Condition Report, or 'SFCR') sets out qualitative and quantitative information on the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management on a Solvency II basis of QBE Europe SA/NV ('QBE Europe' or 'the Company') for the year ended 31 December 2022.

QBE Europe is a Belgium incorporated (re)insurer authorised by the National Bank of Belgium ('NBB'). QBE Europe underwrites (re)insurance business across the European Economic Area ('EEA') on a Freedom of Services ('FOS') basis through its head office (based in Brussels, Belgium), a Freedom of Establishment ('FOE') basis through its EEA branches and in the UK and Bermuda through its UK and Bermudian branches. The Company also has a Representation Office in Colombia, Latin America.

QBE Europe's UK branch continues to operate in the UK under the Prudential Regulation Authority ('PRA') and Financial Conduct Authority's ('FCA) Temporary Permissions Regime whilst the UK regulatory authorisation process is completed.

The Company is a wholly owned subsidiary of QBE Holdings (EO) Limited which is a wholly owned subsidiary of QBE European Operations plc ('EO plc'). The ultimate parent of EO plc is 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 holding company of QBE Group's European operations, EO plc owns, through its wholly owned subsidiary QBE Holdings (EO) Limited, other subsidiary undertakings alongside QBE Europe, including QBE UK Limited ('QUK'), QBE Corporate Limited ('QBE Corporate') and QBE Underwriting Limited (QUL). QUK is a UK incorporated and authorised (re)insurer. QBE Corporate participates in two Lloyd's syndicates (Syndicate 2999 and Syndicate 386). These Syndicates are managed by EO Group's Lloyd's managing agent, QUL.

For the purposes of this document the EO Group is defined as EO plc and its subsidiary undertakings including QBE Europe, QUK, QBE Corporate and QUL.

This SFCR has been prepared in accordance with the NBB Rules and Solvency II Regulations.

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 monitors the net claims experience on current and prior year underwriting.

Challenging operating conditions have characterised 2022, with significant inflationary pressures, geopolitical tensions and heightened catastrophe activity being the main drivers. The economic environment remains highly uncertain, with higher inflation being seen across most markets in which QBE Europe operates and recessions anticipated in many major economies.

QBE Europe continues to monitor the situation arising from Russia's invasion of Ukraine and developments that may impact its assessment of potential exposures.

The COVID-19 pandemic remained an area of focus for management during 2022. QBE Europe has a comprehensive reinsurance programme that significantly reduces the net exposure to losses related to COVID-19 for the Company.

During periods of uncertainty such as during the COVID-19 outbreak, as well as Russia's invasion of Ukraine, the Company increases the frequency of monitoring its capital and liquidity positions. The Company also has a programme of stress and scenario testing in order to review the potential impacts of a range of different strategic threats on its capital position and exposure to market, liquidity and operational risks.

The safety and wellbeing of our people, customers, partners and their communities has remained our priority in 2022. The business continuity framework has proven resilient to the operational challenges encountered during the challenging macro-economic environment. Alongside the lifting of COVID-19 restrictions and return to the office in the majority of our locations, flexible working arrangements continued to ensure staff wellbeing and enhance performance.

Underwriting performance

Details of the Company's underwriting performance and comparison to the prior year on a Belgian Generally Accepted Accounting Principles ('BE GAAP') basis are set out in Section A.2 and summarised in the table below.

Key metrics (€'m)	2022	2021
Gross Written Premium	2.005	1.645
Net Earned Premium	1.531	1.279
Claims Ratio	75,2%	67,7%
Commission and Expense Ratio	28,6%	30,2%
Net Combined Operating Ratio (NCOR)	103,8%	97,8%

Gross written premium ('GWP') for the year totalled €2.005m (2021: €1.645m). This represents an increase compared to prior year driven by a strong rating environment.

The claims ratio is negatively impacted by a loading for inflation on prior year provisions and loss experience for the current year, including the impact of severe weather conditions in Europe and to a lesser extent the rest of the world. The impact of Russia's invasion of Ukraine is immaterial. In line with the Belgian requirements, the Company continues to monitor its equalisation provision and adjust as required.

The increase in 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 2021.

On 13 December 2022, the NBB approved the transfer by QBE Europe of legacy liabilities which have been in run-off since at least 31 March 2016 to a third party with an effective date of 31 December 2022. The transfer was of €6m gross undiscounted best estimate basis liabilities. These policies were originally written by QUK and were transferred to QBE Europe by means of a UK court-approved loss portfolio transfer effective 1 November 2020. The transfer to a third party had no material impact on the net profit of the Company or EO Group at 31 December 2022.

Following a strategic review, management took the decision to cease underwriting all Republic of Ireland domiciled direct insurance business. The change was effective from 1 July 2022, from which point the Company no longer wrote stand-alone Republic of Ireland-domiciled risks. The Irish Branch of QBE Europe, whose business is predominantly inwards reinsurance business, was unaffected by this change. Going forward, the Company will continue to support incidental Irish business written as part of a broader policy of placement.

Investment performance

The Company's investment portfolio allocations, and overall portfolio structure, is substantially unchanged during 2022. The majority of investments are in fixed income portfolios with modest allocation to growth assets. On a mark-to-market basis, returns on fixed income assets were adversely impacted by the rise in market yields during 2022. Geopolitical events and rising inflation, resulting in an increase in the cost of living, contributed to a rise of yields of government bonds and a widening of credit spreads on other fixed income portfolios. These events impacted returns across all major fixed income holdings, with corporate bonds impacted more than government and semi-government holdings. Growth assets and investments in infrastructure assets provided good returns, despite experiencing volatility in the second half of the year.

Details of investment performance and comparison to the prior year are set out in Section A.3.

System of Governance Summary

The Board of Directors ('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, the ultimate holding company of the EO 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 to meet its objectives and reviews the performance of management in delivering on the Company's strategic aims, which are aligned with those of the EO Group and QBE Group.

The Board has established a management committee ('QEMC') which is responsible for the day-to-day management and operations of the Company.

The Investment Committee was disbanded in July 2022 with matters previously within the remit of the Committee being distributed or absorbed by the Board and its committees.

The Environmental, Social and Governance ('ESG') Management Group ('ESG MG') was established during the year as part of EO Group's formal governance structure. This forum, whose membership includes three members of the QEMC, provides dedicated time for strategic management and oversight of all aspects of ESG, including evolving industry trends and regulatory requirements, and EO requirements arising from QBE's Net Zero commitments.

Changes to the composition of the Board and QEMC during the year and subsequently are included in Section B.1.4.

The process of assessing the adequacy of the System of Governance is explained in Section B.3.13. From their annual review conducted in November 2022, the EO Group Risk team concluded that the 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.

Each year there is a formal Board Effectiveness Review ('BER'), which is facilitated by an independent external advisor. In June 2022, the QBE Group undertook a BER encompassing the Divisional Boards, including QBE Europe. 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 the ongoing assessment of key responsibilities and the requirements of Group Governance Framework ('GGF'), together with additional responsibilities relating to investments following the disbandment of the EO Investment Committee in July 2022.

For more information on the 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:

- Strategic Risk;
- Insurance Risk;
- Credit Risk;
- Market Risk;
- Liquidity Risk;
- Operational Risk;
- Compliance Risk; and
- Group 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 external risk exposures have generally been increasing throughout 2022, while the internal risk profile, despite experiencing some increasing risk trends earlier in the year, largely stabilised towards the end of 2022. Both the internal and external risk exposures were impacted as a result of increased uncertainty regarding a heightened risk of a recession following rising inflation and resulting interest rate increases throughout 2022, as well as the Russian invasion of Ukraine. Inflation hit an all time high of 11.5% in the EU, up from 5% a year earlier, before slowing down to 9.2% in December. Similar trends were experienced in the UK with inflation reaching a 40 year high in October 2022 as the Consumer Prices Index (CPI) in rose to 11.1% , as well as in the US and other major economies. In response to inflation central banks have significantly increased interest rates, which led to yield curves for the Euro, Sterling and the US dollar all increasing.

In 2022, developments to our approach to managing climate and broader ESG risks include:

- The Board and QEMC received a further round of climate risk training;
- Updated scenario assessments of physical and transition climate risks to estimate exposure materiality and to inform underwriting strategy updates for EO insurance products;

- Participation in QBE Group's Net Zero Insured Emissions Programme, which seeks to prepare QBE for meeting our commitment to be net zero for underwriting by 2050;
- The establishment of a Climate Risk Dashboard for additional risk reporting capability; and
- As noted above under Governance, the ESG MG was established as part of EO Group's formal governance structure.

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

Valuation Summary

QBE Europe reports statutory accounts on a Belgium Generally Accepted Accounting Practices ('BE GAAP') basis. The method of valuing assets and liabilities under Solvency II regulations differs in some cases from the methods used under BE GAAP. The valuation of assets, technical provisions and other liabilities under Solvency II compared to the statutory accounts basis is explained in Section D. Investments are measured at fair value under Solvency II. Under BE GAAP, they are valued as follows: shares and similar securities are carried at acquisition value less related write-downs; fixed income securities are carried at amortised cost.

except that debt instruments are measured at amortised cost under BE GAAP. Where alternative valuation methods are used, the key assumptions and adjustments are included in Section D.4.

As at 31 December 2022, the Company had excess assets over liabilities under Solvency II of €1.375 m (2021: €1.232m) compared to €1.158m of net assets under BE GAAP (2021: €1.260m).

The adjustments made to move from BE GAAP statutory basis of total equity to Solvency II excess of assets over liabilities and own funds are set out below:

Reconciliation from BE GAAP equity to SII Own funds	2022 (€'m)	2021 (€'m)
Total equity – statutory basis	**1.158**	**1.260**
Removal of net technical provisions balances on a BE GAAP basis	869	777
Inclusion of net technical provisions on a Solvency II basis	(454)	(827)
Valuation adjustment: investments	(199)	21
Valuation adjustment: other	1	1
Excess of assets over liabilities – Solvency II basis	**1.375**	**1.232**
Adjustment: Subordinated liabilities	200	200
Adjustment: Foreseeable dividends	-	-
Adjustment: Restricted own fund items in respect of ring-fenced funds	(26)	(18)
Own Funds – Solvency II basis	**1.549**	**1.414**

* Other adjustments include deferred tax adjustments.

The valuation methodology for assets and liabilities under Solvency II is consistent with the prior year. For more information on the valuation of assets and liabilities, see Section D.

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 2022 and 2021, the Company reported the following EOF, SCR and SCR coverage ratios, and Minimum Capital Requirement ('MCR') coverage ratios:

(€'m)	Eligible Own Funds to meet the SCR	SCR	SCR coverage ratio	MCR coverage ratio
2022	1.549	1.063	145,7%	301,7%
2021	1.414	951	148,6%	302,5%

At 31 December 2022 the Company was within the target level of capital outlined in the CAF.

At 31 December 2022, the Company's EOF available to cover the SCR are made up of Tier 1 unrestricted (87%) and Tier 2 (13%). The Company also had €3m of Tier 3 capital related to deferred tax assets.

No foreseeable dividend was recognised as at 31 December 2021 and no dividends have been paid by during 2022 or subsequently. There were no foreseeable dividends as at 31 December 2022.

The movement in eligible own funds to cover the SCR during the year is shown in the table below:

	2022 (€'m)	2021 (€'m)
Eligible own funds to cover the SCR brought forward	**1.414**	**1.249**
Financial statement profit or loss for the year	(102)	77
Movement in Solvency II valuation differences	245	86
Movement in ring fenced funds restriction	(8)	2
Eligible own funds to cover the SCR carried forward	**1.549**	**1.414**

The Company satisfied and complied with the MCR and SCR coverage requirements throughout 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 2022 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 2022 to the date of the publication of the SFCR, QBE Europe SA/NV has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2023.

By order of the Board:

Director

QBE Europe SA/NV

Registered Number 0690.537.456

Belgium

6 April 2023

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 and the supervisory authority responsible for its financial supervision is the NBB.

The entire issued share capital of the Company is owned by QBE Holdings (EO) Limited, which is a wholly owned subsidiary of QBE European Operations plc ('EO plc'), both intermediate insurance holding companies incorporated in England and Wales. EO plc is the ultimate UK insurance holding company at which level group supervision is applied by the PRA.

The entire issued share capital of EO plc is owned by QBE Insurance Holdings Pty Limited. QBE Insurance Holdings Pty Limited 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 ('APRA') Details of shareholders of QBE Group are disclosed in Section 6 of the QBE Group 2022 Annual Report.

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.

The Company underwrites life and non-life reinsurance businesses, as well as trade credit, property, casualty, financial lines, marine and motor direct insurance business.

Geographical locations

The Company has its head office in Brussels, Belgium and underwrites (re)insurance business across the EEA and worldwide, either on a Freedom of Services ('FOS') or through Freedom of Establishment basis ('FOE') from its EEA branches in Denmark, France, Germany, Ireland, Italy, Spain and Sweden. In 2022 a branch in the Netherlands was established, writing business from 1 January 2023.

The Company's UK branch is currently operating in the UK under the PRA and FCA Temporary Permissions Regime in the interim.

The Company also underwrites through its branch in Bermuda which is authorised and regulated by the Bermuda Monetary Authority ('BMA').

The Company also has a Representation Office in Colombia, Latin America.

A.1.2 Names and contract details of supervisory authorities

The Company's regulator is the National Bank of Belgium ('NBB'). Contact details for the NBB are as follows:

National Bank of Belgium
Boulevard de Berlaimont / de Berlaimontlaan 14
1000 Brussels
Telephone: +32 (0)2 221 21 11
www.nbb.be

The Company is also regulated by the Belgian Financial Services and Markets Authority ('FSMA') with respect to conduct of business. The FSMA's contact details are as follows:

Rue du Congrès/Congresstraat 12-14
1000 Brussels
Telephone: +32(0)2 220 52 11
www.fsma.be

The Company's UK Branch is deemed authorised by the Prudential Regulation Authority ('PRA') and subject to regulation by the Financial Conduct Authority ('FCA') and limited regulation by the PRA under the UK Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full

PRA and FCA authorisation. The Company is currently awaiting PRA and FCA approval of its application for UK Branch authorisation.

The PRA's contact details are as follows:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH
Telephone: +44 (0) 203 4614 444
www.bankofengland.co.uk/prudential-regulation

The FCA's contact details are as follows:

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN
Telephone: +44 (0) 207 066 1000
www.fca.org.uk

QBE Europe's Bermuda branch is regulated by the BMA. The BMA contact details are as follows:

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton
HM12
(441) 295 5278
www.bma.bm

A.1.3 Name and contract details of the external auditor

The Company's external auditor is PwC Bedrijfsrevisoren BV – PwC Reviseurs d'Entreprises SRL.

