Liberty Mutual Insurance Europe Societas Europaea

Annual Report and Financial Statements for the year ended 31 December 2020

Registered Number: B232280 (Registre de Commerce et des Sociétés)

Registered Address

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

Contents

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)

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 2020.

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 Global Risk Solutions 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.

Change in presentation currency

Following the incorporation of the Company as a Societas Europaea (SE), its share capital was registered and subscribed in Euros. For 2019, LMIE was granted permission by the Commissariat aux Assurances (CAA) to present these financial statements in US dollars. 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 2020 is €5.2m.

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 loss of €89.2m (2019: €122.5m loss). The combined ratio improved to 105.9% (2019: 110.3%). Overall, the result for the calendar year was a profit before taxation of €22.0m (2019: €44.5m loss) driven by an investment return of €96.6m (2019: €77.8m), and foreign exchange gains of €14.6m (2019: €0.2m), partially offset by an underwriting loss of €89.2m (2019: €122.5m loss).

	2020	**2019**
	€000	**€000**
Gross Written Premiums	2,480,765	1,901,884
Net Earned Premium	1,500,728	1,184,225
Underwriting Loss	(89,176)	(122,522)
Profit / (Loss) before taxation	22,026	(44,470)
Claims Ratio %	**73.4%**	**75.3%**
Expense Ratio %	**32.6%**	**35.0%**
Combined ratio % (i)	**105.9%**	**110.3%**

(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 premiums increased by €578.9m in 2020, up 30% compared to 2019. The increase in premium income reflects the success of LMIE’s European growth strategy, driven by new business wins and rate hardening across all lines of business.

LMIE’s underwriting result for 2020 represents an improvement of €33.3m on 2019, partially driven by a reduction in the claims ratio of 1.9%. Although the net claims incurred are higher than prior year by €209.4m, this is offset against an increased premium base leading to the improvement in the claims ratio. Claims incurred in relation to catastrophe events increased to 4.6%, driven by COVID-19 losses, compared to 0.4% in 2019. In the final quarter of 2020, prior year catastrophe losses were strengthened by €6.6m on Grenfell Tower & Typhoon Hagibis. The attritional loss ratio is significantly improved year on year to 68.3% (2019: 74.9%). Attritional losses are higher in total but are less in proportion to overall premium volume.

The improvement in the underwriting result for 2020 compared to 2019 is also partially driven by a 2.4% reduction in the expense ratio. This can be attributed to premium growth moving faster than the expense base, as well as from savings on travel and entertainment expenses in the face of the COVID-19 pandemic.

Investment performance

The performance of LMIE’s investment portfolios in 2020 generated a return of €96.6m. This strong performance was €18.8m more than the prior year, largely driven by higher realised gains compared to 2019.

Foreign exchange gains

LMIE made a foreign exchange gain of €14.6m compared to a gain in 2019 of €0.2m. The increase in 2020 reflects the movement of EUR against USD in the period.

Directors’ Report (continued)

Review of financial position

	2020 €000	2019 €000
Investments and cash *	4,108,615	3,198,744
Gross technical provisions	5,389,062	4,425,841
Ceded technical provisions	1,881,316	1,439,061
Shareholder funds	1,764,921	1,139,250
Own funds	1,970,715	1,297,338
Solvency capital requirement (SCR)	1,380,554	1,111,750
Excess own funds	590,161	185,588
Solvency coverage ratio	143%	117%

* Investments and cash exclude Bonds and bonds issued by affiliated companies and loans to these companies

Shareholder funds increased by €625.7m during the year mainly due to capital injections totalling €577.3m. The increase in Own funds of €673.4m during the year is mainly attributable to the above-mentioned capital injections as well as a €184m increase to the Ancillary Own Funds facility, partially offset by adverse SII adjustments of €142m.

Financial investments and cash have increased by €909.9m during the year due to the aforementioned capital injections together with underlying growth in the business.

Gross technical provisions increased by €963.2m due to growth in business and reserve strengthening as referred to above. The increase in reinsurers’ share of technical provisions was consistent with the increase in the gross figures.

