Liberty Mutual Insurance Europe Societas Europaea

Annual Report for the year ended
31 December 2022

Registered Address

5-7 rue Léon Laval
L-3372 Leudelange
Grand Duchy of Luxembourg
R.C.S. Luxembourg: B232280

Contents

Directors and Administration

Directors

Dirk Billemon	Authorised General Manager and Executive Director
Nigel Davenport	Non-Executive Director
Pierre-Edouard Fraigneau	Executive Director (appointed 18 January 2023)
Fernand Grulms	Chairman and Independent Non-Executive Director
Christopher Hanks	Independent Non-Executive Director (resigned 18 January 2023)
Pit Hentgen	Independent Non-Executive Director
Philip Hobbs	Executive Director (resigned 31 January 2022)
Virginie Lagrange	Independent Non-Executive Director
Christian Rola	Executive Director
Mark Winlow	Independent Non-Executive Director (appointed 18 January 2023)

Authorised General Manager

Dirk Billemon

Registered Office

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

Company Number

B232280 (Registre de Commerce et des Sociétés)

Investment Managers

Liberty Mutual Group Asset Management Inc.

Independent Auditor

Ernst & Young S.A.
35E Avenue John F. Kennedy,
L-1855 Luxembourg
Grand Duchy of Luxembourg

Directors’ Report

The Directors present their report for Liberty Mutual Insurance Europe Societas Europaea (the Company), together with the audited Financial Statements of the Company, for the year ended 31 December 2022.

Principal activity and review of the business

The Company’s principal activity is to underwrite insurance and reinsurance business from its head office in the Grand Duchy of Luxembourg (referred to as Luxembourg) and its branches across Europe.

There have not been any significant changes to the Company’s principal activity during the year.

The Company’s ultimate parent company is Liberty Mutual Holding Company Inc. (hereinafter referred to as Liberty Mutual or LMHC). It is a diversified global insurer and one of the largest property and casualty insurers in the U.S. Functionally, the two major business units of the Liberty Mutual Insurance group are Global Retail Markets (GRM) and Global Risk Solutions (GRS). The Company operates as part of the Liberty Specialty Markets (LSM) and Liberty Mutual Reinsurance (LMRe) segments within the GRS business unit. The Company is also part of a sub-group of companies consolidating into Liberty International European Holdings, S.L.U. (hereinafter referred to as LIEH).

Preparation of Financial Statements under Luxembourg legislation

The Financial Statements are prepared in accordance with Luxembourg accounting law.

Branches and offices

The Company operates from the head office in Luxembourg and through branches in the UK, Belgium, France, Germany, Ireland, Italy, the Netherlands, Spain and Switzerland.

Directors' Report (continued)

Underwriting performance

The Company's underwriting result after expenses and excluding investment return was a loss of €65.5m (2021: profit of €39.1m). The combined ratio deteriorated to 107.8% (2021: 95.2%). Overall, the result for the calendar year was a loss before taxation of €17.3m (2021: €86.3m profit) driven by an underwriting loss of €65.5m (2021: €39.1m profit) and foreign exchange losses of €20.5m (2021: €18.6m loss). This was partially offset by an investment return of €68.7m (2021: €65.8m return).

	2022	**2021**
	€000	**€000**
Gross Written Premiums	2,985,337	2,848,796
Net Earned Premiums	833,789	808,596
Underwriting (Loss)/Profit	(65,450)	39,062
(Loss)/Profit before taxation	(17,293)	86,257
Loss Ratio % (i)	75.4%	62.0%
Expense Ratio % (ii)	32.5%	33.2%
Combined ratio % (iii)	107.8%	95.2%

(i) The loss ratio is calculated as net claims incurred over the net earned premiums.

(ii) The expense ratio is the sum of operating expenses and acquisition costs over the net earned premiums.

(iii) The combined ratio is the sum of the ratios of net incurred claims and net operating expenses to net earned premiums. A combined ratio of less than 100% represents an underwriting profit. In calculating the claims and expense ratios foreign exchange gains and losses have been excluded.

Gross written premium increased by 4.8% year on year. This is predominately driven by risk adjusted rate change (RARC) of 6.9% achieved in 2022, along with €208m favourable movement in foreign exchange due to the strengthening of the US dollar (USD) against the Euro. This was partly offset by not deploying capital where risk adjusted returns were not deemed acceptable including remediation of loss making lines.

The Company's underwriting result for 2022 represents a deterioration of €104.5m on 2021. This is largely driven by an increase in the net loss ratio of 13.4%.

A key driver was exposure to material catastrophe events during the year inclusive of the French Hailstorms (net €35m), UK Windstorms (net €19m) and the Ukraine-Russia conflict (net €10m). There was also deterioration of certain legacy catastrophe events (namely European June Events (net €8m), Covid-19 (€5.4m) and Storm Bernd (net €5m)) as more information and claims experience developed.