Contact details are as follows:

PwC Bedrijfsrevisoren BV – PwC Reviseurs d'Entreprises SRL
Culliganlaan 5,
B-1831 Diegem
Telephone: +32 (0)2 710 42 11
www.pwc.be

A.1.4 Group structure chart

Group structure charts showing the ownership of EO plc and the structure of the EO Group at 31 December 2022 and QBE Europe's position within the structure are shown below.

The main operating entities in the EO Group are QUK and QBE Europe together with participations in two Lloyd's syndicates through the Lloyd's corporate member, QBE Corporate Limited. These syndicates are managed by EO Group's managing agent QBE Underwriting Limited ('QUL'). There are also two service companies QBE Management Services (UK) Limited which provides services to QUK and QBE Management (Ireland) Limited which provides services to QBE Europe. QUK and QBE Europe do not have any subsidiaries.

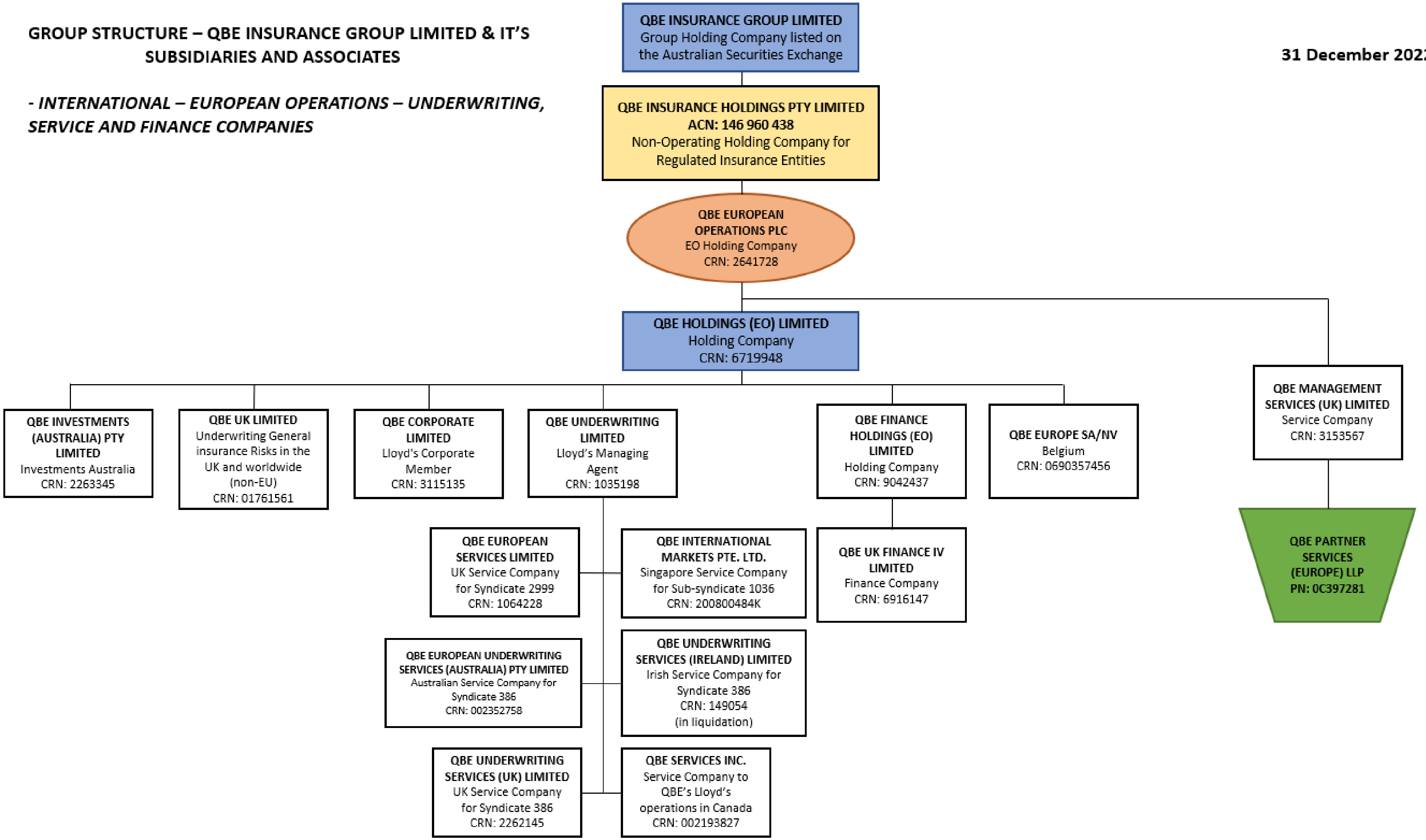
A full list of undertakings within the EO Group at 31 December 2022, and the nature of those undertakings, can be found in the quantitative reporting template ('QRT') S.32.01.22, included in Appendix A of the EO plc published Single Group SFCR for the year ended 31 December 2022.

A list of all the QBE Group's controlled entities in terms of shares or contractual agreements is included in note 7.3 of the QBE Group 2022 Annual Report.

GROUP STRUCTURE – QBE INSURANCE GROUP LIMITED & IT'S SUBSIDIARIES AND ASSOCIATES

- INTERNATIONAL – EUROPEAN OPERATIONS – UNDERWRITING, SERVICE AND FINANCE COMPANIES

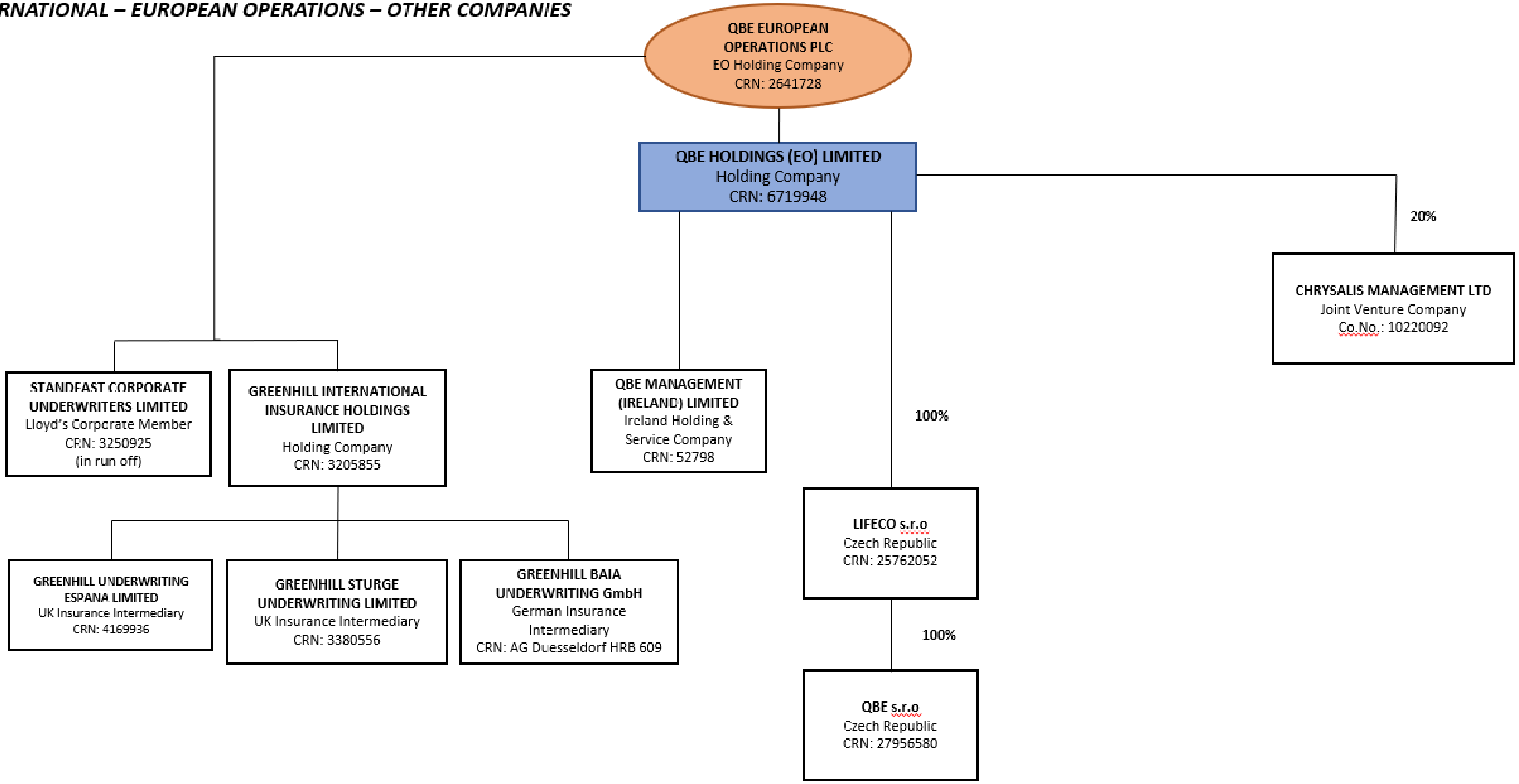
31 December 2022



GROUP STRUCTURE – QBE INSURANCE GROUP LIMITED & IT'S SUBSIDIARIES AND ASSOCIATES

31 December 2022

- INTERNATIONAL – EUROPEAN OPERATIONS – OTHER COMPANIES



A.1.3 Significant business and other events in the reporting period

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

Challenging operating conditions have characterised 2022, with significant inflationary pressures, geopolitical tensions and heightened catastrophe activity being the main drivers. The economic environment remains highly uncertain, with higher inflation being seen across most markets in which EO Group operates and recessions anticipated in many major economies.

QBE Europe continues to monitor the situation arising from Russia's invasion of Ukraine and developments that may impact its assessment of potential exposures.

The COVID-19 pandemic remained an area of focus for management during 2022. QBE Europe has a comprehensive reinsurance programme that significantly reduces the net exposure to losses related to COVID-19 for the Company.

During periods of uncertainty such as during the COVID-19 outbreak, as well as Russia's invasion of Ukraine, the Company increases the frequency of monitoring its capital and liquidity positions. The Company also has a programme of stress and scenario testing in order to review the potential impacts of a range of different strategic threats on its capital position and exposure to market, liquidity and operational risks.

Following a strategic review, management took the decision to cease underwriting all Republic of Ireland domiciled direct insurance business. The change was effective from 1 July 2022, from which point the Company no longer wrote stand-alone Republic of Ireland-domiciled risks. The Irish Branch of QBE Europe, whose business is predominantly inwards reinsurance business, was unaffected by this change. Going forward, the Company will continue to support incidental Irish business written as part of a broader policy of placement.

On 13 December 2022, the NBB approved the transfer by QBE Europe of legacy liabilities which have been in run-off since at least 31 March 2016 to a third party with an effective date of 31 December 2022. The transfer was of €6m gross undiscounted best estimate basis liabilities. These policies were originally written by QUK and were transferred to QBE Europe by means of a UK court-approved loss portfolio transfer effective 1 November 2020. The transfer to a third party had no material impact on the net profit of the Company or EO Group at 31 December 2022.

A.1.4 Significant post-balance sheet events

The following non-adjusting post-balance sheet events occurred after the end of the reporting period:

- As the insurance industry continues to assess the impact of the Turkey earthquakes in February 2023, 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 extreme events.
- As announced by QBE Group on 17 February 2022, the Company committed to enter into a 100% retrospective reinsurance arrangement covering certain prior year claim reserves within the Company equating to approximately 13% of the total net claim reserves held on the balance sheet as at 31 December 2022. The effective date of the arrangement is 1 January 2023. The arrangement is part of a wider transaction entered into by QBE Group on the same day.

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 Principles ('BE GAAP'). The table below presents the key performance indicators for the current and prior year.

As a (re)insurance company, for QBE Europe, key performance indicators include Gross Written Premium ('GWP'), Gross Earned Premium ('GEP') and Net Earned Premium ('NEP'). Key ratios monitored by the Board include the Combined Operating Ratio, including the Claims Ratio and Commission and Expense Ratio. The Ratios are net claims, expenses and commissions incurred for the year, expressed as a factor of the Net Earned Premium.

Key metrics (€'m)	2022	2021
Gross Written Premium	2.005	1.645
Net Earned Premium	1.531	1.279
Net Claims Ratio	75,2%	67,7%
Net Commission and Expense Ratio	28,6%	30,2%
Net Combined Operating Ratio (NCOR)	103,8%	97,8%

GWP for the year totalled €2.005m (2021: €1.645m). This represents an increase compared to prior year driven by a strong rating environment.

GWP generated by the non-life business amounted to € 1.950m, 59% of which was insurance business written out of the foreign insurance branches or on a FOS basis out of the head office in Belgium. The remainder is generated by reinsurance business. Life business generated GWP of €55m up from €45m last year. 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 GWP.

The claims ratio is negatively impacted by a loading for inflation on prior year provisions and loss experience for the current year, including the impact of severe weather conditions in Europe and to a lesser extent the rest of the world, as well as strengthening of the COVID-19 related provision in light of the ongoing court cases in the UK. In line with the Belgian requirements, the Company continues to monitor its equalisation provision and adjust as required. The impact of the Russian invasion of Ukraine on the claims ratio is immaterial.

The increase in the net operating expenses was lower than the growth of the NEP, resulting in a slightly lower commission and expenses ratio than in 2021.

A.2.1.2 Underwriting performance by Solvency II line of business

The tables below provide 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.

Direct Business and Reinsurance Accepted (Non-life and Life)

31 December 2022 €'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	676	578	213	226	126	55	131	2,005
Net earned premium	518	432	130	183	100	51	116	1,530
Net claims incurred	295	259	191	113	95	48	116	1,117
Expenses incurred	166	155	37	43	30	11	37	479
Underwriting performance	57	18	(98)	27	(25)	(8)	(37)	(66)

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

General liability insurance

Increase in GWP for the year was driven by a combination of the rate increases achieved across lines, and measured growth within the business. Rate growth has been compounded for several years but moderated somewhat during 2022 and remained most notable in lines (e.g. Financial Lines) where the Company is seeing a return to rate adequacy after several years of challenged performance across the market. Measured expansion in Cyber was a feature of 2022 as the market rate became more attractive and allowed the Company to grow without expanding risk appetite. Underwriting performance remained strong but normalised somewhat with economic activity returning post pandemic.

Property and Fire and other damage to property insurance

The Property book continued to experience a challenging year with catastrophe exposures across the reinsurance business impacting performance in 2022. The market remains challenging in several geographies. The Company limited GWP growth in 2022 as it remediated areas of the book and sought to improve profitability to adequate levels. There was an increase in the insurance business experience rate in the high single digits across the region, as the market recognised the need for some response to the loss activity in recent years, however excess capacity remains in the market and further rate increases are required to achieve price adequacy across the continent. The inwards reinsurance business was the key driver of the adverse performance vs Plan, exposed to several Catastrophe events during the year, most significantly Storm Eunice and French Hail. The market pricing environment started to shift towards the end of the year, as well as a desire from reinsurers to push up attachment points on Property Cat business, which it is anticipated will support performance improvement in 2023.