Solvency position

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

At 31 December 2020, LMIE’s eligible own funds, determined in accordance with the Solvency II valuation rules, were €1,970.7m (2019: €1,297.3m), which was in excess of the SCR of €1,380.6m (2019: €1,111.8m). This represented a solvency coverage ratio of 143% (2019: 117%).

Due to business growth experienced during 2020, the SCR has increased by 24% from the prior year with own funds supporting the SCR up by 52% during the same period. Own funds include collateral pledged by counterparties, which is not held on the balance sheet. Please see note 19.

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.

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 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 and equity securities, and private equity funds and the discounted value of net-liabilities. Market risk includes interest rate risk, spread risk, alternative asset risk, portfolio duration risk, and exchange rate risk.

Market risk is mitigated through the use of a diversified investment strategy operating within Board risk appetites and operationalised through the investment guidelines.

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. 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.

Liquidity risk

Liquidity risk is the probability of loss arising from situations where the Company either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands.

Liquidity risk is mitigated through the use of asset-liability modelling and through the maintenance of a diversified and appropriately liquid portfolio of assets.

Directors’ Report (continued)

Principal risks and uncertainties (continued)

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 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 both Liberty Mutual Group and Liberty Specialty Markets.

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 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 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. The risk 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. LMIE has classified climate change as a cross-cutting risk, meaning it impacts a number of the different risk areas outlined above, as such it is being mitigated through the existing Risk Management Framework.

LMIE recognises the pivotal role insurers have in supporting the economic transition through their products, asset holdings and disclosures. LMIE has set thermal coal thresholds within underwriting and investments to support this shift. In 2021 the company’s membership of ClimateWise will be leveraged to develop transparent climate change risk disclosures, that will look to provide our policyholders and counterparties with improved decision-making information.

Directors' Report (continued)

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. The UK left the EU on 31 January 2020, and the transitional arrangements expired at the end of 2020, with no deal on financial services agreed or grant of equivalence by the EU.

LMIE's UK branch remains authorised in the UK under the PRA's and FCA's Temporary Permissions Regime (TPR). LMIE continues discussions with the UK regulators regarding an application the Company is making for the authorisation of the UK branch in accordance with the TPR. The Company has in place a significant cross functional project, led by the Head of Compliance, in order to meet the requirements within the TPR timeframe. The Company has no expectation that either the application or preparations for readiness will be unsuccessful, and therefore expects to continue to operate a significant UK branch presence in the future.

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

Energy, Construction, Marine and Liability Loss (ECML)

During the fourth quarter, LMIE sought reinsurance run-off protection for its ECML portfolios (which were underwritten from 2014 to 2019 Year of account and discontinued from 1 January 2020). A contract with Enstar was executed and signed by both parties on 4 December 2020 pending regulatory approval. Regulatory approval from the Bermuda Monetary Authority (BMA) was received on 30 December 2020 with a completion date for the transaction of 8 January 2021.

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.

Directors' Report (continued)

Risk mitigation techniques (continued)

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** - In addition to the above, LMIE has significant reinsurance coverage to transfer a material amount of exposure through various reinsurance arrangements such as its' umbrella reinsurance and a Stop loss cover with Liberty Mutual Group.

- **Exchange rate risk** - LMIE's administrative expense payments are transacted in Euro, Sterling 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.

- **Investment portfolio and economic risks** - LMIE's investment positions are mostly fixed income and therefore are more immediately resilient to the recent market shocks. LMIE also maintains an Investment Grade bond portfolio with ample government and other highly liquid issuers to fund operational requirements. Liberty Mutual Investments (LMI) continues to monitor market liquidity and will continue to remain proactive.

With corporate spreads at multi-year highs, market values are currently supported by risk free rates sinking to multi-year lows following central bank action. The Directors regularly monitor credit risk, interest rate risk and currency risk in respect of debtors and other assets.

Future outlook

New business wins continue to drive growth on all lines of business across LMIE. To support the 2021 business plan and the possibility of a reduction in Own Funds as a result of COVID-19, Liberty Mutual injected capital in two tranches. In total, this resulted in cash injections of €577.3m and an Ancillary Own Funds facility of €347.3m.