Additionally, attritional losses also experienced some uplift as worse than expected claims activity developed on Agriculture and Oil & Gas business, partially offset by relatively benign claims experience in RI Specialty.

The elevated economic inflation outlook and its effect on claims inflation was one of the key areas of reserving uncertainty facing the Company during 2022. As we noted increasing concern over economic inflationary pressures during 2021, our projected view of inflation has evolved during the year. This resulted in a net explicit allowance for inflation in 2021 of €11m which we increased to €29m during 2022. This is in addition to inflation allowances already embedded in loss ratio selections.

The overall expense ratio decreased by 0.6% which is due to a lower quantum of allocated expenses being recharged to the Company following an update to the cost allocation model and the drivers within. This led to a reduction in the expense base of €32m. This is partly offset by the impact of the review of internally generated acquisition costs that were being deferred, which resulted in an adjustment of €9.5m.

Directors' Report (continued)

Investment performance

The Company's investment portfolio generated a return of €68.7m (2021: €65.8m), which reflects a marginal increase of €2.9m since the prior year. This is driven by an uplift in investment income from bonds as the value of investment holdings increased during the year. The underlying interest income yield from bonds during the year was 2.0% (2021: 1.5%). The increase in investment income was partially offset by higher realised losses driven by rising interest rates, which reduced the market value of the fixed income portfolio.

Foreign exchange losses

The foreign exchange loss of €20.5m (2021: €18.6m loss) was driven by the translation of non-functional currencies to the functional currency of USD, which has strengthened during the year.

Review of financial position

		Restated**
	2022	**2021**
	€000	**€000**
Investments and cash *	5,301,745	4,655,869
Gross technical provisions	7,953,274	6,790,408
Ceded technical provisions	2,993,192	2,905,718
Shareholder funds	1,900,538	1,767,710
Own funds	2,813,839	2,205,150
Solvency capital requirement (SCR)	1,643,583	1,284,091
Excess own funds	1,170,256	921,059
Solvency coverage ratio	171%	172%

* Investments and cash exclude debt securities issued by, and loans to, affiliated undertakings.
** Ceded technical provisions have been restated during the year. This reclassification has no impact on the profit brought forward for the 2022 year. See note 16 for additional information.

Financial investments and cash have increased by €645.9m during the year driven by the reinvestment of capital injections received by the Company, which have in turn financed the acquisitions of new bonds. Additionally, there were favourable foreign exchange movements on our USD-denominated holdings as the USD strengthened, which helped to offset unrealised losses on the portfolio due to market volatility.

Gross technical provisions increased by €1,162.9m due to growth in business and gross reserve strengthening, as a result of the loss experience outlined above.

Shareholder funds increased by €132.8m during the year mainly due to an increase in share premium of €519.1m as a result of the capital injections received. This was largely offset by a reduction in the revaluation reserve of €339.4m, driven by a significant increase in unrealised losses on available for sale investments and offset by the Company's loss for the year.

Solvency position

The Company maintains regulatory capital coverage in line with its capital management risk appetite.

At 31 December 2022, The Company's eligible own funds, determined in accordance with the Solvency II valuation rules, were €2,813.8m (2021: €2,205.2m), which was in excess of the SCR of €1,643.6m (2021: €1,284.1m). This represented a solvency coverage ratio of 171% (2021: 172%). The increase in Own Funds of €608.7m during the year is mainly attributable to the cash injections received of €519.1m.

As a result of the business growth experienced during 2022 and USD strengthening vs EUR, the SCR has increased 28% from the prior year. Own funds supporting the SCR are up by 28% during the same period. Own funds include collateral pledged by counterparties, which is not held on the balance sheet. Please see note 17.

Directors' Report (continued)

Principal risks and uncertainties

A fully defined risk taxonomy allows the Company to identify, assess, mitigate, monitor and report the risks that may have an adverse impact on the achievement of business objectives. Managing risk effectively enables both opportunities for upside gains and limiting downside losses.

The Company has divided its risk exposures into high-level risk categories to enable the Risk Management Framework (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 Company risk profile.

Insurance risk

Insurance risk is defined as the risk of a change in value caused by ultimate costs for full contractual obligations varying from those assumed when the obligations were estimated. Insurance risk is split for the legal entity into underwriting risk and reserve risk.

Underwriting risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Company's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual events.

Reserve risk is mitigated through the use of detailed analysis performed by the Actuarial team and overseen by the CFO Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long-term reserve profile of the Company remains stable.

