Liberty Mutual Insurance Europe Societas Europaea

Annual Report for the year ended
31 December 2021

Registered Address

5-7 rue Léon Laval
L-3372 Leudelange
Grand Duchy of Luxembourg
RCS Luxembourg: B232280

Contents

Directors and Administration

Directors

Dirk Billemon	Authorised General Manager and Director
Graham Brady	Director (resigned 9 December 2021)
Nigel Davenport	Director
Fernand Grulms	Chairman and Independent Non-Executive Director
Christopher Hanks	Independent Non-Executive Director
Pierre Hentgen	Independent Non-Executive Director
Philip Hobbs	Director (resigned 31 January 2022)
Virgine Lagrange	Independent Non-Executive Director
Matthew Moore	Director (resigned 9 December 2021)
Christian Rola	Director

Authorised General Manager

Dirk Billemon

Registered Office

5-7 rue Léon Laval
L-3372 Leudelange
Grand Duchy of Luxembourg

Company Number

B232280 (Registre de Commerce et des Sociétés)

Investment Managers

Liberty Mutual Group Asset Management Inc.

Independent Auditor

Ernst & Young S.A.
35E Avenue John F. Kennedy,
L-1855 Luxembourg
Grand Duchy of Luxembourg

Directors' Report

The Directors present their report for Liberty Mutual Insurance Europe Societas Europaea (LMIE, also referred to as the Company), together with the audited Financial Statements of the Company, for the year ended 31 December 2021.

Principal activity and review of the business

LMIE's principal activity is to underwrite insurance and reinsurance business from its head office in the Grand Duchy of Luxembourg (referred to as Luxembourg) and its branches across Europe.

There have not been any significant changes to LMIE's principal activity during the year.

LMIE's ultimate parent company is Liberty Mutual Holding Company Inc. (hereinafter referred to as Liberty Mutual or, LMHC). It is a diversified global insurer and one of the largest property and casualty insurers in the U.S. Functionally, the two major business units of the Liberty Mutual Insurance group are Global Retail Markets (GRM) and Global Risk Solutions (GRS). LMIE is part of the Liberty Specialty Markets (LSM) segment, which in turn is part of the GRS business unit. LMIE is also part of a Sub-Group of companies consolidating into Liberty International European Holdings, S.L.U. (hereinafter referred to as LIEH or the holding Company).

Preparation of Financial Statements under Luxembourg legislation

The Financial Statements are prepared in accordance with Luxembourg accounting law.

139.7**Branches and offices**

LMIE operates from the head office in Luxembourg and through branches in the UK, Belgium, France, Germany, Ireland, Italy, the Netherlands, Spain, and Switzerland.

Directors’ Report (continued)

Underwriting performance

LMIE’s underwriting result after expenses and excluding investment return was a profit of €39.1m (2020: loss of €89.2m). The combined ratio improved to 95.2% (2020: 105.9%). Overall, the result for the calendar year was a profit before taxation of €86.3m (2020: €22.0m profit) driven by an underwriting profit of €39.1m (2020: €89.2m loss) and investment return of €65.8m (2020: €96.6m). This was partially offset by foreign exchange losses of €18.6m (2020: €14.6m gain).

	2021 €000	2020 €000
Gross Written Premium	2,848,796	2,480,765
Net Earned Premium	808,596	1,500,728
Underwriting Profit or (Loss)	39,062	(89,176)
Profit before taxation	86,257	22,026
Claims Ratio %	62.0%	73.4%
Expense Ratio %	33.2%	32.6%
Combined ratio % (i)	95.2%	105.9%

(i) The combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

Gross written premium (GWP) increased by €368.0m in 2021, up 14.8% compared to 2020. The increase in premium income was driven by new business wins and rate hardening of 14.5% across the portfolio.

Ceded written premium as a percentage of GWP is significantly higher than the prior year following recognition of a Whole Account Quota Share (WAQS) agreement with Liberty Mutual Insurance Company (LMIC). The WAQS contract is a 60% cession on a “loss occurring during” financial year basis that is placed after all other LMIE reinsurance.

LMIE’s underwriting result for 2021 represents an improvement of €128.2m on 2020, heavily driven by a reduction in the claims ratio of 11.4%. Net claims incurred are lower than the prior year by €600.1m which despite a significantly decreased premium base, has led to an improvement in the claims ratio. A key driver was an attritional loss ratio improvement of 11.5%, with major improvements due to benign claims experience across a number of classes. The loss ratio also improved by 2.9% due to recoveries from recognition of a loss portfolio contract ($22m), whilst no major exposures to large risk losses during the period led to a reduction in the large loss ratio by $4.7m. These positives were partially offset by a 3.3% increase in claims incurred in relation to catastrophe events, driven by Storm Bernd (€40.5m), Hurricane Ida (€13.3m), European June events (€5.9m) & Texas Winter Storm (€4.3m).

The net commission ratio has reduced significantly to 11.6% (2020: 24.0%), largely due to €380.8m of ceded commissions received, as well as a reduction of net earned premium following the recognition of the WAQS.

The expense ratio saw a 0.6% increase in the expense ratio. This was driven by increased staff costs, IT and consultancy costs.

Investment performance

LMIE’s investment portfolio generated a return of €65.8m. This performance was €30.8m less than the prior year due to the reduction in realised gains. This has been largely driven by increased maturities and yield volatility in the US.

Directors' Report (continued)

Foreign exchange losses

LMIE made foreign exchange losses of €18.6m compared to a gain in 2020 of €14.6m. The losses in 2021 reflects the strengthening of US Dollar rates against Euros in the period.

From 1 January 2020, LMIE changed its presentational currency to Euros and has retranslated the opening reserves as at that date using the historic average rate resulting in an initial provision of €139.7m. The closing provision as at 31 December 2021 is €139.7m (2020: €5.2m).

Review of financial position

	2021 €000	2020 €000
Investments and cash *	4,655,869	4,108,615
Gross technical provisions	6,790,408	5,389,062
Ceded technical provisions	3,232,205	1,881,316
Shareholder funds	1,767,710	1,764,921
Own funds	2,205,150	1,970,715
Solvency capital requirement (SCR)	1,284,091	1,380,554
Excess own funds	921,059	590,161
Solvency coverage ratio	172%	143%

* Investments and cash exclude debt securities issued by, and loans to, affiliated undertakings

Financial investments and cash have increased by €547.3m during the year driven by net purchases of Government and corporate bonds supported by net increases in market values of held assets.

Gross technical provisions increased by €1,401.3m due to growth in business and gross reserve strengthening. The increase in reinsurers' share of technical provisions was consistent with the WAQS with LMIC.

