

**LIBERTY MUTUAL INSURANCE
EUROPE SOCIETAS
EUROPAEA, ZURICH BRANCH**

FINANCIAL CONDITION REPORT

As at 31st December 2020

Contents

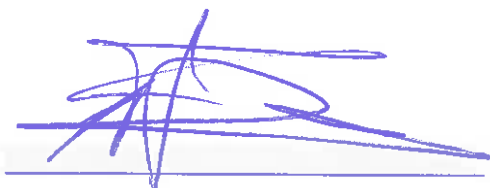
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GENERAL MANAGER'S STATEMENT

The General Manager acknowledges their responsibility for ensuring that this Financial Condition Report has been properly prepared in all material respects in accordance with Swiss Financial Market Supervisory Authority regulations ('FINMA' regulations). The General Manager is satisfied that:

- a) Throughout the financial year disclosed in this report, the Branch has complied in all material respects with the requirements of the FINMA regulations as applicable to the Branch; and
- b) It is reasonable to believe that, at the date of the publication of this report, the Branch has continued to comply, and will continue to comply in the future.

This report was reviewed and approved by Felix Böni, General Manager Switzerland, on the 30 April 2021.



Felix Böni

General Manager Switzerland

29 April 2021

MANAGER'S SUMMARY

Introduction

This report addresses the disclosure requirements set out in the FINMA regulations, set out in circular '2016/2 – Disclosures – insurers', that are applicable to Swiss branches of foreign insurance companies.

This report should be read in conjunction with the following documents:

- Liberty Mutual Insurance Europe Societas Europaea, Zurich Branch ('the Branch' or 'LMIE Zurich') audited financial statements for the year ended 31 December 2020 disclosed in Appendix C.
- The Solvency Financial Condition Report ('SFCR') published by the head office, Liberty Mutual Insurance Europe Societas Europaea ('LMIE'). A copy of the full document will be forwarded to FINMA and will be published on the firm's website in accordance with EIOPA regulation.

The current SFCR can be accessed through this link to the LMIE SE website:

<https://www.libertyspecialtymarkets.com/about-us/financial-strength/>

Unless otherwise stated, all amounts in this report are presented in Swiss Francs ('CHF'), which is the reporting currency of the Branch.

Business activities

LMIE Zurich is a branch of LMIE. Its principal place of business is Lintheschergasse 19, 8001 Zürich, Switzerland.

LMIE Zurich is a key part of LMIE's European operations and underwrites mainly financial lines, fine art and specie, professional indemnity, general liability, directors and officers, employment practices liability, pension trustee liability, kidnap and ransom, contingency, commercial crime and cyber.

Business performance

The following table sets out the key elements of LMIE Zurich's financial performance in 2020.

CHF'000	2020	2019
Gross premiums	54,410	43,562
Net Earned Premiums	35,601	29,687
Net Claims Incurred	(24,169)	(20,607)
Change in equalisation reserve	(3,239)	(2,347)
Net Acquisition and administration expenses	(15,282)	(13,729)
Underwriting result	(7,089)	(6,996)
Loss ratio (excluding equalisation reserve)	68%	69%
Net Acquisition and administrative expense ratio	43%	46%
Combined ratio	111%	116%

LMIE Zurich continued to grow business within the LMIE strategic European growth walk initiative, despite the challenges of the market environment. Gross written premiums increased by 25% as it continued to grow its business in line with the Company's strategy.

Please refer to Section B of this report and the LMIE Zurich Annual Report for further details of the branch's performance.

Systems of Governance

The Corporate Governance Framework detailed in the SFCR for LMIE applies to the operations of LMIE Zurich, notably the Board of Directors, and the activities of the key Board and Management Committees. An appointed individual, the General Manager, based in Zurich has lead responsibility for the day to day management of LMIE Zurich with reporting lines to the LSM President & Managing Director.

In addition, LMIE Zurich has a local branch management committee to assist the General Manager to fulfil his responsibilities in relation to running the business. The duties of the Committee are as set out below:

- Implementing the LMIE risk management and internal controls framework to meet the requirements both of LMIE Zurich and LMIE;
- Monitoring the financial, operational and underwriting performance of the branch against targets, objectives and key performance indicators set by the boards;
- Monitoring the performance of processes and controls operating both at the branch level, and at the LMIE level on behalf of the branch;
- Where functions are performed by LMIE on behalf of the branch, ensuring that sufficient and appropriate management information (MI) is provided to allow monitoring of these, and that agreed actions are monitored and resolved;
- Reviewing and approving the section of the LMIE ORSA that applies to the branch;
- Reviewing compliance with applicable legal and regulatory requirements and LMIE protocols; and
- Approving and monitoring policies and procedures applicable to the branch.

Risk Management

LMIE Zurich has implemented the LMIE Risk Management Framework (RMF) & and the LMIE Internal Control Framework (ICF) (referred to in the LMIE SFCR), which is applicable to all LMIE operations. We consider these frameworks to have general application across all branches, although specific branch Risk Management considerations are noted where relevant.

As part of the annual LMIE ORSA report, a specific section is also prepared in respect of LMIE Zurich. This covers Zurich-specific considerations including risks and controls to the extent that they differ from the overall LMIE profile – captured by a separate branch controls register – the activities of the LMIE Zurich Management Committee, risk quantification and the level of tied assets.

LMIE has divided its risk exposures into high-level risk categories to enable the Risk Management Framework to be focused on the most significant risks that impact on business objectives. These categories also help to provide an aggregated and holistic view of the LMIE risk profile.

LMIE's risk profile is assessed at an overall LMIE level as described in the LMIE's SFCR Section C.

- Underwriting risk

- Reserve risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Group risk
- Strategic risk
- Climate change risk

The Board does not believe there is a significant impact on the risk profile of LMIE from the operations of LMIE Zurich. As described above a separate control register is in place to monitor and oversee the control framework of LMIE Zurich.

