

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

FINANCIAL CONDITION REPORT

As at 31st December 2019

Contents

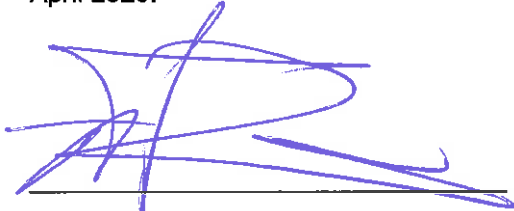
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GENERAL MANAGER'S STATEMENT

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

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

This report was reviewed and approved by Felix Böni, General Manager Switzerland, on the 30 April 2020.



Felix Böni

General Manager Switzerland

30 April 2020

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 2019 disclosed in Appendix C.
- The Solvency Financial Condition Report ('SFCR') published by the head office, Liberty Mutual Insurance Europe Societas Europaea ('LMIE'). The SFCR is currently in abbreviated format following extension of EIOPA reporting deadlines for 2019, a copy of the full document will be forwarded to FINMA on completion, and will be published on the firm's website in accordance with EIOPA regulation.

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

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

Unless otherwise stated, all amounts in this report are presented in Swiss Francs ('CHF'), which is the reporting currency of the Branch. Amounts shown in this report are disclosed rounded to '000 CHF.

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 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.

Future developments

COVID-19

The COVID-19 pandemic is a post-balance sheet event causing global economic uncertainty and social restrictions which is impacting the insurance industry. LMIE's Business Continuity Plan has been triggered and until further notice, all of LMIE's employees are working remotely. Our 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. This is being closely monitored on an ongoing basis.

We are publishing this report at a challenging time where COVID-19 will test our customers, our partners, our people, our organisation and many other key stakeholders. However, taking into consideration current laws and regulations, we do not expect these to impact LMIE's ability to meet its regulatory solvency requirements. Additional disclosures on COVID-19 will be disclosed as part of LMIE Zurich's 2019 financial statements.

Business performance

The following table sets out the key elements of LMIE Zurich's financial performance in 2019.

CHF'000	2019	2018
Gross premiums	43,562	34,158
Net Earned Premiums	29,686	23,666
Net Claims Incurred	(22,954)	(9,116)
Net Acquisition and administration expenses	(13,727)	(12,169)
Underwriting result	(6,995)	2,381
Loss ratio	77%	39%
Net Acquisition and administrative expense ratio	46%	51%
Combined ratio	124%	90%

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 27% compared to prior year Claims incurred were negatively impacted by a single large Oil and Gas loss of a Swiss policyholder, but are otherwise in line with expectations.

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 LMIE President & Managing Director.

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

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

Risk Management

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

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

Risk profile

LMIE's risk profile is assessed at an overall LMIE level as described in the LMIE's SFCR Section C which will cover the following risk categories:

- Underwriting risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Other material risks

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

Valuation for solvency purposes

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

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

Capital position

Through 2019 the Zurich Branch Management Committee has monitored the tied assets of LMIE Zurich. As at 31st December 2019 the solvency position of LMIE Zurich is:

CHF'000	2019	2018
Total Available Capital	119,002	111,539
Total Required Capital	106,831	86,898
Capital Surplus	12,171	24,641
Capital Coverage Ratio	111%	128%

Due to LMIE's growth in 2019, and the impact of underwriting losses in 2019, together with planned continued growth in 2020, the Solvency Capital Requirement under Solvency II regulation has increased from the prior year, with own funds supporting the SCR from the same period showing an increase of US\$200m following further capital contributed by the parent company. As a result of these movements, the solvency coverage reported as at 31 December 2019 has reduced to 111%. On 8 April 2020, Liberty Mutual Group approved additional capital for LMIE of up to \$500m (note that this may come in several tranches and tiers depending on the need and regulatory approval). 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.

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. The management expect a hardening market where the premium rates will increase depending on the different lines of business and the geographical scope (e.g. with or without US exposure). The management will aim to further grow general liability and fine art & specie insurance in an attempt to diversify the Branch's business.

SECTION A. 2 – Group information and group related transactions

A.2.1 Group information

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

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

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

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

LMIE consolidates into the Spanish Entity Liberty International European Holding S.L. for Solvency II purposes and therefore is subject to Group Solvency II reporting via Liberty International European Holding S.L. The Solvency II group supervisor is "Dirección General de

Seguros" (DGS, Spanish supervisor), which is located in Paseo de la Castellana, 44, Madrid, Spain.

The Commissariat Aux Assurances (CAA) is responsible for the prudential supervision of LMIE from 1 March 2019.

Commissariat Aux Assurances
7 Boulevard Joseph II
L-1840 Luxembourg

Prior to LMIE's redomicile to Luxembourg, the prudential supervision was the responsibility of the Prudential Regulation Authority (PRA).