Shareholder funds increased by €2.8m during the year mainly due to a reduction in the Revaluation reserve of €78.0m, driven by a reduction in unrealised gains on available for sale investments, which was partially offset by the Company's profit for the year. increase in Own Funds of €234.4m increased by €547.3mincreased by €1,401.3m

Solvency position

LMIE maintains regulatory capital coverage in line with its capital management objective.

At 31 December 2021, LMIE's eligible own funds, determined in accordance with the Solvency II valuation rules, were €2,205.1m (2020: €1,970.7m), which was in excess of the SCR of €1,284.1m (2020: €1,380.6m). This represented a solvency coverage ratio of 172% (2020: 143%). The increase in Own Funds of €234.4m during the year is mainly attributable to an increase in reinsurance Technical Provisions (TPs) of €489.0m, stemming largely from higher recoveries arising out of the WAQS with LMIC. This increase was partially offset by an increase in Gross TPs of €876.0m, which was primarily due to increased business written by the Company.

Despite the business growth experienced during 2021, the SCR has decreased 7% from the prior year. Own funds supporting the SCR are up by 12% during the same period. Own funds include collateral pledged by counterparties, which is not held on the balance sheet. Please see note 15.

Directors' Report (continued)

COVID-19

The ongoing COVID-19 global pandemic made 2021 another 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 its staff.

Management has continuously monitored, reviewed and assessed the impacts of COVID-19. 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.

Russia & Ukraine conflict

In February 2022, a number of countries (including the US, UK and EU) imposed new sanctions against certain entities (of which financial institutions) and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation.

Additional sanctions have been made following military operations initiated by Russia on 24 February 2022 against Ukraine including the restriction of the access of already sanctioned Russian banks to the international payments system SWIFT. Such sanctions can impact not only the sanctioned entities and individuals including entities under their control but also Business Counterparties of these sanctioned entities. The results of the sanctions and the geopolitical instability have created an important volatility in the financial markets with a potential to adversely impact global economies and increase instability across markets.

LSM has set up an internal working group to monitor the fast-developing situation closely and will take all appropriate steps to manage the effect this has on the Company. At the date of this report, the Company's going concern is not impacted by the above. It is too early to quantify the overall impact to the Company with a high degree of certainty and the situation, including the possible impact of changing micro- and macroeconomic conditions, will continue to be monitored.

Directors' Report (continued)

Principal risks and uncertainties

A fully defined risk taxonomy allows LMIE to identify, assess, mitigate, monitor and report the risks that may have an adverse impact on the achievement of business objectives. Managing risk effectively enables both opportunities for upside gains and limiting downside losses.

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.

Insurance risk

Insurance risk is defined as the risk of a change in value caused by ultimate costs for full contractual obligations varying from those assumed when the obligations were estimated. Insurance risk is split for the legal entity into underwriting risk and reserve risk.

Underwriting risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Company's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual events.

Reserve risk is mitigated through the use of detailed analysis performed by the Actuarial team and overseen by the CFO Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long-term reserve profile of the Company remains stable.

Market and Liquidity risk

Market risk is the risk of fluctuations to the net asset value (NAV) due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net liabilities. Market risk includes interest rate risk, credit and spread risk, alternative asset risk, portfolio duration risk, and exchange rate risk.

Liquidity risk is the probability of loss arising from situations where the Company either has insufficient cash or liquid funds to meet its financial obligations as they fall due, or is required to sell assets below their fair value to meet cash flow demands.

Market and Liquidity Risks are managed through a number of preventative, detective and directive controls. LMIE manages its assets to ensure that cash is available to pay claims (measured at the 1 in 200 year loss) as they fall due. Asset-liability management is reviewed in conjunction with investment and liquidity management in order to optimise the overall performance of assets.

Credit risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations to the Company. The principal source of credit risk arises from the inability of reinsurers and intermediaries to meet their contractual obligations if they become due.

Credit risk is mitigated through controls encompassing due diligence and continued monitoring to ensure the appropriate selection of counterparties, and Board risk appetites to prevent inappropriate credit risk concentrations.

Operational risk

Operational risk is the risk of loss to the Company resulting from the inadequate or failed internal processes, people and systems, or from external events. Operational risk also includes reputational risk and conduct risk.

Operational risk (continued)

Operational risk is mitigated through the use of the three lines of defence model in conjunction with a system of documented, monitored and tested internal controls.

Group risk

Group risk is the risk of loss to the Company arising from its membership of Liberty Specialty Markets (LSM), Global Risk Solution (GRS), and the Liberty Mutual Group.

Group risk is mitigated through the monitoring of Liberty Mutual Group's financial strength and business strategy developments. In addition, the chairman of any Committee reviewing risk information ensures that due attention is given to each legal entity within Liberty Specialty Markets, particularly in times of stress to one entity.

Strategic risk

Strategic risk is the risk of loss to the Company arising from key business and strategic decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is mitigated through the development and implementation of the Company's strategy, Business Plan, and through controls relating to the development of new business opportunities.

Climate change risk

Climate change risk arises from the impacts associated with an increase in global average temperatures, measured against pre-industrial levels, and has the potential to manifest in three distinctive forms: physical risks, transitional risks and litigation risks.

- Physical risks result from the impacts of increasingly frequent and severe extreme weather events and longer-term shifts in climatic conditions.
- Transitional risks arise from economic transitions to carbon neutrality, which are likely to include large-scale market, technological and policy changes.
- Litigation risks stem from parties seeking legal redress against those deemed to be responsible for the impacts of physical and transitional risks.

Climate change is classified as a cross-cutting risk, impacting a number of the different risk areas outlined above, as such it is being mitigated through the existing RMF. Insurers have a pivotal role in supporting the economic transition through their products, asset holdings and disclosures. The Liberty Mutual Group have set thermal coal thresholds within underwriting and investments to support this shift.

Since 2020, LSM continues to be a member of the voluntary initiative ClimateWise, a global insurance industry network focused on climate-related issues. The LSM ClimateWise score improved significantly for 2021 in comparison to 2020. In 2022, the first LSM ClimateWise report is due to be published, demonstrating LMIE's response to the ClimateWise Principles that are aligned with the Task Force on Climate-related Financial Disclosures ("TCFD"). This will provide our policyholders and counterparties with additional climate change-specific information.

