



**Samsung Fire & Marine Insurance Company of Europe
Limited**

Solvency and Financial Condition Report

Year ended 31 December 2021



**SAMSUNG FIRE & MARINE
INSURANCE EUROPE**

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SUMMARY

Samsung Fire & Marine Insurance Company of Europe Ltd (“SFME”/“the Company”) is a subsidiary of Samsung Fire & Marine Insurance, 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, an increasing amount of London Market business.

KEY FIGURES

(in GBP thousands)

		2021	2020
Per IFRS Financial Statements	Gross written premium	45,970	35,549
	Net insurance revenue	8,856	7,632
	Retention ratio	19.5%	22.0%
	Combined ratio	49.7%	47.8%
	Net technical result	4,455	3,982
	Net investment income	100	350
	Profit after tax	3,227	3,385
Per Solvency II regulations	Total assets	75,298	78,606
	Gross technical provisions	22,903	27,995
	Own funds	33,784	30,153
	Solvency Capital Requirement	15,459	11,119
	Solvency Coverage Ratio	219%	271%
	Minimum Capital Requirement	3,865	3,338
	MCR Coverage Ratio	874%	903%

Net insurance revenue is also known as net earned premium and means the proportion of written premium attributable to time on risk during the financial year after amounts ceded to reinsurers have been deducted. The retention ratio is a ratio of net insurance revenue (net earned premium) to gross insurance revenue (gross earned premium). The combined ratio is the ratio of the sum of incurred claims and expenses (both after amounts ceded to reinsurers) to net insurance revenue and a key indicator of the profitability of an insurer’s insurance operations. The net technical result is the result from insurance operations.

KEY HIGHLIGHTS

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

Business and Performance	<p><u>Gross written premium</u></p> <p>The Company’s gross written premium (“GWP”) in 2021 was £46m, £10m more than in 2020. The increase is attributable to the following lines of business: property/business interruption £6.3m, engineering £2.4m and cargo £1.7m. The Company has sought to build trading relationships with a select number of intermediaries and primary insurers as well as facilitate new coverages required by Samsung-affiliated entities. Through these relationships the Company was able to take advantage of new opportunities in 2021 whilst adhering to its strict underwriting criteria. In total, the Company wrote £6m of new, mainly non-cargo, business in 2021. During the year, the Board have been appraised of the new business opportunities and were satisfied that the increase was appropriate and part of the strategy to support the insurance needs of Samsung affiliates in the UK and the Europe as well as to broaden the Company’s sources of premium income.</p>
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The split of GWP between cargo and non-cargo in 2021 was cargo 25% and non-cargo 75% (2020: cargo 27%, non-cargo 73%). This contrasts with the split of net insurance revenue for which the proportion from cargo is 90% (2020 88%). This is explained by the retention ratio (the amount of GWP which the Company retains after reinsurance) for non-cargo business which is less than 5% (2020: less than 5%). Rather than contribute to net insurance revenue, the non-cargo business generates commission income for the Company, as explained in the 'net expenses' section below.

As explained in the 2020 Strategic Report, in December 2020 the Company triggered the novation of contracts previously issued on a direct basis to EU-based policyholders. All such contracts were novated to White Rock Insurance (Europe) PCC Ltd in respect of cell A29 ("White Rock") and reinsured 100% back to the Company. The renewal of this business through White Rock has continued throughout 2021 with no detrimental impact on the Company's operations with those former policyholders or ability to retain the business where it fits within prevailing underwriting and pricing criteria.

Looking at GWP in terms of type of clients, business derived from the wider Samsung group and Korean interests abroad ("KIA") was 69% (2020: 56%). However only a very small percentage of net insurance revenue is derived from non-affiliated business. This proportion from Samsung/KIA clients in 2021 was 98% (2020: 94%). The retention ratio for non-affiliated business is less than 5% (2020: less than 5%) but this source of business generates a material source of income from commissions received (see section 'net expenses ratio' below).

The proportion of non-affiliated clients and the levels of reinsurance have been examined in the Company's Own Risk and Solvency Assessment ("ORSA").

Net insurance revenue and retention ratio

The Company cedes a significant proportion of its business to reinsurers and consequently net insurance revenue is a much lower value than GWP. Nevertheless, net insurance revenue is significant since it represents the retained premium from which the Company will derive a material component of its operating profit or loss.

Net insurance revenue is £8.9m (2020: £7.6m), an increase of 16% and above the Company's 2021 plan. As noted on the previous page, the retention of GWP from non-cargo and non-affiliated clients is low which means that cargo premium from affiliated clients is the predominant component of net insurance revenue (90% in 2021, 87% in 2020). The increase in net insurance revenue in 2021 can be largely attributable to positive adjustments received by the Company in 2021 in respect of cargo contracts issued in 2020. This is because there was, as a result of the Covid-19 pandemic, a boost to consumer demand for Samsung products leading to a higher premium income for the Company once final sums insured (i.e., goods transported by clients) were declared to the Company.

The net retention ratio has fallen in 2021 as much of the new business acquired has been ceded to reinsurers. Therefore, the business it retains, principally its cargo risks, has fallen as a proportion of total gross insurance revenue.

The table on page 16 demonstrates the continuing high quality credit rating profile of the Company's reinsurers. 96% of reinsurance assets and receivables due from reinsurers are rated at A- or better (2020 96%). The Company's reinsurance programme is primarily based on proportional surplus treaty and facultative reinsurance contracts. These are backed up by an excess of loss programme which reduces the Company's net exposure to within an agreed appetite (£1.1m in 2021). In 2021 greater use was made of facultative reinsurance contracts in response to capacity and prices offered by reinsurers together with the Company's role as fronting insurer for various non-cargo contracts.

Net insurance claims and net incurred ratio

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The net incurred ratio was higher in 2021 (32%; 2020: 26%). Both years have a similar release from prior years' reserves (2021: £1.3m; 2020: £1.0m) as a result of continuous development by the Company of its assessment of claims and various incremental adjustments to a number of factors in the evaluation of incurred but not reported ("IBNR") claims. 2021 also benefitted from a higher amount of recoveries from third parties in respect of claims events prior to 2021. On a pure current accident year basis, the net incurred ratio for 2021 was 47% compared to 38% for 2020 after 12 months.

In contrast, incurred claims as a proportion of earned premium on a gross basis were lower than in 2020 (29%; 2020 52%). The main factor for this was a very large claim reported in 2020 (nil net retention).

There were no discernible claims related trends in 2021 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). As a result of Covid, there appears to be a switch to more e-commerce trading, the result of which shipments are smaller and therefore losses are smaller as and when they occur. There does not appear to be any material increase in frequency. There were no material weather-related events during 2021.

As explained in the 2020 SFCR, in early 2021 the Company undertook a review of a number of contracts issued up to the 2020 year end which incorporated business interruption coverage and identified that the Company had exposure to claims caused by Covid on a gross basis. The net exposure was much lower due to the reinsurance coverage on these contracts. The Company has been advised of just one claim directly related to Covid, a claim resulting from interruption to business during the first UK lockdown in 2020. This was first notified to the Company in March 2021. The claim has been settled in 2021 and since it is reinsured 100%, the net economic effect was nil. No contracts issued in 2021 granted any coverage for communicable diseases.

Net expenses ratio

The net expenses ratio was 18% (2020: 22%) of net insurance revenue. Net expenses comprise commissions (commission incurred in acquiring gross premium), reinsurance commission (income earned from reinsurance premium ceded) and administrative expenses.

Gross commissions increased slightly as a percentage of gross earned premium (2021: 12.5%; 2020: 11.9%). Reinsurance commissions received were also higher compared to reinsurance earned premium (2021: 21%; 2020: 20%). However, the amount earned from net commissions has increased by £0.7m. The Company is earning more from net commission income as a result of the increased fronted business described above in the sections for 'gross written premium' and 'net insurance revenue'.

The ratio for administration expenses rose from 34% of net insurance revenue to 36%.

Combined ratio

Overall, the combined ratio was very similar to 2020 (50%; 2020 48%) and likewise on a pure current accident year basis (65%; 2020 61%).

Investment return

Investment income for the Company was £100,000 (2020: £350,000) on average invested funds held of £32m (2020: £29m). The Company had adopted a conservative investment approach by investing funds in time deposits with some excess funds held in USD to maximise deposit yields. However, yields in USD and GBP deposits were falling in 2020 and continued to do so in the early part of 2021 leading to the much lower yield in 2021. The mix of the Company's investments at the end of the year is consistent with the size and complexity of the business.

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	<p><u>Foreign exchange</u></p> <p>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. As noted above, during 2021 the Company held a surplus of USD assets, similar as a proportion to that at the 2020 year end. The Company has incurred a foreign exchange loss of £492,000 (2020: incurred a loss of £139,000).</p>
<p>System of Governance</p>	<p>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.</p> <p>The Board sets the Company’s risk appetite itself. 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:</p> <ul style="list-style-type: none"> • 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. <p>There have been no material changes to any part of the system of governance in 2021.</p> <p>The Company conducted a full ORSA and the report was approved by the Board in December 2021. This ORSA takes account of the 3 year planning period 2022 to 2024. The ORSA confirmed that the Solvency Capital Requirement (“SCR”) is expected to increase immaterially over this horizon and that the solvency coverage ratio will be higher than the ratio at 31 December 2021 given the expected future profitability of the Company.</p>
<p>Risk Profile</p>	<p>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.</p> <p>Due to the growth in the Company’s property GWP, its gross insurance exposures have increased in 2021. Gross best estimates of insurance liabilities have risen as a result. As noted previously, these exposures were largely reinsured so the impact on net insurance risk is quite limited. Whilst the value of the Company’s counterparty balances has increased, the quantification of counterparty risk has decreased slightly because of the more diverse spread of reinsurance assets across reinsurers. The quantification of currency risk has reduced very slightly.</p> <p>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.</p> <p><u>‘Brexit’</u></p> <p>A significant proportion of the Company’s business has historically been conducted on a direct basis with policyholders domiciled in EEA states. With effect from 1 December 2020, the Company novated</p>

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all contracts with EEA policyholders to White Rock, an insurer based in Malta, with all such business reinsured to the Company under a parallel reinsurance agreement. The bulk of the novated business is related to affiliated Samsung entities and all contracts were renewed in 2021. Operationally, all contracts continue to be serviced by the Company and White Rock with no detriment to the end policyholders.

Covid virus pandemic

The Company's cargo business is relatively sensitive to the quantum of cargo transported by its clients. If the pandemic had disrupted manufacturing and consumer demand for a prolonged period, cargo transported would have fallen and the Company would have suffered a reduction in its premium income. In fact, the experience during the 2020 lockdowns were very positive for consumer demands. After an initial period during the Spring when Covid was first emerging and volumes reduced, demand has recovered. Cargo clients successfully managed their distribution focus to enhance e-commerce trading thus meeting increased consumer demand during the rest of 2020 for tablets, laptops and other household equipment. As a consequence, when the 2020 cargo contracts expired during 2021, the Company received additional premium income when the final sums insured (value of cargo transported) were compared to the budgeted amounts at inception. Since cargo has a high retention (i.e., after reinsurance), this increased the Company's net insurance revenue.

It is possible that sums insured and premium levels for contracts issued in 2021 will not be in line with policyholders' planned turnover.

The Company's business interruption ("BI") policies are typically sold as a package with property damage and BI losses can only arise as a direct result of physical damage to the property insured. Prior to 2021, the Company issued a small number of contracts where coverage was provided for infectious diseases and no physical damage to property was required. All contracts issued in 2021 excluded this coverage. The Company's current judgement is that the likelihood of incurring a loss from its net exposure (that is, the exposure after reinsurance) is increasingly unlikely.

In response to the UK Government's restrictions of movement during 2021, the Company has enabled all members of staff to work from home with remote access to all systems and applications that would be available in the Company's office. This continued to cause minimal disruption on the operations of the Company and are expected to be maintained should any further restrictions occur in the future. The Company relies on its parent undertaking for the operation of its main underwriting, claims and accounting system. However there has been no service interruption at any point. Given the robustness of the Company's operations during the lockdowns to date, the Company is confident that it will be able to continue to service its insurance contracts and maintain adequate operational functionality throughout any period of movement restriction sought by the UK Government.