Prudential Regulatory Authority
20 Moorgate
London, EC2R 6DA

A.2.2 Group related transactions

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

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

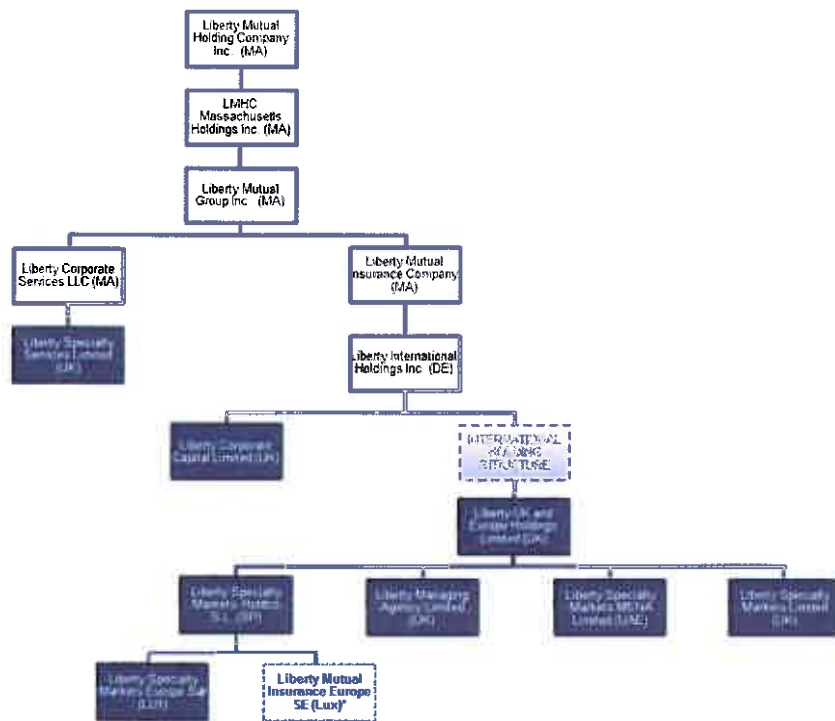
SECTION A. 3 – Shareholder information

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

SECTION A. 4 – Major branches

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

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



Unless otherwise stated ownership is 100%.

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.

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

On 1 March 2019, LMIE transferred its corporate seat from the UK to Luxembourg, while maintaining its UK presence as a branch, in order to allow the Company to continue its growth strategy in Europe following the UK's departure from the EU.

LMIE (head office) received a capital injection of \$200m on 29 March 2019 to support the growth plans.

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	2019	2018
Gross premiums	43,562	34,158
Net Earned Premiums	29,686	23,666
Net Claims Incurred	(22,954)	(9,116)
Net Acquisition and administration expenses	(13,727)	(12,169)
Underwriting result	(6,995)	2,381
Loss ratio	77%	39%
Net Acquisition and administrative expense ratio	46%	51%
Combined ratio	124%	90%

LMIE Zurich generated CHF 43,562k of gross written premium compared to CHF 34,158k in 2018, as it continued to grow its business in line with the Company's growth walk strategy. The net premiums earned amounted to CHF 29,686k compared to CHF 23,666k in 2018, which is in line with gross written premium growth.

Net claims incurred increased from CHF 9,116k in 2018 to CHF 22,954k in 2019. LMIE Zurich suffered a material loss on a single policy. The 2019 claims incurred are otherwise in line with expectations.

There was also an increase in acquisition costs and administrative expenses from CHF 12,169k in 2018 to CHF 13,727 in 2019 as a result of additional commissions from Liberty Specialty Markets Europe Sarl (LSME) and higher expenses allocated to LMIE Zurich from LSM. Given the increase in net earned premium, the expense ratio reduced in the period.

As part of the Brexit strategy, LMIE has established and licensed an in-house coverholder in Luxembourg, LSME. LSME acts as an intermediary company, acting on behalf of LMIE continued underwriting on behalf of LMIE from its branches throughout Europe.

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

The LSM Group expense allocation model was updated in 2019 to reflect LMIE business growth leading to higher costs being allocated to LMIE and LMIE branches.

An increase in the combined ratio from 90% in 2018 to 124% in 2019 was primarily driven by higher net claims incurred in 2019, as referred to above.

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

Year ended 31 December 2019

CHF'000	Fire, natural hazards, property damage	General third-party liability	Total
Gross premiums	9,226	34,336	43,562
Net Earned Premiums	6,845	22,841	29,686
Payments for insurance claims (gross)	(3,881)	(6,175)	(10,056)
Reinsurers' share of payments for insurance claims	66	496	562
Change in technical provisions	(11,037)	(5,442)	(16,478)
Reinsurers' share of change in technical provisions	5,109	(2,091)	3,018
Net Claims Incurred	(9,743)	(13,212)	(22,954)
Net Acquisition and administration expenses	(2,686)	(11,041)	(13,727)
Underwriting result	(5,584)	(1,412)	(6,995)

Year ended 31 December 2018

CHF'000	Fire, natural hazards, property damage	General third-party liability	Total
Gross premiums	7,102	27,056	34,158
Net Earned Premiums	5,659	18,007	23,666
Net Claims Incurred	(1,703)	(7,413)	(9,116)
Net Acquisition and administration expenses	(2,357)	(9,812)	(12,169)
Underwriting result	1,599	782	2,381

SECTION B. 2 – Financial performance

The Branch had CHF545k of financial expenses during the year ended 31 December 2019, comprising negative interest charges on bank deposits held in Swiss Franc. (2018: financial expenses of CHF 649k).

For 2019, LMIE received an allocation of LMIE investment return of CHF1,937k 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 114,540k (2018: CHF 109,152k).

SECTION B. 3 – Other income and expenses

The Company had CHF 1,546k of foreign exchange gains (2018: losses of CHF 1,327k). This is a result of the strengthening of the CHF against the USD through the year ended 31 December 2019.

GLOSSARY OF TERMS

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

APPENDIX A – Quantitative template

APPENDIX B – Auditor’s report

APPENDIX C – Branch annual report