Directors' Report (continued)

ClimateWise Principles	Overview of the Company's response
1. Be accountable	Embedding climate change into all relevant management / governance structures and responsibilities
2. Incorporate climate-related issues into our strategies and investments	Assessing our portfolio against different climate change pathways and setting new policies, such as a responsible business and responsible investment policy
3. Lead in the identification, understanding and management of climate risk	Making significant advancements in our climate risk capabilities through utilisation of data, stress and scenario testing and undertaking a climate risk appetite and materiality assessment
4. Reduce the environmental impact of our business	Measuring, reducing, and disclosing our Scope 1-2 (and some scope 3) emissions and other environmental impacts; working with our suppliers and engaging our colleagues on environmental impact
5. Inform public policy making	Engaging with global regulators and actively contributing to several collaborative industry initiatives and working groups
6. Support climate awareness amongst our customers/ clients	Providing products and services to support a responsible energy transition and build resilience, communicating our climate strategy through Liberty Mutual TCFD report
7. Enhance reporting	Publishing an annual summary, from 2022, of our climate approach and key activities in the first LSM ClimateWise report

Environmental, Social & Governance (ESG) Risk

Responsible business encompasses many business areas as well as interactions with the company's external stakeholders on ESG factors. Failure to address ESG factors may lead to reputational damage, loss of trust with customers, and regulatory and financial interventions.

LSM's vision is to act as a responsible business. LSM's Responsible Business Policy outlines how ESG is incorporated into decision making processes to mitigate risk and LSM's Responsible Business Strategy ensures a holistic approach is taken to the management of these risks. Risk management is aligned with LSM's ESG priorities to identify, monitor and report different types of risk (e.g. on climate change) and governance structures such as internal groups are in place to discuss, escalate and respond to ESG topics (e.g. the LSM Responsible Business Council).

LMIE continues to comply with evolving European and EIOPA ESG sustainability requirements. As a member of the LIEH Solvency Reporting Group, LMIE has met the product disclosure requirements set out in Article 8 of the European Taxonomy Regulation (EU Taxonomy Regulation) on how and to what extent our insurance activities are associated with environmentally sustainable economic activities, across defined product classes.

Directors' Report (continued)

Environmental, Social & Governance (ESG) Risk (continued)

LMIE disclosure is reported in the LIEH financial statements for 2021 as required by the EU Taxonomy Regulation.

Other significant events during the reporting period and up to the date of the report

Through its branch structure, the Company has significant operations in the EU and the UK. LMIE's UK branch remains authorised in the UK under the Prudential Regulation Authority's and Financial Conduct Authority's Temporary Permissions Regime (TPR). The Company expects to receive full authorisation of the UK branch from the UK regulatory authorities in 2022 and exit the TPR arrangements.

Going concern

The Financial Statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the Financial Statements, the Company's latest business plan, and the Company's current solvency calculations. The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Subsequent events and future developments

Future outlook

Liberty Specialty Markets' ("LSM") chosen Brexit solution, to redomicile operations to Luxembourg, has ensured uninterrupted business continuity throughout the uncertainty of 2021 and this is expected to continue into the future. Following the completion of the Brexit process, LMIE's substantial UK branch is currently regulated under the UK regulator's ("the PRA") temporary permissions regime. The PRA formally authorised the approval as a third country branch in early 2022.

Other matters

The Company did not conduct any activities in the field of research and development, nor did it own or repurchase its own shares in the year under review. It did not invest in derivative financial instruments in the year.

Auditors

Ernst & Young S.A. have indicated their willingness to continue in office as LMIE's auditors.

Approved by the Board of Directors on 5 April 2022 and signed on behalf of the Board by:

DocuSigned by:

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Dirk Billemon
Director
21 April 2022

Building a better working world

Independent auditor's report

To the Shareholders of
Liberty Mutual Insurance Europe SE
5-7 rue Leon Laval
L-3372 Leudelange

Opinion

We have audited the financial statements of Liberty Mutual Insurance Europe SE (the "Company"), which comprise the balance sheet as at 31 December 2021, and the profit and loss account for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters (continued)

Valuation of the gross IBNR provisions for insurance liabilities (included within Claims Outstanding)

Description

At 31 December 2021, the provision for claims outstanding amounts to EUR 4.917.796.000 of which EUR 3.057.489.000 are incurred but not reported ("IBNR"). As referred to in the accounting policies (note 2 of the financial statements), such provision comprises of the estimated costs of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses.

We considered the valuation of the gross IBNR provision for insurance liabilities as a key audit matter as such valuation incorporates judgement for the expected ultimate cost of claims incurred, but not yet reported (IBNR), at the reporting date. It is reasonably possible that uncertainties inherent in the reserving process, delays in insurers reporting losses to the Company, together with the potential for adverse development, could lead to the ultimate amount paid varying materially from the amount estimated at this reporting date.

How the matter was addressed in our audit

We understood, assessed and tested the design and operational effectiveness of the key controls in the reserving process including the review and approval of the reserves, and controls over the extraction of data from the appropriate sources.

Supported by our actuarial specialists we evaluated management's methodology against market practice and challenged management's assumptions and their assessment of major sensitivities, based on our market knowledge and industry data where available. The main areas of judgement include the level of reserves held for specific losses, the loss development patterns selected and the initial expected loss ratios.

Using management's data we independently re-projected a proportion of the claims provisions investigating significant differences between our projections and management's booked reserves. Using our own re-projections, we then considered whether the provisions for insurance liabilities held at the year- end fall within a reasonable range of estimates.

We have read the related disclosures and considered whether they satisfy the requirements of accounting standards.

Measurement of estimated premium within Gross Written Premium income

Description

For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables which are not known with certainty at the point of binding the policy. Subsequent adjustments to those estimates arise as updated information relating to those pricing variables becomes available and are recorded in the period in which they are determined. These estimates are judgemental and therefore could result in misstatements of revenue recognised in the financial statements.

How the matter was addressed in our audit

We obtained an understanding of the estimation process and tested the design effectiveness of key controls, including the monitoring of estimated premium income.

We ensured that the estimation methodology has been correctly applied and that the data used is appropriate

We performed independent re-projections of ultimate premium per underwriting year for the 2021 and prior underwriting years where ultimate premiums are booked, applying our own assumptions and comparing these to the Company's booked ultimate premium on a class of business. Where there were significant variances, we challenged management's assumptions used for bias and consistency in approach from prior year.

For the data used in our independent re-projections, we corroborated premium data to underlying policy and finance systems in order to test the completeness and accuracy of this data set.

For a sample of policy estimates in respect of the 2021 underwriting year, we corroborated the estimated premium for polices such as binders, inward reinsurance to third party supporting evidence such as third party signed slips. Additionally, to corroborate estimates, including for coverholder business, where similar policies and binders have been written previously, we performed back testing against historical experience of estimated premium income compared to actual premium signed.