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.

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 and signed on behalf of the Board by:

dirk billemon

Dirk Billemon
Director
14 April 2021

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working world

Ernst & Young
Société anonyme

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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 2020, 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 2020, 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 as adopted for Luxembourg by the CSSF 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 Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for 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.

Key audit matters (continued)

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

Description

At 31 December 2020, the provision for claims outstanding amounts to EUR 3,809,180,342 of which EUR 2,459,875,553 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.

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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 26 May 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 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, 14 April 2021

Balance Sheet – Assets

at 31 December 2020

	Notes	2020 €000	2019 €000
Investments			
Shares in affiliated companies	**9**	-	17
Bonds and bonds issued by affiliated companies and loans to these companies		40,588	42,315
Shares and other variable-income securities and units in unit trust	**10**	24,373	25,900
Bonds and other fixed income securities	**10**	3,478,478	2,861,096
Deposits with credit institutions		129,561	100,187
Deposits with ceding undertakings		83,928	77,897
		3,756,928	3,107,412
Subrogation and salvages		18,591	15,621
Reinsurers' share of technical provisions			
Provision for unearned premiums		527,616	379,882
Provision for claims outstanding		1,353,700	1,059,179
		1,881,316	1,439,061
Debtors			
Debtors arising out of direct insurance operations - intermediaries		160,253	291,052
Debtors arising out of reinsurance operations		1,419,955	932,050
Other debtors		140,706	199,670
		1,720,914	1,422,772
Other assets			
Tangible assets	**11**	3,819	4,714
Cash at bank and in hand		392,275	133,647
Other assets	**2.3.(18)**	8,367	7,872
		404,461	146,233
Prepayments and accrued income			
Deferred acquisition costs		400,156	361,219
Other prepayments and accrued income		17,834	20,951
		417,990	382,170
Total assets		**8,200,200**	**6,513,269**

The notes to the financial statements on pages 20 to 37 form an integral part of these financial statements.

Balance Sheet – Liabilities
at 31 December 2020

	Notes	2020 €000	2019 €000
Capital and reserves			
Called up share capital	**12**	255,424	255,424
Share premium account	**12**	1,098,434	521,105
Revaluation reserve	**12**	105,940	46,277
Profit brought forward	**12**	310,525	372,609
Loss for the year	**12**	(5,402)	(56,165)
		1,764,921	1,139,250
Technical provisions			
Provision for unearned premiums		1,579,882	1,382,255
Provision for claims outstanding		3,809,180	3,043,586
		5,389,062	4,425,841
Provision for other risks and charges			
Provision for taxation	**8**	47,391	15,490
Foreign exchange provision		5,169	139,696
Other provisions	**16**	73	1,369
		52,633	156,555
Creditors			
Creditors arising out of direct insurance operations	**14,15**	47,151	35,171
Creditors arising out of reinsurance operations	**14,15**	557,655	342,070
Other creditors including taxation and social security	**14,15**	219,803	209,629
		824,609	586,870
Accruals and deferred income		168,975	204,753
Total liabilities		**8,200,200**	**6,513,269**

The notes to the financial statements on pages 20 to 37 form an integral part of these financial statements.

Profit & Loss: Technical Account – Non Life Insurance Business

For the year ended 31 December 2020

	Notes	2020 €000	2019 €000
Gross premiums written	**3**	2,480,765	1,901,884
Outward reinsurance premiums		(886,893)	(503,877)
Net premiums written		**1,593,872**	**1,398,007**
Change in the provision for unearned premiums:			
Gross amount	**3**	(262,642)	(259,991)
Reinsurers' share		169,498	46,209
Change in net provision for unearned premiums		**(93,144)**	**(213,782)**
Earned premiums, net of reinsurance		**1,500,728**	**1,184,225**
Allocated investment return transferred from the non-technical account		85,983	70,945
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount	**3**	(797,665)	(652,101)
Reinsurers' share		240,742	214,394
Net claims paid		**(556,923)**	**(437,707)**
Change in provision for claims:			
Gross amount	**3**	(922,065)	(732,136)
Reinsurers' share		353,731	262,672
Change to the net provision for claims		**(568,334)**	**(469,464)**
Change in net subrogation and salvages	**3**	**23,847**	**15,181**
Claims incurred net of reinsurance		**(1,101,410)**	**(891,990)**
Net operating expenses:			
Acquisition costs	**4**	(584,914)	(442,560)
Change in deferred acquisition costs	**4**	60,959	72,469
Administrative expenses	**5,6,7**	(128,304)	(144,843)
Reinsurance commission and profit participation	**4**	163,765	100,178
Net operating expenses		**(488,494)**	**(414,756)**
Balance on the Technical account for Non Life Business		**(3,193)**	**(51,577)**