Climate change

In July 2020, the Prudential Regulation Authority ("the PRA") sent a "Dear CEO" letter to every regulated insurer stating that firms need to embed an approach to managing climate-related financial risk by the end of 2021. The PRA emphasised the need for a strategic approach to managing climate risk and set out its expectations across four key areas: governance, risk management, scenario analysis and transparency in disclosure to stakeholders.

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

Governance: The Board and senior management understands the Company's exposure to climate-related risk, such items are reported to the Board and monitored as part of the risk management framework. The CEO has been appointed the individual to govern SFME's climate-related risk

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

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- The Company has very little risk within its investments from climate change. Its investments are liquid and short-term and the investment yield contributes only a small proportion of the profit before tax; and
- The Company's exposure to climate change risk in the insurance contracts it issues and reinsurance contracts it holds is low. The key perils exposed to climate change risk are windstorm and flood events and since the Company's incorporation these events comprise a relatively small proportion of all claims (less than 10%). Furthermore, the majority of the Company's contracts that it issues are annual in duration which permits appropriate repricing at renewal as the Company's understanding of climate change risk develops.

Risk management: the Company has commenced the monitoring of climate change risk exposures in its claims and insurance contracts. The Company has set risk appetites and metrics in relation to these exposures which have been approved by the Board.

Transparency: this has been addressed by the inclusion of commentary of the above points in this Report. The Board has concluded that the Company's exposure to climate-related risks is low. The risk will be monitored to ensure it either remains within appetite or that management take remedial action in the event that the appetite is or is danger of being breached.

Impact of the conflict in Ukraine

The Company has written business in Ukraine and Russia on a cross-border basis. It does not maintain a branch or subsidiary undertaking in those countries and, consequently, has no employees located in either country. The Company has not made any investments in either jurisdiction. The Company has considered the potential impact on its business model of the conflict in Ukraine and the consequent strengthening of sanctions against Russia by the UK Government and legislation introduced by the Russian Government affecting transactions between British and Russian entities. The Company maintains a Sanctions Policy and Sanctions Compliance Programme and is committed to meeting the requirements of all applicable sanctions authorities.

It has suspended writing the renewal or acceptance of new Russian-exposed business unless specifically related to Samsung-affiliated entities where permitted by sanctions actions. The Company is exploring options for the cancellation of existing Russian-exposed business. Russian-exposed business includes business where the one or more of the original policyholders, the local or primary insurer or an ultimate reinsurer are domiciled in Russia. The Company is however mindful that some of this business is for original policyholders located in the EU and CIS countries where corresponding sanctions have not been implemented for non-Russian business.

In 2021, the Company issued contracts of insurance, on an inwards facultative basis via primary insurers local to the original policyholder, where original policyholders were domiciled in Ukraine (amounting to GWP of £0.2m) and in Russia (amounting to GWP of £4.8m). The Company cedes a significant proportion of this business to its reinsurers, retaining £0.6m of this business. The Company also writes business in other Commonwealth of Independent States ("CIS"), most notably in Kazakhstan, Uzbekistan, Moldova and Azerbaijan. Total GWP from policyholders domiciled in CIS countries, excluding Ukraine and Russia, was £4.7m in 2021 of which only £0.2m has been retained after proportional reinsurance.

The majority of the business derived from policyholders domiciled in Russia and the CIS countries and a small proportion of EU-based business is ultimately reinsured by two Russian reinsurance companies. The Company is seeking alternative reinsurance arrangements but otherwise this business will be cancelled or run-off at expiry. The Company has reinsurance recoverables and reinsurance premium payable on its balance sheet at the year end in connection with these ultimate Russian reinsurers. Whether due to restrictions imposed by the Russian Government on the ultimate reinsurers or current or a future widening of sanctions by the UK Government, the Company has a potentially increased future liquidity risk in the event of an abnormally severe claim, where the

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	<p>Company’s liability cannot be funded by the simultaneous payment clause in the corresponding reinsurance contract held. In such an event, the Company could require additional support from its parent entity. However, the Company currently considers the probability of a claim of such magnitude to be remote and is considering ways of mitigating this potential risk. See Section C6 for further details.</p>
<p>Valuation for Solvency Purposes</p>	<p>The valuation of assets and liabilities for SII purposes is the same as IFRS except for:</p> <ul style="list-style-type: none"> • Differences in the valuation of technical provisions and associated reinsurance recoverables. In particular the unearned premium reserve on the IFRS balance sheet is replaced by an assessment of future cash flows expected from unexpired and bound but not incepted risks. This includes an estimate of future expenses and excess of loss reinsurance costs; • A risk margin which is not recognised on the IFRS balance sheet; and • Deferred acquisition costs and the deferred income reserve which have no value on the SII balance sheet. <p>Insurance and reinsurance receivables and payables adopt the same valuation as IFRS but items which have not reached their due date are reclassified within technical provisions. There are a number of other reclassifications to comply with the presentation requirements of SII. As a result of these reclassifications, the SII total assets were significantly lower than IFRS total assets at the end of 2021 (£75m vs £127m). Chapter D provides an explanation about the valuation differences between SII regulations and the IFRS accounting framework.</p> <p>On the balance sheet, the excess of assets over liabilities (known as Own Funds) increased to £33.8m (2020: £30.1m) following a profitable year’s trading in 2021 (i.e., the increase in Own Funds is largely similar to the IFRS profit after tax). There have been no other changes to the Company’s capital.</p>
<p>Capital Management</p>	<p>The Company has a very simple capital structure comprising issued ordinary share capital and retained earnings (known as a reconciliation reserve in SII terminology). Accordingly, the Company’s own funds are entirely Tier 1. As noted, Own Funds increased in 2021 by £3.6m largely due to its IFRS reported profits (£3.2m). Under SII rules, the Company is required to take account of policies which were bound but not incepted at 31 December 2021. These are not accounted for under IFRS so the profit arising from them constitutes a timing difference in Own Funds/net assets. The value of these policies did not fluctuate significantly between the two year ends.</p> <p>The Solvency Capital Requirement (“SCR”) was £15.5m (2020: £11.1m). During 2021, the Company was approached by an existing Samsung-affiliated client to substantially increase the sum insured offered on an in-force contract. After an ORSA-type assessment of the impact of the proposal, the Board agreed, by exception, to issue the contract. The Company’s net retention is unchanged and within the protection afforded by the XoL programme. Given that the higher sum insured is reinsured, the Company’s counterparty risk has significantly increased. Hence the £4.4m increase in the SCR. The Company expects to renew the contract and its 2022-24 plan and forward-looking capital assessment has incorporated the contract.</p> <p>The solvency coverage ratio decreased to 219% (2020: 271%) as a result of the higher SCR and despite increased Own Funds. The principal modules of the SCR are underwriting risk, counterparty risk (because the Company has high levels of reinsurance) and market risk (because the Company’s investments are concentrated with a very small number of banks and because of its currency exposures). The main reason for the increase in the SCR is counterparty risk which, for the reason described above, has increase by £4.2m.</p> <p>The Minimum Capital Requirement (“MCR”) was £3.9m (2020: £3.3m). The MCR coverage ratio fell to 874% (2020: 903%). The reduction in the ratio was because the MCR now sits above the absolute floor (expressed in SII Regulations as €3.7m) and is, rather, a percentage of the SCR and so has increased in line with the higher SCR.</p>

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A. Business and Performance

In this chapter:

- A.1 Business
- A.2 Underwriting performance
- A.3 Investment performance
- A.4 Performance of other activities
- A.5 Any other information

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A.1 Business

Information regarding the business

This Solvency and Financial Condition Report for the year ended 31 December 2021 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 is KPMG LLP of 15 Canada Square, Canary Wharf, London E14 5GL.

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

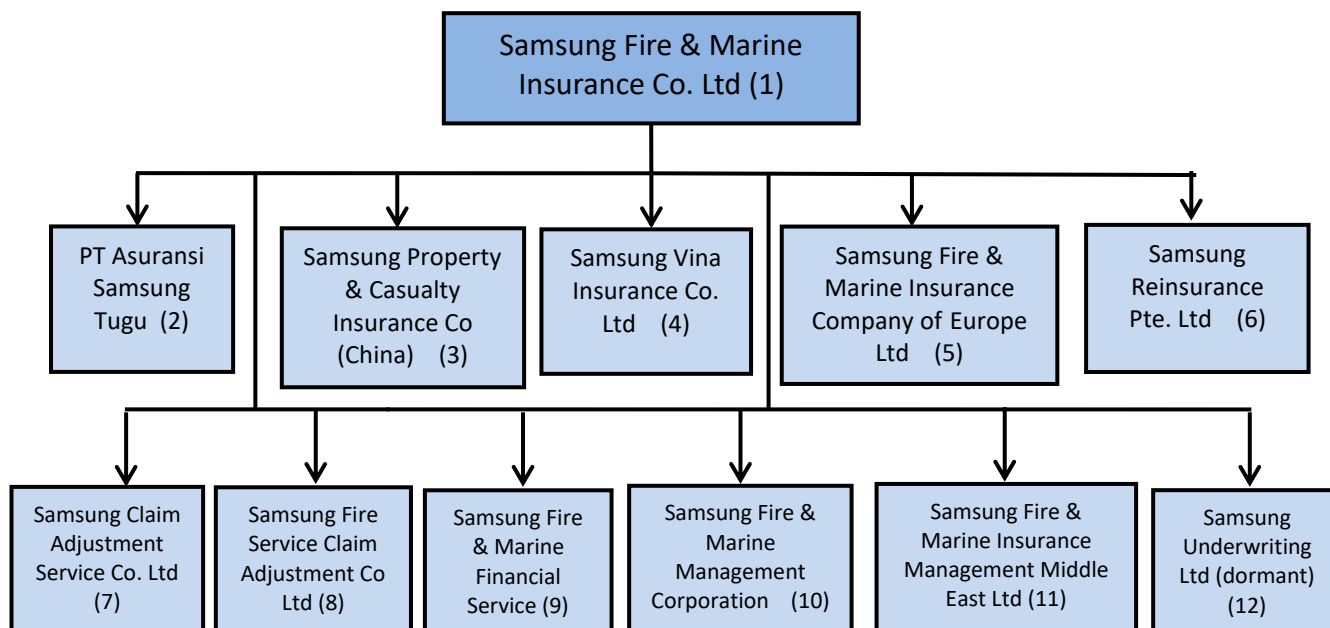
Pursuant to a Policy Statement issued by the PRA which set out thresholds for the requirement of an external audit of SII reporting, the Company fell below these thresholds and accordingly has not engaged KPMG LLP in an audit of its SII reporting for the years ended 31 December 2020 and 2021.

There have been no changes to any of the above during 2021.

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Group structure

SFME’s position within the SFMI group structure is set out by the following diagram. There have been no significant changes in 2021.



Ref	Company Address	Ownership	Domicile
1	Samsung Fire & Marine Insurance Co. Ltd 14 Seocho-daero-74-gil, Seocho-gu 06620, Seoul	Parent	Republic of Korea
2	PT Asuransi Samsung Tugu AIA Central, 27 th Floor, JL Jend Sudirman Kav, 48A Jakarta, 12930	70%	Indonesia
3	Samsung Property & Casualty Insurance Company (China) 7F Building B, The Mixc Office Shanghai, No 1799, Wuzhong Road, Minhang District, Shanghai 201103	100%	China
4	Samsung Vina Insurance Co., Ltd 45 th Floor, Bitexco Financial Tower, 2 Hai Trieu, District 1, Ho Chi Minh City	75%	Vietnam
5	Samsung Fire & Marine Insurance Company of Europe Ltd 16 th Floor, 88 Wood Street, London, EC2V 7QT	100%	United Kingdom
6	Samsung Reinsurance Pte. Ltd 23 rd Floor, Samsung Hub Building, 3 Church Street, 0494883 Singapore	100%	Singapore
7	Samsung Claim Adjustment Service Co., Ltd 12 th Floor, 343 Kangnamdae-ro, Seocho-gu, Seoul	100%	Republic of Korea
8	Samsung Fire Service Claims Adjustment Co., Ltd 17 th Floor 233-3, Mokdongdong-ro, Yangcheon-gu, Seoul	100%	Republic of Korea
9	Samsung Fire & Marine Financial Service 2 nd Floor, 173, Toegye-ro, Jung-gu, Seoul	100%	Singapore
10	Samsung Fire & Marine Management Corporation 5 th Floor, 105 Challenger Road, Ridgefield Park, New Jersey 07660	100%	United States of America
11	Samsung Fire & Marine Management Middle East Ltd PO B ox 482021, #501, Gate Village Building 10, DIFC, Dubai	100%	United Arab Emirates
12	Samsung Underwriting Ltd (dormant) 5 th Floor Camomile Court, 23 Camomile Street, London EC3A 7LL	100%	United Kingdom

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Description of the sources of revenue

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

		2021		2020	
		£000s	%	£000s	%
<i>basis : IFRS gross written premium</i>					
Cargo	<i>storage & transit</i>	11,307	24.6%	9,625	27.1%
Property	<i>property damage, business interruption & engineering/construction</i>	34,220	74.4%	25,470	71.6%
Liability	<i>general liability</i>	443	1.0%	453	1.3%
Total		45,970	100.0%	35,549	100.0%

The table shows that the growth in GWP is mainly attributable to property. In addition to the GWP related to the Samsung-affiliated contract with the higher sum insured, the Company has been developing business relationships with a few key intermediaries and primary insurers and was able to take advantage of new opportunities, each within the Company's pricing and risk selection criteria, presented to it from those sources in 2021.