COVID-19

The ongoing COVID-19 global pandemic has made 2020 an exceptionally challenging period for our people, our customers and economies around the world. LMIE has demonstrated resilience and strength during this challenging time. LMIE continues to pay out claims to its customers impacted, and internally continues to support working from home for its staff. The pandemic has been treated as an event under LSM's Business Continuity Plan with effect from 24 February 2020.

Management has continuously monitored, reviewed and assessed the impacts of the disruption caused by COVID-19 on LMIE in respect of its financial statements as at 31 December 2020. LMIE suffered approximately €66.5m COVID-19 net losses during the year. LMIE remains well capitalised to withstand the impacts of the pandemic. Management will continue to monitor the pandemic closely, and pro-actively take action where necessary.

The COVID-19 pandemic is having a direct impact on the risks for the Zurich Branch and these are being regularly monitored, which includes an assessment of whether the controls currently in place are adequate to mitigate the evolving risks. Controls in place to manage the increased risk include:

- LMIE has set up a dedicated contact point to provide our policyholders with assistance and to help them find the right person to process a claim;
- LSM Executive Committee meetings held weekly to consider development of the global pandemic and implement business continuity actions in line with government advice;
- Regular Zurich branch Management Committee meetings
- Ongoing monitoring of the impact on the Zurich Branch assets and liabilities, claims, and solvency position with planned management actions in place to respond; and where appropriate regular engagement with the market and regulators via several forums.

Risk mitigation techniques

Despite the emerging impact of COVID-19, LMIE's management believes its business model is sustainable and the Company is therefore a going concern. This includes the management of financial risks, ensuring LMIE is able to withstand an extreme event and trade forward; and that the risk of operational and other events is managed to ensure LMIE maintains its strong reputation.

Various risk mitigation techniques are used to manage the exposure to these risks by setting and monitoring a risk appetite framework which includes:

- **Risk exposure** - The Zurich Branch only covers a small number of policies with a high risk of damage (Contingency and Financial Risk Solutions), and the expected financial impact is therefore small. The D&O business is currently uncertain and emerging experience is being monitored. The remaining business areas are considered to be low-risk.
- **Exchange rate risk** - LMIE's administrative expense payments are transacted in Euro, Sterling Swiss Francs, and US Dollars and therefore the Company is exposed to fluctuations in the relevant exchange rates. In order to minimise this foreign exchange risk, cash assets are held in the aforementioned currencies with appropriate asset liability matching in place;
- **Investment portfolio and economic risks** - the COVID-19 impact to date on the Tied Asset assets held by LMIE has been negligible, as the company's tied assets are all cash deposits held with FINMA-approved banks in Switzerland.
- **Tied Asset Coverage and Technical Provisions** – The Zurich Branch tied assets (as defined) by Article 74 have been covered at all times during 2020 and 2021 to date.

The Directors regularly monitor credit risk, interest rate risk and currency risk in respect of debtors and other assets.

In addition to the above, the Zurich Branch benefits from the company wide significant reinsurance coverage such as the LMIE umbrella coverage and a Stop loss cover with Liberty Mutual Group. LMIE at a company level is also conducting a more thorough medium-term liquidity review in order to have additional sight of liquidity requirements through market turbulence and COVID-19 claims.

Valuation for solvency purposes

The assets and liabilities of the Branch are valued in accordance with the accounting and valuation principles, specified by the Code of Obligations. Valuation principles not specified in the Code of Obligations are listed in the Liberty Mutual Insurance Europe Limited Zurich Branch Annual Report and Financial Statements.

The Solvency II values are derived on a fair value basis under the EIOPA guidelines on valuation. In addition, Solvency II reporting formats require some reclassification of assets and liabilities from the categories reported in the financial statements.

Capital position

Through 2020, the Zurich Branch Management Committee has monitored the tied assets of LMIE Zurich. As at 31st December 2020 the solvency position of LMIE Zurich is:

CHF'000	2020	2019
Total Available Capital	148,927	119,002
Total Required Capital	123,386	106,831
Capital Surplus	25,541	12,171
Capital Coverage Ratio	121%	111%

As part of LMIE's ongoing capital monitoring and following the emergence of COVID-19 and the higher-than-anticipated premium performance in 2020, the ultimate parent company Liberty Mutual Holding Company Inc. has injected additional capital of €577m (\$675m) during 2020. In addition, a €347m (\$425m) Ancillary Own Funds (AOF) facility has been approved by the Commissariat Aux Assurances (CAA). LMIE thus remains well capitalised to withstand the

impacts of COVID-19. In addition, LMIE has sought reinsurance run-off protection for its Energy, Construction, Marine and Liability (ECML) portfolio from Cavello Bay Reinsurance Ltd. This has been recognised as a post-balance sheet event in LMIE 2020 financial statements but contributed to a favourable capital requirement reduction under Solvency II in 2020. Please note that this transaction did not have any impact on the financial statements of LMIE or on the Swiss GAAP accounts of LMIE Zurich.

SECTION A - BUSINESS ACTIVITIES

SECTION A. 1 – Strategy, objectives and key business segments

LMIE has identified the European region (which includes Switzerland) as a key growth opportunity, expressed as the European Growth Walk strategy. The objective of LMIE Zurich is to contribute to LMIE's growth strategy over the coming years.

LMIE Zurich's objective is to grow market presence by practising technical underwriting, whilst maintaining a combined ratio that is within the Branch's risk appetite. Management expects a hardening market where the premium rates will increase depending on the different lines of business and the geographical scope (e.g. with or without US exposure). Management will aim to further grow General Liability and Fine Art & Specie insurance in an attempt to diversify the Branch's business.