The notes to the financial statements on pages 20 to 37 form an integral part of these financial statements.

Profit & Loss: Non-Technical Account – Non Life Insurance Business

For the year ended 31 December 2020

	Notes	2020 €000	2019 €000
Balance on the Technical account for Non Life Business		(3,193)	(51,577)
Income from other investments		70,877	69,226
Gains on realisation of investments		46,774	23,462
Unrealised gains on investments		-	166
Investment management charges including interest charges		(11,117)	(3,584)
Losses arising from the realisation of investments		(9,255)	(6,346)
Unrealised losses on investments		(643)	(122)
Allocated investment return transferred to the general business technical account		(85,983)	(70,945)
Exchange gains		14,566	212
Profit / (Loss) on ordinary activities before tax		**22,026**	**(44,470)**
Tax on ordinary activities		(27,428)	(11,695)
Loss on ordinary activities after tax		**(5,402)**	**(56,165)**

The notes to the financial statements on pages 20 to 37 form an integral part of these financial statements.

The Financial Statements were approved by the Board of Directors on 1 April 2021 and were signed on its behalf by:

dirk billemon

Dirk Billemon
Director
14 April 2021

Notes to the Financial Statements

1. General

Liberty Mutual Insurance Europe SE is a limited liability company incorporated as a Societas Europaea in the Grand Duchy of Luxembourg. 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 232280.

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.On the same date, the Company redenominated share capital of 290,090,800 ordinary shares of 1 US dollar to 255,279,908 ordinary shares of 1 Euro and 178,320 ordinary B shares of 0.81 Euro.

The company changed its domicile from the UK 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 2020, together with comparatives for the year ended 31 December 2019. Following the change in presentation currency as at 1 January 2020, the comparatives have been restated in EUR. The Financial Statements for the year ended 2019, in USD, can be found in Appendix 1 to these accounts.

2. Accounting policies

2.1. Basis of preparation

The annual accounts of the Company have been prepared in accordance with the amended Law of 8 December 1994, as amended from time to time, 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 CAA, 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.

2.2. Judgements and key sources of estimation uncertainty

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions 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. However, the nature of estimation means that actual outcomes could differ from those estimates.

Notes to the Financial Statements (continued)

2.3. Summary of significant accounting policies

2.3.(1). Foreign currency

2.3.(1)a. 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, Spain and Norway. The Company is also authorised to underwrite policies through its branches in the UAE/Dubai, Hong Kong, Switzerland and the UK.

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 USD.

Transactions expressed in currencies other than USD are translated to USD at the exchange rate effective at the time of the transactions. Assets and liabilities denominated in currencies other than USD are translated into USD 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.

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.

2.3.(1)b. Presentation currency

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

The results of each branch of the business where the functional currency is not the Euro 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 within 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.

2.3.(2). Investment in affiliated undertakings and participating interests, bonds issued and loans to affiliated companies

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.

Notes to the Financial Statements (continued)

2.3.(3). Other financial Investments

2.3.(3)a. 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.

2.3.(3)b. 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.

2.3.(3)c. Deposits with ceding undertakings

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

2.3.(4). Recognised fair value measurements

2.3.(4)a. Fair value hierarchy

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.

See note 10 for details of financial instruments classified by fair value hierarchy.

Notes to the Financial Statements (continued)

2.3.(4)b. Valuation techniques used to determine fair values

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. Further details are given in note 10.

2.3.(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.

2.3.(6). Allocated Investment Return

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.

