

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

FINANCIAL CONDITION REPORT

As at 31st December 2021

Contents

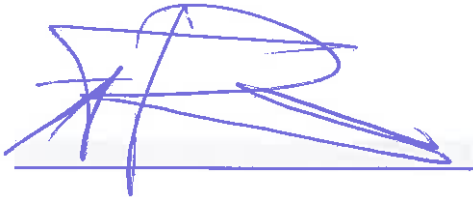
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GENERAL MANAGER'S STATEMENT

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

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

This report was reviewed and approved by Felix Böni, General Manager Switzerland, on 29 April 2022.



Felix Böni

General Manager Switzerland

29 April 2022

MANAGER'S SUMMARY

Introduction

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

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

- Liberty Mutual Insurance Europe Societas Europaea, Zurich Branch ('the Branch' or 'LMIE Zurich') audited financial statements for the year ended 31 December 2021 disclosed in Appendix C.
- The Solvency Financial Condition Report ('SFCR') published by the head office, Liberty Mutual Insurance Europe Societas Europaea ('LMIE'). A copy of the full document will be forwarded to FINMA and will be published on the firm's website in accordance with EIOPA regulation.

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

<https://www.libertyspecialtymarkets.com/gb-en/investor-relations>

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

Business activities

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

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

Business performance

The following table sets out the key elements of LMIE Zurich's financial performance in 2021.

CHF'000	2021	2020	Variance	%
Gross Written premiums	72,241	54,410	17,831	33%
Net Earned Premiums	21,141	35,601	(14,360)	(40%)
Net Claims Incurred	(15,494)	(24,169)	8,675	(36%)
Change in equalisation reserve	1,556	(3,239)	4,795	(148%)
Net Acquisition and administration expenses	(10,735)	(15,282)	4,547	(30%)
Underwriting result	(3,432)	(7,089)	3,657	(52%)
Net Claims ratio (excluding equalisation reserve)	73%	68%		5%
Net Expense ratio	51%	43%		8%
Net Combined ratio	124%	111%		13%

LMIE Zurich continued to grow business within the LMIE strategic European growth walk initiative, despite the challenges of the market environment. Gross written premiums increased by 33% as it continued to grow its business in line with the Company's strategy.

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

Systems of Governance

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

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

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

Risk Management

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

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

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

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

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Environmental, Social & Governance Risk (ESG)

LMIE's RMF also identifies sources of 'other risk' which are not fully captured via the quantitative risk modelling process:

- Strategic risk
- Group risk

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

Environmental, Social & Governance Risk

Responsible Business and Climate Change

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

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

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

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

Climate Change Risk

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

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

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

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

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

COVID-19

The ongoing COVID-19 global pandemic made 2021 another challenging period for our people, our customers and economies around the world. LMIE has demonstrated impressive resilience during this challenging time. LMIE continues to pay out claims to our customers impacted, and internally support our staff. Management has continuously monitored, reviewed and assessed the impacts of COVID-19. LMIE remains well capitalised to withstand the impacts of the pandemic.

Management will continue to monitor the pandemic closely, and pro-actively take action where necessary. Significant work has taken place around Operational Resilience during 2021, driven both by LSM's strategy and increased regulatory focus implying that LMIE is in a strong position to deal with future disruption.

Russia & Ukraine Conflict

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

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

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

Risk mitigation techniques

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

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

- **Risk exposure** - The Zurich Branch only covers a small number of policies with a high risk of damage (Contingency and Financial Risk Solutions), and the expected financial impact is therefore small. The D&O business is currently uncertain and emerging experience is being monitored. The remaining business areas are considered to be low-risk.
- **Exchange rate risk** - LMIE's administrative expense payments are transacted in Euro, Sterling Swiss Francs, and US Dollars and therefore the Company is exposed to fluctuations

in the relevant exchange rates. In order to minimise this foreign exchange risk, cash assets are held in the aforementioned currencies with appropriate asset liability matching in place;

- **Investment portfolio and economic risks** - the COVID-19 impact to date on the Tied Asset assets held by LMIE has been negligible, as the company's tied assets are all cash deposits held with FINMA-approved banks in Switzerland.
- **Tied Asset Coverage and Technical Provisions** – The Zurich Branch tied assets (as defined) by Article 74 have been covered at all times during 2020 and 2021 to date.

