Samsung Fire & Marine Insurance Europe

Samsung Fire & Marine Insurance Company of Europe Ltd

Solvency and Financial Condition Report

Year ended 31 December 2023

Contents

SUMMARY

Samsung Fire & Marine Insurance Company of Europe Ltd ("SFME"/"the Company") is a subsidiary of Samsung Fire & Marine Insurance Co., Ltd ("SFMI"/"the parent"), a composite insurer based in South Korea. SFME commenced trading in 2011 with the purpose of providing the parent with a presence in the internationally important London insurance market to facilitate the insurance of cargo and some non-cargo risks of Samsung affiliated businesses, principally Samsung Electronics. Over time that policyholder base has expanded to a wider range of Samsung affiliates, other Korean organisations, Chinese and Japanese businesses with European operations and, more recently, London Market business.

KEY FIGURES

(in GBP thousands)

	2023	2022
Gross written premium	40,905	38,466
Gross earned premium	36,671	42,831
Net earned premium	9,486	9,913
Retention ratio	25.9%	23.1%
Combined ratio	46.1%	55.3%
Profit after tax	5,553	5,138
Return on equity	14.5%	15.8%
Total assets	114,031	105,350
Gross technical provisions	32,359	30,500
Own funds	44,274	39,063
Solvency Capital Requirement	12,959	14,258
Solvency Coverage Ratio	342%	274%
Minimum Capital Requirement	3,495	3,565
MCR Coverage Ratio	1267%	1096%

Gross written premium (GWP) is the expected premium on contracts which were initially recognised during the financial year and any adjustment premium that the Company recognised during the financial year on contracts which were initially recognised in prior financial years. GWP is an important metric, representing the activities of the Company during the year.

Gross earned premium is the proportion of written premium attributable to time on risk during the financial year before amounts ceded to reinsurers. It includes a proportion of GWP relating to contracts entered into in prior years and on risk in the current year. Net earned premium is after amounts ceded to reinsurers have been deducted. In all cases, premium is stated before the deduction of commission and in accordance with the values reported on the S05 template in section F. However, the 2022 earned premium amounts have been restated to be in line with the IFRS 17-based earning patterns. In the financial statements, the nearest equivalent values to earned premium are insurance revenue and net insurance revenue which, under IFRS 17, are stated after deducting reinsurance commission.

The retention ratio is a ratio of net earned premium to gross earned premium and indicates the extent to which the Company has used reinsurance to mitigate its underwriting exposures. The combined ratio is the ratio of the sum of incurred claims and expenses (both after amounts ceded to reinsurers) to net insurance revenue, as reported in the financial statements and using IFRS 17 inputs. The combined ratio is a key indicator of the profitability of an insurer's insurance operations. Profit after tax is as reported in the financial statements. Return on equity expresses the profitability of the Company relative to the IFRS shareholders' equity.

KEY HIGHLIGHTS

The highlights are divided in to five sections which mirror sections A to E of this report.

Business and Performance	<u>Premium income</u> The Company's gross written premium ("GWP") in 2023 was £41m, an increase of £3m in comparison to 2022. There were two main factors in the year-on-year change: (1) an increase due to GWP achieved from issuing new and extending existing engineering contracts; (2) a decrease due to a lower amount of adjustment premium arising on cargo contracts. During 2022, policyholders reported much larger positive variances in their turnover against planned shipments, with an equivalent impact on the relative size of the adjustment premium comparing 2023 and 2022. The Board were appraised of the new business opportunities during 2023 and were satisfied that these form part of the strategy to support the insurance needs of Samsung affiliates in the UK and Europe as well as to sustain the Company's sources of premium income. The Board was also satisfied that the Company's underwriting and reinsurance guidelines continue to underpin the underwriting decisions being made. During 2023, these opportunities were relatively limited and wholly within existing underwriting appetites, risk coverages and business arrangements. The split of GWP between cargo and non-cargo in 2023 was cargo 30% and non-cargo 70% (2022: cargo 35%, non-cargo 65%). In terms of clients, 82% of GWP came from Samsung-affiliated clients (2022: 81%). Gross earned premium ("GEP") in 2023 was £37m, a reduction of £6m in comparison with 2022. Since much of the new engineering premium will be earned in future accounting periods, engineering GEP was very similar in 2023 and 2022. Rather, the main reduction was on property. In 2022, the Company earned premium from Russian-exposed business entered into in 2021. Since this business was not renewed in 2022, there is no equivalent GEP in 2023. There is also a small reduction in cargo GEP as a result of the lower adjustment premium described above. The cargo/non-cargo split of GEP in 2023 was 34%/66% (2022: 30%/70%), with 85% of GEP coming from Samsung-affiliated clients. In contrast to GEP, net earned premium ("NEP") fell by only £0.4m. Further, the proportion of NEP from cargo was 87% (2022 91%). This distinction from GEP is explained by the retention ratio (the amount of GEP which the Company retained after reinsurance). Overall, the ratio was 26% (2022: 23%). However, cargo retention was 66% (2022: 69%) whereas non-cargo business was only 5% (2022: 3%). Of the variances described above therefore, it is only the cargo adjustment variance which has a meaningful impact at a net level. Whilst non-cargo contributes a relatively limited amount to overall profitability through NEP, it generates an important source of commission income for the Company, as explained in the 'net expenses' section below. A very small percentage of NEP was derived from non-affiliated business; the proportion from Samsung clients in 2023 was 94% (2022: 96%). It is therefore this business which will have the main effect on the Company's retained underwriting results and exposures.

	The mix of affiliated and non-affiliated clients, the mix of cargo/non-cargo business and the levels of reinsurance have been examined in the Company's Own Risk and Solvency Assessment ("ORSA") and were found to be satisfactory against relevant risk metrics and target capital resources. <u>Insurance claims</u> The gross incurred ratio was higher in 2023 (27%) than in 2022 (4%). In 2022, the Company experienced a number of releases on property claims when the amount agreed to be settled in 2022 was less than the reserve at 31/12/21. Hence the ratio is unusually low. These claims were all 100% reinsured so the effect is not repeated on a net basis, as the next paragraph explains. 2023 itself benefitted from the withdrawal of a large cargo claim which was first reported in 2021. The claims ratio for the current year claims (i.e., removing the distorting effect of the prior year releases) is 39% (2022: 34%), which shows a very good underlying claims experience in 2023 and more in line with the Company's long-term average. In contrast to gross, the net incurred ratio was lower in 2023 (10%) than in 2022 (28%). Whilst 2022 was itself lower compared to the Company's long-term average, 2023 particularly benefitted from the withdrawal of the large cargo claim mentioned in the previous paragraph and of which the Company retained 75%. The claims ratio for the current year claims (i.e., without the prior year release) is 26% (2022: 33%), which shows a very good underlying claims experience in 2023. There were no discernible claims-related trends in 2023 and the Company understands that affiliated policyholders continue to invest in loss mitigation controls (that is, measures they take to prevent or mitigate loss events). There does not appear to be any material change in frequency of claims or of causes (the main causes affecting retained claims continues to be theft and missing goods). There were no material weather-related events that affected the Company during 2023. <u>Commission and expenses</u> Gross commissions, as measure in a way consistent with the S0501 template, increased as a percentage of gross earned premium (2023: 19%; 2022: 15%). About half this increase is attributable to fiscal taxes incurred from the Company's Hungarian business. Reinsurance commissions received were also higher compared to reinsurance earned premium (2023: 28%; 2022: 24%) since the Company tries to maintain a margin over its commission expense. As noted previously, the Company derives a valuable source of income acting as a fronting insurer for other insurers although the amount earned from net commissions fell in 2023 from £1.3m to £0.6m. There are two main reasons for this: (1) the cost of the Hungarian fiscal taxes; and (2) as expected, the Company earned less as a result of suspending its Russian-exposed business in 2022 (see the reduction in property earned premium note previously). Overheads increased by £0.6m, mainly as a result of additional audit fees, partly the result of changing auditors and, more significantly, due to the implementation of IFRS 17 (described later in this chapter). Measured on a basis consistent with IFRS 17, the net expenses ratio was 33% (2022: 27%) of net insurance revenue.

Combined ratio

Overall, the combined ratio fell in 2023 from 55% to 46%. If the effect of prior year claims is excluded, the combined ratio was 63% (2022: 60%). This indicates that the Company's underwriting activity is fully contributing to the shareholders' target return on equity.

Investment return

The investment return for the Company was £1.8m (2022: £0.5m). Investment income from deposits represented a yield of 4.0% (2022: 1.4%). The Company has adopted a conservative investment approach and invests funds solely in time deposits. During 2023, and due the global increase in central banks' base rates, deposit yields have increased considerably.

Foreign exchange

The Company conducts a significant part of its business in currencies other than Sterling. Further, a large proportion of premium is settled in instalments throughout the year which increases the risk of FX movements between booking of premium and cash settlement. During 2023 and 2022 the Company held a surplus of USD and EUR assets. The Company benefitted from foreign exchange gains in 2022 (£1.0m) when USD and EUR strengthened against Sterling and the foreign currency surpluses increased in value. During 2023, Sterling strengthened against USD and EUR, reducing the value of the Company's USD and EUR assets (£0.5m loss). However, the surplus in both currencies has been reduced making the currency risk smaller.

IFRS 17

With effect from 1 January 2023, the Company adopted International Financial Reporting Standard 17 ("IFRS 17", "the Standard") for insurance contracts. IFRS 17 replaces IFRS 4. IFRS 17 does not materially change the economic fundamentals of the Company. Its biggest impact is on the reporting of insurance contracts in the Company's financial statements/Annual Report. The principal aim of IFRS 17 is to improve comparability and transparency of insurers' insurance contract reporting. The Standard introduces discounting of future cash flows for time value of money, formalises a risk adjustment to cater for the uncertainty in those future cash flows, rather than Management's margin, and could bring about the earlier recognition of losses from onerous contracts (i.e., insurance contracts that an insurer expects to be loss-making). The Standard also introduces a range of new reporting requirements. This has a significant impact on the value of total assets and of total liabilities though not a significant impact on shareholders' equity.

None of the Solvency II line items are directly affected by the implementation of IFRS 17.

As a non-life insurer issuing predominantly contracts with coverage periods of one year, arguably the most significant policy choice made by the Company under the Standard is the measurement model used to measure and report future cash flows from unexpired contracts. The Company has elected to use the Standard's simpler premium allocation approach ("PAA") model. Not all the Company's contracts are, however, eligible for the PAA. The Company has undertaken modelling to ensure that measurements under the PAA are not materially different to the general measurement model and concluded that it is eligible for the PAA.

	The Company has also adopted IFRS 9 which impacts the measurement and reporting of financial instruments. The impact on the Company's net assets is minor given the nature of its investments. Solvency II regulations require the reporting of certain items reported under IFRS, either in quantitative templates (section F) or this Report. The Regulations have not been updated to take account of the new IFRS 17 requirements and the Company has made some judgements about how best to fit the IFRS 17 line items into this report and the templates. Further, as a result of the implementation of IFRS 17, some comparative amounts in the Report have been restated to be consistent with amounts restated in the comparatives in the 2023 financial statements. The following list summarises the main judgements and restatements which affect Solvency II reporting and measurements: • Gross written premium ("GWP") is not recognised by IFRS 17 but the Company considers it to be a key financial metric and continues to produce financial information to quantify GWP on the same basis as before. This has been used to complete any template where GWP is required and where GWP is referenced in this report. • IFRS 17 requires that for the purposes of reporting insurance revenue and net insurance revenue, where an insurer, acting as a reinsurer, pays commission to the policyholder under contracts it issues, the commission is netted off against premium to calculate the insurance revenue. An equivalent netting off is made for commission received from the Company's reinsurers under reinsurance contracts it holds. The Company has elected to report earned premium (gross, "GEP" and net, "NEP") on the S05 templates and within this Report prior to any netting down. Commission continues to be reported within acquisition costs. • In implementing IFRS 17, the Company has adopted a new earning approach for its engineering business based on quantum of risk rather than passage of time. Since IFRS 17 is applied retrospectively, insurance revenue has been restated in the financial statements. Earned premium cited in this Report for 2022 has likewise been restated. • The measurement of incurred claims has changed (for example, the Management margin recognised under IFRS 4 has been replace by a risk adjustment; and discounting has been introduced). Incurred claims reported in the templates and in this Report now follow measurements under IFRS 17. This Report utilises restated values for 2022 where reported. • Under IFRS 4, premium owed to the Company were reported as assets (insurance receivables) and unearned premium ("UPR") as liabilities (technical provisions). IFRS 17 requires that these are reported as a single line item (liability for remaining coverage; "LFRC"). There are equivalent new presentations for reinsurance premium payables and RI UPR (now reported as an asset for remaining coverage; "AFRC"), for claims payable and claims reserves (now reported as a liability for incurred claims; "LIC") and reinsurance recoveries and RI claims reserves (now reported as an asset for incurred claims; ("AIC"). Where IFRS assets and liabilities are reported on the templates for this Report, the new IFRS 17 presentation has been adopted. The effect is to net down the value of total IFRS assets and total IFRS liabilities. Values reported in this Report for 2022 have been restated to the new basis. • Inputs used to calculate the solvency capital requirement ("SCR") have adopted the most appropriate IFRS 17 equivalent. For example, where earned premium is used to quantify the premium risk charge, the Company has used IFRS 17-based earned premium but

	stated before any commission netting off. Where the counterparty risk charge uses premium receivable, the Company has used a premium receivable number available to it from its financial system and prepared on an unchanged basis from previous inputs under IFRS 4.
System of Governance	The Board's responsibility includes ensuring that an appropriate system of governance is in place throughout the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model. Management and staff within each function have the primary responsibility for owning and managing risks (first line of defence). Oversight of the effective operation of the internal control framework is supported by the Risk Management and Compliance functions (second of line of defence). The third line of defence is provided by independent verification and challenge of the adequacy and effectiveness of the internal risk and control management framework provided by the Company's parent's Internal Audit function. The Board sets the Company's risk appetite. A strong system of governance aids effective decision-making and supports the achievement of the Company's objectives for the benefit of customers, the shareholder and regulators. Key features of SFME's system of governance are: • The roles and responsibilities of the Board and its committees are well defined; • The Company has implemented four key control functions – Risk, Actuarial, Compliance and Internal Audit; • The Company's risk strategy, appetite and framework, its approach to its Own Risk and Solvency Assessment (ORSA) and the governance over the Standard Formula model are set out in its Risk Management policy and associated risk policies. There were no material changes to any part of the system of governance in 2023. The Company conducted a full ORSA and the report was approved by the Board in December 2023. This ORSA takes account of the 3-year planning period 2024 to 2026. The ORSA confirmed that the Solvency Capital Requirement ("SCR") is expected to increase immaterially over this horizon and that the solvency coverage ratio will be higher than the ratio at 31 December 2023 given the expected future profitability of the Company.
Risk Profile	The Company's primary activity, the acceptance of risk of loss from its clients, exposes it to a number of risks which may adversely affect the ability of the Company to meet its business objectives. The most significant risks that the Company is exposed to are non-life insurance risks, market risk and counterparty risk. In terms of the SCR, the SCR has fallen in 2023, principally from a lower currency charge since the Company reduced its net currency exposures. The Company's biggest net risk on its Risk Register reflects the significance of the Samsung brand to the Company and that its fortunes are closely tied with that of its parent, by virtue of either reinsurance provided by the parent entity or political and reputational risks. <u>Russian-exposed business</u> With effect from Q1 2022, the Company suspended writing the renewal of existing or acceptance of new Russian-exposed business. In some cases, existing contracts exposed to Russian risks were cancelled mid-term during 2022. Russian-exposed business included

	business where one or more of the original policyholders, the local or primary insurer or an ultimate reinsurer was domiciled in Russia. Typically, all of this business was fully reinsured so the overall economic effect was limited to the margin on commissions. Where the Russian-exposed business is the result of an ultimate reinsurer located in Russia, the Company continues to have an elevated future liquidity risk in the event of an abnormally severe claim, where the Company's liability to its policyholder cannot be funded by the simultaneous payment clause in the corresponding reinsurance contract held with that reinsurer. In such an event, the Company could require additional support from its parent entity to satisfy the cash flow associated with the liability. However, the Company currently considers the probability of a claim of such magnitude to be remote. There were no significant claims reported to the Company from this business in 2023. Further, several contracts reinsured under this arrangement expired during 2023 and the Company is, at the date of this report, on risk for only one contract with a relatively small exposure until May 2024. The Company has, with the reinsurer's agreement, withheld reinsurance premium owed to the reinsurer and at the date of this report has an excess of premium owed (monies withheld) compared to reported claims recoverable. The Company maintains a Sanctions Policy and Sanctions Compliance Programme and is committed to meeting the requirements of all applicable sanctions authorities. In its 2023 annual return to the Office of the Superintendent of Financial Institutions ("OFSI"), the Company has reported frozen assets of £145,000. <u>Inflation and cost of living crisis</u> Given the nature of the contracts issued by the Company, it has a relatively short-tail period of run off and expects to settle the majority of its claims within four years (i.e., by end 2027). There is widespread economic consensus that during this period, global economies will experience inflation over and above the long-term norms. This may mean that the Company's eventual liability, when agreed, will be higher than the estimate it would make in its normal claims management processes and IBNR evaluation. The Company has assessed market opinion on inflation and has adopted the view that above-normal levels of inflation will prevail during 2024 and 2025. The Company has added an inflation loading to its liability for incurred claims across all portfolios at the 2023 year end to allow for the increased inflation risk. This loading amounts to 2% (2022: 2%) of the best estimate. The Company's net insurance revenue is largely derived from affiliated entities who make goods and products which may be susceptible to lower consumer demand in the face of the cost of living crisis. The Company is monitoring the impact on its clients which may, in turn affect the Company's premium. <u>Climate change</u> The Board has concluded that the Company's exposure to climate-related risks is low and unchanged from 2022. The PRA has emphasised to the insurance industry the need for a strategic approach to managing climate risk and set out its expectations across four key areas: governance, risk management, scenario analysis and transparency in disclosure to stakeholders. The Company's approach to these pillars, proportionate to its low exposure, is outlined below.

<table>
<tr><td></td><td>Governance: The Board and senior management understand the Company’s exposure to climate-related risk and the exposure is reported to the Board and monitored as part of the risk management framework. The CEO has been appointed the individual to govern the Company’s climate-related risks. Developments in climate change awareness and reporting have continued to be reported to the Board during 2023, together with the results of the Company’s monitoring.

Scenario analysis: the Company has analysed its exposure to climate risk, both physical and transitional, in its investment and insurance portfolios. The key findings of the analysis are that:
The Company has very little risk within its investments from climate change. Its investments are liquid with a maximum duration of 12 months and the investment yield contributes a lower proportion of the profit before tax than its insurance activities. The Company’s strategic approach to investments did not change during 2023; and
The Company’s exposure to climate change risk in the insurance contracts its issues and reinsurance contracts it holds remains low. The key perils exposed to climate change risk are windstorm and flood events and, since the Company’s incorporation, these events comprise a relatively small proportion of all claims (less than 10%). Furthermore, the majority of the Company’s contracts that it issues are annual in duration which permits appropriate repricing at renewal as the Company’s understanding of climate change risk develops. The Company reported only eleven claims during 2023 (2022: one) which were deemed to be weather-related. Ten of these arose on a contract which lapsed in May 2023.
The Company’s gross emissions in 2023 were 14 (2022: 6) metric tonnes. The Company’s energy use comprises that used at its office in London together with air business travel by its directors and staff (so called scope 2 emissions. The Company does not have any scope 1 emissions). The emission values are based on kilowatt hours used on 69,061kwh (2022: 28,307kwh). During 2023, the Company has undertaken more business flights, reflecting easier conditions for travel after the pandemic, in order to meet policyholders and pursue business opportunities.

Risk management: the Company monitors its climate change risk exposure in its claims and insurance contracts. The Company has set risk appetites and metrics in relation to this exposure. These have been approved by the Board and no exceptions were reported in 2023. The risk will be monitored to ensure it either remains within appetite or that management take remedial action if the appetite is or is in danger of being breached.