2.3.(7). Creditors

Creditors are valued at their settlement value, except for the loan from affiliated undertakings, which is valued at amortised costs.

2.3.(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.

2.3.(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.

2.3.(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.

Notes to the Financial Statements (continued)

2.3.(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.

2.3.(12). Technical provisions

Technical provisions comprise in principle claims outstanding, provisions for unearned premiums and provisions for unexpired risk.

2.3.(12)a. 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.

2.3.(12)b. Subrogation and salvages

This represents the 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.

2.3.(12)c. 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.

Unearned outward reinsurance premiums are deferred over the term of the underlying insurance policies covered by the contract.

2.3.(12)d. Provisions for unexpired risks

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The overall assessment of whether a provision is necessary is made on the basis of all categories of business. No account is taken of future investment income. As at the Balance Sheet date there was no unexpired risk provision.

2.3.(12)e. 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.

Notes to the Financial Statements (continued)

2.3.(13). Prepayments and accrued income

2.3.(13)a. 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.

2.3.(13)b. 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.

2.3.(14). 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.

2.3.(15). Value adjustments

Value adjustments are deducted directly from the related individual asset.

2.3.(16). Tangible fixed assets

Tangible fixed assets are valued at purchase price and depreciated over their estimated useful economic lives

Expenditure on leasehold improvements, software, computer equipment, motor vehicles, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic life of the assets on a straight-line basis.

2.3.(17). Leases

Rentals under operating leases are charged to the Profit and Loss account in equal annual instalments over the period of the lease.

Notes to the Financial Statements (continued)

2.3.(18). Provisions for other risks and charges

2.3.(18)a. 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.

	2020 €000	**2019 €000**
Fair value of Scheme assets	40,418	38,812
Present value of funded Defined Benefit Obligation	(32,051)	(30,940)
Asset recognised on balance sheet	**8,367**	**7,872**

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.

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.

2.3.(18)b. 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.

Notes to the Financial Statements (continued)

2.3.(18)c. Other provisions

Other provisions are determined according to Luxembourg's generally accepted accounting principles and management review, and are based on estimated needs.

2.3.(19). Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

3. Segmental result from non life insurance operations

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

	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.

	2019 Direct insurance €000	2019 Reinsurance acceptances €000	2019 Total €000
Gross premiums written	1,238,033	663,851	1,901,884
Gross premiums earned	1,032,442	609,451	1,641,893
Gross claims incurred	(866,778)	(502,278)	(1,369,056)
Gross operating expenses *	(335,005)	(179,929)	(514,934)
Reinsurance balance	95,567	24,008	119,575
Net technical account before allocated investment return	**(73,774)**	**(48,748)**	**(122,522)**

* Gross operating expenses include investment management expenses of €3.6m.

Notes to the Financial Statements (continued)

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

For the year ended 31 December 2020, the lines of business splits for the direct insurance business were as follows:

	2020 Gross premiums written €000	2020 Gross premiums earned €000	2020 Gross claims incurred €000	2020 Gross operating expenses €000	2020 Reinsurance balance €000	2020 Net technical account €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)**

	2019 Gross premiums written €000	2019 Gross premiums earned €000	2019 Gross claims incurred €000	2019 Gross operating expenses €000	2019 Reinsurance balance €000	2019 Net technical account €000
Accident and health	776	544	(300)	(206)	8	46
Motor, general liability	268	83	(1,579)	(74)	(1,544)	(3,114)
Motor, other	13,539	10,685	(17,555)	(2,564)	5,409	(4,025)
Marine, aviation and transport	110,852	86,402	(63,373)	(26,286)	12,049	8,792
Fire and other damage to property	205,734	168,490	(98,885)	(53,093)	(8,836)	7,676
General liability	659,511	569,806	(567,823)	(176,475)	82,166	(92,326)
Credit and Suretyship	159,737	113,323	(74,427)	(36,851)	947	2,992
Others	87,616	83,109	(42,836)	(39,456)	5,368	6,185
Total	**1,238,033**	**1,032,442**	**(866,778)**	**(335,005)**	**95,567**	**(73,774)**