We performed analytical review procedures on a class of business level, comparing actual premium to management's business forecasts.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' report but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and of those charged with governance for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other matters and other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the Shareholders on 14 April 2021 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 3 year.

The Directors’ report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Brice Bultot

Luxembourg, 21 April 2022

Balance Sheet – Assets

As at 31 December 2021

	Notes	2021 €000	2020 €000
Investments		**4,473,354**	**3,756,928**
Investments in affiliated undertakings and participating interest			
Debt securities issued by, and loans to, affiliated undertakings		-	40,588
Other financial investments			
Shares and other variable yield transferable and units in unit trust	**9**	187,807	24,373
Debt securities and other fixed income transferable securities	**9**	4,037,569	3,478,478
Deposits with credit institutions		167,660	129,561
Deposits with ceding undertakings		80,318	83,928
Subrogation and salvages		**22,105**	**18,591**
Reinsurers' share of technical provisions		**3,232,205**	**1,881,316**
Provision for unearned premiums		590,362	527,616
Provision for claims outstanding		2,641,843	1,353,700
Debtors		**2,044,492**	**1,720,914**
Debtors arising out of direct insurance operations - intermediaries		4,632	160,253
Debtors arising out of reinsurance operations	**13**	1,918,802	1,419,955
Other debtors	**13**	121,058	140,706
Other assets		**200,444**	**404,461**
Tangible assets	**10**	3,629	3,819
Cash at bank and in hand		182,515	392,275
Other assets	**2.2.18**	14,300	8,367
Prepayments and accrued income		**502,903**	**417,990**
Deferred acquisition costs		482,231	400,156
Other prepayments and accrued income		20,672	17,834
Total assets		**10,475,503**	**8,200,200**

The accompanying notes form an integral part of these financial statements.

Balance Sheet – Liabilities
As at 31 December 2021

	Notes	2021 €000	2020 €000
Capital and reserves		**1,767,710**	**1,764,921**
Subscribed capital or equivalent funds	**11**	255,424	255,424
Share premium account	**11**	1,098,434	1,098,434
Revaluation reserve	**11**	27,979	105,940
Profit brought forward	**11**	305,034	310,525
Profit or (loss) for the financial year	**11**	80,839	(5,402)
Technical provisions		**6,790,408**	**5,389,062**
Provision for unearned premiums		1,872,612	1,579,882
Provision for claims outstanding		4,917,796	3,809,180
Provision for other risks and charges		**153,571**	**52,633**
Provision for taxation	**8**	13,865	47,391
Foreign exchange provision	**2.2.1.2**	139,706	5,169
Other provisions	**14**	-	73
Creditors		**1,588,798**	**824,609**
Creditors arising out of direct insurance operations	**12**	5,890	47,151
Creditors arising out of reinsurance operations	**12,13**	1,322,353	557,655
Other creditors including taxation and social security	**12,13**	260,555	219,803
Accruals and deferred income		**175,016**	**168,975**
Total liabilities		**10,475,503**	**8,200,200**

The accompanying notes form an integral part of these financial statements.

Profit & Loss – Technical Account – Non-life insurance

For the year ended 31 December 2021

	Notes	2021 €000	2020 €000
Earned premiums, net of reinsurance		**808,596**	**1,500,728**
Gross premiums written	**3**	2,848,796	2,480,765
Outward reinsurance premiums		(1,851,154)	(886,893)
Change in provision for unearned premium, gross	**3**	(222,218)	(262,642)
Change in provision for unearned premium, reinsurer's share		33,172	169,498
Allocated investment return transferred from the non-technical account		**57,107**	**85,983**
Claims incurred, net of reinsurance		**(501,275)**	**(1,101,410)**
Claims paid, net of reinsurance		**(484,489)**	**(556,923)**
Gross amount	**3**	(900,780)	(797,665)
Reinsurers' share		416,291	240,742
Change in provision for claims		**(43,005)**	**(568,334)**
Gross amount	**3**	(901,450)	(922,065)
Reinsurers' share		858,445	353,731
Change in net subrogation and salvages	**3**	**26,219**	**23,847**
Net operating expenses		**(268,259)**	**(488,494)**
Acquisition costs	**4**	(697,925)	(584,914)
Change in deferred acquisition costs	**4**	59,476	60,959
Administrative expenses	**5,6,7**	(174,393)	(128,304)
Reinsurance commission and profit participation		544,583	163,765
Balance on the Technical account for non-life insurance business		**96,169**	**(3,193)**

The accompanying notes form an integral part of these financial statements.

Profit & Loss – Non-Technical Account

For the year ended 31 December 2021

	Notes	2021 €000	2020 €000
Balance on the technical account for non-life business		**96,169**	**(3,193)**
Investment income		**93,467**	**117,651**
Income from other investments		70,045	70,877
Gains on realisation of investments		22,744	46,774
Unrealised gains on investments		678	-
Investment charges		**(27,650)**	**(21,015)**
Investment management charges including interest charges		(14,764)	(11,117)
Losses arising from the realisation of investments		(12,886)	(9,255)
Unrealised losses on investments		-	(643)
Allocated investment return transferred to the technical account		**(57,107)**	**(85,983)**
Other (expenses) / income		**(18,622)**	**14,566**
Profit on ordinary activities before tax		**86,257**	**22,026**
Tax on ordinary activities		(5,418)	(27,428)
Profit or (Loss) for the financial year		**80,839**	**(5,402)**

The accompanying notes form an integral part of these financial statements.

The Financial Statements were approved by the Board of Directors on 5 April 2022 and were signed on its behalf by:

DocuSigned by:

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Dirk Billemon
Director
21 April 2022

Notes to the Financial Statements

1. General information

Liberty Mutual Insurance Europe SE (the Company) is a limited liability company incorporated as a Societas Europaea in the Grand Duchy of Luxembourg on 1 March 2019. The registered office is at 5-7 Rue Leon Laval, Leudelange, Luxembourg. The Company is registered at the Registre de Commerce et des Sociétés, Luxembourg under number B232280.

The objective of the Company is to act as a general insurer and reinsurer, either in the Grand Duchy of Luxembourg or abroad, and to carry out any other activities that are directly linked to such purpose and which facilitate or promote its accomplishment in accordance with the applicable laws and regulations.

The Company, formed on 21 December 1972, and previously known as Liberty Mutual Insurance Europe Limited and registered at UK Companies House under registered number 01088268, was formed by merger as a Societas Europaea on 18 July 2018.

The Company changed its domicile from the United Kingdom to Luxembourg effective 1 March 2019.

The Directors' Report attached to these Financial Statements provides further information regarding significant events during the year under review, and to the date of approval of these accounts.