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

In addition to the above, the Zurich Branch benefits from LMIE wide significant reinsurance coverage.

Valuation for solvency purposes

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

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

Capital position

Throughout 2021, the Zurich Branch Management Committee has monitored the tied assets of LMIE Zurich. As at 31st December 2021 the solvency position of LMIE Zurich is:

CHF'000	2021	2020
Total Available Capital	186,458	148,927
Total Required Capital	152,724	123,386
Capital Surplus	33,734	25,541
Capital Coverage Ratio	122%	121%

As part of LMIE's ongoing capital monitoring and the higher-than-anticipated premium performance in 2021, LMIE Zurich had 2 capital injections totalling CHF 33.2m during the year, maintaining a solvency coverage ratio above 120%.

On the level of LMIE, the company has a solvency capital ratio of 172% from a Solvency II perspective. Given the above actions taken over the course of 2021, there is appropriate headroom in capital to support the business across the next 12 months.

SECTION A - BUSINESS ACTIVITIES

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

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

LMIE Zurich's objective is to grow market presence by practising technical underwriting, whilst maintaining a combined ratio that is within the Branch's risk appetite. Management expects a less hardening market where the premium rates will remain unchanged or even be slightly reduced depending on the different lines of businesses and the geographical scope (e.g. with or without US exposure).

SECTION A. 2 – Group information and group related transactions

A.2.1 Group information

Liberty Mutual Insurance Europe Societas Europaea (LMIE) is a regulated insurance company incorporated in Luxembourg (Registration number B232280 (Registre de Commerce et des Sociétés)).

The immediate parent Company is Liberty Specialty Markets Holdco S.L.U (LSMH).

The ultimate parent Company is Liberty Mutual Holding Company Inc. (hereinafter referred to as LMHC) 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 European Holdings, S.L.U. (hereinafter referred to as LIEH), domiciled in Spain.

LMIE consolidates into the LIEH for Solvency II purposes and therefore is subject to Group supervision by the "Dirección General de Seguros" (DGS), which is located in Paseo de la Castellana, 44, Madrid, Spain, and is assisted by Subgroup Colleges of Supervisors for the coordination of supervisory activities.

The LIEH College of Supervisors thus includes the DGS (as Chair), Commissariat Aux Assurances (as LMIE SE's home state regulator), Central Bank of Ireland (CBI) and the Autoridade de Supervisão de Seguros e Fundos et Pensões (ASF, Portuguese Supervisor).

Following the end of the Brexit transition period on 31 December 2020, the PRA is invited to attend the College as an observer, and has done so.

At the global level, the Group supervision is undertaken by the Division of Insurance of the Commonwealth of Massachusetts, located in 1000 Washington Street, 8th Floor, Boston, MA 02118, US.

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

Commissariat Aux Assurances
7 Boulevard Joseph II
L-1840 Luxembourg

A 2.2 Group related transactions

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

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

LSME and LSME 2 act as in-house coverholders and continued underwriting on behalf of LMIE from its branches throughout Europe.