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:

	2020 €000	2019 €000
Luxembourg	26,199	9,968
UK	555,462	426,478
USA	122,443	227,383
Other EU Member States	830,997	421,796
Other Countries	945,664	816,259
Total	**2,480,765**	**1,901,884**

4. Commissions

Commissions payable to intermediaries during the year amounted to €523,955k (2019: €370,090k) in respect of direct written premium, and to €163,765k (2019: €100,178k) in respect of reinsurance premiums accepted. Included within these amounts are commissions due to related parties, totalling €114,072k (2019: €73,583k). 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:

	2020 €000	2019 €000
Wages and salaries	65,513	57,859
Social security costs	8,437	7,061
Other pension costs	8,272	8,365
Total	**82,222**	**73,285**

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

The average number of employees seconded to or employed by the Company during the year was as follows:

	2020 Number	2019 Number
Underwriting	145	115
Claims	41	37
Administration	257	228
Management	3	3
Total	**446**	**383**

Notes to the Financial Statements (continued)

5. Personnel employed during the year (continued)

The 2019 employee numbers have been restated for the prior year to bring them in line with the allocation methodology used to calculate employee numbers for the year ended 31 December 2020 (2019 as previously disclosed: 611).

6. Remuneration to the Board of Directors

Emoluments granted in respect of the 2020 financial year to the members of the Board of Directors by reason of their responsibilities amounted to €1,025k (2019: €978k) 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 (2019: none). The executive directors were employed by fellow Group companies.

7. Auditor's Remuneration

The fees paid during 2020 and 2019 calendar years and excluding all taxes for the services rendered by the independent auditor (Ernst & Young S.A.) are as follows:

	2020 €000	2019 €000
Statutory audit and separate reports	168	163
Other fees:		
Non-audit services	15	-
	183	**163**

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 provision of services realised in the course of 2020 in connection with non-prohibited services for the preparation of class of business attestation for Belgium, Argentina, Venezuela and Brazil. The Company also paid fees to other entities of the Ernst & Young network for the year ended 31 December 2020 which amounted to €895k (2019: €1,020k). The fees to the auditor are included in administrative expenses in the profit and loss account.

8. Taxation

8.1 Current tax

	2020 €000	2019 €000
Current tax debts consist of:		
Corporate income tax (domestic)	(4,909)	(6,591)
Municipal income tax	(3,193)	(2,566)
Foreign taxes	(8,212)	9,332
Current tax debts at 31 December 2020 (liability)/asset	**(16,314)**	**175**

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. As the UAE does not have a corporate tax system, profits arising in the Dubai branch are subject to tax in Luxembourg.

Notes to the Financial Statements (continued)

8.2 Deferred tax

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

	2020 €000	2019 €000
Deferred tax debts consist of:		
Pension scheme asset	(2,925)	(2,775)
Unrealised gains/losses	(28,152)	(12,890)
Deferred tax liability at 31 December 2020	**(31,077)**	**(15,665)**

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 in related companies

The investment in affiliated undertakings and participating interests in 2019 related solely to LMIE Spain S.L., a dormant company incorporated in Spain, in which the Company held a 100% investment in ordinary shares. The subsidiary was liquidated in February 2020 and the balance as at 31 December 2020 is €nil.

10. Shares and other variable and fixed income securities

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**

2019	**Carrying Value** **€000**	**Purchase Price** **€000**
Shares and other variable-income securities and units in unit trust	25,900	25,284
Bonds and other fixed income securities	2,861,096	2,816,419
Total	**2,886,996**	**2,841,703**

Notes to the Financial Statements (continued)

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

2020	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Shares and other variable yield securities and units in unit trusts	-	-	24.4	24.4
Debt securities and other fixed income securities	585.3	2,891.9	1.3	3,478.5
Total	**585.3**	**2,891.9**	**25.7**	**3,502.9**

2019	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Shares and other variable yield securities and units in unit trusts	-	-	25.9	25.9
Debt securities and other fixed income securities	400.0	2,459.6	1.5	2,861.1
Total	**400.0**	**2,459.6**	**27.4**	**2,887.0**

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

For Bonds and other fixed income securities the judgements include considerations for liquidity risk, credit risk and prepayment rates. The discounted cash flow analysis, the estimated future cash flows, and the discount rates are 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.

