Samsung Fire & Marine Insurance
Europe

Samsung Fire & Marine Insurance Company of Europe Ltd

Solvency and Financial Condition Report

Year ended 31 December 2024

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)

	2024	2023
Gross written premium	53,280	40,905
Gross earned premium	36,525	36,671
Net earned premium	7,968	9,486
Retention ratio	21.8%	25.9%
Combined ratio	50.4%	46.1%
Profit after tax	5,363	5,553
Return on equity	12.4%	14.5%
Total assets	107,544	114,031
Gross technical provisions	25,502	32,359
Own funds	49,717	44,274
Solvency Capital Requirement	16,297	12,959
Solvency Coverage Ratio	305%	342%
Minimum Capital Requirement	4,074	3,495
MCR Coverage Ratio	1220%	1267%

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 IR05 template in section F. 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.

<table>
<tr><td>Business and Performance</td><td><u>Premium income</u>

The Company's gross written premium ("GWP") in 2024 was £53m, an increase of £12m in comparison to 2023. The main change from 2023 was because the Company agreed in principle to act as a reinsurer for a number of insurance contracts issued to a single primary insurer and where the Company holds reinsurance contracts issued by a single reinsurer. The insurance risk is reinsured 100%. The arrangement incorporated a number of property and liability contracts and, in 2025, will also cover some cargo contracts. The contracts issued from the arrangement in 2024 generated GWP of £19m. Since the contracts were issued in the second half of 2024, the impact on earned premium is much lower. The Company also had lower GWP from engineering contracts in 2024.

The Board is satisfied that the new business opportunities in 2024 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.

The split of GWP between cargo and non-cargo in 2024 was cargo 21% and non-cargo 79% (2023: cargo 30%, non-cargo 70%). In terms of clients, 66% of GWP came from Samsung-affiliated clients (2023: 82%).

Gross earned premium ("GEP") in 2024 was £37m, the same as 2023. A £2m reduction in cargo was negated by increases to property and liability, reflecting the arrangement described above. The bulk of the increased GWP will be earned in 2025.

The cargo/non-cargo split of GEP in 2024 was 30%/70% (2023: 34%/66%), with 81% of GEP coming from Samsung-affiliated clients (2023: 85%).

In contrast to GEP, net earned premium ("NEP") fell by £1.5m. Given the proportion of NEP from cargo was 85% (2023 87%), the distinction from GEP is explained by the retention ratio (the amount of GEP which the Company retained after reinsurance). Overall, the ratio was 22% (2023: 26%). However, cargo retention was 63% (2023: 66%) whereas non-cargo business was only 5% (2023: 5%). Of the variances described above for GEP, therefore, it is only the cargo adjustment variance which has a meaningful impact at a net level. The Company retained most of the cargo £2m GEP reduction but ceded to reinsurers the bulk of the £2m GEP increase on non-cargo. 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 2024 was 98% (2023: 94%). It is therefore affiliated business which is the main contributor to 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.</td></tr>
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	Insurance claims The gross incurred ratio was lower in 2024 (15%) than in 2023 (27%). The claims ratio for the current year claims (i.e., removing the distorting effect of the prior year releases) was 33% (2023: 39%), which shows a very good underlying claims experience in 2024 and more in line with the Company's long-term average. In contrast to gross, the net incurred ratio was higher in 2024 (24%) than in 2023 (10%). 2023 was exceptionally low due to the withdrawal of a large cargo claim for which the Company had a large retention. The claims ratio for the current year claims (i.e., without the prior year release) was 31% (2023: 26%), which shows a very good underlying claims experience in 2024. There were no discernible claims-related trends in 2024 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 2024. The nature of the Company's business is such that a small number of individual claims can impact the claims ratio, and that gross and net can vary according to the reinsurance on each claim. Broadly, given that the "all years" ratios are lower than the current year ratios (due to a beneficial run off of claims against expected run off), the Company continues to demonstrate a prudent level of reserving. Commission and expenses Gross commissions, as measure in a way consistent with the IR.0501 template, fell as a percentage of gross earned premium (2024: 14%; 2023: 19%). The new arrangement has a much lower commission rate compare to the Company's other business. There were also some reductions in the cost of Hungarian supplemental and insurer-borne taxes. Reinsurance commissions received, expressed as a ratio of reinsurance earned premium were almost unchanged from 2023 (2024: 26%; 2023: 27%). As noted previously, the Company derives a valuable source of income acting as a fronting insurer in the London Market for other insurers. Having suffered a reduction in net commission income last year due to the cessation of Russian-exposed business, the Company has restored its commission margin given that amount earned from net commissions rose from £0.6m to £2.2m. Overheads fell by £0.8m. One major item was as a result of reduced audit fees; 2023 suffered a high level of audit fee due to the change of auditors and the implementation of IFRS 17. Measured on a basis consistent with IFRS 17, the net expenses ratio was 27% (2023: 36%) of net insurance revenue. Combined ratio Overall, the combined ratio rose in 2024 from 46% to 50%. The reasons for this are: 2023 benefitted from a lower claims ratio whereas 2024 benefitted from a lower overhead cost and also that 2024 has a lower net earned premium. If the effect of prior year claims is excluded, the combined ratio was lower than 2023 at 58% (2023: 63%). 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 £2.4m (2023: £1.8m). Investment income from deposits represented a yield of 5.1% (2023: 4.0%). The Company has adopted a conservative investment approach and invests funds solely in time deposits. Deposit yields increased considerably during 2023 though the Company's return was partly based on the lower rates available on deposits made in 2022. In contrast, the return in 2024 reflects a likely peak from deposits given that deposit rates available towards the end of 2024 were 4-4½% following reductions in rates offered by central banks during 2024.

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 2024 and 2023 the Company managed a surplus of USD and EUR assets. During 2024, the Company incurred a FX loss of £0.2m (2023: £0.5m).

IFRS 17

The Company accounts for its insurance contracts using International Financial Reporting Standard 17 ("IFRS 17", "the Standard"). Solvency UK ("S-UK") regulations require the reporting of certain items reported under IFRS, either in quantitative templates (section F) or as cited throughout this Report. However, the Regulations do not take account of all IFRS 17 requirements and to some extent are derived from insurance accounting conventions pre-dating IFRS 17. The Company has made some judgements about how best to use data from its accounting systems and to fit the IFRS 17 line items into this report and the templates.

The following list summarises the main judgements and restatements utilised in Solvency UK 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, 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 reports earned premium (gross, "GEP" and net, "NEP") on the IR.05 templates in line with the PRA's instructions and within this Report prior to any netting down. Commission therefore is reported within acquisition costs on the IR.05 templates.
- The measurement of incurred claims reported in the IR.05 templates now includes allocated claims handling costs (for example, loss adjuster fees attaching to individual claims) (previously an expense under Solvency II) but Solvency UK continues to require that unallocated claims handling costs are reported as an expense on the IR.05 templates. Unallocated claims handling expenses are part of the claims insurance services cost under IFRS 17.
- The Company issues contracts in multiple currencies. In complying with IFRS, the Company evaluates earned premium, acquisition costs and incurred claims based on average FX rates.

	These FX adjustments are not accommodated in the IR.05 templates on those line items and are therefore reported within FX gains or losses in this Report and the IR.05. • IFRS 17 requires that premium owed to the Company (insurance receivables) and unearned premium ("UPR") are reported together as a liability for remaining coverage ("LFRC"). There are equivalent presentations for: reinsurance premium payables and RI UPR, reported as an asset for remaining coverage ("AFRC"); claims payable and claims reserves reported as a liability for incurred claims ("LIC"); and reinsurance recoveries and RI claims reserves reported as an asset for incurred claims ("AIC"). Where IFRS assets and liabilities are reported on the templates (for example, the IR.02) or in this Report, the IFRS 17 presentation has been adopted as far as is possible. Receivables and payables are however reported within Solvency UK asset and liability line items to the extent they are passed their due dates. • Some inputs used to calculate the solvency capital requirement ("SCR") are derived from accounting data for which there is no direct IFRS 17 equivalent. For example, earned premium is used to quantify the premium risk and operational risk charges. The Company has used earned premium from its accounting systems which reconciles to IFRS17 insurance revenue by virtue of the netted-off commission amounts and FX adjustments. Another example is that where the counterparty risk charge uses premium receivable, the Company has used a premium receivable number available to it from its financial system and where that item is a component part of the LFRC under IFRS.
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 2024. The Company conducted a full ORSA and the report was approved by the Board in December 2024. This ORSA takes account of the 3-year planning period 2025 to 2027. The ORSA confirmed that the Solvency Capital Requirement ("SCR") is expected to increase moderately over this horizon but that the solvency coverage ratio is expected to be higher than the ratio at 31 December 2024 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 increased in 2024, principally from a higher underwriting risk charge. This is the consequence of (1) a large new engineering contract issued to an existing policyholder which has increased the Company's exposure to 1 loss event at that policyholder's site (after reinsurance, the Company's maximum retention is $1.5m); and (2) the new arrangement described on page 3. The arrangement's insurance risk is ceded 100% to reinsurers. Despite the high level of reinsurance on these new risks, the outputs from the Standard Formula have increased.

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>

As noted previously, with effect from Q1 2022, the Company suspended writing the renewal of existing or acceptance of new Russian-exposed business. 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. During 2024, all these contracts had expired though the Company continues to manage a run-off of unsettled claims.

Where the Russian-exposed business is the result of an ultimate reinsurer located in Russia, the Company continues to have a 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 considers the probability of a claim of such magnitude to be increasingly remote. There were no significant claims reported to the Company from this business in 2024. The Company has, with the reinsurer's agreement, withheld reinsurance premium owed to the reinsurer to mitigate this risk. At the date of this report, the Company 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 2024 annual return to the Office of the Superintendent of Financial Institutions ("OFSI"), the Company has reported frozen assets of £1.5m (2023: £145k). Frozen assets in this context means liabilities of the Company which are owed to counterparties subject to sanctions and which the Company cannot settle. In June 2024, the UK Government added the reinsurer referred in the previous paragraph to its list of sanctioned organisations. As a result, the frozen assets reported to OFSI has increased significantly, principally on account of the premium monies owed to that reinsurer.

<u>Climate change</u>

The Board has concluded that the Company's exposure to climate-related risks is low and unchanged from 2023, as explained in this section. The PRA has emphasised to the insurance industry the need for a strategic approach to managing climate risk and set out its expectations of Boards to evaluate, manage and report on climate change risks. The Company's approach to these expectations, proportionate to its low exposure, is outlined below.

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 2024, together with the results of the Company's monitoring.

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 unchanged and that:

- The Company has very little risk within its investments from climate change. All of its investments comprise deposits placed with banks which have very limited financial emission exposures. Also, these 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 2024; and
- The Company's exposure to climate change risk in the insurance contracts its issues and reinsurance contracts it holds remains low. Due diligence is performed on all new business to ensure it sits within the Company's appetite for climate change risk relating to underwriting exposures. 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. Only 3 claims were reported to the Company during 2024 (2023: 11) which were deemed to be weather-related.

The Company also monitors its energy use and its gross emissions in 2024 were 10 (2023: 14) metric tonnes. The Company's energy use comprises that used at its office in London together with a limited amount of air business travel by its directors and staff (within the so-called scope 2 and 3 emissions respectively). The Company does not have any scope 1 emissions.

