Liberty Mutual Insurance Europe Societas Europaea

Annual Report and Financial Statements for the year ended 31 December 2019

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

Keith Nicholson	Chairman and Independent Non-Executive Director
Dirk Billemon	Authorised General Manager and Director (appointed 26 February 2020)
Graham Brady	Director (appointed 27 February 2019)
Nigel Davenport	Director
Philip Hobbs	Director
Matthew Moore	Director (resigned 3 December 2019)
Christopher Hanks	Independent Non-Executive Director
Fernand Grulms	Independent Non-Executive Director (appointed 1 March 2019)
Richard Reid	Independent Non-Executive Director

Authorised General Manager

Dirk Billemon (appointed 1 March 2019)

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,
1855 Grand Duchy of Luxembourg

Directors' Report

The Directors have pleasure in submitting their report, together with the audited Financial Statements of the Company, for the year ended 31 December 2019.

Principal activity and review of the business

Liberty Mutual Insurance Europe SE (LMIE, also referred to as the Company) underwrites insurance and reinsurance business from its head office in the Grand Duchy of Luxembourg (referred to as Luxembourg) and its branches across Europe. The Company's head office was previously based in the UK.

LMIE is wholly owned by Liberty Mutual Group Incorporated (LMG), a diversified global insurer. The group offers a wide range of insurance products and services to meet the needs of individuals, families and businesses through strategic business units and operating units. The Company is part of the Liberty Specialty Markets (LSM) operating unit, which operates within LMG's Global Risk Solutions strategic business unit (GRS).

Conversion of the Company to a Societas Europaea (SE)

Liberty Mutual Insurance Europe Limited was incorporated on 21 December 1972 in the United Kingdom. On 1 March 2018, the Company, formerly registered as a private company limited by shares, re-registered as a public limited company under the name of Liberty Mutual Insurance Europe PLC.

On 18 July 2018, Liberty Mutual Insurance Europe Plc adopted the legal form of a Societas Europaea by way of merger by acquisition of LSM Luxembourg S.A., a company registered in Luxembourg, and became Liberty Mutual Insurance Europe Societas Europaea (SE) with Company number SE000115 and registered office at 20 Fenchurch Street, London, United Kingdom, EC3M 3AW.

Transfer of the Company from the UK to Luxembourg

On 1 March 2019, the transfer of the registered office of the Company from the United Kingdom to Luxembourg took final effect. The Company is now registered with the Luxembourg Trade and Companies Register with company number B232280 and registered office at 5-7 Rue Leon Leval, Leudelange, L-3372, Luxembourg.

Legal identity

Throughout the conversion to a Societas Europaea and transfer to Luxembourg, the legal identity of the Company remained. The conversion and transfer did not result in liquidation of the Company or in the creation of a new legal identity.

The transfer had the following consequences:

- The Company is governed by the laws applicable in the Grand Duchy of Luxembourg.
- The Company is supervised by the Commissariat aux Assurances, the Luxembourg insurance regulator. The requisite authorisation by the Ministre du Tresor et du Budget was granted effective from 1 March 2019.
- The Company's articles of association (statutes) were completely restated as of 1 March 2019 to comply with the laws of the Grand Duchy of Luxembourg.
- The Company's share capital was converted from US dollars to Euro.
- Mr Dirk Billemon was appointed as General Manager.
- The Business of the Company is now conducted and overseen from its head office in Luxembourg.

Directors' Report (continued)

Preparation of financial statements under Luxembourg legislation

This is the first Directors' Report and financial statements prepared since the redomiciliation to Luxembourg, and as such are prepared under Luxembourg accounting law. The Directors have sought to maintain consistency with previous accounting policy where possible, and in particular have maintained the approach to valuation of the investment portfolio at fair value and recognition of defined benefit pension scheme assets and liabilities. Unrealised gains and losses in respect of the investment portfolio are now held in a revaluation reserve, net of the appropriate tax charge. The Company continues to select US dollar as the functional currency, and for this and the next accounting period has been granted permission by the Commissariat aux Assurances to present these financial statements in US dollars.

The conversion of opening balances from UK GAAP to Luxembourg accounting values resulted in a fall in shareholder equity of $3.3m, as a result of de-recognition of deferred tax assets. In addition, a number of amendments to disclosures have been made, most obviously the adoption of appropriate Luxembourg reporting formats for the key statements, and including the separate reporting of salvages and subrogations from claims in the balance sheet and technical account.

