

*Lemonade*  
Solvency and Financial  
Condition Report 2022

Lemonade Insurance N.V.



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## Introduction

This report is the Solvency and Financial Condition Report ("**SFCR**") of Lemonade Insurance N.V. for the reporting period that ended December 31, 2022, pursuant to Articles 51, 53 and 54 of Directive 2009/138/EC (as amended, the "**Directive**") – as implemented in Article 3:73c of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*, "**DFSA**") and the lower rules and regulations promulgated thereunder – and Chapter XII Section 1 and Annex XX of Delegated Regulation (EU) 2015/35 (as amended, the "**Delegated Regulation**") and, together with the Directive, the "**Solvency II Regulations**") and relevant EIOPA Guidelines, in particular 'Guidelines on reporting and public disclosure' (EIOPA-BoS-15/109) as issued by the European Insurance and Occupational Pensions Authority ("**EIOPA**").

Lemonade Insurance N.V. is required to submit Quantitative Reporting Templates ("**QRTs**") to its supervisor, the Dutch Central Bank (De Nederlandsche Bank, "**DNB**"); the figures presented in this report are in line with these QRTs.

This Report includes reporting of the Solvency II valuation undertaken as of December 31, 2022 and the associated capital position for the Company.

Other than in the case of the Annual Report, or as otherwise specified, amounts presented herein are unaudited.

### Presentation of information

The figures reflecting monetary amounts in the SFCR are presented in thousands of Euros (€ thousand) unless otherwise stated.

In case IFRS figures are disclosed, the figures are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("**IFRS-EU**").

### Cautionary statement regarding forward looking statements

This SFCR may include statements with respect to future events, trends, plans, expectations or objectives and other forward-looking statements relating to Lemonade Insurance N.V.'s future business, financial condition, results of operations performance, and strategy.

Forward-looking statements are not statements of historical fact and may contain the terms "may", "will", "should", "continue", "aims", "estimates", "projects", "believes", "intends", "expects", "plans", "seeks" or "anticipates" or words of similar meaning.

Such statements are based on Lemonade Insurance N.V.'s management views and assumptions as of the date of this SFCR and, by nature, involve known and unknown risks and uncertainties. Therefore, undue reliance should not be placed on them.

Actual financial condition, results of operations, performance, or events may differ materially from those expressed or implied in such forward-looking statements, due to several factors including, without limitation:

- general economic and political conditions;
- future financial market performance and conditions, including fluctuations in exchange and interest rates;
- frequency and severity of insured loss events, and increases in loss expenses;
- persistency levels;
- changes in applicable rules and regulations; and
- general competitive factors, in each case on a local, regional, national and/or global basis.

Many of these factors may be more likely to occur, or more pronounced, as a result of catastrophic events, including climate-related catastrophic events.

Please refer to Part C – “Risk Profile” of this SFCR for a description of certain important risks and uncertainties that may affect Lemonade Insurance N.V.'s business and/or results of operations.

Lemonade Insurance N.V. assumes no obligation to update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise, except as required by applicable laws and regulations.

# Executive summary

## Scope of the report

This SFCR contains both quantitative and qualitative information. The main focus of this report is on the Solvency II Balance Sheet, its relation to IFRS and on the Solvency Capital Requirement and Minimum Capital Requirement. Material differences between Lemonade Insurance N.V.'s financial statements based on IFRS-EU and the Delegated Regulation Solvency II are discussed in Chapter D. Valuation for Solvency Purposes.

## Basis of presentation

This report is prepared in accordance with the requirements of the Solvency II Directive and Delegated Regulation (in particular Articles 51, 53 and 54 of the Solvency II Directive (as implemented in Dutch law)), Chapter XII Section 1 and Annex XX of the Delegated Regulation, and relevant EIOPA Guidelines, in particular, 'Guidelines on reporting and public disclosure' (EIOPA-BoS-15/109) as issued by EIOPA.

The figures reflecting monetary amounts in the SFCR are presented in Euro (€) being the functional currency of Lemonade Insurance N.V. unless otherwise stated. Lemonade Insurance N.V. discloses monetary amounts in thousands of euros for disclosing purposes. All values are rounded to the nearest thousand Euro unless otherwise stated. The rounded amounts may therefore not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount.

This SFCR may include statements with respect to future events, trends, plans, expectations or objectives and other forward-looking statements relating to Lemonade Insurance N.V.'s future business, financial condition, results of operations performance, and strategy. No undue reliance should be placed on these forward-looking statements and Lemonade Insurance N.V. assumes no obligation to update or revise any of these forward-looking statements.

In case IFRS figures are disclosed, the figures are prepared in accordance with the IFRS-EU.

The 2022 SFCR of Lemonade Insurance N.V. has been prepared and disclosed under the responsibility of the Lemonade Insurance N.V.'s Management Board and was approved by the Management Board on **April 3, 2023**.

## Summary

The 2022 SFCR provides Lemonade Insurance N.V.'s stakeholders with insight into:

### A. Business and performance

Lemonade Insurance N.V. is a non-life insurer that forms part of the Lemonade Group (as defined in section A.1.1. Profile of the Lemonade Group). Lemonade Insurance N.V. was granted its licence as a non-life insurance Company by DNB on May 20, 2019, and has since launched its products in Germany, the Netherlands, France and the United Kingdom (UK).

Lemonade Insurance N.V. offers Contents and Personal Liability insurance in Germany and the Netherlands, Renters insurance in France and Contents insurance in the United Kingdom.

In 2020, Lemonade Agency B.V., a member of the Lemonade Group, received a license to act as an authorized agent (*gevolmachtigd agent*) with the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*, "**AFM**"). As of November 1, 2020, Lemonade Agency became operational and is acting as an agent for Lemonade Insurance N.V. in the European markets.

During 2022 Lemonade Insurance N.V. recognized € 3.6 million of earned premium, € 3.2 million of gross incurred loss and loss adjustment expenses. Although the loss ratio is high it has shown clear improvements over time. The Company is confident that as the book matures and further scale is reached, the loss ratio will follow a similar improvement trajectory as observed in our US Renters portfolio.

In terms of major developments in 2022, Lemonade Insurance N.V. has focused on launching in the UK and enhancing its existing products and markets. Additionally, it conducted a risk control self assessment to assess the applicable risks, this includes for example the (potential) operational and financial impact on business operations due to external causes such as the Coronavirus/COVID-19, Russia-Ukraine conflict and inflation. Appropriate measures have been taken to address these risks and ensure business continuity from operational, IT and financial perspectives. To date, the COVID-19, Russia-Ukraine conflict and inflation impact on Lemonade Insurance N.V. has been limited.

Full details on Lemonade's business and performance are described in chapter A. Business and performance.

## B. System of governance

Lemonade Insurance N.V. has implemented a system of governance in line with applicable rules and regulations. During 2021 the Supervisory Board appointed two additional Management Board members that were approved by the DNB and the AFM. Ron Voortman was approved by the DNB in January and officially appointed by the Supervisory Board as the Deputy Chair in May.

Emmanuelle Barralis was approved by the DNB in October and officially appointed by the Supervisory Board as an additional Board member in December with an effective start date of January 2022. As of 1 July, 2022 Mr. Ori Hanani stepped down from the Management Board to take additional responsibilities within the Lemonade group.

### General governance

Lemonade Insurance N.V.'s Management Board is charged with the overall management of the Company and is responsible for achieving Lemonade Insurance N.V.'s goals, developing the strategy and its associated risk profile, and overseeing the development of Lemonade Insurance N.V.'s earnings. Lemonade Insurance N.V.'s Management Board is assisted in its work by experts within the Lemonade Group. The updated Management Board composition includes a Chair, Mr. Daniel Schreiber, a Deputy Chair, Mr. Ron Voortman, and additional Board member Ms. Emmanuelle Barralis. Within the management board there is a clear segregation of duties between first line and second line functions and areas of responsibility. The Management Board typically meets monthly and more often if required. The Management Board is supported by six committees: the Privacy and Security Committee, the Compliance Committee, the Product Oversight and Governance Committee, the Underwriting and Risk Committee, the Capital Management and Investment Committee, and the UK Branch Management Committee .

Lemonade Insurance N.V.'s Supervisory Board oversees the performance of the Management Board, in addition to the Company's business and strategy. It is also responsible for advising the Management Board. The Supervisory Board counts four members as of December 31, 2022. The majority of the members of the Supervisory Board are independent and operate independently in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2012 (*Beleidsregel geschiktheid 2012*). Given the members' different professional and educational backgrounds, ages and range of knowledge and experience, the Supervisory Board has a broad-based membership. The following Supervisory Board committees exist:

- Audit and Risk Committee; and
- Remuneration Committee;

These committees are exclusively comprised of Supervisory Board members and deal with specific issues related to Lemonade Insurance N.V.'s financial accounts, risk management, the remuneration policy and executive appointments.

In addition to the corporate bodies, described above, the Company has in place a number of key functions, as required under Solvency II (as implemented in Dutch law). These key functions are described below, in the section 'control environment'.

## **Risk management**

Lemonade Insurance N.V.'s risk management framework is designed and implemented to identify and manage potential events and risks that may affect the Company's operation in any way. It is aimed to identify and manage operational, financial & solvency, compliance and financial reporting risks on both an individual and aggregate risks level within Lemonade Insurance N.V. The objective is to ensure the Company is measurably operating within its risk tolerance and ideally within its risk appetite. The risk management framework is based on industry best practice and includes well-defined risk governance structures, such as the:

- Supervisory Board;
- Management Board;
- Underwriting and Risk Committee, and
- Capital Management & Investment Committee.

## **Control environment**

In addition to the risk management framework, Lemonade Insurance N.V.'s Solvency II control environment is implemented in line with the industry standard "three lines of defense"-approach. Mandatory functions consist of a compliance, actuarial, risk and internal audit function. The internal control system serves to facilitate compliance with applicable laws, regulation and administrative processes. It also enables Lemonade Insurance N.V. to be in control of its operations with an adequate control environment including appropriate control activities for key processes. The actuarial function has end-to-end accountability for the adequacy and reliability of reported technical provisions, including policy setting and monitoring of compliance regarding actuarial risk tolerance and risk transfer. Lemonade Insurance N.V.'s Internal Audit function is independent and objective in performing its duties in evaluating the effectiveness of Lemonade's internal control system. The Risk function is responsible for coordinating the overarching risk management activities and for identifying potential risks and the Compliance function is accountable for identifying the relevant laws, regulations and standards applicable to Lemonade Insurance N.V. and translating these into compliance obligations.



Please refer to section B. System of Governance for a detailed description of Lemonade Insurance N.V.'s system of governance.

### C. Risk profile

Lemonade Insurance N.V. accepts and manages risk for the benefit of its customers and other stakeholders. The Company's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently and are aligned with Lemonade Insurance N.V.'s strategy. The targeted risk profile is determined by customers' needs, the Company's competence to manage the risk, its preference for risk as well as by the availability of sufficient capacity and capital to take the risk. Lemonade Insurance N.V. is exposed to underwriting, market, credit, liquidity and operational risks.

As of December 31, 2022, the Solvency Capital Requirement amounted to € 2,915 thousand which is significantly lower than the absolute floor of the Minimum Capital Requirement of € 4,000 thousand, according to the Directive.

<b>Solvency Risk</b>	<b>Capital requirement (€ thousand)</b>
<b>Market risk</b>	711
<b>Counterparty default risk</b>	588
<b>Non-life underwriting risk</b>	1,720
<b>Diversification benefit</b>	(644)
<b>BSCR</b>	2,375
<b>Operational risk</b>	154
<b>Adjustment due to RFF</b>	386
<b>LAC DT</b>	not applied
<b>SCR</b>	2,915
<b>(A)MCR</b>	4,000

The operations in the United Kingdom are classified as a ring fenced fund. Under Solvency II, the capital requirements related to this ring-fenced fund (RFF) do not diversify with those of the rest of the company. Full details on Lemonade Insurance N.V.'s risk profile are described in chapter C. Risk profile.

## D. Valuation for solvency purposes

Lemonade Insurance N.V. values its Solvency II balance sheet items on a basis that reflects their economic value. Where the IFRS fair value is consistent with Solvency II requirements, the Company follows IFRS for valuing assets and liabilities other than technical provisions.

The reconciliation of Excess Assets over Liabilities (Solvency II basis) and Shareholder's Equity (IFRS-EU basis) is mainly due to revaluation differences regarding gross technical provisions and related reinsurance recoverables.

Full details on the reconciliation between Lemonade Insurance N.V.'s economic balance sheet based on Solvency II and consolidated financial statements based on IFRS-EU are described in chapter D. Valuation for solvency purposes.

## E. Capital management

The risk appetite target for the Solvency II ratio (Eligible own funds divided by Solvency Capital Requirement or if higher Minimum Capital Requirement) of Lemonade Insurance N.V. is set at 135% of the binding capital requirement. The lower limit risk tolerance Solvency II ratio is 110% of the Solvency Capital Requirement or (if higher) the Minimum Capital Requirement. As of December 31, 2022, the Solvency Capital Requirement ratio was 255% and the Minimum Capital Requirement ratio 186%, both well in excess of the lower limit risk appetite target.

Solvency II key figures for Lemonade Insurance N.V. are presented as of December 31, 2022, in the following tables:

<b>Eligible own funds</b>	7,421
<b>Standard Formula SCR</b>	1,962
<b>Solvency II ratio to SCR</b>	255%
<b>Standard Formula MCR</b>	4,000
<b>Solvency II ratio to MCR</b>	186%

Own Funds are classified into different tiers, indicating their quality and availability to fully

absorb losses. Total own funds of Lemonade Insurance N.V. only include Unrestricted Tier 1 capital. There is an adjustment made due to the restricted own funds coming from the ring fenced fund. With respect to the own funds of the Company, the liability calculation does not include the use of the Volatility Adjustment.

During 2022, there were no instances in which the estimated Solvency ratio was below the minimum tolerated Minimum Capital Requirement and the Solvency Capital Requirement levels.

Full details on the Company's available and eligible own funds are described in section E.1 Own funds. Lemonade Insurance N.V.'s Standard Formula Solvency Capital Requirement and Minimum Capital Requirement are described in section E.2.1 Solvency Capital Requirement respectively E.2.2. Minimum Capital Requirement.

## A. Business and performance

### A.1 Business

This chapter of the SFCR contains general information on Lemonade Insurance N.V., the Lemonade Group (as defined below), a simplified organizational structure and Lemonade Insurance N.V.'s financial performance over 2022.

#### A.1.1 Profile of the Lemonade Group

The Lemonade group – the group of companies under common control of Lemonade, Inc. (the **"Lemonade Group"** or the **"Group"**) – was founded in August 2015 by Daniel Schreiber and Shai Wininger, with the mission to harness technology and social impact to be the world's most loved insurance Company.

The Lemonade Group is rebuilding insurance from the ground up on a digital substrate and an innovative business model. By leveraging technology, data, artificial intelligence, contemporary design, and behavioural economics, the Group believes it is making insurance more delightful, more affordable, more precise, and more socially impactful. To that end, it has built a vertically-integrated Company with wholly-owned insurance carriers in the United States and Europe, and the full technology stack to power them.

The Lemonade Group commenced operations in September 2016, with the launch of its renters and homeowners insurance policies in New York, United States through its New York domiciled, fully regulated carrier, Lemonade Insurance Company, and its agency, Lemonade Insurance Agency LLC. Throughout the years the Lemonade Group broadened its product portfolio into Pet-, Life- and more recently Car-insurance in the US. The Lemonade Group is licensed with at least one insurance product in every state in the US, with more than 1.8 million active customers.