The following table shows the Company's energy use and associated greenhouse gas emissions:

	2024		2023	
	Kwh	tonnes CO2e	Kwh	tonnes CO2e
Electricty purchased	25,952	5.4	26,394	5.5
Business travel - flights	27,169	5.0	42,667	8.3
	53,121	10.4	69,061	13.8
Intensity ratio based on tCO2e per employee		0.68		0.98

The Company occupies a single floor of a multi-tenanted building and the data used to calculate the office energy consumption is based on information provided by the landlord, quoting the usage attributed to the Company. In respect of business travel, the Company keeps a log of flights made by its employees. The energy consumption of these flights is determined by reference to the data provided by the International Civil Aviation Organisation ("ICAO") whereby the ICAO website provides fuel consumed for each flight (all legs of the flight considered). The Company does not own any motor vehicles nor do its employees make any business travel by car. The amount of travel

	by other modes of transport is not material. The data disclosed comprises energy used during the calendar year 2024. Total emissions have been calculated using the latest applicable UK Government's emission conversion factors. Business travel has reduced in 2024 since the Company's staff made fewer visits to overseas policyholders, in accordance with what the Company judges is appropriate to maintain successful customer relationships. 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 2024. 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.
Valuation for Solvency Purposes	The valuation of assets and liabilities for S-UK 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 S-UK and IFRS. Some differences are then subsequently applied through the inclusion of an amount for ENID (events not in data) under S-UK 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 S-UK. The LIC also incorporates claims payable and receivable which are reported as receivables and payables on the S-UK 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 S-UK 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 S-UK 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 from those contracts. • 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; and • An additional deferred tax liability on the additional profits recognised. As a result of these differences, Solvency UK total assets were higher than IFRS total assets at the end of 2024 (£108m vs £86m). Essentially, Solvency UK reports premium receivables as assets when past-due whereas IFRS only reports receivables (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 Solvency UK regulations and the IFRS. On the balance sheet, the excess of assets over liabilities (known as Own Funds) increased by £5.4m to £49.7m (2023: £44.3m) following a profitable year's trading in 2024 (i.e., the increase in Own Funds is largely similar to the £5.4m IFRS profit after tax). There have been no other changes to the Company's capital.
Capital Management	The Company has a very simple capital structure comprising issued ordinary share capital and retained earnings (known as a reconciliation reserve in Solvency UK terminology). Accordingly, the Company's own funds are entirely Tier 1. As noted above, Own Funds increased in 2024 by £5.4m largely due to its IFRS reported profits (£5.4m). Own Funds were £49.7m at the end of 2024, which is £0.9m higher (2023: £0.8m higher) than IFRS shareholders' equity. As described above, there are differences in profit recognition between IFRS and Solvency UK (typically Solvency UK recognises profits now which IFRS will recognise in future periods), as well some asset and liability measurement differences, which account for the £0.9m. The Solvency Capital Requirement ("SCR") was £16.3m (2023: £13.0m). The biggest change arose from the insurance risk charge (£2.1m pre diversification), the result of: (1) a large new engineering contract issued to an existing policyholder which has increased the Company's exposure to one loss event at that policyholder's site (after reinsurance, the Company's maximum retention is $1.5m); and (2) the new arrangement described on page 3. The arrangement's insurance risk is ceded 100% to reinsurers. Despite the high level of reinsurance on these new risks, the outputs from the Standard Formula cat risk have increased. Given the additional reinsurance, the counterparty risk charge has also increased. The currency has risen as well given increased surpluses in EUR and USD assets. The solvency coverage ratio has fallen to 305% (2023: 342%) as a result of the higher SCR and despite the increased Own Funds. The Minimum Capital Requirement ("MCR") was £4.1m (2023: £3.5m). The MCR coverage ratio fell slightly to 1220% (2023: 1267%). The MCR is slightly higher than the absolute floor (expressed in the PRA Rulebook as £3.5m) given the higher inputs to the MCR calculation.

This report is made under the PRA's Solvency UK requirements rather than as last year under Solvency II regulations published by EIOPA. Whilst the majority of items are measured and reported in the same way, Solvency UK has some differences (for example, fees associated with individual claims are included in the claims cost rather than being a separate claims management cost). Comparative numbers have been restated in this report where appropriate and to assist readability. Further, some IFRS measurements were accommodated by SII (for example, foreign exchange adjustments to earned premium) but are not under Solvency UK. Again, the comparative has been adjusted where appropriate for better consistency year-on-year.

Samsung Fire & Marine Insurance Company of Europe Ltd

Solvency and Financial Condition Report 2024

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 2024 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.

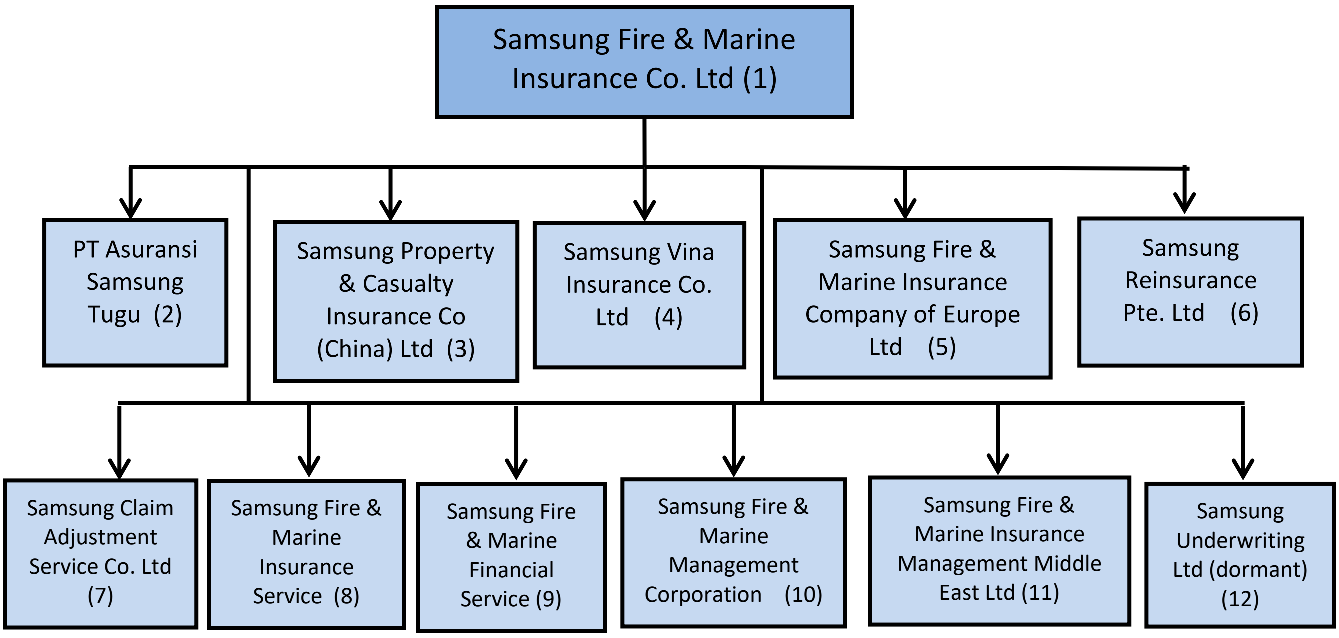
The external auditor for the 2024 year end was Forvis Mazars LLP of 30 Old Bailey, London EC4M 7AU though the Company falls below the threshold at which an external audit of the SCR and this report is required.

SFME is authorised by the Prudential Regulation Authority (20 Moorgate, London EC2R 6DA) and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Company is a category 4 insurer and does not have an assigned supervisor at the PRA.

Pursuant to a Policy Statement issued by the PRA which set out thresholds for the requirement of an external audit of Solvency UK reporting, the Company fell below these thresholds and accordingly has not engaged Forvis Mazars LLP in an audit of its Solvency UK 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	Ownership	Domicile
1	Samsung Fire & Marine Insurance Co. Ltd	Parent	Republic of Korea
2	PT Asuransi Samsung Tugu	70%	Indonesia
3	Samsung Property & Casualty Insurance Co (China) Ltd	37%	China
4	Samsung Vina Insurance Co., Ltd	75%	Vietnam
5	Samsung Fire & Marine Insurance Company of Europe Ltd	100%	United Kingdom
6	Samsung Reinsurance Pte. Ltd	100%	Singapore
7	Samsung Claim Adjustment Service Co., Ltd	100%	Republic of Korea
8	Samsung Fire & Marine Insurance Service Co., Ltd	100%	Republic of Korea
9	Samsung Fire & Marine Financial Service Co., Ltd	100%	Singapore
10	Samsung Fire & Marine Management Corporation	100%	United States of America
11	Samsung Fire & Marine Management Middle East Ltd	100%	United Arab Emirates
12	Samsung Underwriting Ltd (dormant)	100%	United Kingdom

SFMI also considers Fortuna Topco Limited (Jersey) to be related due to its 18.86% shareholding. Fortuna Topco is the ultimate holding entity of the group which owns the Canopius Lloyd's syndicate.

Description of the sources of revenue

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

basis : IFRS gross written premium		2024 £000s	2024 %	2023 £000s	2023 %
Cargo	*storage & transit*	10,939	20.5%	12,169	29.7%
Property	*property damage, business interruption & engineering/construction*	39,257	73.7%	28,588	69.9%
Liability	*general liability, directors & officers liability*	3,084	5.8%	148	0.4%
Total		53,280	100.0%	40,905	100.0%

The table shows an increase of GWP of £12.4m. In 2024, the Company agreed in principle to act as a reinsurer for a number of insurance contracts issued to a single primary insurer and where the Company holds reinsurance contracts issued by a single reinsurer. The insurance risk is reinsured 100%. The arrangement incorporated a number of property and liability contracts and, in 2025, will also cover some cargo contracts. The contracts issued from the arrangement in 2024 generated GWP of £19m. The Company had reduced levels of engineering premium, which tends to be one-off in nature, and of cargo premium due to softening rates and reduced sums insured. In addition, cargo suffered a lower adjustment premium in 2024 at the end of the 2023-incepting contracts compared to 2022 contracts in 2023. Reasons for the adjustment premium vary by policyholder but broadly, the Company believes that due to the cost of living crises, consumer demand was much lower during the duration of the 23/24 contracts leading to lower volumes being shipped by policyholders.

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

	Gross written premium 2024	Gross written premium 2023	Net written premium 2024	Net written premium 2023
Cargo	20.5%	29.7%	86.0%	85.2%
Manufacturing	70.1%	46.2%	8.6%	8.9%
Warehouse & storage	4.0%	4.7%	2.7%	1.7%
Public buildings/facilities	0.5%	0.6%	1.5%	1.5%
Construction	4.4%	18.5%	0.1%	1.4%
All other types	0.6%	0.2%	1.1%	1.3%
Total	100.0%	100.0%	100.0%	100.0%

The proportion of GWP attributable to 'cargo' and 'construction' has decreased for the reasons noted in the preceding paragraph. 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	
	2024	2023	2024	2023
UK	3.0%	12.1%	8.1%	7.5%
Europe	52.3%	68.3%	61.4%	59.0%
CIS	37.0%	1.0%	0.7%	3.0%
Russia	0.0%	-1.5%	0.0%	0.0%
Africa	4.6%	10.1%	22.7%	25.6%
Middle East	2.1%	9.1%	5.1%	3.9%
Other	1.0%	0.8%	1.9%	0.9%
Total	100.0%	100.0%	100.0%	100.0%

European risks remain the primary source of income for the Company although the new underwriting arrangement derives business from CIS countries.