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

	Gross written premium		Net written premium	
	2021	2020	2021	2020
Cargo	24.6%	27.1%	89.9%	88.2%
Manufacturing	39.5%	30.4%	5.3%	6.6%
Energy	13.6%	14.4%	0.1%	0.8%
Transportation	0.5%	0.7%	0.2%	0.2%
Public buildings/facilities	3.6%	3.9%	1.4%	1.2%
Warehouse & storage	8.1%	14.6%	1.7%	1.8%
Construction	8.5%	4.7%	0.3%	0.3%
All other types	1.6%	4.2%	1.1%	1.0%
Total	100.0%	100.0%	100.0%	100.0%

GWP in respect of 'manufacturing' has increased significantly due to the Samsung-affiliated contract with the large sum insured. On a net basis, cargo remains the predominant industry type.

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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	
	2021	2020	2021	2020
UK	4.3%	6.0%	8.0%	8.9%
EU	62.9%	56.2%	58.1%	58.6%
CIS	10.7%	13.5%	2.5%	2.0%
Russia	10.4%	12.2%	5.9%	4.8%
Africa	5.0%	5.9%	18.4%	18.0%
Middle East	5.4%	3.6%	5.7%	7.3%
Other	1.3%	2.6%	1.4%	0.4%
Total	100.0%	100.0%	100.0%	100.0%

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

In consequence of the conflict in Ukraine and the geopolitical situation with Russia, the Company has suspended writing any new business and/ or renewals which has a Russian touch-point. Existing business with a Russian primary insurer or original policyholder will be either cancelled or run-off. A significant proportion of the Company's CIS business and a smaller proportion of its EU business is reinsured by a reinsurer domiciled in Russia. The Company is seeking alternative reinsurance arrangements but otherwise this business will be cancelled or run-off at expiry. Almost all of the net written premium derived from Russia and CIS countries is from Samsung-affiliated policyholders.

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	
	2021	2020	2021	2020
Cargo - Group entities	23.7%	26.2%	89.0%	86.9%
Cargo - other clients	0.9%	0.8%	1.0%	1.2%
Non-cargo - Group entities	43.5%	26.4%	7.2%	7.7%
Non-cargo - other clients	31.9%	46.5%	2.7%	4.1%
Total	100.0%	100.0%	100.0%	100.0%

The significant proportion of the new business acquisitions during 2021 have been from clients related to the wider Samsung group. Other clients made up around 33% of GWP in 2021 compared to 47% in 2020. However, on a net basis, cargo from Samsung entities is the predominant client type and overall, 96% (2020: 94%) 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 2021:

	Cargo		Property		Liability		Total	
	2021 £000s	2020 £000s	2021 £000s	2020 £000s	2021 £000s	2020 £000s	2021 £000s	2020 £000s
<i>source : S.05.01 which is based on the IFRS accounts</i>								
Gross written premium	11,307	9,625	34,220	25,470	443	453	45,970	35,549
Gross earned premium	11,038	9,205	28,975	20,909	455	448	40,468	30,562
Reinsurers' share	(3,097)	(2,465)	(28,144)	(20,094)	(372)	(372)	(31,613)	(22,931)
Net earned premium	7,941	6,741	831	815	83	76	8,855	7,632
Gross incurred claims	(2,835)	(2,096)	(8,339)	(13,268)	(138)	(132)	(11,312)	(15,496)
Reinsurers' share	260	362	8,358	13,234	122	142	8,740	13,737
Net incurred claims	(2,575)	(1,734)	19	(34)	(16)	10	(2,572)	(1,758)
Gross commissions	(1,153)	(812)	(3,878)	(2,620)	(63)	(76)	(5,094)	(3,509)
Reinsurers' share	982	774	5,633	3,698	63	75	6,678	4,548
Overheads	(969)	(967)	(2,412)	(1,929)	(32)	(35)	(3,413)	(2,930)
Net expenses	(1,140)	(1,005)	(657)	(851)	(32)	(36)	(1,829)	(1,892)
Net technical result	4,226	4,001	193	(70)	35	50	4,454	3,982
Combined ratio - all years	46.8%	40.6%	76.8%	108.6%	57.8%	34.0%	49.7%	47.8%
Combined ratio - current accident year only	56.5%	45.5%	119.7%	166.7%	82.6%	94.7%	64.5%	59.0%

The Company has experienced a £10.4m (29%) increase in its gross written premium compared to 2020. This is mainly attributable to non-cargo business (£8.7m). The Company writes a number of non-cargo lines: property/packages, engineering and a very small number of liability risks. Income from these lines increased principally on account of: (a) a higher sum insured contract issued to an existing Samsung-affiliated client; and (b) new business opportunities made available to the Company through its long-established trusted trading partners (brokers and primary insurers). This new business amounted to £6.0m. All the new business was subject to the Company's rigorous acceptance criteria.

Cargo renewal rates have, in the last few years, been under pressure from market conditions and favourable loss experience but in 2021 the Company achieved positive rate increases on average plus benefitted from positive end-of-contract premium adjustments from the 2020 contracts. Together with a small amount of new business, cargo GWP has increased by £1.7m.

On a net written basis, premium has increased by 14.2%. Net earned premium increased by 16.0%. The overall retention ratio fell from 22% to 19%. Whilst cargo fell slightly from 72% to 71%, less non-cargo business was retained in 2021 than in 2020. Overall, therefore the main factor in the increased net earned premium was the positive adjustment premium received on the 2020 cargo 2020 at expiry in 2021.

Net claims incurred were higher than in 2020 (29%; 2020: 23%) as a percentage of net earned premium. On a pure accident year basis, the incurred claims ratio, including IBNR, for 2021 was 42% compared to 34% for

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2020 after 12 months. In 2021, the Company experienced one significant cargo loss due to a train derailment (none in 2020) but again was fortunate to avoid any significant weather-related cargo losses. The Company experienced some large non-cargo claims in 2021 but these were largely reinsured.

Both years have a similar release from prior years' reserves (2021: £1.2m; 2020: £0.8m). Both financial years benefitted from a continuous development by the Company of its assessment of claims and various incremental adjustments to a number of factors in the evaluation of incurred but not reported ("IBNR") claims. 2021 also benefitted from two unusually large subrogation recoveries on two old claims

On a pure current accident year basis, the net incurred ratio for 2021 was 42% compared to 34% for 2020 after 12 months.

The commission and expense ratio was 21% (2020 25%) of net earned premium. This comprises acquisition costs, also known as commissions, on gross premium, commission income earned from reinsurance premium ceded, claims management expenses, policy administrative expenses and overheads. Gross acquisition costs increased slightly as a percentage of gross earned premium (2021: 12.6%; 2020: 11.5%). Reinsurance commissions received were, as a percentage of reinsurance earned premium, higher in 2021 (2021: 21%; 2020: 20%). This is because the Company has attempted to maximise income from its role as a fronting reinsurer for business coming in to the London Market. Expenses are slightly lower a proportion of net earned premium (38%; 2020: 39%).

The combined ratio was 50% (2020 48%). The change reflects the trends and factors affecting the premium, claims and commissions which have been described above.

Other comments about underwriting performance

A significant part of SFME's income was derived from a small number of policyholders. In 2021 half the gross written premium was derived from 10 policies (2020: 13 generating 51%). Many of the large premium policies were with Samsung group entities so the lapse risk is relatively small.

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. Premium income 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

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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 2021 a positive £1,894,000 gross written premium was booked in respect of cargo policies incepting in 2020 and prior (2020: positive £374,000 in respect of 2019 and prior cargo policies).

During 2021, the Company maintained the maximum value of the gross sums insured for non-cargo business with the exception of one client for whom the Board agreed a higher sum insured on a property and engineering contract after appraising the impact for higher sums insured on the SCR solvency ratio. With its high level of capital resources, the Company has the ability to accommodate this higher risk though much of it is fronted to reinsurers so the impact is largely on counterparty risk. The maximum cargo sums insured limit remained unchanged. As explained below, the maximum net retention loss payable by SFME after all reinsurance remained unchanged at \$1.5m (£1.1m).

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 2021 and 2020 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 2021, 23% of total premiums ceded were ceded to SFMI (2020: 23%).

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

source : S.31.01

	AAA	AA	A	BBB	> BBB-	not rated
Technical provisions as at 31/12/21	-	23.8%	68.6%	7.4%	-	0.2%
Technical provisions as at 31/12/20	-	40.3%	55.5%	4.0%	-	0.2%

The single reinsurer that was downgraded during 2020 remains at BBB and no in-force contracts are reinsured by it. An amount is recoverable in respect of a single claim currently in the process of negotiated for settlement. The main 'not rated' reinsurer is the UK Government-backed Pool Re. Pool Re is the only 'not rated' reinsurer used for new reinsurance contracts held in 2021. 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 2021.

Basis : S.06.02, S.09.01 (which form part of the Regular Supervisory Report submitted to the PRA)

	Asset category	Income £000s	Average holdings during the year £000s	Holding at year end £000s	Yield on average holding %
2021	Interest-bearing deposits	73	31,849	32,172	0.31%
	Other deposits and bank accounts	72		7,229	
	Property, plant and equipment including right-to-use assets	9		1,482	
	Total	100	31,849	40,883	
2020	Interest-bearing deposits	73	28,601	29,332	1.22%
	Other deposits and bank accounts	72		7,980	
	Property, plant and equipment	9		1,692	
	Total	503	35,697	39,004	

The return on deposits fell markedly in 2021, reflecting the lower reinvestment rates on offer from banks in the UK and US in to which the Company placed its investment monies as each deposit matured.

SFME does not hold any securitised investments.

A.4 Performance of other activities

IFRS profit after tax

The following table presents the net income of the Company for the year:

	2021	2020
	£000s	£000s
Net earned premium	8,856	7,632
<i>All accident year loss ratio</i>	<i>29.0%</i>	<i>23.0%</i>
<i>Expense ratio</i>	<i>20.6%</i>	<i>24.8%</i>
Net technical result	4,455	3,982
Net investment income	100	350
Other gains and losses	(562)	(144)
Profit before tax	3,993	4,188
Income tax charge	(766)	(803)
Profit after tax	3,227	3,385

Other gains and losses principally comprise foreign exchange gains and losses.

Foreign currency

SFME solely transacts non-life insurance business. It conducts this business in several currencies though reporting them in GBP. Therefore, in addition to the activities reported in sections A2 and A3, SFME incurs exchange gains and losses on its foreign currency transactions. For the year ended 31 December 2021, these amounted to a loss of £492,000 (2020: loss of £139,000). The following table analyses the Company's premium income between the accounting currencies:

<i>basis: IFRS GWP</i>	2021	2020
GBP	3.0%	4.2%
EUR	56.9%	50.1%
USD	23.5%	28.6%
all other currencies	16.6%	17.1%
total of all currencies	100.0%	100.0%

The foreign exchange exposure is exacerbated by the terms of credit available to policyholders (albeit these follow standard market practice) and the low level of claims reserves meaning SFME typically has an unavoidable surplus asset position in many currencies. Further, a small number of deposits were held in US Dollar for yield purposes so the Company held a surplus of USD assets.

Sterling's movements against the Euro in 2021 (a 7% strengthening) was the main factor in the FX losses. The Company's net EUR assets have reduced in value in Sterling terms.

The Company holds receivables and payables in Russian Rouble but the currency matching is just over 100% (£182,000 net assets) so the Company has not experienced a material FX movement in 2022 as a result of the Sterling/Rouble exchange rate.