In mid 2019, the Lemonade Group – through Lemonade Insurance N.V. (the **"Company"**) – expanded its operations into the European Union (**"EU"**) and holds an EU licence, which enables it to sell in 30 countries across Europe. The Company commenced operations in Germany on June 11, 2019, in the Netherlands on April 2, 2020 and in France on December 8, 2020. In October 2022, we began selling contents insurance in the United Kingdom (**"UK"**) on a cross border basis under the UK's Temporary Permission Regime. We also registered two UK branches: (i) Lemonade Insurance N.V., UK Branch and its affiliate (ii) Lemonade Agency B.V., UK Branch as part of its process to become a fully licensed third country insurance branch in the UK.

## A.1.2 Lemonade Group strategy - providing 21st century insurance

The Lemonade Group has been designed to combine the best practices of the technology industry with those of the insurance industry to tailor a solution that best fits its customers. Lemonade's strategy is aimed at solving key pain points for its customers through its advanced digital insurance products, for example by using clearly worded policies, reducing long claims handling time and eliminating the need for complex, time-consuming interactions with the insurer during the life of the policy.

The Lemonade Group harnesses artificial intelligence ("**AI**") and machine learning together with behavioural economics (including its Giveback program, as further described below) to create better, affordable, and more customised accurate insurance products. AI and machine learning allow a leaner cost structure and better risk management, which can contribute to lower loss and expense ratios. In addition, behavioural economics elements embedded in the Lemonade Group's business model and products positively motivate customers and diminish fraud and associated costs. In the EU use of AI is not yet material compared to the use of AI in the U.S given the lack of scale in data.

## A.1.3 The Lemonade Giveback program

Giveback (the "**Giveback**") is a distinctive feature, whereby each year we aim to donate leftover money to causes our customers care about. After our customers purchase a policy, we ask them to select, from a pre-vetted list, a charitable cause to support with the residual premiums from their policy. Behind the scenes, customers who select the same charitable cause are classified as members of the same "cohort." Once a year we look at the loss ratio of each cohort, and provided that we pass the financial ratio tests required by our regulators, we aim to donate the funds remaining, if any, to the charitable cause selected by that cohort. Cohorts with a loss ratio above 40% usually will not receive a Giveback. The Giveback is paid only if payment is authorized by our board of directors in its sole discretion and consistent with its duty of care.

Lemonade Insurance N.V. will adhere to the relevant Lemonade Group policies relating to the Giveback, as verified by its Underwriting Risk Committee and/or the Capital Management and investment Committee, before recommending the Giveback for Management Board approval. In any case, no approval for a Giveback will be given before Lemonade Insurance N.V. has ascertained that the Giveback does not conflict with Solvency II and regulatory capital requirements in any way. In July 2022, the Company donated ~35,000 Euros to 12 charities in Europe through the Giveback program.

#### **A.1.4 Name, details, and legal form of the undertaking**

Lemonade Insurance N.V. is a public limited liability company (*naamloze vennootschap*) incorporated under the laws of the Netherlands and registered with the Dutch Chamber of Commerce (*Kamer van Koophandel*) under its registered address at Spuistraat 112a, 1012 VA Amsterdam, Netherlands with registration number 73227420.

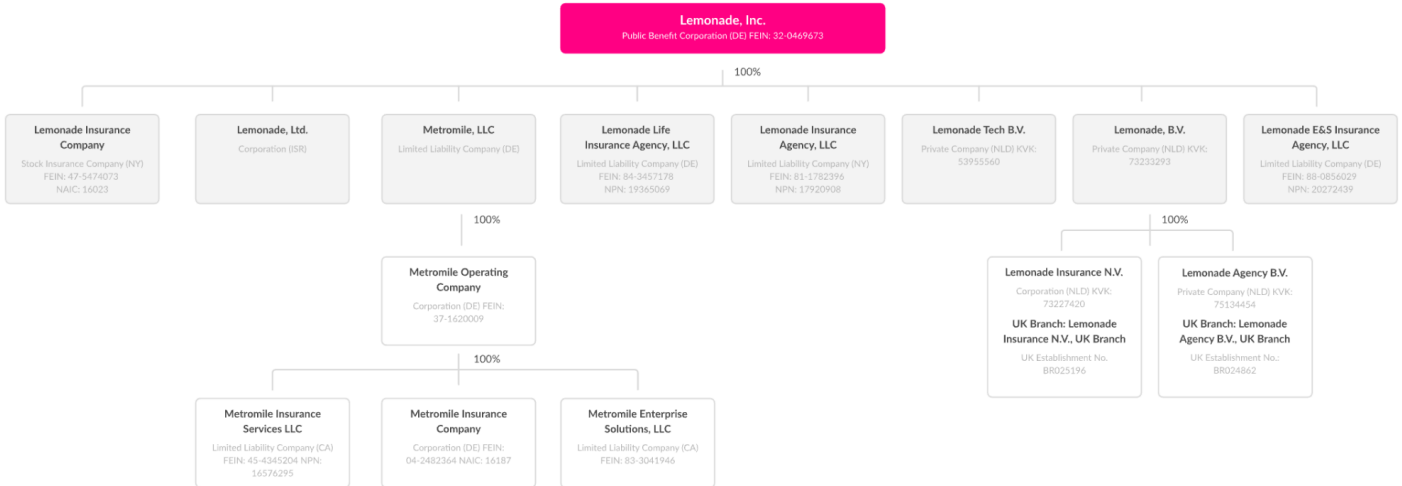
Lemonade Insurance N.V. was granted its licence as a non-life insurance company (as meant in Article 2:27 of the DFSA) by the DNB on May 20, 2019 and has since launched its products in Germany, the Netherlands, France, and UK.

Lemonade Insurance N.V. is a wholly owned subsidiary of Lemonade B.V., which in turn is directly and wholly owned by Lemonade, Inc. Lemonade B.V. is an insurance holding company within the meaning of Article 212 of Solvency II, as implemented in Article 1:1 DFSA.

As such, the sub-group comprised of Lemonade B.V. as parent and Lemonade Insurance N.V. as subsidiary is an EU sub-group within the meaning of Article 213(2)(b) of Solvency II, as implemented in Article 3:285 (2) DFSA.

Lemonade B.V. is also the direct shareholder of Lemonade Agency B.V.. Lemonade Agency B.V. has received a licence to act as an authorised agent (*gevolmachtigd agent*) with the AFM. As of November 1, 2020, Lemonade Agency B.V. became operational and is acting as an agent for Lemonade Insurance N.V. in the European markets on an arm's length basis. Prior to that, over the applicable reporting period, Lemonade Insurance N.V. handled these responsibilities.

The simplified group structure is depicted below.



## A.1.5 Authorizations

Lemonade Insurance N.V. is licensed for the following classes of non-life insurance prescribed in Annex I (Classes of Non-Life Insurance) to Solvency II (as implemented in the *Bijlage branches* of the DFSA):

**Class 1 (accident)**

**Class 7 (goods in transit)**

**Class 8 (fire and natural forces)**

**Class 9 (other damage to goods)**

**Class 13 (general liability)**

**Class 16 (miscellaneous financial losses)**

Next to being authorised to operate in its home country the Netherlands, Lemonade Insurance N.V. is authorised to do business in Germany and France on a freedom of services basis, in accordance with the relevant provisions of Solvency II and in the UK on a cross border basis under the UK's Temporary Permission Regime

## A.1.6 Name of the Supervisory Authority responsible for the financial supervision of the undertaking

**Name:** De Nederlandsche Bank N.V.

**Visiting address:** Spaklerweg 4, 1096 BA Amsterdam

Phone number (general): +31 800 020 1068

Phone number (business purposes): +31 20 524 9111

Email: info@dnb.nl

## A.1.7 Name and contact details of the external auditor of the undertaking

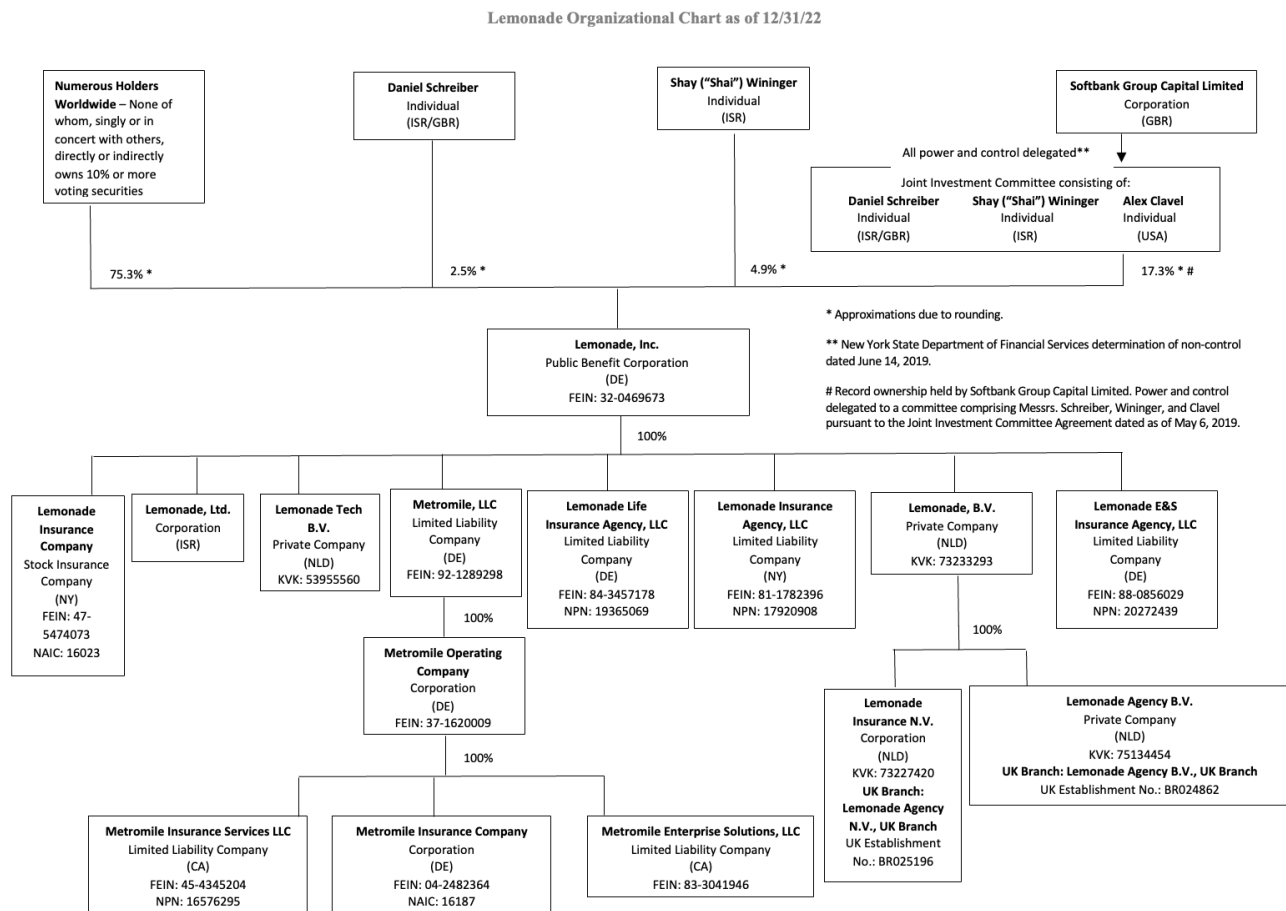
Name: Ernst & Young

Visiting address: Cross Towers, Antonio Vivaldistraat 150

1083 HP Amsterdam

Phone number: +31 88 407 1000

## A.1.8 Group structure



## A.1.9 Qualifying holdings

A 'qualifying' holding is a direct or indirect holding in Lemonade Insurance N.V. which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a



significant influence over the management of that undertaking. As of December 31, 2022, the following individuals and organisations held a qualifying holding in Lemonade Insurance N.V.: Lemonade B.V., Lemonade Inc., Mr. Daniel Schreiber, Mr. Shai Wininger and SoftBank Group Capital Limited.

## **Business overview**

### **A.1.10 Material lines and geographical areas of business**

Lemonade Insurance N.V. has launched in the EU with Contents, Personal Liability and Renters insurance, with a basic layer covering common perils for each specific market and a flexible way for the customers to choose additional coverages as required.

Standard perils to be covered under this policy include:

- Fire, smoke and explosion;
- Theft, burglary and vandalism;
- Water damage caused by burst pipes or leaking appliances;
- Hail, storm, lightning, flood and other natural catastrophes; and
- Bodily, financial and property damages of third parties.

The Company's insurance product is based on simple, straightforward, and clear policy language. The objective is for customers to be able to easily understand and control their coverage.

Customers are demonstrating an appetite for digital adoption, but the insurance market is still very traditional and incumbents are not offering significant innovation. Lemonade identified Germany as a good place to start the European expansion followed by the Netherlands, France and the UK.

### **A.1.11 Significant business developments or other events**

The Lemonade Group intends to continue and expand its operations through its Dutch subsidiary into additional European countries and by launching new products in existing markets. During the reporting year, the focus has been on enhancing the products in the existing markets.

#### **Major Development- Coronavirus/COVID-19; Russia-Ukraine Conflict; Inflation**

The global pandemic resulting from the disease known as COVID-19, caused by a novel strain of coronavirus, SARS-CoV-2, has caused national and global economic and financial market disruptions and may adversely impact our business. Although the Company did not see a material impact on its results of operations for the years ended December 31, 2022 and 2021 due to the

COVID-19 pandemic, the Company cannot predict the duration or magnitude of the pandemic or the full impact that it may have on the Company's financial condition and results of operations, business operations, and workforce.

In the reporting period, the Russia-Ukraine conflict led to a humanitarian crisis and global market upheaval. Prices rose substantially, particularly on the energy and commodity markets. The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, has restricted gas deliveries to Europe. The resulting rise in commodity prices and intensified supply shortages are increasing the threat of persistently high inflation. The Company did not see a material impact on its results yet for the years ended December 31, 2022 and 2021 but will continue to closely monitor developments impacting the Company's financial condition. Although the Company did not see a material impact on its results of operations due to the Russia-Ukraine conflict, the Company cannot predict the full impact that it may have on the Company's financial condition and results of operations, business operations, and workforce.

General economic inflation has increased and there is a risk of inflation remaining elevated for an extended period. We anticipate the effects of inflation impacting pricing of our products and estimating reserves for unpaid claims and claim expenses. The actual effects of the current and potential future increase in inflation on our results remains to be unknown and cannot be estimated with precision.

### **Expectations for 2023**

While in 2022 we focused on enhancing our existing products and launched a new market, in 2023 we expect to focus on expanding our insurance products in the existing markets and invest in a variety of growth initiatives. We expect that the portfolio will grow in size as well as mature, which will help improve the loss ratios. Furthermore, the reinsurance program will be reevaluated, and renewed as appropriate.

The Lemonade Group will continue to support Lemonade Europe by facilitating the growth of the company and ensuring adequate solvency positions at all times.

## **A.2 Underwriting performance**

In 2022 Lemonade Insurance N.V. wrote € 4,252 thousand in premium and recognized € 3,613 thousand in earned premium. The Company experienced € 3,226 thousand of incurred loss and

(Allocated) Loss Adjustment Expenses (“ALAE”). The Company used a number of benchmarks including industry loss development and claim reporting patterns to ensure that its reserves were set at an adequate level. Although the initial loss and ALAE ratio is high, it is improving year on year and the Company is confident that as the book becomes more mature and gains scale the loss and ALAE ratio will drop to a sustainable level similar to its US launch experience. In this paragraph, we highlight the key contributors to the underwriting performance by line of business and country of origin, where earned premium is partially coming from business written in the prior year.