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	
	2024	2023	2024	2023
Cargo - Group entities	19.2%	27.7%	84.7%	84.1%
Cargo - other clients	1.4%	2.0%	1.4%	1.2%
Non-cargo - Group entities	30.5%	54.2%	8.6%	8.2%
Non-cargo - other clients	49.0%	16.0%	5.4%	6.5%
Total	100.0%	100.0%	100.0%	100.0%

Other clients made up around 20% of GWP in 2024 compared to 18% in 2023 as a result of the new fronting arrangement . On a net basis, cargo from Samsung entities is the predominant client type and overall, 93% (2023: 96%) 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 2024:

	Cargo		Property		Liability		Total	
source : IR.05.01 plus adjustments such that combined ratio is consistent with IFRS	2024 £000s	2023 £000s	2024 £000s	2023 £000s	2024 £000s	2023 £000s	2024 £000s	2023 £000s
Gross written premium	10,939	12,169	39,257	28,588	3,084	148	53,280	40,905
Gross earned premium	10,800	12,599	25,013	23,977	712	95	36,525	36,671
Reinsurers' share	(4,048)	(4,318)	(23,875)	(22,837)	(634)	(30)	(28,557)	(27,185)
Net earned premium	6,752	8,281	1,138	1,140	78	65	7,968	9,486
Gross incurred claims	(2,082)	(1,180)	(2,570)	(7,165)	-	-	(4,652)	(8,345)
Reinsurers' share	(101)	332	2,151	6,358	(5)	(1)	2,045	6,689
Net incurred claims	(2,183)	(848)	(419)	(807)	(5)	(1)	(2,607)	(1,656)
Gross commissions	(1,186)	(1,423)	(3,348)	(5,057)	(33)	(28)	(4,567)	(6,508)
Reinsurers' share	1,182	1,303	6,069	6,212	45	8	7,296	7,523
Net commission income (expense)	(4)	(120)	2,721	1,155	12	(20)	2,729	1,015
Other technical items		403					0	403
Net techncial result per LoB	4,565	7,716	3,440	1,488	85	44	8,090	9,248
Company total only:								
Overheads							(2,834)	(3,679)
Other items relating to IFRS17							(86)	208
Net techncial result							5,171	5,777
Combined ratio - all years							50.4%	46.1%
Combined ratio - current year							58.0%	62.7%

The table has been prepared in a manner consistent with IR.05 data (see Chapter F) other than unallocated claims costs which are included in incurred claims rather than expenses. The combined ratio is consistent with the IFRS measurement of the ratio.

Changes in GWP have already been described on page 14.

Unlike GWP however, gross earned premium(1) was barely unchanged from 2023 overall, albeit cargo is lower (in line with the reduction in GWP), and property and liability are higher which is largely due to the new fronting arrangement. Given the contracts issued under the arrangement started in the second half of 2024, a large part of the written premium remains unearned.

SFME has very low retention ratios for property and engineering so net earned premium falls by £1.5m given the higher retention of lower cargo gross earned premium.

(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

Net claims incurred were higher than in 2023 (33% of net earned premium; 2023: 17%), albeit the 2023 ratio was unusually low due to the withdrawal of a large claim originally reported in 2021. In 2024, as with 2023, 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 and, 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.

Gross commissions expenses fell as a percentage of gross earned premium (2024: 13%; 2023: 18%). Reinsurance commissions received were, as a percentage of reinsurance earned premium, also lower in 2024 (2024: 26%; 2023: 28%) although by a smaller amount than gross. Accordingly, net commission income increased by £1.7m. The Company generates income on commission from its role as a fronting reinsurer. This was eroded following the cessation of the Russian-exposed business in 2022 and IPT-related charges arising in Hungary. However, the new fronting arrangement has started to contribute to the commission margin and the Company has adapted its commission structure for the cost of the Hungarian taxes.

Overheads have fallen by £0.8m. The main factor relates to the one-off audit costs incurred in 2023 as a result of changing auditors and implementing IFRS 17. However, a number of expense types benefitted from a lower in 2024 (for example, legal and professional fees, PRA/FCA regulatory fees).

The combined ratio was slightly higher at 50% (2023: 46%). As noted, claims are higher but commission income and expenses are lower. If the impact of prior year claims movements is removed, the 2024 combined ratio of 58% is an improvement on 2023 (63%) given the higher beneficial movement in 2023.

Other comments about underwriting performance

Policyholder concentration: a significant part of SFME's income was derived from a small number of policyholders. In 2024, the 10 largest policies in terms of GWP, accounted for 73% of total GWP (2023: 60%) (this percentage excludes the new fronting arrangement for better comparability with 2023). After reinsurance, the concentration was 63% (2023: 57%). 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 2024 a negative £0.3m GWP was booked in respect of cargo policies incepting in 2023 and prior years (2023: positive £0.7m in respect of 2022 and prior cargo policies). The Company believes that the its policyholders have experienced a contraction in consumer demand due to the cost of living crises. Policyholders have shipped lower volumes of goods leading to negative adjustments at the end of the policy periods.

During 2024, there were no exceptions to the underwriting limits delegated to the Chief Underwriting Officer during 2024. The contract with the largest sum insured, a property contract previously renewed in November 2023, was renewed in November 2024. In April 2024, the Company issued a new engineering contract to the same client which, for the purposes of the Standard Formula SCR and the Company's NatCat modelling, is considered to be an exposure at the same location. One other property contract was issued in 2024 with a sum insured in excess of £250m. With its high level of capital resources, the Company has the ability to accommodate these contracts with higher sums insured. Much of the exposure is ceded to reinsurers and, therefore, the SCR impact is largely seen on counterparty risk. As explained below, the maximum net retention loss payable by SFME after all reinsurance per contract and per event remains 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 2024 and 2023 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 2024, 47% of total premiums ceded were ceded to SFMI (2023: 42%). The increase is due to SFMI's increased support to provide the Company with underwriting capacity with facultative reinsurance on new contracts in 2024. This report has already described the significant premium from a new fronting arrangement which is reinsured with 1 reinsurer. That reinsurer's share of reinsurance premium ceded is 42% (2023: nil).

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 : IR.31.01	AAA	AA	A	BBB	> BBB-	not rated
Technical provisions as at 31/12/24	-	44.9%	55.0%	-	-	0.1%
Technical provisions as at 31/12/23	-	53.5%	43.1%	3.2%	-	0.2%

The reinsurer for the fronting arrangement appears within the 'A' category in the table, hence the broadly contra movements between 'AA' and 'A' between 2023 and 2024.

Pool Re is the only 'not rated' reinsurer used for new reinsurance contracts held in 2024 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 2024.

Basis : IR.06.02, IR.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 %
2024	Interest-bearing deposits	73	2,399	46,996	47,035	5.10%
	Other deposits and bank accounts	72	1		9,817	
	Property, plant and equipment including right-to-use assets	9			1,006	
	Total		2,400	46,996	57,858	
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	

The return on deposits increased in 2024, 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. Deposit yields peaked in late 2023/early 2024 and have declined slightly for renewals made in the second half of 2024.

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 2024 financial statements ("FS"):

	2024 £000s	2023 £000s
Net earned premium *	7,968	9,486
Reclassification of commission (note 1)	2,681	1,235
Other IFRS 17 adjustments (note 2)	(226)	-
Net insurance revenue (per FS)	10,423	10,721
Net incurred claims *	(2,606)	(1,654)
Other technical items *	-	403
Other IFRS 17 adjustments (note 2)	146	208
Incurred claims (per FS)	(2,460)	(1,043)
Net earned commission income *	2,729	1,015
Reclassification of commission (note 1)	(2,681)	(1,235)
Other IFRS 17 adjustments (note 2)	(441)	(440)
Net insurance revenue (per FS)	(393)	(660)
Net admin and overheads expenses *	(2,834)	(3,679)
Other IFRS 17 adjustments (note 2)	436	439
Acquisition expenses and overheads (per FS)	(2,398)	(3,240)
Net technical result *	5,171	5,777
Combined ratio	50.4%	46.1%
Insurance finance income (expense) (per FS) (note 3)	(103)	237
Net investment income **	2,400	1,795
Other income (expenses) (per FS) (note 4)	(284)	(541)
Profit before tax	7,184	7,268
Income tax charge	(1,821)	(1,715)
Profit after tax	5,363	5,553

* as reported previously in section A2 "underwriting performance"

** as reported previously in section A3 "investment performance"

The Company has different reporting requirements for IFRS and for Solvency UK 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: the IFRS 17 presentation includes items such as 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	2024	2023
GBP	4.0%	10.6%
EUR	48.6%	56.4%
USD	24.4%	20.5%
KZT	15.8%	-
all other currencies	7.2%	12.5%
total of all currencies	100.0%	100.0%

Currency assets held as a percentage of currency liabilities		
basis : IFRS balance sheet	2024	2023
EUR	116%	105%
USD	115%	107%

The new fronting arrangement is denominated in KZT.

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. The Company holds bank and deposits accounts in GBP, EUR and USD. The increased surpluses in EUR and USD generate an increase in the currency risk charge of the SCR. Overall, the FX impact was a loss in 2024 of £0.3m (2023: loss £0.2m).

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 2024

B. System of Governance

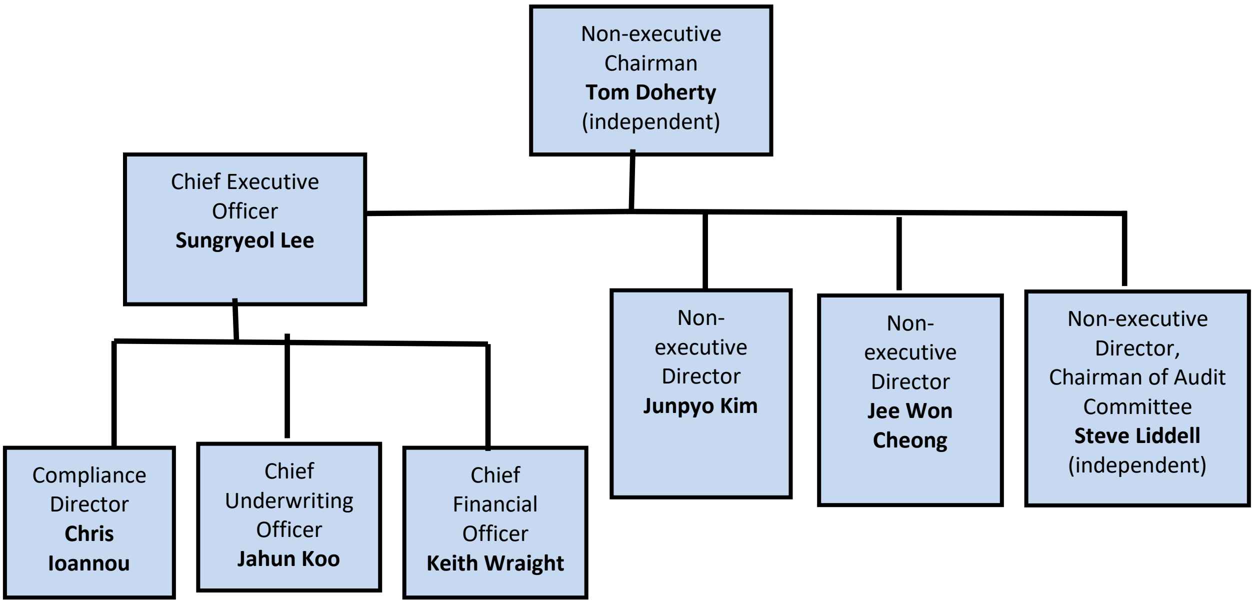
In this chapter:

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 2024, 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:

- H Bae resigned with effect from 26 April 2024; and
- J Kim was appointed with effect from 26 April 2024.

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.