Transparency: this has been addressed by the inclusion of the commentary in this Strategic Report.</td></tr>
<tr><td>Valuation for Solvency Purposes</td><td>The valuation of assets and liabilities for SII purposes is the same as IFRS except as described here:
The best estimate of claims provisions (“BE CP”) is highly comparable with the liability for incurred claims (“LIC”) under IFRS in the sense that the ultimate claims evaluation is the same for both SII and IFRS. Some differences are then subsequently applied through the inclusion of an amount for ENID (events not in data) under SII and different discounting factors. The LIC includes a risk adjustment which measures the level of uncertainty inherent in the best estimate. The risk adjustment is not recognised under</td></tr>
</table>

<table>
<tr><td></td><td>SII. The LIC also incorporates claims payable and receivable which are reported as receivables and payables on the SII balance sheet
• These characteristics equally apply to the reinsurers’ share of BE CP and the asset for incurred claims (“AIC”) under IFRS. In addition, both SII and IFRS apply a counterparty risk provision though the measurement methodologies are slightly different.
• The best estimate of premium provisions (“BE PP”) has a more fundamental difference with the liability for remaining coverage (“LFRC”) under IFRS. The LFRC is a measurement of premium earned by the Company but not received (i.e., is an asset) or premium received by the Company but not yet earned (i.e., is a liability – cash held for future service). The LFRC also incorporates the profit expected to be earned during the remaining of a contract’s coverage period (i.e., the insurer is not permitted to recognise this as profit at the balance sheet date). In contrast, the BE PP is only estimating future cash flows from unexpired contracts and does not ring fence expected profit from those cash flows (i.e., Own Funds includes an element of profit from unexpired risks). To the extent that the Company has not received premium on instalments which have passed their due date, the SII balance sheet includes these as insurance receivables and payables. The BE PP also includes cash flows from contracts to which the Company is bound at the balance sheet date but which have not yet incepted (such contracts are only recognised by IFRS if onerous). To the extent these bound but not incepted contracts are expected to be profitable, Own Funds are increased by the expected profit.
• These characteristics equally apply to the reinsurers’ share of BE PP and the asset for remaining coverage (“AFRC”). The reinsurers’ share of BE PP includes the cost of future excess of loss contracts which the Company is expected to incur during the future coverage periods. Such costs are not considered by the AFRC.
• A risk margin which is not recognised on the IFRS balance sheet.

As a result of these differences, SII total assets were higher than IFRS total assets at the end of 2023 (£114m vs £83m). This is a change from amounts reported in previous years whereby IFRS was greater than SII. Essentially, SII used to report receivables as assets when past-due and IFRS reported both past-due and future-due receivables as assets. Now, IFRS only reports a receivable (asset) if the premium has been earned but not received (and determines this at a portfolio, or line of business, level). Chapter D provides an explanation about the valuation differences between SII regulations and the IFRS. Amounts quoted for 2022 IFRS in chapter D have been restated in accordance with the IFRS 17 presentation.

On the balance sheet, the excess of assets over liabilities (known as Own Funds) increased by £5.2m to £44.3m (2022: £39.1m) following a profitable year’s trading in 2023 (i.e., the increase in Own Funds is largely similar to the £5.5m IFRS profit after tax). There have been no other changes to the Company’s capital.</td></tr>
<tr><td>Capital Management</td><td>The Company has a very simple capital structure comprising issued ordinary share capital and retained earnings (known as a reconciliation reserve in SII terminology). Accordingly, the Company’s own funds are entirely Tier 1. As noted above, Own Funds increased in 2023 by £5.2m largely due to its IFRS reported profits (£5.5m).

Own Funds were £44.3m at the end of 2023, which is £0.8m higher than IFRS shareholders’ equity. As described above, there are differences in profit recognition between IFRS and SII (typically SII recognises profits now which IFRS will recognise in future periods), as well some asset and liability measurement differences, which account for the £0.8m. The estimated profit in future premium (see the S23 template in chapter F) is £0.3m (2022: £0.4m)</td></tr>
</table>

	The Solvency Capital Requirement ("SCR") was £13.0m (2022: £14.3m). The biggest change was a reduction in currency risk arising from the Company reducing its net currency assets during 2023. The solvency coverage ratio increased to 342% (2022: 274%) as a result of the lower SCR and increased Own Funds. The Minimum Capital Requirement ("MCR") was £3.5m (2022: £3.6m). The MCR coverage ratio rose to 1267% (2022: 1096%) and equal to the absolute floor (expressed in the PRA Rulebook as €4.0m (£3.2m)).

Samsung Fire & Marine Insurance Company of Europe Ltd

Solvency and Financial Condition Report 2023

A. Business and Performance

In this chapter:

A.1 Business

Information regarding the business

This Solvency and Financial Condition Report for the year ended 31 December 2023 has been compiled for Samsung Fire & Marine Insurance Company of Europe Ltd ("SFME" / "the Company") whose address is 16th Floor, 88 Wood Street, London EC2V 7QT.

SFME is a private limited company and is the wholly owned subsidiary of Samsung Fire & Marine Insurance Co., Ltd ("SFMI" / "the parent") whose address is 14 Seocho-daero-74-gil, Seocho-gu 06620, Seoul, South Korea.

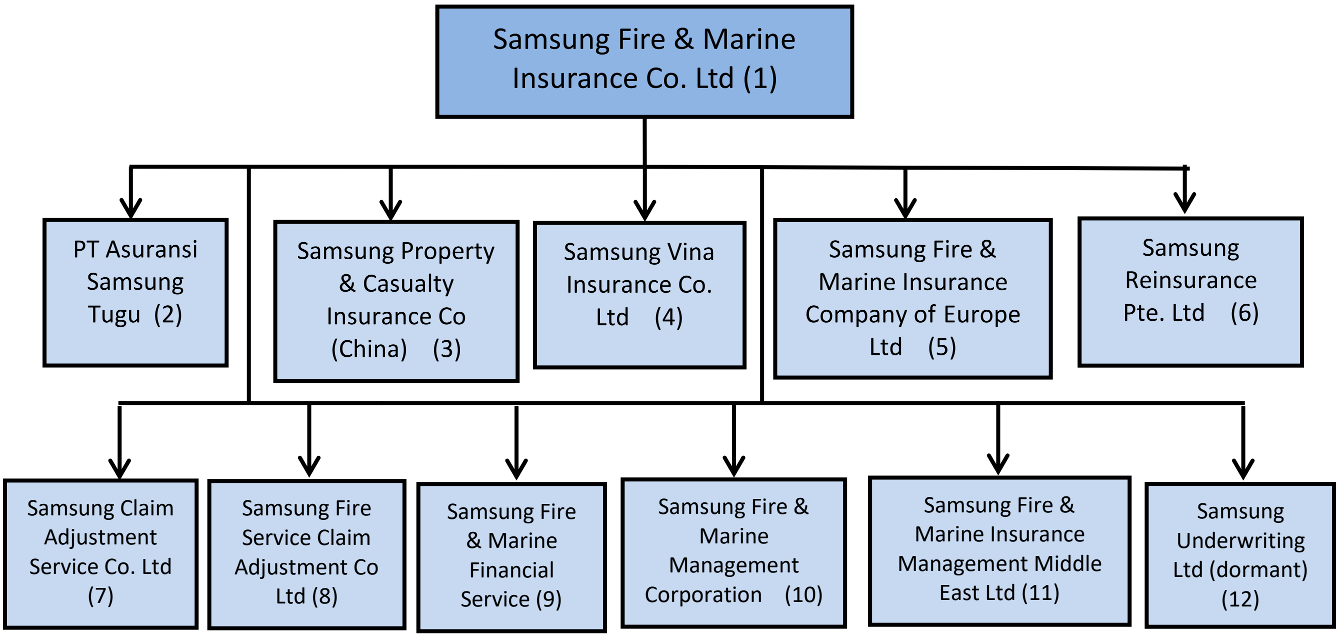
The external auditor for the 2023 year end was Mazars LLP of 30 Old Bailey, London EC4M 7AU. Mazars were appointed during 2023 following a mandatory audit tender, a result of which the Company's shareholder passed a resolution to appoint Mazars LLP.

SFME is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Pursuant to a Policy Statement issued by the PRA which set out thresholds for the requirement of an external audit of SII reporting, the Company fell below these thresholds and accordingly has not engaged Mazars LLP (2022: KPMG LLP) in an audit of its SII reporting.

Group structure

SFME's position within the SFMI group structure is set out by the following diagram. There have been no significant changes in 2023.



Ref	Company *Address*	Ownership	Domicile
1	Samsung Fire & Marine Insurance Co. Ltd *14 Seocho-daero-74-gil, Seocho-gu 06620, Seoul*	Parent	Republic of Korea
2	PT Asuransi Samsung Tugu *AIA Central, 27th Floor, JL Jend Sudirman Kav, 48A Jakarta, 12930*	70%	Indonesia
3	Samsung Property & Casualty Insurance Company (China) *7F Building B, The Mixc Office Shanghai, No 1799, Wuzhong Road, Minhang District, Shanghai 201103*	37%	China
4	Samsung Vina Insurance Co., Ltd *45th Floor, Bitexco Financial Tower, 2 Hai Trieu, District 1, Ho Chi Minh City*	75%	Vietnam
5	Samsung Fire & Marine Insurance Company of Europe Ltd *16th Floor, 88 Wood Street, London, EC2V 7QT*	100%	United Kingdom
6	Samsung Reinsurance Pte. Ltd *23rd Floor, Samsung Hub Building, 3 Church Street, 0494883 Singapore*	100%	Singapore
7	Samsung Claim Adjustment Service Co., Ltd *18th Floor,231 Teheran-ro, Gangnam-gu, Seoul*	100%	Republic of Korea
8	Samsung Fire Service Claims Adjustment Co., Ltd *17th Floor 233-3, Mokdongdong-ro, Yangcheon-gu, Seoul*	100%	Republic of Korea
9	Samsung Fire & Marine Financial Service *2nd Floor, 173, Toegye-ro, Jung-gu, Seoul*	100%	Singapore
10	Samsung Fire & Marine Management Corporation *5th Floor, 105 Challenger Road, Ridgefield Park, New Jersey 07660*	100%	United States of America
11	Samsung Fire & Marine Management Middle East Ltd *PO B ox 482021, #501, Gate Village Building 10, DIFC, Dubai*	100%	United Arab Emirates
12	Samsung Underwriting Ltd (dormant) 5th Floor Camomile Court, 23 Camomile Street, London EC3A 7LL	100%	United Kingdom

Description of the sources of revenue

The table below shows the amount and share of gross written premium ("GWP") of each line of business:

		2023		2022	
basis : IFRS gross written premium		£000s	%	£000s	%
Cargo	*storage & transit*	12,169	29.7%	13,461	35.0%
Property	*property damage, business interruption & engineering/construction*	28,588	69.9%	24,914	64.8%
Liability	*general liability*	148	0.4%	91	0.2%
Total		40,905	100.0%	38,466	100.0%

The table shows an increase of GWP of £2.4m. This is mainly attributable to property; more specifically to increased engineering business. By its nature, engineering contracts are sporadic in nature and the GWP from this type of business can vary from year to year. The Company in fact also received additional premium in 2023 from engineering contracts first issued prior to 2023 and where the projects have been extended. Cargo has decreased due to lower positive additional premium booked in 2023 at the end of the 2022-incepting contracts compared to 2021 contracts in 2022. During the duration of the 2021 contracts , cargo clients manufactured and shipped more goods in response to consumer demand during 2021/early 2022. This generated extra premium for the Company as premium is trued up to actual volumes shipped once declared at the end of the contract. The Company believes that due to the cost of living crises, consumer demand was much lower during the duration of the 22/23 contracts

The following table breaks written premium down in to the industry types of the Company's policyholders:

	Gross written premium		Net written premium	
	2023	2022	2023	2022
Cargo	29.7%	35.0%	85.2%	89.6%
Manufacturing	46.2%	34.6%	8.9%	6.1%
Energy	-0.7%	7.4%	0.3%	0.1%
Public buildings/facilities	0.6%	5.1%	1.5%	1.5%
Warehouse & storage	4.7%	7.4%	1.7%	1.7%
Construction	18.5%	8.9%	1.4%	0.3%
All other types	1.0%	1.6%	1.0%	0.6%
Total	100.0%	100.0%	100.0%	100.0%

The proportion of GWP attributable to 'cargo' has fallen and 'construction' increased for the reasons noted in the preceding paragraph. GWP attributable to public buildings has fallen significantly due to the non-renewal of one contract. Energy has fallen as much of the Russian-exposed business fell within this industry segment. On a net basis, cargo remains the predominant industry type.

SFME carries out its business entirely from the UK although the majority of its policyholders are based overseas. The following table analyses gross written premium between different geographical areas in terms of the country of domicile of the original policyholders:

	Gross written premium		Net written premium	
	2023	2022	2023	2022
UK	12.1%	5.9%	7.5%	7.1%
Europe	68.3%	73.9%	59.0%	63.8%
CIS	1.0%	8.1%	3.0%	3.4%
Russia	-1.5%	-5.1%	0.0%	-0.5%
Africa	10.1%	7.4%	25.6%	18.5%
Middle East	9.1%	9.0%	3.9%	6.6%
Other	0.9%	1.0%	1.0%	1.0%
Total	100.0%	100.0%	100.0%	100.0%

European risks remain the primary source of income for the Company.

In consequence of the conflict in Ukraine and the geopolitical situation with Russia, in 2022 the Company suspended writing any new business and/ or renewals which had a Russian touch-point. Existing business with a Russian primary insurer or original policyholder was either cancelled or was/is in run-off (the negative GWP/NWP in 2023 and 2022 reflects the cancellation of business originally booked in 2021). A significant proportion of the Company's CIS business and a smaller proportion of its EU business was reinsured by a reinsurer domiciled in Russia.

SFME's business is largely derived from insuring policies bought by subsidiaries of the wider Samsung Electronics group and of other Group's operations as the following table illustrates:

	Gross written premium		Net written premium	
	2023	2022	2023	2022
Cargo - Group entities	27.7%	32.4%	84.1%	88.0%
Cargo - other clients	2.0%	2.6%	1.2%	1.5%
Non-cargo - Group entities	54.2%	48.7%	8.2%	7.4%
Non-cargo - other clients	16.1%	16.3%	6.5%	3.1%
Total	100.0%	100.0%	100.0%	100.0%

Other clients made up around 18% of GWP in 2023 compared to 19% in 2022. On a net basis, cargo from Samsung entities is the predominant client type and overall, 96% (2022: 95%) of NWP is from Samsung affiliated clients.

A.2 Underwriting Performance

By line of business

The following table sets out the technical result of SFME during 2023:

	Cargo		Property		Liability		Total	
source : S.05.01 plus adjustmentssuch that combined ratio is consistent with IFRS	2023 £000s	2022 £000s	2023 £000s	2022 £000s	2023 £000s	2022 £000s	2023 £000s	2022 £000s
Gross written premium	12,169	13,461	28,588	24,934	148	71	40,905	38,466
Gross earned premium	12,599	13,024	23,977	29,723	95	84	36,671	42,831
Reinsurers' share	(4,318)	(4,003)	(22,837)	(28,881)	(30)	(33)	(27,185)	(32,917)
Net earned premium	8,281	9,021	1,140	842	65	51	9,486	9,914
Gross incurred claims	(756)	(4,209)	(7,434)	996	45	(32)	(8,145)	(3,245)
Reinsurers' share	152	1,044	7,216	(1,054)	(64)	30	7,304	20
Net incurred claims	(604)	(3,165)	(218)	(58)	(19)	(2)	(841)	(3,225)
Gross commissions	(1,618)	(1,637)	(5,295)	(4,843)	(34)	(15)	(6,947)	(6,495)
Reinsurers' share	1,303	1,259	6,212	6,508	8	6	7,523	7,773
Overheads	(1,208)	(1,118)	(2,958)	(1,965)	112	(108)	(4,054)	(3,191)
Net expenses	(1,523)	(1,496)	(2,041)	(300)	86	(117)	(3,478)	(1,913)
Other technical items	472	171	137	313	1	6	610	490
Net techncial result	6,626	4,531	(982)	797	133	(62)	5,777	5,266
Combined ratio - all years	20.0%	48.7%	141.1%	72.6%	-201.1%	248.3%	46.1%	55.3%

The table has been prepared in a manner consistent with S05 data (see Chapter F) but the combined ratio is consistent with the IFRS measurement of the ratio. The 2022 numbers are restated where appropriate to be consistent with restated IFRS numbers.

The table shows a £2.4m increase in the Company's gross written premium ("GWP") compared to 2022. Property has increased by £3.7m, principally on account of additional engineering business entered into during 2023. Cargo has fallen by £1.3m. The principal factor for this was the high level of adjustment premium received in 2022 at the expiry of cargo contracts entered in to during 2021. The Company's clients had experienced strong consumer demand during 2021 and early 2022 and had increased manufacturing and shipping levels accordingly. Sums insured under contracts issued by the Company were higher than originally expected and the Company thereby benefitted from a higher positive adjustment premium than the positive adjustment premium it has experienced in 2023 on the 2022/23 contracts. Whilst the cargo book always experiences these types of adjustments, sometimes positive, sometimes negative, the size of the 2021/22 adjustment was exceptionally large.

Unlike GWP however, gross earned premium(1) was lower by £6.2m than in 2022. This is because: (1) the Russian-exposed non-cargo contracts were issued up to January 2022 and were on risk throughout 2022 but largely only until early 2023; (2) a substantial proportion of the engineering premium written in 2023 has not been earned in 2023.

(1) earned premium is presented without any netting off of commission. IFRS 17 presentation in the financial statements requires this netting off to derive insurance revenue

SFME has very low retention ratios for property and engineering so net earned premium is only £0.4m lower in 2023, largely the result of the cargo book for the reason given in the preceding paragraph.

Net claims incurred were significantly lower than in 2022 (10%; 2022: 28%) as a percentage of net earned premium. In 2023, as with 2022, the Company did not experience any significant claim in which it had a large retention and again was fortunate to avoid any significant weather-related cargo losses. A large cargo claim reported in 2021 was withdrawn during 2023. More generally, the cargo book enjoyed a relatively low loss experience for attritional claims. On property, where there are very high levels of reinsurance, the Company experienced very few new losses. In 2022, one large claim, reserved at the end of 2021, was fully settled in 2022 at substantially less than that reserved value following the publication final loss adjuster's report. This is why the table on the previous page shows a positive gross claim value of £996,000 and a negative reinsurance claim value of £1,054,000.

The commission and expense ratio was 37% (2022 19%) of net earned premium. Gross acquisition costs increased as a percentage of gross earned premium (2023: 19%; 2022: 15%). Reinsurance commissions received were, as a percentage of reinsurance earned premium, also higher in 2023 (2023: 28%; 2022: 24%). However, whilst the gross and RI percentage movements match, net commission income fell by £0.7m. The Company generates income on commission from its role as a fronting reinsurer. However, the cessation of the Russian-exposed business has eroded a proportion of this income. And, further, the Company has incurred fiscal-type charges arising on its Hungarian business. As a temporary charge on insurers announced late in 2022 by the Hungarian government, the Company was unable to adapt its commission structure for 2023 earnings.

Overheads have increased by £1m. This is partly the result of a higher provision for future unallocated loss adjustment expenses, the result of implementing IFRS 17 (2). The second main factor relates to increases in costs incurred by the Company, the main ones being recharges from the parent company for the new IFRS 17 accounting system and increases to audit fees as a result of implementing IFRS 17.

The combined ratio was lower at 46.1% (2022: 55.3%), principally driven by the lower claims ratio.

(2) following the implementation of IFRS 17, the Company is now allocating more salary and overhead expenses to claims handling activity. The provision made for this cost in respect of the claims reserves at the year end has therefore increased commensurately

Other comments about underwriting performance

Policyholder concentration: a significant part of SFME's income was derived from a small number of policyholders. In 2023, the 10 largest policies in terms of GWP, accounted for 60% of total GWP (2022: 56%). After reinsurance, the concentration was 57% (2022: 50%). The majority of policyholders for the GWP metric and all of the NWP metric are Samsung-affiliated so the lapse risk is very small.