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

SECTION A. 3 – Shareholder information

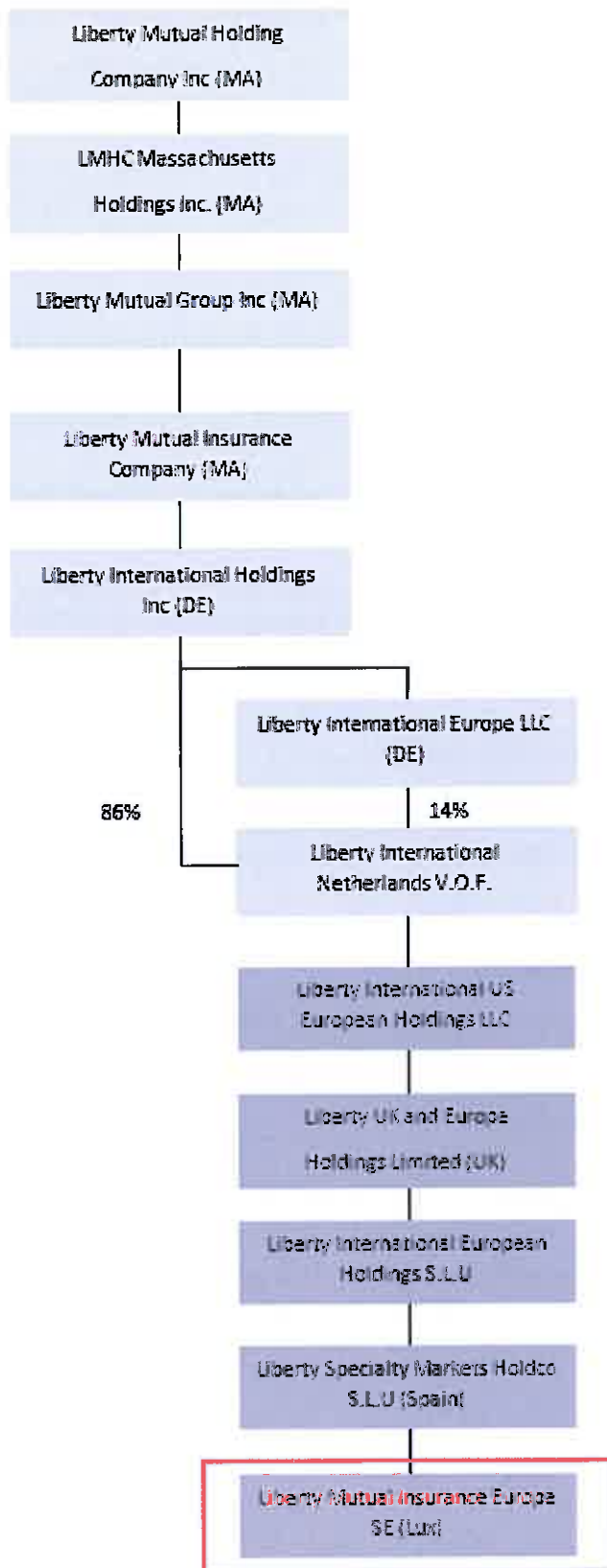
LMIE Zurich is a branch of LMIE and as such, LMIE owns all capital rights of LMIE Zurich. LMIE is wholly owned by Liberty Mutual Group Incorporated, a diversified global insurer.

SECTION A. 4 – Major branches

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

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

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



*Unless otherwise stated ownership is 100%.

SECTION A. 5 – External auditor

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

Ernst & Young Ltd
Maagplatz 1
8005 Zurich
Switzerland

SECTION A. 6 – Significant unusual events

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

SECTION B – BUSINESS PERFORMANCE

SECTION B. 1 – Underwriting performance

The table below provides key performance indicators for the Branch:

CHF'000	2021	2020	Variance	%
Gross Written premiums	72,241	54,410	17,831	33%
Net Earned Premiums	21,141	35,601	(14,360)	(40%)
Net Claims Incurred	(15,494)	(24,169)	8,675	(36%)
Change in equalisation reserve	1,556	(3,239)	4,795	(148%)
Net Acquisition and administration expenses	(10,735)	(15,282)	4,547	(30%)
Underwriting result	(3,432)	(7,089)	3,657	(52%)
Net Claims ratio (excluding equalisation reserve)	73%	68%		5%
Net Expense ratio	51%	43%		8%
Net Combined ratio	124%	111%		13%

LMIE Zurich generated CHF 72,241k of gross written premium compared to CHF 54,410k in 2020, as it continued to grow its business in line with LMIE's strategy.

The net earned premiums amounted to CHF 21,141k compared to CHF 35,601k in 2020. Lower net earned premiums is driven by significantly higher ceded written premium following implementation of a Whole Account Quota Share (WAQS) agreement with Liberty Mutual Insurance Company (LMIC). The WAQS contract is a 60% cession on a "loss occurring during" financial year basis that is placed after all other LMIE reinsurance. The WAQS treaty was signed in July 2021 with retroactive effect from January 2021.

The combined ratio has increased from 111% in 2020 to 124% in 2021, driven by an increase in both net claims and expense ratios.

Net claims incurred (excluding movements in the equalisation reserve) decreased from CHF 24,169k in 2020 to CHF 15,494k in 2021. Direct comparison with the figures of 2020 cannot be made due to the implementation of the WAQS. The 2021 paid position was impacted by a large settlement of USD 6.4m for an Energy claim. There has also been an increase in gross reserves, specifically IBNR positions.