(€ thousand)	Germany		The Netherlands		France	
	2022	2021	2022	2021	2022	2021
Written premium	651	514	1,554	864	2,025	1002
Earned premium	644	519	1,518	833	1,448	407
Claims incurred	792	501	1,289	477	1,109	376

(€ thousand)	UK
	2022
Written premium	22
Earned premium	3
Claims incurred	37

	Contents		Liability	
	2022	2021	2022	2021
Written premium	3,387	1,872	865	507
Earned premium	2,844	1,322	769	436
Claims incurred	2,526	1,003	700	351

### A.3 Investment performance

The Company does not currently invest its capital and holds liquid assets on its bank accounts.

## **A.4 Performance of other activities**

Not applicable.

## **A.5 Any other information**

All relevant information is covered in the previous sections.

## **A.6 Major Development - Coronavirus/COVID-19; Russia-Ukraine Conflict**

The spread of the COVID-19 virus caused significant financial market volatility, economic uncertainty, and interruptions to normal business activities in 2022. To date, the impact to the Company is limited, with no material impact on its results of operations. As of the date of issuance, the outbreak is still evolving with new mutations of the virus still spreading and thus there is significant uncertainty as to its ultimate impact on the Company.

The Russia-Ukraine conflict caused a significant humanitarian crisis and global market upheaval. In 2022 to date, the impact to the Company is limited with no material impact on its results of operations. As of the date of issuance, the outbreak is still ongoing and thus there is significant uncertainty as to its ultimate impact on the Company.

The COVID-19 virus might lead to a contingency situation and the Company is continuously monitoring the potential impact on its capital and Solvency II ratios. Based on the current solvency position no contingency situation has been identified.

Lemonade Insurance N.V. conducted a risk assessment of the potential operational and financial impact of the Coronavirus/COVID-19 during the beginning of the pandemic. In addition, a stress-test was conducted by applying scenario 3 and 4 of the European Centre for Disease Prevention and Control and assessing the various risks and mitigation measures already in place or to be implemented to further reduce the impact. The risks identified for scenario 3 and 4 are;

- Business continuity;
- Key Person Risk; and,
- Third Party Risk.

Appropriate measures have been undertaken to address these risks and ensure business continuity from operational, IT, cyber crime risks and financial perspectives. As Lemonade is a technology-driven organisation with direct marketing channels and globally dispersed operations

the impact of the Coronavirus/COVID-19 has been relatively minor with existing procedures in place.

## B. System of governance

### B.1. General information on the system of governance

Lemonade Insurance N.V. has a management board consisting of four members in accordance with Article 3:15 of the DFSA (the "**Management Board**") and a supervisory board consisting of four members in accordance with Article 3:19 DFSA (the "**Supervisory Board**"), of which three members are formally independent.

Lemonade Insurance N.V. has implemented the following Supervisory Board and Management Board committees, as further elaborated on below:

#### Lemonade Insurance N.V.'s Committees

##### SB Audit and Risk Committee

**Membership**  
Ronald Latenstein van Voorst  
(as chairperson)  
Margreet Haandrikman  
Kelly Maynard

##### SB Remuneration Committee

**Membership**  
Kelly Maynard (as chairperson)  
Margreet Haandrikman  
Ronald Latenstein van Voorst  
Shai Wininger

##### Privacy and Security Committee

**Membership**  
Emmanuelle Barralis  
(as chairperson)  
Data Protection Officer CISO  
Lemonade Group IT  
Privacy specialists  
UK Country Manager

##### Compliance Committee

**Membership**  
Emmanuelle Barralis  
(as chairperson)  
Compliance Officer  
Lemonade Group Compliance  
Specialists  
UK Country Manager

##### Product Oversight and Governance Committee

**Membership**  
Ron Voortman  
(as chairperson)  
MB members  
Compliance Officer  
Marketing/Growth  
representative  
IT representative  
Insurance Product specialist  
UK Country Manager

##### Underwriting and Risk Committee

**Membership**  
Ron Voortman (as chairperson)  
Risk Management Officer  
Relevant Lemonade Group  
underwriting specialists  
UK Country Manager

##### Capital Management and Investment Committee

**Membership**  
Ron Voortman (as chairperson)  
CFO Lemonade Group  
Risk Management Officer  
Head of Actuarial  
Lemonade Group specialist(s)  
UK Country Manager

##### UK Branch Management committee

**Membership**  
Sarvesh Ramachandran  
(as chairperson)  
MB Members  
Risk & Compliance Officer  
Finance  
Marketing/Growth  
representative  
IT representative  
Insurance Product specialist  
Relevant Lemonade Group  
specialist(s)

### **B.1.1. Supervisory Board and Supervisory Board committees**

The Articles of Association of the Company specify that the Supervisory Board must consist of a minimum of three members. Only candidates found to meet the 'fit and proper assessment' under the DFSA are eligible for appointment. In addition, Lemonade Insurance N.V. has prepared and implemented a detailed job profile for members of its Supervisory Board.

The Supervisory Board of Lemonade Insurance N.V. currently has four members,

**Drs Margreet Haandrikman (chair)**

**Shai Wininger**

**Kelly Maynard**

**Ronald Latenstein van Voorst**

The Supervisory Board is responsible for exercising supervision of the Management Board and the general course of affairs within Lemonade Insurance N.V. and the enterprise connected with it. When performing their duties, the Supervisory Board members are guided by the interests of Lemonade Insurance N.V. and the enterprise connected with it.

The Supervisory Board is informed by the Management Board on all relevant matters but also has a duty to request information in case this is deemed necessary. The majority of the members of the Supervisory Board are independent and operate independently in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2012 (*Beleidsregel geschiktheid 2012*). The Supervisory Board has a diverse membership considering the members' different professional and educational backgrounds, ages and range of knowledge and experience.

As set out in Lemonade Insurance N.V.'s governing documents, the Supervisory Board meets at least four times a year and more often if required. It has two committees: a Remuneration Committee and an Audit and Risk Committee. Further details on the Supervisory Board committees and their role and responsibilities are set out below.

#### **B.1.1.1 The Remuneration Committee**

The Remuneration Committee of the Supervisory Board met two times during 2022, the attendance rate at these meetings was 98%. The Committee carries out its duties and responsibilities with adherence and compliance with relevant European and Dutch rules and regulations in the area of remuneration

and is responsible for preparatory work for the Supervisory Board's decision-making regarding the determination of the remuneration and the remuneration policy of Lemonade Insurance N.V.

The committee is chaired by Mrs. Maynard.

The first 2022 Remuneration Committee meeting was also attended by Sr. Director of Finance, as the meeting pertained to RSU equity and MB remuneration and the second meeting by both Sr. Director of Finance and Senior Director of People Ops as the meeting pertained to key staff's remuneration.

The committee solicits support and advice from departments such as Risk, Internal Audit and Compliance. Where needed, the committee is authorised to call in the expertise of independent legal and reward subject matter experts. A full review of the Remuneration Policy was completed in 2022, including a "quick review" (QR) audit. All recommendations will be gradually implemented. Additionally, regarding permanent education, a session about Compensation Philosophy hosted by the company in October 2022 was attended by the Supervisory Board.

#### **B.1.1.2 The Audit and Risk Committee**

The Audit and Risk Committee ("**ARC**") of the Supervisory Board met four times during 2022. The attendance rate at these meetings was 92%. The Audit and Risk committee is responsible for preparatory work for the Supervisory Board's decision-making regarding the supervision of the integrity and quality of Lemonade Insurance N.V.'s financial reporting and the effectiveness of Lemonade Insurance N.V.'s internal risk management and control systems, including monitoring the Management Board with regard to:

- relations with, and compliance with recommendations and following up of comments by, the internal and external auditors;
- the integrity of all financial statements and regulatory reports and assessment of the estimations taken to produce them;
- the capital and funding of Lemonade Insurance N.V.;
- activities of the Risk Management, Compliance, Finance and Actuarial function holders, including risks related to fraud management;
- the application of information and communication technology by Lemonade Insurance N.V., including risks relating to cybersecurity;



- Lemonade Insurance N.V.'s tax policy;
- Lemonade Insurance NV's internal transfer pricing agreements;
- the internal and external auditor's adequacy and independence;
- the Internal Audit plan;
- the internal audit budget and resource plan;
- the performance of statutory reporting requirements, as well as other financial reporting requirements and professional accounting requirements; and
- the nomination of the external auditor.

The committee is chaired by Mr. Latenstein van Voorst. The composition of the committee is such as to represent the specific business know-how, financial, accounting and actuarial expertise relating to the activities of Lemonade Insurance N.V..

The Management Board, the external auditor, Compliance, Risk, Actuarial and Internal Audit attend the 2022 meetings as needed.

### **B.1.2. Management Board**

The Management Board of Lemonade Insurance N.V. currently has three members:

**Daniel Schreiber;**

**Ron Voortman; and**

**Emmanuelle Barralis**

The Management Board is responsible for managing Lemonade Insurance N.V.. The members of the Management Board are, in performing their duties, guided by the interests of the Company and the enterprise connected with it, which includes the interests of customers, shareholders, employees and society at large. The Management Board is accountable to the Supervisory Board and the general meeting of shareholders (the "**General Meeting**") with regard to the performance of its duties.

The articles of association of the Company specify that the Management Board must consist of a minimum of two members. Only candidates found to meet the 'fit and proper assessment' under the Dutch Financial Supervision Act are eligible for appointment. In addition, the Lemonade Insurance N.V. has prepared and implemented a detailed job profile for members of its Management Board.

During 2021 the Supervisory Board appointed two additional Management Board members that were approved by the DNB and the AFM. Ron Voortman was approved by the DNB in January and officially appointed by the Supervisory Board as the Deputy Chair in May. Emmanuelle Barralis was approved by the DNB in October and officially appointed by the Supervisory Board as an additional Board member in December with an effective start date of January 2022.

As of 1 July, 2022 Mr. Ori Hanani stepped down from the Management Board to take additional responsibilities within the Lemonade group.

The updated Management Board composition includes a Chair, Mr. Daniel Schreiber, a Deputy Chair, Mr. Ron Voortman, and additional Board member Ms. Emmanuelle Barralis. Within the management board there is a clear segregation of duties between first line and second line functions and areas of responsibility. The Management Board typically meets monthly and more often if required. The Management Board has six committees.

In addition to being the Chair of the Management Board of Lemonade Insurance N.V., Mr. Schreiber is also a member of the Management Board of Lemonade Insurance N.V.'s direct parent company Lemonade B.V. and the Co-CEO of the Lemonade Group. This ensures direct influence and commitment from controlling stakeholders and the Lemonade Group.

#### **B.1.2.1 Committees of the Management Board**

In order to organise subject matter expert support and guarantee continuity and consistency for Lemonade Insurance N.V., six supporting committees were established. These committees consist of members from Lemonade Insurance N.V., from the larger Lemonade Group and from external support providers. The committee advises and supports the Management Board in its decision-making process. Any formal decision making will be done by the Management Board.

##### **B.1.2.1.1 The Underwriting and Risk Committee**

The Underwriting and Risk Committee is chaired by the Deputy Chair of the Management Board and met four times during 2022.

The objectives of the Underwriting and Risk Committee are to:

- review the strategy and provide oversight of the active underwriting operations of Lemonade Insurance N.V.;

- assist the Management Board in overseeing the integrity and effectiveness of Lemonade Insurance N.V.'s Risk Management System, including by reviewing and evaluating the risks to which Lemonade Insurance N.V. is exposed, as well as monitoring and overseeing the guidelines and policies that govern the processes by which Lemonade Insurance N.V. identifies, assesses and manages its exposure to risk; and
- advise and support the Management Board on decisions to be taken.

#### **B.1.2.1.2 The Capital Management and Investment Committee**

The Capital Management and Investment Committee is chaired by the Deputy Chair of the Management Board and met four times during 2022.

The objectives of the Capital Management and Investment Committee are to:

- monitor whether Lemonade Insurance N.V. has adopted and adheres to a rational and prudent investment policy;
- monitor whether the Management Board's investment and capital management actions are consistent with the attainment of Lemonade Insurance N.V.'s investment policy;
- monitor the selection, performance and compensation of Lemonade Insurance N.V.'s investment advisors; and
- advise and support the Management Board on decisions to be taken.

#### **B.1.2.1.3 The Privacy and Security Committee**

The Privacy and Security Committee is chaired by a Management Board Member and met four times during 2022.

The objectives of the Privacy and Security Committee are to:

- provide oversight related to the security and compliance activities and obligations of Lemonade Insurance N.V.;
- oversee Lemonade Insurance N.V.'s privacy and security programs;
- oversee Lemonade Insurance N.V.'s disaster recovery and business continuity plans; and
- advise and support the Management Board on decisions to be taken.

#### **B.1.2.1.4 The Compliance Committee**

The Compliance Committee is chaired by a Management Board member and met four times during 2022.

The objectives of the Compliance Committee are to:

- ensure that all persons with operational and oversight responsibilities act in accordance with the Company's objective and in compliance with applicable laws, regulations and administrative provisions;
- assist and guide the Management Board in relation to the establishment and maintenance of a proper framework and policies for the prevention, handling, management and monitoring of compliance risk; and
- advise and support the Management Board on decisions to be taken.

#### **B.1.2.1.5 The Product Oversight and Governance Committee**

The Product Oversight and Governance Committee is chaired by the Deputy Chair of the Management Board and met twice during 2022.

The objectives of the Product Oversight and Governance Committee are to:

- advise and support the Management Board on product development and product review and to verify that products continue to be aligned with the interests, objectives and characteristics of the target market; and
- advise and support the Management Board on decisions to be taken.

#### **B.1.2.1.6 UK Branch Management Committee (BmCo)**

Whilst the company launched and operates under the Temporary Permissions Regime in the UK, an application has been made for Part 4A authorisation to operate as a 3rd country branch establishment. Accordingly, and in conjunction with the formation of a UK branch, the Management Board has established a UK Branch Management Committee (UK BmCo) to oversee the formation, affairs and compliance of the proposed UK branch.

The UK BmCo consists of the UK Country Manager; Sarvesh Ramachandran and the EU Risk and Compliance Lead; Elske Hartholt and other senior stakeholders as appropriate. Relevant senior management function clearance requests have been submitted in regard to both Mr. Ramachandran

(SMF 19) and Ms. Hartholt (SMF 16). The UK BmCo is supported by functional experts from across the European business. The UK BmCo reports to the Management Board through Mr. Ramachandran.

During 2022 the work of the UK BmCo has focused on reviewing and gaining assurance of the adequacy of proposals and plans to launch the Lemonade Contents Insurance product in the UK and on the branch licence application process itself. The UK BmCo has met once during 2022.

### **B.1.3. Key functions**

Lemonade Insurance N.V. has implemented the following four key functions: Internal Audit, Actuarial, Risk, and Compliance. Lemonade Insurance N.V. has organised its key functions in accordance with the applicable Solvency II regulations (as implemented in the DFSA).

All key functions are able to carry out their duties objectively and free from undue influence and do not simultaneously perform conflicting activities.

They have been given appropriate standing in the organisation and can report relevant findings directly to the Supervisory Board and the Management Board (as appropriate).