Cargo adjustment premium: a significant proportion of the insurance contracts issued by the Company in respect of cargo business are recognised at inception using a premium based on the estimated turnover (also known as sums insured) of cargo expected to be transported during the period of coverage. At the end of the contract, the policyholder declares the actual sums insured and the Company and policyholder agree an adjustment premium based on the difference in turnover. GWP therefore may include (a) estimates of adjustments made by Management prior to receipt of confirmed sums insured data and (b) actual adjustments once the final premium has been agreed and which have not previously been accounted for in (a). Differences in turnover in previous years are not a reliable guide for the current year given the varying factors which can affect sums insured. Factors might be either specific to the policyholder (e.g., desirability of a given product made by the policyholder) and/or relate to more general economic factors affecting consumer demand in any given country. Adjustments can be positive or negative albeit for some contracts, there is a contractual minimum premium. Further, for some of these contracts, the Company is a reinsurer of the primary insurer and therefore more remote from the available data.

Management recognises premium adjustments where policyholders are able to provide mid-term estimates of actual turnover. Estimates made by Management are derived solely from this data; that is, the contractual premium rate multiplied by the updated estimated turnover compared with the contractual premium rate multiplied by the original estimated turnover. Since policyholders' estimated data is by its nature uncertain, any estimated premium adjustments recognised by the Company are likely to be different to the adjustment premium ultimately agreed with each policyholder once the policy has expired and exact turnover information has been agreed.

During 2023 a positive £701,000 GWP was booked in respect of cargo policies incepting in 2022 and prior (2022: positive £2,580,000 in respect of 2021 and prior cargo policies). The Company believes that the 2022 adjustment, exceptionally high by historical standards, is the result of heightened consumer demand during the pandemic whereas the 2023 adjustment has been impacted by cost of living crises and a much lower consumer demand.

Exception to maximum sums insured: During 2023, the Company maintained the maximum value of the gross sums insured for non-cargo business with the exception of one client for whom the Board agreed to renew a higher, unchanged, sum insured on a property contract after confirming that the terms and conditions of the renewal were the same as the 2022 expired contract. With its high level of capital resources, the Company had the ability to accommodate this higher risk though much of it is fronted to reinsurers so the impact is largely on counterparty risk. The contract expires in November 2024. The maximum cargo sums insured limit remained unchanged. As explained below, the maximum net retention loss payable by SFME after all reinsurance per contract remained unchanged at $1.5m (£1.1m).

Reinsurance: SFME's reinsurance programme comprises proportional facultative reinsurance, proportional surplus treaty and an excess of loss programme. The percentages ceded under the facultative and surplus treaty reinsurance are variable for each contract written and act to bring the net exposure down to within the excess of loss protection. In 2023 and 2022 the cargo book was protected $20.0m excess of $1.5m. For non-cargo, the excess loss protection was $12.5m excess of $1.5m for both years.

The Company has significant levels of reinsurance. The Company's parent, SFMI, is the largest reinsurer of SFME measured by a proportion of reinsurance premium ceded. During 2023, 42% of total premiums ceded were ceded to SFMI (2022: 29%). The increase is due to: (a) SFMI's increased support to provide the Company with underwriting capacity with facultative reinsurance on new contracts in 2023; and (b) the lapse of a large 2022 (in terms of the value of premium ceded) contract which was ceded to Lloyd's. This contract diluted the SFMI ratio in 2022.

The high quality of the Company's reinsurers is also reflected in the analysis of the reinsurance recoverables (or reinsurers' share of technical provisions) by reinsurer:

source : S.31.01	AAA	AA	A	BBB	> BBB-	not rated
Technical provisions as at 31/12/23	-	53.5%	43.1%	3.2%	-	0.2%
Technical provisions as at 31/12/22	-	46.3%	50.8%	2.7%	-	0.2%

Pool Re is the only 'not rated' reinsurer used for new reinsurance contracts held in 2023 and is backed by the UK Government. Management's judgement is that there is no expectation of any impairment in respect of reinsurance recoverables.

A.3 Investment Performance

SFME has a very simple investment portfolio comprising cash equivalents and deposits (which were all 12 months or less to maturity at the time of investment). The credit risk of each counterparty, the liquidity risk of claims liabilities and the available yield are the principal considerations for SFME's investment strategy. There were no material changes to this in 2023.

Basis : S.06.02, S.09.01 (which are templates submitted to the PRA)		Asset category	Income £000s	Average holdings during the year £000s	Holding at year end £000s	Yield on average holding %
2023	Interest-bearing deposits	73	1,795	44,541	46,957	4.03%
	Other deposits and bank accounts	72			4,849	
	Property, plant and equipment including right-to-use assets	9			1,149	
	Total		1,795	44,541	52,955	
2022	Interest-bearing deposits	73	536	38,267	42,629	1.40%
	Other deposits and bank accounts	72			4,811	
	Property, plant and equipment including right-to-use assets	9			1,327	
	Total		503	35,697	39,004	

The return on deposits rose markedly in 2023, reflecting the higher reinvestment rates on offer from banks on GBP, EUR and USD-denominated deposits into which the Company placed its investment monies as each deposit matured.

SFME does not hold any securitised investments.

A.4 Performance of other activities

<u>IFRS profit after tax</u>

The following table presents the net income of the Company for the year, as reported in its 2023 financial statements ("FS"):

	2023 £000s	2022 £000s
Net earned premium (per S05)	9,486	9,914
Reclassification of commission (note 1)	1,235	1,875
Net insurance revenue (per FS)	10,721	11,789
Net incurred claims (per S05)	(841)	(3,225)
Net claims management costs (per S05)	(813)	(578)
IFRS 17 other items (note 2)	611	489
Incurred claims (per FS)	(1,043)	(3,314)
Net admin expenses (per S05)	(736)	(534)
Net acquisition expenses (per S05)	575	1,279
Reclassification of commission (note 1)	(1,235)	(1,875)
Net overheads (per S05)	(2,504)	(2,078)
Acquisition expenses and overheads (per FS)	(3,900)	(3,208)
Net technical result	5,777	5,266
Combined ratio	46.1%	55.3%
Insurance finance income (expense) (per FS) (note 3)	237	(349)
Net investment income (per S09)	1,795	536
Other income (expenses) (per FS) (note 4)	(541)	902
Profit before tax	7,268	6,355
Income tax charge	(1,715)	(1,217)
Profit after tax	5,553	5,138

Due to the implementation of IFRS 17, for each line item in the Income Statement, the Company now has different reporting requirements for IFRS and for SII Regulations. The following notes highlight the main differences (references to QRTs means the quantitative reporting templates that the Company submits to the PRA and of which a small subset is reproduced in Chapter F):

- Note 1: net earned premium in the QRTs is stated before commission; under IFRS, insurance revenue is stated after commission.
- Note 2: IFRS 17 adjusts the S05 incurred claims value for accretion of interest and foreign exchange effects
- Note 3: Insurance finance income (expense) comprises discount rate movements related to incurred claims, foreign exchange movements on balances related to insurance transactions and balances and investment component adjustments
- Note 4: other gains and losses principally comprises foreign exchange gains and losses on deposits, cash at bank and accrued interest, and interest charges on lease liabilities.

Foreign currency

SFME solely transacts non-life insurance business. It conducts this business in several currencies though reports them in GBP. It holds assets and liabilities in multiple currencies. Therefore, SFME incurs exchange gains and losses on its foreign currency transactions and translation of foreign currency assets and liabilities, as described in A4. The following tables analyses the Company's foreign currency exposures:

Breakdown of GWP by currency		
basis : IFRS GWP	2023	2022
GBP	10.6%	4.3%
EUR	56.4%	64.5%
USD	20.5%	23.1%
all other currencies	12.5%	8.1%
total of all currencies	100.0%	100.0%

Currency assets held as a percentage of currency liabilities		
basis : IFRS balance sheet	2023	2022
EUR	105%	109%
USD	107%	130%

The foreign exchange exposure is exacerbated by the terms of credit available to policyholders (albeit these follow standard market practice) and the low level of claims reserves meaning SFME typically has an unavoidable surplus asset position in many currencies. Further, a small number of deposits were held in US Dollar for yield purposes at 31/12/22 though this surplus has been reduced in 2023 by selling USD deposits, given the improved yields on GBP deposits.

Sterling gain 5% against the US Dollar in 2023 (2022 lost 12%) and gained 2% against EUR (2022: lost 5%). The Company's net surplus in EUR and USD assets fell (2022:increased) in value in Sterling terms. Overall, the FX loss in 2023 was £0.2m (2022: gain £0.7m)

Leases

The Company's only material leasing arrangement is for the premises it operates from, the 16th floor of 88 Wood Street. The current lease contract expires in 2030.

A.5 Any other information

There is no other information

Samsung Fire & Marine Insurance Company of Europe Ltd

Solvency and Financial Condition Report 2023

B. System of Governance

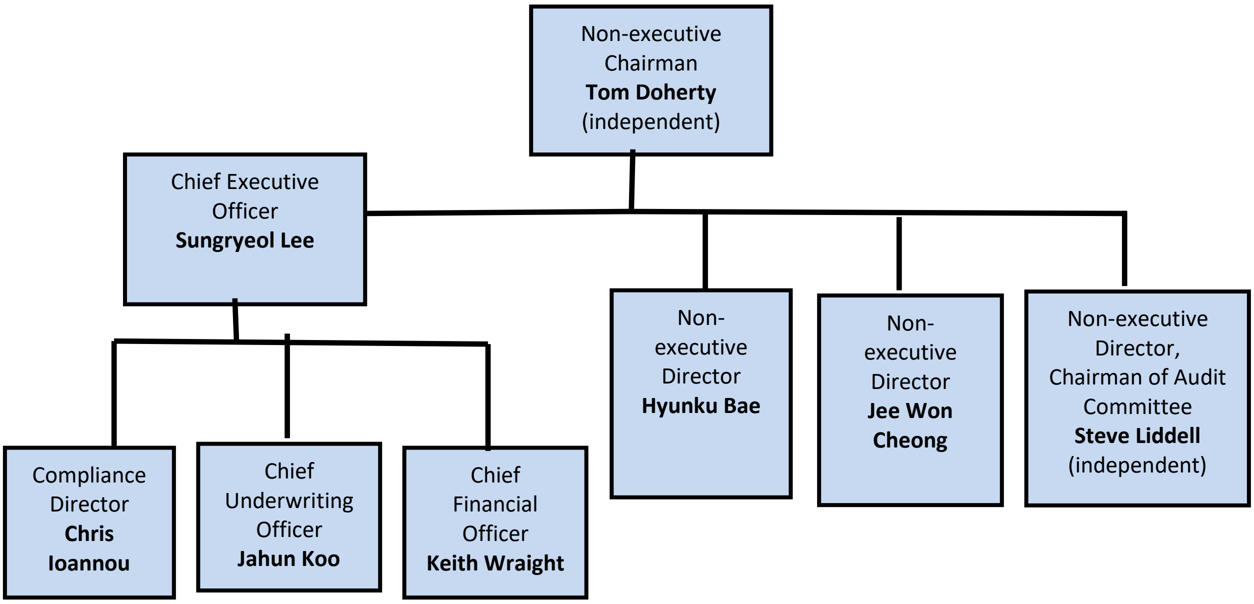
In this chapter:

B.1 General information on the system of governance

SFME considers that its governance structure is appropriate for the operation of the business, the market in which it operates and the risks that it faces.

Board of Directors

As at 31 December 2023, the Board comprised the following members:



During the year and until the date of this report there were no changes in Board membership other than:

- C Ioannou was appointed director with effect from 24 May 2023;
- J Koo was appointed director with effect from 24 December 2023;
- S Riley resigned with effect from 3 April 2023;
- J Na resigned with effect from 15 December 2023.

SFME's Board of Directors is responsible for the stewardship of the business, providing effective leadership to supervise the management of SFME's business and affairs and to grow value responsibly, in a profitable and sustainable manner.

SFME believes that the members of the Board reflect the nature of the business and the risks that are faced in its operations and from the markets in which it operates. In addition to their technical specialist skill sets, the members of the Board bring a high degree of management and general skills to the oversight and management of the business.

SFME has separated the role of Chairman of the Board and CEO as it firmly believes that this is the most effective corporate governance structure. The structure leads to a strong oversight of the business and ensures that market best practice is followed in the Board's conduct. The independent non-executive Chairman leads the Board, sets its agenda and ensures it is an effective working group at the head of the

Company. The Chairman promotes a culture of openness and debate and ensures that all Board members receive accurate, timely and clear information.

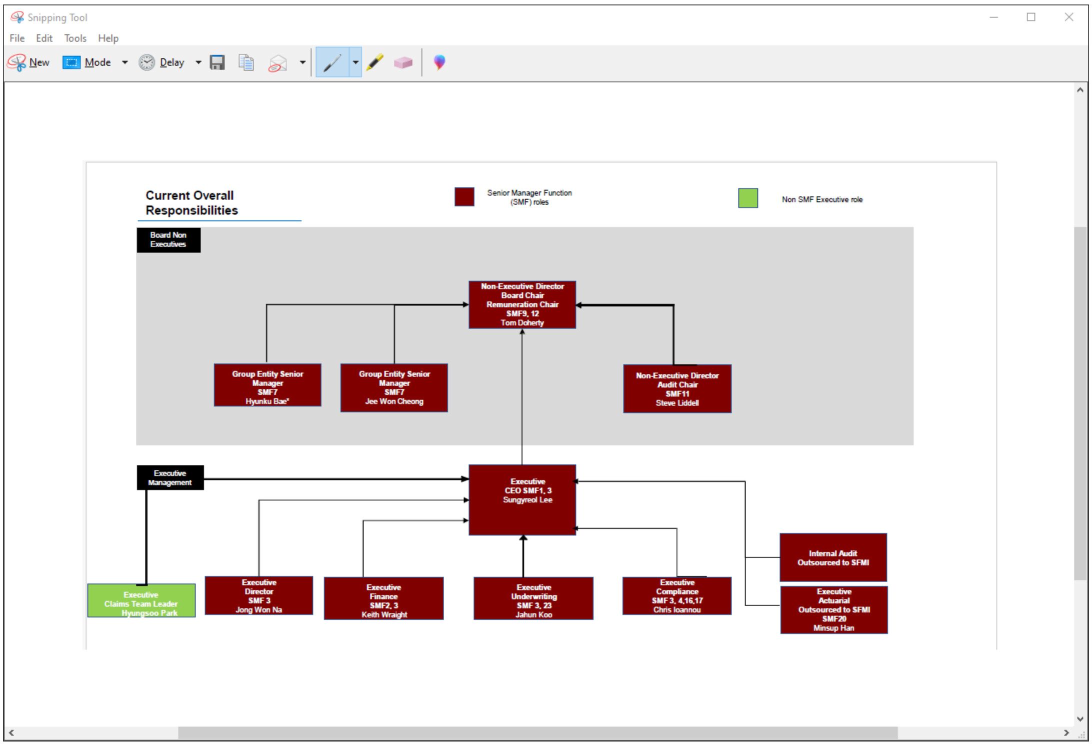
The Chief Executive Officer ("CEO") is responsible for leading the development and execution of SFME's long term strategy with a view to creating shareholder value. The CEO's leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing SFME's business plans.

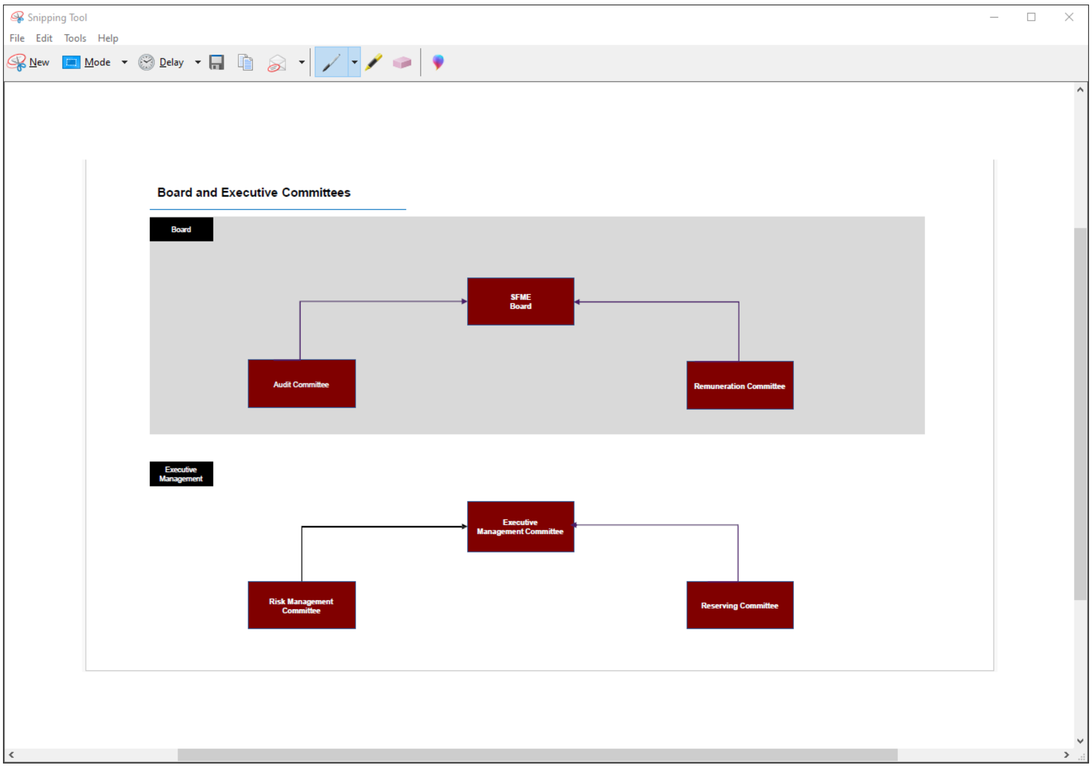
The Company's independent non-executive directors constructively challenge and help develop proposals on strategy. They provide the necessary oversight of the Board. Non-executive directors possessing relevant skills and experience are also selected from the wider SFMI group in order to provide oversight of the business and act as strong links with the parent company.

SFME recognises that the membership of the Board must be dynamic, changing to reflect the nature of the business and the risks that are faced in its operation and from the markets in which it operates. The membership of the Board is kept under continuous review and is changed when it is felt to be necessary.

SFME operates an annual internal governance review programme and the results of this are submitted to the Board for consideration and action.

Segregation of Responsibilities





Typically, the CEO and either the CUO or the CFO roles are filled by appropriately experienced senior managers from within the SFMI organisation.

There is a clear segregation of responsibilities within SFME and this adds to the strength of the governance structure within the business. In addition, SFME has a formal Delegation of Authority Policy that is approved by the Executive Management Committee, setting out authorities for key decision making within the business. The budget setting process is designed to ensure each function is adequately resourced for the planned level of activity both in terms of numbers and skills.

The Chief Actuary is a US qualified actuary with many years' experience in the general insurance industry and reports directly to the SFME Board of Directors. There is an outsourcing agreement in place that ensures that the necessary level of actuarial resource is supplied to the SFME.

Compliance oversight and risk management is owned by the Compliance Director ("CD"). The CD is a member of, and reports directly to, the CEO and SFME Board of Directors. The CD is a compliance professional with over 30 years' experience in the insurance industry with significant experience of the UK and EU insurance markets. The resource requirements for the function are subject to constant monitoring.

Overall ownership of the Internal Audit function sits with the SFME Audit Committee (see below) and day-to-day operation is overseen by the CEO. In this way SFME ensures that there is effective independence in the operation of the function. Resource to undertake the audits is supplied by SFME's parent company and this provides the necessary level of independence for the task of auditing.

Board Committee Structure

SFME recognises that for its governance structure to be effective, it is necessary for tasks and responsibilities to be delegated by the Board to separate committees. The Board monitors the actions of these committees through the submission and review of the agreed minutes.