SECTION A. 2 – Group information and group related transactions

A.2.1 Group information

The ultimate parent company is Liberty Mutual Holding Company Inc. of Boston, 175 Berkley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America.

The group offers a wide range of insurance products and services to meet the needs of individuals, families and businesses through strategic business units and operating units. Zurich is a branch of LMIE which is part of the Liberty Specialty Markets (LSM) operating unit.

The smallest higher group of companies for which group accounts are drawn up and of which this company is a member is Liberty International Holdings LLC, a company incorporated and registered in the USA.

Copies of the group accounts of the Liberty International Holdings LLC and of Liberty Mutual Holding Company Inc. of Boston are available from the companies' registered office, 175 Berkley Street, Boston, Massachusetts 02117, U.S.A.

LMIE consolidates into the Spanish Entity Liberty International European Holding S.L.U (LIEH) for Solvency II purposes and therefore is subject to Group Solvency II reporting via Liberty International European Holding S.L.

The Solvency II group supervisor is "Dirección General de Seguros" (DGS, Spanish supervisor), which is located in Paseo de la Castellana, 44, Madrid, Spain, and is assisted by Subgroup Colleges of Supervisors for the coordination of supervisory activities.

The Commissariat Aux Assurances (CAA) is responsible for the prudential supervision of LMIE.

Commissariat Aux Assurances
7 Boulevard Joseph II
L-1840 Luxembourg

A.2.2 Group related transactions

The Branch actively monitors all related party transactions. Transactions with related parties are recorded at arm's length.

The head office provides services to the Zurich Branch for a variety of support functions, which are governed through an Insourcing Memorandum of Understanding ("MOU"). Service performance and compliance with MOU requirements is monitored by the LMIE Zurich Branch Management Committee.

SECTION A. 3 – Shareholder information

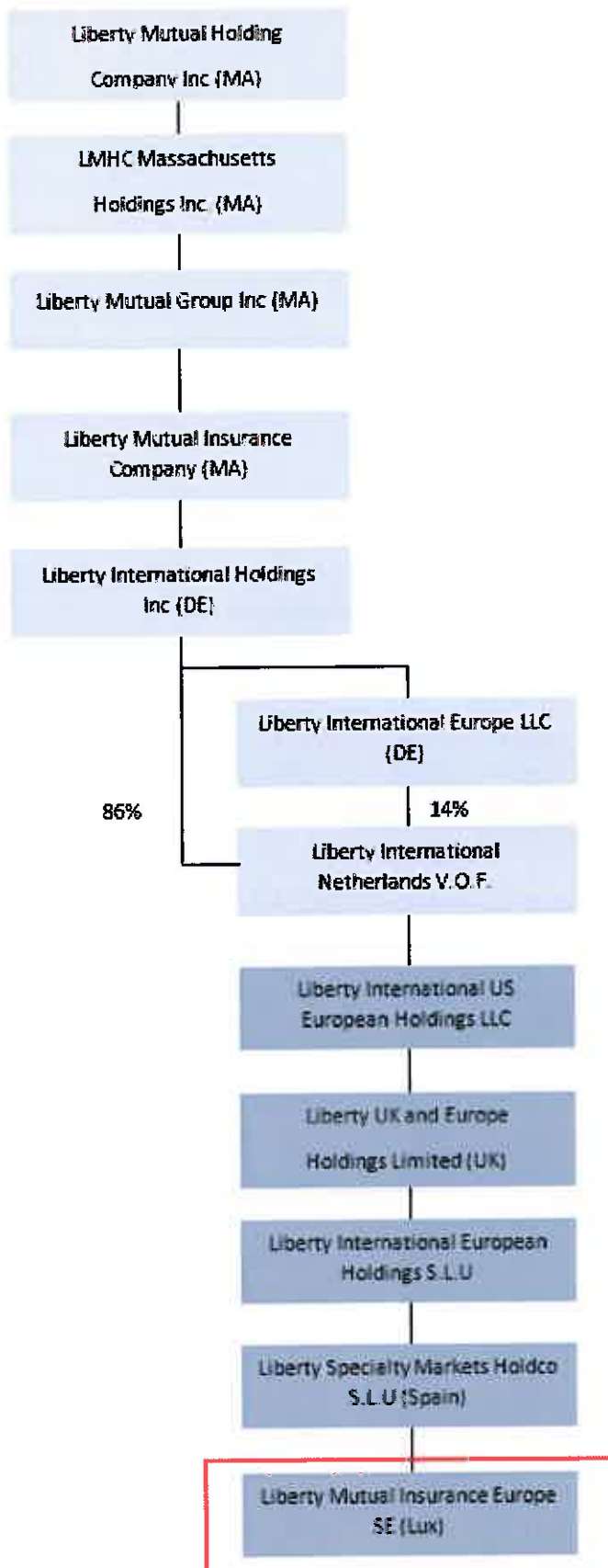
LMIE Zurich is a branch of LMIE and as such, LMIE owns all capital rights of LMIE Zurich. LMIE is wholly owned by Liberty Mutual Group Incorporated, a diversified global insurer.

SECTION A. 4 – Major branches

LMIE Zurich belongs to the international branch network of LMIE. From 1 March 2019, LMIE operates from Luxembourg and through a branch structure in the UK and in mainland Europe. In addition to the Zurich branch, LMIE also has branches in the United Kingdom, Belgium, France, Germany, Ireland, Italy, the Netherlands and Spain.

The following is a summarised organisation structure showing LMIE SE's positioning* within the overall Liberty group structure.

LMIE SE sits within the international holding structure of LMHC. The organisation chart shown is a summarised view of the overall Liberty structure and there are a number of companies within the hierarchy.



*Unless otherwise stated ownership is 100%.