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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 2031.

A.5 Any other information

There is no other information

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B. System of Governance

In this chapter:

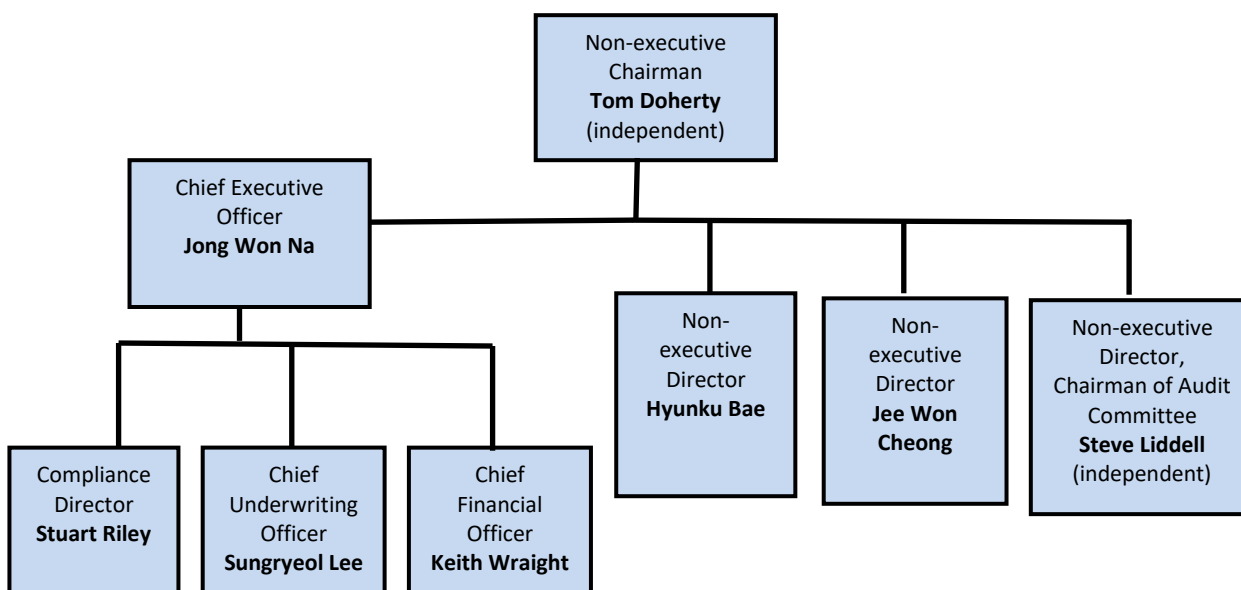
- B.1 General information on the system of governance
- B.2 Fit and proper requirements
- B.3 Risk management system
- B.4 ORSA
- B.5 Internal control system
- B.6 Internal audit function
- B.7 Actuarial function
- B.8 Outsourcing
- B.9 Assessment of the adequacy of the system of governance
- B.10 Any other information

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 2021, the Board comprised the following members:



During the year and until the date of this report:

- MS Oh resigned with effect from 3 December 2021;
- CA Galloway resigned with effect from 9 February 2021;
- SI Riley was appointed Compliance Director with effect from 3 February 2021, Company Secretary with effect from 17 February 2021 and a director with effect from 8 July 2021;
- DI Noe resigned with effect from 16 September 2021;
- In September 2021, JW Cheong became a non-executive director;
- In September 2021, JW Na became Chief Executive Officer;
- KVA Wraight was appointed director with effect from 27 August 2021 and replaced JW Na as Chief Financial Officer;
- S Lee was appointed director and Chief Underwriting Officer with effect from 7 September 2021;
- H Bae was appointed director with effect from 7 February 2022.

SFME's Board of Directors is responsible for the stewardship of the business, providing independent, 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 must 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

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specialist skill sets, the members of the Board must 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.

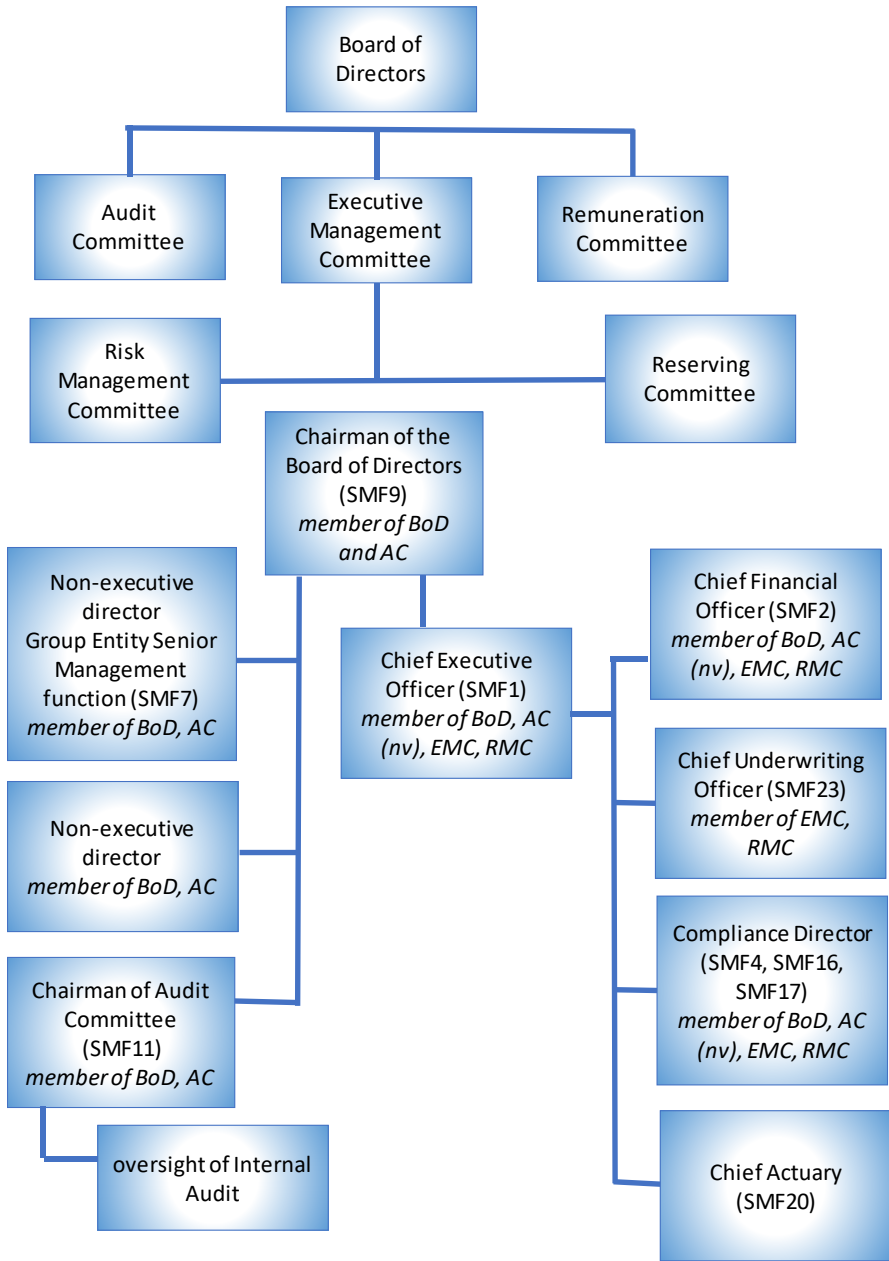
Independent non-executive directors constructively challenge and help develop proposals on strategy. They provide the necessary oversight of the Board. Non-executive directors possessing relevant skills and experience are also selected from the wider SFMI group in order to provide oversight of the business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

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

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

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Segregation of Responsibilities



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

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

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

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

Board Committee Structure

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

Audit Committee

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

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

Remuneration Committee

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

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The primary responsibilities of the Remuneration Committee are to:

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

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

Some directors and staff are expatriates from Korea. SFME is of the opinion that the transfer of staff from SFMI is positive for the Company and SFMI. The remuneration for these individuals is set by SFMI albeit borne by SFME either directly through its own payroll or 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 margin. ResCom assists the EMC and the Board in determining the appropriateness of the Company’s estimates of IBNR for IFRS and Solvency II reporting.

Risk Management Committee

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

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

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Oversight

The annual governance 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 2021 to the governance structure.

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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:

	2021	2020
<i>source : P&L as per statutory accounts. Balance sheet per S.31.01</i>	£'000	£'000
<u>Transactions carried out during the year (IFRS basis) :</u>		
Gross written premium from sale of insurance contracts	-	-
Claims (recovered)/incurred from sale of insurance contracts	(202)	1
Written premiums ceded under reinsurance contracts	(8,635)	(6,486)
Commissions received under reinsurance contracts	1,882	1,394
Claims recovered under reinsurance contracts	1,105	1,128
Expense for support services supplied to the Company	158	152
<u>Balances at the balance sheet date (SII basis)</u>		
Amounts payable to related parties net of amounts receivable from related parties	(1,476)	(2,319)
Related parties' share of reinsurance technical provisions	2,593	4,983

The amount of written premium ceded increased significantly in 2021 as a result of a higher volume of facultative reinsurance treaties provided by SFMI, largely relating to the new property business.

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 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)

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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, the Risk Management function is performed by 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 remove excess risks in order for SFME to achieve 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.

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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 implementing 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	<ul style="list-style-type: none"> • Ownership and oversight of the ORSA process • Review and challenge of each ORSA • Use of ORSA in the management of SFME
Executive Management Committee	<ul style="list-style-type: none"> • Effective engagement with the ORSA process • Use of ORSA output in business planning and the operation of the business

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Risk Management Committee	<ul style="list-style-type: none"> • Day-to-day oversight of the ORSA process • Review and acceptance of ORSA output
Risk Management function, Compliance Director	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Ownership of the SCR, MCR, own funds and technical provisions
Actuarial	<ul style="list-style-type: none"> • Key inputs to the ORSA such as technical provisions • Review of ORSA capital figure and comparison with the SCR • High level/consultative involvement in the ORSA process • 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	<ul style="list-style-type: none"> • Oversight of the methodologies and assumptions used in valuing the technical provisions
All staff	<ul style="list-style-type: none"> • 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.

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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.

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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

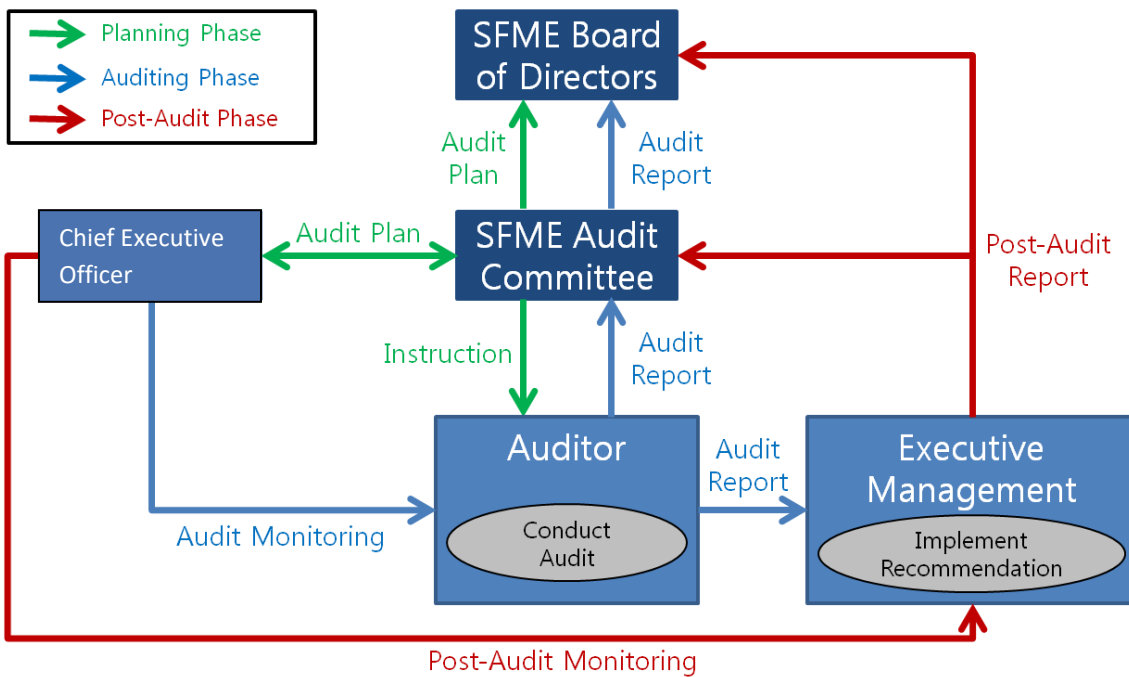
SFME's Audit Committee is the steering group for the oversight and management of the internal audit function. The internal audit itself is outsourced to the Internal Audit department of SFMI. The Audit Committee reviews and approves the annual audit plan prepared by the SFMI Head of Internal Audit.