The Financial Statements cover those of the individual entity and are prepared as at, and for the year ended, 31 December 2021, together with comparatives for the year ended 31 December 2020.

2. Accounting policies

2.1. Basis of preparation

The financial statements of the Company have been prepared in accordance with the Law of 8 December 1994, as amended, and with the accounting policies generally accepted and applied within the insurance and reinsurance industry in the Grand-Duchy of Luxembourg. The accounting policies and the valuation rules, except for those defined by the law or the Commissariat aux Assurances, are determined and applied by the Board of Directors.

In accordance with Article 60.1 of the Law of 8 December 1994 as subsequently modified, the Company has decided to apply the fair value option for certain type of assets as described in the below notes.

The preparation of the financial statements requires the use of accounting estimates that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. It also requires management to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period in which the assumptions changed.

Management believes that the underlying assumptions are appropriate and that the financial statements therefore present the financial position and results fairly.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements (continued)

2.2. Summary of significant accounting policies

2.2.1. Currency

2.2.1.1 Functional currency

The Company is authorised to underwrite policies throughout the European Economic Area (EEA) via branches established in Belgium, France, Germany, Italy, Ireland, The Netherlands and Spain. The Company is also authorised to underwrite policies through its branches in Switzerland and the United Kingdom.

The functional currency of each branch is determined by factors specific to the operations of each branch. The functional currency is the currency of the primary economic environment in which it operates, and transactions and balances in currencies other than functional currencies are treated as foreign currency transactions. The Company maintains accounting records in US Dollars.

Transactions expressed in currencies other than US Dollars are translated to US Dollars at the exchange rate effective at the time of the transactions. Assets and liabilities denominated in currencies other than US Dollars are translated into US Dollars at the rate of exchange prevailing at the balance sheet date. Income and expenses are translated at average rates.

The resulting foreign exchange gains or losses are included in the non-technical account of the profit and loss account.

2.2.1.2 Presentation currency

From 1 January 2020, the Company changed its presentational currency from US Dollars to Euros.

The results of each branch of the business where the functional currency is not the Euros are translated to the presentation currency on the following basis:

- Assets and liabilities are translated at the exchange rate of the date of the balance sheet.
- Capital and reserves are maintained at historical rates.
- Income and expenses are translated at the average annual exchange rate for the period of the profit and loss account.
- Any resulting overall exchange gains are recognised as a foreign exchange translation provision on the balance sheet.
- Any resulting overall exchange losses are initially offset against any foreign exchange translation provision within the balance sheet, with any surplus over the provision recognised as an exchange loss in the non-technical account of the profit and loss account.

The translation of opening balances, movements through the income and expenditure account, and the closing balances at different exchange rates means that, for certain movements on the technical account, including technical provisions, unearned premium, and deferred acquisition costs, foreign exchange differences may arise which will need to be taken into account when reconciling movements to the opening and closing balance sheet.

Notes to the Financial Statements (continued)

2.2.2. Investments in affiliated undertakings

Investment in affiliated undertakings and participating interests, bonds issued and loans to affiliated companies are valued at the acquisition cost. A value adjustment is recorded where there is a significant or prolonged diminution in the value of the investment.

2.2.3. Other financial Investments

2.2.3.1 Shares and other variable yield securities consisting of collective investment schemes and private equity investments

These are measured at fair value. Gains or losses arising from the mark to market movement are recognised directly and immediately through profit or loss account.

2.2.3.2 Debt securities and other fixed-income securities

Debt securities and other fixed income transferable securities are measured at fair value. Changes in fair value are recognised in the revaluation reserve and as a separate component in equity. Interest is recognised within investment income on an effective yield basis. These value adjustments may not be carried when the reasons for which they were made cease to apply. On de-recognition or adjustment in value, the cumulative fair value gains and losses previously reported through the revaluation reserve are transferred to the Profit and Loss account.

2.2.3.3 Deposits with ceding undertakings

Deposit with ceding undertakings are cash deposits withheld from reinsurers and stated at nominal value.

2.2.4. Financial instruments recognised at fair value

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

• Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis

• Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

• Level 3: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques where one or more of the significant inputs is not based on observable market data.

When the fair value of financial assets recorded in the balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

See note 9 for details of financial instruments classified by fair value hierarchy.

Notes to the Financial Statements (continued)

2.2.5. Cash at bank and in hand

Cash in the balance sheet comprise of cash at banks and in hand. It is measured at nominal value.

2.2.6. Allocated investment return transferred from the non-technical account

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses, net of investment expenses, charges and interest.

An allocation of actual investment returns on investments supporting the general insurance technical provisions and associated equity is made from the non-technical account to the technical account. Investment return related to non-insurance business and shareholders' equity is attributed to the non-technical account, in accordance with article 55 of the Luxembourg insurance accounting law.

2.2.7. Creditors

Creditors are valued at their settlement value.

2.2.8. Accruals and deferred income

This liability includes income received during the financial year but relating to a subsequent financial year, and charges which relate to the current financial year but are payable in a subsequent financial year. Deferred acquisition costs pertaining to reinsurance ceded are also included in this item.

2.2.9. Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of commission.

Written premiums are earned over the period of the policy (usually 12 months) on a straight-line basis except for certain inwards reinsurance contracts where there is a marked unevenness in the incidence of risk over the period of cover, in which case the premium is earned on a basis which reflects the profile of risk. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

2.2.10. Fee and commission income

Insurance policyholders are charged for policy administration services, and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

2.2.11. Administrative expenses

Administrative expenses specifically consist of costs arising from premium collection, portfolio administration and inward and outward reinsurance. The administrative expenses more specifically include all administrative expenses that cannot be allocated to acquisition costs, claims or investment management charges.

Notes to the Financial Statements (continued)

2.2.12. Technical provisions

2.2.12.1 Provisions for claims outstanding

Claims outstanding comprise provision for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, together with related claims handling expenses. The provisions for claims outstanding is computed separately on an individual case basis; they are assessed by the claims expert based on the information provided by policy holders or ceding undertakings and the estimates of expected claims development by the actuaries.

2.2.12.2 Subrogation and salvages

This represents the net estimated recoverable amount arising from the acquisition of the policyholder's rights with respect to third parties or arising from the legal ownership of insured property upon settlement of a loss. Anticipated salvage and subrogation recoveries are calculated on an individual case basis. Salvage and subrogation recoveries are shown separately on the face of the technical account and the balance sheet. The liability is not discounted for the time value of money.

2.2.12.3 Provisions for unearned premiums

Unearned insurance and inward reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned insurance and inward reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts. The provision for unearned premiums is calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

2.2.12.4 Reinsurers' share of technical provisions

The share of technical provisions for reinsured business is determined with reference to the contractual agreement and the underlying gross business data per treaty.