The adoption of Luxembourg accounting principles has not resulted in any change to the policies adopted for reporting the technical result or technical balances when compared to those adopted under UK GAAP.

The Company is not presenting comparative information for 2018, but is rather providing a copy of the 2018 financial statements as an addendum to these financial statements.

Branches and offices

LMIE operates from the head office in Luxembourg and through branches in the UK, France, Germany, Ireland, Italy, the Netherlands, Spain, and Switzerland. In addition, the Company opened a branch in Belgium in 2019 in furtherance of its growth plans in the Surety market.

2019 financial performance

The Company's key financial performance indicators during the year were as follows:

Key Performance Indicators	**2019** **$000**
Gross Premiums Written	2,128,935
Net Earned Premium	1,325,600
Underwriting Loss	(137,149)
Loss before taxation	(49,778)
Claims Ratio %	**75.3%**
Expense Ratio %	**35.0%**
Combined ratio % (i)	**110.3%**
Excess of assets over liabilities	1,456,259
Solvency Capital Requirement	1,247,938
Excess own funds	208,321

(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.

Underwriting performance

Gross written premiums increased by $528m in 2019, up 33% when compared to 2018. The increase in premium income reflects the success of LMIE's European growth strategy, driven by new business wins, increased line size, and favourable risk adjusted rate change. The Company's reinsurance business has also grown significantly, and includes greater than expected business transfer from the Liberty Syndicate.

The claims ratio increased from 64.9% in 2018 to 75.3% in 2019, as technical reserves were increased to reflect the impact of social inflation issues, in response to adverse emerging experience, and a perceived increase in frequency and severity of large losses in a number of classes.

The impact of the increased loss ratios was mitigated by recoveries made under a stop loss policy issued by an LMG reinsurer.

Investment Performance

Overall, total investment income increased substantially from $50m in 2018 to $87m in 2019, as yields increased in key markets. The Company also benefited from increases in unrealised gains reported through the revaluation reserve.

Foreign exchange gains / losses

The Company made a small foreign exchange gain of $0.24m, compared to a loss in 2018 of $9m. The 2018 loss reflects the strengthening of USD against GBP in the period.

Review of financial position

Financial position	**2019**
	$000
Investments and cash	3,590,549
Gross technical provisions	3,398,886
Ceded technical provisions	1,188,927
Shareholder funds	1,435,616

Shareholder funds increased by $201m in the year, mainly due to a capital injection of $200m, together with an increase in revaluation reserves in recognition of unrealised gains within the investment portfolio at December 2019, offset by the overall loss for the year. This also includes the derecognition of a deferred tax asset, following the transition from UK to Lux GAAP.

Financial investments and cash have increased from $2,950m to $3,591m due to the capital injections during the year, growth in the business, and recognition of unrealised gains in the portfolio at December 2019.

Gross technical provisions increased by $852m to $3,399m 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

The Company maintains regulatory capital coverage in line with its capital management objective as described in the Directors Report.

The Solvency II position of the Company is summarised as follows:

Solvency position	**2019**
	$000
Own Funds	1,456,259
SCR capital requirement	1,247,938
Excess Own Funds	208,231

At 31 December 2019, the Company's eligible Own Funds, determined in accordance with the Solvency II valuation rules, were $1,456m (2018: $1,251), which was in excess of our estimated SCR of $1,248m (2018: $932m). This represented a solvency coverage ratio of 117% (2018: 134%).

Due to above plan growth in 2019 and planned continued growth in 2020, the SCR has increased by 34% from the prior year with own funds supporting the SCR up by 16% from the same period. On 8 April 2020, Liberty Mutual Group approved additional capital for LMIE of up to $500m. This is in support of the growth of the Company and also to provide additional assurance should LMIE experience a reduction in Own Funds as a result of COVID-19.

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.

Intrinsic risk

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.

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.

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 and enjoyed a number of benefits from the UK being a member of the EU.

The UK left the EU on 31 January 2020, but with transitional arrangements in place until the end of 2020. A high degree of uncertainty exists around what the terms of the UK's relationship with the EU will be beyond 2020, and whether any benefits of the current four freedoms of the EU will remain.
As a result, LMIE has entered discussions with the UK regulator (the PRA) regarding an application the Company is making for the authorisation of the UK branch in accordance with the PRA's transitional regime. The Company has no expectation that the application 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

COVID-19

The COVID-19 pandemic is a post-balance sheet event causing global economic uncertainty and social restrictions which are directly impacting the market. LMIE's Business Continuity Plan has been triggered and until further notice, all employees are working remotely. Systems and processes are in place to ensure that we continue to deliver a high level of service and responsiveness to brokers, clients and other key external stakeholders.