Audit Committee

To ensure effective governance of the committee, voting members comprise solely the non-executive directors of SFME. All executive directors attend and participate in the functioning of the Committee but have no formal voting rights.

The key tasks of the Committee are to review the annual audit plan with the auditors and to review information derived from the audit. Among its other tasks are to review the effectiveness of internal audit and to review the performance of the external auditors. The Committee meets at least twice a year to consider these and other matters.

Remuneration Committee

To ensure that there is appropriate oversight of SFME's remuneration arrangements, a Remuneration Committee has been formed with membership of the Chairman of the Board of SFME, its Chief Executive Officer (non-voting) and the non-executive director representing SFMI's interests.

The primary responsibilities of the Remuneration Committee are to:

- Oversee the Remuneration Policy;
- Ensure that the Remuneration Policy remains consistent with the Company's business strategy and does not incentivise excessive risk taking;
- Approve recommended changes to remuneration practices as may be appropriate from time to time; and
- Consider proposals in relation to Solvency II staff in accordance with Remuneration Policy.

The Remuneration Policy documents the Company's remuneration framework and ensures an appropriate alignment between risk and individual reward, to discourage excessive risk taking and short-termism and to encourage effective risk management. This is balanced against the need to recruit, retain and motivate high quality staff. The inherent nature of most of SFME's business is that it is short tail and the ultimate cost of claims will be predictable shortly after the expiry of the risks.

Some directors and staff are expatriates from Korea. SFME is of the opinion that the transfer of staff from SFMI is positive for the Company and SFMI. The remuneration for these individuals is set by SFMI albeit borne by SFME both directly through its own payroll and recharged from SFMI. This remuneration includes certain elements of accommodation and family living costs. SFME bears the UK income tax that arises on these benefits. The recharges from SFMI include a variable element which is based on individual evaluation and the achievements of both SFME and SFMI against their respective plans.

The remuneration of the Chief Executive Officer is set by the Remuneration Committee.

The remuneration of local staff and non-expatriate directors is both fixed and variable (though the variable is a small proportion of the overall total) and determined by the Chief Executive Officer. The fixed remuneration will comprise a base salary and, according to each role, pension contributions, a lunch allowance, a car allowance and private medical insurance. The amount of fixed remuneration is determined at appointment and then in accordance with the annual appraisal process. The variable element is an annual bonus which is determined by the individual's performance and the results of SFME. The maximum entitlement is 20% of the basic annual salary. The Company does not administer a long-term incentive scheme for any of its directors.

The remuneration of the Independent non-executive directors is determined by the CEO and agreed by the Board of Directors. Such remuneration comprises fees only. Non-executive directors employed by SFMI are not remunerated.

The Company makes contributions to the defined contributions pensions of the executive directors and UK staff. The contributions are an agreed fixed percentage of base salary.

Executive Committee structures

Executive Management Committee

The members of the Executive Management Committee "EMC" are collectively responsible for directing the Company, establishing guidelines and Company policy and also taking appropriate business initiatives i.e., it carries out the actual entrepreneurial function. In particular, the EMC will oversee the operational activities of the Company and co-ordinate and monitor the implementation of agreed Board policy and procedures.

The EMC will ensure that at all times the business conducts itself in a manner consistent with safety and soundness and the protection of policyholders.

The duties of the EMC can be subdivided according to departments and will be assigned and/or delegated to individual EMC members. Each EMC Member is responsible for directing his or her department and manages it in accordance with the objectives of the Company. However, the allocation of departments does not affect the joint responsibility of all EMC members for the management of the whole business. In achieving these goals, EMC members will discuss management level issues freely and openly.

The Chief Financial Officer, the Compliance Director and the Chief Underwriting Officer all present reports to each monthly EMC. These reports form the basis of the reporting to the Board. These reports form the core documents to enable the Board to assess performance, risks, plans and future actions.

Reserving Committee

The members of the Reserving Committee "ResCom" are collectively responsible for assessing the key reserving methodology, judgements and assumptions proposed by the Chief Actuary and, in particular, the valuation of best estimates and the risk adjustment. ResCom assists the EMC and the Board in determining the appropriateness of the Company's estimates of IBNR for IFRS and Solvency II reporting.

Risk Management Committee

The Risk Management Committee "RMC" sits at the centre of SFME's Enterprise Risk Management Structure and provides leadership and oversight of risk management across the business. At the highest level the RMC will ensure that at all times the business conducts itself in a manner consistent with safety and soundness and the protection of policyholders, with a number of key tasks sitting within its span of authority.

The RMC assists the Board in its oversight of risk issues by maintaining an appropriate risk management framework for SFME with responsibility for providing assurances to the Board that the risk management processes are active, credible and effective. The RMC is authorised to seek any information it requires from any of the employees of SFME in order to perform its duties. The role of the RMC is to implement the risk strategy across the Company and then monitor its implementation. It will also assess any new risks that emerge.

Oversight

The annual Board Effectiveness review considers the effectiveness of the committees and the need for additional committees is kept under constant review.

Material Changes to the System of Governance

There have been no material changes during 2023 to the governance structure.

Material Transactions

There have been no material transactions with any person who exercises a significant influence on SFME or with members of the Board.

The Company transacts business with its parent both on an inwards facultative basis and an outwards reinsurance basis. The parent also provides SFME with IT support services, internal audit and actuarial function services. These transactions are summarised in the following table:

source : P&L as per statutory accounts. Balance sheet per S.31.01	2023 £'000	2022 £'000
Transactions carried out during the year (IFRS basis) :		
Insurance revenue	3	8
Insurance service expenses - reported claims	(3)	1
Expenses from reinsurance contracts held	8,317	6,421
Insurance claims recoverable from reinsurers	669	154
Marketing and administrative expenses	456	245
Balances at the balance sheet date (SII basis)		
Amounts payable to related parties net of amounts receivable from related parties	(5,630)	(4,971)
Related parties' share of reinsurance technical provisions	10,558	6,973

B.2 Fit and proper requirements

SFME places considerable importance in the continuing professional development of all managers and staff and it has a fit and proper policy in place to facilitate this. In particular, individuals who are appointed to the role of Executive or Non-Executive Director or the heads of key functions are expected to possess an adequate level of professional qualifications, knowledge and experience relevant to their specific roles. The Fit and Proper Policy incorporates the requirements of the Senior Managers & Certification Regime (SM&CR") and the Company's fit and proper requirements.

The Board collectively possesses appropriate qualifications, experience and knowledge of:

- insurance and financial markets;
- business strategy and business model;
- system of governance;
- financial and actuarial analysis; and
- regulatory framework and requirements.

It is important that the Board contains a balance of skills amongst individuals and it is expected that this will reflect the requirements of the business and its growth areas. Where necessary, changes will have to be made to Board composition to reflect the changes in the risk profile of the business.

As part of the annual SFME governance review process, all executive directors are required to participate in a Board effectiveness review as well as complete a "Fitness & Propriety" questionnaire to assess ongoing propriety. In addition, SFME has in place an appraisal process to assess employee performance and for the development of managerial talent and to enable staff to contribute to the growth and success of the Company.

B.3 Risk management system

Objectives

SFME has seven risk management objectives for its risk management system. These are:

1. Risk culture: improve risk awareness and embed risk management in all areas of the business;
2. Risk identification: prompt identification of risks, control weaknesses and other relevant issues, so as to allow timely and cost-effective resolution;
3. Risk control: reduce unintended exposures thereby contributing to a "no major surprises" culture;
4. Value protection and/or value creation: protect shareholder value and satisfy shareholder expectations;
5. Capital adequacy: ensure that the business maintains a sufficient level of capital;
6. Strategic optimisation: integrate business, risk and capital management strategies; and
7. Good corporate citizen: identify, manage and control risks of regulatory concern, which include:
    - fair treatment of customers;
    - protection of policyholders;
    - ensuring effective competition; and
    - maintaining integrity of the UK financial system (compliance)

Risk Governance

The Board of Directors is ultimately responsible for SFME's risk management framework as well as managing all risks facing the business.

To assist the Board with this responsibility, executive management has formed a Risk Management Committee to manage the Company's risk management framework and to report to the Board on risk matters. In addition, the day-to-day operation and control of the Framework is undertaken by the risk management function, and all managers and staff must be involved in the day-to-day processes.

Due to the size of SFME, responsibility for the Risk Management function resides with the Compliance Director who has direct access to the Board as well as the Risk Management Committee, in order for it to escalate significant breaches in risk appetite or risk mitigation.

Risk Assessment

SFME has a process in place to identify all risks that have the potential to impact SFME financially. It includes known risks as well as latent and emerging risks. The assessment of a risk involves an assessment of:

- the probability of occurrence (within a one-year time horizon); and
- the severity of the potential loss (given the loss occurs)

These are assessed on a gross risk basis (before risk control) and a residual, or net, risk basis (after risk control). This enables meaningful comparison of all risks so that those with the greatest severity and probability of occurring are managed first. Methods for assessing the severity and probability of a loss include:

- Qualitative basis
- Quantitative analysis
- Expert judgment
- Stress and scenario building

All major risks are recorded in the Risk Register.

Risk Control

Effective risk controls are a key element of the entire Framework as they provide the means necessary to manage excess risks so that the Company achieves its corporate objectives with greater certainty.

The Risk Register

The risk register is a depository of all the identified major risks of SFME, and contains all relevant information related to the identification, control and assessment of risks within SFME.

Risk Reporting

Risk reporting is the reporting of all risk matters to the users of risk information. To effectively achieve the risk reporting objectives, the risk reports have the following characteristics:

- Tailored depending on the purpose and audience to ensure that the right information is presented to the right people;
- Produced at regular intervals (to vary according to purpose and audience) or in a timely manner, to ensure prompt action where required;
- Have forward-looking reporting capabilities to provide early warnings of any potential breaches of risk appetite, tolerance and limits;
- Have capabilities to conduct flexible and effective stress testing to assist with the forward-looking risk assessments;
- Produced using accurate, complete and timely data.

B.4 ORSA

Objectives

The ORSA is the process whereby all elements of SFME's risk management framework are drawn together to deliver an output that is central to SFME delivering its business goals. The objectives of the ORSA are:

- To promote the safety and soundness of SFME and therefore contribute to the protection of policyholders; and
- To help determine the optimal strategies (both business strategy and risk strategy) that will optimise the return commensurate with the risks undertaken.

The ORSA process:

a) refers to the continuous process of identifying, assessing, controlling and monitoring all material risks exposed to SFME; and

b) ensures SFME has sufficient capital to cover against the residual risks (risk net of any mitigation effects); while

c) ensuring that the output of this assessment is embedded into the decision-making process of SFME.

Governance

In order to ensure the effectiveness of the ORSA process, the roles and responsibilities by function or area shall be as follows:

Responsibility	Roles
Board of Directors	• Ownership and oversight of the ORSA process • Review and challenge of each ORSA • Use of ORSA in the management of SFME
Risk Management Committee	• Oversight of the ORSA process • Review and acceptance of ORSA output

Executive Management Committee	• Effective engagement with the ORSA process • Use of ORSA output in business planning and the operation of the business
Chief Risk Officer (Compliance Director)	• Day-to-day management of the ORSA process • Ownership of ORSA control documentation • Collation of information • Production of ORSA output and other necessary documentation
Finance	• Ownership of the SCR, MCR, own funds and technical provisions
Actuarial	• Valuation of technical provisions • Expert judgement in selecting appropriate valuation techniques • High level/consultative involvement in the ORSA process • Ownership of the Risk Strategy Capital Requirement (RSCR) model • Documentation of the technical process surrounding the generation of the RSCR • Review of ORSA capital figure and comparison with the SCR
Reserving Committee	• Oversight of the methodologies and assumptions used in valuing the technical provisions
All staff	• Identification and awareness of risk

The ORSA is produced annually as a matter of routine and can be revisited on other occasions to, for example, assess the impact of a material change to existing business or a new business proposition.

B.5 Internal control system

<u>Overview</u>

Internal control is a process implemented by SFME's Board of Directors, Management and all other personnel. This process has the goals of providing reasonable assurance that:

- SFME is operating effectively;
- Financial information is accurate and reliable; and
- SFME is operating in compliance with applicable laws and regulations.

An effective internal control process is fundamental to the safe and sound management of SFME as it helps to reduce the possibility of unexpected losses, both financial and non-financial.

Controls are actions that are undertaken by individuals or teams to confirm that something is accurate, correct, completed or that another action has taken place. Such controls are undertaken at all levels within the business although there will be a higher volume of controls at the transactional level.

As described above, the Company has a risk identification process. All risks are assigned one or more controls. The controls and control owners are also recorded in the Risk Register.

Appropriate evidence is obtained to ascertain whether or not controls are being applied and are effective in their operation. Further regular internal audits of the business are undertaken to assess the effectiveness of the control.

Compliance Function

There are two distinct types of compliance activity – strategic compliance dealing with structural issues (e.g., governance and control structures) and compliance dealing with day-to-day procedural issues.

Strategic Compliance Activities

High-level compliance deals with the following areas:

- Corporate governance
- Fitness and competence
- Systems and controls
- Regulatory requirements
- Business standards
- Legislative requirements
- Business continuity

Compliance Activities

There are also the more routine compliance issues that need to be addressed on a day-to-day basis. These include:

- Liaison with the PRA, the FCA and other regulators.
- Ownership of the compliance manual
- Management of compliance reviews and follow up of issues that have been identified.
- Maintenance of a database of reporting and compliance deadlines (both in the UK and Europe) with appropriate allocation of responsibility and monitoring that all deadlines have been met.
- Monitoring of new regulations and documentation of new procedures required as a result of new regulation.
- Dissemination of regulatory information as required.
- Reporting to the Board.
- Money laundering prevention and analysis.
- Maintenance of a Sanctions Compliance Programme and associated sanction controls.
- Maintenance of the Company's policy framework
- Documentation of procedures and change management of procedures.
- Compliance testing of procedures to ensure continued compliance with applicable regulations.
- Complaints resolution and monitoring.
- Maintenance of database of approved persons and processing applications.
- Litigation monitoring

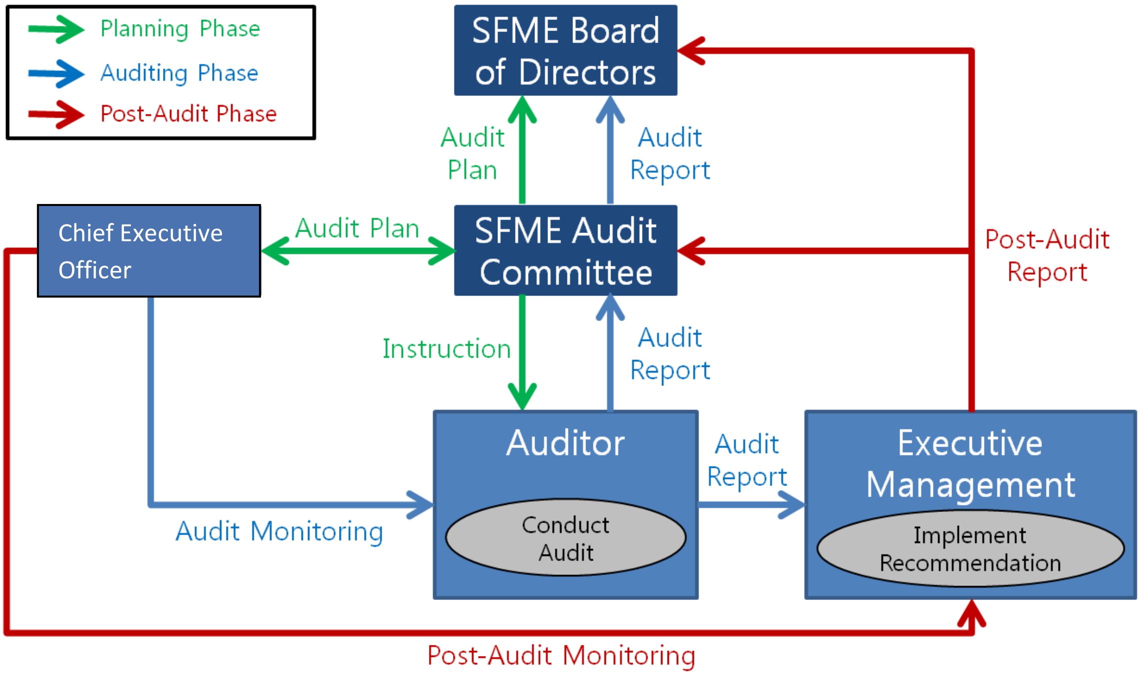
B.6 Internal audit function

SFME's Audit Committee is the steering group for the oversight and management of the internal audit function. The internal audit itself is outsourced to the Internal Audit department of SFMI. The Audit Committee reviews and approves the annual audit plan prepared by the SFMI Head of Internal Audit.

The SFMI Internal Audit department implements the audit plan according to the instructions received from the Audit Committee and prepares an audit report along with any recommendations. The audit report is disclosed to the Executive Management, Audit Committee and Board of Directors.

The Executive Management is responsible for implementing the recommendations from the audit report and its progress is monitored by the EMC. A post-audit report which contains the results of the implementation is submitted to the Audit Committee and the Board of Directors.

The following diagram depicts the Internal Audit framework.



As noted, the Internal Audit function is outsourced to the parent company's internal audit team. The Audit Committee believes that SFMI Internal Audit team has a very strong sense of independence from the SFME directors and staff and is able to be objective in its assessment of SFME's activities.

B.7 Actuarial function

After considering the expertise of SFMI's actuarial staff and having taken in to account the PRA requirements about who can act as the chief actuary for a UK insurer, the Board has concluded that the Chief Actuary should be a senior member of SFMI's actuarial team. SFME and SFMI have entered in to an Actuarial Service Agreement which establishes the obligations on both parties in terms of the actuarial services to be provided. SFMI has committed to make available to SFME an individual of sufficiently high calibre to meet the PRA and Board requirements.

The actuarial function is responsible for the following:
- Calculating the technical provisions
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions
- Comparing best estimates against experience
- Informing the Board of Directors of the reliability and adequacy of the calculation of technical provisions
- Expressing an opinion on the overall underwriting policy
- Expressing an opinion on the adequacy of reinsurance arrangements
- Assisting in the calculation of the own fund and capital requirements

The tasks to be undertaken by the actuarial function are carried out by persons who have knowledge of actuarial and financial mathematics commensurate with the nature, scale, and complexity of the risks inherent in the business, and who are able to demonstrate their relevant experience with applicable professional and other standards. The actuarial function has direct and unrestricted access to the Board of Directors and board committees to report on key findings and recommendations.

B.8 Outsourcing

In principle, all functions and activities can be outsourced provided the Company retains ultimate responsibility for discharging its obligations. SFME remains fully responsible for all outsourced functions and activities. It is therefore essential that risk management systems and controls are in place for choosing a service provider and for monitoring and reviewing the quality of the service provided.

Outsourcing is undertaken in such a way to mitigate the risk of any of the following occurring:
- materially impairing the quality of the system of governance of SFME;
- unduly increasing the operational risk;
- impairing the ability of the supervisory authorities to monitor the compliance of SFME with its obligations;
- undermining continuous and satisfactory service to policyholders;
- materially impairing financial performance; and
- materially impairing soundness or continuity of relevant services and activities.

SFME has arranged outsourcing of the follow critical/important functions:

- Chief Actuary and Actuarial Function: SFMI actuarial department, Seoul
- Underwriting, claims, reinsurance, accounting and data systems: SFMI IT department, Seoul
- Internal Audit: SFMI internal audit team, Seoul
- Security and controls for the London office computers, NAS server and network: Sekyee Limited

B.9 Assessment of the adequacy of the system of governance

Reviews of the corporate governance and effectiveness of the Board and Committees are carried out on a regular basis, taking in to account the Financial Reporting Council's Corporate Governance Code (whilst not binding on SFME, it is a useful benchmark for corporate governance), recommendations from the PRA and best practice within the industry.