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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 not undertaken in such a way as to lead to any of the following:

- 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.

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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.

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C. Risk Profile

In this chapter:

- C.1 Underwriting risk
- C.2 Market risk
- C.3 Credit risk
- C.4 Liquidity risk
- C.5 Operational risk
- C.6 Other material risks
- C.7 Any other information

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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.

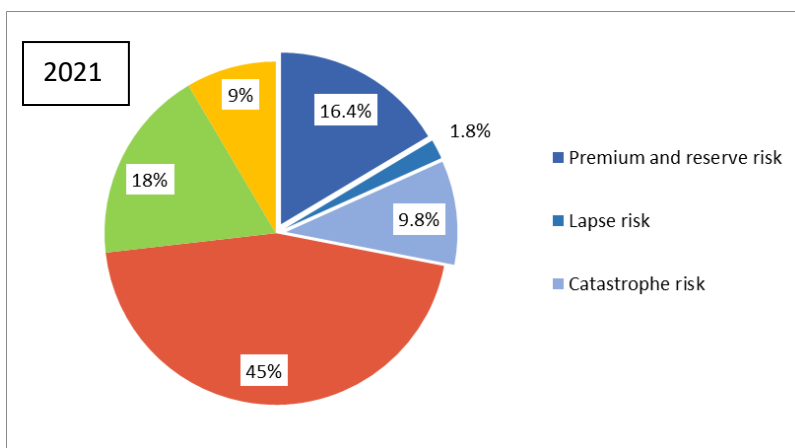
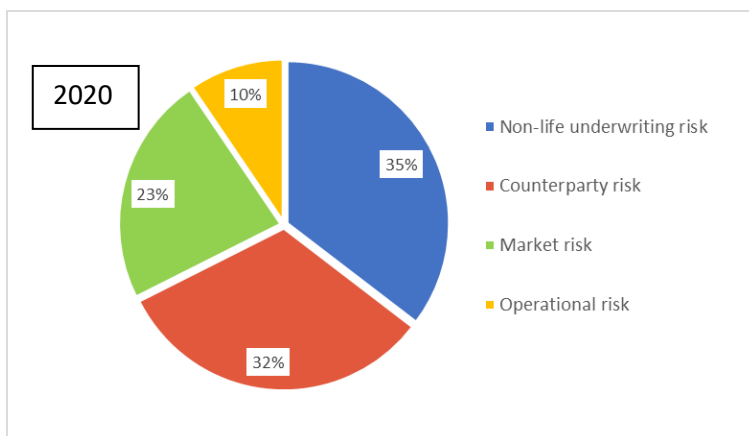
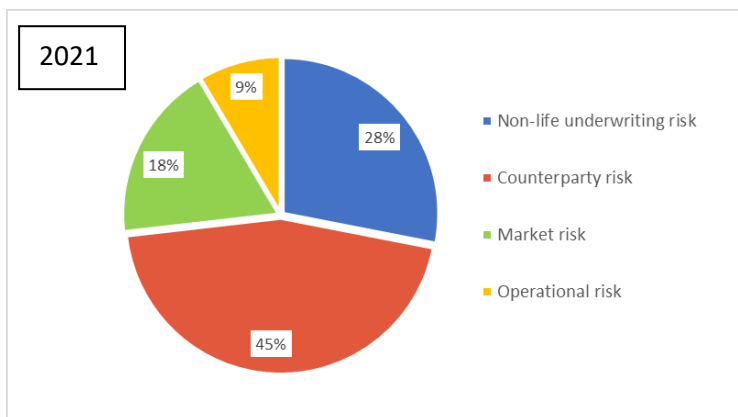
During 2021 there has been material change to the quantification of Company’s Solvency Capital Requirement (SCR) and mix between the components of the SCR, as shown by the pie charts on the right. During 2021, SFME entered in to a new property contract with an existing Samsung-affiliated client with an increased sum insured. Whilst the Company’s net retention is unchanged, the higher sum insured has been reinsured to a panel of reinsurers. This has increased the counterparty risk component of the SCR.

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.

As at 31 December 2021, the components of the SCR are shown in the pie chart above with 2020 for comparison purposes given the material change. See section E2 for further details regarding amounts, prior year comparatives and comments on major movements in 2021.

C.1 Underwriting risk

Underwriting risk is the risk of loss to SFME by whatever cause due to actual experience being different than that expected when an insurance product was designed and priced. The Standard Formula has three sub-components of non-life underwriting risk which are shown in the pie chart on the right. Premium risk results from the uncertainty associated with the variability of claims that have not yet occurred. Reserving risk results from the uncertainty associated with the variability of claims that have



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already occurred. SFME has an exposure to windstorm, earthquake and flood losses from its property risks, as well as man-made fire. Its cargo book is also exposed to losses arising from catastrophe events. Lapse risk is the risk of loss of underwriting profits if in-force contracts lapsed (i.e., were cancelled) before the expected expiry date.

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

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

This underwriting risk universe is characterised by the following features:

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

Underwriting Risk

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

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

Pricing Risk

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

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

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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.

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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:

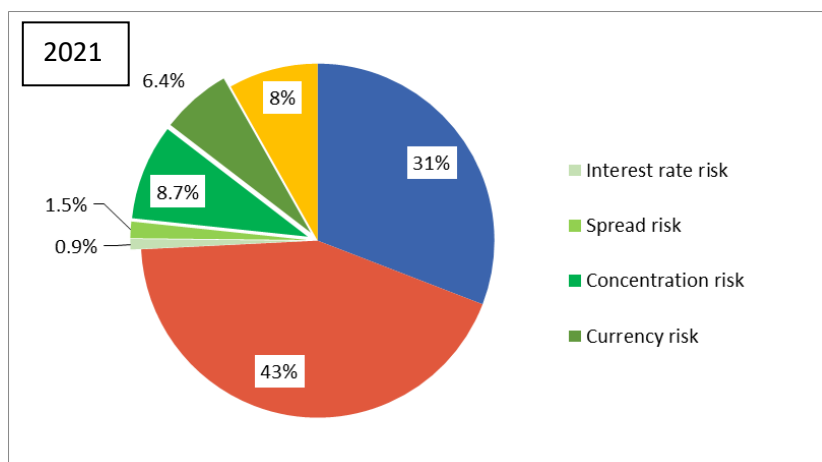
- Claims resourcing;
- Processes and management controls;
- Relevant documentation;
- Claim reserving;
- External third-party service providers and experts (including legal advice); and
- Performance management.

C.2 Market risk

Market risk 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 chart on the right.

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 below. 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

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- 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 very low interest rate and return environment and it has a small volume of assets that can only ever generate a small 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 2021, SFME held only deposits with a 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. For these three currencies, it is the policy of the Company to match assets against liabilities in the currency of that liability over a period of time. This avoids the risk of a significant mismatch if there is a change in the value of a currency. During 2021, deposits were made in USD to improve investment yields and as a result, the Company has had a surplus of USD assets greater than its desired threshold. The Board had determined that the increased currency risk was acceptable.
- 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.

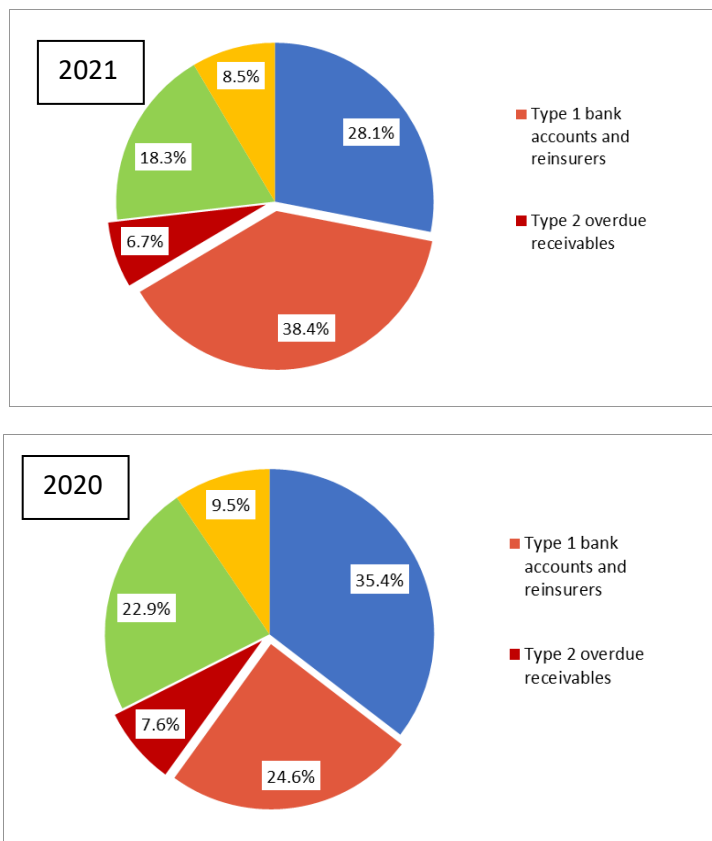
C.3 Credit risk

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

The pie charts show that the type 2 risk charge has increased during 2021. Because of the significant movement, the 2020 pie chart is also shown for comparison. During 2021, SFME entered in to a new property contract with an existing Samsung-affiliated client with an increased sum insured. Whilst the Company’s net retention is unchanged, the higher sum insured has been reinsured to a panel of reinsurers. This has increased the type 2 risk component because SFME has a bigger reinsurance asset for the losses the Standard Formula considers in determining the SCR.

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

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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;
- In the current low yield investment market, 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.

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Due to the size of SFME its exposure to liquidity risk is very low. The SFME liquidity risk universe is characterised by the following features:

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

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

Expected Profit

The total amount of the expected profit included in future premium is £1,190,000 (2020: £495,000). The increase reflects: (1) the increased business experienced by SFME during 2021; and (2) SFME being bound to two two-year cargo contracts at 1/1/22 which it was not at 1/1/21. Future premium is therefore higher now than at the 2020 year end.

C.5 Operational risk

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

- Change within SFME and the market in which it operates means that processes and procedures become obsolete and require review, update or replacement
- Changes to regulations and laws and/or non-compliance with regulation and legal requirements
- IT and systems are essential to the business and their failure or inability to deliver business critical functionality will have a severe impact on the business
- The risk of financial crime, both internally from staff and externally from third parties is increasing during the global economic turmoil
- SFME is at the risk of business disruption through the loss of the building from which it operates or loss of access through an incident such as a fire or a terrorist attack. The Covid pandemic however has necessitated working from home for a sustained period 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

C.6 Other material risks

Group Risk

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

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

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

Strategic & Reputational Risk

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

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

Reputation risk is a function of:

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

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

"Brexit" Risk

A significant proportion of the Company's business has historically been conducted on a direct basis with policyholders domiciled in EEA states. With effect from 1 December 2020, the Company novated all contracts with EEA policyholders to White Rock, an insurer based in Malta, with all such business

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reinsured to the Company under a parallel reinsurance agreement. The bulk of the novated business is related to affiliated Samsung entities and all contracts were renewed in 2021. Operationally, all contracts continue to be serviced by the Company and White Rock with no detriment to the end policyholders.

Covid virus pandemic

The Company's cargo business is relatively sensitive to the quantum of cargo transported by its clients. If the pandemic had disrupted manufacturing and consumer demand for a prolonged period, cargo transported would have fallen and the Company would have suffered a reduction in its premium income. In fact, the experience during the 2020 lockdowns were very positive for consumer demands. After an initial period during the Spring when Covid was first emerging and volumes reduced, demand has recovered. Cargo clients successfully managed their distribution focus to enhance e-commerce trading thus meeting increased consumer demand during the rest of 2020 for tablets, laptops and other household equipment. As a consequence, when the 2020 cargo contracts expired during 2021, the Company received additional premium income when the final sums insured (value of cargo transported) were compared to the budgeted amounts at inception. Since cargo has a high retention (i.e., after reinsurance), this increased the Company's net insurance revenue.