The risk impact to LMIE is being regularly monitored, including an assessment of whether the controls currently in place provide adequate mitigation. The controls in place to manage the increased risk include:

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

- Executive Committee meetings held weekly to consider development of the global pandemic and implement business continuity actions in line with government advice;

- Ongoing monitoring of the impact on LMIE's assets and liabilities, claims, and solvency position with planned management actions in place to respond; and where appropriate regular engagement with the market and regulators via numerous fora.

Risk mitigation techniques

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

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

- **Risk exposure** - 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.

Directors' Report (continued)

- **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.

The COVID-19 pandemic has created operational and economic uncertainty, with turbulence in financial markets which has impacted individuals and businesses. The full impact of this on the insurance industry is uncertain and our initial assessment has identified those lines of business most likely to be impacted, however the full extent of losses and the impact upon pricing will become clearer as the year progresses.

The subsequent spread of the virus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event. The associated conditions giving rise to a pandemic materialised after the balance sheet date. Management will regularly monitor developments in this area and take appropriate actions as needed. Note 20 events after the balance sheet date also provides further detail.

Future outlook

We are publishing this report at a challenging time where COVID-19 will test our people, our customers, our partners, our governments, and our own organisation. We are confident in our ability to meet the challenges we face and particularly support our business partners and customers in their time of need.

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.

Approved by the Board of Directors and signed on behalf of the Board by:

Dirk Billemon
Director
22 May 2020

Independent Auditor’s Report to the Shareholders of Liberty Mutual Insurance Europe SE

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 2019, 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 2019, 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 Company 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.

Independent Auditor's Report to the Shareholders of Liberty Mutual Insurance Europe SE (continued)

Key audit matters (continued)

Valuation of the gross IBNR provisions for insurance liabilities (included within Claims Outstanding, Note 17)

Description

At 31 December 2019, the provision for claims outstanding amounts to $3.398.219.000 of which $2.026.000.000 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 the 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.
In addition, we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the valuation of provisions for insurance liabilities.

Independent Auditor’s Report to the Shareholders of Liberty Mutual Insurance Europe SE (continued)

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.

Independent Auditor's Report to the Shareholders of Liberty Mutual Insurance Europe SE (continued)

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.

Independent Auditor's Report to the Shareholders of Liberty Mutual Insurance Europe SE (continued)

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Shareholders on 1 March 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 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, xxxx

Balance Sheet – Assets
at 31 December 2019

	Notes	2019 $000
Investments		
Shares in related companies	**9**	19
Bonds and bonds issued by affiliated companies and loans to these companies		47,499
Shares and other variable-income securities and units in funds	**10**	29,072
Bonds and other fixed income securities	**10**	3,211,576
Deposits with credit institutions		112,460
Deposits with ceding undertakings		87,439
		3,488,065
Subrogation and salvages		17,534
Reinsurers' share of technical provisions		
Provision for unearned premiums		426,417
Provision for claims outstanding		1,188,927
		1,615,344
Debtors		
Debtors arising out of direct insurance operations - intermediaries		326,705
Debtors arising out of reinsurance operations		1,046,225
Other debtors		224,129
		1,597,059
Other assets		
Tangible assets	**11**	5,292
Cash at bank and in hand		150,018
Other assets	**2.3.(18)**	8,837
		164,147
Prepayments and accrued income		
Deferred acquisition costs		405,468
Other prepayments and accrued income		23,517
		428,985
Total assets		**7,311,134**

The notes on pages 24 to 31 form part of these accounts.

Balance Sheet – Liabilities
at 31 December 2019

	Notes	2019 $000
Capital and reserves		
Called up share capital	**12**	290,269
Share premium account	**12**	660,000
Revaluation reserve	**12**	48,662
Profit brought forward	**12**	499,554
Loss for the year	**12**	(62,869)
		1,435,616
Technical provisions		
Provision for unearned premiums		1,551,579
Provision for claims outstanding		3,416,420
		4,967,999
Provision for other risks and charges		
Provision for taxation		17,387
Other provisions	**17**	1,537
		18,924
Creditors		
Creditors arising out of direct insurance operations	**15**	39,479
Creditors arising out of reinsurance operations	**15**	383,973
Other creditors including taxation and social security	**15**	235,308
		658,760
Accruals and deferred income		229,835
Total liabilities		**7,311,134**

The notes on pages 24 to 31 form part of these accounts.

