Liberty Mutual Insurance Europe Societas Europaea

Summarised Solvency and Financial Condition Report for Tranche 1 Solvency II QRT Submission As at 31st December 2019

Contents

SUMMARY

Introduction

The original CAA deadline for LMIE's Annual QRTs was 7th April 2020. Following the advent of COVID-19 these were revised per EIOPA's recommendations and the CAA has responded with splitting up the relevant Solvency II reporting into two tranches – the first with a 2 week delay and the later with a 8 week delay. As such, LMIE's revised Annual QRT deadlines are:

Tranche 1: 21 April 2020

The forms being submitted to the CAA with a 2 week delay in the original submission include:

- S.01.01 – Content of the Submission
- S.01.02 – Basic Information
- S.02.01 – Balance Sheet
- S.22.01 – Impact on long term guarantees measures and transitionals
- S.23.01 – Own Funds
- S.25.01 – SCR Calculations

This report is part of Tranche 1 submission where a summarised Solvency and Financial Condition Report (SFCR) is prepared in relation to the 5 aforementioned QRTs above for Liberty Mutual Insurance Europe Societas Europaea (LMIE) for the 'Company' for the year ended 31 December 2019. The full SFCR will be in Tranche 2.

Tranche 2: 02 June 2020 (Remaining QRT's including the full SFCR and RSR)

Business

LMIE underwrites insurance and reinsurance business from its head office in the Grand Duchy of Luxembourg (referred to as Luxembourg) and its branches across Europe and in the UK.

LMIE is part of a Sub-Group of companies consolidating into Liberty International European Holdings, S.L.U. (hereinafter referred to as LIEH or the holding Company) whose ultimate parent company is Liberty Mutual Holding Company Inc. (hereinafter referred to as Liberty Mutual, LMHC, or the ultimate parent Company). Boston based LMHC is a diversified global insurer and one of the largest property and casualty insurers in the U.S. The Liberty Mutual Insurance group employs more than 50,000 people in over 800 offices throughout the world and, through its subsidiaries and affiliated companies, offers a wide range of property and casualty insurance products and services to individuals and businesses alike.

Functionally, the Group conducts substantially all of its business through two business units: Global Retail Markets and Global Risk Solutions. The Company is part of the Liberty Specialty Markets (LSM) segment, which is part of the Global Risk Solutions business unit.

In 2018, LMIE converted from a UK limited company to a UK public company and subsequently merged with a LSM Luxembourg public company to form Liberty Mutual International Europe Societa Europaea (LMIE). This is to support both its ambitious European growth plans and significant London market operations post the UK leaving the EU (Brexit)On 1 March 2019, the Company re-domiciled to Luxembourg.

As part of LSM's Brexit strategy, LMIE established and licensed an in-house coverholder in Luxembourg, Liberty Specialty Markets Europe Sarl (LSME). LSME acts as an intermediary company which underwrites on behalf of LMIE and Liberty Syndicate 4472 from its branches throughout Europe.

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 it's regulatory solvency requirements. Additional disclosures on COVID-19 will be disclosed as part of LMIE's 2019 financial statements.

Valuation for solvency purposes

Following the redomiciliation to Luxembourg, LMIE adopted Lux GAAP in 2019 and therefore has prepared its annual financial statements for the year ended 31 December 2019 on this basis. Its financial statements are presented in US dollars, the functional currency of LMIE.

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 management

The purpose of own funds management is to maintain, at all times, sufficient own funds to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) with an appropriate prudence margin as approved by the LMIE Board. At this point of reporting, please note that only the SCR QRTs (S.25.01) is required and the MCR QRT (S.28.01) will follow as part of Tranche 2 reporting as described above. Note that the MCR is, however, quoted within SCR QRT S23.01.

The Company holds quarterly board meetings, in which the proportion of own funds over SCR and MCR are monitored and managed. As part of own funds management, LMIE prepares ongoing annual projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA, contains a two-year projection of funding requirements and this helps focus actions for future funding.

LMIE currently uses the standard formula (SF) as prescribed by the Solvency II Delegated Acts to assess its ability to meet all of its regulatory capital obligations under normal and stressed conditions. However, the internal model is used alongside the SF to help the Company understand and manage risks to its business, and challenge SF outputs where appropriate. The capital of LMIE comprises share capital, share premium and reconciliation reserves, categorised as Tier One.

As at 31st December 2019, LMIE had available own funds of $1,456.3m (2018: $1,250.5m) and an SCR of $1,247.9m (2018: $932.0m). The increase in own funds was mainly due to a capital injection of $200m in March 2019 to support the company's growth plans.

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 by 16% from the same period. As a result of these movements, the solvency coverage reported as at 31 December 2019 has reduced to 117%. 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.