Casualty

Casualty performance remains positive. The Company has taken the opportunity to grow in the current market conditions, with rate in the high single digits and adequacy at levels that reflect compound rate growth over several years. Increases in our inflation assumptions have been recognised in 2022 and generated some adverse prior year reserve development in the Casualty book.

The largest contributors to growth were the General Liability book and the Decennial business written in France. The Company announced the closure of the Irish insurance business in the Summer of 2022, which had a liability focus, but the impact on our income will be more marked in 2023.

Marine, aviation & transport insurance

Growth in the Marine, Aviation & Transport book was driven by rate and the desire to expand our specialty offering across our European footprint. The Marine (insurance) and Aviation (reinsurance) businesses were the driver of the underwriting loss this year with Russia's invasion of Ukraine generating claims activity in the region.

Life

The life reinsurance business is located in Belgium, with marginal increases in income as the Company navigated the relatively low-rate environment. Performance was impacted this year as we updated our inflation assumptions.

Other

The 'Other' Solvency II lines of business consist largely of:

- Direct and proportional reinsurance: Medical expenses, Income protection, Motor vehicle liability, Other motor, Credit and suretyship, Legal expenses, Miscellaneous financial loss;
- Non-proportional health reinsurance;
- Annuities stemming from non-life insurance contracts.

QBE Europe incurred net claims of £26m (2021: £0m) on annuities stemming from non-life insurance contracts which are classified as Life business under Solvency II. These have been included in net claims incurred in the 'Other' Solvency II lines of business column above.

'Other' lines of business represent 7% (2021: 10%) 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 (Direct business and reinsurance accepted)

31 December 2022 €'m	Belgium	France	United Kingdom	Spain	Germany	Italy	Other	Total
Gross written premium	257	429	231	149	136	85	662	1,949
Net earned premium	190	323	168	115	106	68	510	1,480
Net claims incurred	191	265	121	66	55	31	312	1,041
Expenses incurred	72	115	47	33	37	27	138	469
Underwriting performance	(73)	(57)	-	16	14	10	60	(30)

31 December 2021 €'m	Belgium	France	United Kingdom	Spain	Germany	Italy	Other	Total
Gross written premium	197	361	193	122	101	82	544	1.600
Net earned premium	175	272	128	93	78	62	431	1.239
Net claims incurred	89	161	85	62	121	43	241	802
Expenses incurred	59	103	39	31	21	25	129	407
Underwriting performance	27	8	4	-	(64)	(6)	61	30

On the inwards reinsurance non-life portfolio, the Belgian office was able to capitalise on favourable market conditions, and grow the book compared to both plan and the prior year. The rating environment was positive as the market continued to harden, though this benefit was offset somewhat by the spike in inflation in the first half of the year. There was a claims provision made in the second half of the year to reflect the impact of higher claims costs on prior years of account.

2022 was another busy year of natural catastrophe losses with the series of French hailstorms in June and July as well as a French bushfire event significantly impacting the result.

Performance in Germany improved markedly year on year as we saw more normal claims activity after we experienced the Storm Bernd Cat event during 2021.

The trend of generating growth in income was observed across all of our primary geographies, with the exception of Italy where the Property market continues to be overcapitalised and challenging to deliver profitable growth.

Life (Non-Life Annuities and Reinsurance Accepted)

31 December 2022 €'m	Belgium	United Kingdom	France	Nether-lands	United States of America	Switzer-land	Other	Total
Gross written premium	23	14	5	2	2	2	8	56
Net earned premium	22	13	4	2	2	1	7	51
Net claims incurred	41	12	2	2	1	1	16	75
Expenses incurred	6	1	1	-	-	-	2	10
Underwriting performance	(25)	-	1	-	1	-	(11)	(34)

31 December 2021 €'m	Belgium	United Kingdom	France	Mexico	Peru	Switzer-land	Other	Total
Gross written premium	16	7	4	3	2	2	11	45
Net earned premium	14	6	3	3	2	2	10	40
Net claims incurred	12	6	(2)	8	(1)	1	12	36
Expenses incurred	3	1	1	1	-	1	3	10
Underwriting performance	(1)	(1)	4	(6)	3	-	(5)	(6)

The life inwards reinsurance business remained marginally ahead of plan for top line as the market continues to react to the post-covid environment. There were a number of adverse adjustments on prior underwriting years relating to Danish Peruvian treaties. Inflation tracked at higher than anticipated levels during 2022 so a one-off reserve charge was taken in the second half of the year in expectation of a prolonged heightened inflationary environment. The team continue to closely monitor inflation trends.

A.3 Investment Performance

A.3.1 Overview

The information on investment performance below is presented on a fair value basis. This approach differs from the financial statements under BE GAAP which values investments at fair value other than debt instruments that are valued at amortised cost.

The Company's investment portfolio allocations, and overall portfolio structure, is substantially unchanged during 2022. The majority of investments are in fixed income portfolios with a modest allocation to growth assets. On a mark-to-market basis, returns on fixed income assets were adversely impacted by the rise in market yields during 2022. Geopolitical events and rising inflation resulting in an increase in the cost of living contributed to rise of yields of government bonds and a widening of credit spreads on other fixed income portfolios. These events impacted returns across all major fixed income holdings, with corporate bonds impacted more than governmental and semi-government holdings. Growth assets and investments in infrastructure assets provided good returns, despite experiencing volatility in the second half of the year.

The majority of fixed income portfolios have an average credit rating equivalent to or better than a Standard & Poor's ('S&P') 'A'. The minimum permitted credit quality per the Group Investment Guidelines is 'BBB- 'grade instruments.

The Company and the EO Group follow the 'Prudent Person Principle' ('PPP') as set out in Solvency II regulations, 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.

A.3.2 Investment performance

Investments are monitored using the asset types below. The total investment returns achieved for the year together with the values of investments at the year end and prior year comparatives are set out below. The combined currency total return (percentage yield shown in the table below) for the year was negative (6,1%) (2021: negative (0,1%)) on a mark-to-market / fair value basis.

Asset Class	2022			2021		
	Yield (%)	Investment Return €'m	FUM[1] at Y/E €'m	Yield (%)	Investment Return €'m	FUM[1] at Y/E €'m
Fixed income	(6,9%)	(261)	3.589	(0,7%)	(26)	3.853
Equities	(12,2%)	(11)	90	0,7%	-	-
Infrastructure debt	-	-	-	-	-	10
Infrastructure assets	8,4%	5	83	15,1%	7	54
Unlisted property	11,9%	16	142	8,0%	10	133
High yield debt	(6,7%)	(10)	173	-	-	-
Emerging market debt	(0,3%)	(1)	1.210	-	-	-
Private Equity	-	3	-	13,7%	5	-
Alternatives	(1,6%)	-	19	(9,7%)	(1)	18
Total	**(6,1%)**	**(259)**	**4.216**	**(0,1%)**	**(5)**	**4.068**

1. Funds under Management / Investments at market value

The investment return reported in QBE Europe's financial statements includes foreign exchange and other valuation adjustments and differences between fair value and amortised cost, which do not form part of the investment return and yield reported in the table above.

Investment expenses and charges (including realised losses) were €120m for the period (2021: €38m), increased from prior year due to higher level of realised losses mostly on debt instruments sold in the year.

A.3.3 Gains and losses on investments recognised directly in equity

There are no gains or losses recognised directly in equity by QBE Europe for BE GAAP reporting purposes.

A.3.4 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, to observe the limitations on such investments set out in Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council (as referenced by Article 257 of the Solvency II Delegated Regulation ((EU) 2015/35)), 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.

At 31 December 2022 the Company's investment in securitisation was €193m (2021: €199m), comprised of Asset Backed Securities ('ABS').

A.4 Performance of other activities

A.4.1 Material leasing arrangements

The Company prepares financial statements under BE GAAP. Under BE GAAP lease payments are expensed as incurred. For the purposes of Solvency II reporting the Company applies IFRS 16: Leases. As at 31 December 2022 QBE Europe held right of use assets of €6m and lease liabilities of €6m accounted for under IFRS 16.

Depreciation charges under IFRS 16 with respect to right of use assets would have been €3 million and interest charges would have been €0m.

A.4.2 Other material income and expenses

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

A.5 Any other information

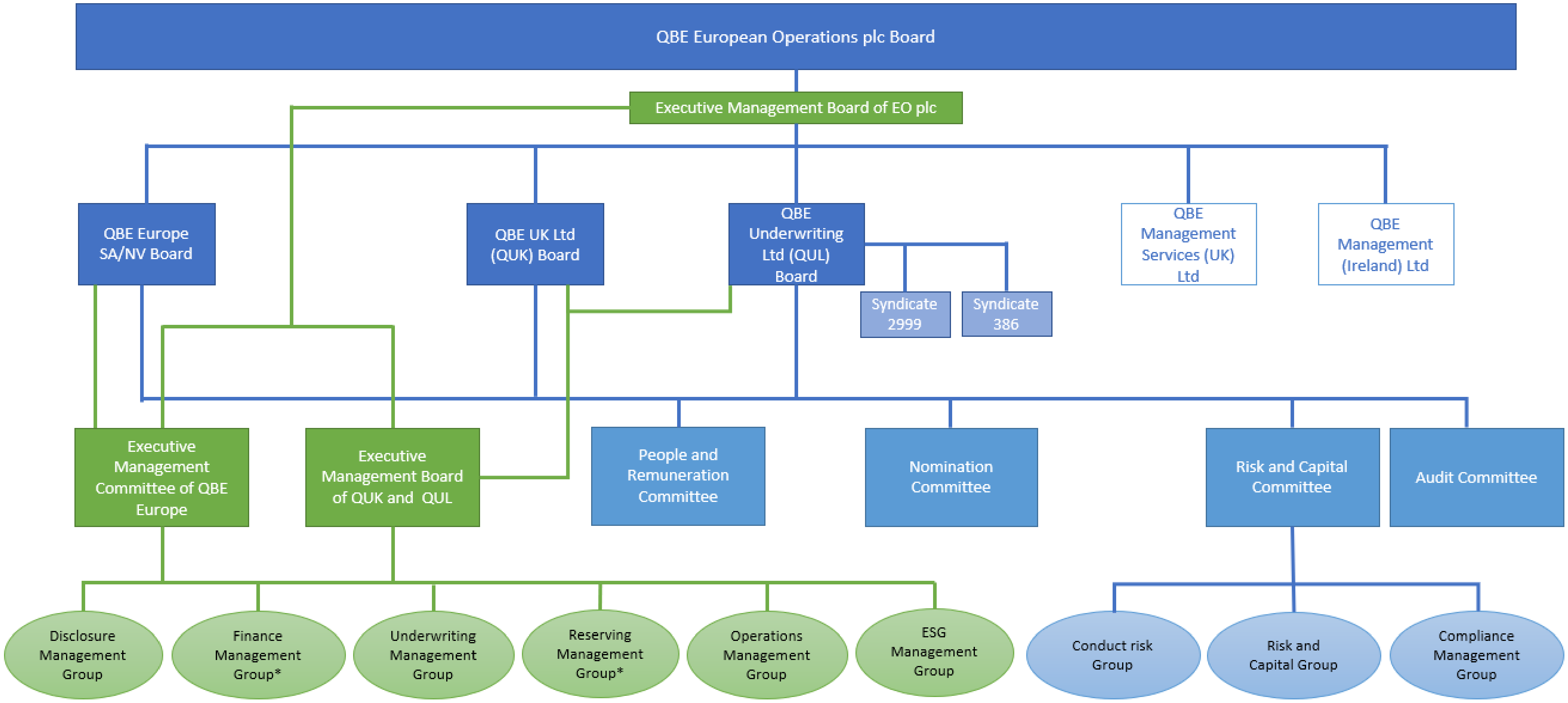
There is no other material information regarding Business and Performance of the Company.

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, QBE UK Limited ('QUK') (UK authorised insurance company), QBE Corporate (which participates in Lloyd's Syndicates 2999 and Syndicate 386) and QBE Underwriting Limited ('QUL') (Lloyd's managing agent for Syndicates 2999 and Syndicate 386). 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 (including the Solvency II key functions) with EO plc, QUK and QUL. Similarly, the governance and committee structure is the same for QBE Europe, EO plc, QUK and QUL. However, the Company has a dedicated Management Committee ('QEMC') with Terms of Reference, established in July 2018, which is responsible for the day-to-day management and operations of the Company, as illustrated in the Board and Committee structure chart below.



* Reserving Management Group established in February 2023. Reserving covered by Finance Management Group prior to this date.

The Board Charter of the Company (provided separately to the NBB) states 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 QBE Europe comprises seven Board members: three executive directors and four independent non-executive directors, including Mr. Tim Ingram, who acted as chair of the Board until Sir Keith Skeoch was appointed as Independent Non-Executive Director and Chair of the Board, following receipt of regulatory approval on 7 March 2023. Mr Tim Ingram resigned as a Director and Chair of the board on the same date.

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.

The Board of the Company has four non-executive directors, including the Chair. All non-executive directors are members of the (jointly established) Audit Committee, the Risk and Capital Committee ('RCC'), the People & Remuneration Committee ('PARC') and Nomination 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 PARC, 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, QBE Europe, QUK and QUL (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 EO 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;
- **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 UK Senior Managers and Certification Regime ('SMCR'), Key Function Holders, Material Risk Takers, Heads of Independent 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 EO 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.
- **Investment Committee (disbanded in July 2022)**
  The role of the Committee was to support the Boards in overseeing the implementation and monitoring the effectiveness of the investment strategies of the EO Group, which formed part of the overall QBE Group Strategy, taking into account local regulatory requirements and the Investment appetite of the QBE Group. The Committee monitored investment performance and investment risks, and the use of derivatives (where applicable). The Committee was 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. This Committee was disbanded in July 2022 following a review by QBE Group of its governance structure. Matters previously within the remit of the Committee have been distributed or absorbed by the Board and its committees.

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

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 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 Board, QEMC and 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 Boards; and
- Disclosure Management Group ('DMG'), Finance Management Group ('FMG'), Underwriting Management Group ('UMG'), Operations Management Group ('OMG') and ESG Management Group ('ESG MG'), and for 2023 a newly established Reserving Management Group 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 reviewed regularly (at least annually).

The membership of the Board, Committees and Management Groups of the Company are reviewed regularly (at least annually).