Profit & Loss: Technical Account – Non Life Insurance Business

for the year ended 31 December 2019

	Notes	2019 $000
Gross premiums written	3	2,128,935
Outward reinsurance premiums		(564,031)
Net premiums written		**1,564,904**
Change in the provision for unearned premiums:		
Gross amount	3	(291,029)
Reinsurers' share		51,725
Change in net provision for unearned premiums		**(239,304)**
Earned premiums, net of reinsurance		**1,325,600**
Allocated investment return transferred from the non-technical account		79,415
Claims incurred, net of reinsurance:		
Claims paid		
Gross amount	3	(729,950)
Reinsurers' share		239,989
Net claims paid		**(489,961)**
Change in provision for claims:		
Gross amount	3	(819,540)
Reinsurers' share		294,030
Change to the net provision for claims		**(525,510)**
Change in net subrogation and salvages	3	**16,993**
Claims incurred net of reinsurance		**(998,478)**
Net operating expenses:		
Acquisition costs	4	(495,394)
Change in deferred acquisition costs	4	81,121
Administrative expenses	6,7	(162,135)
Reinsurance commission and profit participation	4	112,137
Net operating expenses		**(464,271)**
Balance on the Technical account for Non Life Business		**(57,734)**

The notes on pages 24 to 31 form part of these accounts.

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

for the year ended 31 December 2019

	Notes	2019 $000
Balance on the Technical account for Non Life Business		(57,734)
Investment income and gains on realisation of investments		91,094
Unrealised gains on investments		50
Investment expenses and charges		(4,012)
Allocated investment return transferred to the general business technical account		(79,415)
Exchange gains		239
Loss on ordinary activities before tax		**(49,778)**
Tax on loss on ordinary activities	**8**	(13,091)
Loss on ordinary activities after tax		**(62,869)**

The notes on pages 24 to 31 form part of these accounts.

The Financial Statements were approved by the Board of Directors on 19 May 2020 and were signed on its behalf by:

Dirk Billemon
Director
22 May 2020

Notes to the Financial Statements
for the year ended 31 December 2019

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, changed its domicile from the UK to Luxembourg effective 1 March 2019.

On the same date, the Company redenominated and consolidated share capital of 290,090,800 ordinary shares of 1 US dollar to 255,279,904 ordinary shares of 1 Euro.

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, including a description of the Company's operations to change location of its registered office from UK to Luxembourg effective 1 March 2019.

The financial statements cover those of the individual entity and are prepared as at, and for the year ended, 31 December 2019. It is not appropriate to report the periods before and after redomiciliation on 1 March 2019 separately, as there was no change in the Company's assets, liabilities, or results on that date.

The balance sheet and profit and loss account do not show any corresponding financial year figures; as last year's annual report was presented in compliance with the United Kingdom Companies Act 1985. The annex of this annual account contains the 2018 annual report of the Company as filed in the Companies Register on 15 May 2019.

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 Commissariat aux Assurances, are determined and applied by the Board of Directors.

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.

2.3. Summary of significant accounting policies

2.3.(1). Foreign currency

The Company maintains its books in USD, and these financial statements are expressed in this currency.

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

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.

Exchange differences are recorded in the non-technical 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.

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 held as available for sale and measured at fair value. Changes in fair value are recognised in the revaluation reserve and as a separate component in equity, except for interest (which is recognised in income on an effective yield basis), value adjustment and foreign exchange gains or losses. The value of the instruments will be evaluated periodically and where a reduction in value is considered permanent in nature, an adjustment will be made so that the valuation is at the lower value to be attributed to them at the balance sheet date. 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.

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.

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.

Notes to the Financial Statements (continued)

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.

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.

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.

The Company recognises a net surplus or liability in respect of its rights and obligations to a surplus or deficit in the Scheme.

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.