B.10 Any other information

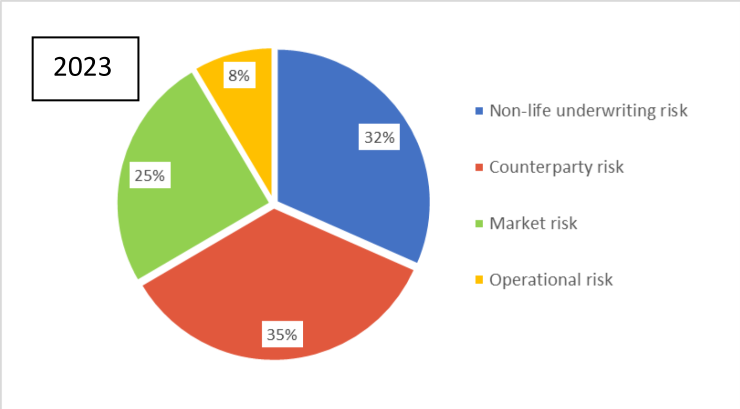
There is no other information.

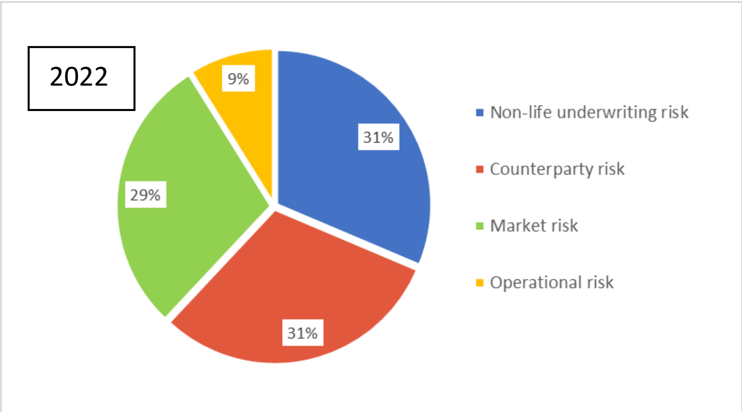
C. Risk Profile

In this chapter:

SFME has no off-balance sheet positions and does not transfer risk to special purpose vehicles. Accordingly, none of the following sections makes any reference to these situations.

During 2023 there has been a 9% reduction in the quantification of Company's Solvency Capital Requirement (SCR). The mix between the components of the SCR has not changed materially, as shown by the pie charts on the right. During 2023, SFME reduced its currency exposures (see A.4) which has reduced the currency component of the market risk charge. In addition, the underwriting risk charge has fallen given the reduced volume of business (measure by earned premium and reserves for reported claims).



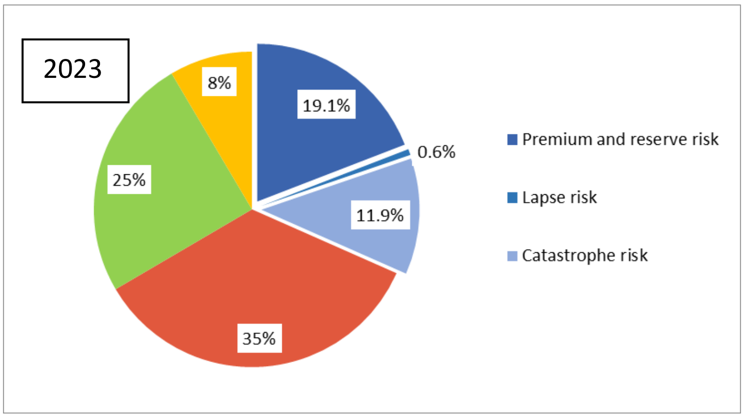


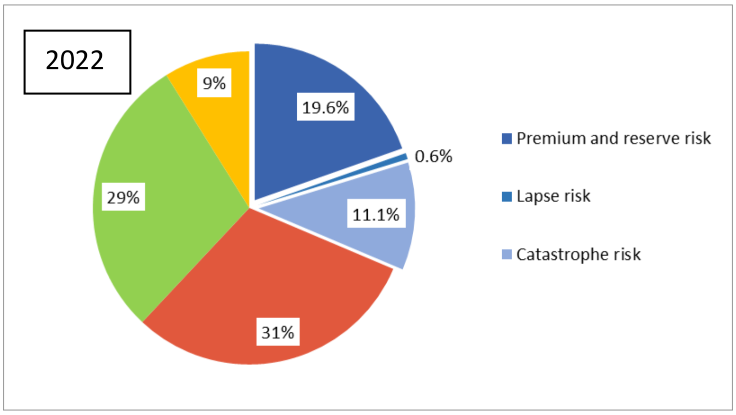
SFME uses the Standard Formula to measure risk culminating in the quantification of its SCR. The analysis performed by the Company confirms that the Standard Formula is appropriate and broadly aligned to its risk profile. This chapter provides information about the Standard Formula risks as well as additional risks identified by the Company.

See section E2 for further details regarding amounts, prior year comparatives and comments on major movements in 2023.

C.1 Underwriting risk

Underwriting risk (31.6% of the SCR (2022: 31.3%)) is the risk of loss to SFME by whatever cause due to actual experience being different than that expected when an insurance product was designed and priced. The Standard Formula has three sub-components of non-life underwriting risk which are shown in the pie chart on the right. Premium risk results from the uncertainty associated with the variability of claims that have not yet occurred. Reserving risk results from the uncertainty associated with the variability of claims that have already occurred. SFME has an exposure to windstorm, earthquake and flood losses from its property risks, as well as man-made fire. Its cargo book is also exposed to losses arising from catastrophe events. Lapse risk is the risk of loss of underwriting profits if in-force contracts lapsed (i.e., were cancelled) before the expected expiry date.





SFME has defined its underwriting risk universe as comprising the following risks:

- Underwriting risk;
- Pricing risk;
- Reinsurance risk; and
- Claims risk.

This underwriting risk universe is characterised by the following features:

- The Company writes reinsurance contracts or contracts of large risk. It does not write any retail business;
- The Company does not delegate any underwriting authority to a third party;
- The lapse risk is very low given the strong Group affiliations;
- The claims run off period is typically relatively short;
- The Company is looking to modestly grow its business outside its traditional base;
- Long term relationships with core clients give the Company a strong understanding of the risks and hazards presented by the insured risks;
- Where the Company retains some or all of a claim (i.e., after reinsurance), the most common loss event is theft and hijacking of goods-in-transit;
- Extensive use of third parties to handle cargo claims; and
- A spread of clients around the world operating within a volatile global economic climate.

Underwriting Risk

SFME is exposed to underwriting risk through the direct or indirect loss resulting from the inadequacy or failure to write premium in line with the constraints of the business plan. In order to ensure the effective management of this risk, suitable processes, procedures and management information are in place to demonstrate:

- Relevant adherence to the business plan;
- Adherence to underwriting levels of authority;
- That risks are being monitored post signing; and
- Adherence to underwriting standards and guidelines.

Pricing Risk

SFME is exposed to pricing risk through direct or indirect impact on profits resulting from the inadequacy or inappropriate pricing of the risks written. SFME currently has no appetite to delegate underwriting authority to a third party. In addition, SFME's core clients (Samsung Group and KIA) are very stable and there is negligible persistency risk. In order to ensure the effective management of this risk, suitable processes, procedures and management information are in place to demonstrate:

- Adherence to underwriting standards and guidelines; and
- Constant monitoring of underwriting performance and technical rating methodologies and adequacy.

Reinsurance Risk

SFME is exposed to reinsurance risk through direct or indirect losses resulting from the inappropriate selection of reinsurance programmes and/or inaccurate administration of these programmes. In order to ensure the effective management of this risk, suitable processes, procedures and management information are in place to demonstrate:

- Necessary oversight by the Risk Management Committee over the determination of the reinsurance programme structure and the implementation of that structure;
- That regular monitoring is maintained against the reinsurer concentration limits; and
- That relevant authorisation procedures for purchasing facultative reinsurance have been followed.

Claims Risk

SFME is exposed to claims risk through direct or indirect loss resulting from a failure of claims management. This can be broken down into two categories:

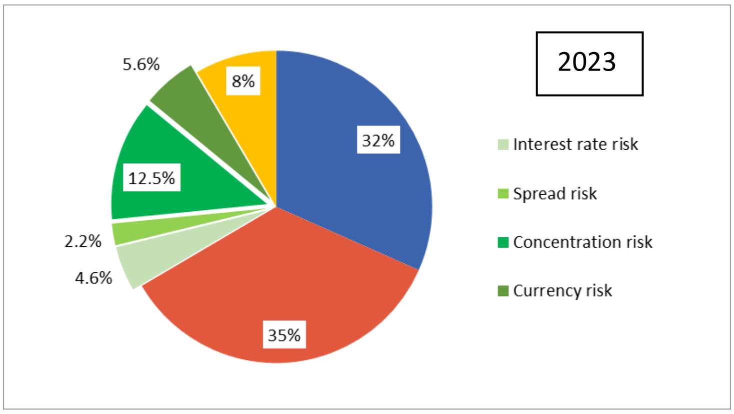
- Claims handling: a failure or inadequacy to sufficiently handle SFME's claims arising from underwriting losses; and
- Claims operations–- a failure or inadequacy in monitoring and reporting on the operational aspects of SFME claims.

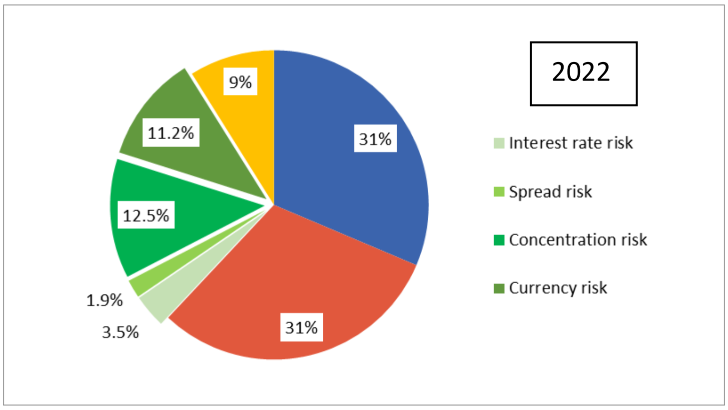
In order to ensure the effective management of this risk, claims system controls have been established which set out in detail the controls in place by which the Claims function manages its risks. These include:

- Claims resourcing;
- Processes and management controls;
- Relevant documentation;
- Claim reserving;
- External third-party service providers and experts (including legal advice); and
- Performance management.

C.2 Market risk

Market risk (24.9% of the SCR (2022: 29.1%)) is the risk of loss to SFME by whatever cause as a result of market movements and in particular in relation to assets, liabilities and profit. The Standard Formula has 4 sub-components of market risk, as demonstrated by the pie charts on the right. The pie charts highlight the reduction in the currency risk, discussed below.





SFME has identified its market risk universe as comprising:

- Interest rate risk; and
- Currency risk.

The Standard Formula deals with concentration risk within market risk but the Company feels concentration is better assessed within the context of its credit risk and so is described in section C.3. The Standard Formula also attaches a spread risk to bank deposits. Spread risk is the risk that arises from the sensitivity of the value of assets to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The nature of the Company's deposits is entirely straightforward and in the Company's view, the value of the deposits will not be affected by spread risk. Consequently, spread risk has not been included in the Company's risk universe.

The SFME market risk universe is characterised by the following features:

- Assets which are low risk and thereby low yield
- A high number of transactional currencies albeit with assets and liabilities of each currency broadly matched within an acceptable range

Interest Rate Risk

This could arise from one or more of three factors:

a) Inappropriate Investment strategy: SFME is exposed to market risk through direct and indirect loss resulting from an inadequate or inappropriate setting of the investment strategy. In order to ensure the effective management of this risk, suitable processes, procedures and management information are in place to demonstrate that:

- The Board is given the opportunity to challenge the strategy; and
- The investment strategy is set in line with the Company's strategy as well as within the assumptions and parameters adopted in SFME's risk capital calculation.

b) Lower than expected income from investments: this is the risk of a negative impact on SFME's profit and loss through an unexpectedly low rate of return on investments. This is a low-level risk to SFME as the Company is operating in a relatively low interest rate and return environment and it has a small volume of assets that can only ever generate a predictable return. Investment income is notified as a separate profit and loss item to the Executive Management Committee and Board of Directors to allow for effective monitoring and challenge.

c) Impact from the movement of asset values: movements in the value of assets could have a particularly severe impact on SFME's regulatory capital. However, throughout 2023, SFME held only deposits with a small number of banks so had no exposure to asset value movements.

Interest rate risk has increased because the risk free rates used in the standard formula calculation have increased compared to those used at the 2022 year end.

Currency Risk

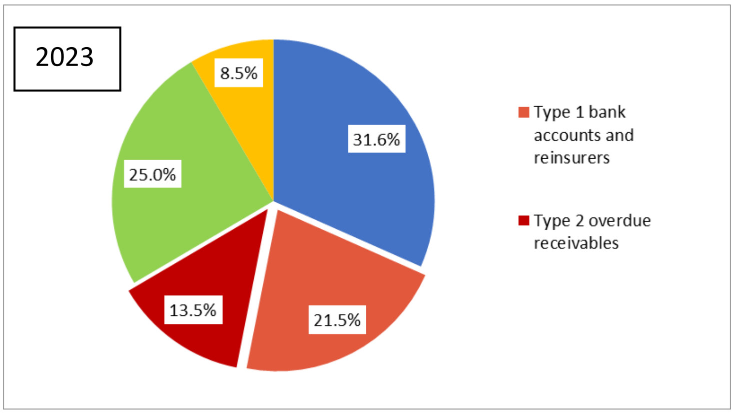
Currency risk arises from two factors:

a) Impact on the matching of assets against liabilities: SFME trades in three core currencies, GBP, EUR and USD. For these three currencies, it is the policy of the Company to match assets against liabilities in the currency of that liability over a period of time. This avoids the risk of a significant mismatch if there is a change in the value of a currency. Prior to 2023, deposits were made in USD to improve investment yields and as a result, the Company has had a surplus of USD assets greater than its desired threshold. The Board had determined that the increased currency risk was acceptable. With the improvement in yields for deposits denominated in GBP and EUR, the Company has sold some of the USD deposits at maturity and reduced the currency surplus;

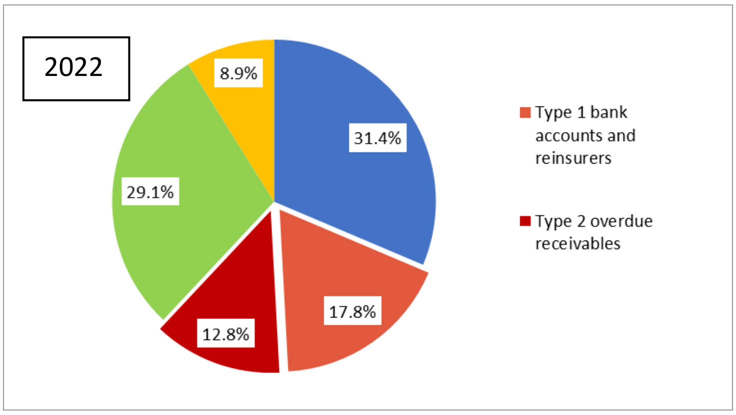
b) Impact on profit and loss of the business: it is acknowledged by SFME that currency risk poses a threat to the profit and loss of the business. SFME reports in GBP but transacts policies in a number of different currencies. This means that SFME is vulnerable to movements in the transactional currencies against GBP and swings in the value of currencies must be accounted for immediately and there is little that SFME can do to mitigate the risk. In particular the Company is too small to use hedging solutions.

C.3 Credit risk

Credit risk (35.0% of the SCR (2022: 30.6%)) is the risk of loss to SFME as a result of failure by another party to meet its contractual obligations or fails to perform them in a timely fashion. The Standard Formula has 2 sub-components, type 1 bank accounts (not included in market risk) and reinsurers; and type 2 for other debtors.



The pie charts show that the type 1 risk charge has increased during 2023. The average probability of default factor has increased from 0.0257% to 0.0309% (as a context, an AA rating has a 0.01% charge and an A rating 0.05%). There is a natural change in mix of reinsurers by rating over time. In terms of the exceptionally large property contract with a Samsung-affiliated client, at 2023 year end, the SCR uses a slightly higher counterparty value since the Company retained a smaller share at renewal in November.



SFME has defined its credit risk universe as comprising:

- Counterparty default – where money that is due to SFME under a contractual obligation is not paid, or where assets held by a third party are lost; and
- Concentration risk – where money that is due to SFME under a contractual obligation become overly concentrated with one third party which acts to magnify the risk of that party's default (the Standard Formula deals with concentration risk within market risk).

The SFME credit risk universe is characterised by the following features:

- Reinsurance protection is sought by SFME to limit underwriting risk where potential losses exceed the risk appetite. Reinsurance is in the form of treaties and facultative placements on individual insurance policies. The fortunes of a reinsurance company can change over time;
- SFME contracts a significant proportion of its business through brokers. A broker could become insolvent and in such a situation it is likely that SFME would become another creditor and see little or none of the outstanding funds yet the contract of insurance remains in force. In addition, there is the risk of fraud and theft where premium and claims monies taken by the broker are either stolen for personal gain, or used by the broker to support their business;
- In the countries where SFME does not issue local policies, there is a reliance on fronting companies. These act as a primary insurer, issuing the policy in accordance with local requirements and acting to manage any claims. The fronting company then cedes a pre-determined reinsurance share to SFME

and in turn pays claims before making recoveries from SFME in accordance with the reinsurance schedule;

- There is a risk that a customer goes into liquidation before they have paid the premium either to the broker, or directly to SFME. The majority of SFME policies are on 90 days, if not longer, credit terms and there is thus a significant window for problems to manifest themselves in a client. SFME's current business portfolio is mainly comprised of other members of the Samsung group of companies and the risk of their failure is extremely low;
- SFME has chosen to place its investment funds in deposits with banks, predominantly Korean banks with UK branches

Counterparty Default Risk

In order to ensure the effective management of this risk, suitable processes, procedures and management information are in place to demonstrate that:

- The counterparty had appropriate financial strength at the time that they were appointed or the relationship commenced;
- The counterparty maintains their financial strength at an appropriate level during the period of the relationship;
- There is appropriate reporting; and
- There is appropriate governance and oversight.

Concentration Risk

Concentration risk can act to magnify the effects of a counterparty default and it is therefore necessary to identify and control such concentrations as and when they occur. This is implemented through:

- Rules regarding the size/proportion of concentrations of credit that are allowed with a third party;
- Appropriate reporting; and
- Appropriate governance and oversight.

SFME has 2 types of material concentration risk: investments deposited at a single bank and reinsurance ceded to a single reinsurer. SFME's Board of Directors sets thresholds for what it regards as an acceptable level of risk for both in most circumstances although there are some circumstances in which the Board will accept a higher level of concentration for appropriate business reasons. Acceptance of the higher amount is only approved after a reappraisal of the ORSA and the impact on the SCR.

C.4 Liquidity risk

Liquidity risk is the risk that a firm, although solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or is able to secure them only at excessive cost. It is not explicitly quantified by the Standard Formula; however, the following provides details on how this risk is monitored and managed.

The SFME liquidity risk universe is characterised by the following features:

- The majority of assets are held as cash either in a normal deposit account or in a timed deposit account. They are thus realisable within set timeframes;
- Claims liabilities are generally known about some time before there is an obligation to settle;
- Simultaneous payment clauses feature in the Company's reinsurance contracts; and
- Other liabilities tend to conform to specific annual timetables.

Overall, the operation and management of the business means that knowledge of a material liability is obtained well before the necessary time required to liquidate and realise non-cash assets. In addition, there is the expectation that SFME's parent company will wish to support it and thus ensure the continuing operation of the firm. To reinforce this expectation, SFME and SFMI have entered in to a net worth agreement whereby SFMI pledges to maintain SFME's capital resources at or above a certain multiple of the SCR and MCR. In general, however, the Company monitors its immediately available funds to ensure they exceed the typical cash outflow requirements.

The 'key highlights' section gives information about the elevated liquidity risk currently face by the Company.