SECTION A. 5 – External auditor

In accordance with Article 28 of the Insurance Supervision Act, the Branch has appointed Ernst & Young Ltd ('EY') as statutory auditor. The main auditor in charge is Armin Imoberdorf.

Ernst & Young Ltd
Maagplatz 1
8005 Zurich
Switzerland

SECTION A. 6 – Significant unusual events

There have been no significant events that have an impact on LMIE Zurich specifically.

SECTION B – BUSINESS PERFORMANCE

SECTION B. 1 – Underwriting performance

The table below provides key performance indicators for the Branch:

CHF'000	2020	2019
Gross premiums	54,410	43,562
Net Earned Premiums	35,601	29,687
Net Claims Incurred	(24,169)	(20,607)
Change in equalisation reserve	(3,239)	(2,347)
Net Acquisition and administration expenses	(15,282)	(13,729)
Underwriting result	(7,089)	(6,996)
Loss ratio (excluding equalisation reserve)	68%	69%
Net Acquisition and administrative expense ratio	43%	46%
Combined ratio	111%	116%

LMIE Zurich generated CHF 54,410k of gross written premium compared to CHF 43,562k in 2019, as it continued to grow its business in line with the Company's growth strategy. The net premiums earned amounted to CHF 35,601k compared to CHF 29,687k in 2019, which is in line with gross written premium growth.

Net claims incurred (excluding movements in the equalisation reserve) increased from CHF 20,607k in 2019 to CHF 24,169k in 2020. The 2020 claims ratio showed a small 1% reduction from 2019: the current period is impacted by an allowance for recessionary impacts of the COVID-19 pandemic for the 2018 to 2020 underwriting years, together with reserving for potential Credit losses from the same source: both factors are subject to a high degree of uncertainty. There was also some reserve strengthening in classes affected by social inflation issues. The 2019 year was impacted by a large claim in the Energy sector

There was also an increase in net acquisition costs and administrative expenses from CHF 13,729k in 2019 to CHF 15,282 in 2020 as a result of additional commissions from Liberty Specialty Markets Europe Sarl (LSME) and an increase in broker commissions arising from the increased premium income. This was offset by a drop in administrative expenses mainly from savings on travel and entertainment in the face of the COVID-19 pandemic.

As part of the Brexit strategy, LMIE has established and licensed in-house coverholders in Luxembourg, LSME and LSME 2. LSME and LSME 2 act as intermediary companies and continued underwriting on behalf of LMIE from its branches throughout Europe.

LSME employs all the European employees and it charges commission to LMIE Zurich for insurance intermediary services which is recognised through the income statement for the current year in line with LMIE Zurich accounting policies.

A decrease in the combined ratio from 116% in 2019 to 111% in 2020 was primarily driven by a higher growth in premiums.

The table below provides performance of the Branch by statutory line of business:

Year ended 31 December 2020

CHF'000	Fire, natural hazards, property damage	General third-party liability	Total
Gross premiums	8,892	45,518	54,410
Net Earned Premiums	7,537	28,064	35,601
Payments for insurance claims (gross)	(3,851)	(8,571)	(12,422)
Reinsurers' share of payments for insurance claims	184	255	439
Change in technical provisions	(2,369)	(13,675)	(16,044)
Reinsurers' share of change in technical provisions	787	(168)	619
Net Claims Incurred	(5,249)	(22,159)	(27,408)
Net Acquisition and administration expenses	(2,263)	(13,019)	(15,282)
Underwriting result	25	(7,114)	(7,089)

Year ended 31 December 2019

CHF'000	Fire, natural hazards, property damage	General third-party liability	Total
Gross premiums	9,226	34,336	43,562
Net Earned Premiums	6,845	22,841	29,686
Payments for insurance claims (gross)	(3,881)	(6,175)	(10,056)
Reinsurers' share of payments for insurance claims	66	496	562
Change in technical provisions	(11,037)	(5,442)	(16,479)
Reinsurers' share of change in technical provisions	5,109	(2,091)	3,018
Net Claims Incurred	(9,743)	(13,212)	(22,955)
Net Acquisition and administration expenses	(2,686)	(11,041)	(13,727)
Underwriting result	(5,584)	(1,412)	(6,996)

SECTION B. 2 – Financial performance

The Branch had CHF 584k of financial expenses during the year ended 31 December 2020, comprising negative interest charges on bank deposits held in Swiss Franc. (2019: financial expenses of CHF 545k).

For 2020, LMIE received an allocation of LMIE investment return of CHF 1,753k in accordance with the Company's transfer pricing policy. The income is classified as Other Income in the Branch Income Statement.

The Branch's primary financial assets consist of cash and bank deposits of CHF 146,166k (2019: CHF 114,540k).

SECTION B. 3 – Other income and expenses

The Company had CHF 1,699k of foreign exchange gains (2019: gains of CHF 1,546k). This is a result of the strengthening of the CHF against the USD through the year ended 31 December 2020.

GLOSSARY OF TERMS

Reference	Description	Reference	Description
CHF	Swiss Franc	ORSA	Own Risk and Solvency Assessment
GBP	Great British Pound	LSM	Liberty Specialty Markets
SFCR	Solvency and Financial Condition Report	PRA	Prudential Regulation Authority
LMIE	Liberty Mutual Insurance Europe SE	RMF	Risk Management Framework
USD	United States Dollar	LSME	Liberty Specialty Markets Europe Sarl