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:

	2019 Direct Insurance $000	2019 Reinsurance acceptances $000
Gross premiums written	1,385,832	743,103
Gross premiums earned	1,155,697	682,209
Gross claims incurred	(970,256)	(562,241)
Gross operating expenses	(374,999)	(201,409)
Reinsurance balance	106,976	26,874
Net technical account before allocated investment return	**(82,582)**	**(54,567)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2019, the lines of business split for the direct insurance business were as follows:

	2019 Accident and health $000	2019 Motor, general liability $000	2019 Motor, other $000	2019 Marine, aviation and transport, $000	2019 Fire and other damage to property $000	2019 General liability $000	2019 Credit and Suretyship $000	2019 Others $000	2019 Total $000
Gross premiums written	869	300	15,156	124,085	230,296	738,244	178,807	98,075	1,385,832
Gross premiums earned	609	93	11,960	96,717	188,605	637,831	126,851	93,031	1,155,697
Gross claims incurred	(336)	(1,768)	(19,651)	(70,939)	(110,691)	(635,611)	(83,312)	(47,948)	(970,256)
Gross operating expenses	(231)	(83)	(2,871)	(29,424)	(59,431)	(197,543)	(41,250)	(44,166)	(374,999)
Reinsurance balance	9	(1,729)	6,054	13,488	(9,891)	91,975	1,060	6,010	106,976
Net technical account before allocated investment return	**51**	**(3,487)**	**(4,508)**	**9,842**	**8,592**	**(103,348)**	**3,349**	**6,927**	**(82,582)**

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

	2019 $000
Luxembourg	11,158
UK	477,392
USA	254,529
Other EU Member States	472,150
Other Countries	913,706
Total	**2,128,935**

4. Commissions

Commissions payable to intermediaries during the year amounted to $414,272,924 in respect of direct written premium, and to $112,137,675 in respect of reinsurance premiums accepted. Included within these amounts are commissions due to LSME and LSME MENA, both related parties, totalling $82,368,061. 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. All European staff are employed by Liberty Specialty Markets Europe S.A.R.L. (LSME). The following amounts were incurred by the Company for the staff seconded from LSML:

	2019 $000
Wages and salaries	64,766
Social security costs	7,904
Other pension costs	9,364
Total	**82,034**

Notes to the Financial Statements (continued)

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

	2019 Number
Underwriting	255
Claims	51
Administration	302
Management	3
Total	**611**

6. Remuneration to the Board of Directors

Emoluments granted in respect of the 2019 financial year to the members of the Board of Directors by reason of their responsibilities amounted to $1,095k (2018: $3,504k) and are shown as part of administrative expenses in the profit and loss account.

During the year, none of the directors were members of the defined benefit contribution scheme (2018: none). The directors were employed by fellow Group companies.

7. Auditor's Remuneration

The audit fees (excluding VAT) for the year ended 31 December 2019 amounted to $1,404k (2018: $1,198k) and represent fees for the audit of the annual accounts and related regulatory reports, as well as branch statutory audits. During 2019, $11k (2018: 11k) of non-audit related fees were also paid to the auditor, relating to the audit of the defined benefit pension scheme. During 2019, $216k of audit and non-audit related fees were paid to Ernst & Young S.A. The fees to the auditor are included in administrative expenses in the profit and loss account.

8. Taxation

8.1 Tax on loss on ordinary activities

Current tax debts consist of:

	2019 $'000
Corporate income tax (domestic)	(7,398)
Municipal income tax	(2,735)
Net wealth tax	-
Foreign taxes	10,329
Current tax recoverable at 31 December 2019	196

LMIE was not a Luxembourg resident company on 1 January 2019 and as such is not required to pay the net wealth tax for the 2019 fiscal year.

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:

	2019 $'000
Pension scheme asset	(3,114)
Unrealised gains/losses on investments	(14,469)
Deferred tax at 31 December 2019 asset/(liability)	(17,583)

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. Investment in affiliated undertakings and participating interests

The investment in affiliated undertakings and participating interests relates solely to LMIE Spain S.L., a dormant company incorporated in Spain, in which the Company holds a 100% investment in ordinary shares. The subsidiary has not traded since incorporation, and has a current value of €3k.

It is the opinion of Management and the Board of Directors that no indication of significant impairment exists at 31 December 2019.

10. Financial investments

2019	**Carrying Value $000**	**Purchase Price $000**
Shares and other variable yield securities and units in unit trust	29,072	28,381
Debt securities and other fixed income securities	3,211,576	3,161,426
Total	**3,240,648**	**3,189,807**

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
2019				
Shares and other variable yield securities and units in unit trusts	-	-	29,072	29,072
Debt securities and other fixed income securities	449,013	2,760,924	1,639	3,211,576
Total	**449,013**	**2,760,924**	**30,711**	**3,240,648**

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

For debt securities 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.