The responsibilities per function are detailed below:

- Internal Audit function- The responsibilities of the Internal Audit function include the evaluation of the adequacy and effectiveness of the internal control system and other elements of system governance. The resulting findings are reported to both the Management Board and the Supervisory Board on a regular basis.
- Actuarial function- The Actuarial function is responsible for the coordination and monitoring the evaluation of technical provisions, including methodology, assumptions and data. The Actuarial function supports the Risk function.
- Risk function- In addition to coordinating the overarching risk management activities, the Risk function is responsible for identifying potential risks and recommending appropriate countermeasures to the Management Board. The Risk function also has reporting responsibilities. Relevant risks are, where appropriate, represented qualitatively and quantitatively and internally and externally, and all significant risks classified and shown as an exposure figure.
- The Compliance function- The Compliance function is responsible for risk control, i.e. the identification, assessment, monitoring and reporting of compliance risks, namely risks of incurring

legal or regulatory sanctions, significant financial loss or damage to reputation resulting from Lemonade Insurance N.V.'s failure to comply with laws or regulation.

The responsibilities, resources, reporting and escalation lines and other main organisational aspects of these key functions are described in their respective charters that are reviewed regularly. All key functions are available within our organisation, except for the Internal Audit function, which is outsourced to an external service provider. Independence and objectivity are guaranteed because of the outsourcing and by the reporting of the Internal Audit function to the Audit and Risk Committee of the Supervisory Board.

#### **B.1.4 General Meeting of shareholders**

At least one general meeting of shareholders ("**General Meeting**") is held per year. The main purpose of General Meetings is to decide on matters as specified in Lemonade Insurance N.V.'s Articles of Association and under Dutch law, such as the adoption of the financial statements. The Articles of Association also outline the procedures for convening and holding General Meetings and the decision-making process.

For the sake of completeness, Lemonade B.V. is the sole shareholder of Lemonade Insurance N.V. The management board of Lemonade B.V. consists of two members: Mr. Shai Wininger (who also serves as a member of the Supervisory Board of Lemonade Insurance N.V. and CO CEO of the Lemonade Group) and Mr. Daniel Schreiber (who also serves as the CEO of Lemonade Insurance N.V. and as CO CEO of the Lemonade Group).

#### **B.1.5 Remuneration practices**

Lemonade Insurance N.V. has implemented a Remuneration Policy, incorporating the relevant European and Dutch rules and regulations in the area of remuneration. In addition, Lemonade's remuneration system is related to the collective labour agreement ("**CLA**") for the insurance industry. The Remuneration Policy applies to all employees of the Company and all other persons that work under the responsibility of the Company.

The Remuneration Policy is reviewed at least annually by the Company's Remuneration Committee to ensure that it reflects the latest regulatory requirements and any changed business processes and circumstances.

### **B.1.5.1 Guiding principles**

In setting its Remuneration Policy, Lemonade Insurance N.V. has used the following guiding principles:

- the remuneration practices of the Company are established, implemented and maintained in line with the Company's business and risk management strategy, its risk profile, objectives, risk management practices and the long-term interests and performance of the Company as a whole and shall incorporate measures aimed at avoiding conflicts of interest;
- all remuneration arrangements must promote sound and effective risk management and shall not encourage risk taking that exceeds the risk tolerance limits of the Company;
- the Company's Remuneration Policy is tailored to the size and organisation of the Company and to the nature, scope and complexity of its activities;
- specific arrangements may be appropriate that take into account the tasks and performance of the Management Board and Supervisory Board;
- the Company's remuneration practices may not contain incentives to take more risks than acceptable in view of the Company's solidity.

### **B.1.5.2 Balanced mix between fixed and variable remuneration**

As a general rule, Lemonade Insurance N.V. requires that remuneration components shall be balanced so that each staff member's fixed remuneration represents a sufficiently high proportion of that staff member's total remuneration, in order to avoid staff being overly dependent on variable remuneration and to allow the Company to operate a fully flexible bonus policy, including the possibility of paying no variable remuneration.

### **B.1.5.3 Performance targets**

If and when the Company decides to give variable remuneration, it will agree each year with relevant staff members on qualitative and quantitative performance targets. The performance-measurement system underlying the award of variable remuneration will have three parts:

- one part relates to the targets to be achieved at Lemonade Group level;
- one part relates to targets applicable to the relevant business unit; and
- one part relates to targets at an individual level.

Performance against these targets will be assessed for all three parts. A balanced allocation will also be made between short-term and long-term targets and between quantitative and qualitative targets. In setting and assessing the targets, the focus is on long-term value creation, with a focus on the customers' interests, serving the best interests of the various stakeholders and managing risk.

The performance targets at the individual level will be set by translating the stakeholder's targets into what they mean for the individual and what he or she has to achieve to meet them. These individual targets will be set using the same criteria as for the business and the Lemonade Group. As well as the clearly defined commercial results, these will include agreed development goals in such areas as leadership, customer focus and employee involvement.

In the case of negative performance on non-financial criteria, especially in case of unethical or non-compliant behaviour, positive results on financial criteria are cancelled out. In such cases, variable remuneration may be reduced to zero.

#### **B.1.5.4 Remuneration awarded to Management Board members**

For all members of the Management Board, the Supervisory Board will determine a maximum total remuneration, reflecting the specific roles and responsibilities of the individual. The Supervisory Board will propose the remuneration of the members of the Management Board to the Company's General Meeting. The remuneration of the members of the Management Board is determined by the General Meeting in accordance with Lemonade Insurance N.V.'s Articles of Association.

Each year, the Supervisory Board reviews total compensation levels to ensure they remain competitive and provide proper, risk-based incentives to members of the Management Board. To ensure members of the Management Board are compensated in accordance with the desired market positioning, alignment to the desired market position needs to be addressed over time, in accordance with applicable rules, regulations and codes.

The Supervisory Board aims to have regular scenario analyses to determine the long-term effect on the level and structure of compensation granted to members of the Management Board.

#### **B.1.5.5 Remuneration awarded to Supervisory Board members**

The remuneration of the members of the Supervisory Board is set by the General Meeting in accordance with Lemonade Insurance N.V.'s Articles of Association. Their remuneration is independent of the Company's results.



### B.1.5.6 Pension scheme

Lemonade Insurance N.V. does not offer supplementary pension or early retirement schemes for the members of the Management Board or the Supervisory Board.

For its European staff members, Lemonade Insurance N.V. offers a Defined Contribution Pension Plan, with a fixed employee contribution of 3.5% and a sliding scale Employer Contribution.

## B.2. Fit and proper requirements

Lemonade Insurance N.V. has implemented various policies and charters containing provisions aiming to ensure that the people who effectively manage Lemonade Insurance N.V. and the people fulfilling key functions are fit and proper (i.e. individuals in integrity sensitive positions).

Further to these policies, persons (including temporary staff) in integrity-sensitive positions must at all times fulfil the following requirements:

- their professional qualifications, knowledge and experience are adequate to enable sound and prudent management ("**fit**"); and
- they are of good repute and integrity ("**proper**").

Fitness is attained by an adequate diversity of necessary qualifications, knowledge, relevant experience and professional and personal skills so that the Company is managed and overseen in a sound and prudent manner. Ascertaining whether someone is "proper" in the view of the Company entails an assessment of that person's honesty and financial soundness, based on relevant evidence regarding their character, personal behaviour and business conduct including any criminal, financial, tax or supervisory aspects regardless of jurisdiction.

Lemonade Insurance N.V. has implemented formal position profiles for its Management Board and Supervisory Board members. Further to these position profiles, all Board members must individually possess the appropriate skills and experience that may be expected from a Board member of an undertaking subject to financial supervision, such as Lemonade Insurance N.V.. Any Board member must have appropriate knowledge of the markets in which Lemonade Insurance N.V. operates, the products and services offered by the Company, the corporate culture of the Company and the rules and regulations to which the Company is subject. In addition, the profiles impose specific requirements in

the areas of education, knowledge, skills, abilities, personal characteristics and prior (executive) experience.

Furthermore, the Management Board and Supervisory Board must at all times collectively possess appropriate qualifications, experience and knowledge of:

- insurance and financial markets;
- business strategy and business models;
- systems of governance;
- financial and actuarial analysis; and
- the applicable regulatory framework and requirements.

Lemonade Insurance N.V. has implemented a process for assessing fitness and propriety for employees in integrity sensitive positions in its Fit and Proper Policy. This process consists of, among other things, gathering relevant documents and information from the prospective appointee, interviews, information gathering from referees and previous employers, background checks and external objective assessments (where appropriate).

Members of Lemonade Insurance N.V.'s Management Board and Supervisory Board are required to pass integrity and suitability screenings with DNB. In an early stage of the hiring process and preferably at the time a position has become vacant, an approval request is put forward to DNB. All of Lemonade Insurance N.V.'s Management Board members and Supervisory Board members have passed integrity and suitability screenings by DNB prior to their appointment.

All people holding integrity-sensitive functions are assessed against their performance objectives, leadership behaviours and any other requirements from their job profiles during the annual performance cycle and specifically during the year-end appraisal.

## **B.3 Risk management system including the own risk and solvency assessment**

### **B.3.1 Risk management system**

The Company's risk management system ("**RMS**") is a key element of the overall system of risk governance of the Company and its corporate culture. The RMS is a framework which is designed and applied to manage risk across Lemonade Insurance N.V.. The RMS sets out the Company's risk

management objectives, core risk management principles and overall risk strategy. Its objective is to allocate risk responsibilities across all business activities and to inform the Company's business strategy. In general, Lemonade Insurance N.V. endeavours to identify, monitor, manage and mitigate risk through the use of internal authorization procedures, by setting appropriate risk limits, by using risk limit monitoring systems and through adherence to contingency plans.

The Management Board will consider the strategic development roadmap with a three (3) to five (5) year horizon – directed by the following key principles:

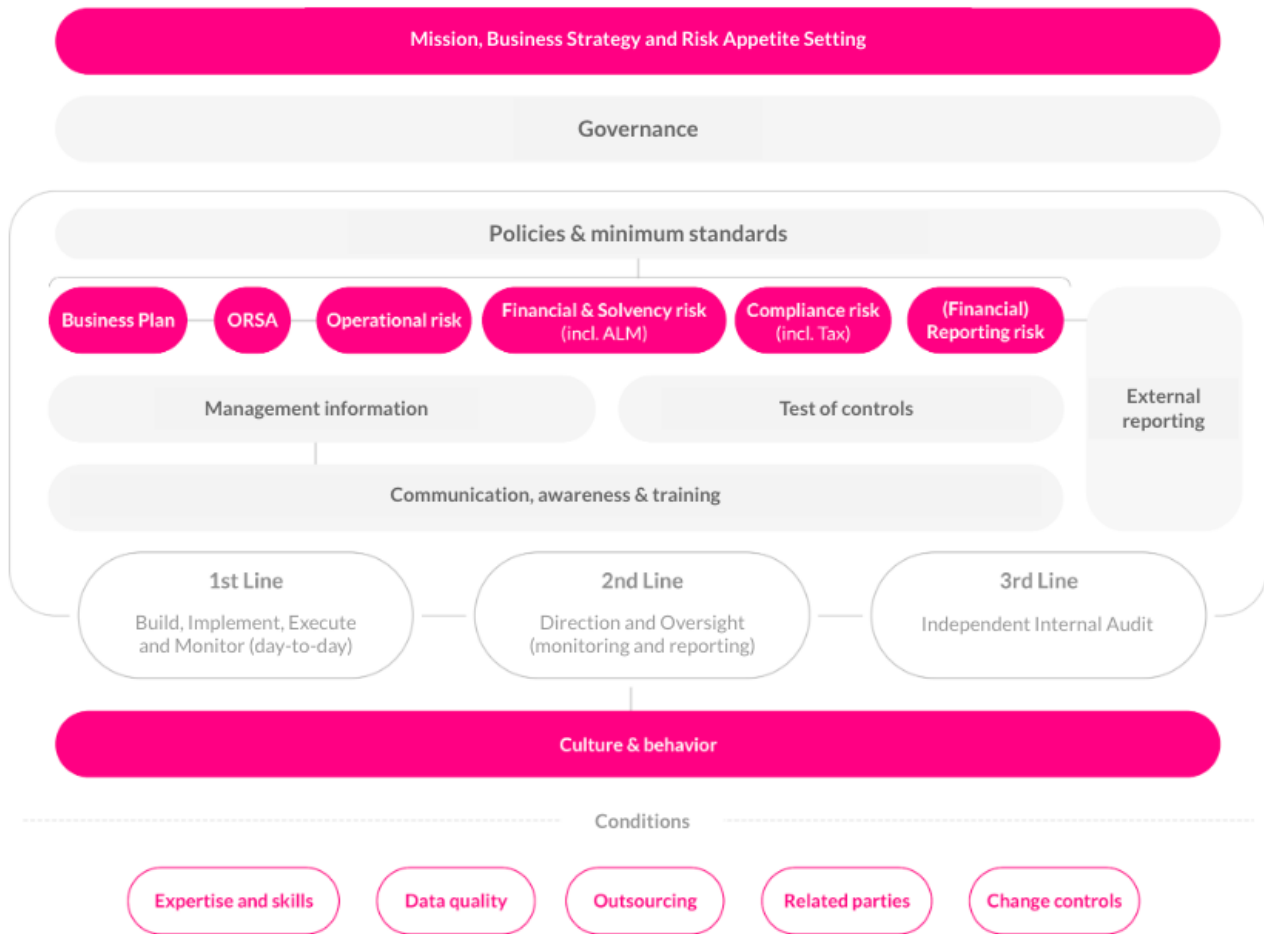
- Take a customer centric approach – the Company should take a fair, transparent and simple approach to build customer confidence in the Company and its products.
- Have a conservative risk appetite – the risk the Company is willing to take in order to meet its strategic objectives is limited in amount and type.
- Be sustainable – the Company will be building a long-term sustainable business model backed and supported by industry leading reinsurers.

For Lemonade Insurance N.V., the risk management framework involves;

- Defining the risk categories and the methods to measure those risks;
- Outlining how Lemonade Insurance N.V. manages each relevant category, area of risks and any potential aggregation of risks;
- Describing the connection with the overall solvency needs assessment as identified in the forward-looking assessment of own risks, the regulatory capital requirements and the risk tolerance limits;
- Specifying risk tolerance limits within all relevant risk categories in line with the overall risk appetite;
- Describing the frequency and content of regular stress tests and the situations that would warrant ad hoc stress tests; and
- Continuously improving and adjusting our risk dashboard for better risk awareness.

The framework is based on the internationally accepted standard of The Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") for Enterprise Risk Management ("**ERM**") and lays the foundation for managing risk throughout Lemonade Insurance N.V. and its sister and mother company in the Netherlands.

## Risk Management Framework



### B.3.2 Risk profile- Risk appetite and indicators

#### B.3.2.1 Business Plan

The basis for the Risk Management framework is the strategy and planning of the business for the upcoming period detailing country expansion, customer growth and loss forecasts. The business strategy forms the basis for the risk tolerance statements, specified in financial terms and translated into operating guidelines to operate within risk appetite. In general terms, Lemonade is taking a conservative approach towards Risk and is conducting its operations and development strategy in a way that will minimise the risk exposure. Lemonade believes that to protect the unique quality that the brand is offering, it has to be conservative in its risk appetite; Lemonade gives paramount importance to identifying, measuring and mitigating risks inherent to its activity.