Net acquisition costs and administrative expenses decreased from CHF 15,282k in 2020 to CHF 10,735k in 2021. Gross commissions and administrative expenses have risen in line with increased written premium but are offset by the Ceded commissions following the recognition of the WAQS.

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

Year ended 31 December 2021

CHF'000	Accident	Transport	Fire, natural hazards, property damage	General third-party liability	Other branches	Total
Gross premiums	1,075	3,057	10,746	52,296	5,066	72,241
Net Earned Premiums	422	1,040	3,779	14,402	1,598	21,241
Payments for insurance claims (gross)	(338)	(1,333)	(6,198)	(6,092)	(1,068)	(15,028)
Reinsurers' share of payments for insurance claims	220	813	4,472	3,978	737	10,219
Change in technical provisions	229	(494)	2,575	(24,685)	(3,944)	(26,319)
Reinsurers' share of change in technical provisions	(245)	115	(3,655)	21,261	(289)	17,188
Net Claims Incurred	(131)	(898)	(2,808)	(5,539)	(4,564)	(13,938)
Net Acquisition and administration expenses	(225)	(490)	(1,994)	(7,261)	(764)	(10,735)
Underwriting result	66	(347)	(1,021)	1,602	(3,731)	(3,432)

Year ended 31 December 2020

CHF'000	Fire, natural hazards, property damage	General third- party liability	Total
Gross premiums	8,892	45,518	54,410
Net Earned Premiums	7,537	28,064	35,601
Payments for insurance claims (gross)	(3,851)	(8,571)	(12,422)
Reinsurers' share of payments for insurance claims	66	184	255
Change in technical provisions	(2,369)	(13,675)	(16,044)
Reinsurers' share of change in technical provisions	5,109	787	(168)
Net Claims Incurred	(5,249)	(22,159)	(27,408)
Net Acquisition and administration expenses	(2,263)	(13,019)	(15,282)
Underwriting result	25	(7,114)	(7,089)

SECTION B. 2 – Financial performance

The Branch had CHF 629k of financial expenses during the year ended 31 December 2021, comprising negative interest charges on bank deposits held in Swiss Franc. (2020: financial expenses of CHF 584k).

For 2021, LMIE received an allocation of LMIE investment return of CHF 1,219k in accordance with the Company's transfer pricing policy. The income is classified as Other Income in the Branch Income Statement.

The Branch's primary financial assets consist of cash and bank deposits of CHF 181,218k (2019: CHF 146,166k).

SECTION B. 3 – Other income and expenses

The Company had CHF 380k of foreign exchange gains (2020: gains of CHF 1,699k). The decrease is a result of the strengthening of the USD against the CHF through the year ended 31 December 2021.

GLOSSARY OF TERMS

Reference	Description	Reference	Description
CHF	Swiss Franc	ORSA	Own Risk and Solvency Assessment
GBP	Great British Pound	LSM	Liberty Specialty Markets
SFCR	Solvency and Financial Condition Report	PRA	Prudential Regulation Authority
LMIE	Liberty Mutual Insurance Europe SE	RMF	Risk Management Framework
USD	United States Dollar	LSME	Liberty Specialty Markets Europe Sarl
CaA	Commissariat aux Assurances	LSME 2	Liberty Specialty Markets Europe Two Sarl

APPENDIX B - Auditor's report

APPENDIX C - Branch annual report

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

Zurich, 29 April 2022

Independent auditor's report

As a federally-supervised audit firm, we have audited the accompanying financial statements of the Liberty Mutual Insurance Europe SE, Leudelange, Zurich branch, which comprise the balance sheet as of 31 December 2021, and the income statement and notes for the year then ended, in line with article 28 para. 2 of the Insurance Supervision Act (ISA) and with reference to the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)".

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



General Manager's Responsibility for the financial statements

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



Auditor's responsibility

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

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

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



Opinion


In our opinion, the financial statements of the Zurich branch office of the Liberty Mutual Insurance Europe SE, Leudelange, Zurich branch as of and for the year ended 31 December 2021 are prepared, in all material respects, in accordance with the financial reporting provisions of the Swiss Code of Obligations, the requirements of supervision law (in particular FINMASA, ISA, ISO and ISO-FINMA) and with the WNL.