The Company has a robust System of Governance which includes:

- Board Charter 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 Map for the UK Branch (as required under the UK SMCR).

The Board of the Company considers the System of Governance to be appropriate and adequate considering 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 including QBE Europe, QUK and QUL.

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.
	• Provide reserving data and analysis;
	• Calculate 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	• Establish and maintain a robust enterprise risk management framework; • Produce and perform the EO Group's ORSAs; • Monitor 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.

Key Function	Main Roles and Responsibilities
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 relationship between:
	    • 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 • 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 • Provide legal advice where required to the EMB and QEMC.

People	• Establish and maintain a robust People control framework to ensure the EO Group:
	    • Adhere to relevant People standards and good practice; and
	    • Identify and effectively control People risks.

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

B.1.4 Changes in the System of Governance during the Reporting Period

The following changes took place during the year.

As noted in B.1.2 above the Investment Committee was disbanded in July 2022. Matters previously within the remit of the Committee have been distributed or absorbed by the EO governance forums.

The Environmental, Social and Governance ('ESG') Management Group was established during the year accountable to the EMB, QEMC and the EO Group Boards. Further commentary on this group is included in C.6.4 below.

Key changes to the Board and QEMC composition during the year were:

QBE Europe Board

- Mr Christopher Killourhy and Ms Anna Miskin were appointed as directors on 12 July 2022,
- Mr Nigel Terry resigned as director on 12 July 2022,
- Mr Christopher Killourhy resigned as director on 7 February 2023,
- Mr Robert Stone was appointed as director on 7 February 2023.

The appointment of Sir Keith Skeoch as an independent Non-Executive Director and Chair of the Board was effective 7 March 2023 following receipt of regulatory approval. Mr Tim Ingram resigned as a director and Chair of the Board on the same date.

QEMC

- Mr Luc Boghe resigned as member on 30 April 2022,
- Mr Nigel Terry resigned as member on 12 July 2022,
- Ms Anna Miskin and Mr Piet Haers were appointed as members on 12 July 2022,
- Mr Christopher Wallace resigned as member on 15 November 2022,
- Ms Beatriz Valenti was appointed as a member on 15 November 2022,
- Mr Christopher Killourhy resigned as member on 7 February 2023,
- Mr Robert Stone was appointed as member on 7 February 2023,
- Mr Nick Menear resigned as member on 8 February 2023.

Each year there is a formal Board Effectiveness Review ('BER'), which is facilitated by an independent external advisor. In June 2022, the QBE Group undertook a BER encompassing the Divisional Boards, including the Board of the Company. Comments supporting continuous improvement of the effectiveness of the Board arising from the review were discussed by the Board and a number of minor actions were agreed.

B.1.5 Material transactions during the period with shareholders, persons who exercise significant influence on QBE Europe and with members of the board

No dividends were paid by the Company during the reporting period or subsequently and there was no foreseeable dividend at 31 December 2022.

There were no other material transactions in the reporting period with shareholders, persons who exercise significant influence on QBE Europe or with members of the QBE Europe board.

B.1.6 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 2022 review, the EO Group Risk team concluded that the 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 QBE Europe.

B.1.7 Remuneration

The EO Group, as part of 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. In addition, QBE Europe Board has adopted a specific Annex to the Remuneration Policy which details the role of the board in determining the remuneration of Identified Staff.

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.

The Remuneration Policy is aligned 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.

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 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; 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.

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

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 group whilst recognising capability and expertise.

Variable pay at QBE Group, through the application of short-term and long-term incentive is focused towards the longer-term time horizon, enhancing alignment with the delivery of the long-term strategy and shareholders' interests. For 2022 QBE Group introduced a new variable short-term incentive scheme in order to take a broader view of performance and behaviours increasing emphasis on both financial and non-financial performance including risk, people and strategic measures. Performance is measured through the business scorecard containing financial measures alongside risk, people and strategic non-financial measures. In addition, personal performance objectives focus on what has been achieved and how it was achieved during the year.

Variable remuneration outcomes are reviewed to ensure that they appropriately reflect an individual's performance as well as the performance and risk outcomes of the QBE Group. Adjustments can apply to current year awards, deferred variable remuneration prior to vesting (i.e. malus), and remuneration that has already been paid or vested (i.e. clawback).

There are no supplemental retirement schemes for members of the Board and other key function holders.

Further information on remuneration is available in the 'QBE Group Annual Report 2022', in Section 'Remuneration Report', on pages 62 to 84 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 perform regulated functions on behalf of the UK regulated entities (QUK and QUL) and the QBE Europe UK branch.

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 People 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/ Financial Services and Markets Authority ('FSMA') / PRA / FCA approved functions;
  - Defined senior management and internal control roles;
  - Individuals holding a delegated authority;
  - Finance; and
  - IT.
- 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 rigour and detail afforded to the assessment of members of the Board of Directors are particularly stringent.

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 and the Company 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 Risk Management function of the Company works in close cooperation with the EO Group Risk Function to maintain framework, method and process consistent across all entities within 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. Where 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 EO Group, the outputs from which are reviewed by EO's management groups before being reported to their relevant entity Boards.

Responsibilities of the Risk Function of the Company 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 EO Regulated Companies 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.

- Strategic Risk.
- Insurance Risk;
- Credit Risk;
- Market Risk;
- Liquidity Risk;
- Operational Risk;
- Compliance Risk; and
- Group 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 EO Group's Risk Appetite Statement ('RAS') sets out the nature and level of risk that the 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 EO 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.

QBE Group-level RASs set by the QBE Group Board are cascaded, as appropriate, to the Divisions, including the EO Group and its subsidiaries including QBE Europe. This ensures a consistent approach and appetite to risk is applied across QBE Group, where it is appropriate and reasonable to do so.

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 based on a set of key principles outlined below:

- Risk Culture is underpinned by a strong risk mindset;
- Risk Culture is a key element of the QBE organisational culture;
- Our Risk Culture supports our Risk Management Strategy; and
- Risk Culture is assessed and reported on to enable its ongoing effectiveness.

Risk culture metrics are reported regularly to the EO Group's RCC to ensure appropriate escalation of cultural issues and trends. The Risk team also conducts an annual review of risk culture across the EO Group senior management.

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 and the Company's regulatory capital assessment.

There are key processes that make up the Internal Model are as follows:

- Internal Model governance (B.3.8);
- Risk identification (including emerging risks) (B.3.9);
- Risk assessment (B.3.10);
- Risk reporting (B.3.11);
- Risk governance (B.3.12);
- Internal control framework (B.3.13) and;
- The economic capital model (B.3.14).

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 Boards and meets at least on a quarterly basis. The RCC is attended by members of the Risk 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 EO Group Boards 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 independent validation is performed independently of individuals that have been involved in the design and/or operation of the Internal Model, with findings and any escalations reported through the EO Group'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 Risk 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 via the model change process.

Use of the model in decision-making processes, for example through risk appetite monitoring and stress and scenario testing, is also reviewed by the Risk team on an at least annual basis.

There were no material changes to the internal model governance process during the reporting period.

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 Risk Function's engagement with each business function as part of the ORSA process (management focus areas) and RCSA process (functional risks) and is supported by the emerging risks process.

Emerging risks are defined as "a new or future threat that is difficult to assess but may have a significant impact on QBE's business or the markets we operate in". The Emerging Risks Group ('ERG') co-ordinates the identification, assessment, monitoring, management and reporting of emerging risks applicable to the Company. Emerging risks are included as a sub-category of Strategic risk, according to QBE Group's Group Risk Management Strategy ('RMS'), and are typically new or rapidly changing developments, likely to be unprecedented or not fully understood and/or characterised by a lack of historical data. 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.

The Risk team also engage members of the QBE Europe Management Committee ('QEMC') in assessing new key and emerging risks regularly, to provide a top-down perspective for risk identification.

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 and the ORSA 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), significant transformation portfolio assessments 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 (please refer to Section B.3.3).

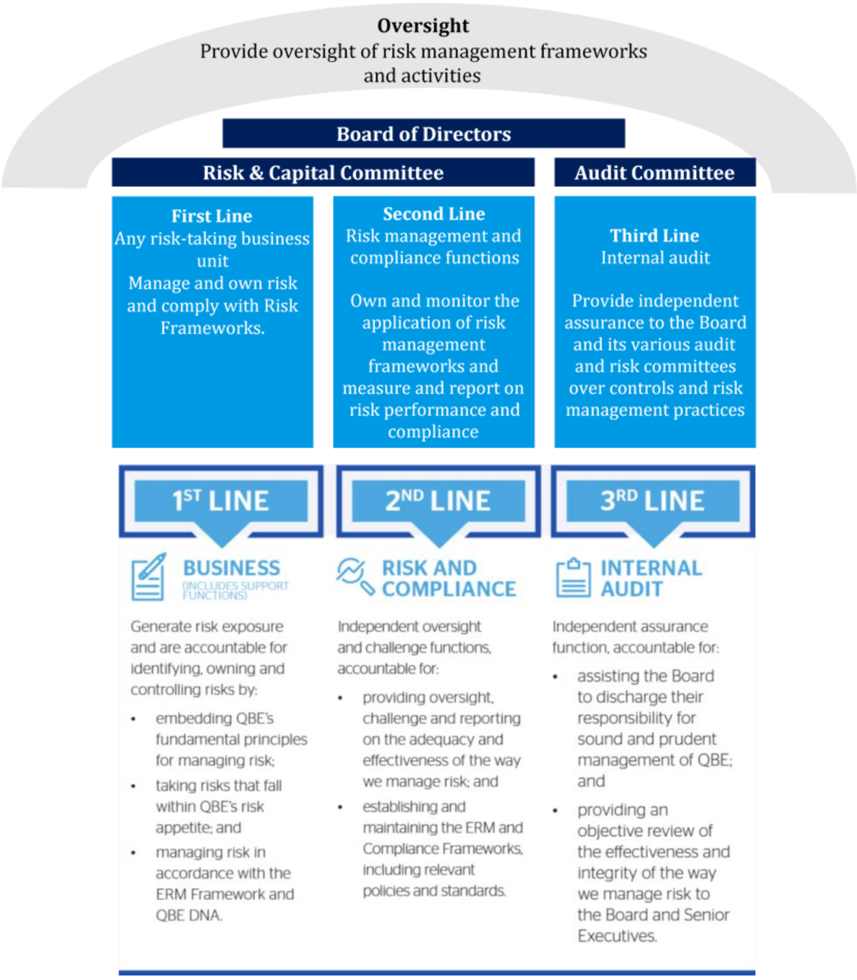
B.3.11 Risk Reporting

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.3.15.

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 QBE Europe, employs the Three Lines Model to managing risk, as described below:



Embedded in most of the 1st Line teams there is a 1b function providing:

- Review, challenge or 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;
- Specialist business advice or service to the business, such as training or legal advice; and
- Monitoring of 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 of their assurance model across the 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 and oversight 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 2022 review, the EO Group Risk team concluded that the 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 Determination of solvency requirements - Economic Capital Model

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;
  - Stress Testing (including Regulatory Stress Tests) 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 and ORSA assessments and appetites in the risk management framework; 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.3.15 The Own Risk and Solvency Assessment ('ORSA')

B.3.15.1 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 and annually for the EO Group, including all relevant information for QBE Europe. An annual ORSA is also prepared for QBE Europe individually. This reflects 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 effected 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.3.15.2 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.

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

B.3.15.3 Regular ORSA updates

ORSA updates are reported to the RCC and RCG 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 ('KRI's);
- Financial position and solvency ratios;
- The current and indicative SCR, where applicable, 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;
- RCSA analysis; and
- Risk culture and Group Risk via the risk dashboards, as appropriate.

The ORSA update, or a summary of it, is also reported to the QEMC, a Committee of the QBE Europe Board.

B.3.15.4 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 or QBE Europe'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 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.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 discussed in Section B.3, 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.3.11 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 and 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 QBE Europe Compliance function consists of the Head of Compliance and specific local resources located in the Company's branches, supported by the EO Group Compliance team (including but not limited to) three dedicated central teams: Regulatory and Assurance; Sanctions and Licensing; and Compliance Monitoring) in accordance with an established intra-Group outsourcing agreement. The function reports through the Compliance Director (EO Group) and Head of Compliance (QBE Europe), to the respective entity Chief Risk Officers, who are both members of the respective 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, Data Privacy, Anti-Money Laundering and Anti-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 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, ERM and 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. QBE Europe Internal Audit falls under the umbrella of International Internal Audit division. Functionally, the Head of Internal Audit, QBE Europe reports into the Chair of the QBE Europe Audit Committee, the QBE Europe CEO and the Head of Internal Audit International. The role uses GIA EO audit staff, as necessary, as part of an outsourcing agreement with the QBE Management Services (UK) Limited.

The primary role of GIA is to assist the Board of Directors and senior management by providing independent assurance that the design and operation of the controls across the QBE Group are effective. 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. The Group Head of Internal Audit is responsible for the establishment of a team with the required skills, knowledge, and experience to deliver the internal audit plan.

GIA operates within an established framework designed to meet key stakeholder expectations and achieve adherence to applicable professional mandatory guidance and requirements. This includes adherence with The Institute of Internal Auditors International Professional Practices Framework “Core Principles for the Professional Practice of Internal Auditing”, “Definition of Internal Auditing”, "Code of Ethics", and "International Standards for the Professional Practice of Internal Auditing" (Standards), and any other applicable professional mandatory guidance and requirements.

A risk-based plan of internal audits is determined annually in consultation with stakeholders e.g., senior management for approval by the Group and Divisional audit committees. GIA uses the QBE Risk Management Framework in developing the plan, incorporating the results of the risk assessments performed by management. This is overlaid by GIA’s own assessment of risks and related controls. The plan will also include audits to address relevant regulatory requirements.

GIA maintains a quality assurance and improvement programme that covers all aspects of GIA assurance activity. This comprises both internal and external assessments, and findings of the quality assurance programme are reported to the Audit Committee Chair at least annually.

B.5.2 Independence

GIA is authorised to perform any audits, reviews, investigations, or conduct any form of inquiry, which it considers necessary to meet its purpose. GIA has full, free, and unrestricted access to all QBE activities, records, property, and personnel.

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 QBE Group Audit Committee at least annually on the organisational independence of the internal audit activity. The Head of Internal Audit, QBE Europe will confirm the operational independence of QBE Europe’s internal audit function to the Audit Committee on an annual basis.

B.6 Actuarial function

B.6.1 Overview

There is a dedicated Actuarial Function within the EO Group for QBE Europe. At the core of all actuarial work, mathematical techniques are used to interpret the available data. 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 (e.g., the Enterprise Risk Management department).

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.