2.2.13. Deferred acquisition costs

Deferred acquisition costs represent the proportion of acquisitions costs incurred which corresponds to the proportion of gross premiums written which are deferred and amortised consistent with the recognition of unearned premiums.

2.2.14. Other prepayments and accrued income

Other prepayments and accrued income include other expenditure incurred during the financial year which relates to a subsequent financial year and income relating to the current financial year, but which is not receivable until a subsequent financial year.

2.2.15. Other debtors

Other debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which they value adjustments were made ceased to apply.

2.2.16. Value adjustments

Value adjustments are deducted directly from the related individual asset.

Notes to the Financial Statements (continued)

2.2.17. Tangible fixed assets

Tangible fixed assets are valued at purchase price. They are depreciated on a straight-line basis over their estimated useful economic lives. The estimated useful life of the assets is as follows:

Leasehold improvements	Remaining lease term
Fixtures, fittings & equipment	5 to 10 years

The costs incurred on improvement of fixed assets are capitalised and depreciated over the estimated useful economic life of the assets on a straight-line basis.

Where the Company considers that a tangible asset has suffered a durable depreciation in value, an additional write-down is recorded to reflect this loss. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.2.18. Provisions for other risks and charges

2.2.18.1 Provision for pension and similar obligations

Defined benefit plan

The Company operated a defined benefit plan for certain employees but this scheme closed to future accrual on 1 July 2012, with active members of the scheme becoming deferred pensioners in the Scheme from 2 July 2012.

Pension Scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return of a high quality corporate bond of equivalent term and currency to the liabilities.

In accordance with the rights and obligations created by the rules of the closed Pension Scheme, a net asset due to the Company is recognised when the value of the scheme assets exceed scheme liabilities, and conversely, a net liability payable by the Company to the scheme is recognised when the value of scheme liabilities exceed the value of scheme assets.

	2021 **€000**	**2020** **€000**
Fair value of Scheme assets	46,193	40,418
Present value of funded Defined Benefit Obligation	(31,893)	(32,051)
Asset recognised on balance sheet	**14,300**	**8,367**

The increase in the present value of the liabilities of the Company's defined benefit pension schemes expected to arise from employee service in the period is charged to the profit and loss account. The net interest element is determined by multiplying the net defined benefit asset or liability by the discount rate at the start of the period, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. The net interest is recognised in the profit or loss as administrative expenses.

Re-measurement, comprising actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, and the return on the net defined benefit asset or liability are charged or credited to revaluation reserve.

Notes to the Financial Statements (continued)

Defined contribution pension scheme

Employees joining on or after 1 January 2002 became members of the Company's defined contribution pension schemes. The contributions are recognised in the profit or loss account in the period in which they become payable. The commitment of the Company is limited to the contributions that the Company agreed to pay into the fund on behalf of its employees. The assets of the plan are held separately from the Company in independently administered funds.

2.2.18.2 Provision for taxation

The Company is subject to the general tax regulations applicable to all companies in Luxembourg. Its branches are subject to the tax regulations in their respective countries.

There is no requirement to account for or calculate deferred tax under Luxembourg GAAP. As such, LMIE is only recognising deferred tax on unrealised investment gains and losses, and the unrealised gain on its pension surplus following principles aligned to IFRS.

3. Segmental result from non-life insurance operations

An analysis of the underwriting result before investment return is set out below:

	2021 Direct insurance €000	2021 Reinsurance acceptances €000	2021 Total €000
Gross premiums written	1,946,637	902,159	2,848,796
Gross premiums earned	1,786,245	840,333	2,626,578
Gross claims incurred	(1,034,647)	(741,364)	(1,776,011)
Gross operating expenses *	(556,659)	(261,386)	(818,045)
Reinsurance balance	(127,712)	129,049	1,337
Net technical account before allocated investment return	**67,227**	**(33,368)**	**33,859**

* Gross operating expenses include investment management expenses of €5.2m.

	2020 Direct insurance €000	2020 Reinsurance acceptances €000	2020 Total €000
Gross premiums written	1,552,937	927,828	2,480,765
Gross premiums earned	1,409,960	808,163	2,218,123
Gross claims incurred	(1,127,239)	(568,644)	(1,695,883)
Gross operating expenses *	(410,780)	(245,755)	(656,535)
Reinsurance balance	49,357	(8,514)	40,843
Net technical account before allocated investment return	**(78,702)**	**(14,750)**	**(93,452)**

* Gross operating expenses include investment management expenses of €4.3m.

Notes to the Financial Statements (continued)

3. Segmental result from non-life insurance operations (continued)

For the year ended 31 December 2021, the lines of business splits for the direct insurance business were as follows:

	2021 Gross premiums written	2021 Gross premiums earned	2021 Gross claims incurred	2021 Gross operating expenses	2021 Reinsurance balance	2021 Net technical account
	€000	€000	€000	€000	€000	€000
Accident and health	4,867	3,958	(1,104)	(1,625)	(317)	912
Motor, general liability	4,754	3,934	(2,629)	(987)	(397)	(79)
Motor, other	4,482	4,300	(2,311)	(2,378)	261	(128)
Marine, aviation and transport	146,183	136,466	(79,381)	(44,391)	(14,360)	(1,666)
Fire and other damage to property	328,680	305,417	(194,915)	(76,864)	(21,697)	11,941
General liability	1,161,809	1,079,166	(683,272)	(333,348)	(41,926)	20,620
Credit and Suretyship	187,550	184,003	(51,421)	(58,927)	(49,481)	24,174
Others	108,312	69,001	(19,614)	(38,139)	205	11,453
Total	**1,946,637**	**1,786,245**	**(1,034,647)**	**(556,659)**	**(127,712)**	**67,227**

	2020 Gross premiums written	2020 Gross premiums earned	2020 Gross claims incurred	2020 Gross operating expenses	2020 Reinsurance balance	2020 Net technical account
	€000	€000	€000	€000	€000	€000
Accident and health	4,748	5,113	(4,245)	(2,292)	439	(985)
Motor, general liability	2,934	4,205	(5,797)	(780)	5,426	3,054
Motor, other	605	575	(318)	(233)	76	100
Marine, aviation and transport	140,422	132,400	(91,426)	(40,041)	33,179	34,112
Fire and other damage to property	188,075	169,121	(119,550)	(46,861)	(43,035)	(40,325)
General liability	995,942	893,210	(768,452)	(236,666)	58,766	(53,142)
Credit and Suretyship	165,162	143,716	(75,214)	(53,010)	(25,491)	(9,999)
Others	55,049	61,620	(62,237)	(30,897)	19,997	(11,517)
Total	**1,552,937**	**1,409,960**	**(1,127,239)**	**(410,780)**	**49,357**	**(78,702)**

Notes to the Financial Statements (continued)

3. Segmental result from non-life insurance operations (continued)

The geographical analysis of gross premiums written by country of risk location is as follows:

	2021	2020
	€000	€000
Luxembourg	25,901	26,199
UK	542,575	555,462
USA	124,629	122,443
Other EU Member States	1,079,645	830,997
Other Countries	1,076,046	945,664
Total	**2,848,796**	**2,480,765**

4. Commissions

Commissions incurred during the year amounted to €319,014k (2020: €274,557k) in respect of direct written premium, and €319,435k (2020: €249,398k) in respect of reinsurance premiums accepted. Included within these amounts are commissions incurred with related parties, totalling €110,594k (2020: €114,072k). Commissions are included in acquisition costs within the technical account.