Basis of accounting

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

Ernst & Young Ltd



Armin Imoberdorf
(Qualified
Signature)
Licensed audit expert
(Auditor in charge)



Pascal Nikles
(Qualified
Signature)
Licensed audit expert

Enclosures

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

Liberty Mutual Insurance Europe Societas Europaea

Zurich Branch

**Annual Report and Financial Statements
31 December 2021**

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Directors and Administration

Directors

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

Registered Office

Lintheschergasse 19, Zürich 8001

Branch Manager

Felix Böni

Registered Auditor

Ernst & Young LLP

Management Report

For the year ended 31 December 2021

Overview:

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

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

Business performance:

LMIE Zurich continued to grow business during the year ended 31 December 2021 despite the challenges of the market environment. The table below provides key performance indicators for the Branch:

CHF'000	2021	2020	Variance	%
Gross Written premiums	72,241	54,410	17,831	33%
Net Earned Premiums	21,141	35,601	(14,360)	(40%)
Net Claims Incurred	(15,494)	(24,169)	8,675	(36%)
Change in equalisation reserve	1,556	(3,239)	4,795	(148%)
Net Acquisition and administration expenses	(10,735)	(15,282)	4,547	(30%)
Underwriting result	(3,432)	(7,089)	3,657	(52%)
<hr/>				
Net Claims ratio (excluding equalisation reserve)	73%	68%		5%
Net Expense ratio	51%	43%		8%
Net Combined ratio	124%	111%		13%

LMIE Zurich generated CHF 72,241k of gross written premium compared to CHF 54,410k in 2020, as it continued to grow its business in line with LMIE's strategy.

The net earned premiums amounted to CHF 21,241k compared to CHF 35,601k in 2020. Lower net earned premiums is driven by significantly higher ceded written premium following implementation of a Whole Account Quota Share (WAQS) agreement with Liberty Mutual Insurance Company (LMIC). The WAQS contract is a 60% cession on a "loss occurring during" financial year basis that is placed after all other LMIE reinsurance. The WAQS treaty was signed in July 2021 with retroactive effect to January 2021.

Net claims incurred (excluding movements in the equalisation reserve) decreased from CHF 24,169k in 2020 to CHF 15,494k in 2021. Direct comparison with the figures of 2020 cannot be made due to the implementation of the WAQS. The 2021 paid position was impacted by a large settlement of \$6.4m for an Energy claim. There has also been an increase in gross reserves, especially IBNR positions.

Net acquisition costs and administrative expenses decreased from CHF 15,282k in 2020 to CHF 10,735k in 2021. Gross commissions and administrative expenses have risen in line with increased written premium but are offset by the Ceded commissions following the recognition of the WAQS.

LSME and LSME 2 act as in-house coverholders and continued underwriting on behalf of LMIE from its branches throughout Europe.

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

Management Report (continued)

For the year ended 31 December 2021

The average annual number of full-time positions:

The Branch had no employees in 2021 (2020: nil).

The Branch's conduct of a risk assessment:

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

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

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

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

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Environmental, Social & Governance Risk

LMIE's RMF also identifies sources of 'other risk' which are not fully captured via the quantitative risk modelling process:

- Strategic risk
- Group risk

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

Environmental, Social & Governance Risk

Responsible Business and Climate Change

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

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

LMIE continues to comply with evolving European and EIOPA ESG sustainability requirements. As a member of the LIEH Solvency Reporting Group, LMIE has met the product disclosure requirements set out in Article 8 of the European Taxonomy Regulation (EU Taxonomy Regulation) on how and to what

Management Report (continued)

For the year ended 31 December 2021

extent our insurance activities are associated with environmentally sustainable economic activities, across defined product classes.

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

Climate Change Risk

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

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

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

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

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

Management Report (continued)

For the year ended 31 December 2021

7. Enhance reporting	Publishing an annual summary, from 2022, of our climate approach and key activities in the first LSM ClimateWise report
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COVID-19

The ongoing COVID-19 global pandemic made 2021 another challenging period for our people, our customers and economies around the world. LMIE has demonstrated impressive resilience during this challenging time. LMIE continues to pay out claims to our customers impacted, and internally support our staff. Management has continuously monitored, reviewed and assessed the impacts of COVID-19. LMIE remains well capitalised to withstand the impacts of the pandemic.

Management will continue to monitor the pandemic closely, and pro-actively take action where necessary. Significant work has taken place around Operational Resilience during 2021, driven both by LSM's strategy and increased regulatory focus implying that LMIE is in a strong position to deal with future disruption.