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 EO Group Boards, including QBE Europe, initially adopted the QBE Group Outsourcing Policy in July 2020 in place of the previous EO Group Outsourcing Policy, with an updated Group Policy adopted in May 2022. 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, with a further updated version adopted in May 2022, 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 establishes 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 and Third Party Risk Management Working Group ('OWG'), reporting to the Operations Management Group ('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 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 QEMC.

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 Management Information ('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:
  - The European Union; and
  - United Kingdom
- 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, Chief Information Officer and OMG, with established Service Level Agreements ('SLA's) 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 QEMC; and
- Provision of reinsurance administration and support services for the EO Group's outwards reinsurance placement programme by a predominantly UK-based Group function that was previously part of the EO Group.

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 entity carries out an appropriate due diligence process on the potential service provider and performs its own assessment of the risks related to the outsourcing arrangement. The Company's Management Committee and Board approve the general conditions of the contractual arrangement with the service provider after having received proper information. Procedures are in place for the performance of prior review of the proposed agreement by Legal and by the Company Head of Compliance. Both the Internal Audit and Compliance Functions perform an independent review of outsourced activities, including Interaction with the NBB for reporting existing or planned outsourcing of critical functions or activities. In all such cases, the requirements and associated governance arrangements of the QBE Group Outsourcing Policy (incl. EO's Approach to Outsourcing & Third Party Risk Management) 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:

- The European Union; and
- The United Kingdom
-

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 **external risk exposures** have increased throughout 2022 with a number of increasing risk trends including for the 'Economic & political uncertainty' (rated "High"), 'Claims, reserving, large losses and Prior Year Development ('PYD') (rated "High") and 'Risk free rates change' (rated "Low"), which were impacted by a heightened risk of a recession following rising inflation and resulting interest rate increases throughout 2022. Inflation hit an-all time high of 11.5% in the EU, up from 5% a year earlier, before slowing down to 9.2% in December. -Similar trends were experienced in ~~t~~the UK with inflation reaching a 40 year high in October 2022 as the Consumer Prices Index (CPI) rose to 11.1%, as well as in the US and other major economies. In response to inflation central banks have significantly increased interest rates, which led to yield curves for the Euro, Sterling and the US dollar all increasing. In Q1 2023 QBE announced a reserve transaction with Enstar that, once finalised, will de-risk exposure to prior year reserve development for Insurance Financial Lines (2018 & prior) and QBE Re Belgium (2010 & prior). Focus on our 'Climate change' risk profile continued during 2022, with increased attention from regulators, investors, and other stakeholders, resulting in a stable risk trend for the "High" rated risk throughout the year. During 2022, QBE Group joined the UN-convened Net Zero Insurance Alliance (NZIA), and progress against the climate change roadmap included the development of a climate risk dashboard and underwriting strategies. 'Regulatory environment' moved to an increasing risk trend in Q4 with increased focus from both of the Company's regulators expected in 2023 as the regulatory divergence between the UK and the EU continues. Other external key risks have been generally stable throughout 2022'.

The Company's **internal risk exposures** have generally been increasing throughout 2022 including risk increasing trends in areas such as 'Cyber security and IT risk,' 'People risk' and 'Pricing risk', but largely stabilised towards the end of 2022. The increasing risk trend of 'Cyber security and IT' (rated "High") in H1 2022 was due to the heightened external threat environment following Russia's invasion of Ukraine. 'People risk' (rated "Medium") had an increasing risk trend due to challenging recruitment conditions. The 'Capital plans' key risk had a decreasing risk trend in Q1 2022, resulting in the rating moving from "Medium" to "Low" in Q2 2022. Further Internal key risks have shown stability during 2022.

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 below in Sections C.1 – C.6 below.

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)	
	2022	2021
Market risk	276	278
Counterparty Default risk	125	115
Non-life underwriting risk	995	841
Operational risk	128	102
Pension risk	4	4
Capital adjustments	23	-
Total undiversified components	**1.551**	**1.340**
Diversification	(488)	(389)
Solvency capital requirement	**1.063**	**951**

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 Sections C.1.1 – C.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.

QBE Europe's reinsurance programme includes ceding to six Bermudan authorised Special Purpose Vehicles which are required to be fully funded on an equivalent basis to that required under the Solvency II rules. Exposures to these SPVs are not material.

Changes were made to the Company's reinsurance programme in 2022 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. 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 Appetite Statements 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 Company adopts a relatively conservative investment strategy with the vast majority of assets held in cash equivalents, floating rate notes, and investment-grade government and corporate fixed income securities. The investment of these assets is aligned with business objectives and policyholder interests, for example through consideration of the nature and duration of liabilities. At 31 December 2022, the duration of cash and fixed interest securities was 2.4 years (2021: 2.9 years).

The risk of loss due to default of corporate bonds is considered a market risk. Volatility of the returns on the assets held in the pension fund is considered in the section on pension risk.

The key part of market risk modelling is an Economic Scenario Generator. The Economic Scenario Generator 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 Economic Scenario Generator.

A significant amount of work is undertaken by the EO Group to assess and validate the Economic Scenario Generator and modelling of market risks to ensure this is fit for purpose for the companies within the EO Group. Validation of the Q4 2021 Economic Scenario Generator was performed as part of the annual validation cycle in for both QUK and QBE Europe in June 2022. This assessment concluded that a capital uplift should be applied to QBE Europe to allow for the heightened inflation volatility that manifested between Q4 2021 and the model submission date (June 2022). Otherwise, the Market risk methodology, parameters, documentation, appropriateness of data and associated governance met the appropriate regulatory requirements for each legal entity. As part of the annual exercise, the continued validation also confirmed that the ESG remained appropriate.

The split of assets held by asset type, on which the current capital assessment is based, for the EO Group, QUK and QBE Europe are disclosed in the balance sheet reporting template included in Appendix A.

In addition to the above, the adherence to market, credit and liquidity risk appetite statements is monitored by the EO RCG, RCC and the QEMC on a quarterly basis.

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 QEMC.

C.2.1 Prudent person principle

The Company, as part of the EO Group, has a defined approach, risk framework and governance process around the Prudent Person Principle ('PPP') as set out in the Solvency II regulations, NBB 2016_31 and PRA SS 1/20. 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 and significant changes in asset profile, 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 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 and 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:

- Application of and monitoring against Board-approved Risk Appetite Statements;
- Active asset management;
- Diversified portfolio;
- 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 QEMC include the monitoring of compliance with legal and regulatory requirements including the PPP.

The QEMC monitors Market and Credit Risk Appetite Statements on a quarterly basis. The Risk Management 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 QEMC, FMG and the RCC.

The CFO reports the following information to the EMB on a quarterly basis: Detailed investment performance versus business plan, 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 retains authority to make decisions on investment policy and guidelines for the Company and take responsibility for the implementation and monitoring of the agreed strategy. All material investment strategy decisions are reserved for the Board.

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 QBE 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's 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 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 QEMC.

In the event of a breach of the terms, the Investment Manager is expected to immediately contact the QEMC to ascertain whether or not to effect immediate action to resolve the breach, or whether the QEMC 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 QEMC 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 Standard &Poor's ('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 A (2021:A). Approximately 75,6% (2021: 85,3%) of its total fixed interest and cash investments are with counterparties having a S&P 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.

C.2.2.3 Asset Liability Management

The Company and the EO Group's current investment strategy, which is unchanged from the prior year, is to maintain fixed income asset duration which is broadly equal to average net technical liability durations to mitigate interest rate 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 Finance Management 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 QEMC and at the EO RCC.

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 QEMC 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

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 EO Group's legal entities including the Company and are reported on a quarterly basis, through the ORSA and the FMG 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 Statement 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.

At 31 December 2022, 54.3% (2021: 58,2%) of the Company's reinsurers' share of claims outstanding was with QBE Group's captive reinsurer Equator Re and 95.7% (2021: 97,9%) 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 2022 QBE Europe held €49m of letters of credit (2021: €54m) as collateral against credit risk. QBE Europe also held €31m (2021: £38m) of assets pledged by reinsurers for ceded technical provisions (off balance sheet assets) and €43m (2021: €40m) 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.

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 EO Group's Liquidity RAS, a minimum percentage of liabilities must be maintained in liquid assets. These apply to the EO Group's individual legal entities including the Company and reporting of coverage is made on a regular basis, as well as quarterly through the ORSA. Liquid assets, as defined by the Company are substantially higher than the minimum RAS requirements and liquidity risk is considered to be low. Scenario analysis has been integrated into the methodology and calibration of EO Group's entity L2 Liquidity RAS.

In addition, a Liquidity Risk Dashboard is reported to the 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.

Within the ECM, liquidity risk is modelled considering any shortfall in the cash flow 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.

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 gross of reinsurance profits directly. This is carried out separately for each actuarial reserving class and only profit-making classes are taken into account.

The expected gross of reinsurance profit in future premiums for the Company is €298m (2021: €258m)

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 measurement perspective, 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 one 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; and
- Non-compliance with external requirements.

Each sub-risk is modelled with a frequency and severity element for each. The frequency is modelled using a Poisson distribution and the severity is modelled using a Generalised Pareto distribution.

The input parameters for the model are set using the scenarios developed through the Operational Risk Assessment process and the internal and external actual loss data taken from ORIC. The Operational 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 C.5.3 below) and over the business planning period. The input parameters for the model are estimated as per the above for all entities within the EO Group 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 50% 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

The QBE Group has a Group-wide Risk and Control Self-Assessment ('RCSA') framework in place. The RCSA process places the responsibilities for functional risk and control assessments on each business area and it is overseen, challenged and validated by the Risk 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 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 Risk 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 "early warning indicators that provide management with information on the level of risk that is being taken across the organisation and potential changes to the entity's risk profile". They are the common metrics agreed and used by all Divisions across the QBE Group to flag changing risk exposure.

Incidents

The incident process applies to operational risks that have materialised 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:

- Regulatory breach;
- Near-miss; and/or
- Boundary event.

A key component of the incident process is the incident 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 analyses incident data and reports this to the RCC and QBE Group.

Issue management

The Company has an issue 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 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; 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 Company 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 QBE group company causes S&P to issue a one notch downgrade, from A+ to A; and
- Action taken in another division of QBE group company 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.

The EO Group Risk Policy, which applies to the Company, describes EO 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 incidents, 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 bears the economic and demographic risks associated with these 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.

Pension contributions relating to each 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 Secura NV scheme are completed each year end.

In addition, there is a post-employment medical care scheme related to the former Brussels-based employees of QBE Europe. This scheme is accounted for under a similar basis to the defined benefit pension scheme. Within the SCR calculation, the Company takes a prudent approach and treats this pension scheme in the same way as other defined benefit schemes within the EO Group and bears the economic and demographic risks associated with these schemes.

The Company also operate defined contribution pension schemes. The risks associated with these schemes are borne by the employee. Hence, the associated risk is not considered in the capital model.

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;
- Reputational risk management; 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 board planning days and presentations.

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

The Company and the EO Group 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 strategic purpose to enable a resilient future and by our sustainability commitments.

QBE Group's Environment and Social ('E&S') Risk Framework outlines QBE's approach to addressing key environmental and social risks across its underwriting and investment activities. This framework is operationalised through associated technical documents, the QBE Group Underwriting Standards, the E&S Risk Framework Underwriting Application document, the Group Environmental and Social Investment Monitoring Procedure,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.

A key focus area of QBE Group's Sustainability Framework is to foster an orderly and inclusive transition to a net-zero economy. In 2020, the QBE Group became the first Australian-based insurer to become a member of the UN-convened Net-Zero Asset Owner Alliance ('AOA'), committing to achieving net-zero greenhouse gas ('GHG') emissions by 2050 in its investment portfolio. QBE Group joined the UN-convened Net-Zero Insurance Alliance ('NZIA') in 2022, committing to transition its underwriting portfolio to net-zero GHG emissions by 2050.

In line with the requirements of the NZIA, QBE Group's Net-Zero Insurance Emission Program ('NZIEP') was established to build capability to measure, attribute and report insurance-associated GHG emissions over time. QBE's Group Executive Committee and Group Underwriting Committee provide executive oversight of the NZIEP. Private motor and commercial lines are in scope for Phase 1 of the Program, with some exceptions such as construction/engineering all risks and treaty reinsurance. QBE Group has committed to setting science-based intermediate targets and will independently report on progress against these on an annual basis, with the first intermediate targets to be made public within 6 months of the publication of the NZIA target setting protocol.

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 Company, 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 EO Group's premium is exposed to industries considered sensitive to climate transition risks, and how this may change over longer time horizons under several scenarios. Similarly, we are able to apply scenario analysis to assess the implications that climate risks may have on the EO Group'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.

In 2021, the EO Group implemented its Board-approved Roadmap to address the PRA's requirements set out in Supervisory Statement 3/19 ('SS 3/19') on the Financial Risks from Climate Change ('FRCC'). The Roadmap ensured EO Group embedded its approach to managing climate-related financial risks, addressing the following requirements:

- 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.

In 2022, developments to our approach to managing climate and broader ESG risks included:

- The Board / QEMC received second round of climate risk training;
- Updated scenario assessments of physical and transition climate risks to estimate exposure materiality and to inform underwriting strategy updates for EO Group insurance products;
- Participation in QBE Group's Net Zero Insured Emissions Programme, which seeks to prepare QBE for meeting our commitment to be net zero for underwriting by 2050; and
- The establishment of a Climate Risk Dashboard for additional risk reporting capability.

In addition, in 2022 the ESG Management Group ('ESG MG') was established by the QEMC and the EO Executive Management Board as part of EO Group's formal governance structure. This forum, provides dedicated time for strategic management and oversight of all aspects of ESG, including evolving industry trends and regulatory requirements, and EO requirements arising from QBE's Net Zero commitments. The ESG MG is co-chaired by the EO Chief Underwriting Officer, Insurance and the EO Chief Risk Officer, who are the accountable under the UK's regulatory regime for climate risks. This committee is supported by the ESG Underwriting Group ('ESG UG') and ESG Risk Working Group ('ESG RWG'), which are chaired by the EO CUO and EO CRO respectively. This structure governs the strategic responses to climate change and wider ESG developments, including risk identification, measurement, management and reporting. Importantly, material ESG risks, including those relating to the FRCC, are assessed and reported to the

RCG, RCC and EO Boards, including as part of the Climate Risk Dashboard and the ORSA. This allows the QBE Europe Board to review and challenge management of climate financial risks, as for other ESG risks.

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; and
- 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

Stress and scenario testing is also used to:

- Validate the internal model by comparing the outputs of stress and scenario tests to the internal model; and
- Assess the impact of various stresses/scenarios on the Company'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 percentage 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).