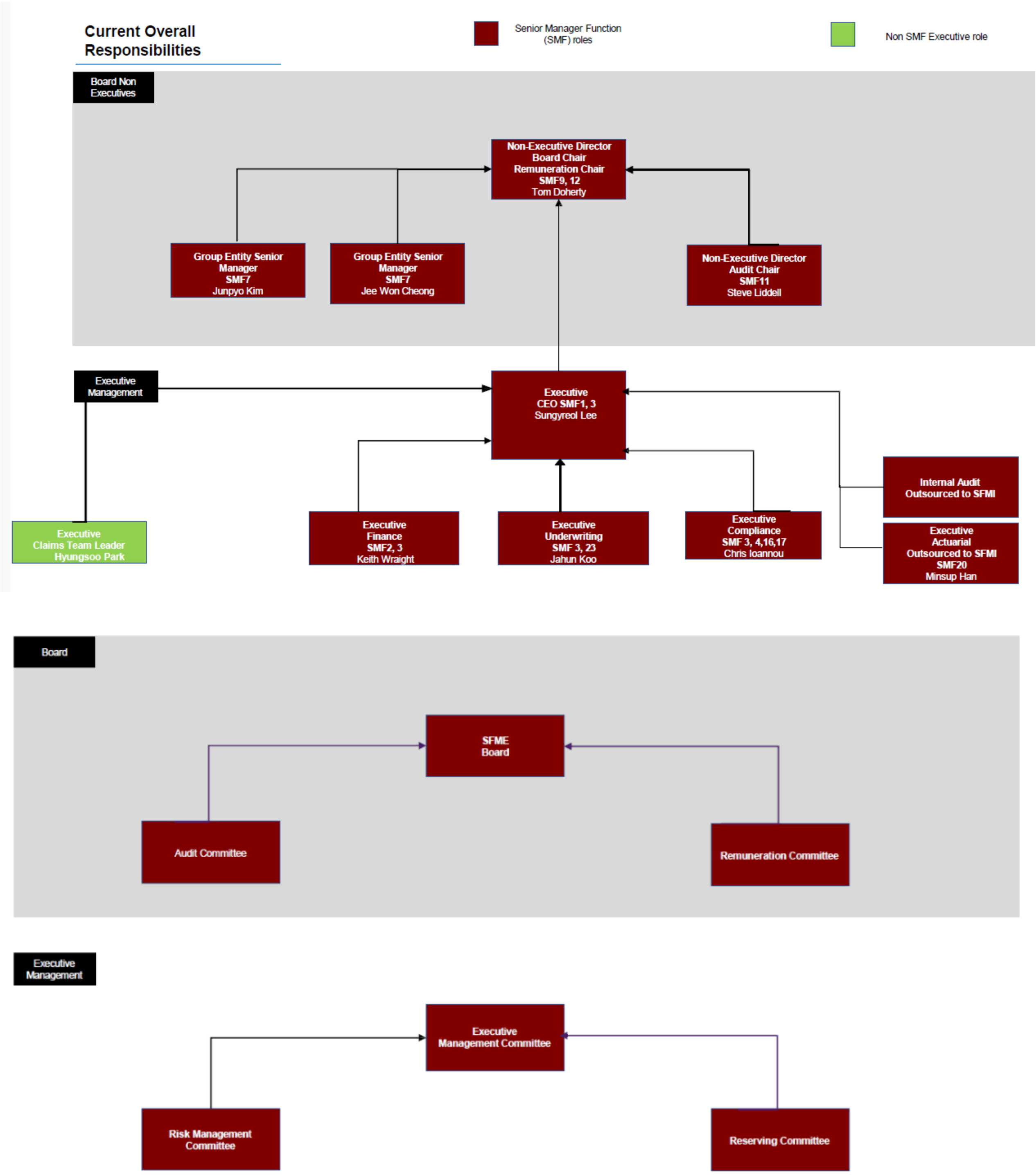
The Chief Executive Officer (“CEO”) is responsible for leading the development and execution of SFME’s long term strategy with a view to creating shareholder value. The CEO’s leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing SFME’s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

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 the CUO 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.

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.

<u>Board Committee Structure</u>

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.

<u>Audit Committee</u>

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 four times a year to consider these and other matters.

<u>Remuneration Committee</u>

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 UK 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 UK 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 2024 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 IR.31.01	2024	2023
	£'000	£'000
Transactions carried out during the year (IFRS basis) :		
Insurance revenue	4	3
Insurance service expenses - reported claims	(2)	(3)
Expenses from reinsurance contracts held	9,285	8,317
Insurance claims recoverable from reinsurers	364	669
Marketing and administrative expenses	346	325
Balances at the balance sheet date (S-UK basis)		
Amounts payable to related parties net of amounts receivable from related parties	(11,753)	(5,630)
Related parties' share of reinsurance technical provisions	6,404	10,558

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

Overview

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

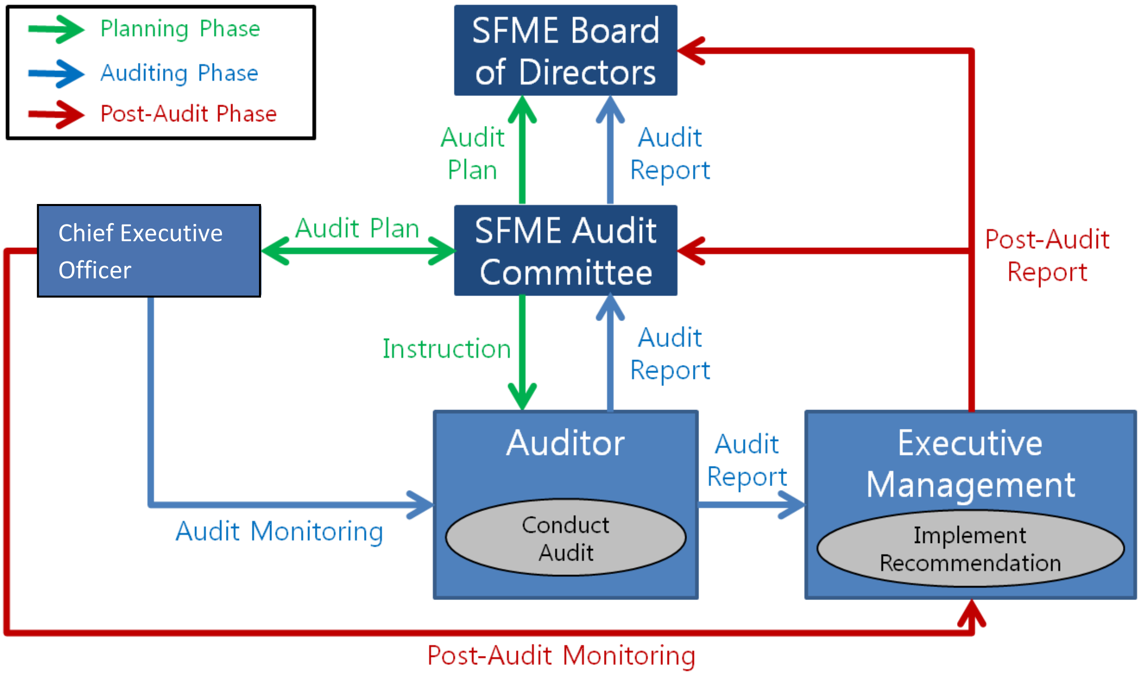
B.6 Internal audit function

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

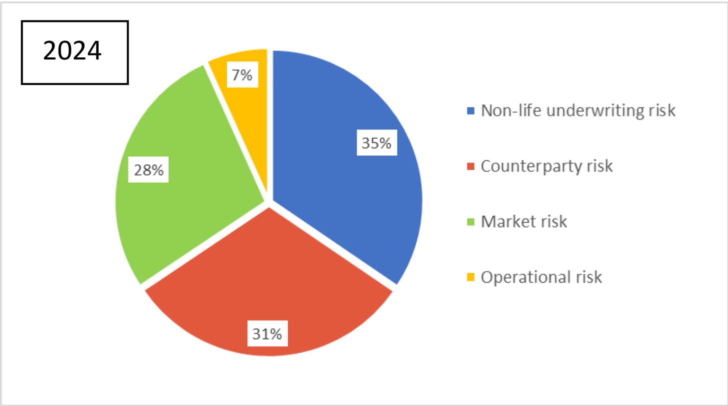
There is no other information.

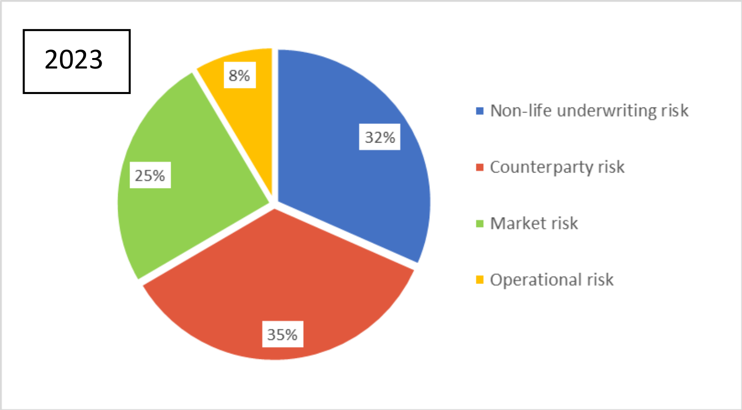
C. Risk Profile

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 2024 there has been a 26% increase in the quantification of Company's Solvency Capital Requirement (SCR). The reasons for the increase are explained in chapter E2. However, the mix between the components of the SCR has not changed significantly, as shown by the pie charts on the right. This chapter explains the characteristics of the risks faced by SFME.

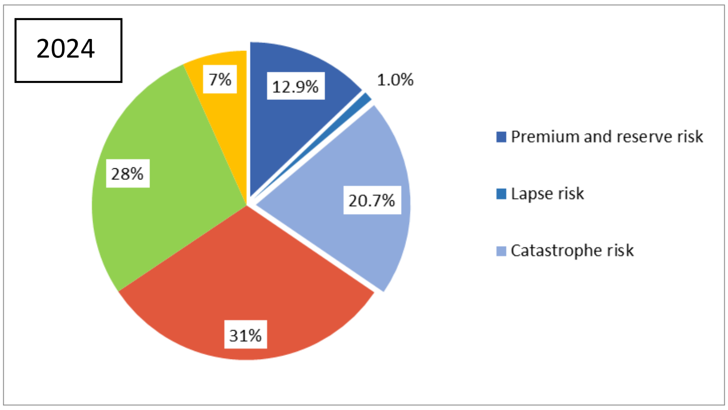




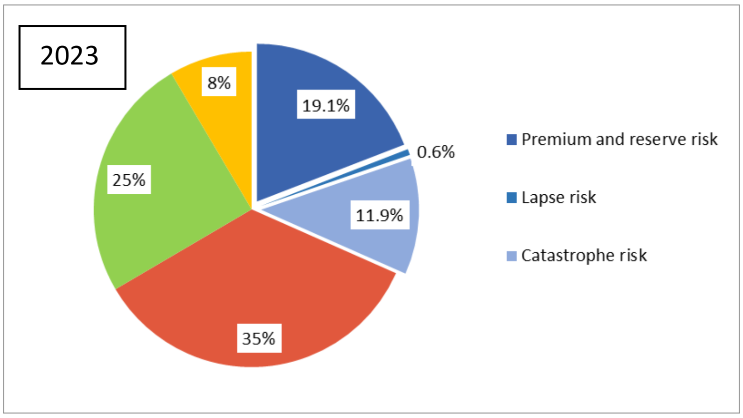
SFME uses the Standard Formula to measure risk culminating in the quantification of its SCR. The analysis performed by the Company confirms that the Standard Formula is appropriate and broadly aligned to its risk profile. This chapter provides information about the Standard Formula risks as well as additional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

C.1 Underwriting risk

Underwriting risk (34.5% of the SCR (2023: 31.6%)) 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. The relative increase in catastrophe risk and decrease in premium and reserve risk is explained in E2.