Russia & Ukraine Conflict

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

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

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

Risk mitigation techniques

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

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

- **Risk exposure** - The Zurich Branch only covers a small number of policies with a high risk of damage (Contingency and Financial Risk Solutions), and the expected financial impact is therefore small. The D&O business is currently uncertain and emerging experience is being monitored. The remaining business areas are considered to be low-risk.
- **Exchange rate risk** - LMIE's administrative expense payments are transacted in Euro, Sterling Swiss Francs, and US Dollars and is therefore exposed to fluctuations in the relevant exchange

Management Report (continued)

For the year ended 31 December 2021

rates. In order to minimise this foreign exchange risk, cash assets are held in the aforementioned currencies with appropriate asset liability matching in place;

- **Investment portfolio and economic risks** -the COVID-19 impact to date on the Tied Asset assets held by LMIE has been negligible, as the branch's tied assets are all cash deposits held with FINMA-approved banks in Switzerland.
- **Tied Asset Coverage and Technical Provisions** – The Zurich Branch tied assets (as defined) by Article 74 have been covered at all times during 2020 and 2021 to date.

The Directors regularly monitor credit risk, interest rate risk and currency risk in respect of debtors and other assets. In addition to the above, the Zurich Branch benefits from LMIE wide significant reinsurance coverage.

Research and development activities

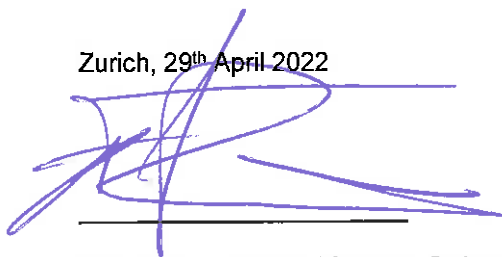
The Zurich branch continues to participate in, and benefit from, wider Liberty Mutual Group research and development capabilities in relation to product development and business digitalisation.

Future prospects

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

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

Zurich, 29th April 2022



Felix Böni – General Manager Switzerland

Income Statement

For the year ended 31 December 2021

CHF'000	Notes	2021	2020
Gross Written Premiums		72,241	54,410
Reinsurers' share of written premiums		(49,961)	(19,181)
Net Written Premiums		22,280	35,229
Gross change in unearned premiums	7	(1,401)	(3,377)
Reinsurers' share of change in unearned premiums	7	362	3,749
Net Earned Premiums		21,241	35,601
Total income from insurance business		21,241	35,601
Gross claims paid		(15,026)	(12,422)
Reinsurers' share of claims paid		10,219	439
Gross change in claims and equalisation reserve	7	(26,319)	(16,044)
Reinsurers' share of changes in claims reserves	7	17,188	619
Net Claims Incurred		(13,936)	(27,408)
Acquisition costs		(19,613)	(15,618)
Reinsurers' share of acquisition costs		14,486	3,472
Net Acquisition costs		(5,127)	(12,146)
Administrative expenses	8	(5,608)	(3,136)
Total expenses from insurance business		(24,673)	(42,690)
Other financial expenses		(629)	(584)
Operating result		(4,061)	(7,673)
Other income / (expenses)	9	1,699	3,452
Result before taxes		(2,463)	(4,221)
Direct Taxes		(2,309)	(13)
Result after taxes		(4,772)	(4,234)

Balance Sheet

As at 31 December 2021

CHF'000	Notes	2021	2020
Assets			
Cash and Cash equivalents	2	181,218	146,166
Reinsurers' share in technical reserves	5	48,757	23,438
Fixed Assets			
Receivables in respect of insurance business	3	19,142	6,863
Other receivables		920	1,334
Total Assets		250,037	177,801
Liabilities and Equity			
Gross technical reserves	5	146,850	118,640
Payables in respect of insurance business	4	471	510
Other liabilities		2,528	664
Total Liabilities		149,849	119,814
Liaison account with head office		107,487	60,514
Retained profits brought forward		(2,527)	1,707
Loss for the period		(4,772)	(4,234)
Total Equity	6	100,188	57,987
Total Liabilities and Equity		250,037	177,801

The notes on pages 9 to 13 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting Policies