#### B3.2.2 Risk Control Self Assessment (“RCSA”)

Lemonade performs an annual risk control self-assessment to indicate changes in risk and risk mitigating control levels for risks identified in a prior period or Own Risk and Solvency Assessment

("ORSA"), and any potential emerging risks on both financial and non-financial domains. The risk self-assessment is conducted by the first line and evaluates risks according to quantitative and qualitative measures rating the risks with regard to their potential impact and likelihood after consideration of the effectiveness of controls. The risk ratings are reflected within the Company's risk dashboard ("Risk Dashboard") across the following categories;

- Operational Risks (strategic, preventable and external risks)
- Financial (market risk, including interest risk, credit risk, including counterparty risk and underwriting risk, including pricing risk), Solvency and Regulatory Reporting Risk
- Compliance Risk

The Company details the risk profile and related mitigating controls on an annual basis, taking into account risk events in the prior period and failures in controls and mitigation measures (if any).

### **B3.2.3 Operational, Financial & Solvency (incl. ALM), Compliance (incl. Tax), and (Financial) reporting risk**

The risks included within the Risk Dashboard refer to both 'Inherent' risk (i.e. the risk of doing business within a certain industry) and remaining 'Residual' risk (i.e. the risk that remains after mitigating controls are implemented).

After identification of the risks, the implemented current controls and the residual risks, an appropriate risk response is to be defined by designing future controls to be implemented to ensure the risks are within risk appetite. Lemonade's technology and product structure allow the Company to control growth and exposure and make real-time adjustments when needed. The Company has adopted a low-risk appetite for risk level after mitigation.

Relevant managers, together with the Company's Risk Officer and Compliance Officer, will measure the potential impact of risk on a frequency and severity basis and – together – will ensure sufficient mitigation measures have been put in place by Management where necessary. Within the RMS the Company ensures adequate measures are taken to prevent Fraud Risk. This risk is monitored closely, and any developments are reported monthly in the fraud report and quarterly in the compliance and risk reports.

In cases where the level of the risk exceeds the Company's predetermined risk appetite, a risk mitigation process will be activated.

Risk status is monitored by the second line and reported periodically to operational management. The Audit and Risk Committee is informed on the risk profile of Lemonade Insurance N.V. on a quarterly basis during the Audit and Risk Committee meeting wherein the Quarterly Risk Report including the Risk Dashboard is presented.

The full risk management methodology is formalised in the Risk Management policy detailing the various tools, procedures and periodic monitoring action items.

### **B.3.3 Implementation of risk management system**

#### **B.3.3.1 Strategic alignment**

The Risk Management function is responsible for advising the Management Board and the Supervisory Board on the risk status of the Company. The Management Board will make sure that the Company's risk management strategy is aligned with the Company's overall corporate objectives, strategy and current circumstances. The Management Board will take the Company's risk management strategy into consideration in all its relevant decision making. Furthermore, Risk is responsible to raise awareness on the risks of the organisation within the 1st line and oversee mitigation actions of risks identified to ensure Lemonade Insurance N.V. operates within risk appetite.

The Risk function operates independent of the Company, therefore the following safeguards are implemented:

- persons engaged in the performance of risk management are not supervised by those responsible for the performance of the operating units of the Company;
- persons engaged in the performance of risk management are not involved in the performance of activities within the operating units of the Company;
- the Risk Officer is remunerated in accordance with the Company's remuneration framework, which provides that persons engaged in the risk management function are remunerated based on objectives linked to risk management which are independent from the performance of the Company's operating units;
- Risk uses both quantitative and qualitative criteria to assess the risks posed to the Company, which is an independent process to the business. Upon request thereto from the Risk Officer, the Management Board shall grant the Risk Officer or its delegates access to the books and records of the Company necessary to perform the risk management function. The Risk Officer is a member of

all relevant committees/meetings in order for it to perform/address specific tasks/issue for client's best interest;

- any conflicting duties are properly segregated; and
- Risk is subject to an appropriate independent review to ensure that decisions are being arrived at independently.

### B.3.3.2 Reporting

The Risk Officer – together with Compliance – reports on a quarterly basis to the Management Board on matters of compliance and risk, including in particular whether appropriate remedial measures have been taken in the event of any deficiencies. Risk related reports are key for management to monitor the level of risk control. This integrated risk overview contains at least the following:

- Early warning statements: a statement to signal any risk/trends at an early stage in order to take timely actions.
- A bullet point report: this elaborates on high-level operational and compliance risk areas and the required actions to be taken.
- An audit action points report: this report shows the follow up status of all the Company audit action points. These action points arise from audits in which the Company is both directly but also indirectly involved.
- An operational events/incidents report: this report gives insight into the number and status of events and incidents within the Company's organisation.

The objective of these risk reports is to ensure appropriate awareness on current risk levels, (potential) new risks, open action items and other aspects to ensure Lemonade Insurance N.V. operates within Risk Appetite. If needed, risk will meet on an *ad hoc* basis with the respective functions to ensure risk events are appropriately addressed.

Risk has various tools in place to monitor the risk profile of Lemonade Insurance N.V. ; the Risk Register, Risk Dashboard, and the Risk Control Matrix. The Risk Register records risk events whenever these occur with an appropriate level of detail on: the risk event, an impact assessment, key employee involvement, internal resolution timelines and actual resolution time. On a weekly basis, unresolved risk events outside of the internal resolving timelines are monitored, and appropriate actions are undertaken if deemed required.

### **B.3.4 ORSA**

The Company's ORSA objective is to demonstrate the Company is sufficiently capitalised under various stress scenarios and to detail the various management actions in place to address adverse developments. In general an ORSA is performed at least once a year, and consists of a risk self-assessment by first line managers and executive directors challenged by second line (such as Risk, Compliance, Actuarial, etc.) managers and by the non-executive directors. An update of the ORSA will be performed regularly and in specific circumstances when the risk profile of the Company is significantly impacted.

The ORSA is reviewed and approved by the Management Board and the Supervisory board is notified of the results during the Supervisory Board meeting. An update of the ORSA will be performed in specific circumstances when the risk profile of the Company is significantly impacted.

## **B.4 Internal control system**

### **B.4.1 Three lines of defence**

Lemonade Insurance N.V. has implemented the market standard "three lines of defence" approach to internal control as follows:

- The first line of defence includes management and operational units which are responsible for establishing effective internal controls and for executing control procedures on a day-to-day basis.
- The second line of defence includes control functions which set control policies and undertake monitoring and surveillance of business operations.
- The third line of defence includes Internal Audit which provides independent challenges to the effectiveness of the Company's internal controls and other elements of the Company's system of governance.

The overall responsibility for the establishment of an effective system of internal controls and governance practices lies with the Management Board.

### **B.4.2. Implementation of the compliance function**

Compliance, as a second line of defence control function, is responsible for identifying the relevant laws, regulations and standards applicable to Lemonade Insurance N.V. and translating these into compliance obligations. Compliance is positioned independently from the business it supervises. Its



role, amongst others, is to assist management to implement mitigation activities and provide advice on compliance risk matters.

It is further responsible for establishing the methodology and process for compliance risk assessments, independently monitoring compliance and reporting on compliance risk and control issues to management, Lemonade Insurance N.V.'s Compliance Committee and the Management Board.

Compliance operates within the context of the Company's broader risk management framework.

Compliance has a reporting line to the Management Board and to the Management Board member responsible for Compliance and Risk Management. Compliance reports on a regular basis to the Management Board and the Compliance Committee – and to the Management Board member responsible for Compliance and Risk Management on a more frequent basis – on compliance related matters such as compliance breaches, complaints relating to compliance matters, etc.

The independent position of Compliance is safeguarded by independent reporting to the Management Board, unrestricted access to senior management and frequent meetings with the Management Board Chair and the chairperson of the Compliance Committee, as the need arises.

Compliance prepares and provides reports on a structural basis. For example, Compliance – together with Risk – reports on a quarterly basis to the Management Board on matters of compliance and risk, including in particular whether appropriate remedial measures have been taken in the event of any deficiencies.

In addition, Compliance reports material compliance incidents to the Management Board, the Risk function or such other functions as appropriate without delay. Material compliance incidents are defined as events resulting from a failure to comply with applicable compliance-related rules and regulations. It refers to events that have had – or could have – an adverse effect on Lemonade Insurance N.V.'s integrity and/or reputation, leading to material damage to the Company, its officers, directors and staff and/or the Lemonade Group and/or which could result – or have resulted – in financial loss and/or regulatory sanctions.

The annual Compliance Plan for Lemonade Insurance N.V. is approved by the Compliance Committee.

## **B.5 Internal Audit Function**

### **B.5.1 Implementation of the internal audit function**

Internal Audit is responsible for the overall effectiveness of the internal controls of the organisation of the Company, including the Risk Control environment. Within the context of the Lemonade Insurance N.V.'s internal control and compliance framework, Internal Audit is responsible for:

- evaluating the adequacy and effectiveness of the Company's internal control system and other elements of the system of governance;
- evaluating whether such internal control systems remain sufficient and appropriate for the Company's business;
- performing its tasks in an objective manner, independent from the Company's operational functions; and
- reporting any findings and recommendations to the Management Board and the Audit and Risk Committee, which shall determine what actions are to be taken with respect to each of the internal audit findings and recommendations and shall ensure that those actions are carried out.

Internal Audit provides assurance to the Management Board on how effectively the Company assesses and manages its risks, including the manner in which the Company's safeguards operate. This assurance task covers all elements of the Lemonade Insurance N.V.'s risk management cycle. As part of this responsibility, the Internal Audit reviews the Risk function. To ensure effective coordination of activities between the two functions, it is essential that they leverage a common language of risk and control.

The audit plan of the Internal Audit function is approved in the Audit and Risk Committee. Audit objectives are defined from a risk perspective.

The Internal Audit function is outsourced to an external service provider.

### **B.5.2 Independence of the internal audit function**

Internal Audit shall be objective and independent from the operational functions. The independent position of Internal Audit is safeguarded by independent reporting to the Management Board and Supervisory Board, unrestricted access to senior management and frequent meetings with the chair of the Supervisory Board and the chair of the Audit and Risk Committee.

The actual performance of the audits and the assessments are the sole responsibility of the Internal Audit function itself, which will act on its own initiative and not be subject to any external influence. Internal Audit is permitted to advise other units on controls to be performed, provided that the giving of such advice does not jeopardise its independence.

Internal Audit will take measures in order to mitigate the risk of any conflicts of interest. No person who has been involved in the Company's business activities or functions during the timeframe covered by an audit may function as Internal Audit for the relevant activity or function.

## **B.6 Actuarial function**

The Actuarial function is responsible for the coordination and monitoring of the evaluation of technical provisions, including methodology, assumptions and data. The Actuarial function supports the Risk function. The Actuarial function will assist with the calculation and modelling of the underwriting risks and contribute actuarial methodology to the calculation of capital (own funds) and risk capital requirements.

In summary, the Actuarial function's responsibilities include:

- coordinating the calculation of technical provisions
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions
- understanding the individual model components, their interdependencies and the way the model depicts and takes account of the resultant diversification effects;
- developing and regularly reviewing the reserving methodology (stochastic simulation, deterministic approach, etc.);
- assessing the sufficiency and quality of the data used in the calculation of technical provisions
- comparing the current assumptions with those for the previous year and those for the previous year with the actual figures to calculate the technical provisions (best estimate comparison), and identify the reasons for the variances;
- expressing an opinion on the reserving and the underwriting guidelines (e.g. the consistency between the underwriting guidelines and pricing, or the financial effect of changes in the general business conditions);

- expressing an opinion on the reinsurance covers, to include a review of the consistency of the reinsurance program with the Company's risk appetite, the impact of a cover on financial volatility and the effect of covers under a range of stress scenarios (e.g. a catastrophe event or the reinsurer's financial strength being inadequate);
- analysing the interdependencies between reinsurance programs, reserving and the underwriting guidelines;
- analysing the appropriateness of premiums and the technical provisions, taking account of changes in the underwriting strategy or the market environment (e.g. inflation risks or legal changes);
- expressing an opinion on the main risk factors and their influence on profitability in the next financial year; and
- assessing and validating the appropriateness, quality and completeness of the (internal and external) data and IT systems used.

The Actuarial function submits an annual report to the Management Board, to enable the Management Board to form an opinion on the appropriateness of the calculation of the technical provisions, the underwriting guidelines and the reinsurance guideline. The report also provides detailed explanations of changes in the assumptions and the reasons for the changes (best estimates compared to experience values). The Actuarial function presents and discusses the annual report in a Supervisory Board meeting.

Actuarial is positioned sufficiently independently from the business and other key functions, to avoid conflicts of interest occurring.

This independent position is safeguarded by independent reporting, unrestricted access to senior management as well as (committee) meetings of the Head Actuary with the Company's Chair of the Management Board.

To ensure the independence of the Actuarial function and avoid (perceived) conflicts of interest, the Company has implemented a number of safeguards:

- persons engaged in the performance of Actuarial duties are not supervised by those responsible for the performance of the operating units of the Company;
- persons engaged in the performance of Actuarial duties are not involved in the performance of activities within the operating units of the Company;

- remuneration of the Head Actuary (and other Actuarial representatives) is in accordance with the Company's remuneration framework, which provides that persons engaged in the Actuarial function are remunerated based on objectives which are independent of the performance of the Company's operating units;
- any conflicting duties are properly segregated; and
- Actuarial is subject to an appropriate independent review by Internal Audit to ensure that decisions are being arrived at independently.

## B.7 Outsourcing

Lemonade Insurance N.V. has outsourced certain critical services and/ or services related to key functions to both internal providers (Lemonade, Inc. and its subsidiaries) and best in class external providers in the Netherlands.

- Transactions with entities within the Lemonade Group are based on inter-company agreements and include IT, human resources-related arrangements and rendering and receiving of other services.
- The key function Internal Audit has been outsourced, and the other key functions receive operational and expert support from the best in class external providers.

Outsourcing may affect business exposure to operational risk through material changes to, and reduced control over, people, processes and systems used in outsourced activities outside of the control environment of Lemonade Insurance N.V.. Lemonade Insurance N.V. has therefore developed and formalised an outsourcing policy to ensure that outsourcing arrangements are subject to appropriate due diligence, approval and continuous monitoring.

The internal and external procurement and relationships of Lemonade Insurance N.V. are subject to its Outsourcing Policy which was established to ensure that any outsourcing of services does not impair the quality of the Company's system of governance, unduly increase the operational risk, impair the ability of the Company's supervisory authorities to monitor compliance of the Company with its regulatory obligations or undermine continuous and satisfactory service to its customers. In addition, the Outsourcing Policy is intended to ensure the Company's compliance with relevant provisions of applicable law.

For all outsourcing arrangements written service level agreements are in place, setting out:

- the duties and responsibilities of both parties involved;

- the service provider's commitment to comply with all applicable laws, regulatory requirements and guidelines as well as policies approved by Lemonade Insurance N.V. and to cooperate with the Company's supervisory authorities with regard to the outsourced function or activity;
- the service provider's obligation to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements;
- the service provider's obligation to provide regular reports on its performance of the agreement and the authority of the Company to request information on an incidental basis;
- a notice period for the termination of the contract by the service provider which is long enough to enable the Company to find an alternative solution;
- Lemonade Insurance N.V. must be able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to policyholders;
- the Company reserves the right to be informed about the outsourced functions and activities and their performance by the services provider as well as a right to issue general guidelines and individual instructions at the address of the service provider, as to what has to be taken into account when performing the outsourced functions or activities;
- the service provider is to protect any confidential information relating to the Company and its policyholders, beneficiaries, employees, contracting parties and all other persons;
- Lemonade Insurance N.V., its external auditor and the supervisory authorities have effective access to all information relating to the outsourced functions and activities including carrying out on-site inspections of the business premises of the service provider;
- The supervisory authorities may address questions directly to the service provider and the service provider shall reply; and
- the terms and conditions, where applicable, under which the service provider may sub-outsource any of the outsourced functions and activities.