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, hail and flood national catastrophe ("NatCats") losses from its property risks, as well as man-made fire exposures. Its cargo book is also exposed to losses arising from NatCat events, especially where coverage extends to warehouse storage. 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 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 or loss of or damage to 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;

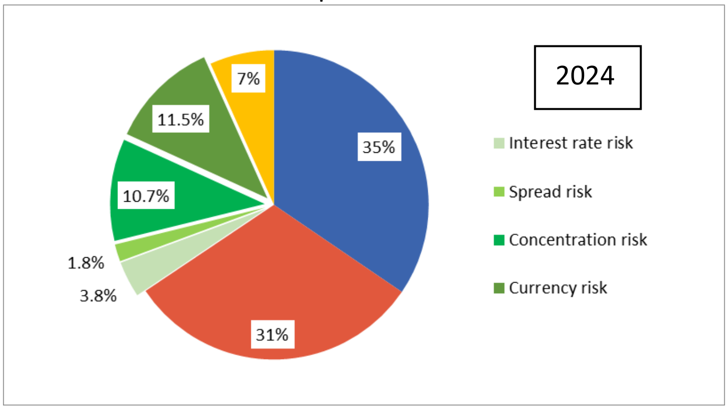
- Processes and management controls;
- Relevant documentation;
- Claim reserving;
- External third-party service providers and experts (including legal advice); and
- Performance management.

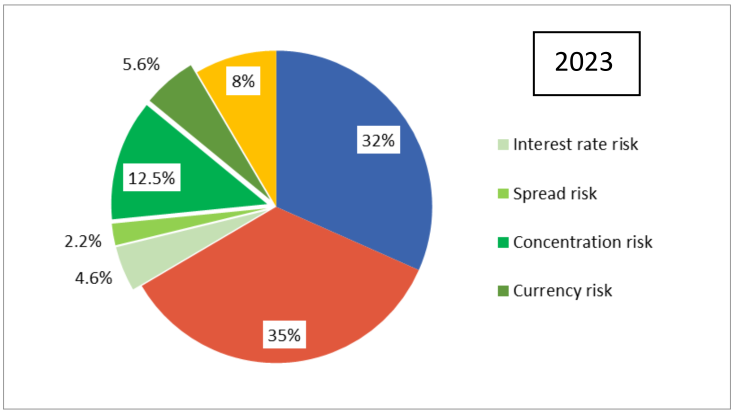
C.2 Market risk

Market risk (27.7% of the SCR (2023: 24.9%)) 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 highlights the relative change in each component, the reasons for which are explained in E2.

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 stable interest rate and return environment and the nature of its assets 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 2024, SFME held only deposits with a small number of banks so had no exposure to asset value movements.

Currency Risk

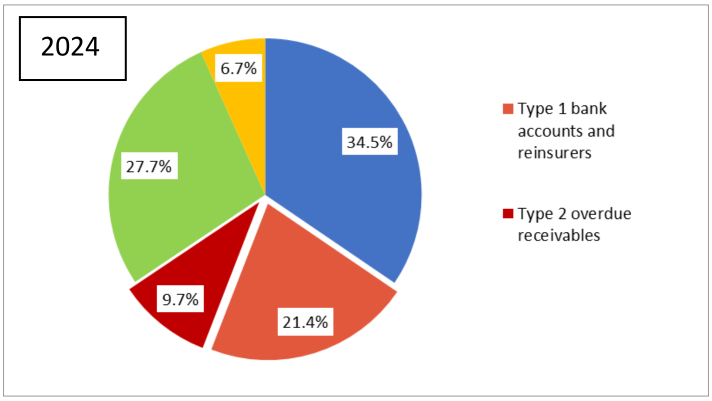
Currency risk arises from two factors:

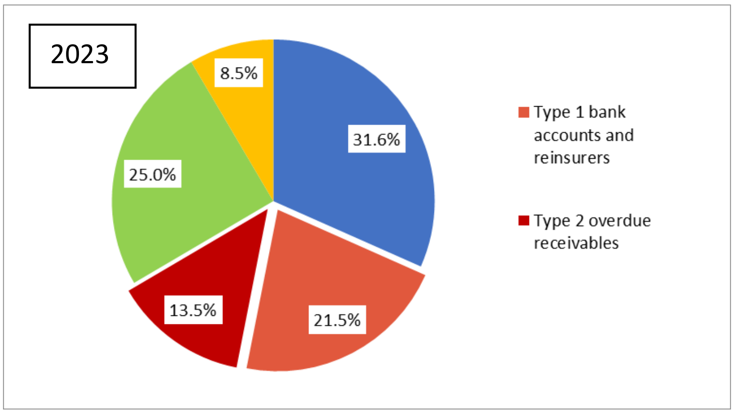
a) Impact on the matching of assets against liabilities: SFME trades in three core currencies, GBP, EUR and USD as well as holding cash at bank and deposits solely in these three currencies. A high proportion of cargo business is transacted in EUR. Given the Company retains a high proportion of its cargo business, EUR is likely to be a major contributor to the surplus of currency assets if business is profitable (deficiency is loss-making). Section A4 shows that KZT has become a material currency in terms of GWP in 2024. Given this currency is used for a new fronting arrangement, KZT assets and liabilities will match. For the three main 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. However, mitigation actions can necessarily only be taken at appropriate times (for example, upon the maturity of a deposit) so at any given reporting date, there is likely to be a moderate mismatch. Typically, the Company will have a small surplus of EUR and USD assets;

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 (31.1% of the SCR (2023: 35.0%)) 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.





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. In particular, the Company has a risk that it may be obliged to pay a large claim before receiving amounts from its reinsurers for their share of the claim.

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 or cash call clauses feature in some of the Company's reinsurance contracts;
- For reinsurance contracts held with unrelated reinsures, the Company monitors the exposures on its largest contracts (ie, sum insured) to assess the accumulation of exposures against its liquid funds; 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.

C.5 Operational risk

Operational risk (6.7% of the SCR (2023: 8.5%)) 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, such as the PRA's new requirements regarding operational resilience. 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.

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 entities 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 Board has concluded that the Company's exposure to climate-related risks is low and unchanged from 2023, as explained in this section. The PRA has emphasised to the insurance industry the need for a strategic approach to managing climate risk and set out its expectations of Boards to evaluate, manage and report on climate change risks. The Company's approach to these expectations, proportionate to its low exposure, is outlined below.

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 2024, together with the results of the Company's monitoring.

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 unchanged and that:

- The Company has very little risk within its investments from climate change. All of its investments comprise deposits placed with banks which have very limited financial emission exposures. Also, these 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 2024; and

- The Company's exposure to climate change risk in the insurance contracts its issues and reinsurance contracts it holds remains low. Due diligence is performed on all new business to ensure it sits within the Company's appetite for climate change risk relating to underwriting exposures. 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. Only 3 claims were reported to the Company during 2024 (2023: 11) which were deemed to be weather-related.

The Company also monitors its energy use and its gross emissions in 2024 were 10 (2023: 14) metric tonnes. The Company's energy use comprises that used at its office in London together with a limited amount of air business travel by its directors and staff (within the so-called scope 2 and 3 emissions respectively). The Company does not have any scope 1 emissions.

The following table shows the Company's energy use and associated greenhouse gas emissions:

	2024		2023	
	Kwh	tonnes CO2e	Kwh	tonnes CO2e
Electricty purchased	25,952	5.4	26,394	5.5
Business travel - flights	27,169	5.0	42,667	8.3
	53,121	10.4	69,061	13.8
Intensity ratio based on tCO2e per employee		0.68		0.98

The Company occupies a single floor of a multi-tenanted building and the data used to calculate the office energy consumption is based on information provided by the landlord, quoting the usage attributed to the Company. In respect of business travel, the Company keeps a log of flights made by its employees. The energy consumption of these flights is determined by reference to the data provided by the International Civil Aviation Organisation ("ICAO") whereby the ICAO website provides fuel consumed for each flight (all legs of the flight considered). The Company does not own any motor vehicles nor do its employees make any business travel by car. The amount of travel by other modes of transport is not material. The data disclosed comprises energy used during the calendar year 2024. Total emission have been calculated using the latest applicable UK Government's emission conversion factors. Business travel has reduced in 2024 since the Company's staff made fewer visits to overseas policyholders, in accordance with what the Company judges is appropriate to maintain successful customer relationships.

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 2024. 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.

Impact of Russian-exposed business

As noted previously, with effect from Q1 2022, the Company suspended writing the renewal of existing or acceptance of new Russian-exposed business. 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. During 2024, all these contracts had expired though the Company continues to manage a run-off of unsettled claims.

Where the Russian-exposed business is the result of an ultimate reinsurer located in Russia, the Company continues to have a 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 considers the probability of a claim of such magnitude to be increasingly remote. There were no significant claims reported to the Company from this business in 2024. The Company has, with the reinsurer's agreement, withheld reinsurance premium owed to the reinsurer to mitigate this risk. At the date of this report, the Company 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 2024 annual return to the Office of the Superintendent of Financial Institutions ("OFSI"), the Company has reported frozen assets of £1.5m (2023: £145k) Frozen assets in this context means liabilities of the Company which are owed to counterparties subject to sanctions and which the Company cannot settle. In June 2024, the UK Government added the reinsurer referred in the previous paragraph to its list of sanctioned organisations. As a result, the frozen assets reported to OFSI has increased significantly, principally on account of the premium monies owed to that reinsurer.

C.7 Any other information

Material changes

There have been no material changes in the nature of any of SFME's risks during 2024 although the quantification of them has increased during the year (see E2).

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 49% (2023: 26%) arising from a 2-grade downgrade of SFMI (ie, from AA to BBB). In this test, and without considering the impact on Own Funds, the solvency coverage ratio is reduced to 213% (from a core margin of 311% as forecast at 31/12/24 by the 2024 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. The reduction is greater than in 2023 due to the increased reinsurance ceded to SFMI.

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 177% which is an improvement compared to 2023 (137%) because the Company has diluted its investment per bank by investing funds with another bank (as well has having increased its Own Funds). 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 298 (2023: 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 286% (2023: 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.

<u>Prudent Person Principle</u>

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.