<u>Expected Profit</u>
The total amount of the expected profit included in future premium is £315,000 (2022: £364,000).

C.5 Operational risk

Operational risk (8.5% of the SCR (2022: 9.0%)) is the risk of loss to the firm resulting from inadequate or failed internal processes, people or systems, or from certain external events. By its nature operational risk is very diverse, dependent in the skills and experience of its staff and is inherent in the Company's activities. Rules and best practice relating to governance are constantly evolving. As noted above, the Company relies on its parent for the provision of its main underwriting, claims and accounting systems and actuarial and internal audit services.

- Change within SFME and the market in which it operates means that processes and procedures become obsolete and require review, update or replacement
- Changes to regulations and laws and/or non-compliance with regulation and legal requirements
- IT and systems are essential to the business and their failure or inability to deliver business critical functionality will have a severe impact on the business
- The risk of financial crime, both internally from staff and externally from third parties is increasing during the global economic turmoil
- SFME is at the risk of business disruption through the loss of the building from which it operates or loss of access through an incident such as a fire or a terrorist attack. The Covid pandemic has demonstrated however that working from home for a sustained period is easily managed and the disruption is therefore principally related to use of office PCs and servers which facilitate remote working
- SFME, like any other insurance firm, makes use of outsourcing relationships which bring their own risks as SFME retains responsibility for the functions and must ensure that they are being correctly discharged by the outsourcer

Under the Standard Formula, the operational risk charge is quantified by a given percentage of gross earned premium in 2023 and 2022. Following the reduction in 2023, the operational risk charge has fallen slightly.

C.6 Other material risks

Group Risk

Group risk which means the potential impact of risks to SFME arising either directly from ownership by Samsung Fire & Marine Insurance in Korea, or indirectly from membership of the Samsung group of companies. Elements of SFME Group Risk include:

- Contagion risk from reputational damage affecting another part of the Samsung group;
- Impact of a credit rating downgrade applied to SFME's parent company, Samsung Fire and Marine Insurance (SFMI);
- Political risk exposure in Korea and in particular historical disputes between North and South Korea; and
- SFME's high reliance on Samsung Electronics for premium volume.

Group risk is unavoidable for SFME but two of its executive directors are senior employees seconded from SFMI and two non-executive directors are senior managers at SFMI. These individuals maintain close contact with the parent company and Samsung clients which give them an opportunity to identify issues and advise the Board of necessary actions in response.

Strategic & Reputational Risk

Strategic risk is a function of the incompatibility between two or more of the following components:

- SFME's strategic goals;
- business strategies developed;
- resources deployed to achieve these goals;
- quality of implementation;
- economic situation of the markets that SFME operates in.

Reputation risk is a function of:

- loss of the value of a brand; and
- loss of ability of an organisation to persuade other entities to trade with it.

Strategic risk management is a process for identifying, assessing and managing risks and uncertainties, affected by internal and external events or scenarios, that could inhibit SFME's ability to achieve its strategy and strategic objectives with the ultimate goal of creating and protecting shareholder and stakeholder value. Reputational risk management involves aligning strategies and corporate culture, creating a commitment to quality and ensuring a strong internal control environment.

Climate change

The Prudential Regulation Authority ("the PRA") has emphasised the need for an embedded, strategic approach to managing climate risk and set out its expectations across four key areas: governance, risk management, scenario analysis and transparency in disclosure to stakeholders.

The Company's approach to these pillars is outlined below.

Governance: The Board and senior management understands the Company's exposure to climate-related risk, such items are reported to the Board and monitored as part of the risk management framework. The CEO has been appointed the individual to govern SFME's climate-related risk. Developments in climate change have continued to be reported to the Board during 2023 together with the results of the Company's exposure monitoring.

Scenario analysis: the Company has analysed its exposure to climate risk in its investment and insurance portfolios. The key findings of the analysis are that:

- The Company has very little risk within its investments from climate change. Its investments are liquid and short-term and the investment yield contributes a relatively small proportion of the profit before tax. The Company's strategic approach to investments did not change during 2023; and

- The Company's exposure to climate change risk in the insurance contracts its issues and reinsurance contracts it holds remains low. The key perils exposed to climate change risk are windstorm and flood events and since the Company's incorporation these events comprise a relatively small proportion of all claims (less than 10%). Furthermore, the majority of the Company's contracts that it issues are annual in duration which permits appropriate repricing at renewal as the Company's understanding of climate change risk develops. The Company reported three claims during 2023 (2022: one) which was deemed to be weather related.

The Company also monitors its energy use and its gross emissions in 2023 were 14 metric tonnes (2022: 6 metric tonnes). The Company's energy use includes that used at its office in London together with a limited amount of business travel by its directors and staff, both within so-called scope 2 emissions. The Company does not have any scope 1 emissions. Business travel increased during 2023, reflecting easier conditions for travelling abroad to meet policyholders and pursue business opportunities.

Risk management: the Company monitors climate change risk exposures in relation to its claims and insurance contracts. The Company has set risk appetites and metrics in relation to this exposure. These have been approved by the Board and no exceptions were reported during 2023. These risks will be monitored to ensure they either remains within appetite or that management take remedial action if the appetite is or is danger of being breached.

The Company continues to monitor developments in relation to climate change and has put plans in place to further develop its climate change risk framework as risk protocols and reporting requirements mature on this topic.

Transparency: this has been addressed by the inclusion of climate change commentary in this Report and the Company's 2023 Statutory Accounts.

The Board has concluded that the Company's exposure to climate-related risks is low and unchanged from 2022.

Impact of Russian-exposed business

Please see 'key highlights'.

Inflation and cost of living crisis

Given the nature of the contracts issued by the Company, it has a relatively short-tail period of run off and expects to settle the majority of its claims within four years. There is widespread economic consensus that during this period, global economies will experience inflation over and above the long-term norms. This may mean that the Company's eventual liability, when agreed, will be higher than the estimate it would make in its normal claims management processes and IBNR evaluation. The Company has assessed market opinion on inflation and has adopted the view that above-normal levels of inflation will prevail during 2024 and 2025. The Company has added an inflation loading to its liability for incurred claims across all portfolios at the 2023 year end to allow for the increased inflation risk. This loading amounts to 2% (2022: 2%) of the best estimate. To mitigate the effects of inflation, the Company will monitor its claims experience to make appropriate decisions about premium rates for contracts to be issued in 2024. The Company also benefits from a mitigation whereby inflation may increase the sums insured sought by policyholders and premium will increase even if the same rates are applied.

The Company's net insurance revenue is largely derived from affiliated entities who make goods and products which may be susceptible to lower consumer demand in the face of the cost of living crisis. The Company is monitoring the impact on its clients which may, in turn, affect the premium that the Company receives. Adjustment premium received in 2023 from cargo policyholders upon the expiry of their contracts issued in 2022 was lower than the equivalent receipts in 2022 (all such adjustment premium being reflected in insurance revenue). The Company believes that the positive adjustment in 2022 (£1.8m), large by historical experience, was principally due the impact of the Covid pandemic on consumer demand. The Company further believes that the lower positive adjustment in 2023 (£0.5m) reflects a fall in consumer demand due to the cost of living crisis.

C.7 Any other information

Material changes

There have been no material changes in the nature of any of SFME's risks during 2023. As noted, the Company has mitigated the currency risk during 2023 by selling some USD deposits to GBP at maturity.

Stress testing and sensitivity analysis

As part of its annual Own Risk and Solvency Assessment (ORSA), the Company has carried out sensitivity and scenario testing and reverse stress testing in order to:

- assist in the identification and control of risk
- provide assurances and validation of the risk capital calculations
- support the establishment of the capital management plan; and
- help identify any liquidity issues.

Sensitivity tests look at the impact of singular and joint changes to key assumptions on the solvency position. Scenario tests look at the impact of a particular scenario on the solvency position. Reverse stress tests are stress tests that require SFME to assess scenarios and circumstances that would render its business model unviable, which in turn will help identify potential business vulnerabilities.

Sensitivity tests included a significant increase in written premium, an increase in currency fluctuations and an increase in the default probability for reinsurance counterparties. The maximum impact was an increase in the SCR of approximately 26% arising from a 2 grade downgrade of SFMI (from AA to BBB). In this test, and without considering the impact on Own Funds, the solvency coverage ratio is reduced to 245% (from a core margin of 314% as forecast at 31/12/23 by the ORSA). The reduction in the ratio is significant, reflecting the severity of the stresses and the magnitude of the SFMI reinsurance, but remains well above the Company's target minimum ratio.

Scenario testing included three storm surge losses in the Netherlands, the default of 2 banks with whom SFME has deposits and the default of SFME's largest reinsurer. The bank default scenario reduces Own Funds such that the solvency coverage ratio falls to 137% which is an improvement compared to 2022 (below 100%) because the Company has diluted its investment per bank by investing funds with another bank. In any event, the banks are A+ rated or better so the probability of this scenario is very low. The three storm surges scenario reduces the ratio 211%; but scenario is significantly more severe than the Company's historical claims experience. The ratio in the event of a default of the largest reinsurer was modelled at 242%.

Reverse stress testing included loss of premium income arising from the reputational failure of the Samsung brand, multiple catastrophes and a bank default. In these scenarios, especially if combined, the own funds of the Company would be significantly adversely impacted albeit the probability of such is highly remote. The reverse stress testing however indicated that SFME's risk register is complete – no hitherto unknown risks were identified.

The Board consider that the risks are therefore well managed and that the own funds are suitable for the business strategy being pursued.

Prudent Person Principle

SFME has a very conservative investment policy and since incorporation has only had investments in government bonds or deposits with global banks. Such assets can easily be measured, monitored controlled and reported upon. Their impact on the solvency requirements can be easily assessed. Such assets expedite the security and liquidity of the Company to meet its insurance obligations. The Company monitors its concentration risk to ensure there is no excessive exposure or accumulation of risk.

D. Valuation for Solvency Purposes

In this chapter:

D.1 Balance sheet

The Company prepares a balance sheet to satisfy the reporting requirements of Solvency II regulations and of its IFRS-based statutory reporting. There are differences between the two approaches, details of which are set out in this chapter. A summary of the balance sheets is shown here:

source : template S.02.01	2023 SII	2023 IFRS	2022 SII	2022 IFRS restated
	£000s	£000s	£000s	£000s
Assets				
Property, plant and equipment	1,149	1,149	1,327	1,327
Investments	48,343	46,957	42,629	42,152
Reinsurance recoverables	27,582	22,849	24,759	15,799
Portfolio grossing up	-	5,418	-	11,857
Deferred tax asset	-	-	-	56
Insurance receivables	22,290	-	21,842	-
Reinsurance receivables	9,486	-	9,332	-
Other receivables	219	-	46	-
Cash and cash equivalents	4,849	4,849	4,811	4,811
Other assets	112	1,499	605	1,068
Total assets	114,031	82,721	105,350	77,070
Liabilities				
Technical provisions	32,359	30,130	30,500	23,798
Portfolio grossing up	-	5,418	-	11,857
Deferred tax liability	285	5	300	-
Insurance payables	7,243	-	4,780	-
Reinsurance payables	25,806	-	27,146	-
Other payables	1,198	867	1,177	1,103
Other liabilities	2,866	2,866	2,385	2,385
Total liabilities	69,757	39,286	66,287	39,143
Shareholders' equity/Own Funds	44,274	43,435	39,063	37,927

The following table summarises the nature of the differences between SII and IFRS. These will be more fully explained in this chapter:

source : template S.02.01	Assets 2023	Assets 2022	Liabilities 2023	Liabilities 2022	Shareholders' equity / Own Funds 2023	Shareholders' equity / Own Funds 2022
	£000s	£000s	£000s	£000s	£000s	£000s
Total per IFRS financial statements	82,721	77,070	39,286	39,143	43,435	37,927
Reclassifications	48,294	49,351	48,315	49,351	(21)	-
Portfolio grossing up	(5,418)	(11,857)	(5,418)	(11,857)	-	-
Cash flows from unexpired risks	(7,818)	(6,659)	(9,372)	(8,397)	1,554	1,738
Cash flows from BBNI risks	(1,029)	(797)	(885)	(667)	(144)	(130)
Cash flows from expired risks	(2,719)	(1,715)	(2,955)	(2,366)	236	651
Risk margin	-	-	506	782	(506)	(782)
Deferred tax	-	(56)	280	300	(280)	(356)
IFRS 9 restatement	-	13	-	(2)	-	15
Total per SII balance sheet	114,031	105,350	69,757	66,287	44,274	39,063

IFRS 17 and IFRS 9

A new accounting standard – IFRS 17 insurance contracts – was adopted by the Company with effect from 1 January 2023. The Standard's principal aim is to bring about industry-wide conformity to the reporting and disclosure of insurance transactions. Whilst the overall economic view of insurance transactions and balances is the same as previously reported under IFRS 4, differences can arise between the two Standards at any given reporting date due to the differing requirements of each Standard. Since IFRS 17 is applied retrospectively, the Company's IFRS historical balance sheets have changed due to: (1) a number of presentational changes and (2) some changes which impact shareholders' equity.

The Company also adopted IFRS 9 financial instruments with effect from 1 January 2023. This Standard also required a restatement of the 202 balance sheet. The only effect on the 2022 balance sheet was to introduce an expected credit loss against the Company's financial assets.

The following table reconciles shareholders' equity originally reported at 31 December 2022 to the restated 2022 comparative in the 2023 financial statements. The overall effect is to reduce equity, or net assets, by £0.2m.

	£'000
Net assets previously reported in the 2022 Financial Statements/SFCR	38,127
Net assets restated as comparatives in the Financial Statements	37,927
Decrease in net assets	(200)
Increase in value of asset for remaining coverage	1,508
Reduction in value of asset for incurred claims	(1,856)
Increase in value of liability for remaining coverage	(1,417)
Reduction in value of liability for incurred claims	1,517
Total impact of adopting IFRS 17	(248)
Impact of adopting IFRS 9	(13)
Total impact on net assets, pre-tax	(261)
Change to deferred tax	61
Total impact on net assets, post-tax	(200)

The adoption of IFRS 17 has not materially directly affected the valuations used on the SII balance sheet. Any reference to the 2022 SII balance sheet numbers in this report are as reported at 31 December 2022.

Plant and equipment

SII and IFRS value £1.1m (2022: £1.3m)

Under IFRS, property, plant and equipment are valued at cost less depreciation and includes right-of-use assets in accordance with IFSRS16. Since the amount is immaterial, fair value for Solvency II is considered to be materially the same as IFRS.

Investments

SII value £48.3m; IFRS value £47.0m (2022: SII value £42.6m; IFRS value £42.2m)

The financial investments solely comprise deposits with credit institutions. SFME has a number of deposits which have a term of up to 12 months and these are classified as financial assets for both SII and IFRS. However, accrued interest is also added to the principal amounts under Solvency II which is why the

SII values are higher. Due to improved yields obtained by the Company during 2023, the accrued interest is significantly higher than at 31 December 2022.

The basis of valuation of the deposits and accrued interest under Solvency II is a fair value. This value is the same as IFRS. Under IFRS, accrued income is included in "other assets".

<u>*Reinsurance recoverables*</u>

SII value £27.6m; IFRS value £22.8m (2022: SII value £24.8m; IFRS value £15.8m)

Reinsurance recoverables are the proportion of the gross technical provisions (see later) that are recoverable from reinsurers (also known as RI technical provisions). More information about the valuation of technical provisions is given in section 'D2 Technical Provisions'. Briefly, however, reinsurance recoverables are future cash flows expected from reinsurers in connection with the expected future cash flows from the Company's insurance contract liabilities. These comprise cash flows for premium and for claims. On the IFRS balance sheet, reinsurance recoverables comprise assets for remaining coverage ("AFRC") and assets for incurred claims ("AIC"). The AFRC assesses cash flows relating to the unexpired portion of reinsurance contracts held and the AIC assess cash relating to the expired portion of reinsurance contracts held. The following points of similarity and difference can be made:

- The AFRC and AIC incorporate all receivables and payables arising from reinsurance contracts held whereas the SII RI technical provisions only include receivables and payables that have not yet reached their due dates (hence are future cash flows). Typically this will reduce the IFRS RI technical provisions given the net RI payables on the SII balance sheet. Individual receivables and payables have the same valuation on both balance sheets.
- The SII requirements are designed to assess solvency, not measure profit or loss. IFRS technical provisions include a measurement of profitability corresponding to the portion of insurance contracts which are unexpired. The Company is only allowed to recognise these profits at a future data when the Company has provided service to the policyholder. The AFRC incorporates a parallel "profit blocking" item. However, this is not recognised on the SII balance sheet; future profits and the reinsurers' share thereof, are permitted to count towards Own Funds. This will typically reduce the SII RI technical provisions since these are outflows to reinsurers.
- The SII RI technical provisions include expected cash flows from reinsurance contracts bound at the balance sheet date but not issued ("BBNI" contracts). The IFRS balance sheet does not recognise BBNI contracts unless loss-making. RI BBNI cash flows include an estimate of future excess of loss costs. The effect of BBNI contracts is typically to reduce SII RI technical provisions since the future cash flows will be premium payable to reinsurers.
- Undiscounted best estimates of claims cash flows are the same save that SII includes a component for events not in data ("ENID") albeit this is always an immaterial value. The AIC however includes reinsurers' share of a risk adjustment which is an additional reserve to compensate the Company for the uncertainty in the best estimate. The risk adjustment is not recognised on the SII balance sheet and this reduces the SII value compared to the IFRS equivalent.
- Discounting is applied to the future cash flows of the SII RI technical provisions but only IFRS AIC. The discounting is therefore likely to be greater on the SII balance sheet. Further, whilst the AIC discount rates are similar, SII requires the use of risk free rates whereas IFRS are adjusted for a liquidity premium.

- Both SII and IFRS cater for the risk of non-performance of issuers of reinsurance contracts held. The default factors are not quite the same albeit the quantification of the impairment on both balance sheets is not material.

<u>Portfolio grossing up</u>

SII value £nil; IFRS value £5.4m (2022: SII value £nil; IFRS value £11.9m)

For the purposes of reporting under IFRS, the Company defines portfolios of contracts. Portfolios are a group of risk which are similar in nature (i.e., offer the same type of insurance) and are managed together. Equivalent portfolios are defined for groups of reinsurance contracts held. In measuring the value of its asset for reinsurance contracts held, an individual portfolio may in fact be a net liability (for example, where the settlement of RI premium payable has been delayed until after the service has been received from the reinsurer. In such cases, IFRS requires the liability of these portfolios to be reported as liabilities. There is no equivalent "grossing up" on the SII balance sheet.

<u>Deferred tax asset</u>

SII value £nil; IFRS value £nil (2022: SII value £nil; IFRS value £56k)

As shown by the second table in the section 'IFRS 17 and IFRS 9' above, the Company incurred a loss of £261,000 restating the 2022 balance sheet. The Company anticipates that this loss will be taxed within the 2023 tax computation. Accordingly, it has accrued a deferred tax asset at 31 December 2022 on its IFRS balance sheet. At 31 December 2023, it is incorporated in the current tax liability. There is no equivalent on the SII balance sheet.

<u>Insurance receivables</u>

<u>SII value £22.3m; IFRS value £nil (2022: SII value £21.8m; IFRS value £nil)</u>

Under Solvency II, technical provisions consider only future cash flows. To this end, insurance receivables which have reached their due date are shown as receivables rather than being incorporated in technical provisions. On the IFRS balance sheet, premiums and commissions which are due are included in the LFRC and claim receivables are included in the LIC. The basis of valuation of insurance receivables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is regarded as being the same as IFRS.

<u>Reinsurance receivables</u>

SII value £9.5m; IFRS value £nil (2022: SII value £9.3m; IFRS value £nil)

Under Solvency II, technical provisions consider only future cash flows. To this end, reinsurance receivables which have reached their due date are shown as receivables rather than being incorporated in technical provision. On the IFRS balance sheet, RI premium and commissions which are due are included in the AFRC and RI claims are included in the AIC. The basis of valuation of reinsurance receivables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is regarded as being the same as IFRS.