## **B.8 Any other information**

All relevant information is covered in the previous sections.

## C. Risk profile

This section is outlined as follows. The first subsection describes the risk assessment and measurement that applies to all risk types, and in particular the Solvency Capital Requirement (“SCR”). The second subsection discusses the Solvency ratio, and the general approach to sensitivity analysis and stress testing. The third subsection outlines the identification and approach to Risk Concentrations.

In subsections C.1 through C.5, more detailed information is provided on Underwriting, Market, Operational, Liquidity & Credit (counterparty default) risk respectively.

### Risk Assessment and Measurement: Solvency Capital Requirement

The assessment of Lemonade Insurance N.V.’s Risk Profile forms part of the Risk Management framework, which is discussed in section B.3. Within this framework, risk policies provide specific operating guidelines for Lemonade’s risk governance and risk tolerance statements. Lemonade Insurance N.V. complies with the risk policies of Lemonade Inc. The Lemonade risk policies are tailored to fit local circumstances and therefore entail additional restrictions to the Inc policies.

Within the Risk Management Framework, risk exposures are identified and quantified using the Solvency II Standard Formula. The Standard Formula (“SF”) contains separate modules for Market Risk, Counterparty Default Risk, Underwriting Risk, Operational Risk and Risk aggregation.

The SCR of Lemonade Insurance N.V. is the minimum level of own funds required in accordance with Solvency II legislation, to absorb unexpected developments in all risk exposures of Lemonade Insurance N.V.’ combined. It serves to ensure that obligations to policyholders can be met with a very high degree of certainty. When available own funds are in excess of the aggregate SCR, Lemonade Insurance N.V. will be able to meet obligations to policyholders with a likelihood of at least 99.5% over a period of one year.

The table below shows the components of the SF model of Lemonade Insurance N.V. and the amounts of the main risk types, including the (Absolute) Minimum Capital Requirement (“AMCR”).

Solvency Risk	Capital requirement (€ thousand)
Market risk	711
Counterparty default risk	588
Non-life underwriting risk	1,720

Diversification benefit	(644)
BSCR	2,375
Operational risk	154
Adjustment due to RFF	386
LAC DT	not applied
SCR	2,915
(A)MCR	4,000

Mitigating effects of diversification between risks are taken into account in the aggregate SCR. Diversification exists as the degree to which different risks are related to one another and is, in many cases, limited. As a result, the likelihood of severely adverse developments of all risks occurring within the same year is extremely remote. The operations in the United Kingdom are classified as a ring fenced fund. Under Solvency II, the capital requirements related to this ring-fenced fund (RFF) do not diversify with those of the rest of the company. The effect of the loss absorbing capacity of deferred taxes (LAC DT) has not been applied yet, for prudential purposes.

### Solvency Ratio and Sensitivity Analysis

The Solvency ratio is the main indicator of the ability of Lemonade Insurance N.V. to meet all its obligations to policyholders and other stakeholders, as and when they fall due. It is defined as follows:

$$\text{Solvency Ratio} = \text{Own Funds} / \text{SCR}$$

The own funds are the assets of the Company, valued according to Solvency II principles, in excess of all obligations to policyholders as well as other liabilities that are not subordinated. Own funds, the SCR respectively the Minimum Capital Requirement (“MCR”) and Solvency ratio as of December 31, 2022, are shown below.

	Eligible own funds (€ thousand)	SCR/MCR (€ thousand)	Solvency ratio
SCR Ratio	7,421	2,915	255%



<b>MCR Ratio</b>	7,421	4,000	186%
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The current Solvency Ratio (i.e. regarding the MCR) of 186% indicates that own funds are in excess of the minimum required level of the MCR as specified in Lemonade Insurance N.V.'s Capital Management policy. Further details about this policy and the composition of the own funds can be found in chapter E.

Sensitivity analyses have been performed with regards to the assumptions and methodologies used for the premium and claims provision. While the results are sensitive to the assumptions and methodologies used, the impact on the SCR ratio is small and does not affect the (A)MCR ratio.

### **Extreme Weather, Climate Change and other Extreme Event Scenarios**

Lemonade Insurance N.V. develops extreme event scenarios on an annual basis as part of the Own Risk and Solvency Assessment (ORSA). The ORSA process is further discussed in section B.

In the extreme event scenarios, the impact is determined over a multiyear period. Scenarios considered are for example a severe economic development such as a recession, extreme weather events due to climate change and extreme growth scenarios.

For each scenario, the potential impact on key financial metrics is assessed such as net earnings, own funds, SCR and solvency ratio as part of the ORSA procedure. Based on these scenarios management can undertake mitigating actions to reduce the perceived impact.

### **Risk Concentration**

A concentration of risk for Lemonade Insurance N.V. has either of the following elements;

- A relatively high density of policyholders in a specific area.
- A relatively high exposure to a single risk. For example, counterparty risk with allocation of cash to a single counterparty.

The potential occurrence of risk concentrations is further discussed below in the specific sections on each of the main risk types. Lemonade Insurance N.V. separates its key risk categories in accordance with regulatory requirements under Solvency II and with a view to its activities as follows:

- Underwriting Risk;

- Market Risk;
- Operational Risk;
- Liquidity Risk; and
- Credit Risk.

A Prudent Principle section is not included as Lemonade Insurance N.V. currently holds its assets in a current account at a bank and does not invest in any other assets whatsoever.

## **C.1. Underwriting risk**

### **C.1.1. Description of the measures used to assess underwriting risks**

Underwriting risk is a risk that may arise from an inaccurate assessment of the risks associated with writing an insurance policy or from uncontrollable factors.

The SCR for underwriting risk amounts to € 1,720 thousand before diversification benefits, which is driven by the non-life underwriting catastrophe risk and premium and reserve risk, driven by growth of the portfolio. The SCR is partially reduced by the current reinsurance program, which is described in C.1.3.

### **C.1.2. Risk Concentrations**

Concentrations of underwriting risk arise in case a Catastrophic event causes a large number of claims in a concentrated region. Concentration Risks identified by Lemonade Insurance N.V. with a potential material impact on own funds are extreme weather and climate change related. An example would be a concentration of insured properties within close proximity of a river which in the event of flooding due to extreme weather could lead to increased claims.

### **C.1.3. Risk mitigation techniques used for underwriting risks**

By limiting the sum insured that can be underwritten per policy, the risk of major losses is mitigated. Additionally, reinsurance contracts are contracts entered into by Lemonade in order to receive compensation for losses on contracts written by Lemonade Insurance N.V. (outgoing reinsurance). In line with the risk tolerance as set by the board, appropriate reinsurance is secured in order to de-risk the balance sheet, reduce the required capital and increase the financial stability of the European

operation. Lemonade Insurance N.V. only retains a limited share of exposure through the quota share programme in place and exposure to larger losses are protected through excess of loss reinsurance.

The effectiveness of the reinsurance program is monitored annually by the Actuarial function holder and reported in the Actuarial function holder report.

#### **C.1.4. Risk sensitivity for underwriting risks**

The main underwriting risk Lemonade Insurance N.V. is exposed to is climate change and/or extreme weather risk, i.e. the risk that an extreme weather event or climate change event occurs in an area with a large concentration of property insurance policyholders that will claim and receive a benefit from their policy.

Lemonade Insurance N.V. will monitor the concentration risk in relation to extreme weather and/or climate change and will not take on risks that are beyond its risk appetite and that are not sufficiently covered by existing reinsurance contracts.

### **C.2. Market risk**

The SCR for market risk amounts to € 711 thousand, before diversification benefits. Lemonade Insurance N.V. is exposed to currency risk and interest rate risk regarding liabilities (i.e. net technical provisions) only, since the Company does not invest its funds but keeps its cash in a current account in the bank.

To align with the SCR in QRT S.25.01 we only discuss Counterparty default risk (as defined in the Delegated Regulation) in section C.5. (i.e. Credit risk).

### **C.3. Operational risk**

#### **C.3.1. Description of the measures used to assess operational risk**

Operational risk is defined as the prospect of loss resulting from inadequate or failed procedures, systems, policies or any event that disrupts business processes.

The risks are categorised as follows:

- Strategic;
- Preventable; and,

- External

The identified risks are collated and monitored via the internal Risk Dashboard, wherein an additional level of granularity to the background, mitigating controls and other details are specified. The risks include addressing both 'Inherent' risk (i.e. the risk of doing business within a certain domain) and remaining 'Residual' risk (i.e. the risk that remains after mitigating controls are implemented) after mitigating controls are implemented and operating effectively. The time horizon for looking at the risk indicators is aligned with the ORSA cycle.

The SCR for Operational Risk is determined using the SF under Solvency II, and amounts to € 154 thousand. It is based on volumes of premiums and technical provisions. Additional measures have been developed internally for the day-to-day management and assessment of Operational risks.

The following types of operational risks are identified by Lemonade Insurance N.V. across its business;

#### **C.3.1.1 IT risk**

IT risk is defined as losses due to inadequate or failed business continuity planning, back-up and recovery, fallback arrangements, information security, IT maintenance and change management, identification of relevant technological developments and other technical causes for systems related failures and errors.

#### **C.3.1.2 Legal & compliance**

Legal & compliance risk is the risk that losses occur due to non-compliance to applicable rules and regulations within any of the operating countries.

#### **C.3.1.3 Financial crime**

Financial crime risk is the risk of losses due to an intentionally malicious act performed by either an employee, an external party of a client with the aim of acquiring funds, which would have a negative impact on Lemonade Insurance N.V..

Operational risks are inherent to the industry and business wherein Lemonade Insurance N.V. operates, examples of operational risks are data breaches, system malfunctioning, business interruption, IT security breaches, and or processing errors. If these events occur, they could lead to reputational damage, financial loss and/or non-compliance with laws and regulations, thereby hindering the operational effectiveness of the Company. In order to mitigate such events, Lemonade Insurance N.V. monitors its risk profile continuously and in line with the RMS as presented in section B. In general

terms, the Company intends to take a conservative approach towards risk management and conduct its operations and development strategy in a way that will minimise the risk exposure.

### **C.3.2. Risk Concentrations**

Operational risk concentration can occur where specific risk exposures are in excess of operational risk appetite as agreed by management. The RMS ensures that the internal control environment of Lemonade Insurance N.V. is maintained at a sufficient level including policies, procedures and risk control matrices to ensure operational effectiveness of controls in place. The following elements dominate the material operational risks:

- legal, regulatory, conduct & compliance; and
- processing.

### **C.3.3. Risk mitigation techniques used for operational risks**

Operational risks at Lemonade Insurance N.V. are mitigated by maintaining a strong risk control framework and culture. Please refer to section B. for a detailed description of the compliance risk framework. All operational risks that are assessed as exceeding the set risk tolerance levels require management to determine a risk response in terms of accepting, controlling, transferring or avoiding risks.

### **C.3.4. Risk sensitivity for operational risks**

Given the relatively small amount of the SCR for Operational Risk, especially considering that the MCR is leading, no specific sensitivities have been determined.

## **C.4. Liquidity risk**

### **C.4.1. Description of the measures used to assess liquidity risk**

Liquidity risk refers to the risk of loss to the Company as a result of assets not being available in a form that can immediately be converted into cash or the securing of such assets at excessive cost (whether through borrowing or overdraft arrangements, for example) and therefore the consequence of not being able to pay its obligations when due.

## Stress testing for Liquidity Risk

Lemonade Insurance N.V. has applied the following scenarios to stress test the liquidity positions and assumptions of the business plan;

During the annual Own Risk and Solvency Assessment (ORSA) the Company applied the following scenarios to stress test the liquidity positions and assumptions of the business plan;

- 'Base' scenario - the growth of users and premium follows the expected business plan pattern;
- 'Onerous' scenario - the loss ratio is deteriorating by 30% every year, and the growth is 50% of the base scenario;
- 'Severe growth' scenario - growth is doubled compared to the base scenario;
- 'No full quota share' scenario - quota-share reinsurance is limited to 50% for all European countries as of 2023;
- 'Climate change - transitional' scenario - assumes that in order to keep the world temperature increase below 2 degrees Celsius, a greater emission reduction is needed than was observed during the great economic depressions during this and last century. This would mean harsh economic measures if governments were to comply with the Paris agreement. Therefore, growth is limited to the average growth as observed over the last year and a 5% increase in content loss ratio each year.
- 'Climate change - physical' scenario - climate related events occurring in Europe increase the content loss ratio gross of reinsurance by 10% each year (in line with the frequency increase as observed by the European Severe Weather Database ~8%-10% per year). As a result, the ceded commission in subsequent years is reduced by 50%. On top of that there is one major windstorm event equal to 70% SCR for Windstorm catastrophe in the first business plan year;
- 'One-off losses' scenario - Lemonade faces a one-off loss of 20% of 2023 projected revenue in Europe, which is roughly EUR 1,000,000;
- 'Counterparty default' scenario - the reinsurance recoverable of all reinsurers depreciate by 50% and all counterparty credibility ratings drop by 2 levels in 2023,
- 'Business continuity problems' scenario - costs increase by 25% and at the same time revenue drops by 50%
- 'Country or product delays' scenario - wherein a next product launch is delayed by 6 months and additionally has a slower growth rate of 25% of the base scenario, this results in two separate scenarios with two different product launches
  - For Homeowners / Building insurance in France and the UK
  - For Digital Asset Theft in the UK

### **C.4.2. Risk Concentrations**

The described stressed liquidity scenario can be regarded as a concentration with respect to liquidity risk. The liquidity risk policy requires that sufficient liquid assets are available in this scenario.

### **C.4.3. Risk sensitivity for liquidity risks**

Given the above mentioned stress scenarios, no other specific sensitivities have been determined.

### **C.4.4. Risk mitigation techniques used for liquidity risks**

Liquidity risks at Lemonade Insurance N.V. are mitigated by maintaining high solvency levels combined with having all cash in current accounts with banks.

### **C.4.5. Expected Profits in Future Premiums (EPIFP)**

The EPIFP reflects the current value of the net cash flows expected to arise from in-force contracts until the end date of each contract. Note that the EPIFP is determined only for contracts where such a value is positive. A high value of EPIFP could impact liquidity, as future profits are not available in cash at present. As the total amount of the EPIFP amounts to nil as of December 31, 2022, since the applied combined ratio is above 100%, there is no impact on the liquidity position.

## **C.5. Credit risk (counterparty default risk)**

### **C.5.1. Description of the measures used to assess credit risk**

Counterparty default risk is the risk of loss to the Company if the counterparty to a financial instrument or reinsurance agreement fails to meet its contractual obligations. Lemonade Insurance N.V. is exposed to counterparty default risk on reinsurance as well as outstanding balances on current accounts with its bank.

The SCR for counterparty default risk amounts to € 588 thousand before diversification benefits.

### **C.5.2. Risk Concentrations**

Concentration within Counterparty Default risk could occur in case relatively high amounts are outstanding with a single counterparty, or if default risks of many counterparties are highly correlated. An important measure to avoid concentration within Counterparty Default risk is to diversify and limit exposure to individual issuers. Lemonade Insurance N.V. implemented a policy to limit the exposure to any single counterparty. Exposures are monitored and any potential violations of exposure limits are

reduced if required. As a result, no Risk Concentrations within Counterparty Default Risk have been identified as of December 31, 2022.

### **C.5.3. Risk sensitivity for credit risks**

Stress testing and sensitivity analysis for credit risk is performed in the form of scenario analysis as described in section C.4.1.