Samsung Fire & Marine Insurance Company of Europe Ltd

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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 UK 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:

	2024		2023	
source : template IR.02.01	Solvency UK	IFRS	Solvency UK	IFRS
	£000s	£000s	£000s	£000s
Assets				
Property, plant and equipment	1,006	1,149	1,149	1,149
Investments	48,458	46,957	48,343	46,957
Reinsurance recoverables	20,917	22,849	27,582	22,849
Portfolio grossing up	-	5,418	-	5,418
Insurance receivables	19,937	-	22,290	-
Reinsurance receivables	7,027	-	9,486	-
Other receivables	99	-	219	-
Cash and cash equivalents	9,817	4,849	4,849	4,849
Other assets	282	1,499	112	1,499
Total assets	107,544	82,721	114,029	82,721
Liabilities				
Technical provisions	25,502	30,130	32,359	30,130
Portfolio grossing up	-	5,418	-	5,418
Deposits received from reinsurers	1,233	-	-	-
Deferred tax liability	311	5	285	5
Insurance payables	4,811	-	7,243	-
Reinsurance payables	22,960	-	25,806	-
Other payables	876	867	1,198	867
Other liabilities	2,134	2,866	2,866	2,866
Total liabilities	57,827	39,286	69,756	39,286
Shareholders' equity/Own Funds	49,717	43,435	44,273	43,435

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

source : template IR.02.01	Assets		Liabilities		Shareholders' equity / Own Funds	
	2024	2023	2024	2023	2024	2023
	£000s	£000s	£000s	£000s	£000s	£000s
Total per IFRS financial statements	86,315	82,720	37,516	39,286	48,799	43,434
Reclassifications	45,133	48,294	45,133	48,315	-	(21)
Portfolio grossing up	(3,056)	(5,418)	(3,056)	(5,418)	-	-
Cash flows from unexpired risks	(8,996)	(7,818)	(10,687)	(9,372)	1,691	1,554
Cash flows from BBNI risks	(8,431)	(1,029)	(8,285)	(885)	(146)	(144)
Cash flows from expired risks	(3,421)	(2,719)	(3,737)	(2,955)	316	236
Risk margin	-	-	637	506	(637)	(506)
Deferred tax	-	-	306	280	(306)	(280)
Total per S-UK balance sheet	107,544	114,031	57,827	69,757	49,717	44,274

The text on the next 6 pages describes the differences and similarities between Solvency UK and IFRS measurements of assets and liabilities.

Plant and equipment

Solvency UK and IFRS value £1.0m (2023: £1.1m)

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 UK is considered to be materially the same as IFRS.

Investments

Solvency UK value £48.5m; IFRS value £47.0m (2023: Solvency UK value £48.3m; IFRS value £47.0m)

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 Solvency UK and IFRS. However, accrued interest is also added to the principal amounts under Solvency UK which is why the Solvency UK values are higher.

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

Reinsurance recoverables

Solvency UK value £20.9m; IFRS value £24.7m (2023: Solvency UK value £27.6m; IFRS value £22.8m)

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 Solvency UK 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 for items reported as RI payables on the Solvency UK balance sheet. Individual receivables and payables have the same valuation on both balance sheets.
- The Solvency UK 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 date when the Company has provided service to the policyholder. The AFRC incorporates a parallel “profit blocking” item. However, this is not recognised on the Solvency UK balance sheet; future profits and the reinsurers’ share thereof are permitted to count towards Own Funds. This will typically reduce the Solvency UK RI technical provisions since these are outflows to reinsurers.
- The Solvency UK 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 Solvency UK RI technical provisions since the future cash flows will be premium payable to reinsurers. The BBNI item has increased at this reporting given new contracts arising from the new fronting arrangement which were bound in 2025.

- Undiscounted best estimates of claims cash flows are the same save that Solvency UK 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 Solvency UK balance sheet and this reduces the Solvency UK value compared to the IFRS equivalent.
- Discounting is applied to the future cash flows of the Solvency UK RI technical provisions but only IFRS AIC. The discounting is therefore likely to be greater on the Solvency balance sheet. Further, whilst the AIC discount rates are similar, Solvency UK requires the use of risk free rates whereas IFRS are adjusted for a liquidity premium.
- Both Solvency UK 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.

Portfolio grossing up

Solvency UK value £nil; IFRS value £2.1m (2023: Solvency UK value £nil; IFRS value £5.4m)

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 Solvency UK balance sheet.

Insurance receivables

Solvency UK value £19.9m; IFRS value £nil (2023: Solvency UK value £22.3m; IFRS value £nil)

Under Solvency UK, 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 UK is a fair value. Notwithstanding the different categorisation, the fair value under Solvency UK is regarded as being the same as IFRS.

Reinsurance receivables

Solvency UK value £7.0m; IFRS value £nil (2023: Solvency UK value £9.5m; IFRS value £nil)

Under Solvency UK, 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 UK is a fair value. Notwithstanding the different categorisation, the fair value under Solvency UK is regarded as being the same as IFRS.

Other receivables

Solvency UK value £0.1m; IFRS value £nil (2023: Solvency UK value £0.2m; 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

Solvency UK and IFRS value £9.8m (2023: £4.9m)
Under Solvency UK, 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 Solvency UK not cash and cash equivalents. Under Solvency UK, cash equivalents are effectively bank balances from which the Company can make operational payments. At both 31 December 2024 and 2023, the Company had no very short term deposits and, consequently, the balance sheets have the same value. Both Solvency UK and IFRS include operational bank accounts on the same valuation basis.

Other assets

Solvency UK value £0.3m; IFRS value £1.7m (2023: Solvency UK value £0.1m; IFRS value £1.5m)
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 Solvency UK balance sheet. The fair value of assets within these categories is regarded as being the same under Solvency UK 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, it is the Company's judgement that 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, a 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 2024.

Technical provisions

Solvency UK value £25.5m; IFRS value £32.6m (2023: Solvency UK value £32.4m; IFRS value £30.1m)
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 Solvency UK 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 Solvency UK balance sheet. Individual receivables and payables have the same valuation on both balance sheets.
- The Solvency UK 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 Solvency balance sheet; future profits are permitted to count towards Own Funds. This will typically reduce the Solvency UK technical provisions.
- The Solvency UK 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 Solvency UK technical provisions since the future cash flows will, in the aggregate, represent premium receivable by the Company. The BBNI item has increased significantly at this reporting date given new contracts arising from the new fronting arrangement were issued in January 2025 but treated as bound at the year end.
- Undiscounted best estimates of claims cash flows are the same save that Solvency UK 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 Solvency UK balance sheet and typically this reduces the Solvency UK value.
- The Solvency UK 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 Solvency UK technical provisions but only the IFRS LIC. The discounting is therefore likely to be greater on the Solvency UK balance sheet. Whilst the discount rates are similar, Solvency UK requires the use of risk free rates whereas IFRS are adjusted for a liquidity premium.

<u>Deposits received from reinsurers</u>

Solvency UK value £1.2m; IFRS value £nil (2023: Solvency UK value £2.0m; IFRS value £nil)

The Solvency UK requirements of the IR.31.01 template require that cash received from reinsurers in advance of RI claims recoveries and/or RI premium withheld to mitigate the default of the reinsurer are reported as 'deposits received from reinsurers'. In addition to a small deposit received for a claims float, the Company's judgement is that some reinsurance premium payable could be considered as meeting this requirement. There is no equivalent on the IFRS balance sheet; rather these amounts are accounted within the AFRC.

Deferred tax liabilities

Solvency UK value £0.3m; IFRS value £5k (2023: Solvency UK value £0.3m; IFRS value £5k)

A provision for deferred tax is needed when the balance sheet – either IFRS or Solvency UK – is prepared under a different basis to that used by His Majesty's Customs and Revenue. Under IFRS, the difference is typical trivial. Under Solvency UK, the differences are more significant. Effectively the increase in the deferred tax provision from IFRS to Solvency UK is the future tax charge that will be payable on additional profits recognised today under Solvency UK. The deferred tax liability is based on enacted corporation tax rates which, as at 31 December 2024, are 25% (2023: 25%).

Insurance payables

Solvency UK value £4.8m; IFRS value £nil (2023: Solvency UK value £7.2m; IFRS value £nil)

Under Solvency UK, 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 UK is a fair value. Notwithstanding the different categorisation, the fair value under Solvency UK is regarded as being the same as IFRS.

Reinsurance payables

Solvency UK value £23.0m; IFRS value £nil (2023: Solvency UK value £23.9m; IFRS value £nil)

Under Solvency UK, 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 UK is a fair value. Notwithstanding the different categorisation, the fair value under Solvency UK is the regarded as being same as IFRS.

Other payables

Solvency UK value £0.9m; IFRS value £0.7m (2023: Solvency UK value £1.2m; IFRS value £0.9m)

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 UK is regarded as being the same as IFRS.

<u>Other liabilities</u>

Solvency UK value £2.1m; IFRS value £2.1m (2023: Solvency UK value £2.8m; IFRS value £2.9m)

Other liabilities principally comprise accrued expenses and lease liabilities. The classifications are the same under IFRS and Solvency UK. The fair value of other assets under Solvency UK is regarded as being the same as IFRS. There is a small presentational difference for items which are treated as 'deposits received from reinsurers' on the Solvency UK balance sheet.

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 UK 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 2024.

D.2 Technical Provisions

The total value of gross technical provisions under Solvency UK is £25.5m (2023: £30.7m) and net £4.6m (2023: £4.8m). The following table shows a summary of the technical provision for each line of business:

source : IR.17.01	2024				2023			
	Premium provision	Claims provision	Risk margin	Total	Premium provision	Claims provision	Risk margin	Total
Cargo	(79)	1,043	202	1,166	541	1,220	207	1,968
Property	1,570	1,202	399	3,170	1,252	1,163	287	2,702
Liability	110	103	36	249	(4)	98	12	106
Total net technical provisions	1,601	2,348	637	4,586	1,789	2,481	506	4,776
Gross technical provisions	1,933	22,933	637	25,502	7,684	24,169	506	32,359
Reinsurance recoverables	332	20,585		20,917	5,895	21,688		27,583
Net technical provisions	1,601	2,348	637	4,586	1,789	2,481	506	4,776

Valuation Methods

Under Solvency UK, 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.

Claims best estimate

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 Methods
- 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 Solvency UK for events not in data ("ENID"). Differences between Solvency UK and IFRS arise on the discounting given that Solvency UK 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 Solvency UK data.

Both IFRS and Solvency UK 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. The percentage is applied to the undiscounted best estimate under Solvency UK whereas it is applied to the discounted best estimate under IFRS leading to a different quantification.

Premium best estimate

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. By contrast, the nearest equivalent IFRS value, the LFRC, is stated for both future due and past due receivables.

The premium best estimate also 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 Solvency UK premium best estimate will be lower than the IFRS LFRC since BBNI contracts are not considered on the IFRS balance sheet. 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 increases the Solvency UK 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. The risk free rates of some currencies used by 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 Solvency UK and the future profit margin is released under Solvency UK valuation methods. This has the effect of reducing the premium best estimate compared with the IFRS LFRC value.

IFRS recognises a risk adjustment. Solvency UK 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.

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 Solvency UK 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 Solvency UK

The following tables demonstrate the differences between IFRS technical provisions and Solvency UK technical provisions

Gross technical provisions (insurance contracts issued)

	2024			2023		
	IFRS	adjustment	SII	IFRS	adjustment	SII
	£000s	£000s	£000s	£000s	£000s	£000s
Reserve for reported claims	10,678			8,951		
Incurred but not reported (IBNR)	12,661			15,477		
Unallocated loss adjustment expenses (ULAE)	694			629		
Best estimate - undiscounted basis	24,033	(124)	23,909	25,057	105	25,162
Discount	(1,321)	345	(976)	(763)	(230)	(993)
Best estimate - discounted basis	22,712	221	22,933	24,294	(125)	24,169
Risk adjustment	2,653	(2,653)	-	2,831	(2,831)	-
Risk Margin	-	637	637	-	506	506
(Receivables)/Payables	151	(151)	-	1,341	(1,341)	-
Liability for incurred claims	25,516	(1,946)	23,570	28,466	(3,791)	24,675
UPR/DAC vs S-UK future cash flows from incepted but unexpired risks	37,167	(10,879)	26,288	20,432	(8,438)	11,994
(Receivables)/Payables (S-UK only for items not yet due)	(30,045)	14,823	(15,222)	(18,768)	16,276	(2,492)
Reclassification journals	-	606	606	-	-	-
S-UK future cash flows from bound but incepted (BBNI) risks	-	(8,285)	(8,285)	-	(885)	(885)
Best estimate - undiscounted basis	7,122	(3,735)	3,387	1,664	6,953	8,617
Discount	-	(1,455)	(1,455)	-	(933)	(933)
Liability for remaining coverage - best estimate - discounted basis	7,122	(5,190)	1,932	1,664	6,020	7,684
Total techncial provisions for insurance contracts issued	32,638	(7,136)	25,502	30,130	2,229	32,359

In summary, the liability from insurance contracts issued is £7.1m lower under Solvency UK than IFRS (2023: £2.2m higher). A significant factor in this is the profit being blocked by the IFRS phased profit recognition approach; and that this factor has increased substantially in 2024 due to the significant increase in future premium cash flows resulting from the new fronting arrangement (GWP of £19m in 2024 and of which a high proportion of the potential profit is blocked by IFRS until it is recognised in 2025). Removing the future profit reduces the liability.