It is possible that sums insured and premium levels for contracts issued in 2021 will not be in line with policyholders' planned turnover.

The Company's business interruption ("BI") policies are typically sold as a package with property damage and BI losses can only arise as a direct result of physical damage to the property insured. Prior to 2021, the Company issued a small number of contracts where coverage was provided for infectious diseases and no physical damage to property was required. All contracts issued in 2021 excluded this coverage. The Company's current judgement is that the likelihood of incurring a loss from its net exposure (that is, the exposure after reinsurance) is increasingly unlikely.

In response to the UK Government's restrictions of movement during 2021, the Company has enabled all members of staff to work from home with remote access to all systems and applications that would be available in the Company's office. This continued to cause minimal disruption on the operations of the Company and are expected to be maintained should any further restrictions occur in the future. The Company relies on its parent undertaking for the operation of its main underwriting, claims and accounting system. However there has been no service interruption at any point. Given the robustness of the Company's operations during the lockdowns to date, the Company is confident that it will be able to continue to service its insurance contracts and maintain adequate operational functionality throughout any period of movement restriction sought by the UK Government.

Climate change

In July 2020, the Prudential Regulation Authority ("the PRA") sent a "Dear CEO" letter to every regulated insurer stating that firms need to embed an approach to managing climate-related financial risk by the end of 2021. The PRA emphasised the need for a strategic approach to managing climate risk and set out its expectations across four key areas: governance, risk management, scenario analysis and transparency of disclosure.

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

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Governance: The Board and senior management understands the Company's exposure to climate-related risk, such items are reported to the Board and monitored as part of the risk management framework. The CEO has been appointed the individual to govern SFME's climate-related risk

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

- The Company has very little risk within its investments from climate change. Its investments are liquid and short-term and the investment yield contributes only a small proportion of the profit before tax; and
- The Company's exposure to climate change risk in the insurance contracts it issues and reinsurance contracts it holds is low. The key perils exposed to climate change risk are windstorm and flood events and since the Company's incorporation these events comprise a relatively small proportion of all claims (less than 10%). Furthermore, the majority of the Company's contracts that it issues are annual in duration which permits appropriate repricing at renewal as the Company's understanding of climate change risk develops.

Risk management: the Company has commenced the monitoring of climate change risk exposures in its claims and insurance contracts. The Company has set risk appetites and metrics in relation to these exposures which have been approved by the Board.

Transparency: this has been addressed by the inclusion of commentary of the above points in this Report. The Board has concluded that the Company's exposure to climate-related risks is low. The risk will be monitored to ensure it either remains within appetite or that management take remedial action in the event that the appetite is or is danger of being breached.

Impact of the conflict in Ukraine

The Company has written business in Ukraine and Russia on a cross-border basis. It does not maintain a branch or subsidiary undertaking in those countries and, consequently, has no employees located in either country. The Company has not made any investments in either jurisdiction.

The Company has considered the potential impact on its business model of the conflict in Ukraine and the consequent strengthening of sanctions against Russia by the UK Government and legislation introduced by the Russian Government affecting transactions between British and Russian entities. The Company maintains a Sanctions Policy and Sanctions Compliance Programme and is committed to meeting the requirements of all applicable sanctions authorities. It has suspended writing the renewal or acceptance of new Russian-exposed business except for Samsung-affiliated policyholders where sanctions actions permit. The Company is exploring options for the cancellation of other existing Russian-exposed business. Russian-exposed business includes business where the one or more of the original policyholders, the local or primary insurer or an ultimate reinsurer are domiciled in Russia. The Company is mindful however that some Russian-exposed business provides contracts of insurance to original policyholders located in the EU and CIS countries where corresponding sanctions have not been implemented for non-Russian business.

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In 2021, the Company issued contracts of insurance, on an inwards facultative basis via primary insurers local to the original policyholder, where original policyholders were domiciled in Ukraine (amounting to GWP of £0.2m) and in Russia (amounting to GWP of £4.8). The Company cedes a significant proportion of this business to its reinsurers, retaining £0.6m of this business. The Company also writes business in other Commonwealth of Independent States (CIS), most notably in Kazakhstan, Uzbekistan, Moldova and Azerbaijan. Total GWP from policyholders domiciled in CIS countries, excluding Ukraine and Russia, was £4.7m in 2021 of which £0.2m has been retained after proportional reinsurance.

The majority of the business derived from policyholders domiciled in Russia and the CIS countries and a small proportion of EU-based business is ultimately reinsured by two Russian reinsurance companies. In total, £7.0m of written premium was ceded to this reinsurer in 2021. Given the decision not to renew Russian-exposed business during 2022, the Company is at risk of losing a proportion of its net insurance revenue and reinsurance commission it earns from business ceded to reinsurers. The exact amount depends on the scope of the Russian legislation, UK sanctions and whether or not alternative reinsurance arrangements can be made for the ceded business.

The Company faces an enhanced credit risk if Russian policyholders are unable to settle premium owed to the Company. The credit risk is mitigated by the reinsurance premium payable by the Company to its own reinsurers. At the end of February 2022, the net receivable amount was £0.4m. Furthermore, the Company has enhanced credit risk if an ultimate Russian reinsurer is unable to settle liabilities due to the Company under contracts of reinsurance held by the Company. At the end of February 2022, and including contracts issued in 2022, the Company had no amounts owed to it for paid claims recoveries and expects to recover £2.0m in respect of claims reported but not settled. However total premium payable to the reinsurers by the Company at the same date was £5.7m. The Company is assessing ways to mitigate the credit and liquidity risk for possible future claims liabilities it will pay.

Whilst the emerging geopolitical situation with Ukraine and Russia is relevant to SFME's business activities, the Company expects to continue as a going concern. This view has been formed on the basis that the Company has considered a severe downside stress scenario which models a reduction in total premium income of 25%, a consequential loss of reinsurance fee income and more a severe claims ratio. Further, Company has considered a stressed scenario in which gross and net written premium is reduced by 50%. The outcome of both assessments is that the Company remains a going concern with sufficient capital to support the business and its liabilities at 31 December 2021.

In addition, the Company has considered its increased future liquidity risk. Whilst sanctions exclusion clauses may suspend the liability of the Company to the reinsurers for reinsurance premium payable, the Company may still have an obligation to pay related claims to primary insurers. In such a scenario, there is the potential for an increased risk because the reinsurance recoveries owed to the Company could not be settled by the reinsurers. The Company has liquidity/capital resources to absorb claims of at least double the value of the biggest claim it has experienced from such business. However, the sums reinsured on some contracts (i.e., possible maximum loss from a single event) are of such value that a claim could necessitate additional capital support from the parent entity. The Company currently considers the probability of a claim of such magnitude to be remote and is considering ways of mitigating this potential risk.

C.7 Any other information

Material changes

There have been no material changes in the nature of any of SFME's risks during 2021. The SCR reflects the increased counterparty risk resulting from the contracts issued with increased sums insured but the coverages offered by the contract are in line with coverages typically offered by the Company.

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 22% arising from premium income being double the planned amount. A doubling of the probability default rates was almost as large. In this test, and without considering the impact on Own Funds, the solvency coverage ratio is reduced to 164% for the doubling of premium income and 165% for the higher default factors. The reduction in the ratio is significant, reflecting the severity of the stresses, but remains above the Company's target minimum ratio.

Scenario testing included three storm surge losses in the Netherlands, the default of 2 banks with whom SFME has deposits and the default of SFME's largest reinsurer. The bank default scenario reduces Own Funds such that the solvency coverage ratio falls below 100%; but the banks are A+ rated or better so the probability of this scenario is very low. The three storm surges scenario reduces the ratio below 150%; but scenario is significantly more severe than the Company's historical claims experience. The ratio default of the largest reinsurer exceeds 150%.

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.

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

Prudent Person Principle

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

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D. Valuation for Solvency Purposes

In this chapter:

- D.1 Assets
- D.2 Technical provisions
- D.3 Other liabilities
- D.4 Alternative methods for valuation
- D.5 Any other information

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D.1 Assets

The total value of assets at 31 December 2021 was £75.3m on a Solvency II basis and £127.1m under IFRS (2020: £78.6m and £105.8m respectively). With the increase in property business, which is heavily reinsured, there has been a general increase in the gross and reinsurers' share of technical provisions.

The following table shows a summary of the assets under both the Solvency II and IFRS bases.

source : template S.02.01

	2021					2020				
	IFRS	Reclassi- fication	Future due receivables & payables	Valuation differences	Solvency II	IFRS	Reclassi- fication	Future due receivables & payables	Valuation differences	Solvency II
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Deferred acquisition costs	3,320	0		(3,320)	(0)	2,252	0		(2,252)	(0)
Property, plant & equipment	1,481	0		0	1,481	1,692	0		0	1,692
Investments	32,172	3,396		0	35,568	29,208	125		0	29,333
Reinsurance recoverables	47,018	0	(12,629)	(15,844)	18,545	40,052	0	(4,950)	(11,542)	23,560
Insurance receivables	27,859	(90)	(16,186)	0	11,583	17,305	(132)	(7,003)	0	10,170
Reinsurance receivables	7,672	127	(3,974)	0	3,825	7,111	0	(1,457)	0	5,654
Receivables	0	90		0	90	0	138		0	138
Cash and cash equivalents	7,229	(3,355)		0	3,874	7,980	0		0	7,980
Other assets	372	(41)	(0)	0	331	210	(125)	(6)	0	79
Total assets	127,123	127	(32,788)	(19,164)	75,298	105,810	6	(13,416)	(13,794)	78,606

The text below describes the main differences between the two bases, where applicable, and the basis for the Solvency II valuation.

Deferred acquisition costs

Under IFRS, deferred acquisition costs (DAC) are capitalised and amortised over the terms of the policies as the premium is earned. DAC has no valuation under Solvency II as it cannot be sold to a third party (i.e., there can be no future cash flow).

Plant and equipment

Under IFRS, property, plant and equipment are valued at cost less depreciation and includes right-of-use assets in accordance with IFRS16. Since the amount is immaterial, fair value for Solvency II is considered to be materially the same as IFRS.

Investments

The financial investments comprise for both Solvency II and IFRS solely deposits with credit institutions. SFME has a number of deposits which have a term of up to 12 months and these are treated as investments for both. However, the deposits which when placed only have a month to maturity are treated as investments for Solvency II purposes and as cash equivalents for IFRS reporting. Accrued interest is also added to the principal amounts under Solvency II.

The basis of valuation of the deposits and accrued interest under Solvency II is a fair value. This value is the same as IFRS.

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Reinsurance recoverables

A proportion of the gross technical provisions are recoverable from reinsurers. More information about the valuation of technical provisions is given in section 'D2 Technical Provisions'. The fair value of reinsurance recoverables reflects the possibility of default by any reinsurer.

Insurance receivables

Under IFRS, insurance receivables are assets held on the balance sheet in anticipation of future receipts relating to insurance operations. They include expected premium payments from policyholders, fronting insurers and brokers. The premium element includes premium receivables that are not due, because of arrangements where premiums are payable by instalments, and overdue premiums due to late payments or disputes. Under Solvency II, insurance receivables include only items which have reached their due date. Premiums which are not yet due are included in the gross technical provisions. The basis of valuation of insurance receivables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is regarded as being the same as IFRS.

Reinsurance receivables

Under IFRS, reinsurance receivables are assets held on the balance sheet in anticipation of future receipts relating to reinsurance operations. They include amounts owed by reinsurers principally relating to claims and commissions (both due and not yet due). Under Solvency II, reinsurance receivables include only items which have reached their due date. Items which are not yet due are included within reinsurance recoverables. The basis of valuation of reinsurance receivables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is regarded as being the same as IFRS.

Cash and cash equivalents

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 II not cash and cash equivalents. Both Solvency II and IFRS include operational bank accounts on the same valuation basis.

Receivables and other assets

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

Judgements used in valuing assets

Judgement is needed in respect of the Company's assets solely in the assessment of reinsurers' share of best estimates (reinsurance recoverables): the value of reinsurance recoverables is wholly dependent on the estimation of gross best estimates (described in D2 below) and net best estimates. Given the small size and short history of the Company, projecting cash flows net of reinsurance is more reliable than projecting reinsurers' share. Nonetheless the impact of the reinsurance programmes is considered when judging the appropriateness of the elements that go in to assessing the net best estimates (for example, if a large loss has significant levels of reinsurance).