5. Personnel employed during the year

All UK staff are employed by Liberty Specialty Markets Limited (LSML), an affiliated company. European staff are employed by Liberty Specialty Markets Europe S.A.R.L. (LSME) and Liberty Specialty Markets Europe Two S.A.R.L. (LSME2). The following amounts were incurred by the Company for the staff seconded from LSML, LSME and LSME2:

	2021	2020
	€000	€000
Wages and salaries	91,584	65,513
Social security costs	11,177	8,437
Other pension costs	7,172	8,272
Total	**109,933**	**82,222**

A large proportion of the above costs are incurred in Great British Sterling, therefore they are subject to foreign exchange fluctuations.

The Company did not employ any employees directly during 2021 and 2020. The average number of employees seconded to the Company during the year was as follows:

	2021	2020
	Number	Number
Underwriting	160	145
Claims	43	41
Administration	314	257
Management	5	3
Total	**522**	**446**

Notes to the Financial Statements (continued)

6. Remuneration to the Board of Directors

Emoluments granted in respect of the 2021 financial year to the members of the Board of Directors by reason of their responsibilities amounted to €2,157k (2020: €1,025k) and are shown as part of administrative expenses in the profit and loss account. Executive directors are paid an executive salary and do not receive an additional board fee.

During the year, none of the directors were members of the defined benefit contribution scheme (2020: none). The executive directors were employed by fellow Group companies.

7. Auditor's Remuneration

The fees paid during 2021 and 2020 calendar years and excluding all taxes for the services rendered by the independent auditor (Ernst & Young S.A.) are as follows:

	2021	2020
	€000	€000
Statutory audit fees and separate reports	228	168
Non-audit services	-	15
	228	**183**

Separate reports comprise the report for the annual regulatory return pursuant to CAA circular letter 09/1 as amended, and the AML/CTF special report pursuant to CAA Regulations 20/3. Non-audit services correspond to non-prohibited services for the preparation of class of business attestation for Belgium, Argentina, Venezuela and Brazil.

8. Taxation

8.1. Current Tax

	2021	2020
	€000	€000
Current tax debts consist of:		
Corporate income tax (domestic)	(4,360)	(4,909)
Municipal income tax	4,912	(3,193)
Net wealth tax	(28)	-
Foreign taxes	15,880	(8,212)
Current tax debts at 31 December 2021 (liability)/asset	**16,404**	**(16,314)**

The Company is subject to general tax regulations applicable in Luxembourg. The branches of the Company are subject to the tax regulation in their respective countries.

Notes to the Financial Statements (continued)

8.2. Deferred tax

The deferred tax included in the Balance Sheet is as follows:

	2021 €000	2020 €000
Deferred tax debts consist of:		
Pension scheme asset	(5,006)	(2,925)
Unrealised gains/losses	(8,859)	(28,152)
Deferred tax liability at 31 December 2021	**(13,865)**	**(31,077)**

There is no requirement to account for, or calculate, deferred tax under Luxembourg GAAP. As such, LMIE is only recognising deferred tax on unrealised investment gains and losses, and the unrealised gain on its pension surplus.

9. Shares and other variable and fixed income securities

2021	Carrying Value €000	Purchase Price €000
Shares and other variable-income securities and units in unit trust	187,807	187,150
Bonds and other fixed income securities	4,037,569	4,025,649
Total	**4,225,376**	**4,212,799**

2020	Carrying Value €000	Purchase Price €000
Shares and other variable-income securities and units in unit trust	24,373	24,419
Bonds and other fixed income securities	3,478,478	3,365,836
Total	**3,502,851**	**3,390,254**

2021	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Shares and other variable yield securities and units in unit trusts	177,317	-	10,490	187,807
Debt securities and other fixed income securities	665,628	3,368,186	3,755	4,037,569
Total	**842,945**	**3,368,186**	**14,245**	**4,225,376**

2020	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Shares and other variable yield securities and units in unit trusts	-	-	24,373	24,373
Debt securities and other fixed income securities	585,274	2,891,889	1,315	3,478,478
Total	**585,274**	**2,891,889**	**25,688**	**3,502,851**

Notes to the Financial Statements (continued)

9. Shares and other variable and fixed income securities (continued)

There have been no transfers between the various levels during the year.

For Bonds and other fixed income securities classified as Level 3, the areas of judgement considered in calculating fair value include considerations for liquidity risk, credit risk and prepayment rates. The discounted cash flow analysis which forms the basis of the valuation includes discount rates based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations of specific industries and market liquidity. Discount rates are influenced by risk free interest rates and credit risk.

The private equity investments are recorded in the Shares and other variable yield securities and units in unit trusts and have been classified as Level 3. The Group Portfolio Manager receives partnership statements / financial statements for each investment from which the residual values are recorded, and then potentially adjusted when combined with adjusted ending value reports. The Group Portfolio Manager then recommends a valuation for each position, based on these statements and their own assessment/judgement.