APPENDIX A – Quantitative template

**Financial situation report: quantitative template "Performance Solo
NL"**

Currency: CHF or annual report currency
Amounts stated in millions

	Total		Direct Swiss business													
	Previous year	Reporting year	Accident		Illness		Motor vehicle		Transport		Fire, natural hazards, property damage		General third-party liability		Other branches	
			Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year
1 Gross premiums	44	54									9	9	34	46		
2 Reinsurers' share of gross premiums	- 11	- 19									- 1	- 2	- 10	- 17		
3 Premiums for own account (1 + 2)	32	35	-	-	-	-	-	-	-	-	8	7	25	28		
4 Change in unearned premium reserves	- 4	- 3									- 1	0	- 3	- 4		
5 Reinsurers' share of change in unearned premium reserves	- 2	- 4									0	0	2	4		
6 Premiums earned for own account (3 + 4 + 5)	30	36	-	-	-	-	-	-	-	-	7	8	23	28		
7 Other income from insurance business	-	-									-	-	-	-		
8 Total income from underwriting business (6 + 7)	30	36	-	-	-	-	-	-	-	-	7	8	23	28		
9 Payments for insurance claims (gross)	- 10	- 12									- 4	- 4	- 6	- 9		
10 Reinsurers' share of payments for insurance claims	- 1	0									0	0	0	0		
11 Change in technical provisions	- 16	- 16									- 11	- 2	- 5	- 14		
12 Reinsurers' share of change in technical provisions	- 3	- 1									5	1	2	0		
13 Change in technical provisions for unit-linked life insurance	-	-									-	-	-	-		
14 Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	- 23	- 27	-	-	-	-	-	-	-	-	- 10	- 5	- 13	- 22		
15 Acquisition and administration expenses	- 16	- 19									- 3	- 3	- 12	- 16		
16 Reinsurers' share of acquisition and administration expenses	- 2	- 3									0	1	1	3		
17 Acquisition and administration expenses for own account (15 + 16)	- 14	- 15	-	-	-	-	-	-	-	-	- 3	- 2	- 11	- 13		
18 Other underwriting expenses for own account	-	-									-	-	-	-		
19 Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)	- 37	- 43	-	-	-	-	-	-	-	-	- 12	- 8	- 24	- 35		
20 Investment income	-	-														
21 Investment expenses	- 0	-														
22 Net investment income (20 + 21)	- 0	-														
23 Capital and interest income from unit-linked life insurance	-	-														
24 Other financial income	-	-														
25 Other financial expenses	- 1	- 1														
26 Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)	- 6	- 8														
27 Interest expenses for interest-bearing liabilities	-	-														
28 Other income	2	3														
29 Other expenses	- 0	- 0														
30 Extraordinary income/expenses	-	-														
31 Profit / loss before taxes (26 + 27 + 28 + 29 + 30)	- 5	- 4														
32 Direct taxes	-	-														
33 Profit / loss (31 + 32)	- 5	- 4														

APPENDIX B – Auditor’s report

To the General Manager of
**Liberty Mutual Insurance Europe SE, Leudelange, Zurich branch,
Zurich**

Zurich, 29 April 2021

Independent auditor's report

As a federally-supervised audit firm, we have audited the accompanying financial statements of the Liberty Mutual Insurance Europe SE, Leudelange, Zurich branch, which comprise the balance sheet as of 31 December 2020, and the income statement and notes for the year then ended, in line with article 28 para. 2 of the Insurance Supervision Act (ISA) and with reference to the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)".

The financial statements have been prepared by the General Manager on the basis of the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law.



General Manager's Responsibility for the financial statements

The General Manager is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law – in particular the Financial Market Supervision Act (FINMASA), the Insurance Supervision Act (ISA), the Insurance Supervision Ordinance (ISO) and the FINMA Insurance Supervision Ordinance (ISO-FINMA) as well as with the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)" –, and for such internal controls as the General Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the regulatory requirements set out in article 28 para. 2 ISA, the WNL and Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the branch office's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch office's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the General Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements of the Zurich branch office of the Liberty Mutual Insurance Europe SE, Leudelange as of and for the year ended 31 December 2020 are prepared, in all material respects, in accordance with the financial reporting provisions of the Swiss Code of Obligations, the requirements of supervision law (in particular FINMASA, ISA, ISO and ISO-FINMA) and with the WNL.



Basis of accounting

Without modifying our opinion, we note that the financial statements of the Zurich branch office of Liberty Mutual Insurance Europe SE, Leudelange are prepared on the basis of the accounting principles specified above. The financial statements are prepared to comply with the requirements of article 25 para. 4 ISA. As a result, the financial statements may not be suitable for another purpose.

Ernst & Young Ltd



Armin Imoberdorf
(Qualified
Signature)

Licensed audit expert
(Auditor in charge)



Pascal Nikles
(Qualified
Signature)

Licensed audit expert

Enclosures

- ▶ Financial statements (balance sheet, income statement and notes)

APPENDIX C – Branch annual report

Liberty Mutual Insurance Europe Societas Europaea

Zurich Branch

**Annual Report and Financial Statements
31 December 2020**

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Directors and Administration

Directors

Dirk Billemon	Authorised General Manager and Director (appointed 26 February 2020)
Graham Brady	Director
Nigel Davenport	Director
Fernand Grulms	Independent Non-Executive Director
Christopher Hanks	Independent Non-Executive Director
Pierre Hentgen	Independent Non-Executive Director (appointed 2 October 2020)
Philip Hobbs	Director
Virginie Lagrange	Independent Non-Executive Director (appointed 2 October 2020)
Matthew Moore	Director (appointed 26 November 2020)
Keith Nicholson	Independent Non-Executive Director (resigned 30 September 2020)
Richard Reid	Independent Non-Executive Director (resigned 30 September 2020)
Christian Rola	Director (appointed 11 December 2020)

Registered Office

Lintheschergasse 19, Zürich 8001

Branch Manager

Felix Böni

Registered Auditor

Ernst & Young LLP

Management Report (according to art 961c para 3 CO)

For the year ended 31 December 2020

Overview:

Liberty Mutual Insurance Europe Societas Europaea, Zurich Branch ('the Branch' or 'LMIE Zurich') is a branch of Liberty Mutual Insurance Europe Societas Europaea ('LMIE'). Its principal place of business is Lintheschergasse 19, 8001 Zürich.