There have been no significant changes in judgements during 2021.

D.2 Technical Provisions

The total value of gross technical provisions under Solvency II is £23m (2020: £28m) and net £4.4m (2020: £4.4m). The reduction in gross technical provisions reflects the impact of new property business (increased future premium receivable making the technical liabilities smaller) and the near-full settlement of a single very large claim of £6m which was reported in 2020. The following table shows a summary of the technical provision for each line of business:

	2021				2020			
	Premium provision	Claims provision	Risk margin	Total	Premium provision	Claims provision	Risk margin	Total
<i>source : S.17.01</i>								
Cargo	333	2,410	864	3,607	664	1,132	357	2,154
Property	(168)	648	151	631	908	953	370	2,232
Liability	3	88	29	120	(2)	73	14	85
Total net technical provisions	168	3,146	1,044	4,358	1,570	2,159	742	4,471
Gross technical provisions	(4,186)	26,045	1,044	22,903	3,403	23,887	706	27,995
Reinsurance recoverables	(4,354)	22,899		18,545	1,832	21,728		23,560
Net technical provisions	168	3,146	1,044	4,358	1,570	2,159	706	4,435

Valuation Methods

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

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

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

- Chain Ladder / Loss Development Method
- Loss Ratio Methods

The claims best estimate is in many ways derived from a process which is very similar to the process for calculating claims outstanding under IFRS. The two principal differences are the elimination of the explicit margin held within the IFRS IBNR values and the additional provision under Solvency II for events not in data ("ENID"). Because SFME's business is typically very short tail, the discounting has an immaterial impact.

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

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ratio for use, the reasonableness and suitability of the selected loss ratios are assessed by analysing pricing loss ratios, plan loss ratios and /or the URR loss ratios. The premium best estimate also takes account of an estimate for expenses to complete the run off of all policies.

The premium best estimate also includes cash inflows from premium (outflows for commissions) in respect of policy instalments not yet due for policies that have incepted. These are accounted within insurance and reinsurance receivables and payables under IFRS. And further, the premium best estimate includes cash inflows and outflows for policies not incepted at the balance sheet date but for which SFME is obligated. Finally, the premium best estimate incorporates the cost of the excess of loss programme in the year after the balance sheet date.

Cash flows for the premium best estimate extend further in to the future than the claims best estimate but again because the business is short tail, the discount is immaterial. The discount rates used vary for each line of business and take account of the currency mix of SFME's business. EIOPA provide the risk-free rates for each currency.

The premium best estimate is significantly lower than the IFRS UPR because within the former are cash inflows for not yet due premium receipts and net cash inflows for profitable unaccepted business. The UPR, net of DAC, also incorporates a profit margin which is released under Solvency II valuation methods.

Under Solvency II regulations the risk margin is intended to be the balance that another (re)insurer taking on the liabilities at the valuation date would require over and above the best estimates. It is calculated using a cost of capital approach.

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 with technical provisions in the Company's financial statements

The underlying methodologies for claims best estimates are very similar under the two approaches for each line of business. IFRS IBNR incorporates an element of prudence over and above the best estimate whereas Solvency II best estimates incorporate an ENID factor. Solvency II introduces discounting and a reinsurers' default adjustment but both of these are very minor given the very short tail nature of the

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Company's book and quality of its reinsurers. Premium provisions are not directly comparable to IFRS. IFRS unearned premium and deferred acquisition costs are not recognised; rather, Solvency II assesses cash flows from unexpired risks which include a full allowance of expected future expenses. A second significant difference is the inclusion of bound but not incepted business which is recognised under Solvency II. Such business incepting after the balance sheet date is excluded from IFRS. Thirdly, future due instalments on incepted business are deducted from the premium provision.

		Gross				Reinsurance			Net
		UPR £000s	Claims oustanding		Total £000s	UPR £000s	Claims oustanding		Total £000s
			£000s	£000s			£000s	£000s	
2021	Technical provisions per IFRS	24,570	29,256		53,826	21,153	25,865	47,018	6,808
	Future dated receivables/payables	(15,334)			(15,334)	(12,629)		(12,629)	(2,705)
	Differences in estimation of future claims and expenses in respect of expired risks		(3,048)		(3,048)		(2,803)	(2,803)	(245)
	Bound but not incepted premium (net of commission)	(4,984)			(4,984)	(4,281)		(4,281)	(703)
	Estimation of future cash flows for claims and expenses in respect of unexpired business	(8,317)			(8,317)	(8,487)		(8,487)	170
	Discounting and counterparty risk adjustment	(122)	(163)		(285)	(111)	(163)	(275)	(10)
	Risk margin			1,044	1,044				1,044
	Technical provisions per SII	(4,186)	26,046	1,044	22,903	(4,355)	22,899	18,544	4,358
2020	Technical provisions per IFRS	19,067	26,649		45,716	15,743	24,309	40,052	5,665
	Future dated receivables/payables	(6,523)			(6,523)	(4,950)		(4,950)	(1,573)
	Differences in estimation of future claims and expenses in respect of expired risks		(2,787)		(2,787)		(2,602)	(2,602)	(185)
	Bound but not incepted premium (net of commission)	(2,658)			(2,658)	(2,628)		(2,628)	(30)
	Estimation of future cash flows for claims and expenses in respect of unexpired business	(6,523)			(6,523)	(6,369)		(6,369)	(155)
	Discounting and counterparty risk adjustment	39	24		63	37	20	56	7
	Risk margin			706	706				706
	Technical provisions per SII	3,403	23,887	706	27,995	1,832	21,727	23,560	4,435
		Premium provision	Claims provision	Risk Margin	Total	Premium provision	Claims provision	Total	Net

Volatility Adjustment

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

Transitional risk-free interest rates

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

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

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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.

Changes from the previous reporting period

There have been no material changes during 2021 to the methodologies employed by SFME to evaluate its technical provisions. However, in assessing its best estimates, the Company necessarily has to take account of the fact that historically, its claims data is inherently volatile due to the low number of policies issued and high value sums insured. This volatility has, statistically speaking, reduced with an additional year's experience and the Company has been able to reduce its best estimates on prior accident years whilst retaining the same level of confidence that the IBNR chosen will be sufficient to meet future claims cash outflows.

The Risk Margin is a function of the SCR risk components for underwriting and counterparty risks which together have increased in 2021. Accordingly, the Risk Margin increased from £706,000 to £1,082,000.

D.3 Other Liabilities

The total value of liabilities at 31 December 2021 was £41.5m on a Solvency II basis and £94.2m under IFRS (2020: £48.5m and £76.1m respectively). The following table shows a summary of the liabilities under both the Solvency II and IFRS bases:

source: template S.02.01	2021					2020				
	IFRS	Reclassi- fication	Future due recei- vables & payables	Valuation diff- erences	Solvency II	IFRS	Reclassi- fication	Future due recei- vables & payables	Valuation diff- erences	Solvency II
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Technical provisions	53,826		(15,334)	(15,589)	22,903	45,717		(6,523)	(11,199)	27,995
Deferred tax liabilities	6	0		219	225	13	0		109	122
Insurance payables	6,204	(562)	(2,883)		2,759	3,515	(123)	(639)		2,753
Reinsurance payables	26,680	0	(4)	(16,599)	10,077	20,186	0	4	(6,252)	13,938
Other payables	379	2,721			3,100	1,224	123			1,347
Other liabilities and deferred income reserve	7,113	0		(4,663)	2,450	5,467	0		(3,170)	2,297
Total liabilities	94,208	-	(18,221)	(36,632)	41,514	76,122	-	(7,158)	(20,511)	48,453

The text below describes the main differences between the two bases, where applicable, and the basis for the Solvency II valuation.

Deferred tax liabilities

A provision for deferred tax is needed when the balance sheet – either IFRS or Solvency II – is prepared under a different basis to that used by Her Majesty’s Customs and Revenue. Under IFRS, the difference is trivial. Under Solvency II, the differences are more significant. Effectively the increase in the deferred tax provision from IFRS to Solvency II is the future tax charge that will be payable on additional profits recognised today under Solvency II.

Insurance Payables

Under IFRS, insurance payables are liabilities held on the balance sheet in anticipation of future payments relating to insurance operations. They include amounts owed to policyholders, fronting insurers and brokers relating to claim payments, return premiums and commission. Under Solvency II, claim payments on settled losses, overdue return premiums and commission remain within this liability whilst return premiums and commissions not yet due are included in the technical provisions. The basis of valuation of insurance payables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is regarded as being the same as IFRS.

Reinsurance payables

Under IFRS, reinsurance payables are liabilities held on the balance sheet in anticipation of future payments relating to reinsurance operations. They include expected premium payments to reinsurers. These include payable amounts which are not yet due because of arrangements where premiums are payable by instalments as well as overdue amounts due to late payments or disputes. Under Solvency II, overdue payable items are reported here but not yet due amounts are included in the technical

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provisions. The basis of valuation of reinsurance payables under Solvency II is a fair value. Notwithstanding the different categorisation, the fair value under Solvency II is regarded as being same as IFRS.

Other Payables

Other payables include corporate tax payable and insurance premium tax liabilities. The fair value under Solvency II is regarded as being the same as IFRS.

Deferred Income Reserve

Under IFRS, reinsurance commissions are deferred to the extent that they are attributable to reinsurance premiums unearned at the balance sheet date. Deferred income is capitalised and amortised over the terms of the policies as the reinsurance premium is earned. Under Solvency II, the deferred income reserve is valued at zero as it cannot be sold to another party.

Other liabilities

Other liabilities principally comprise accrued expenses and lease liabilities. The fair value of other assets under Solvency II is regarded as being the same as IFRS.

Judgements used in valuing liabilities

Judgement is needed in respect of the Company's liabilities in the assessment of the best estimates (described in D3 above). 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 have to estimate adjustments prior to the policyholder providing final and complete evidence of exposures. Such estimates are likely to be different to the adjustments which are ultimately agreed with policyholders. Solvency II adopts the same valuation as IFRS but as the estimated premium adjustments are not due, they form part of the best estimates.

There have been no significant changes in judgements during 2021.

D.4 Alternative methods for valuation

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

D.5 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.

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E. Capital Management

In this chapter:

- E.1 Own funds
- E.2 Solvency Capital Requirement and Minimum Capital Requirement
- E.3 Use of the duration-base equity risk sub-module in the calculation of the Solvency Capital Requirement
- E.4 Difference between the standard formula and any internal model used
- E.5 Non-compliance with the Minimum Capital Requirement and the Solvency Capital Requirement
- E.6 Any other information

E.1 Own Funds

Own Funds at the balance sheet date and changes during 2021

Total value of Own Funds is £33.8 m under Solvency II (2020: £30.2m) compared to shareholders' equity of £32.9m (2020: £29.7m) under IFRS. The following table shows a summary of the balance sheet under both bases.

source : template S.02.01

	2021		2020	
	Solvency II	IFRS	Solvency II	IFRS
	£000s	£000s	£000s	£000s
Total assets - see section D1	75,298	127,123	78,606	105,810
Total liabilities - see section D3	41,514	94,208	48,453	76,122
Excess of assets over liabilities	33,784	32,915	30,153	29,688
Issued share capital	10,600	10,600	10,600	10,600
Reconciliation reserve	23,281	22,315	19,553	19,088
Basic/eligible own funds	33,881	32,915	30,153	29,688

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

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

	2021	2020
	£000s	£000s
Solvency II Own Funds	33,784	30,153
IFRS shareholders' equity	32,915	29,688
Additional profits recognised under Solvency II	869	465
which is explained by :		
Difference between IFRS claims outstanding and SII claims best estimate	245	185
Difference between IFRS UPR and DAC and SII premium best estimate	1,877	1,102
Discounting of best estimates and counterparty default adjustment	10	(7)
Risk Margin	(1,044)	(706)
Additional deferred tax liability	(219)	(109)
Additional profits recognised under Solvency II	869	465

The tables show that the main reason for the increase in Own Funds is due to the Company's IFRS accounting result. Factors behind this result are set out in chapter A. Additional profits recognised under SII have fallen slightly. The Risk Margin has increased for reason given in section D2.