Other receivables

SII value £0.2m; IFRS value £nil (2022: SII value £46k; IFRS value £nil)

Amounts owed to the Company for insurance premium tax ("IPT") receivable is shown in other receivables. These are included in the LFRC on the IFRS balance sheet. Notwithstanding the different classification, the valuation basis is the same.

Cash and cash equivalents

SII value £4.9m; IFRS value £4.9m (2022: SII value £4.8m; IFRS value £4.8m)

Cash and cash equivalents have a narrower definition than is conventional under IFRS. The IFRS value includes deposits which have a month's maturity horizon whereas these are included within investments under SII not cash and cash equivalents. Under SII cash equivalents are effectively bank balances from which the Company can make operation payments. At both 31 December 2023 and 2022, the Company had no very short term deposits and, consequently, the balance sheets have the same value. Both Solvency II and IFRS include operational bank accounts on the same valuation basis.

Other assets

SII value £0.1m; IFRS value £1.5m (2022: SII value £0.6m; IFRS value £1.1m)

Receivables and other assets comprise items such as leasehold deposits, corporation tax receivable and prepaid expenses. IFRS also includes accrued interest on investments which, as noted above, is added to the value of financial assets on the SII balance sheet. The fair value of assets within these categories is regarded as being the same under Solvency II as under IFRS.

Judgements used in valuing assets

Judgement is needed in respect of the Company's assets in the assessment of RI technical provisions (reinsurance recoverables). The value of RI technical provisions is wholly dependent on the estimation of gross technical provisions (described in D2) and net technical provisions. Given the small size and short history of the Company, projecting cash flows net of reinsurance is more reliable than projecting reinsurers' share. Nonetheless the impact of the reinsurance programmes is considered when judging the appropriateness of the elements that go in to assessing the net best estimates (for example, if a large loss has significant levels of reinsurance). Under IFRS, aa similar basis has been adopted given the extent to which the reinsurance contracts predominantly mirror the underlying contracts issued.

There have been no significant changes in judgements during 2023.

Technical provisions

SII value £32.4m; IFRS value £30.1m (2022: SII value £30.5m; IFRS value £23.8m)

More information about the valuation of technical provisions is given in section 'D2 Technical Provisions'. Briefly, however, technical provisions are estimated future cash flows from the Company's insurance contract liabilities. These comprise cash flows for premium and for claims. On the IFRS balance sheet, technical provisions comprise liabilities for remaining coverage ("LFRC") and liabilities for incurred claims ("LIC"). The LFRC assesses cash flows relating to the unexpired portion of insurance contracts issued and the LIC assess cash relating to the expired portion of insurance contracts issued. The following points of similarity and difference can be made:

- The LFRC and LIC incorporate all receivables and payables arising from insurance contracts issued whereas the SII technical provisions only include receivables and payables that have not yet reached their due dates (hence are future cash flows). Typically this will reduce the IFRS technical provisions given the net receivables on the SII balance sheet. Individual receivables and payables have the same valuation on both balance sheets.

- The SII requirements are designed to assess solvency, not measure profit or loss. IFRS technical provisions include a measurement of profitability corresponding to the portion of insurance contracts which are unexpired. The Company is only allowed to recognise these profits at a future data when the Company has provided service to the policyholder. The LFRC thereby incorporates a "profit blocking" item. However, this is not recognised on the SII balance sheet; future profits are permitted to count towards Own Funds. This will typically reduce the SII technical provisions
- The SII technical provisions include expected cash flows from insurance contracts bound at the balance sheet date but not issued ("BBNI" contracts). The IFRS balance sheet does not recognise BBNI contracts unless loss-making, otherwise known as onerous contracts. The Company has determined that it does not have any onerous contracts. The effect of BBNI contracts is typically to reduce SII technical provisions since the future cash flows will, in the aggregate, represent premium receivable by the Company.
- Undiscounted best estimates of claims cash flows are the same save that SII includes a component for events not in data ("ENID") albeit this is always an immaterial value. The LIC however includes a risk adjustment which is an additional reserve to compensate the Company for the uncertainty in the best estimate. The risk adjustment is not recognised on the SII balance sheet and typically this reduces the SII value.
- The SII technical provisions include an additional reserve called the risk margin. Whilst ostensibly serving a similar purpose to the risk adjustment (to cater for uncertainty), the risk margin has a different method of calculation. Further the risk adjustment is accounted for separately for insurance contracts issued and reinsurance contracts issued whereas the risk margin is accounted as a single "net" value.
- Discounting is applied to the future cash flows of the SII technical provisions but only IFRS LIC. The discounting is therefore likely to be greater on the SII balance sheet. Whilst the discount rates are similar, SII requires the use of risk free rates whereas IFRS are adjusted for a liquidity premium

Deferred tax liabilities
SII value £0.3m; IFRS value £5k (2022: SII value £0.3m; IFRS value £nil)
A provision for deferred tax is needed when the balance sheet – either IFRS or Solvency II – is prepared under a different basis to that used by His Majesty's Customs and Revenue. Under IFRS, the difference is typical trivial although, as described above in the 'deferred tax asset' paragraph, due to the tax treatment of the IFRS 17 prior year net asset adjustment, there is a larger value than usual on the restated IFRS 17 balance sheet. Under Solvency II, the differences are more significant. Effectively the increase in the deferred tax provision from IFRS to Solvency II is the future tax charge that will be payable on additional profits recognised today under Solvency II. The deferred tax liability is based on legislated corporation tax rates which, as at 31 December 2023, are 25% (2022: a blend of 23.5% and 25%)

Insurance Payables
SII value £7.2m; IFRS value £nil (2022: SII value £4.8m; IFRS value £nil)
Under Solvency II, technical provisions consider only future cash flows. To this end, insurance payables which have reached their due date are shown as payables rather than being incorporated in technical

provisions. On the IFRS balance sheet, premiums and commissions payable which are due are included in the LFRC and claim payables are included in the LIC. The basis of valuation of insurance payables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is regarded as being the same as IFRS.

Reinsurance payables
SII value £25.8m; IFRS value £nil (2022: SII value £27.1m; IFRS value £nil)
Under Solvency II, technical provisions consider only future cash flows. To this end, reinsurance payables which have reached their due date are shown as payables rather than being incorporated in technical provision. On the IFRS balance sheet, RI premium and commission payables which are due are included in the AFRC and RI claim payables are included in the AIC. The basis of valuation of reinsurance payables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is the regarded as being same as IFRS.

Other Payables
SII value £1.2m; IFRS value £0.9m (2022: SII value £1.2m; IFRS value £1.1m)
Other payables include corporate tax payable, receipts received in advance of allocation against receivables and IPT liabilities. However, IPT liabilities are accounted in the LFRC on the IFRS balance sheet. The fair value under Solvency II is regarded as being the same as IFRS.

Other liabilities
SII value £2.9m; IFRS value £2.9m (2022: SII value £2.4m; IFRS value £2.4m)
Other liabilities principally comprise accrued expenses and lease liabilities. The classifications are the same under IFRS and SII. The fair value of other assets under Solvency II is regarded as being the same as IFRS.

Judgements used in valuing liabilities
Judgement is needed in respect of the Company's liabilities in the assessment of the technical provisions (best estimates) (described in D2). Another area of material judgement is in respect of adjustment premium. Premium includes estimates in respect of adjustments required under the terms of policies written for changes in underlying exposures during the life of the policy. Management necessarily has to estimate adjustments prior to the policyholder providing final and complete evidence of exposures. Such estimates are likely to be different to the adjustments which are ultimately agreed with policyholders. Solvency II adopts the same valuation as IFRS but as the estimated premium adjustments are not due, they form part of the best estimates.

There have been no significant changes in judgements during 2023.

D.2 Technical Provisions

The total value of gross technical provisions under Solvency II is £30.7m (2022: £30.5m) and net £4.8m (2022: £5.7m). The reduction net technical provisions reflects the withdrawal of a single large 2021 claim of which the Company retained 75%. The following table shows a summary of the technical provision for each line of business:

	2023				2022			
source : S.17.01	Premium provision	Claims provision	Risk margin	Total	Premium provision	Claims provision	Risk margin	Total
Cargo	541	1,220	207	1,968	1,044	2,337	531	3,911
Property	1,252	1,163	287	2,702	866	595	232	1,693
Liability	(4)	98	12	106	30	89	19	137
Total net technical provisions	1,789	2,481	506	4,776	1,939	3,020	782	5,741
Gross technical provisions	7,684	24,169	506	32,359	7,985	21,734	782	30,500
Reinsurance recoverables	5,895	21,688		27,583	6,046	18,714		24,759
Net technical provisions	1,789	2,481	506	4,776	168	3,020	782	5,741

<u>Valuation Methods</u>

Under Solvency II, the technical provisions are made up of a claims best estimate, a premium best estimate and a risk margin.

SFME's approach is to evaluate its best estimates at a gross level and a net (i.e., net of reinsurance) level. Reinsurers' share of best estimates is a balancing figure between gross and net. In SFME's view, the short history of the Company and its relatively small size means that extrapolating net cash flows will be more reliable than projecting reinsurance ones. The same approach is taken for IFRS given the mirroring of the relevant reinsurance to the underlying gross contracts.

<u>Claims best estimate</u>

The claims best estimate is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the valuation date. The undiscounted claims best estimate is calculated using the following common actuarial techniques:

- Chain Ladder / Loss Development Method
- Loss Ratio Methods

The undiscounted claims best estimate is derived from the same process used for calculating the undiscounted best estimate used in the LIC under IFRS. There is an additional factor under SII for events not in data ("ENID"). Differences between SII and IFRS arise on the discounting given that SII uses risk free discount rates but IFRS requires the use of risk free rates adjusted for a liquidity premium. There are also differences because the blended discount curve derived for IFRS data is based on slightly different inputs compared to SII data.

Both IFRS and SII provide for the cost of expected future overheads (unallocated loss adjustment expenses - "ULAE"). The same percentage, based on historical expenses, is used in both calculations.

<u>Premium best estimate</u>

The premium best estimate is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future claims events arising from policies that SFME is obligated to at the valuation date. Undiscounted claims cash outflows are calculated using broadly the same approach as the claims outflows calculated in the claims best estimates. When selecting the loss ratio for use to calculate future claims on unexpired and BBNI contracts, the reasonableness and suitability of the selected loss ratios are assessed by analysing pricing loss ratios, plan loss ratios and /or the adjusted combined ratios used to evaluate onerous contracts. The premium best estimate also takes account of an estimate for expenses to complete the run off of all policies.

The premium best estimate also includes cash inflows from premium (outflows for commissions) in respect of policy instalments not yet due for policies that have incepted. These are accounted within the LFRC under IFRS. These receivables reduce the IFRS technical provisions compared to SII.

Further, the premium best estimate includes cash inflows and outflows for policies not incepted at the balance sheet date but for which SFME is obligated (BBNI contracts). Given these are profit making and represent an asset, the SII premium best estimate will be lower than SII LFRC. Finally, the premium best estimate incorporates the cost of the excess of loss programme in the year after the balance sheet date. As a liability, this increased the SII value compared to IFRS.

The premium best estimate is discounted to a present value. The discount rates used vary for each line of business and take account of the currency mix of SFME’s business. The Company obtains the risk-free rates for each currency from the EIOPA website. The risk free rates of some currencies used the Company are published by the PRA but given all currencies are available from EIOPA, the Company uses EIOPA for efficiency. There is no material difference between the currencies available from both. No discounting is applied to the IFRS LFRC.

The LFRC includes a component which represents the expected future profits on incepted contracts but which will be recognised in future accounting periods when the Company performs its service to the policyholder. This “profit blocking” factor is not recognised in SII and the future profit margin is released under SII valuation methods. This has the effect of reducing the premium best estimate.

IFRS recognises a risk adjustment. SII recognises a risk margin. Both are intended to be an amount that another (re)insurer, taking on the liabilities at the valuation date, would require over and above the best estimates. In other words, there is a degree of uncertainty around the best estimate and the technical provisions are increased to cater for that uncertainty. However the calculations of the risk adjustment and risk margin are different. The risk adjustment is an estimate by the Company such that LIC equates to the 75th percentile over and above the best estimate. It is calculated gross and net of reinsurance. The risk margin is calculated using a cost of capital approach based on SCR factors. Since the SCR is a single calculation (not before/after reinsurance), there it is a single value on the balance sheet. During 2023, the UK Government legislated to reduce the cost of capital from 6% to 4%. This had the effect of reducing the risk margin since a lower cost of capital necessarily leads to a lower measurement of uncertainty.

Wherever the above text is set out in terms of LFRC/LIC, there will be an equivalent effect through the AFRC/AIC. Both IFRS and SII apply an impairment for the risk of non-performance of a reinsurer for reinsurance contracts held. Whilst there are differences in the inputs to this calculation, the overall impairment provision on both balance sheets is trivial.

Uncertainty

The amount of the liability for technical provision is inherently uncertain for the following reasons:

a) Models used to evaluate claims and premium best estimates represent a simplification of a complex claims process.
b) Even if the models used were a perfect representation of the nature of the underlying claims process, past random fluctuations in the claims, experience mean that uncertainty arises from estimating the parameters of the model.
c) Any shortcomings of and/or errors in the data available increase uncertainty regarding the estimated parameters of the model.
d) Even if the true underlying parameters could be determined precisely for a perfect model, the amount of the liability would still be uncertain.
e) Random fluctuations in the future claims experience.
f) The possibility of future systematic, i.e., non-random, changes in the claims experience.

Comparison of IFRS and SII

The following tables demonstrate the differences between IFRS technical provisions and SII technical provisions

Gross technical provisions (insurance contracts issued)

	2023			2022		
	IFRS	adjustment	SII	IFRS	adjustment	SII
	£000s	£000s	£000s	£000s	£000s	£000s
Reserve for reported claims	8,951			7,287		
Incurred but not reported (IBNR)	15,477			14,890		
Unallocated loss adjustment expenses (ULAE)	629			509		
Best estimate - undiscounted basis	25,057	105	25,162	22,686	(90)	22,596
Discount	(763)	(230)	(993)	(1,087)	225	(862)
Best estimate - discounted basis	24,294	(125)	24,169	21,599	135	21,734
Risk adjustment	2,831	(2,831)	-	2,500	(2,500)	-
Risk Margin	-	506	506	-	782	782
Receivables/Payables	1,341	(1,341)	-	61	(61)	-
Liability for incurred claims	28,466	(3,791)	24,675	24,160	(1,644)	22,516
UPR/DAC vs SII future cash flows from incepted but unexpired risks	20,432	(8,438)	11,994	18,490	(7,615)	10,875
Receivables/Payables (SII only for items not yet due)	(18,768)	16,276	(2,492)	(18,853)	17,413	(1,440)
SII future cash flows from bound but incepted (BBNI) risks	-	(885)	(885)	-	(669)	(669)
Best estimate - undiscounted basis	1,664	6,953	8,617	(363)	9,129	8,766
Discount	-	(933)	(933)	-	(782)	(782)
Liability for remaining coverage - best estimate - discounted basis	1,664	6,020	7,684	(363)	8,347	7,984
Total techncial provisions for insurance contracts issued	30,130	2,229	32,359	23,797	6,703	30,500

The 2022 IFRS balance sheet is as reported in the 2023 financial statements as a comparative. It has been restated from the balance sheet reported in the 2022 financial statements due to the implementation of IFRS 17 which required a restatement of the prior year's balance sheet. The SII 2022 balance sheet has not been restated though as explained in this chapter, there are no lines items which are materially directly affected by IFRS 17.

<u>RI technical provisions (reinsurance recoverables - reinsurance contracts held)</u>

	2023			2022		
	IFRS	adjustment	SII	IFRS	adjustment	SII
	£000s	£000s	£000s	£000s	£000s	£000s
Reserve for reported claims	7,744			5,145		
Incurred but not reported (IBNR)	14,857			14,308		
Best estimate - undiscounted basis	22,601	(12)	22,589	19,453	16	19,469
Impairment	(5)	1	(4)	(11)	7	(4)
Discount	(703)	(194)	(897)	(1,087)	336	(751)
Best estimate - discounted basis	21,893	(205)	21,688	18,355	359	18,714
Risk adjustment	2,517	(2,517)	-	2,073	(2,073)	-
Receivables/Payables	1,925	(1,925)	-	857	(857)	-
Liability for incurred claims	26,335	(4,647)	21,688	21,285	(2,571)	18,714
UPR/DAC vs SII future cash flows from incepted but unexpired risks	16,084	(6,992)	9,092	13,766	(5,979)	7,787
Receivables/Payables (SII only for items not yet due)	(19,570)	18,229	(1,341)	(19,251)	18,988	(263)
SII future cash flows from bound but incepted (BBNI) risks	-	(1,029)	(1,029)	-	(797)	(797)
Best estimate - undiscounted basis	(3,486)	10,208	6,722	(5,485)	12,212	6,727
Impairment	(1)	(1)	(2)	(1)	(2)	(3)
Discount	-	(825)	(825)	-	(679)	(679)
Liability for remaining coverage - best estimate - discounted basis	(3,487)	9,382	5,895	(5,486)	11,531	6,045
Total techncial provisions for insurance contracts issued	22,848	4,735	27,583	15,799	8,960	24,759

The 2022 IFRS balance sheet is as reported in the 2023 financial statements as a comparative. It has been restated from the balance sheet reported in the 2022 financial statements due to the implementation of IFRS 17 which required a restatement of the prior year's balance sheet. The SII 2022 balance sheet has not been restated though as explained in this chapter, there are no lines items which are directly materially affected by IFRS 17.

Reinsurance recoverables

As described elsewhere in this report, SFME cedes reinsurance for the purpose of limiting its net loss exposure. Reinsurance recoverables include balances due from reinsurers in respect of unpaid claims and commissions net of premium payable to them. They also include an estimation of the cost of the excess of loss programme required to protect the run off of bound business until expiry. The time value of money is taken in to account as well as an adjustment for expected losses from counterparty defaults although the value of discounting and the default adjustment are immaterial.

Net technical provisions

	2023			2022		
	IFRS	adjustment	SII	IFRS	adjustment	SII
	£000s	£000s	£000s	£000s	£000s	£000s
Reserve for reported claims	1,207			2,142		
Incurred but not reported (IBNR)	618			582		
Unallocated loss adjustment expenses (ULAE)	629			509		
Best estimate - undiscounted basis	2,454	119	2,573	3,233	(106)	3,127
Impairment	5	(1)	4	11	(7)	4
Discount	(59)	(37)	(96)	0	(111)	(111)
Best estimate - discounted basis	2,400	81	2,481	3,244	(224)	3,020
Risk adjustment	315	(315)	-	427	(427)	-
Risk margin	-	506	506	-	782	782
Receivables/Payables	(585)	585	-	(796)	796	-
Liability for incurred claims	2,130	857	2,987	2,875	927	3,802
UPR/DAC vs SII future cash flows from incepted but unexpired risks	4,348	(1,446)	2,902	4,724	(1,636)	3,088
Receivables/Payables (SII only for items not yet due)	802	(1,953)	(1,151)	399	(1,575)	(1,176)
SII future cash flows from bound but incepted (BBNI) risks	-	144	144	-	128	128
Best estimate - undiscounted basis	5,150	(3,255)	1,895	5,123	(3,083)	2,040
Impairment	1	1	2	1	2	3
Discount	-	(108)	(108)	-	(104)	(104)
Liability for remaining coverage - best estimate - discounted basis	5,151	(3,362)	1,789	5,124	(3,185)	1,939
Total techncial provisions for insurance contracts issued	7,281	(2,505)	4,776	7,999	(2,258)	5,741

The 2022 IFRS balance sheet is as reported in the 2023 financial statements as a comparative. It has been restated from the balance sheet reported in the 2022 financial statements due to the implementation of IFRS 17 which required a restatement of the prior year’s balance sheet. The SII 2022 balance sheet has not been restated though as explained in this chapter, there are no lines items which are directly materially affected by IFRS 17.