### **C.5.4. Risk mitigation techniques used for credit risks**

Credit risks at Lemonade Insurance N.V. are mitigated by ensuring reinsurance counterparties have a sufficiently high rating with external credit agencies.



## D. Valuation for solvency purposes

Chapter D discloses the valuation for Solvency purposes and the differences with the IFRS valuation in the annual report. The balance sheet is that of Lemonade Insurance N.V., in alignment with Solvency II regulation concerning disclosure of QRT 02.01. The overall balance sheet under Solvency II and under IFRS statutory reporting is shown below.

(€ thousand)	IFRS	Reclassification	Revaluation	Solvency II
Deferred acquisition costs	0	0	0	0
Intangible assets	0	0	0	0
Deferred tax assets	0	0	0	0
Property, plant & equipment held for own use	0	0	0	0
Investments (e.g. Property, Equities, Bonds)	0	0	0	0
Loans and mortgages	0	0	0	0
Reinsurance recoverables	1,373	0	(720)	652
Receivables (insurance)	1,434	0	(1,138)	296
Reinsurance receivables	149	0	0	149
Receivables (trade, not insurance)	0	0	0	0
Cash and cash equivalents	9,463	0	0	9,463
Any other assets, not elsewhere shown	0	0	0	0
<b>Total assets</b>	<b>12,419</b>	<b>0</b>	<b>(1,858)</b>	<b>10,560</b>
<b>Technical provisions - non-life</b>	<b>2,630</b>	<b>0</b>	<b>(1,008)</b>	<b>1,622</b>
Best estimate	2,630	0	(1,123)	1,507
Risk Margin	0	0	114	114
Deferred tax liabilities	0	0	0	0
Payables (insurance)	0	0	0	0
Reinsurance payables	700	0	(484)	216
Payables (trade, not insurance)	329	0	0	329
Any other liabilities, not elsewhere shown	771	0	0	771
<b>Total liabilities</b>	<b>4,430</b>	<b>0</b>	<b>(1,492)</b>	<b>2,938</b>
<b>Excess of assets over liabilities</b>	<b>7,989</b>	<b>0</b>	<b>(366)</b>	<b>7,623</b>

The difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities is explained in paragraph E.1.3.

## D.1. Assets

The overview in the table below shows the value of assets by material asset class under Solvency II and IFRS statutory reporting.

	IFRS	Reclassification	Revaluation	Solvency II
Investments <b>D.1.1.</b>	0	0	0	0
Cash and cash equivalents <b>D.1.1.</b>	9,463	0	0	9,463
Reinsurance recoverables <b>D.1.2.</b>	1,373	0	(720)	652
Deferred tax assets <b>D.1.3.</b>	0	0	0	0
Receivables (insurance) <b>D.1.4.</b>	1,434	0	(1,138)	296
Reinsurance receivables <b>D.1.4.</b>	149	0	0	149
Receivables (trade, not insurance) <b>D.1.4.</b>	0	0	0	0
Any other assets, not elsewhere shown <b>D.1.4.</b>	0	0	0	0
<b>Total assets</b>	12,419	0	(1,858)	10,560

In this paragraph the valuation under Solvency II is described per main asset class. Where the valuation method or classification differs between IFRS and Solvency II, a qualitative and quantitative explanation is provided per asset category.

In accordance with Solvency II regulations, figures are based on fair value. To ensure consistency with the annual report of Lemonade Insurance N.V., fair value under IFRS and market value under Solvency II is the same.

### D.1.1. Investments

The Company doesn't invest its funds, but keeps its cash in current accounts in the bank. There are no valuation differences between IFRS and Solvency II.

As of December 31, 2022 the cash and cash equivalents are composed of cash at banks, which are subject to an insignificant risk of changes in value other than FX risk and are presented net of outstanding bank overdrafts and therefore approximate their fair value.

### D.1.2. Reinsurance recoverables

On both the IFRS and Solvency II balance sheet (i.e. QRT S.02.01) the gross and ceded technical provisions are presented separately. Reference is made to section D.2.4. for a description of the valuation under Solvency II.

### D.1.3. Deferred tax assets

#### Current income tax

As of December 31, 2022, there are no temporary differences between the IFRS value of the assets and liabilities and their tax base. For the temporary differences between the IFRS and Solvency II value no deferred tax balance has been reported since these balances are non-material. This position may be revised in future years. As a result, there is no deferred tax position.

### D.1.4. Receivables and any other assets (not elsewhere shown)

Receivables and other assets represent services rendered in the ordinary course of business and are presented at amortised cost. All Receivables and any other assets are due in less than one year. For Solvency II a revaluation is made for premiums revenue that has been recognised but has not been received yet.

As of December 31, 2022, the carrying amounts of trade receivables approximated their fair values due to the short-term maturities of these assets.

## D.2. Technical provisions

### D.2.1. Technical provisions analysed by material line of business

The table below shows the Solvency II and IFRS (statutory) insurance liabilities as of December 31, 2022.

(€ thousand)	IFRS	Reclassification	Revaluation	Solvency II
Technical provisions - non-life <b>D.2.</b>	2,630	0	(1,008)	1,622
Best estimate	2,630	0	(1,123)	1,507
Risk Margin	0	0	114	114

Total gross technical provisions	2,630	0	(1,008)	1,622
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The technical provisions relate to non-life insurance only, more specifically lines of business 7 Property and 8 General Liability.

### General description of the reserving methodology and underlying assumptions

The technical provision for non-life insurance is updated quarterly by calculating a best estimate claims reserve, premium reserve and risk margin. The calculation of the claims provision and the premium provision is described in the next sections.

### Claims provision

The best estimate claims provision is calculated with standard triangle reserving techniques. Figures concerning paid and incurred claims, claims handling expenses and salvage and subrogation are updated at country portfolio level, given the relatively small size of the portfolio. Analyses at lines of business and/or homogeneous risk group level are planned for the near future once the portfolio size indicates meaningful results. For both the paid and incurred amounts, three related methods are applied:

- a development factor method, consisting of the linked ratio method and a method to calculate an appropriate tail factor, and
- the Bornhuetter-Ferguson method, which takes into account an initial expectation of the ultimate claim mount and the outcomes of the development factor method, and
- the Initial Expected Loss Ratio Method.

In general, incurred and paid claims data, benchmark payment patterns and Lemonades experience globally are used to set development factors for determining the best estimate claims reserve. For the initial expected loss ratio pick in newly launched countries, Lemonade utilizes loss ratio input from the earlier launches. Although markets behave differently, in general above average loss ratios are expected until the book matures. Based on the current experience in its European markets, Lemonade believes these picks are reasonable as they are in line with what would be predicted from the industry LDFs. As the portfolio matures Lemonade Insurance N.V. will continue to refine its measures based on experience. In order to determine a claims reserve, the results of the various methods are compared with each other. For each accident quarter, the result which is considered most appropriate is chosen.

The best estimate claims cash flows are based on the selected ultimate claim amounts and accompanying payment patterns.

Finally, these cash flows are discounted using the term structure of risk-free interest rates (excluding VA and matching adjustment) as prescribed under Solvency II for the valuation of underwriting liabilities.

During 2022 no material changes have taken place with regards to the claims provision methodology.

### **Premium provision**

In order to determine the premium provision, both a gross and ceded premium provision is calculated. The best estimate of the premium provision consists of an estimate of the future cash outflows minus the future benefits (premiums) for the existing contracts within the contract boundary in line with Article 18 of the Delegated Acts. The contract boundary is assumed to be the next main premium expiration date after the valuation date as all contracts have a contract period of 1-year (France and UK) or less (monthly in Germany and the Netherlands).

The cash flows in the premium provision must be split into gross cash flows and ceded cash flows related to reinsurance. The outgoing gross cash flows are all costs incurred by the Company up to the contract boundary for a policy and claims incurred by Lemonade Insurance N.V. for claims up to the contract boundary for the policy. All gross incoming cash flows are premiums up to the contract boundary. All outgoing reinsurance cash flows are premiums paid to the reinsurer. This is additional to the unearned reinsurance premium reserve (already paid ceded premiums). Incoming reinsured cash flows are ceding commissions or payments of claims received from the reinsurer by the Company up to the contract boundary.

The expected combined ratio (i.e. loss ratio plus expense ratio) per country is updated based on annual budget figures. The expenses include maintenance expenses, first expenses and claims handling expenses, and are based on a going-concern situation. The combined ratio is used to split the premium provision by type of cash flow.

### **Risk Margin**

The risk margin calculation is based on a cost of capital method applied to a projection of the Standard Formula SCRs associated with non-Life, as described in the Delegated Regulation. The SCRs which are relevant are the non-hedgeable risks (1) premium and reserve risk, (2), catastrophe risk, (3) operational risk and (4) counterparty default risk (through reinsurance contracts). Per future year an

approximation of SCR for the individual or sub-risks in (sub)modules is used, as the size of the projected SCR – for cash flows after the first year – is expected to be minimal. This risk driver approach is a simplification relative to recalculating the expected SCR at each point in time in the future. This simplification does not lead to a material misstatement of the risk margin and is in line with the current nature, size and complexity of the Company's risks.

The risk margin is calculated at portfolio level. Allocation to lines of business is based on the relative share of each line of business to the total SCR.

### **D.2.2. Level of uncertainty**

Lemonade Insurance N.V. distinguishes between two sources of uncertainty with regard to the level of the technical provisions. These sources are model risk and process risk. The uncertainty associated with these risks has been mitigated as described below.

#### **Process Risk**

The process risk is mitigated using the Risk Control Framework wherein the Financial Reporting risks are included which are designed to provide reasonable assurance on the reliability of financial reports. Key controls within these processes are designed, implemented and reviewed as part of the Risk Control Matrix (RCM) which is subject to the three lines of defense structure as described in detail in section B.

#### **Model Risk**

The second risk that Lemonade Insurance N.V. has identified in relation to the technical provisions is model risk. The valuation of technical provisions is based on a combination of benchmark data and experience data for model settings and parameter estimates which reflect unknown future developments and therefore give rise to uncertainty. Due to the limited time of operating in Europe, the datasets are (very) small and therefore are subject to high variation and uncertainty. To ensure the model applied is correct, Actuarial, in its role as the second line of defence, performs an independent review of the technical provisions as described in the previous phase. Additionally, Actuarial calculated sensitivities to the provisions, which show the impacts to be negligible for the MCR ratio.

### **D.2.3. Differences between Solvency II valuation and IFRS valuation**

There are three main differences in the valuation methodology between Solvency II and the statutory accounts:

- In the statutory accounts, the premium reserve equals the IFRS unearned premium reserve (i.e. book value) plus an additional allowance for a LAT (Liability Adequacy Test) deficiency on the unearned premium reserve, due to expected combined ratio being larger than 100%. The Solvency II premium reserve is based on all future expected cash flows (premiums, claims and expenses) within the contract boundary and differentiates in the size of the unearned premium and corresponding LAT reserve by only taking received premiums into account;
- In Solvency II a risk margin is held on top of the best estimate reserves. In the statutory accounts no risk margin or prudence margin is applied;
- In Solvency II discounting of future expected cash flows is applied, based on the EIOPA risk free interest rate for EURO, excluding VA and other transitional measures. In the statutory accounts, no discount is applied. The impact of discounting is currently almost nothing due to the negative interest rates.

This has a decreasing effect of € 1,008 thousand on the gross technical provisions (see column revaluations in the table in section D.2.1.).

#### **D.2.4. Recoverables from reinsurance contracts**

The table below shows the Solvency II and IFRS (statutory) reinsurance recoverables as of December 31, 2022.

(€ thousand)	IFRS	Reclassification	Revaluation	Solvency II
Reinsurance recoverables <b>D.2.4.</b>	1,373	0	(720)	652

The recoverables from reinsurance are calculated by applying the ceded reinsurance percentages to the best estimate claims and premium reserves. In addition, a default rate is applied to take into account the possibility that the reinsurer will not pay.

Differences in valuation between Solvency II and IFRS are like the differences for the insurance liabilities, see section D.2.3.

### **D.3. Other liabilities**

The break-out in the table below shows the value of the other liabilities by material liability class under Solvency II and IFRS.

(€ thousand)	IFRS	Reclassification	Revaluation	Solvency II
Deferred tax liabilities <b>D.3.1.</b>	0	0	0	0
Payables (insurance) <b>D.3.2.</b>	0	0	0	0
Reinsurance payables <b>D.3.2.</b>	700	0	(484)	216
Payables (trade, not insurance) <b>D.3.2.</b>	329	0	0	329
Any other liabilities, not elsewhere shown <b>D.3.2.</b>	0	0	0	0

### **D.3.1. Deferred tax liabilities**

As of December 31, 2022, there are no temporary differences between the IFRS value of the assets and liabilities and their tax base. For the temporary differences between the IFRS and Solvency II value no deferred tax balance has been reported since these balances are non-material. This position may be revised in future years. As a result, there is no deferred tax position.

### **D.3.2. Payables and any other liabilities (not elsewhere shown)**

These amounts represent liabilities for services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. The (intercompany) payables and other liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period. The other liabilities, not elsewhere shown, include the accrual on taxes, licences and (professional) fees.

As of December 31, 2022, the carrying amounts of other payables approximated their fair values due to the short-term maturities of these liabilities, except for the reinsurance payables which are revalued for the unearned premium reserve which is smaller under Solvency II given than only actual received premiums are taken into account.

### **D.4. Alternative methods of valuation**

Alternative methods of valuation are used for assets and liabilities for which no quoted market prices exist in active markets for the same or similar assets and liabilities. This concerns the following assets and liabilities; the gross and ceded technical provisions. For these assets and liabilities we refer to section D.2., for information regarding these alternative methods of valuation.



## **D.5. Any other information**

All relevant information is covered in the previous sections.

## E. Capital Management

### E.1. Own Funds

#### E.1.1. Objective, policies and processes for managing own funds

Capital management is aimed at preventing breaches of statutory solvency requirements, taking into account (i) the composition of the Lemonade Insurance N.V.'s own funds and (ii) planning in relation to the future composition of its capital (both equity and debt).

The Capital Management Policy (“**CMP**”) sets out measures the Company may enact in the event that its solvency ratio declines rapidly or falls below a critical limit.

For the next three years, no dividend distribution is expected, nor any repayment on capital provided by the sole (indirect) shareholder. There are no capital instruments or profit-sharing schemes that require capital repayment, nor any premium refunds, other than the discretionary Giveback program explained in section A.

Should in the following years a capital withdrawal or dividend distribution be prudent, the solvency ratio and internal solvency targets will be taken into account. In any case, the Company will not distribute dividends unless its own funds exceed 150% of SCR.

#### Internal safety margin (buffer)

The internal minimum risk tolerance solvency ratio for Lemonade Insurance N.V. as formulated in the risk appetite is 110% of the SCR or (if higher) 110% of the MCR. The lower limit desired risk appetite solvency target is 135% of the SCR or (if higher) 135% of the MCR. These internal safety margins on top of the statutory solvency requirements in its own funds requirement are set by Lemonade Insurance N.V. to prevent frequent breaches of statutory solvency requirements.

This buffer is estimated to be sufficient given:

- the main risk of the Company is catastrophe risk; and
- the protection provided to the Company by the Aggregate Excess of Loss and Quota Share reinsurance covers.

The safety margin has also taken into account the Company's low risk profile, the volatility of the solvency ratio under normal conditions and in stress situations and the expectations of stakeholders, such as shareholders and policyholders.