1.1. General information

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

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

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

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

1.2. Legal Form

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

1.3. Financial reporting standards

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

1.4. Foreign currency translation

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

The main exchange rates used are presented below:

USD to CHF	Average	Closing
2021	0.9139	0.9112
2020	0.8889	0.8840

1.5. Related parties

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

1.6. Cash and cash equivalents

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

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting policies (continued)

1.7. Technical reserves

Case reserves

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

Incurred But Not Reported (IBNR) reserves

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

Provisions for unearned premiums

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

Equalisation provisions

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

1.8. Revenue recognition

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

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

1.9. Leases

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

2. Cash and cash equivalents

CHF'000	2021	2020
Bank Accounts	9,515	8,411
Bank Deposits	171,703	137,755
Total cash and cash equivalents	181,218	146,166

3. Receivables in respect of insurance business

CHF'000	2021	2020
Due from policyholders	18,312	6,121
Due from reinsurance companies	830	742
Total receivables	19,142	6,863

Notes to the Financial Statements

for the year ended 31 December 2021

4. Payables in respect of insurance business

CHF'000	2021	2020
Due to reinsurance companies	471	510
Total payables	471	510

5. Technical reserves

CHF'000	2021	2020
Gross unearned premium reserves	20,531	19,487
Reinsurers' share of unearned premium reserves	(7,953)	(7,526)
Net unearned premium reserves	12,578	11,961
Gross Claims reserves	113,528	85,239
Reinsurers' share of claims reserves	(40,804)	(16,912)
Net claims reserves	72,724	69,327
Equalisation reserves	12,791	13,914
Total gross technical reserves	146,850	118,640
Total reinsurers share of technical reserves	(48,757)	(23,438)
Total net technical reserves	98,093	95,202

6. Statement of changes in equity

CHF'000	2021	2020
Liaison account with head office as at 1 January	60,514	37,786
Net transfers to and from Head Office	46,973	22,728
Liaison account with head office as at 31 December	107,487	60,514
Prior period result brought forward	(2,527)	1,707
Result for the period	(4,772)	(4,234)
Balance as at 31 December	100,188	57,987

The financial statements for the year ended 31 December 2021 are prepared on a consistent basis with the regulatory return on a prospective basis.

7. Changes in technical reserves

CHF'000	2021	2020
Change in gross unearned premium reserves	1,401	3,377
Change in reinsurer's share of unearned premium reserves	(362)	(3,749)
Change in net unearned premium reserves	1,039	(372)
Change in gross claims reserves	27,875	12,804
Change in reinsurer's share of claims reserves	(17,188)	(619)
Change in net claims reserves	10,687	12,185
Change in equalisation reserves	(1,556)	3,239

Notes to the Financial Statements

for the year ended 31 December 2021

8. Administrative expenses

CHF'000	2021	2020
Other operating expenses	5,608	3,136
Total administrative expenses	5,608	3,136
Total acquisition cost	5,127	12,146
Total acquisition cost and administrative expenses	10,735	15,282

The Branch had no employees in 2021 (2020: nil). All Zurich staff are employed by LSME.

9. Other Income

CHF'000	2021	2020
Foreign exchange gains	380	1,699
Allocated investment return	1,219	1,753
Total Other Income	1,599	3,452

The decrease in foreign exchange gain this year is driven by the strengthening of USD against CHF and other currencies.

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

10. Audit fees

CHF'000	2021	2020
Audit services	85	91
Total fees for audit services and other services	85	91

Audit fees are included within Administration expenses.

11. Residual amount of leasing liabilities

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

CHF'000	2021	2020
1 to 5 years	178	181
Total	178	181

Notes to the Financial Statements

for the year ended 31 December 2021

12. Related Parties

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

CHF'000	2021	2020
Inter-Company receivable	920	1,334
Reinsurance recoverable	35,551	17,743
Allocated investment return	1,219	1,753

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

Reinsurance recoverable balances with related parties form part of the Reinsurers' share in technical provisions.

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

13. Ultimate parent company

LMIE Zurich is a branch of LMIE. The ultimate parent Company 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 LMIE is a member is Liberty International European Holdings, S.L.U. domiciled in Spain.

Copies of the group accounts of Liberty International European Holdings, S.L.U. are available at the company's registered office: Paseo De Las Doce Estrellas, 4, 28042, Madrid, Spain.