Volatility Adjustment

SFME has not used the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

Transitional risk-free interest rates

SFME has neither applied a transitional risk-free interest rate structure referred to in Article 308c of Directive 2009/138/EC nor applied the transitional deduction referred to in Article 308d of the same Directive.

Changes from the previous reporting period

There have been no material changes during 2023 to the methodologies employed by SFME to evaluate its technical provisions. However, in assessing its best estimates, the Company necessarily has to take account of the fact that historically, its claims data is inherently volatile due to the low number of policies issued and high value sums insured. This volatility has, statistically speaking, reduced with an additional year's experience and the Company has been able to reduce its best estimates on prior accident years whilst retaining the same level of confidence that the IBNR chosen will be sufficient to meet future claims cash outflows.

The Risk Margin is a function of the SCR risk components for underwriting and counterparty risks and a cost of capital percentage which was set by SII Regulations as adopted by the PRA. During 2023, the UK Government passed a statutory instrument to reduce the cost of capital from 6% to 4%. Accordingly, the Risk Margin fell from £782,000 to £506,000, notwithstanding movements on the underlying risk charges.

D.3 Alternative methods for valuation

Due to the simple nature of SFME's assets and liabilities, no alternative valuation methods are applied.

D.4 Any other information

Due to the simple nature of SFME's assets and liabilities, there is no other material information to be disclosed. SFME has no defined benefit pensions liabilities.

Samsung Fire & Marine Insurance Company of Europe Ltd

Solvency and Financial Condition Report 2023

E. Capital Management

In this chapter:

E.1 Own Funds

Own Funds at the balance sheet date and changes during 2023

Total value of Own Funds is £44.3 m under Solvency II (2022: £39.1m) compared to shareholders' equity of £43.4m (2022 restated: £37.9m) under IFRS. As described in chapter D, the implementation of IFRS 17 has resulted in a restatement of the 2022 IFRS balance sheet, including a reduction in shareholders' equity of £0.2m. The following table shows a summary of the balance sheet under both bases.

	2023		2022	
source : template S.02.01	Solvency II	IFRS	Solvency II	IFRS restated
	£000s	£000s	£000s	£000s
Total assets - see section D1	114,031	82,721	105,350	77,070
Total liabilities - see section D1	69,757	39,286	66,287	39,143
Excess of assets over liabilities	44,274	43,435	39,063	37,927
Issued share capital	10,600	10,600	10,600	10,600
Reconciliation reserve	33,674	33,674	28,463	27,327
Basic/eligible own funds	44,274	44,274	39,063	37,927

Under Solvency II's classification of Own Funds into tiers, SFME's Own Funds can all be classified into Tier 1, funds which are available, or can be called up on demand, to fully absorb losses on a going concern basis, as well as in the case of winding up. Own Funds comprise issued ordinary share capital and the reconciliation reserve. The same Own Funds, known as eligible Own Funds, are available to meet the SCR as well as the MCR.

The following table explains both the change in Own Funds between this and the previous year end and the reasons for the differences with IFRS shareholders' equity:

	2023	2022
	£000s	£000s
Solvency II Own Funds	44,274	39,063
IFRS shareholders' equity (reported in the 2022 SFCR)		38,127
Net asset adjustment - additional losses recognised under IFRS 17 and IFRS 9		(200)
IFRS shareholders' equity (2022 restated)	43,435	37,927
Additional profits recognised under Solvency II	839	1,136
which is explained by :		
Difference between IFRS and SII for claims best estimate	(78)	224
Difference between IFRS and SII for premium best estimate (incepted contracts)	1,532	1,739
SII for premium best estimate (unincepted contracts)	(144)	(130)
IFRS risk adjustment	315	427
SII risk margin	(506)	(782)
Expected credit loss (IFRS 9)	-	13
Additional deferred tax liability	(280)	(355)
Additional profits recognised under Solvency II	839	1,136

The tables show that the main reason for the increase in Own Funds is due to the Company's IFRS accounting result. Factors behind this result are set out in chapter A. Additional profits recognised under SII have reduced by £0.3m. The amount of profit recognised within Own Funds from unexpired but incepted contracts has fallen by £0.2m. The Risk Margin has decreased for reason given in section D2.

Future Own Funds

SFME has prepared a business plan which the Board approved in December 2023. The plan comprises a three year forward-looking horizon. In giving the plan its approval, the Board has considered the updated ORSA which takes account of the proposed plans. In light of the plan and the outcome of the forward-looking ORSA and the probability that no dividends would be distributed, the Board concluded that SFME's current issued share capital was adequate and that Own Funds need only increase by the quantum of the profits projected within the business plans.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Solvency Capital Requirement

The solvency capital requirement (SCR) is £13.0m (2022: £14.3m). SFME uses the standard formula to calculate the SCR. SFME has not used any undertaking-specific parameters.

The risk capital covers all the major risks exposed to SFME which are broadly classified as insurance, credit, market and operational risks. The risk capital represents the maximum loss of profit (and/or capital) in any given year over the next two hundred years. In other words, the probability that a financial loss will be less than the risk capital is 99.5% and the probability that a financial loss will be greater than the risk capital is 0.5%. The following table sets out the various components of SFME's SCR:

	2023 £000s	2022 £000s	Change in 2023 £000s
Market risk			
Interest rate risk	1,304	1,073	231
Spread risk	629	584	45
Concentration risk	3,504	3,833	(329)
Currency risk	1,565	3,440	(1,875)
diversification	(2,720)	(3,374)	654
	4,282	5,556	(1,274)
Counterparty risk			
Type 1	3,923	3,620	303
Type 2	2,458	2,616	(158)
diversification	(390)	(392)	2
	5,991	5,844	147
Non-life underwriting risk			
Premium and reserve risk	4,164	4,728	(564)
Lapse risk	134	153	(19)
Catastrophe risk	2,590	2,675	(85)
diversification	(1,460)	(1,568)	108
	5,428	5,988	(560)
Diversification	(3,842)	(4,398)	556
Basic solvency capital requirement	11,859	12,990	(1,131)
Operational risk	1,100	1,268	(168)
Solvency Capital Requirement	12,959	14,258	(1,299)

The main changes are explained below.

Interest rate risk (+£0.2m)

- During 2023, interest rates globally continued to increased though not as significantly as in 2022. The shocks applied by the Standard Formula are therefore more pronounced.

Currency risk (-£1.9m)

- During 2023, SFME has reduced its surpluses in EUR and USD which reduces the Standard Formula currency risk charge which increases the higher the mismatch of currency holdings.

Concentration Risk (-£0.3m)

- Due to profitable trading and positive cash flows, SFME increased amounts on deposits during 2023. However, during 2023 the Company diluted its holdings with individual banks by depositing money with a sixth bank. Accordingly, the concentration risk, as measured by the Standard Formula, has decreased.

Counterparty Risk (+£0.1m)

- During 2022, , the type 1 component of the SCR (related to reinsurance recoverables) has increased, the result of a marginal increase in the average probability of default ("PD") factors (i.e., the average credit rating is slightly lower at 31 December 2023 (PD factor 0.0309%) than at 31 December 2022 (PD factor 0.0257%). Whilst the mix naturally changes over time, the Company's minimum credit rating criterion have not changed. By way of context, AA rated reinsurers incur a 0.01% PD factor under the Standard Formula and A rated reinsurers 0.05%.
- Type 2 receivables (premium) have fallen compared to 2022. The Standard Formula applies a flat risk charge factor on the receivable value.

Underwriting Risk (-£0.6m)

- Premium and reserve risk has fallen 2023 given the continued reduction in earned premium accounted for by the Company and claims outstanding at 31 December 2023 compared to 2022 year end. The Standard Formula uses these two inputs to calculate premium and reserve risk.

Operational Risk (-£0.2m)

The Standard Formula calculates an operational risk charge based on the Company's gross earned premium in 2023 and 2022. Gross earned premium has fallen compared to the equivalent 2022/2021 used at the 2022 year end.

Minimum Capital Requirement

The minimum capital requirement (MCR) is £3,495,000 (2022: £3,565,000).

A linear MCR is first calculated, the function of net written premium and net best estimates multiplied by factors prescribed for each line of business. The Company's linear MCR is £1,648,000 (2021: £1,933,000). There then follows two steps. The first is that the MCR cannot be lower than 25% of the SCR (the MCR floor). For SFME, this is £3,240,000 (2022: £3,565,000. The second is that SFME underwrites a very small number of liability risks and consequently its MCR has an absolute floor of €4,000,000 (2022: €4,000,000). The Sterling equivalent of the absolute floor is £3,495,000 (2022: £3,445,000). In 2023, the MCR is equal to the absolute floor (2022: equal to the MCR floor).

All SFME's own funds are entirely eligible to cover the MCR.

SFME has used net written premium (on a Solvency II basis) and net best estimates to calculate the MCR. These factors can be seen on template S.28.01.

Summary of capital ratios

The following table summarises the Company's solvency ratios based on the data reported in the previous sections.

	2023	2022
	£000s	£000s
Own funds and eligible capital	44,274	39,063
SCR	12,959	14,258
MCR	3,495	3,565
SCR coverage ratio	342%	274%
MCR coverage ratio	1267%	1096%

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

The duration-based equity risk sub-module has not been used as SFME held no equity.

E.4 Difference between the standard formula and any internal model used

No internal model has been used.

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

There has not been any non-compliance with the solvency capital requirement and non-compliance with the minimum capital requirement.

E.6 Any other information

Due to the simple nature of SFME's capital management, there is no other material information to be disclosed.

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F. Quantitative Reporting Templates

In this chapter:

All templates are reported in GBP thousands

S.01.02 General information

General information

Undertaking name	Samsung Fire & Marine Insurance Company of Europe Ltd
Undertaking identification code	213800OL98I151XYWL10
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations
S.05.02.01 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02 Balance sheet (1 OF 2)

S.02.01.02

Balance sheet

	Solvency II value
Assets	C0010
Intangible assets	
Deferred tax assets	
Pension benefit surplus	
Property, plant & equipment held for own use	1,149
Investments (other than assets held for index-linked and unit-linked contracts)	48,343
Property (other than for own use)	0
Holdings in related undertakings, including participations	0
Equities	0
Equities - listed	
Equities - unlisted	
Bonds	0
Government Bonds	0
Corporate Bonds	0
Structured notes	0
Collateralised securities	0
Collective Investments Undertakings	0
Derivatives	
Deposits other than cash equivalents	48,343
Other investments	0
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	0
Loans on policies	0
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	27,582
Non-life and health similar to non-life	27,582
Non-life excluding health	27,582
Health similar to non-life	0
Life and health similar to life, excluding index-linked and unit-linked	0
Health similar to life	
Life excluding health and index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	0
Insurance and intermediaries receivables	22,290
Reinsurance receivables	9,486
Receivables (trade, not insurance)	219
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	4,849
Any other assets, not elsewhere shown	112
Total assets	114,031

S.02.01.02 Balance sheet (2 OF 2)

	Solvency II value
Liabilities	C0010
Technical provisions - non-life	32,359
Technical provisions - non-life (excluding health)	32,359
TP calculated as a whole	0
Best Estimate	31,853
Risk margin	506
Technical provisions - health (similar to non-life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding index-linked and unit-linked)	0
Technical provisions - health (similar to life)	0
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - life (excluding health and index-linked and unit-linked)	0
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - index-linked and unit-linked	0
TP calculated as a whole	
Best Estimate	
Risk margin	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	285
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	7,243
Reinsurance payables	25,806
Payables (trade, not insurance)	1,198
Subordinated liabilities	0
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	0
Any other liabilities, not elsewhere shown	2,866
Total liabilities	69,757
Excess of assets over liabilities	44,274

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

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																	
Gross - Direct Business						2,114	3,344	48									5,506
Gross - Proportional reinsurance accepted						10,055	25,244	99									35,399
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share						4,225	27,233	81									31,539
Net						7,944	1,355	66									9,365
Premiums earned																	
Gross - Direct Business						2,034	1,108	25									3,168
Gross - Proportional reinsurance accepted						10,565	22,868	69									33,503
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share						4,318	22,837	30									27,185
Net						8,281	1,140	65									9,486
Claims incurred																	
Gross - Direct Business						213	1,077	46									1,337
Gross - Proportional reinsurance accepted						543	6,357	-92									6,808
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share						152	7,216	-64									7,303
Net						604	218	18									841
Changes in other technical provisions																	
Gross - Direct Business																	0
Gross - Proportional reinsurance accepted																	0
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share																	0
Net						0	0	0									0
Expenses incurred						1,522	2,042	-85									3,478
Other expenses																	-893
Total expenses																	2,585

S.05.02.01 Premium, claims and expenses by country

S.05.02.01

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

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
		HU	NL	SA	EG	DE	
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	4,139	0	0	0	0	0	4,139
Gross - Proportional reinsurance accepted	817	19,899	3,221	2,066	1,467	1,502	28,972
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	4,250	18,194	2,023	1,945	405	699	27,516
Net	707	1,705	1,197	121	1,062	803	5,595
Premiums earned							
Gross - Direct Business	1,912	0	0	0	0	0	1,912
Gross - Proportional reinsurance accepted	814	17,414	3,027	1,716	1,358	1,926	26,255
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	2,076	15,631	1,838	1,605	354	811	22,315
Net	650	1,783	1,189	111	1,004	1,115	5,853
Claims incurred							
Gross - Direct Business	1,278	0	0	0	0	0	1,278
Gross - Proportional reinsurance accepted	253	1,170	947	772	82	841	4,064
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	1,272	2,632	485	765	47	143	5,345
Net	258	-1,462	462	7	34	698	-3
Changes in other technical provisions							
Gross - Direct Business							0
Gross - Proportional reinsurance accepted							0
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share							0
Net	0	0	0	0	0	0	0
Expenses incurred	519	1,024	212	116	263	24	2,158
Other expenses							
Total expenses							2,158

S.17.01.02 non-life technical provisions

S.17.01.02
Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole						0	0	0									0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
Technical provisions calculated as a sum of BE and RM																	
Best estimate																	
Premium provisions																	
Gross						255	7,417	12									7,684
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-287	6,166	15									5,894
Net Best Estimate of Premium Provisions						541	1,252	-4									1,789
Claims provisions																	
Gross						2,314	21,668	188									24,169
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						1,094	20,505	89									21,688
Net Best Estimate of Claims Provisions						1,220	1,163	98									2,481
Total best estimate - gross						2,568	29,085	199									31,853
Total best estimate - net						1,761	2,415	95									4,270
Risk margin						207	287	12									506
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole																	0
Best estimate																	0
Risk margin																	0
Technical provisions - total						2,775	29,373	211									32,359
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total						807	26,671	105									27,582
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total						1,968	2,702	107									4,776

S.19.01.21 Claims Development Triangles

S.19.01.21

Non-Life insurance claims

Total Non-life business

Accident year / underwriting year | Accident 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 & +		
Prior											-20	-20	-20
-9	2,699	1,790	82	14	-40	-122	0	0	0	0		0	4,424
-8	1,966	2,465	-107	0	-48	15	-15	0	0			0	4,277
-7	4,483	1,370	-81	-66	0	-1	0	4				4	5,709
-6	3,947	1,500	-317	262	-242	0	-32					-32	5,118
-5	3,411	783	645	3,731	-46	-2						-2	8,521
-4	2,815	2,721	-1,010	8	-33							-33	4,501
-3	2,455	4,420	1,830	-27								-27	8,677
-2	1,820	1,326	1,914									1,914	5,060
-1	3,928	1,492										1,492	5,420
0	1,960											1,960	1,960
											Total	5,255	53,647

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 & +	
Prior											0	0
-9	0	0	535	442	265	355	292	291	291	294		288
-8	0	1,092	297	53	67	38	48	48	49			48
-7	4,241	1,471	285	101	38	25	25	14				13
-6	7,966	2,251	1,555	892	990	952	796					781
-5	8,687	6,195	3,940	28	84	96						95
-4	7,572	2,415	708	195	231							227
-3	15,410	10,214	2,528	2,613								2,580
-2	14,215	6,863	2,437									2,376
-1	10,899	8,747										8,475
0	9,819											9,286
											Total	24,169

S.23.01.01 Own Funds (top half)

S.23.01.01
Own Funds

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	10,600	10,600		0	
Share premium account related to ordinary share capital	0	0		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0		0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	33,674	33,674			
Subordinated liabilities	0		0	0	0
An amount equal to the value of net deferred tax assets	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
Deductions for participations in financial and credit institutions	0				
Total basic own funds after deductions	44,274	44,274	0	0	0
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
Unpaid and uncalled preference shares callable on demand	0				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Other ancillary own funds	0				
Total ancillary own funds	0			0	0
Available and eligible own funds					
Total available own funds to meet the SCR	44,274	44,274	0	0	0
Total available own funds to meet the MCR	44,274	44,274	0	0	
Total eligible own funds to meet the SCR	44,274	44,274	0	0	0
Total eligible own funds to meet the MCR	44,274	44,274	0	0	

S.23.01.01 Own Funds (bottom half)

Available and eligible own funds					
Total available own funds to meet the SCR	44,274	44,274	0	0	0
Total available own funds to meet the MCR	44,274	44,274	0	0	
Total eligible own funds to meet the SCR	44,274	44,274	0	0	0
Total eligible own funds to meet the MCR	44,274	44,274	0	0	
SCR	12,959				
MCR	3,495				
Ratio of Eligible own funds to SCR	341.64%				
Ratio of Eligible own funds to MCR	1266.92%				

Reconcilliation reserve	C0060
Excess of assets over liabilities	44,274
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	
Other basic own fund items	10,600
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
Reconciliation reserve	33,674
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non- life business	315
Total Expected profits included in future premiums (EPIFP)	315

S.25.01.21 Solvency Capital Requirement – for undertakings on the Standard Formula

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
Market risk	4,282		
Counterparty default risk	5,991		
Life underwriting risk	0		
Health underwriting risk	0		
Non-life underwriting risk	5,427		
Diversification	-3,841		
Intangible asset risk	0		
Basic Solvency Capital Requirement	11,859		

Calculation of Solvency Capital Requirement	C0100
Operational risk	1,100
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
Solvency Capital Requirement excluding capital add-on	12,959
Capital add-ons already set	0
Solvency capital requirement	12,959
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	0
Total amount of Notional Solvency Capital Requirements for remaining part	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
Diversification effects due to RFF nSCR aggregation for article 304	0

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

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

USP Key

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

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

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

S.28.01.01 Minimum Capital Requirement

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations	C0010
MCR_{NL} Result	1,648

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
Medical expense insurance and proportional reinsurance	0	
Income protection insurance and proportional reinsurance	0	
Workers' compensation insurance and proportional reinsurance	0	
Motor vehicle liability insurance and proportional reinsurance	0	
Other motor insurance and proportional reinsurance	0	
Marine, aviation and transport insurance and proportional reinsurance	1,761	8,013
Fire and other damage to property insurance and proportional reinsurance	2,415	1,321
General liability insurance and proportional reinsurance	95	66
Credit and suretyship insurance and proportional reinsurance	0	
Legal expenses insurance and proportional reinsurance	0	
Assistance and proportional reinsurance	0	
Miscellaneous financial loss insurance and proportional reinsurance	0	
Non-proportional health reinsurance	0	
Non-proportional casualty reinsurance	0	
Non-proportional marine, aviation and transport reinsurance	0	
Non-proportional property reinsurance	0	

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

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

Overall MCR calculation	C0070
Linear MCR	1,648
SCR	12,959
MCR cap	5,832
MCR floor	3,240
Combined MCR	3,240
Absolute floor of the MCR	3,495
Minimum Capital Requirement	3,495

G. Directors' Statement

The Directors acknowledge their responsibility for preparing this Solvency and Financial Condition Report in all material respects in accordance with the requirements of the PRA Rulebook and the Solvency II Regulations.

The Directors are satisfied that:

- throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA Rulebook and the SII Regulations as applicable to SFME; and
- it is reasonable to believe that the Company has continued to comply subsequently and that it will continue to do so in the foreseeable future.

Signed on behalf of the Board of Directors

Sungryeol Lee, Chief Executive Officer:

Dated: 5 April 2024