10. Tangible assets

	Leasehold improvements	Fixtures, fittings & equipment	Total
	€000	€000	€000
Cost:			
At 1 January 2021	5,073	3,492	8,565
Foreign currency translation effects	385	169	554
Disposals during the year	-	(2,079)	(2,079)
At 31 December 2021	**5,458**	**1,582**	**7,040**
Accumulated depreciation:			
At 1 January 2021	1,792	2,954	4,746
Foreign currency translation effects	174	188	362
Charge for the year	321	61	382
Disposals during the year	-	(2,079)	(2,079)
At 31 December 2021	**2,287**	**1,124**	**3,411**
Carrying value at 31 December 2021	3,171	458	3,629
Carrying value at 31 December 2020	3,281	538	3,819

Notes to the Financial Statements (continued)

11. Capital and reserves

The movements during the financial year in respect of capital and reserves can be broken down as follows:

2021	Called up share capital €000	Share premium account €000	Revaluation reserve €000	Retained earnings €000	Profit or (loss) for the year €000	Total €000
At 1 January 2021	255,424	1,098,434	105,940	310,525	(5,402)	1,764,921
Allocation of result at shareholder meeting on 14 April 2021	-	-	-	(5,402)	5,402	-
Prior Year Adj *	-	-	-	(89)	-	(89)
Decrease of revaluation reserve	-	-	(77,961)	-	-	(77,961)
Profit for the year	-	-	-	-	80,839	80,839
At 31 December	**255,424**	**1,098,434**	**27,979**	**305,034**	**80,839**	**1,767,710**

* Relating to correction for misalignment in branch retained earnings.

2020	Called up share capital €000	Share premium account €000	Revaluation reserve €000	Retained earnings €000	Profit or (loss) for the year €000	Total €000
At 1 January 2020 per UK GAAP	255,424	521,105	46,277	372,609	(56,165)	1,139,250
Allocation of result at shareholder meeting on 26 May 2020	-	-	-	(56,165)	56,165	-
Prior Year Adjustment *	-	-	-	(5,919)	-	(5,919)
Shares issued for cash	-	577,329	-	-	-	577,329
Increase of revaluation reserve	-	-	59,663	-	-	59,663
Loss for the year	-	-	-	-	(5,402)	(5,402)
At 31 December	**255,424**	**1,098,434**	**105,940**	**310,525**	**(5,402)**	**1,764,921**

* Recognition of intercompany commissions payable relating to 2019.

Share premium account

This statutory reserve records the amount of the nominal value received for shares sold, less transaction costs. In May 2020, the Company issued €1 ordinary share at a premium of €91.4m, in June 2020 it issued €1 ordinary share at a premium of €160.5m, in July 2020 it issued €1 ordinary share at a premium of €17.9m and in December 2020 it issued €1 ordinary share at a premium of €307.5m.

Revaluation reserve

This reserve records the unrealised fair value gains/(losses), net of deferred taxation, on available for sale investments and pension.

Notes to the Financial Statements (continued)

12. Classification of creditors according to duration

All creditors have a duration of less than 5 years.

13. Amounts owed by and to affiliated undertakings and other Group companies

	2021 €000	2020 €000
Debtors		
Debtors arising out of reinsurance operations	30,327	32,353
Other Debtors	95,654	81,688
	125,981	**114,041**
Creditors		
Creditors arising out of reinsurance operations	1,066,289	358,046
Other Creditors, including tax and social security	120,948	175,403
	1,187,237	**533,448**

The increase in creditors arising out of reinsurance operations is associated with the WAQS with LMIC. The creditors arising out of reinsurance operations balance with LMIC increased to €903,828k as at year end (2020: €135,801k).

14. Other provisions

The table below describes the movement in the onerous lease provision during the year:

	2021 €000	2020 €000
At 1 January	73	71
Onerous lease charge inc. dilapidations	(73)	2
At 31 December	**-**	**73**

The onerous lease provision represents unoccupied properties.

15. Off balance sheet commitments

Debt securities and deposits with credit institutions amounting to €305,029k (2020: €102,944k) have been pledged as security in connection with certain of the Company's overseas liabilities. The 2020 comparative has been restated due to an issue in respect to the foreign exchange rate applied (2020 as previously disclosed €84,135k).

Notes to the Financial Statements (continued)

15. Off balance sheet commitments (continued)

Off-balance sheet arrangements

In December 2020, the Company entered into an irrevocable and unconditional equity contribution commitment with its sole shareholder, Liberty Specialty Markets HoldCo SLU (LSMH), through the entry into an equity commitment agreement between the Company, LSMH and LMIC to the value of $425m. This commitment is secured by certain assets pledged in favour of the Company by LMIC under an account pledge agreement. This structure has been approved by the CAA as Tier 2 Ancillary Own Funds attributable towards the Company's Solvency Capital Requirement.

The Company has not been party to any other arrangements, which is not reflected in its Balance Sheet where material risk and benefits arise for the Company.

Guarantees

On 15 February 2002, the board of Liberty Mutual Insurance Company agreed to grant a guarantee covering the Company's insurance obligations. This was ratified by the Massachusetts' Department of Insurance on 10 May 2002. The original guarantee was updated and re-issued on 29 August 2019.

LMIE has provided a guarantee to the Institute of London Underwriters (ILU) in respect of that organisation's run off activities. LMIE was a member of the ILU, previously a trade association representing the interests of London market insurance companies, until it ceased activities in 1998. The guarantee is supported by a Letter of Credit of €369k provided by LMIE.

The Company has also provided guarantees in respect of the lease commitments of offices occupied in France by related party Liberty Specialty Markets Europe S.à.r.l. (LSME). LSME is a coverholder of LMIE and provides services to LMIE. The guarantees total €903k, and have an expiry date in 2029.

16. Ultimate parent Company

The ultimate parent Company is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley Street, Boston, Massachusetts 02116, 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 Incorporated, a Company incorporated and registered in the U.S.A.

The immediate parent Company is Liberty Specialty Markets Holdco SL.

Copies of the group accounts of Liberty International Holdings Incorporated and of Liberty Mutual Holding Company Inc. of Boston are available from the companies' registered office, 175 Berkeley Street, Boston, Massachusetts 02116, U.S.A.

17. Subsequent events

In February 2022, a number of countries (including the US, UK and EU) imposed new sanctions against certain entities (of which financial institutions) and individuals in Russia as a result of the official recognition of the Donetsk People Republic and Lugansk People Republic by the Russian Federation.

Additional sanctions have been made following military operations initiated by Russia on 24 February 2022 against Ukraine including the restriction of the access of already sanctioned Russian banks to the international payments system SWIFT. Such sanctions can impact not only the sanctioned entities and individuals including entities under their control but also Business Counterparties of these sanctioned entities. The results of the sanctions and the geopolitical instability have created an important volatility in the financial markets with a potential to adversely impact global economies and increase instability across markets.

Notes to the Financial Statements (continued)

17. Subsequent events (continued)

LSM has set up an internal working group to monitor the fast-developing situation closely and will take all appropriate steps to manage the effect this has on the Company. The Board of Directors regards these events as non-adjusting events after the reporting period. At the date of this report, the Company's going concern is not impacted by the above. It is too early to quantify the overall impact to the Company with a high degree of certainty and the situation, including the possible impact of changing micro- and macroeconomic conditions, will continue to be monitored.