Test No.	Test Type	Test Description	SCR impact
1	Correlation	Increase all class dependencies by 5%	6,9%
2	Risk emergence	Faster risk emergence	7,8%
3	Non-life underwriting (Reserve risk)	Increased reserve variability assessments	6,7%
4	Non-life underwriting (Reserve risk)	Faster earned reserve risk emergence	5,6%
5	Correlation	Reduce level of tail dependence	(4,6%)
6	Market risk	1% reduction in assumed investment returns	4,0%
7	Strategic risk	Reduce modelled gross claims to align with the plan	(3,2%)
8	Reserve risk	Thinner tailed reserve risk distributions	(3,2%)

Test No.	Test Type	Test Description	SCR impact
9	Underwriting Risk	Attritional variabilities increased by 10%	2,6%
10	Reserve risk	Faster reduction in future capital for the risk margin	(2,7%)

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.

The sensitivity tests presented here, along with a more detailed set of sensitivities, are used as a key tool in the validation of the capital model. In 2022, the Independent Validators considered the sensitivity test results to be reasonable and explainable based on the risk profile of the business and inherent subjectivity in certain expert judgements.

Section D: Valuation for Solvency Purposes

D.1 Assets

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

The difference between the Solvency II balance sheet and the statutory accounts balance sheet arises due to valuation and presentational differences.

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 and liabilities 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.
- The deferred tax impact of valuation adjustments to assets and liabilities between the statutory accounts and Solvency II balance sheets is recognised.

More detailed information on asset valuation differences between Solvency II and the statutory accounts is included in D.1.4 below.

Except where noted in the table in D.1.3 below, assets are valued at fair value. Where alternative 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 for assets during the reporting period.

D.1.2 Balance sheet

The Company held total assets of €5.842m (2021: €5.365m) and total liabilities of €4.465m (2021: €4.133m) at 31 December 2022 valued on a Solvency II basis.

The table below shows the analysis of assets by Solvency II summarised asset and liability class on a BE GAAP and Solvency II basis, together with the presentational and valuation adjustments that have been made to move from a BE GAAP to a Solvency II basis.

Solvency II Balance sheet items[1] (€'m)	BE GAAP[2]	Presentational and reclassification differences	Valuation differences	SII
Assets				
Deferred acquisition costs	-	-	-	-
Intangible assets	-	-	-	-
Deferred tax assets	-	-	3	3
Property plan and equipment for own use	1	-	6	7
Investments[3]	4.395	24	(109)	4.310
Loans and mortgages	20	-	(20)	-
Reinsurance recoverable	984	-	(381)	603
Deposits to cedants	155	-	-	155
Insurance and intermediaries receivables	1.135	-	(675)	460
Reinsurance receivables	115	-	-	115
Receivables (trade, not insurance)	85	-	-	85
Cash and cash equivalents	139	-	(35)	104
Any other assets[4]	24	(24)	-	-
Total assets	**7.053**	**-**	**(1.211)**	**5.842**
Liabilities				
Technical provisions	5.059	-	(1.295)	3.764
Deferred tax liabilities	0	-	40	40
Derivatives	0	-	34	34
Insurance and intermediaries' payables	197	-	(109)	88
Reinsurance payables	219	-	(112)	107
Payables (trade, not insurance)	176	-	8	184
Subordinated debt	200	-	-	200
Any other liabilities[5]	43	-	5	48
Total liabilities	**5.894**	**-**	**(1.429)**	**4.465**
Excess of assets over liabilities	**1.159**		**218**	**1.377**

[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] The presentation in the BE GAAP column of this table is consistent with the BE GAAP balance sheet.
[3] Investments include Government Bonds, Corporate Bonds, Collateralised Securities, Collective Investment Undertakings and Derivatives and additionally Loans and Mortgages for Solvency II.
[4] Any other assets on a BE GAAP basis relate to accrued income which is required to be allocated to investments under Solvency II
[5] Any other liabilities are deposits from reinsurers and other 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 Solvency II and BE GAAP financial statement 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, only commission expenses are deferred. Other acquisition cost expenses are not deferred. Under Solvency II, all deferred acquisition costs are valued at nil. Cash flows related to future acquisition costs are included in the calculation of technical provisions.
Shares, Government Bonds, Corporate Bonds and Collateralised Securities	Investments are measured at fair value under Solvency II. Under BE GAAP, they are valued as follows: shares and similar securities are carried at acquisition value less related write-downs; fixed income securities are carried at 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 and BE GAAP. They are presented net on the statutory accounts balance sheet, where the requirements permit, but on the Solvency II balance sheet derivative assets and derivative liabilities are presented on a gross basis.
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 **Deposits to cedants**	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 these bases.
Reinsurance recoverable	Under Solvency II, reinsurance recoverables are calculated as the present value of future reinsurance cash flows plus allowances for default that relate to the best estimate liability. See Section D.2 for further details.
Property plant and equipment for own use	The valuation basis under BE GAAP is at cost less accumulated depreciation. This is considered to be a reasonable approximation for fair value under Solvency II. Under BE GAAP lease payments are expensed as incurred. The valuation adjustment for Solvency II purposes relates to recognition of right of use assets in accordance with IFRS 16:Leases.
Insurance and intermediaries receivables **Reinsurance receivables**	The valuation basis under BE GAAP is at 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.

Balance Sheet item	BE GAAP valuation basis and comparison with Solvency II valuation basis and assumptions
Deferred tax assets	Deferred tax assets / 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 are not recognised except under very specific circumstances. See also Section D.3.6 for more information.

D.2 Technical provisions

D.2.1 Definition of technical provisions[6]

The Company's Solvency II net technical provisions ('TPs') amounted to €3.161m at 31 December 2022 (2021: €3.107m), after adjusting for the reinsurance recoverable amount. The net technical provisions balance in the BE GAAP financial statements at 31 December 2022 were €4.075m (2021: €3.448m).

Line of business	(€'m)		
	Best estimate	Risk Margin (unaudited)[6]	Total net TPs
Motor vehicle liability	78	9	87
Fire and property damage	446	26	472
General Liability insurance	1.058	105	1.163
Non-proportional casualty reinsurance	563	153	716
Other non-life obligations	561	52	613
Total Non-Life obligations	2.706	345	3.051
Life obligations	91	18	109
Total Obligations	**2.797**	**363**	**3.160**

A quantitative analysis of the gross and reinsurance technical provisions, split by Best Estimate liability and Risk Margin for all Solvency II lines of business, is available in Appendix A, (QRTs S.12.01.02 (life) and S.17.01.02 (non-life)).

Technical provisions are defined as the probability weighted average of future cash flows, discounted to allow for the time value of money using prescribed EIOPA yield curves and 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

6 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.

- 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 Solvency II 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 BE GAAP best estimate reserves and the unearned premium reserve ('UPR') respectively, and are adjusted to incorporate the following:

- Future Premiums: Represent cash flows relating to future premiums, i.e., receivable but not overdue. These cash flows are reclassified from insurance and reinsurance receivables on the BE 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;
- Expenses: Assumed expenses incurred in servicing (re)insurance obligations are derived using relevant expense assumptions. These expense loadings are applied 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 cash flow runoffs and the prevailing yield curve (as provided by the European Insurance and Occupational Pensions Authority ('EIOPA')) to the Internal Model SCR capital measure; and
- Discounting: Future cash flows 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 a BE GAAP statutory financial statement basis to Solvency II basis:

Reconciliation from BE GAAP TPs to Solvency II TPs	€'m
Total net TPs – BE GAAP basis	**3.919**
Removal of UPR, DAC, equalisation provision and GAAP Reserve Margin	(914)
Addition of Solvency II Future Premium, future claims costs, expenses, ENIDs and discounting	(208)
Risk Margin	363
Total net TPs – Solvency II basis	**3,160**

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

There were two material changes to the Solvency II technical provision methodology during the year:

- Following a deep-dive analysis of QBE Europe's inwards RI casualty book, a cohort of claims in France with Structured Settlements was identified. The valuation approach was changed to model the longer payment profile of these liabilities.
- A Volatility Assessment Framework was incorporated into the valuation of Financial Lines liabilities, enabling earlier identification of potential claim movements from volatile exposures.

D.2.4 Currency

The Solvency II Directive requires that the best estimate be 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

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 of settlement costs for reported claims, where more information about the claims is usually 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:

- There is heightened uncertainty around future levels of inflation and how an unfavourable economic climate may impact claims for classes such as Liability, Credit and Financial Lines;
- Loss estimates resulting from Russia's invasion of Ukraine and economic sanctions on Russia;
- COVID-19 loss estimates remain exposed to uncertainty from external factors such as legal interpretations of policy wordings, although the uncertainty has reduced since last year;
- 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;
- Structured Settlements;
- Future, and as yet unknown and unquantifiable, large market loss events that could impact the Company;
- 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 cash flows; and
- The appropriateness of the development tail factors applied to the Company's classes of business.

D.2.7 Matching adjustment, Volatility adjustment, Transitional risk-free interest rate term structure and Transitional deductions

The Company does not apply any matching adjustments, volatility adjustments, transitional interest rate 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 allocated 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
- 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. The tables below show the value of those other liabilities for the Company and the Solvency II methodologies used.

See D.1.1 for the liabilities of the Company.

D.3.2 Comparison of other liability valuation methodology under Solvency II and BE GAAP basis

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 other liabilities.

Balance Sheet item	BE GAAP valuation basis and comparison with Solvency II valuation basis and assumptions
Pension benefit obligations	Pension benefit obligations are accounted for in accordance BE GAAP. These are adjusted to an IAS 19 basis under Solvency II
Insurance and intermediaries payables **Deposits from reinsurers**	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.

Balance Sheet item	BE GAAP valuation basis and comparison with Solvency II valuation basis and assumptions
Payables (trade, not insurance)	BE GAAP has the same valuation basis as Solvency II, except for additional liabilities recognised in relation to leases . Under BE GAAP lease payments are expensed as incurred. The valuation adjustment for Solvency II purposes relates to recognition of right of use assets in accordance with IFRS 16:Leases.
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 to a Solvency II basis. Under BE GAAP, however, deferred tax assets/liabilities are not recognised except under very specific circumstances. See also Section D.3.6 for more information on the position as at 31 December 2022.
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. The current replacement cost is derived with reference to the cost which another group entity would expect to pay for the debt.
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 other 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 Pension Schemes

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 and accounted for in accordance with BE GAAP. The BE GAAP basis is adjusted to an IAS 19 basis under Solvency II. Refer to Section C.6.2 Pension Risks.

D.3.5 Future and other major sources of estimation uncertainty

There is no significant estimation uncertainly associated with liabilities covered in Section D.3.

D.3.6 Deferred 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. for branches 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's business, so management has referred to the history of the branches in the old structure together with an assessment of predicted future profits.

As at 31 December 2022 in the Solvency II balance sheet there was a deferred tax asset of €3m (2021: €4m) which is considered likely to be recoverable against future taxable profits together with a deferred tax liability of €40m (2021: €18m).

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.

The principal assumptions underlying the valuation approach and key drivers of valuation uncertainty for categories of assets valued using Alternative Methods of Valuation ('AVM') are described in D.4.1 – D.4.2 below.

The valuation methodology applied to subordinated debt liabilities valued using AVM is disclosed in D.3.2 above.

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 (Quoted Marked Price for Similar Assets ('QMPS')). 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 (assets valued using AVM). 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 and the fair value of these assets is sensitive to changes in these inputs.

The valuation uncertainty associated with the valuation of infrastructure debt using AVM is considered to be immaterial.

At 31 December 2022, €0m (2021: €10m) of infrastructure debt in the Company were valued under alternative valuation method AVM, i.e. discounted cash flow method.

D.4.2 Unlisted property trusts and infrastructure funds

The fair value of unlisted property trusts and other infrastructure funds is determined using AVM by using the current unit price as advised by the responsible entity, trustee or equivalent of the investment management scheme.

The valuation uncertainty associated with the unlisted property trusts and infrastructure funds is considered to be immaterial.

At 31 December 2022, the Company held investments in unlisted property trusts of €141m (2021: €139m), and infrastructure funds of €83m (2021: €55m) valued using AVM.

D.5 Any other information

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

Section E: Capital Management

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 Eligible Own Funds ('EOF') 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 Solvency II Delegated Regulation ((EU) 2015/35)).

The Company has adopted a Capital Appetite Framework ('CAF'), setting out the target levels of capital (surplus of eligible own funds over the SCR) 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 EOF' to the SCR.

The Company's own funds have been assessed against the criteria of Article 71 of the Solvency II Delegated Regulation and the majority of the capital has been classified as sufficient quality to meet the eligibility requirements of 'Tier 1' capital. Subordinated debt has been classified as 'Tier 2' and Deferred Tax Assets ('DTA') have been classified as 'Tier 3' in accordance with the requirements.

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

The Company has an approved Internal Model which it uses to calculate 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 SCR are documented and self-assessed, and output reported to the Data Governance Forum. Areas identified as requiring remediation are recorded on a Data Quality Issues Log and progress reported regularly to the Data Quality Working Group with escalation to the Data Governance Forum if necessary.

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.23.01.01 in Appendix A.

Changes in the reporting period

There were no material changes to the method of calculating of own funds over the reporting period.

E.1.1 Method of calculating own funds

The Company's available own funds comprise:

- The excess of assets over liabilities, determined from the Solvency II balance sheet less any ring-fenced funds restrictions; 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.

Eligible own funds by tier are determined, by applying tiering limits to available own funds, in order to determine the amount of own funds eligible to cover the SCR and MCR.

E.1.2 Eligible Own Funds to meet the Solvency Capital Requirement ('SCR') and Minimum Capital Requirement ('MCR')

As at 31 December 2022 and 2021 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		
2022	1.346	200	3	1.549	1.063	145,7%
2021	1.209	200	5	1.414	951	148,7%

As at 31 December 2022 and 2021 the Company's EOF to meet the MCR, the MCR and the MCR coverage ratios were:

(€'m)	Eligible Own funds to meet the MCR			MCR (€'m)	MCR Coverage Ratio (%)
	Tier 1	Tier 2	Total		
2022	1.346	96	1.442	478	301,7%
2021	1.209	86	1.295	428	302,5%

The Company had a credit rating at 31 December 2022, as determined by S&P Global Ratings of A+, with a stable outlook.

Own fund items are assessed and classified into tiers in accordance with criteria defined by Solvency II Regulations as set out below.

Tier 1 (unrestricted)

The majority of the Company's own funds are classified as Tier 1 (unrestricted) which 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.

(€'m)	2022	2021
Ordinary share capital	1.130	1.130
Reconciliation reserve	216	79
Total Tier 1	**1.346**	**1.209**

Tier 2

As at 31 December 2022, the Company holds €200m of subordinated debt (2021: €200m), which meet the criteria to be classified as Tier 2 own funds comprising:

- €80m subordinated liabilities issued by QBE Holdings (EO) Limited ('QHEO'), the immediate parent of the Company. This loan has an interest rate of 2,25% per annum and a maturity date of 10 December 2028; and
- €120m subordinated liabilities issued by QHEO and 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 an interest rate of 2,25% per annum and a maturity date of 2 November 2028.