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Future Own Funds

SFME has prepared a business plan which the Board approved in December 2021. 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 £15.5m (2020: £11.1m). 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:

	2021	2020	Change in 2021
	£000s	£000s	£000s
Market risk			
Interest rate risk	303	232	71
Spread risk	481	402	79
Concentration risk	2,795	2,513	282
Currency risk	2,050	2,016	34
diversification	(2,004)	(1,811)	(193)
	3,625	3,352	273
Counterparty risk			
Type 1	7,868	3,773	4,095
Type 2	1,371	1,168	203
diversification	(297)	(228)	(69)
	8,942	4,713	4,229
Non-life underwriting risk			
Premium and reserve risk	4,310	4,038	272
Lapse risk	483	198	285
Catastrophe risk	2,565	2,380	185
diversification	(1,797)	(1,438)	(359)
	5,560	5,178	382
Diversification	(3,984)	(3,181)	(803)
Basic solvency capital requirement	14,143	10,062	4,081
Operational risk	1,316	1,057	259
Solvency Capital Requirement	15,459	11,119	4,340

The main changes are explained below.

Concentration Risk (-£0.3m)

- Due to profitable trading and positive cash flows, SFME increased amounts on deposits during 2021. Since it uses the same five banks as in 2020, the concentration risk, as measured by the Standard Formula, has increased.

Counterparty Risk (+£4.1m)

- During 2021, the Company agreed to issue a property contract to an existing Samsung-affiliated client Increase for a substantially higher sum insured, after having undertaken an assessment of the impact of new contract in an ORSA update. SFME's retained risk is unchanged and the higher sum insured is ceded to a panel of reinsurers. As a consequence of this increased reinsurance asset, the type 2 component of the SCR has increased.

Insurance risk and operational risk have increased broadly in line with the increased net premium in 2021.

Minimum Capital Requirement

The minimum capital requirement (MCR) is £3,865,000 (2020: £3,338,000).

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 £1,486,000 (2020: £1,396,000). There then follows two steps. The first is that the MCR cannot be lower than 25% of the SCR (the MCR floor). For SFME, this is £3,865,000. The second is that SFME underwrites a very small number of liability risks and consequently its MCR has an absolute floor of €3,700,000. This is true at both this year end and at 31 December 2020. Consequently, SFME's MCR is derived from the MC floor in 2021 and the absolute floor in 2020.

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

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

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

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

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

No internal model has been used.

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

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

E.6 Any other information

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

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F. Quantitative Reporting Templates

In this chapter:

- S.01.02 General information
- S.02.01.02 Balance sheet
- S.05.01.02 Premiums, claims and expenses by line of business
- S.05.02.01 Premiums, claims and expenses by country)
- S.17.01.02 Claims development triangles
- S.19.01.21 Non-life insurance claims
- S.23.01.01 Own funds
- S.25.01.21 Solvency Capital Requirement (standard formula)
- S.28.01.01 Minimum Capital Requirement

All templates are reported in GBP thousands

**Samsung Fire & Marine Insurance Company of Europe Limited
Solvency and Financial Condition Report**

S.01.02 General information

General information

Undertaking name	Samsung Fire & Marine Insurance Company of Europe Ltd
Undertaking identification code	2138000L981151XYWL10
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2021
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

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S.02.01.02 Balance sheet (1 OF 2)

S.02.01.02

Balance sheet

	Solvency II value
	C0010
Assets	
Intangible assets	
Deferred tax assets	0
Pension benefit surplus	
Property, plant & equipment held for own use	1,482
Investments (other than assets held for index-linked and unit-linked contracts)	35,568
<i>Property (other than for own use)</i>	0
<i>Holdings in related undertakings, including participations</i>	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	35,568
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:	18,545
Non-life and health similar to non-life	18,545
Non-life excluding health	18,545
Health similar to non-life	0
Life and health similar to life, excluding index-linked and unit-linked	0
Health similar to life	
Life excluding health and index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	0
Insurance and intermediaries receivables	11,580
Reinsurance receivables	3,828
Receivables (trade, not insurance)	90
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	3,874
Any other assets, not elsewhere shown	331
Total assets	75,298

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S.02.01.02 Balance sheet (2 OF 2)

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	22,903
R0520	<i>Technical provisions - non-life (excluding health)</i>	22,903
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	21,859
R0550	<i>Risk margin</i>	1,044
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	225
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	2,759
R0830	Reinsurance payables	10,078
R0840	Payables (trade, not insurance)	3,099
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	2,450
R0900	Total liabilities	41,514
R1000	Excess of assets over liabilities	33,784

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

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											Line of business for: accepted non-proportional reinsurance				Total	
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport		Property
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																	
Gross - Direct Business						1,780	772	0									2,552
Gross - Proportional reinsurance accepted						9,528	33,448	443									43,419
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share						3,234	33,428	360									37,022
Net						8,073	792	82									8,948
Premiums earned																	
Gross - Direct Business						765	1,102	11									1,878
Gross - Proportional reinsurance accepted						10,273	27,873	444									38,591
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share						3,097	28,144	372									31,613
Net						7,941	831	83									8,856
Claims incurred																	
Gross - Direct Business						782	-1,125	3									-340
Gross - Proportional reinsurance accepted						2,052	9,464	136									11,652
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share						260	8,358	122									8,740
Net						2,575	-18	16									2,573
Changes in other technical provisions																	
Gross - Direct Business						0	0	0									0
Gross - Proportional reinsurance accepted						0	0	0									0
Gross - Non-proportional reinsurance accepted																	0
Reinsurers' share						0	0	0									0
Net						0	0	0									0
Expenses incurred																	
Other expenses						1,139	657	32									1,828
Total expenses																	492
																	2,320

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S.05.02.01 Premium, claims and expenses by country

S.05.02.01

Premiums, claims and expenses by country

Non-life

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country	
	HU	RU	FR	KZ	DE		
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	1,532	0	0	0	0	0	1,532
Gross - Proportional reinsurance accepted	155	18,162	4,796	3,959	2,886	1,751	31,710
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	1,010	16,227	4,271	3,691	2,727	1,227	29,152
Net	677	1,935	526	269	159	524	4,090
Premiums earned							
Gross - Direct Business	1,777	0	0	0	0	0	1,777
Gross - Proportional reinsurance accepted	172	11,975	4,440	4,180	3,463	3,909	28,139
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	1,288	10,200	3,910	3,903	3,331	1,830	24,461
Net	661	1,775	530	277	132	2,079	5,455
Claims incurred							
Gross - Direct Business	-605	0	0	0	0	0	-605
Gross - Proportional reinsurance accepted	548	2,996	1,633	772	1,093	719	7,760
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	967	1,237	1,448	222	966	205	5,045
Net	-1,024	1,759	185	550	127	514	2,111
Changes in other technical provisions							
Gross - Direct Business	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	0	0	0	0	0	0	0
Net	0	0	0	0	0	0	0
Expenses incurred	132	-1	138	-88	-43	-335	-197
Other expenses							
Total expenses							-197

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S.17.01.02 non-life technical provisions

S.17.01.02

Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				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	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole						0	0	0									0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
Technical provisions calculated as a sum of BE and RM																	
Best estimate																	
Premium provisions																	
Gross						408	-4,625	30									-4,186
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						75	-4,457	27									-4,354
Net Best Estimate of Premium Provisions						333	-168	3									168
Claims provisions																	
Gross						3,617	22,009	419									26,045
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						1,207	21,361	330									22,899
Net Best Estimate of Claims Provisions						2,410	648	88									3,146
Total best estimate - gross						4,025	17,384	449									21,859
Total best estimate - net						2,743	480	91									3,314
Risk margin						864	151	29									1,044
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole																	0
Best estimate																	0
Risk margin																	0
Technical provisions - total						4,890	17,535	478									22,903
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total						1,282	16,904	358									18,545
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total						3,607	631	120									4,358

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S.19.01.21 Claims Development Triangles

S.19.01.21

Non-Life insurance claims

Total Non-life business

Accident year / underwriting year

Gross Claims Paid (non-cumulative)													
(absolute amount)													
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Development year											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior											0	0	0
2012	2,927	4,530	-840	2	-112	-68	0	0	0	0	0	0	6,439
2013	2,562	2,611	-102	84	-71	0	-111	0	-31			-31	4,943
2014	2,634	1,777	77	14	-39	-117	0	0				0	4,346
2015	1,914	2,476	-105	0	-46	15	-14					-14	4,241
2016	4,405	1,349	-77	-62	0	-1						-1	5,615
2017	3,825	1,546	-324	267	-230							-230	5,084
2018	3,321	788	616	3,626								3,626	8,350
2019	2,748	2,679	-961									-961	4,467
2020	2,392	4,701											4,701
2021	1,774												1,774
Total												8,865	52,352

Gross Undiscounted Best Estimate Claims Provisions												
(absolute amount)												
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Development year											Year end (discounted data)
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior											0	0
2012	0	0	0	0	141	133	0	-1	1	0	0	0
2013	0	0	0	338	281	-7	0	0	0			0
2014	0	0	507	418	249	338	275	275				275
2015	0	1,049	282	50	65	37	47					47
2016	4,143	1,434	280	100	39	27						27
2017	7,846	2,180	1,499	854	951							950
2018	8,522	5,997	3,807	29								29
2019	7,402	2,361	685									679
2020	15,772	10,430										10,391
2021	13,765											13,648
Total												26,045

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S.23.01.01 Own Funds (bottom half)

Available and eligible own funds

Total available own funds to meet the SCR
 Total available own funds to meet the MCR
 Total eligible own funds to meet the SCR
 Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

33,784	33,784	0	0	0
33,784	33,784	0	0	
33,784	33,784	0	0	0
33,784	33,784	0	0	

15,459
3,865
218.53%
874.13%

C0060

33,784
0
10,600
23,184

1,190
1,190

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

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
Market risk	3,625		
Counterparty default risk	8,942		
Life underwriting risk	0		
Health underwriting risk	0		
Non-life underwriting risk	5,560		
Diversification	-3,984		
Intangible asset risk	0		
Basic Solvency Capital Requirement	14,143		
Calculation of Solvency Capital Requirement	C0100		
Operational risk	1,316		
Loss-absorbing capacity of technical provisions	0		
Loss-absorbing capacity of deferred taxes			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
Solvency Capital Requirement excluding capital add-on	15,459		
Capital add-ons already set	0		
Solvency capital requirement	15,459		
Other information on SCR			
Capital requirement for duration-based equity risk sub-module	0		
Total amount of Notional Solvency Capital Requirements for remaining part	0		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
Diversification effects due to RFF nSCR aggregation for article 304	0		
Approach to tax rate	C0109		
Approach based on average tax rate	0		
Calculation of loss absorbing capacity of deferred taxes	LAC DT		
	C0130		
LAC DT			
LAC DT justified by reversion of deferred tax liabilities	0		
LAC DT justified by reference to probable future taxable economic profit	0		
LAC DT justified by carry back, current year	0		
LAC DT justified by carry back, future years	0		
Maximum LAC DT	0		

USP Key

For life underwriting risk:

- 1- Increase in the amount of annuity benefits
- 9 - None

For health underwriting risk:

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

For non-life underwriting risk:

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

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S.28.01.01 Minimum Capital Requirement

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

C0010

MCR_{NL} Result

1,486

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
 Income protection insurance and proportional reinsurance
 Workers' compensation insurance and proportional reinsurance
 Motor vehicle liability insurance and proportional reinsurance
 Other motor insurance and proportional reinsurance
 Marine, aviation and transport insurance and proportional reinsurance
 Fire and other damage to property insurance and proportional reinsurance
 General liability insurance and proportional reinsurance
 Credit and suretyship insurance and proportional reinsurance
 Legal expenses insurance and proportional reinsurance
 Assistance and proportional reinsurance
 Miscellaneous financial loss insurance and proportional reinsurance
 Non-proportional health reinsurance
 Non-proportional casualty reinsurance
 Non-proportional marine, aviation and transport reinsurance
 Non-proportional property reinsurance

0	
0	
0	
0	
0	
2,743	7,799
480	623
91	82
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
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
 SCR
 MCR cap
 MCR floor
 Combined MCR
 Absolute floor of the MCR

1,486
 15,459
 6,957
 3,865
 3,865
 3,126

Minimum Capital Requirement

3,865

G. Directors' Statement

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

The Directors are satisfied that:

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

Signed on behalf of the Board of Directors

A handwritten signature in black ink, appearing to read 'JW NA', is positioned above the name of the Chief Executive Officer.

Jong Won Na, Chief Executive Officer:

Dated: 4 April 2022