LMIE Zurich is a key part of LMIE's European region's operations and underwrites mainly financial lines, fine art and specie, professional indemnity, general liability, directors and officers, employment practices liability, pension trustee liability, kidnap and ransom, contingency, commercial crime and cyber.

Business performance:

LMIE Zurich continued to grow business during the year ended 31 December 2020 despite the challenges of the market environment. The table below provides key performance indicators for the Branch:

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Net Acquisition and administration expense ratio	43%	46%
Combined ratio	111%	116%

LMIE Zurich generated CHF 54,410k of gross written premium compared to CHF 43,562k in 2019, as it continued to grow its business in line with the Company's strategy.

The net earned premiums amounted to CHF 35,601k compared to CHF 29,687k in 2019, which is in line with gross written premium growth.

Net claims incurred (excluding movements in the equalisation reserve) increased from CHF 20,607k in 2019 to CHF 24,169k in 2020. The 2020 claims ratio showed a small 1% reduction from 2019: the current period is impacted by an allowance for recessionary impacts of the COVID-19 pandemic for the 2018 to 2020 underwriting years, together with reserving for potential Credit losses from the same source: both factors are subject to a high degree of uncertainty. There was also some reserve strengthening in classes affected by social inflation issues. The 2019 year was impacted by a large claim in the Energy sector.

There was also an increase in net acquisition costs and administrative expenses from CHF 13,729k in 2019 to CHF 15,282 in 2020 as a result of additional commissions from Liberty Specialty Markets Europe Sarl (LSME) and an increase in broker commissions arising from the increased premium income. This was offset by a drop in administrative expenses mainly from savings on travel and entertainment in the face of the COVID-19 pandemic.

As part of the Brexit strategy, LMIE has established and licensed in-house coverholders in Luxembourg, LSME and LSME 2. LSME and LSME 2 act as intermediary companies and continued underwriting on behalf of LMIE from its branches throughout Europe.

LSME employs all the European employees and it charges commission to LMIE Zurich for insurance intermediary services which is recognised through the income statement for the current year in line with LMIE Zurich accounting policies.

The average annual number of full-time positions:

The Branch had no employees in 2020 (2019: 0).

The Company's conduct of a risk assessment:

LMIE Zurich has implemented the LMIE Risk Management Framework (RMF) & and the LMIE Internal Control Framework (ICF) (referred to in the LMIE SFCR), which is applicable to all LMIE operations. We consider these frameworks to have general application across all branches, although specific branch Risk Management considerations are noted where relevant.

As part of the annual LMIE ORSA report, a specific section is also prepared in respect of LMIE Zurich. This covers Zurich-specific considerations including risks and controls to the extent that they differ from the overall LMIE profile – captured by a separate branch controls register – the activities of the LMIE Zurich Management Committee, risk quantification and the level of tied assets.

LMIE has divided its risk exposures into high-level risk categories to enable the Risk Management Framework to be focused on the most significant risks that impact on business objectives. These categories also help to provide an aggregated and holistic view of the LMIE risk profile.

LMIE's risk profile is assessed at an overall LMIE level as described in the LMIE's SFCR Section C.

- Underwriting risk
- Reserve risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Group risk
- Strategic risk
- Climate change risk

The Board does not believe there is a significant impact on the risk profile of LMIE from the operations of LMIE Zurich. As described above a separate control register is in place to monitor and oversee the control framework of LMIE Zurich.

COVID-19

The ongoing COVID-19 global pandemic has made 2020 an exceptionally challenging period for our people, our customers and economies around the world. LMIE has demonstrated resilience and strength during this challenging time. LMIE continues to pay out claims to its customers impacted, and internally continues to support working from home for its staff. The pandemic has been treated as an event under LSM's Business Continuity Plan with effect from 24 February 2020.

Management has continuously monitored, reviewed and assessed the impacts of the disruption caused by COVID-19 on LMIE in respect of its financial statements as at 31 December 2020. LMIE suffered approximately €66.5m COVID-19 net losses during the year. LMIE remains well capitalised to withstand the impacts of the pandemic. Management will continue to monitor the pandemic closely, and proactively take action where necessary.

The COVID-19 pandemic is having a direct impact on the risks for the Zurich Branch and these are being regularly monitored, which includes an assessment of whether the controls currently in place are adequate to mitigate the evolving risks. Controls in place to manage the increased risk include:

- LMIE has set up a dedicated contact point to provide our policyholders with assistance and to help them find the right person to process a claim;

- LSM Executive Committee meetings held weekly to consider development of the global pandemic and implement business continuity actions in line with government advice;
- Regular Zurich branch Management Committee meetings
- Ongoing monitoring of the impact on the Zurich Branch assets and liabilities, claims, and solvency position with planned management actions in place to respond; and where appropriate regular engagement with the market and regulators via several forums.

Risk mitigation techniques

Despite the emerging impact of COVID-19, LMIE's management believes its business model is sustainable and the Company is therefore a going concern. This includes the management of financial risks, ensuring LMIE is able to withstand an extreme event and trade forward; and that the risk of operational and other events is managed to ensure LMIE maintains its strong reputation.