The valuation methodology applied to subordinated debt is described in Section D.3.2 above.

Tier 3

As at 31 December 2022, the Company had net deferred tax assets of €3m (2021: €4m) which are required to be treated as Tier 3 capital. Further information on the treatment of deferred tax assets is included in Section D.3.6 above.

E.1.3 Reconciliation reserve

The reconciliation reserve is comprised of the excess of assets over liabilities on a Solvency II valuation basis, less any foreseeable dividends, reclassification of 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. These items are excluded from the reconciliation reserve and included as separate items within basic own funds.

In accordance with Article 69(a)(vi) of the Solvency II Delegated Regulation the reconciliation reserve is treated as Tier 1 Capital. The reconciliation reserve's volatility is materially dependent on the performance of the entity as well as any significant changes to the balance sheet assets and liabilities. See QRT S.23.01.01 Own Funds template in Appendix A for full breakdown of the reconciliation reserve for the Company.

E.1.4 Deductions from own funds

The following restrictions in relation to Ring-Fenced Funds ('RFF') apply:

- Letters of credit ('LOC') €26m (2021: €18m) - 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.
- Deposits with cedants to the extent that the amount deposited exceeds the liabilities secured, to the extent the excess is not readily available €nil (2021: €nil).
- 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 2022 (2021: €nil).

All RFF are considered to be immaterial which means that the required restriction is based on the excess of assets over liabilities of each RFF and there is no requirement to calculate a separate SCR for each RFF.

E.1.5 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 The eligible amounts of Tier 3 items must be less than 15% of the SCR.
- The eligible amounts of Tier 2 items must not exceed 20% of the MCR and Tier 3 items are not eligible to cover the MCR.

As at 31 December 2022 there were no eligibility restrictions required to own funds to determine eligible own funds to cover the SCR (2021: nil).

Tier 2 basic own funds items to cover the MCR were restricted to 20% of the MCR.

E.1.6 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 Solvency II Own Funds	2022 (€'m)	2021 (€'m)
Total equity – statutory basis	**1.158**	**1.260**
Removal of net technical provisions balances on a BE GAAP basis	869	777
Inclusion of net technical provisions on a Solvency II basis	(454)	(827)
Valuation adjustment: Investments	(199)	21
Valuation adjustment: other*	1	1
Excess of assets over liabilities – Solvency II basis	**1.375**	**1.232**
Adjustment: Subordinated liabilities / ancillary own funds	200	200
Adjustment: Foreseeable dividends	-	-
Adjustment: Restricted own fund items in respect of ring-fenced funds	(26)	(18)
Eligible Own Funds – Solvency II basis	**1.549**	**1.414**

* Other adjustments include deferred tax adjustments.

E.1.7 Movement in eligible own funds in the year

The table below shows the movement in the Company's eligible own funds to cover the SCR

Movement in EOF	2022 (€'m)	2021 (€'m)
Eligible own funds to cover the SCR brought forward	**1.414**	**1.249**
Financial statement retained profit /(loss) for the year	(102)	77
Movement in Solvency II valuation differences	245	86
Movement in ring fenced funds restriction	(8)	2
Eligible own funds to cover the SCR carried forward	**1.549**	**1.414**

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) in Appendix A. This QRTs provides information around the breakdown of the SCR values into constituent components. QRT S.28.01.01 in Appendix A provides information on the MCR.

At 31 December 2022 the SCR and MCR for the Company were €1.063m (2021: €951m) and €478m (2021: €428m) respectively.

These amounts are subject to supervisory assessment. The Company does not have any required regulatory Capital Add On to the SCR.

Internal Model SCR

The SCR for Company have been calculated using the Internal Model for 2022 and 2021.

Risk Category under Internal Model	(€'m)	
	2022	2021
Market risk	276	278
Counterparty Default risk	125	115
Non-life underwriting risk	995	841
Operational risk	128	102
Pension risk	4	4
Capital adjustments	23	-
Total undiversified components	**1.551**	**1.340**
Diversification	(488)	(389)
Solvency capital requirement	**1.063**	**951**

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 contained in the Solvency II Delegated Regulation.

The MCR is required to fall within the range of 25% to 45% of the SCR. The MCR also has an absolute floor of €4 million (for a non-life insurer with authorisation for liability business).

The MCR is limited to 45% of the SCR as at 31 December 2022 and 31 December 2021.

E.2.3 Material changes to the SCR over the period

Non-life underwriting risk has increased following increases in the Technical Provisions and uplift to allow for the current high inflationary uncertainty.

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 Model and therefore does not use the duration-based equity risk sub-module.

E.4 Differences between the Standard Formula and the Internal Model used[7]

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.

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

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.

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.

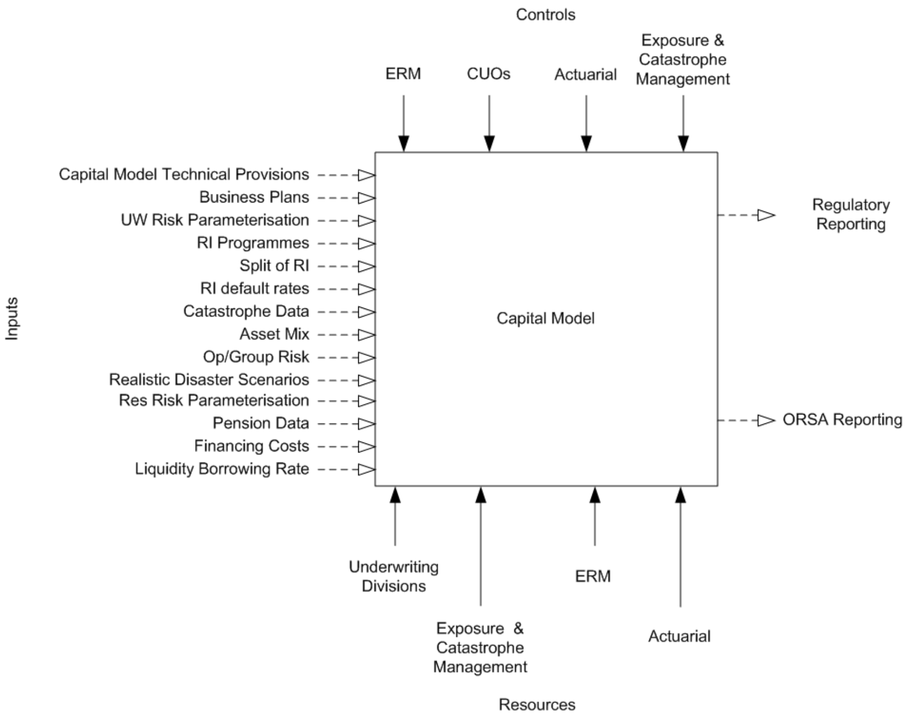
The Standard Formula does not capture group risk, whereas it does appear in the Internal Model. This risk is assumed to diversify well against the other risks, so it also increases the size of the diversification benefit in the Internal Model compared to the Standard Formula.

E.4.7 Data used in the Internal Model

The data flows within the capital model are documented within an Internal Model Data flow 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 data 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;
- **Operational Risk Assessment.** 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
ABS	Asset Backed Security
ASX	Australian Securities Exchange
BBNI	Bound But Not Incepted
BE GAAP	Belgian Generally Accepted Accounting Principles
BCM	Business Continuity Management
BER	Board Effectiveness Review
BMA	Bermuda Monetary Authority
BOF	Basic Own Funds
CAF	Capital Appetite Framework
CMG	Compliance Management Group
COR	Combined Operating Ratio
CPI	Consumer Prices Index
CRG	Conduct Risk Group
CRO	Chief Risk Officer
CUO	Chief Underwriting Officer
DAC	Deferred Acquisition Costs
DFSA	Dubai Financial Services Authority
DMG	Disclosure Management Group
ECM	Economic Capital Model
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EPiFP	Expected Profit in Future Premiums
EO Key Regulated Companies	QUK, QBE Europe and QUL
EOF	Eligible Own Funds
EO Group	QBE European Operations Group
EMB	Executive Management Board of QUK and QUL
ENID	Events Not In Data
ERG	Emerging Risks Group
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance

Term or Acronym	Definition
ESG MG	ESG Management Group
ESG RWG	ESG Risk Working Group
ESG UG	ESG Underwriting Group
FCA	Financial Conduct Authority (UK)
FMG	Finance Management Group (including Reserving)
FSMA	Financial Services and Markets Authority (Belgium)
FOE	Freedom of Establishment
FOS	Freedom of Services
GAAP	Generally Accepted Accounting Principles
GAM	Group Aggregate Methodology
GAMC	Group Aggregate Management Committee
GEP	Gross earned premium
GIA	Group Internal Audit
GSC	Group Security Committee
GWP	Gross written premium
IBNR	Incurred But Not Reported
HPR	High Product Risk
IFRS	International Financial Reporting Standards (including Australian International Financial Reporting Standards)
I&I	Issues and Incidents
IMA	Investment Management Agreement
KRI	Key Risk Indicators
LOC	Letter of Credit
MCR	Minimal Capital Requirement
NBB	National Bank of Belgium
NCOR	Net Combined Operating Ratio
OMG	Operations Management Group
ORSA	Own Risk & Solvency Assessment
OWG	Outsourcing Working Group
PARC	People and Remuneration Committee
PPO	Payment Protection Order
PPP	Prudent Person Principle
PRA	Prudential Regulation Authority (UK)
QBE Corporate	QBE Corporate Limited
QBE Europe	QBE Europe SA/NV

Term or Acronym	Definition
QBE Group	QBE Group, of which QBE Insurance Group Limited is the ultimate parent holding company based in Australia
QBE NA	QBE North America
QEMC	QBE Europe Management Committee
QHEO	QBE Holdings EO Limited
QUK	QBE UK Limited
QUL	QBE Underwriting Limited
QRT	Quantitative Reporting Template
RAS	Risk Appetite Statement
RCC	Risk and Capital Committee
RCG	Risk and Capital Group
RCSA	Risk and Control Self-Assessment process
RDS	Realistic Disaster Scenarios
REM	Realistic Event Methodology
RFF	Ring-Fenced Funds
RFP	Requested For Proposal
RMBS	Residential Mortgage Backed Security
RMS	Risk Management Strategy
S&P	Standard and Poors
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SLA	Service Level Agreement
SMCR	Senior Managers and Certification Regime (UK)
SME	Subject Matter Expert
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)

QBE Europe (All values in €'000)

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	-
R0040	Deferred tax assets	3,143
R0050	Pension benefit surplus	-
R0060	Property, plant & equipment held for own use	7,307
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,310,711
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*	3,877,243
R0140	*Government Bonds*	789,538
R0150	*Corporate Bonds*	2,894,285
R0160	*Structured notes*	-
R0170	*Collateralised securities*	193,420
R0180	*Collective Investments Undertakings*	363,837
R0190	*Derivatives*	68,325
R0200	*Deposits other than cash equivalents*	1,268
R0210	*Other investments*	-
R0220	Assets held for index-linked and unit-linked contracts	-
R0230	Loans and mortgages	-
R0240	*Loans on policies*	-
R0250	*Loans and mortgages to individuals*	-
R0260	*Other loans and mortgages*	-
R0270	Reinsurance recoverables from:	602,098
R0280	*Non-life and health similar to non-life*	603,889
R0290	*Non-life excluding health*	600,331
R0300	*Health similar to non-life*	3,558
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	(1,790)
R0320	*Health similar to life*	-
R0330	*Life excluding health and index-linked and unit-linked*	(1,790)
R0340	*Life index-linked and unit-linked*	-
R0350	Deposits to cedants	155,384
R0360	Insurance and intermediaries receivables	459,765
R0370	Reinsurance receivables	114,754
R0380	Receivables (trade, not insurance)	84,920
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	102,775
R0420	Any other assets, not elsewhere shown	33
R0500	**Total assets**	**5,840,890**

QBE Europe (All values in €'000)

S.02.01.02 (continued)

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,656,009
R0520	*Technical provisions - non-life (excluding health)*	3,559,151
R0530	*TP calculated as a whole*	-
R0540	*Best Estimate*	3,223,287
R0550	*Risk margin*	335,864
R0560	*Technical provisions - health (similar to non-life)*	96,857
R0570	*TP calculated as a whole*	-
R0580	*Best Estimate*	85,672
R0590	*Risk margin*	11,185
R0600	Technical provisions - life (excluding index-linked and unit-linked)	107,840
R0610	*Technical provisions - health (similar to life)*	52
R0620	*TP calculated as a whole*	-
R0630	*Best Estimate*	51
R0640	*Risk margin*	1
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	107,788
R0660	*TP calculated as a whole*	-
R0670	*Best Estimate*	89,355
R0680	*Risk margin*	18,433
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	5,465
R0770	Deposits from reinsurers	42,908
R0780	Deferred tax liabilities	39,530
R0790	Derivatives	34,007
R0800	Debts owed to credit institutions	-
R0810	Financial liabilities other than debts owed to credit institutions	-
R0820	Insurance & intermediaries payables	88,537
R0830	Reinsurance payables	107,330
R0840	Payables (trade, not insurance)	184,278
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**	4,465,905
R1000	**Excess of assets over liabilities**	**1,374,985**

QBE Europe (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	-	(78)	-	15,903	4,753	95,123	416,557	628,777	33,390	(813)	-	-					1,193,613
R0120	Gross - Proportional reinsurance accepted	4,261	23,875	-	8,714	3,930	26,000	161,788	47,122	15,064	-	-	7					290,763
R0130	Gross - Non-proportional reinsurance accepted													21,784	226,023	5,087	212,740	465,635
R0140	Reinsurers' share	-	1,635	-	323	125	17,842	141,797	96,825	5,362	(156)	-	57	2,088	11,544	488	83,588	361,519
R0200	Net	4,261	22,162	-	24,294	8,558	103,281	436,548	579,074	43,092	(657)	-	(50)	19,696	214,479	4,599	129,152	1,588,491
	Premiums earned																	
R0210	Gross - Direct Business	(10)	(177)	-	17,645	5,737	86,440	402,451	553,568	28,507	(809)	-	-					1,093,352
R0220	Gross - Proportional reinsurance accepted	2,240	22,847	-	8,218	3,916	23,135	159,143	45,512	15,442	-	-	8					280,462
R0230	Gross - Non-proportional reinsurance accepted													22,121	194,448	4,589	216,260	437,418
R0240	Reinsurers' share	-	1,655	-	209	85	13,578	129,189	81,046	5,512	(156)	-	54	2,205	11,034	503	86,243	331,157
R0300	Net	2,230	21,015	-	25,654	9,568	95,997	432,405	518,034	38,437	(653)	-	(46)	19,916	183,414	4,086	130,017	1,480,075
	Claims incurred																	
R0310	Gross - Direct Business	3	(74)	-	8,383	3,451	135,595	307,770	341,895	78,585	1,285	-	2					876,896
R0320	Gross - Proportional reinsurance accepted	181	16,879	-	5,198	2,925	7,090	94,409	21,793	5,525	-	-	1,444					155,443
R0330	Gross - Non-proportional reinsurance accepted													11,199	150,539	2,065	251,203	415,006
R0340	Reinsurers' share	-	198	-	(1,446)	4	49,572	142,708	68,900	45,582	318	-	(11)	1,020	37,340	44	60,670	404,898
R0400	Net	184	16,607	-	15,027	6,372	93,113	259,471	294,788	38,528	967	-	1,457	10,179	113,199	2,021	190,533	1,042,447
	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**	1,269	4,451	-	8,710	4,150	28,544	154,770	166,181	14,402	(9)	-	11	3,971	42,960	1,054	37,334	467,798
R1200	**Other expenses**																	-
R1300	**Total expenses**																	**467,798**