Notes to the Financial Statements (continued)

11. Tangible assets

	Leasehold improvements	Fixtures, fittings & equipment	Total
	€000	€000	€000
Cost:			
At 1 January 2020	5,073	3,493	8,565
At 31 December 2020	**5,073**	**3,493**	**8,565**
Accumulated depreciation:			
At 1 January 2020	1,493	2,747	4,240
Charge for the year	298	207	505
At 31 December 2020	**1,792**	**2,954**	**4,746**
Carrying value at 31 December 2020	3,281	539	3,820
Carrying value at 31 December 2019	3,902	812	4,714

Notes to the Financial Statements (continued)

12. Capital and reserves

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

2020	Called up share capital €000	Share premium account €000	Revaluation reserve €000	Legal reserve €000	Retained earnings €000	Profit or (loss) for the year €000	Total €000
At 1 January 2020	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 Adj *	-	-	-	-	(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

2019	Called up share capital €000	Share premium account €000	Revaluation reserve €000	Legal reserve €000	Retained earnings	Profit or (loss) for the year €000	Total €000
At 1 January 2019 per UK GAAP	255,424	343,106	(13,942)	-	375,035	-	959,623
Derecognition of deferred tax asset	-	-	-	-	(2,426)	-	(2,426)
At 1 January 2019 per Luxembourg GAAP	255,424	343,106	(13,942)	-	372,609	-	957,197
Shares issued for cash	-	177,999	-	-	-	-	177,999
Increase of revaluation reserve	-	-	60,219	-	-	-	60,219
Loss for the year	-	-	-	-	-	(56,165)	(56,165)
At 31 December	**255,424**	**521,105**	**46,277**	**-**	**372,609**	**(56,165)**	**1,139,250**

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)

13. Legal reserve

To comply with Luxembourg's company law requirements, the Company is required to allocate 5% of its net profit for each financial year until the legal reserve balance reaches 10% of the issued share capital. The legal reserve is not available for distribution to shareholders, except upon dissolution of the Company. No amount will be allocated in 2020 as a result of the loss in 2020.

14. Classification of creditors according to duration

All creditors have a duration of less than 5 years.

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

	2020 €000	2019 €000
Debtors		
Debtors arising out of reinsurance operations	32,353	38,498
Other Debtors	81,688	60,834
	114,041	**99,332**
Creditors		
Creditors arising out of reinsurance operations	358,046	169,410
Other Creditors, including tax and social security	175,403	209,629
	533,448	**379,039**

16. Other provisions

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

	2020 €000	2019 €000
At 1 January	71	109
Onerous lease charge inc. dilapidations	2	(38)
At 31 December	**73**	**71**

The onerous lease provision represents unoccupied properties. The 2019 charge has been restated to bring it in line with the allocation methodology used to calculate the charge for the year ended 31 December 2020 (2019 as previously disclosed: €1,369k).

Notes to the Financial Statements (continued)

17. Unexpired risk reserve

No allowance for unexpired risk is required as at 31 December 2020 (2019: €nil).

18. Other commitments

Debt securities and deposits with credit institutions amounting to €84,135k (2019: €81,659k) have been pledged as security in connection with certain of the Company's overseas liabilities.

19. 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 Liberty Mutual Insurance Company (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.

20. 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 £334.5k (€373.7k) 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 €902.5k, and have an expiry date in 2029.

21. Events after the balance sheet date

During the fourth quarter, LMIE sought reinsurance run-off protection for its ECML portfolios (which were underwritten from 2014 to 2019 Year of account and discontinued from 1 January 2020). A contract with Enstar was executed and signed by both parties on 4 December 2020 pending regulatory approval. Regulatory approval from the Bermuda Monetary Authority (BMA) was received on 30 December 2020 with a completion date for the transaction of 8 January 2021.

Notes to the Financial Statements (continued)

22. Ultimate parent Company

The ultimate parent Company is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley 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 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 02117, U.S.A.