The gross risk adjustment is much higher than the risk margin since the risk margin is a function of the SCR (effectively net of reinsurance) rather than a measure of uncertainty within insurance contracts issued (gross of reinsurance).

RI technical provisions (reinsurance recoverables - reinsurance contracts held)

	2024			2023		
	IFRS	adjustment	SII	IFRS	adjustment	SII
	£000s	£000s	£000s	£000s	£000s	£000s
Reserve for reported claims	9,552			7,744		
Incurred but not reported (IBNR)	12,023			14,857		
Best estimate - undiscounted basis	21,575	(87)	21,488	22,601	(12)	22,589
Impairment	(2)	(3)	(5)	(5)	1	(4)
Discount	(1,269)	371	(898)	(703)	(194)	(897)
Best estimate - discounted basis	20,304	281	20,585	21,893	(205)	21,688
Risk adjustment	2,355	(2,355)	-	2,517	(2,517)	-
Receivables/(Payables)	359	(359)	-	1,925	(1,925)	-
Liability for incurred claims	23,018	(2,433)	20,585	26,335	(4,647)	21,688
UPR/DAC vs S-UK future cash flows from incepted but unexpired risks	32,090	(9,189)	22,902	16,084	(6,991)	9,093
Receivables/ (Payables) (S-UK only for items not yet due)	(30,421)	17,442	(12,979)	(19,570)	18,229	(1,341)
Reclassification journals	-	192	192	-	-	-
S-UK future cash flows from bound but incepted (BBNI) risks	-	(8,431)	(8,431)	-	(1,029)	(1,029)
Best estimate - undiscounted basis	1,669	14	1,683	(3,486)	10,209	6,723
Impairment	-	(2)	(2)	(1)	(1)	(2)
Discount	-	(1,349)	(1,349)	-	(826)	(826)
Liability for remaining coverage - best estimate - discounted basis	1,669	(1,337)	332	(3,487)	9,382	5,895
Total techncial provisions for insurance contracts issued	24,687	(3,770)	20,917	22,848	4,735	27,583

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.

Overall, the Solvency UK balance sheet reports a reinsurance recoveries asset of £3.8m less than the IFRS equivalent (2023: £4.7m higher). The main factor in the significant change from 2023 to 2024 is the new fronting arrangement – effectively, 2024 disregards the blocked loss to be recognised under IFRS in 2025; hence the RI asset is lower.

Net technical provisions

	2024			2023		
	IFRS	adjustment	SII	IFRS	adjustment	SII
	£000s	£000s	£000s	£000s	£000s	£000s
Reserve for reported claims	1,126			1,207		
Incurred but not reported (IBNR)	638			620		
Unallocated loss adjustment expenses (ULAE)	694			629		
Best estimate - undiscounted basis	2,458	(37)	2,421	2,456	117	2,573
Impairment	2	3	5	5	(1)	4
Discount	(52)	(26)	(78)	(60)	(36)	(96)
Best estimate - discounted basis	2,408	(60)	2,348	2,401	80	2,481
Risk adjustment	298	(298)	-	315	(315)	-
Risk margin	-	637	637	-	506	506
Receivables/(Payables)	(208)	208	-	(584)	584	-
Liability for incurred claims	2,498	487	2,985	2,132	855	2,987
UPR/DAC vs S-UK future cash flows from incepted but unexpired risks	5,077	(1,691)	3,386	4,348	(1,446)	2,902
(Receivables)/Payables (S-UK only for items not yet due)	376	(2,619)	(2,243)	802	(1,953)	(1,151)
Reclassification journals	-	414	414	-	-	-
S-UK future cash flows from bound but incepted (BBNI) risks	-	147	147	-	144	144
Best estimate - undiscounted basis	5,453	(3,749)	1,704	5,150	(3,255)	1,895
Impairment	-	2	2	1	1	2
Discount	-	(104)	(104)	-	(108)	(108)
Liability for remaining coverage - best estimate - discounted basis	5,453	(3,851)	1,602	5,151	(3,362)	1,789
Total techncial provisions for insurance contracts issued	7,951	(3,364)	4,587	7,283	(2,507)	4,776

The table shows that the Solvency UK evaluation of future claims cost is £0.5m higher than IFRS (2023: £0.9m), although £0.2m (2023: £0.6m) is presentational. The risk margin under Solvency UK is £0.3m higher (2023: £0.2m higher) than the risk adjustment under IFRS. The risk margin is a function of the SCR. Given that the SCR has increased in 2024, the risk margin has also increased.

The table also shows that the Solvency UK evaluation of future cash outflows from unexpired risks is £3.9m less than the LFRC under IFRS (2023: £3.4m lower). £2.1m of this is presentational (2023: £1.9m) with, broadly speaking, £1.8m (2023: £1.5m) of future profits blocked under IFRS (added to liabilities) but treated as part of Own Funds under Solvency UK.

Volatility Adjustment

SFME has not used the volatility adjustment referred to in the PRA's Rulebook "Technical Provisions", section 8.

Transitional risk-free interest rates

SFME has not applied a transitional risk-free interest rate structure referred to in the PRA's Rulebook "Transitional Measures", section 10.

Changes from the previous reporting period

There have been no material changes during 2024 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.

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.

E. Capital Management

In this chapter:

E.1 Own Funds

Own Funds at the balance sheet date and changes during 2024

Total value of Own Funds is £49.7m under Solvency UK (2023: £44.3m) compared to shareholders' equity of £48.8m (2023: £43.4m) under IFRS. The following table shows a summary of the balance sheet under both bases.

	2024		2023	
source : template IR.02.01	Solvency UK	IFRS	Solvency UK	IFRS
	£000s	£000s	£000s	£000s
Total assets - see section D1	107,544	86,315	114,031	82,720
Total liabilities - see section D1	57,827	37,516	69,757	39,286
Excess of assets over liabilities	49,717	48,799	44,274	43,434
Issued share capital	10,600	10,600	10,600	10,600
Reconciliation reserve	39,117	38,199	33,674	32,834
Basic/eligible own funds	49,717	48,799	44,274	43,434

Under Solvency UK'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:

	2024	2023
	£000s	£000s
Solvency UK Own Funds	49,717	44,274
IFRS shareholders' equity	48,799	43,434
Additional profits recognised under Solvency UK	918	840
which is explained by :		
Difference between IFRS and S-UK for claims best estimate	(85)	(77)
Difference between IFRS and S-UK for premium best estimate (incepted contracts)	1,795	1,532
S-UK for premium best estimate (unincepted contracts)	(147)	(144)
IFRS risk adjustment	298	315
S-UK risk margin	(637)	(506)
Additional deferred tax liability	(306)	(280)
Additional profits recognised under Solvency UK	918	840

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

Solvency UK additional profits have increased by £0.1m. This is partly due to the increased IFRS “blocked” profits in UPR (see page 68) net of an increase in the risk margin. The risk margin has decreased for reason given on page 68.

Future Own Funds

SFME has prepared a business plan which the Board approved in December 2024. 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 £16.3m (2023: £13.0m). 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:

	2024	2023	Change in 2024
Market risk	£000s	£000s	£000s
Interest rate risk	1,317	1,304	13
Spread risk	631	629	2
Concentration risk	3,734	3,504	230
Currency risk	4,015	1,565	2,450
diversification	(3,688)	(2,720)	(968)
	6,009	4,282	1,727
Counterparty risk			
Type 1	4,911	3,923	988
Type 2	2,230	2,458	(228)
diversification	(395)	(390)	(5)
	6,746	5,991	755
Non-life underwriting risk			
Premium and reserve risk	3,579	4,164	(585)
Lapse risk	270	134	136
Catastrophe risk	5,744	2,590	3,154
diversification	(2,100)	(1,460)	(640)
	7,493	5,428	2,065
Diversification	(5,046)	(3,842)	(1,204)
Basic solvency capital requirement	15,202	11,859	3,343
Operational risk	1,095	1,100	(5)
Solvency Capital Requirement	16,297	12,959	3,338

The main changes are explained below.

Currency risk (+£2.5m)

- During 2024 surpluses in EUR and USD increased (see page 23) which increases the Standard Formula currency risk charge. The risk charge increases the higher the mismatch of currency holdings.

Counterparty risk type I (+£1.0m)

- During 2024, the Company issued an engineering contract to an existing property policyholder. Given the location of risk is at the same site, the Standard Formula treats the combined sum insured as one risk for the purposes of inputs to the man-made fire catastrophe risk. The gross sum insured is €750m with a net retention of $1.5m after all reinsurances (2023: €500m; $1.5m). The theoretical reinsurance mitigation for this exposure has materially increased, driving a higher counterparty risk charge
- The gross catastrophe risk charge has increased due to the new fronting arrangement. Whilst this is reinsured 100%, there is a consequential impact on the counterparty risk charge given that risk mitigation.

Premium and reserve risk (-£0.6m)

- Premium and reserve risk has fallen 2024 given the continued reduction in net earned premium accounted for by the Company in 2024 (see page 16). Net earned premium is one input factor that the Standard Formula uses to calculate premium and reserve risk.

Catastrophe risk (+£3.2m)

- Inputs to the NatCat risk component of the Standard Formula for non-EU locations are determined by the earned premium expected in the next 12 months. The GEP is expected to increase significantly in 2025 as a result of the new fronting arrangement which is based in Asia. This increased GEP acts as multiplier on the EU-based NatCat sums insured. Whilst this increased gross exposure is heavily mitigated by reinsurance, there is a resulting increase in the aggregate net catastrophe risk charge given that the Standard Formula quantification of the reinsurance mitigation is not symmetrical to the gross increase (ie, the Standard Formula applies some retention to the higher gross exposure).

In respect of the other items with immaterial changes:

- Interest rate risk: interest rates are not significantly different from year end 2023 to year end 2024
- Spread risk: the value of deposits has not changed materially (see page 56)
- Concentration risk: during 2024, the Company increased the concentration of money on deposit with a number of the banks it uses, judging that the additional deposit yields from those banks offset the higher risk charge
- Type 2 receivables have reduced at year end 2024
- Lapse risk: the adverse impact from the Standard Formula’s approach to net premium for lapses has increased.
- Operational risk is a multiple of gross earned premium; 2024’s GEP is very similar to 2023’s.

Minimum Capital Requirement

The minimum capital requirement (MCR) is £4,074,000 (2023: £3,495,000).

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 £1,200,000 (2023: £1,648,000). Both inputs have reduced in 2024. 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 £4,074,000 (2023: £3,240,000). The second is that SFME underwrites liability risks and consequently its MCR has an absolute floor of £3,500,000 (2023: €4,000,000 or £3,495,000). In 2024 therefore, the MCR is equal to the higher amount based on 25% of the SCR (2023: the higher amount equal to the absolute floor).