QBE Europe (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		
		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	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	-	-	-	-	-	-	(96)	54,984	54,888
R1420	Reinsurers' share	-	-	-	-	-	-	-	4,184	4,184
R1500	Net	-	-	-	-	-	-	(96)	50,800	50,705
	Premiums earned									
R1510	Gross	-	-	-	-	-	-	(95)	54,984	54,888
R1520	Reinsurers' share	-	-	-	-	-	-	-	4,184	4,184
R1600	Net	-	-	-	-	-	-	(95)	50,800	50,705
	Claims incurred									
R1610	Gross	-	-	-	-	-	27,189	(70)	50,039	77,157
R1620	Reinsurers' share	-	-	-	-	-	771	-	1,670	2,441
R1700	Net	-	-	-	-	-	26,418	(70)	48,369	74,716
	Changes in other technical provisions									
R1710	Gross	-	-	-	-	-	-	-	-	-
R1720	Reinsurers' share	-	-	-	-	-	-	-	-	-
R1800	Net	-	-	-	-	-	-	-	-	-
R1900	**Expenses incurred**	-	-	-	-	-	-	(128)	10,878	10,750
R2500	**Other expenses**									-
R2600	**Total expenses**									10,750

QBE Europe (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	181,083	323,110	170,152	125,022	80,948	68,615	948,930
R0120	Gross - Proportional reinsurance accepted	44,866	16,130	8,150	17,023	6,726	6,943	99,840
R0130	Gross - Non-proportional reinsurance accepted	31,073	90,181	53,116	6,639	48,713	9,054	238,777
R0140	Reinsurers' share	64,522	45,764	52,850	29,765	27,928	13,789	234,618
R0200	Net	192,500	383,657	178,568	118,919	108,459	70,823	1,052,929
	Premiums earned							
R0210	Gross - Direct Business	169,897	261,243	164,225	117,914	78,819	65,161	857,260
R0220	Gross - Proportional reinsurance accepted	44,030	15,665	7,921	16,328	6,578	6,694	97,217
R0230	Gross - Non-proportional reinsurance accepted	31,195	90,867	42,959	6,548	47,844	9,188	228,601
R0240	Reinsurers' share	54,862	45,087	47,486	25,710	27,225	12,567	212,936
R0300	Net	190,260	322,688	167,619	115,080	106,016	68,476	970,142
	Claims incurred							
R0310	Gross - Direct Business	195,387	175,875	107,039	91,546	68,691	37,687	676,226
R0320	Gross - Proportional reinsurance accepted	34,594	11,317	5,647	10,232	1,000	2,071	64,862
R0330	Gross - Non-proportional reinsurance accepted	48,056	130,726	37,529	4,352	43,140	6,276	270,078
R0340	Reinsurers' share	87,163	52,699	28,729	39,845	57,651	14,609	280,696
R0400	Net	190,874	265,219	121,486	66,285	55,180	31,425	730,470
	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**	72,102	114,875	46,679	32,851	36,724	26,802	330,033
R1200	**Other expenses**							-
R1300	**Total expenses**							330,033

QBE Europe (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)	Ntherlands (NL)	US (US)	Switzerland (CH)	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	23,391	13,795	4,511	2,182	1,719	1,587	47,186
R1420	Reinsurers' share	1,780	1,050	343	166	132	121	3,590
R1500	Net	21,611	12,745	4,168	2,016	1,587	1,466	43,596
	Premiums earned							
R1510	Gross	23,391	13,795	4,511	2,182	1,719	1,587	47,186
R1520	Reinsurers' share	1,781	1,050	343	166	131	121	3,590
R1600	Net	21,610	12,745	4,168	2,016	1,588	1,466	43,596
	Claims incurred							
R1610	Gross	42,101	12,840	2,121	1,851	756	681	60,350
R1620	Reinsurers' share	1,352	721	1	110	(27)	(48)	2,109
R1700	Net	40,749	12,119	2,120	1,741	783	729	58,241
	Changes in other technical provisions							
R1710	Gross	-	-	-	-	-	-	-
R1720	Reinsurers' share	-	-	-	-	-	-	-
R1800	Net	-	-	-	-	-	-	-
R1900	**Expenses incurred**	6,014	637	1,317	60	298	500	8,825
R2500	**Other expenses**							-
R2600	**Total expenses**							**8,825**

QBE Europe (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
Technical provisions calculated as a whole	-	-			-			-	-	-	-			-	-	-
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																
Gross Best Estimate	-		-	-		-	-	-	89,355	89,355		-	-	-	51	51
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-		-	-		-	-	-	(1,790)	(1,790)		-	-	-	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re	-		-	-		-	-	-	91,146	91,146		-	-	-	51	51
Risk margin	-	-			-			-	18,433	18,433	-			-	1	1
Amount of the transitional on Technical Provisions																
Technical Provisions calculated as a whole	-	-			-			-	-	-	-			-	-	-
Best estimate	-		-	-		-	-	-	-	-		-	-	-	-	-
Risk margin	-	-			-			-	-	-	-			-	-	-
Technical provisions - total	-	-			-			-	107,788	107,788	-			-	52	52

QBE Europe (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	401	(1,175)	-	2,154	3,948	883	(942)	196,510	22,413	308	-	-	(8,277)	(66,236)	(2,350)	(48,758)	98,878
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	(939)	-	227	94	(14,223)	(54,846)	(47,215)	(1,938)	-	-	2,056	(21)	(4,331)	(471)	(48,552)	(170,158)
R0150	**Net Best Estimate of Premium Provisions**	401	(236)	-	1,927	3,854	15,106	53,904	243,725	24,351	308	-	(2,056)	(8,256)	(61,905)	(1,879)	(206)	269,036
	Claims provisions																	
R0160	Gross	(1,042)	44,037	-	81,636	4,021	166,665	610,642	1,037,649	88,634	2,228	-	1,224	51,728	702,610	25,208	394,843	3,210,081
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	2,612	-	5,432	70	61,608	218,708	223,374	49,446	(3,223)	-	4,761	1,905	78,102	2,762	128,489	774,046
R0250	**Net Best Estimate of Claims Provisions**	(1,042)	41,425	-	76,204	3,951	105,057	391,934	814,275	39,188	5,451	-	(3,537)	49,823	624,508	22,446	266,354	2,436,035
R0260	**Total best estimate - gross**	(641)	42,863	-	83,789	7,969	167,547	609,700	1,234,159	111,047	2,535	-	1,224	43,450	636,373	22,857	346,086	3,308,960
R0270	**Total best estimate - net**	(641)	41,189	-	78,131	7,805	120,163	445,838	1,058,000	63,539	5,759	-	(5,593)	41,567	562,603	20,567	266,148	2,705,071
R0280	**Risk margin**	85	3,732	-	9,167	1,237	13,420	26,271	106,357	6,034	913	-	-	7,369	152,590	4,494	15,381	347,049
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0300	Best estimate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0310	Risk margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R0320	**Technical provisions - total**	(556)	46,594	-	92,955	9,207	180,966	635,971	1,340,515	117,082	3,448	-	1,225	50,819	788,963	27,351	361,466	3,656,009
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-	1,673	-	5,659	164	47,383	163,862	176,158	47,508	(3,223)	-	6,818	1,884	73,771	2,291	79,937	603,889
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	(556)	44,921	-	87,296	9,043	133,583	472,109	1,164,357	69,574	6,671	-	(5,593)	48,935	715,192	25,060	281,529	3,052,120

QBE Europe (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											54,454	54,454	54,454
R0160	2013	39,286	104,622	76,555	58,875	15,076	8,131	8,201	10,661	4,749	9,573		9,573	335,729
R0170	2014	38,173	104,796	49,528	20,227	10,223	12,288	7,965	9,606	11,495			11,495	264,301
R0180	2015	32,270	105,925	51,698	13,919	17,568	20,594	27,225	20,513				20,513	289,712
R0190	2016	34,180	104,072	55,362	48,665	27,076	25,370	32,946					32,946	327,671
R0200	2017	41,139	86,525	73,452	42,572	17,559	35,245						35,245	296,492
R0210	2018	15,161	127,059	94,535	73,865	34,204							34,204	344,824
R0220	2019	45,524	162,036	151,739	65,479								65,479	424,778
R0230	2020	39,918	127,177	102,441									102,441	269,536
R0240	2021	68,316	259,799										259,799	328,115
R0250	2022	45,607											45,607	45,607
R0260												**Total**	**671,756**	**2,981,219**

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											886,399	376,605
R0160	2013	-	-	-	-	-	-	91,846	84,808	77,684	73,910		63,413
R0170	2014	-	-	-	-	-	94,322	109,064	100,651	89,108			76,669
R0180	2015	-	-	-	-	161,226	207,877	127,685	112,570				96,917
R0190	2016	-	-	-	167,827	218,566	202,621	197,285					169,077
R0200	2017	-	-	184,363	206,260	191,399	156,076						134,944
R0210	2018	-	290,072	305,204	238,111	201,424							172,180
R0220	2019	370,161	487,482	392,096	338,964								298,105
R0230	2020	409,854	512,099	464,481									410,965
R0240	2021	630,811	777,283										695,834
R0250	2022	822,984											715,372
R0260												**Total**	**3,210,081**

QBE Europe (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	216,923	216,923			
R0140	Subordinated liabilities	200,000		-	200,000	-
R0160	An amount equal to the value of net deferred tax assets	3,143				3,143
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**	1,549,127	1,345,985	-	200,000	3,143
	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**	-			-	-

QBE Europe (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	1,549,127	1,345,985	-	200,000	3,143
R0510	Total available own funds to meet the MCR	1,545,985	1,345,985	-	200,000	-
R0540	Total eligible own funds to meet the SCR	1,549,127	1,345,985	-	200,000	3,143
R0550	Total eligible own funds to meet the MCR	1,441,636	1,345,985	-	95,651	-

R0580	**SCR**	1,062,792
R0600	**MCR**	478,256
R0620	**Ratio of Eligible own funds to SCR**	145.8%
R0640	**Ratio of Eligible own funds to MCR**	301.4%

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	1,374,985
R0710	Own shares (held directly and indirectly)	-
R0720	Foreseeable dividends, distributions and charges	-
R0730	Other basic own fund items	1,132,204
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	25,858
R0760	**Reconciliation reserve**	216,923

	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	8,162
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	290,515
R0790	**Total Expected profits included in future premiums (EPIFP)**	298,677

QBE Europe (All values in €'000)

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

Row	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
	C0010	C0020	C0030	C0060
1	10300I	Interest rate risk	57,473	
2	10400I	Equity risk	11,957	
3	10600I	Property risk	13,962	
4	10700I	Spread risk	244,426	
5	10900I	Currency risk	110,943	
6	11040I	Other market risk (Liquidity risk)	-	
7	19900I	Diversification within market risk	(162,803)	
8	20100I	Type 1 counterpart default risk (Reinsurance credit risk)	122,312	
9	20200I	Type 2 counterparty default risk (Premium credit risk)	18,902	
10	29900I	Diversification within counterparty risk	(16,705)	
11	50130I	Premium risk	280,707	
12	50240I	Reserve risk	863,245	
13	50300I	Non-life catastrophe risk	180,352	
14	59900I	Diversification within non-life underwriting risk	(328,804)	
15	70190I	Operational risk (excluding group risk)	105,904	
16	70110I	Group risk	72,215	
17	79900I	Diversification within operational risk	(49,891)	
18	8049BI	Debt servicing costs net of loan repayments	-	
19	8049DI	Capital adjustments	23,120	
20	80110P	Total pension risk including market and pension benefit risks	3,561	

QBE Europe (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	1,550,875
R0060	Diversification	(488,083)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-
R0200	**Solvency capital requirement excluding capital add-on**	1,062,792
R0210	Capital add-ons already set	-
R0220	**Solvency capital requirement**	1,062,792
	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	-

QBE Europe (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	C0010
R0010	MCRNL Result	532,836

		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	-	797
R0030	Income protection insurance and proportional reinsurance	41,189	20,778
R0040	Workers' compensation insurance and proportional reinsurance	-	-
R0050	Motor vehicle liability insurance and proportional reinsurance	78,130	22,758
R0060	Other motor insurance and proportional reinsurance	7,806	8,757
R0070	Marine, aviation and transport insurance and proportional reinsurance	120,163	87,245
R0080	Fire and other damage to property insurance and proportional reinsurance	445,837	428,613
R0090	General liability insurance and proportional reinsurance	1,058,000	578,329
R0100	Credit and suretyship insurance and proportional reinsurance	63,539	41,397
R0110	Legal expenses insurance and proportional reinsurance	5,758	15
R0120	Assistance and proportional reinsurance	-	-
R0130	Miscellaneous financial loss insurance and proportional reinsurance	-	-
R0140	Non-proportional health reinsurance	41,566	19,601
R0150	Non-proportional casualty reinsurance	562,603	170,981
R0160	Non-proportional marine, aviation and transport reinsurance	20,566	1,831
R0170	Non-proportional property reinsurance	266,148	121,758

	Linear formula component for life insurance and reinsurance obli	C0040
R0200	MCRL Result	30,768

		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	91,197	
R0250	Total capital at risk for all life (re)insurance obligations		41,217,849

	Overall MCR calculation	C0070
R0300	Linear MCR	563,604
R0310	SCR	1,062,792
R0320	MCR cap	478,256
R0330	MCR floor	265,698
R0340	Combined MCR	478,256
R0350	Absolute floor of the MCR	4,000
R0400	**Minimum Capital Requirement**	478,256

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