Capital Structure	2019 $(000)	2018 $(000)
Available Own Funds	1,456,259	1,250,505
SCR	1,247,938	932,044
Own Funds Surplus	208,321	318,461
SCR coverage ratio	117%	134%

GLOSSARY OF TERMS

Reference	Description	Reference	Description
ABS	Asset Backed Security	LOC	Letter of Credit
AF	Actuarial Function	LSM	Liberty Specialty Markets
ALAE	Allocated Loss Adjusted Expenses	MCR	Minimum Capital Requirement
AOCI	Accumulated Other Comprehensive Income	MI	Management Information
BEC	Board Executive Committee	ORSA	Own Risk and Solvency Assessment
BBNI	Bound But Not Incepted	P&C	Property & Casualty
COR	Combined Operating Ratio	PRA	Prudential Regulation Authority
CP	Contingency Plans	PTOI	Pre-Tax Operating Income
CRO	Chief Risk Officer	QRT	Quantitative Reporting Templates
CUO	Chief Underwriting Officer	RAG	Red, Amber, Green
DGS	Direccion General de Seguros	RDS	Realistic Disaster Scenario
EIOPA	European Insurance and Occupational Pensions Authority	RI	Reinsurance
EPIFP	Expected Profit in Future Premium	RM&ICF	Risk Management and Internal Control Framework
ENID	Events not in Data	RMC	Risk Management Committee
EWI	Early Warning Indicator	RMF	Risk Management Framework
FCA	Financial Conduct Authority	RMS	Risk Management Solutions
GAAP	Generally Accepted Accounting Practices	ROE	Return on Equity
GBP	Great British Pound	RST	Reverse Stress Test
GWP	Gross Written Premium	SII	Solvency II
HR	Human Resources	S&P	Standard & Poor's
IA	Internal Audit	SCR	Solvency Capital Requirement
ICA	Individual Capital Assessment	SF	Standard Formula
IIA	Institute of Internal Audit	SFCR	Solvency and Financial Condition Report
IFRS	International Financial Reporting Standards	SPA	Strategy, Planning and Analysis
IM	Internal Model	SST	Stress & Scenario Test
LAP	Liberty Attestation Process	TP	Technical Provisions
LMAL	Liberty Managing Agency Limited	ULAE	Unallocated Loss Adjusted Expenses
LMG	Liberty Mutual Group	USD	United States Dollar
LMIE	Liberty Mutual Insurance Europe SE	YOA	Year of Account

APPENDIX A – QRT’S

All QRT’s are $000’s

List of Reported Templates:

S.02.01 – Solvency II Balance sheet

S.22.01 – Impact of long term guarantees measures and transitionals S.23.01 - Own Funds

S.25.01 - Solvency Capital Requirement - for undertakings on Standard Formula

S.02.01 – Balance Sheet – Assets

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	9,927
R0050	Pension benefit surplus	8,837
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	3,265,635
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	19
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	3,233,514
R0140	*Government Bonds*	1,052,291
R0150	*Corporate Bonds*	2,172,322
R0160	*Structured notes*	0
R0170	*Collateralised securities*	8,901
R0180	*Collective Investments Undertakings*	29,072
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	3,029
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	47,499
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	47,499
R0270	Reinsurance recoverables from:	968,872
R0280	*Non-life and health similar to non-life*	968,872
R0290	*Non-life excluding health*	969,510
R0300	*Health similar to non-life*	-638
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	87,439
R0360	Insurance and intermediaries receivables	318,575
R0370	Reinsurance receivables	81,268
R0380	Receivables (trade, not insurance)	101,669
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	259,433
R0420	Any other assets, not elsewhere shown	124,166
R0500	**Total assets**	5,273,320

S.02.01 – Balance Sheet – Liabilities

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,398,114
R0520	*Technical provisions - non-life (excluding health)*	3,393,293
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	3,193,103
R0550	*Risk margin*	200,190
R0560	*Technical provisions - health (similar to non-life)*	4,822
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	4,707
R0590	*Risk margin*	115
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	20,753
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	78,572
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	180,228
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	139,393
R0900	**Total liabilities**	3,817,061
R1000	**Excess of assets over liabilities**	1,456,259

S.22.01 – Impact of long term guarantees measures and transitionals

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	3,398,114	0	0	33,430	0
R0020	Basic own funds	1,456,259	0	0	-19,452	0
R0050	Eligible own funds to meet Solvency Capital Requirement	1,456,259	0	0	-19,452	0
R0090	Solvency Capital Requirement	1,247,938	0	0	5,656	0
R0100	Eligible own funds to meet Minimum Capital Requirement	1,456,259	0	0	-19,452	0
R0110	Minimum Capital Requirement	469,285	0	0	3,019	0

S.23.01 – Own Funds

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	290,269	290,269		0	
R0030	Share premium account related to ordinary share capital	660,000	660,000		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	505,990	505,990			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	1,456,259	1,456,259	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,456,259	1,456,259	0	0	0
R0510	Total available own funds to meet the MCR	1,456,259	1,456,259	0	0	
R0540	Total eligible own funds to meet the SCR	1,456,259	1,456,259	0	0	0
R0550	Total eligible own funds to meet the MCR	1,456,259	1,456,259	0	0	
R0580	**SCR**	1,247,938				
R0600	**MCR**	469,285				
R0620	**Ratio of Eligible own funds to SCR**	116.69%				
R0640	**Ratio of Eligible own funds to MCR**	310.31%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	1,456,259
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	950,269
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	505,990
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	308,755
R0790	**Total Expected profits included in future premiums (EPIFP)**	308,755

S.25.01 – Solvency Capital Requirement - for undertakings on Standard Formula

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	243,676		
R0020	Counterparty default risk	255,156		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	1,761		
R0050	Non-life underwriting risk	921,319		
R0060	Diversification	-259,082		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	1,162,829		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	95,934
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-10,826
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	1,247,938
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	1,247,938
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None