### Key figures

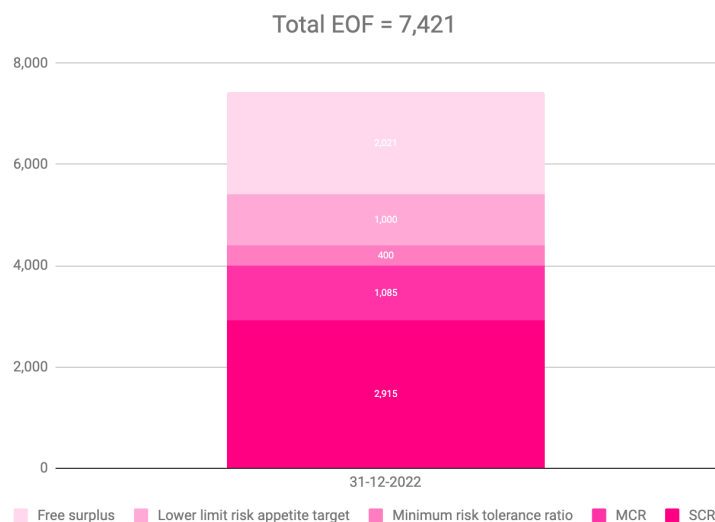
Eligible own funds of Lemonade Insurance N.V. equaled 255% of the SCR and 186% of the MCR. Both ratios being greater than 100%, evidences Lemonade Insurance N.V.'s ability to meet policyholder obligations when they fall due, even under stressed conditions. Solvency II key figures are presented in the following table:

<b>Eligible own funds</b>	7,421
<b>Standard Formula SCR</b>	1,962
<b>Solvency II ratio to SCR</b>	255%
<b>Standard Formula MCR</b>	4,000
<b>Solvency II ratio to MCR</b>	186%

Details on own funds are described in the next section. Lemonade Insurance N.V.'s SCR and MCR are described in section E.2.

### E.1.2. Own Funds – quality and amount

The table below shows how the eligible own funds of Lemonade Insurance N.V. relate to the different capital targets.



The table below details the capital position of Lemonade Insurance N.V.. With respect to the capital position, Solvency II requires insurers to categorise own funds into the following three tiers with differing qualifications as eligible available regulatory capital:

- Tier 1 capital consists of Ordinary Share Capital and Reconciliation reserve.
- Tier 2 capital consists of ancillary own funds and basic Tier 2. Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. Ancillary own fund items require the prior approval of the supervisory authority. Lemonade Insurance N.V. has no ancillary own fund items.
- Tier 3 consists of Deferred tax assets.

The rules impose limits on the amount of each tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that might arise.

Total eligible own funds to meet the	SCR	MCR
Tier 1 capital - unrestricted	7,421	7,421
Tier 1 capital - restricted	-	-
Tier 2 capital	-	-
Tier 3 capital	-	-
<b>Total</b>	<b>7,421</b>	<b>7,421</b>

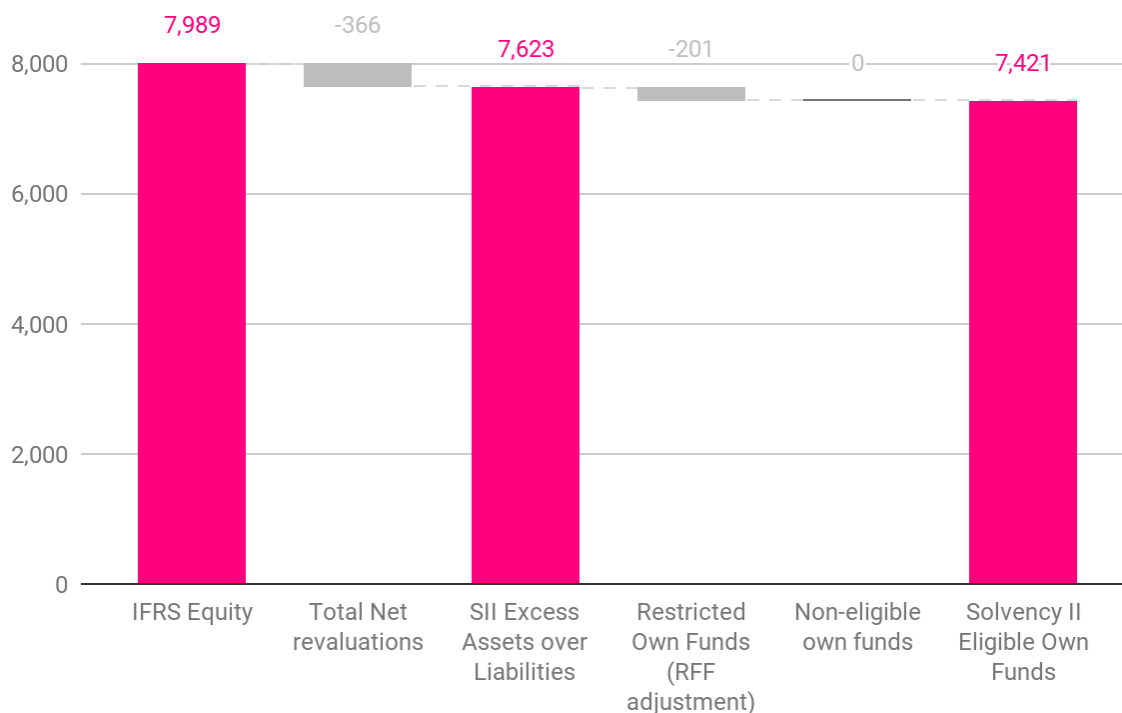
A further breakdown of the unrestricted Tier 1 (“u-T1”) capital is detailed in the table below.

(€ thousand)	u-T1 capital
Ordinary share capital - gross of own shares	45
Share premium account related to ordinary share capital	15,038
Reconciliation reserve	(7,662)
Eligible own funds	7,421
Adjustment for restricted own funds for the ring fenced fund (RFF)	201
Excess of assets over liabilities	7,623

The ordinary share capital and share premium amount to € 15 million. The reconciliation reserve is determined as the excess assets over liabilities minus the adjustment for the ring fenced fund, the ordinary share capital and share premium. The reconciliation reserve originates from losses during the year.

### **E.1.3. Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities**

Below mentioned graph shows the reconciliation between statutory IFRS equity and Solvency II excess assets over liabilities and Solvency II own funds.



Main reasons for the differences in valuation between IFRS equity and Solvency II equity (i.e. excess assets over liabilities) are described in section D.2.3. To reconcile from Solvency II equity to eligible own funds (“**EOF**”), the following movements are taken into consideration:

- Subordinated liabilities – not applicable for Lemonade;
- Foreseeable dividends and distributions – not applicable for Lemonade;
- Restricted own-funds – applicable for the Company;
- Deductions for participations in financial and credit institutions – not applicable for Lemonade;
- Tiering limitations – In accordance with the Delegated Regulation the EOF is divided into tiering components. There are boundary conditions related to the size of these components. Excess of these limits results in capping of EOF. For Lemonade, capping does not apply as of December 31, 2022.

## E.2. Solvency Capital Requirement and Minimum Capital Requirement

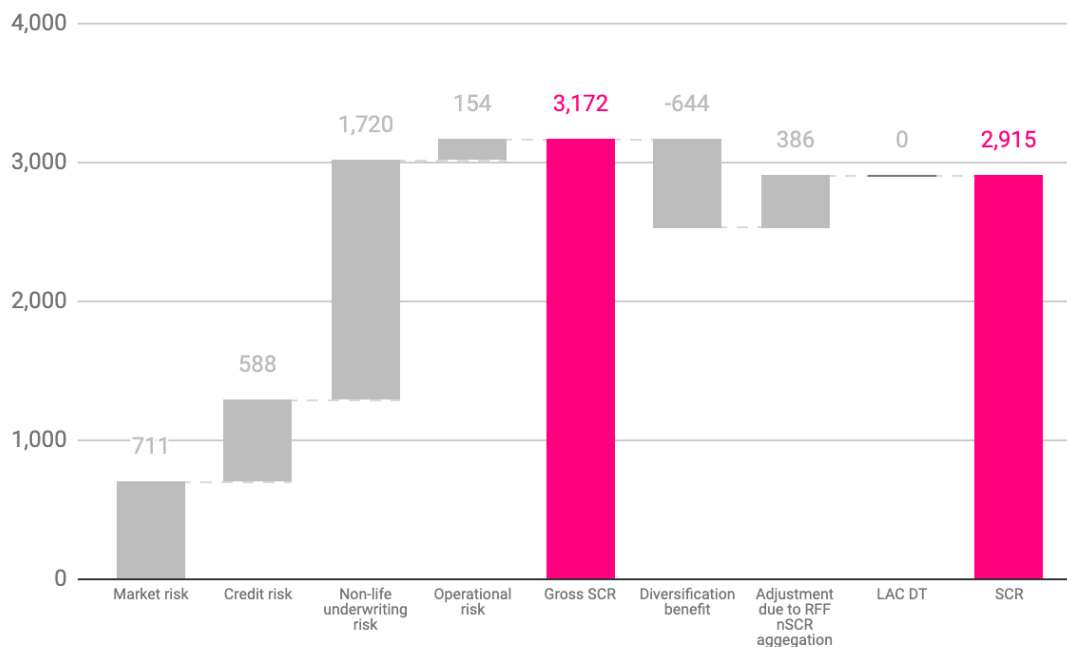
Lemonade reports its SCR in line with the SF specifications. As of December 31, 2022, the SCR amounts to € 2,915 thousand which is significantly lower than the absolute floor of the MCR of € 4,000 thousand, according to Directive 2009/138 EU article 129.1.(d).

Lemonade has one ring-fenced fund, under Solvency II the capital requirements related to this ring-fenced fund do not diversify with those of the rest of the company.

### E.2.1. Solvency Capital Requirement

The graph below provides an overview of the SCR by risk categories. Each risk category is split into risk types. The amounts as provided in the table are including diversification within the risk category. Therefore, the amount with diversification benefit contains diversification amounts between the risk categories only.

No simplified calculations or undertaking specific parameters have been used for the SCR components. Refer to chapter C on risk Profile for a further discussion on the SCR amounts by Risk Type.



### E.2.2. Minimum Capital Requirement

The linear MCR of € 201 thousand has been determined based on past year (2022) net written premium and net best estimate technical provisions. However, the MCR contains a minimum of 25% and a maximum of 45% of the SCR, as stipulated in article 292(2)(g) of the Delegated Regulation. Applying the MCR floor, the combined MCR becomes € 729 thousand. Finally, applying the absolute floor the MCR becomes € 4,000 thousand.

(€ thousand)	MCR components
Linear MCR	201
SCR	2,915
MCR cap	1,312
MCR floor	729
MCR combined	729
<b>Absolute floor of the MCR</b>	<b>4,000</b>

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

This is not applicable for Lemonade Insurance N.V., since the Company does not have any equities on the balance sheet.

### **E.4. Differences between internal model and standard formula.**

Lemonade Insurance N.V. does not use a (Partial) Internal Model to calculate its SCR.

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

During 2022, there were no instances in which the estimated Solvency ratio was below the required MCR and the SCR level. To ensure that Lemonade Insurance N.V. maintains adequate solvency levels, actual and expected capital positions are monitored against capitalization zones that are defined in the Company's CMP. Several activities are performed to monitor and assess the future development of Lemonade Insurance N.V.'s solvency position, such as the annual Business Plan process and periodic management reporting. Decisions to return capital to shareholders are based on solvency assessments that consider the impact of the decisions on the current and projected solvency position.

Any solvency position is subject to risks, and Lemonade Insurance N.V. therefore constantly monitors such risks. These are quantified to determine the impact on the current and the projected solvency position. The CMP provides actions that need to be performed as soon as the identified risks could cause the projected solvency ratio to fall within a particular capitalization zone.



## **E.6. Any other information**

There is no other information regarding the capital management of the Company that is deemed material to report.

# Glossary

## A

- Actuarial** The actuarial function of the Company
- AFM** Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*)
- AI** Artificial Intelligence
- ALAE** Allocated Loss Adjustment Expenses
- (A)MCR** (Absolute) Minimum Capital Requirement
- ARC** The Audit and Risk committee of the Supervisory Board of the Company

## C

- Capital Management and Investment Committee** The Company's capital management and investment committee
- CMP** Capital Management Policy of the Company
- CEO** The Company's chief executive officer
- Company** Lemonade Insurance N.V.
- Cohort** A group of policyholders who express a preference for the same cause (or alternatively the group of policyholders that have not expressed a preference for a specific cause) under the Giveback program
- CLA** The Company adheres to the Collective Labour Agreement (*Collectieve Arbeidsovereenkomst*) for the Insurance industry as the Company is a full member of the Dutch Association of Insurers (*Verbond van Verzekeraars*)
- Compliance** The compliance function of the Company
- Compliance Committee** The Company's compliance committee
- Compliance Officer** The Company's compliance officer
- Customer Care & Sales Support** The customer care and sales support function of the Company

## D

- Data Protection Officer** The Company's data protection officer
- Delegated Regulation** Delegated Regulation (EU) 2015/35
- Directive** Directive 2009/138/EC
- DFS** Dutch Financial Supervision Act (*Wet op het financieel toezicht*)
- DNB** The Dutch Central Bank (*De Nederlandsche Bank*)

## E

- EIOPA** European Insurance and Occupational Pensions Authority

**EIOPA-BoS-15/109** Guidelines on reporting and public disclosure  
**EIOPA-BoS-14/166** Guidelines on the valuation of technical provisions  
**EOF** Eligible own funds  
**EPIFP** Expected Profits in Future Premiums  
**EU** European Union

## F

**Finance** The finance function of the Company

## G

**Giveback or Giveback program** The corporate giving program of the Company funded out of policyholders' favourable loss experience

**Growth/Marketing** The growth/marketing function of the Company

## H

**HR** The human resource function of the Company

## I

**IFRS** International Financial Reporting Standards

**IFRS-EU** International Financial Reporting Standards as adopted by the European Union

**Internal Audit** The internal audit function of the Company

**IT** The information technology function of the Company

## L

**Legal** The legal function of the Company

**Lemonade Agency** Lemonade Agency B.V.

**Lemonade B.V.** A holding company, which is directly and wholly owned by Lemonade, Inc.

**Lemonade, the Lemonade Group or Group** The group of companies affiliated with Lemonade, Inc., the ultimate parent

**Lemonade Insurance N.V.** A public limited liability company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, in this document also referred to as 'the Company'

## M

**Management Board** The Company's management board

**MCR** Minimum Capital Requirement

## O

**ORSA** Own Risk and Solvency Assessment

## P

**Privacy and Security Committee** The Company's privacy and security committee

**Product Oversight and Governance** The product oversight and governance function of the Company

**Product Oversight and Governance Committee** The Company's product oversight and governance committee

## Q

**QRTs** Quantitative Reporting Templates

## R

**RCM** The Company's Risk Control Matrix

**Remuneration Committee** The remuneration committee of the Supervisory Board of the Company

**Risk** The risk management function of the Company

**Risk Dashboard** Reflects the risk ratings of several categories as a result of the self-assessment of the Company.

**Risk Officer** The Company's risk officer

**RMS** The Company's risk management system

## S

**SCR** Solvency Capital Requirement

**SF** The standard formula under Solvency II for identification and quantification of risk exposures

**SFCR** The Solvency and Financial Condition Report of Lemonade Insurance N.V. for the reporting period that ended

**Solvency II or Solvency II Regulations** The Directive, the Delegated Regulation and the lower rules and regulations promulgated thereunder

**Supervisory Board** The Company's Supervisory Board

## U

**Underwriting** The underwriting function of the Company

**Underwriting Risk Committee** The Company's underwriting and risk committee

## V

**VA** Volatility Adjustment