11. Tangible assets

	Leasehold improvements	Fixtures, fittings & equipment	Total
	$000	**$000**	**$000**
Cost:			
At 1 January 2019	6,207	4,273	10,480
At 31 December 2019	**6,207**	**4,273**	**10,480**
Accumulated depreciation:			
At 1 January 2019	1,462	2,799	4,261
Charge for the year	365	562	927
At 31 December 2019	**1,827**	**3,361**	**5,188**
Carrying value at 31 December 2019	4,380	912	5,292

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:

2019	Called up share capital $000	Share premium account $000	Revaluation reserve $000	Legal reserve $000	Retained earnings and Profit and loss account $000	Total $000
At 1 January 2019 per UK GAAP	290,269	460,000	(18,692)	-	502,807	**1,234,384**
Derecognition of deferred tax asset	-	-	-	-	(3,253)	**(3,253)**
At 1 January 2019 per Luxembourg GAAP	290,269	460,000	(18,692)	-	499,554	**1,231,131**
Shares issued for cash	-	200,000	-	-	-	**200,000**
Currency translation gain on Share Capital redenomination	-	-	-	-	-	**-**
Increase of Revaluation reserve	-	-	67,354	-	-	**67,354**
Loss for the year	-	-	-	-	(62,869)	**(62,869)**
At 31 December	**290,269**	**660,000**	**48,662**	**-**	**436,685**	**1,435,616**

Share premium account

This statutory reserve records the amount of the nominal value received for shares sold, less transaction costs. The movement on the share premium reserve in the year was $200m.

Revaluation reserve

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

13. Redenomination of share capital

Effective 7 January 2019, outstanding ordinary shares of the Company were redenominated from USD to EUR at an exchange rate of $1.00/€0.88 resulting in an increase in the number of shares in issue to 255,279,904 shares of one Euro each.

14. 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 2019.

15. Classification of creditors according to duration

	2019 $000 Less than 5 years
Creditors arising out of direct insurance operations	39,479
Creditors arising out of reinsurance operations	383,973
Other creditors including taxation and social security	235,308
	658,760

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

	2019 $000
Debtors	
Debtors arising out of reinsurance operations	43,214
Other Debtors	68,286
	111,500
Creditors	
Creditors arising out of reinsurance operations	190,162
Other Creditors, including tax and social security	235,308
	425,470

17. Other provisions

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

	2019 $000
At 1 January	125
Onerous lease charge inc. dilapidations	1,412
At 31 December	**1,537**

The onerous lease provision represents unoccupied properties.

18. Unexpired risk reserve

No allowance for unexpired risk is required as at 31 December 2019.

19. Other commitments

Debt securities and deposits with credit institutions amounting to $91,660k (2018: $230,938k) have been pledged as security in connection with certain of the Company's overseas liabilities.

20. Off-balance sheet arrangements

The Company benefits from collateral pledged by counterparties, which is not held on the balance sheet. The collateral is held in segregated funds, and acts as additional security in the event of failure of those counterparties to meet their contractual obligations.

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.

21. 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 2018.

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 GBP334,544 (USD443,187) 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 €902,527 (USD1,013,085), and have an expiry date in 2029.

22. Events after the balance sheet date

In the period since the year end, the COVID-19 pandemic has crystallised as a risk and is treated as an event under the entity's Business Continuity Plan, requiring oversight by a Crisis Management Team ("CMT") with effect from 24 February 2020. All staff have been instructed to work remotely, since Tuesday 17 March 2020.

Even though remote working may pose a number of challenges to staff across LSM, some of which will be unanticipated at this stage, LSM is committed to ensuring that staff across the business receive adequate support and guidance in maintaining their personal health and well-being. The Board are confident that systems and processes are in place to ensure that we continue to deliver a high level of service and responsiveness to brokers, clients and regulators.

The recent volatility in financial markets and current economic uncertainty on individuals and businesses could lead to claims across a number of classes. At this early stage of development, it is difficult to assess the financial impact of any potential claims on either technical provisions or capital requirements. However, taking into consideration current laws and regulations, we do not expect these to impact LMIE's ability to satisfy its' regulatory solvency requirements. This is being treated as a non-adjusting event, as the associated conditions giving rise to a pandemic materialised after the balance sheet date.

23. 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.