Various risk mitigation techniques are used to manage the exposure to these risks by setting and monitoring a risk appetite framework which includes:

- **Risk exposure** - The Zurich Branch only covers a small number of policies with a high risk of damage (Contingency and Financial Risk Solutions), and the expected financial impact is therefore small. The D&O business is currently uncertain and emerging experience is being monitored. The remaining business areas are considered to be low-risk.
- **Exchange rate risk** - LMIE's administrative expense payments are transacted in Euro, Sterling Swiss Francs, and US Dollars and therefore the Company is exposed to fluctuations in the relevant exchange rates. In order to minimise this foreign exchange risk, cash assets are held in the aforementioned currencies with appropriate asset liability matching in place;
- **Investment portfolio and economic risks** -the COVID-19 impact to date on the Tied Asset assets held by LMIE has been negligible, as the company's tied assets are all cash deposits held with FINMA-approved banks in Switzerland.
- **Tied Asset Coverage and Technical Provisions** – The Zurich Branch tied assets (as defined) by Article 74 have been covered at all times during 2020 and 2021 to date.

The Directors regularly monitor credit risk, interest rate risk and currency risk in respect of debtors and other assets.

In addition to the above, the Zurich Branch benefits from the company wide significant reinsurance coverage such as the LMIE umbrella coverage and a Stop loss cover with Liberty Mutual Group. LMIE at a company level is also conducting a more thorough medium-term liquidity review in order to have additional sight of liquidity requirements through market turbulence and COVID-19 claims.

Research and development activities

The Zurich branch continues to participate in, and benefit from, wider Liberty Mutual Group research and development capabilities in relation to product development and business digitalisation.

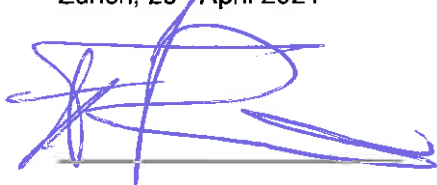
Future prospects

LMIE Zurich's objective is to grow market presence by practising technical underwriting, whilst maintaining a combined ratio that is within the Company's risk appetite. The management expect a hardening market where premium rates will increase depending on the different lines of business and the geographical scope (e.g. with or without US exposure).

The management will aim to further grow general liability, and fine art & specie insurance in an attempt to diversify the Branch's business. LMIE Zurich will contribute to LMIE strategic European growth walk initiative over the coming years.

The COVID-19 pandemic has had a significant impact on economies and financial markets. The financial impact to the Company and its Own Funds position is being continually assessed. The process surrounding the review and financial impact assessment has developed strongly since March 2020.

Zurich, 29th April 2021

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a thin horizontal line.

Felix Böni – General Manager Switzerland

Income Statement

For the year ended 31 December 2020

CHF'000	Notes	2020	2019
Gross Written Premiums		54,410	43,562
Reinsurers' share of written premiums		(19,181)	(11,192)
Net Written Premiums		35,229	32,370
Gross change in unearned premiums	7	(3,377)	(4,360)
Reinsurers' share of change in unearned premiums	7	3,749	1,677
Net Earned Premiums		35,601	29,687
Total Income from insurance business		35,601	29,687
Gross claims paid		(12,422)	(10,056)
Reinsurers' share of claims paid		439	562
Gross change in claims and equalisation reserve	7	(16,044)	(16,478)
Reinsurers' share of changes in claims reserves	7	619	3,018
Net Claims Incurred		(27,408)	(22,954)
Acquisition costs		(15,618)	(12,233)
Reinsurers' share of acquisition costs		3,472	1,801
Net Acquisition costs		(12,146)	(10,432)
Administrative expenses	8	(3,136)	(3,297)
Total expenses from insurance business		(42,690)	(36,683)
Other financial expenses		(584)	(545)
Operating result		(7,673)	(7,541)
Other income / (expenses)	9	3,452	3,483
Result before taxes		(4,221)	(4,058)
Direct Taxes		(13)	(480)
Result after taxes		(4,234)	(4,538)

Balance Sheet

As at 31 December 2020

CHF'000	Notes	2020	2019
Assets			
Cash and Cash equivalents	2	146,166	114,540
Reinsurers' share in technical reserves	5	23,438	19,807
Receivables in respect of insurance business	3	6,863	8,575
Other receivables		1,334	573
Total Assets		177,801	143,495
Liabilities and Equity			
Gross technical reserves	5	118,640	102,788
Payables in respect of insurance business	4	510	375
Other liabilities		664	839
Total Liabilities		119,814	104,002
Liaison account with head office		60,514	37,786
Retained profits brought forward		1,707	6,245
Loss for the period		(4,234)	(4,538)
Total Equity	6	57,987	39,493
Total Liabilities and Equity		177,801	143,495

The notes on pages 8 to 12 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2020

1. Accounting Policies

1.1. General Information

Liberty Mutual Insurance Europe Limited, Zurich branch (the Branch), is the Swiss branch of LMIE, a company located in Duchy of Luxembourg (prior to 1 March 2019, the registered address of LMIE was in London, UK).

LMIE underwrites insurance and reinsurance business from its head office in Luxembourg (prior to 1 March 2019 the head office was located in the UK) and its branches across Europe.

The main activity of the Branch is to provide insurance coverage for clients and risks located in Switzerland.

The Branch is a key part of LMIE's European region's operations and underwrites mainly general liability focusing on financial lines, fine art and specie, terrorism, professional indemnity, energy and construction, D&O and cyber.

1.2. Legal Form

The Branch is domiciled in Zurich, Switzerland and was established as a branch of the head office located in the Duchy of Luxembourg (prior to 1 March 2019, the registered address of LMIE was in London, UK). Further information on the head office can be obtained in the LMIE financial statements.

1.3. Financial reporting standards

The annual accounts for the Branch have been prepared in accordance with Swiss law. The main accounting and valuation principles used, which are not already specified by the Code of Obligations, are described as follows.

1.4. Foreign currency translation

The currency in which the Company operates is Swiss Francs (CHF) (functional currency). Expenses and Income in foreign currencies are converted to CHF at the average rate. Balance sheet items are translated at the exchange rate ruling on the reporting date. Exchange differences are reported through the Income Statement.