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

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

Summary of capital ratios

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

	2024	2023
	£000s	£000s
Own funds and eligible capital	49,717	44,274
SCR	16,297	12,959
MCR	4,074	3,495
SCR coverage ratio	305%	342%
MCR coverage ratio	1220%	1267%

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.

Samsung Fire & Marine Insurance Company of Europe Ltd

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F. Quantitative Reporting Templates

In this chapter:

All templates are reported in GBP thousands

IR.01.02 General information

General information

Entity name	Samsung Fire & Marine Insurance Company of Europe Ltd
Entity identification code and type of code	LEI/213800OL98I151XYWL10
Type of undertaking	Non-life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	31 December 2024
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

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IR.02.01.02 - Balance sheet

IR.05.02.01 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

IR.05.04.02 - Non-life income and expenditure : reporting period

IR.17.01.02 - Non-Life Technical Provisions

IR.19.01.21 - Non-Life insurance claims

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

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

IR.02.01.02 Balance sheet (1 OF 2)

IR.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	1,006
Investments (other than assets held for index-linked and unit-linked contract	48,458
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	48,458
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:	20,917
Non-life and health similar to non-life	20,917
Life and health similar to life, excluding index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	0
Insurance and intermediaries receivables	19,937
Reinsurance receivables	7,027
Receivables (trade, not insurance)	99
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	9,817
Any other assets, not elsewhere shown	283
Total assets	107,544

IR.02.01.02 Balance sheet (2 OF 2)

	Solvency II value
Liabilities	C0010
Technical provisions - total	25,502
Technical provisions - non-life	25,502
Technical provisions - life	0
Best estimate - total	24,865
Best estimate - non-life	24,865
Best estimate - life	
Risk margin - total	637
Risk margin - non-life	637
Risk margin - life	
Transitional (TMTP) - life	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	1,233
Deferred tax liabilities	311
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	4,811
Reinsurance payables	22,960
Payables (trade, not insurance)	876
Subordinated liabilities	0
Subordinated liabilities not in Basin own	
Subordinated liabilities in Basin own	0
Any other liabilities, not elsewhere shown	2,134
Total liabilities	57,827
Excess of assets over liabilities	49,717

IR.05.04.02 Premium, claims and expenses by line of business

Non-life income and expenditure : reporting period

	All business (including annuities stemming from accepted non-life insurance and reinsurance contracts)	All non-life business (ie excluding annuities stemming from accepted insurance and reinsurance contracts)	Non-life insurance and accepted proportional reinsurance obligations										Non-life insurance and accepted proportional reinsurance obligations			
													General liability insurance			
			Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance - personal lines	Motor vehicle liability insurance - non-personal lines	Motor vehicle other motor insurance - personal lines	Motor vehicle other motor insurance - non-personal lines	Marine, aviation and transport insurance	Fire and other damage to property insurance - personal lines	Fire and other damage to property insurance - non-personal lines	Employers Liability	Public & products Liability	Professional Indemnity	Other general liability
	C0010	C0015	C0110	C0120	C0130	C0140	C0141	C0150	C0151	C0160	C0170	C0180	C0190	C0200	C0210	C0220
Income																
Premiums written																
Gross written premiums		53,280								10,939	0	39,258	0	2,725	359	0
Gross written premiums - insurance (direct)		1,973								1,309	0	637	0	27	0	0
Gross written premiums - accepted reinsurance		51,308								9,630	0	38,621	0	2,698	359	0
Net written premiums		7,407								6,375	0	954	0	78	0	0
Premiums earned and provision for unearned																
Gross earned premiums		36,525								10,800	0	25,013	0	645	67	0
Net earned premiums		7,968								6,752	0	1,138	0	78	0	0
Expenditure																
Claims incurred																
Gross (undiscounted) claims incurred		5,273								2,183	0	2,901	0	156	33	0
Gross (undiscounted) direct business		6,323								-5	0	6,337	0	-10	0	0
Gross (undiscounted) reinsurance accepted		-1,050								2,187	0	-3,436	0	165	33	0
Net (undiscounted) claims incurred		2,157								2,072	0	86	0	-1	0	0
Net (discounted) claims incurred	2,165	2,165														
Analysis of expenses incurred																
Technical expenses incurred net of reinsurance ceded	545															
Acquisition costs, commissions, claims management costs	-2,289	-2,289								104	0	-2,390	0	-2	-2	0
Other expenditure																
Other expenses	495															
Total expenditure	5,026															

In chapter A2 ‘underwriting performance’, £442,000 of unallocated claims management expenses have been added to net discounted incurred claims (accordingly, £2,607,000) given the Company regards these as a claims cost (the table above excludes these; hence £2,165,000). In A2, the net acquisition/commission income is £2,729,000 (rather than £2,289,000 shown above) as a result of this reclassification. Net commission income plus overhead expenses in A2 net to an expense of £105,000; the table above reports an expense of £545,000 given it includes the claims management costs.

IR.05.02.01 Premium, claims and expenses by country

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					Total Top 5 and home country
		MT	KZ				
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	1,791	0	0				1,791
Gross - Proportional reinsurance accepted	226	26,377	19,587				46,190
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	1,260	22,166	19,583				43,008
Net	758	4,211	5				4,973
Premiums earned							
Gross - Direct Business	2,699	0	0				2,699
Gross - Proportional reinsurance accepted	498	24,125	2,289				26,913
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	2,354	19,541	2,243				24,138
Net	843	4,584	47				5,474
Claims incurred							
Gross - Direct Business	6,445	0	0				6,445
Gross - Proportional reinsurance accepted	48	-288	41				-199
Gross - Non-proportional reinsurance accepted							0
Reinsurers' share	5,526	-1,737	33				3,822
Net	967	1,448	8				2,424
Net expenses incurred	412	-691	104				-175

The PRA instructions for the IR.05.02 determine country according to the domicile of the ceding insurer in respect of proportional reinsurance accepted.

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IR.17.01.02 non-life technical provisions

Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance												Total Non-Life obligation
	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	
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0180
Best estimate													
Premium provisions													
Gross						145	830	957					1,933
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						224	-740	847					332
Net Best Estimate of Premium Provisions						-79	1,570	110					1,601
Claims provisions													
Gross						1,652	20,929	352					22,933
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						608	19,728	249					20,585
Net Best Estimate of Claims Provisions						1,043	1,202	103					2,348
Total best estimate - gross						1,797	21,760	1,309					24,865
Total best estimate - net						964	2,771	213					3,949
Risk margin						202	399	36					637
Technical provisions - total						1,998	22,159	1,345					25,502
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total						832	18,988	1,096					20,917
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total						1,166	3,170	249					4,586

IR.19.01.21 Claims Development Triangles

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											14	14	14
-9	1,998	2,427	-74	10	-15	15	0	0	0	0		0	4,359
-8	4,426	1,409	-31	-43	16	25	0	4	-31			-31	5,775
-7	3,855	1,638	-234	287	-222	5	-6	303				303	5,627
-6	3,321	847	659	3,545	-23	0	15					15	8,365
-5	2,778	2,709	-871	12	23	-79						-79	4,573
-4	2,367	3,938	1,542	-16	1,877							1,877	9,707
-3	1,784	1,409	1,942	370								370	5,506
-2	3,822	1,572	796									796	6,190
-1	1,906	730										730	2,636
0	2,205											2,205	2,205
											Total	6,199	54,955

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	0	0	0	0	0	0	0	46		45
-8	0	0	0	0	0	0	0	0	9			9
-7	0	0	0	0	0	0	0	578				566
-6	0	0	0	0	0	0	21					21
-5	0	0	0	0	0	137						133
-4	0	0	0	0	529							504
-3	0	0	0	991								946
-2	0	0	2,877									2,758
-1	0	9,278										8,902
0	8,699											8,337
											Total	22,221

IR.19.01.21.22
Gross premium

	C0570	C0580
	Gross earned premium at reporting reference date	Estimate of future gross earned premium
N-9	14,532	0
N-8	15,186	0
N-7	16,998	0
N-6	17,709	0
N-5	19,637	0
N-4	29,032	0
N-3	38,671	0
N-2	41,833	0
N-1	35,286	0
N	35,262	0

The PRA requires that the Company reports paid claims (top table) and earned premium (bottom table) for all years historically. However, claims best estimates (middle table) are required only for the 2024 reporting year, as attributed to each accident year row. C0580 is only reported for UY-based reporting – SFME reports on an AY basis.

IR.23.01.01 Own Funds (top half)

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
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	39,117	39,117			
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				
Total basic own funds after deductions	49,717	49,717	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

IR.23.01.01 Own Funds (bottom half)

Available and eligible own funds					
Total available own funds to meet the SCR	49,717	49,717	0	0	0
Total available own funds to meet the MCR	49,717	49,717	0	0	
Total eligible own funds to meet the SCR	49,717	49,717	0	0	0
Total eligible own funds to meet the MCR	49,717	49,717	0	0	
SCR	16,297				
MCR	4,074				
Ratio of Eligible own funds to SCR	305.06%				
Ratio of Eligible own funds to MCR	1220.25%				

Reconcilliation reserve	C0060
Excess of assets over liabilities	49,717
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	
Deductions for participations in financial and credit institutions	
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	39,117

IR.25.01.21 Solvency Capital Requirement – for undertakings on the Standard Formula (top half)

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

	C0010
Market risk	
Interest rate risk	1,317
Equity risk	0
Property risk	0
Spread risk	631
Concentration risk	3,734
Currency risk	4,015
Other market risk	
Diversification within market risk	-3,688
Total Market risk	6,009
Counterparty default risk	
Type 1 exposures	4,911
Type 2 exposures	2,230
Other counterparty risk	
Diversification within counterparty default risk	-394
Total Counterparty default risk	6,746
Life underwriting risk	
Mortality risk	
Longevity risk	
Disability-Morbidity risk	
Life-expense risk	
Revision risk	
Lapse risk	
Life catastrophe risk	
Other life underwriting risk	
Diversification within life underwriting risk	
Total Life underwriting risk	0

IR.25.01.21 Solvency Capital Requirement – for undertakings on the Standard Formula (bottom half)

Health underwriting risk	
Health SLT risk	
Health non SLT risk	
Health catastrophe risk	
Other health underwriting risk	
Diversification within health underwriting risk	
Total Health underwriting risk	0
Non-life underwriting risk	
Non-life premium and reserve risk (ex catastrophe risk)	3,579
Non-life catastrophe risk	5,744
Lapse risk	270
Other non-life underwriting risk	
Diversification within non-life underwriting risk	-2,099
Non-life underwriting risk	7,493
Intangible asset risk	
Operational and other risks	
Operational risk	1,096
Other risks	
Total Operational and other risks	1,096
Total before all diversification	27,525
Total before diversification between risk modules	21,344
Diversification between risk modules	-5,046
Total after diversification	16,297
Loss absorbing capacity of technical provisions	
Loss absorbing capacity of deferred tax	
Other adjustments	
Solvency capital requirement including undisclosed capital add-on	16,297
Disclosed capital add-on - excluding residual model limitation	
Disclosed capital add-on - residual model limitation	
Solvency capital requirement including capital add-on	16,297
Biting interest rate scenario	
Biting life lapse scenario	

IR.28.01.01 Minimum Capital Requirement

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	1,350

	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	964	6,319
Fire and other damage to property insurance and proportional reinsurance	2,771	988
General liability insurance and proportional reinsurance	213	74
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	1,350
SCR	16,297
MCR cap	7,334
MCR floor	4,074
Combined MCR	4,074
Absolute floor of the MCR	3,500
Minimum Capital Requirement	4,074

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 UK 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 Solvency UK 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: 7 April 2025