The main exchange rates used are presented below:

USD to CHF	Average	Closing
2020	0.8889	0.8840
2019	0.9828	0.9684

1.5. Related parties

Related parties include all companies with the Liberty Mutual Group. Transactions with related parties are recorded at arm's length.

1.6. Cash and cash equivalents

The cash and cash equivalents includes cash holdings & bank deposits and are recorded at their nominal value.

Notes to the Financial Statements

for the year ended 31 December 2020

1. Accounting policies (continued)

1.7. Technical reserves

Case reserves

Case reserves represent the best estimate of the ultimate payment for claims reported and open as of the Balance Sheet date.

Incurred But Not Reported (IBNR) reserves

IBNR reserves are estimates of the amounts required to settle claims that have been incurred but not reported. These reserves are calculated by the appointed actuary and are in line with the Branch's reserving policy as submitted to FINMA.

Provisions for unearned premiums

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date.

Equalisation provisions

Equalisation reserves are calculated by the appointed actuary and are in line with the Company's reserving policy as submitted to FINMA.

1.8. Revenue recognition

Premiums are recorded at inception of a contract and earned over the contract period.

Realised investment gains/losses and other income are recognised when the transactions occur.

1.9. Leases

Rentals under operating leases are charged to the income statement in equal annual instalments over the period of the lease.

2. Cash and cash equivalents

CHF'000	2020	2019
Bank Accounts	8,411	8,573
Bank Deposits	137,755	105,967
Deposits with affiliated companies	-	-
Total cash and cash equivalents	146,166	114,540

3. Receivables in respect of insurance business

CHF'000	2020	2019
Due from policyholders	6,121	8,030
Due from reinsurance companies	742	545
Total receivables	6,863	8,575

Notes to the Financial Statements

for the year ended 31 December 2020

4. Payables in respect of insurance business

CHF'000	2020	2019
Due to reinsurance companies	510	375
Total payables	510	375

5. Technical reserves

CHF'000	2020	2019
Gross unearned premium reserves	19,487	15,862
Reinsurers' share of unearned premium reserves	(7,526)	(3,877)
Net unearned premium reserves	11,961	11,985
Gross Claims reserves	85,239	75,232
Reinsurers' share of claims reserves	(15,912)	(15,930)
Net claims reserves	69,327	59,302
Equalisation reserves	13,914	11,694
Total gross technical reserves	118,640	102,788
Total reinsurers share of technical reserves	(23,438)	(19,807)
Total net technical reserves	95,202	82,981

6. Statement of changes in equity

CHF'000	2020	2019
Liaison account with head office as at 1 January	37,786	35,223
Net transfers to and from Head Office	22,728	2,563
Liaison account with head office as at 31 December	60,514	37,786
Prior period result brought forward	1,707	6,245
Result for the period	(4,234)	(4,538)
Balance as at 31 December	57,987	39,493

The financial statements for the year ended 31 December 2020 are prepared on a consistent basis with the regulatory return on a prospective basis.

7. Changes in technical reserves

CHF'000	2020	2019
Change in gross unearned premium reserves	3,377	4,360
Change in reinsurer's share of unearned premium reserves	(3,749)	(1,677)
Change in net unearned premium reserves	(372)	2,683
Change in gross claims reserves	12,804	14,131
Change in reinsurer's share of claims reserves	(619)	(3,018)
Change in net claims reserves	12,185	11,113
Change in equalisation reserves	3,239	2,347

Notes to the Financial Statements

for the year ended 31 December 2020

8. Administrative expenses

CHF'000	2020	2019
Other operating expenses	3,136	3,297
Total administrative expenses	3,136	3,297
Total acquisition cost	12,146	10,432
Total acquisition cost and administrative expenses	15,282	13,729

The Branch had no employees in 2020 (2019: zero). All Zurich staff are employed by LSME.

9. Other Income

CHF'000	2020	2019
Foreign exchange gains	1,699	1,546
Allocated investment return	1,753	1,937
Total Other Income	3,452	3,483

The foreign exchange gain is driven by the continuing strengthening of CHF against USD and other currencies.

Financial investments are held by the head office on behalf of the Branch. Earnings from these investments are allocated to the Branch based on net technical reserves.

Notes to the Financial Statements

for the year ended 31 December 2020

10. Audit fees

CHF'000	2020	2019
Audit services	91	77
Other services	-	-
Total fees for audit services and other services	91	77

Audit fees are included within Administration expenses.

11. Residual amount of leasing liabilities

The maturity profile of lease obligations that do not expire or cannot be cancelled within 12 months is presented below:

CHF'000	2020	2019
1 to 5 years	181	181
Total	181	181

12. Related Parties

During the year, the Company entered into transactions in the ordinary course of business with other related parties. Trading balances outstanding at 31 December are as follows:

CHF'000	2020	2019
Inter-Company payable	-	-
Inter-Company receivable	1,334	572
Reinsurance recoverable	17,743	12,696
Allocated investment return	1,753	1,937

Inter-Company payable balances with related parties are included within Other Liabilities. Inter-Company receivable balances with related parties are included within Other Receivables.

Reinsurance recoverable balance with related parties forms part of the Reinsurers' share in technical provisions.

Allocated investment return balance with related parties is included within Other Income.

13. Ultimate parent company

LMIE Zurich is a branch of LMIE. The ultimate parent company of LMIE is Liberty Mutual Holding Company Inc. of Boston, 175 Berkley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America. The smallest higher group of companies for which group accounts are drawn up and of which this company is a member is Liberty International Holdings LLC, a company incorporated and registered in the USA.

Copies of the group accounts of the Liberty International Holdings LLC and of Liberty Mutual Holding Company Inc. of Boston are available from the companies' registered office, 175 Berkley Street, Boston, Massachusetts 02117, U.S.A.