Market Risk

Market risk is the risk of fluctuations to the net asset value (NAV) due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net liabilities. Market risk includes interest rate risk, credit and spread risk, alternative asset risk, and exchange rate risk.

Market risk exposures are managed through the market risk appetite and the market climate risk appetite, which is detailed in the Company's Board Risk Appetite Statements. In addition to this there are a number of preventative, detective and directive controls. Asset-liability management is reviewed in conjunction with investment management in order to optimise the overall performance of assets relative to the liabilities.

Liquidity Risk

Liquidity risk is the potential for loss arising from situations where the Company either has insufficient cash or liquid funds to meet its financial obligations as they fall due or is required to sell assets below their fair value to meet cash flow demands.

Liquidity risk exposures are managed through the liquidity risk appetite, which is detailed in the Company's Risk Appetite Statements. In addition to this there are a number of preventative, detective and directive controls. The Company manages its cash and invested assets to ensure that cash is available to pay claims as they fall due.

Credit risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations to the Company. The principal source of credit risk arises from the inability of reinsurers and intermediaries to meet their contractual obligations if they become due.

Directors' Report (continued)

Credit risk (continued)

Credit risk is mitigated through controls encompassing due diligence and continued monitoring to ensure the appropriate selection of counterparties and Board risk appetites to prevent inappropriate credit risk concentrations.

Operational risk

Operational risk is the risk of loss to the Company resulting from the inadequate or failed internal processes, people and systems, or from external events. This includes cyber and security issues, and risks arising from outsourced functions as well as legal and non-dispute risks.

Operational risk is managed within the Board risk appetite and mitigated through the use of the three lines of defence model in conjunction with a system of documented, monitored and tested internal controls. The model aims to provide clarity over roles and responsibilities within the Company, ensuring that all key risk activities are managed effectively.

In the normal course of business, the Company may receive legal claims against it in different jurisdictions and may be subject to regulatory investigations and proceedings from time to time. The Company currently considers none of the ongoing claims, investigations or proceedings to be material. However, in light of the uncertainties involved in such matters there can be no assurance that the outcome of a particular matter or matters currently not considered to be material may not ultimately be material to the Company's results in a particular reporting period depending on, among other things, the amount of the loss resulting from the matter(s) and the results otherwise reported for such period. Where the Company can look to another party to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Group risk

Group risk is the risk of loss to the Company arising from its membership of LSM and LMRe, GRS and the Liberty Mutual Group.

Group risk is mitigated through the monitoring of Liberty Mutual Group's financial strength and business strategy developments. In addition, the chairman of any Committee reviewing risk information ensures that due attention is given to each legal entity within Liberty Specialty Markets, particularly in times of stress to one entity.

Strategic risk

Strategic risk is the risk of loss to the Company arising from key business and strategic decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is mitigated through the development and implementation of the Company's strategy, business plan and through controls relating to the development of new business opportunities.

Climate change risk

Climate change risk arises from the impacts associated with an increase in global average temperatures, measured against pre-industrial levels, 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.

Directors' Report (continued)

Climate change risk (continued)

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 / LMRe continues to be a member of the voluntary initiative ClimateWise, a global insurance industry network focused on climate-related issues. The LSM / LMRe ClimateWise score improved significantly for 2022 in comparison to 2021. In 2022, the first LSM / LMRe ClimateWise report is due to be published, demonstrating the Company's response to the ClimateWise Principles that are aligned with the Task Force on Climate-related Financial Disclosures (TCFD). This provides 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, applying a Responsible Investment Policy and establishing a Responsible Business Framework
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	In 2022 LSM committed to an operational net zero target by 2050 which includes measuring, reducing and disclosing our Scope 1-2 and material Scope 3 emissions LSM also works to reduce 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 of our climate approach and key activities in our ClimateWise report

Directors' Report (continued)

Environmental, Social & Governance (ESG) risk

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 / LMRe's vision is to act as a responsible business. LSM / LMRe's Responsible Business Policy outlines how ESG is incorporated into decision making processes to mitigate risk, and LSM / LMRe's Responsible Business Strategy ensures a holistic approach is taken to the management of these risks. Risk management is aligned with LSM / LMRe's ESG priorities to identify, monitor and report different types of ESG risk. ESG risk is classified as a cross-cutting risk, meaning it impacts a number of risk register risks, as such it is being mitigated through the existing RMF. Governance structures, including dedicated working groups, are in place to discuss, escalate and respond to ESG topics the Company continues to comply with evolving European and EIOPA ESG sustainability requirements. As a member of the LIEH Solvency Reporting Group, the Company 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.

The Company disclosure is reported in the LIEH non-financial statements as required by the EU Taxonomy Regulation.

The Company has also met requirements established in EIOPA Amendments to Delegated Regulation (EU) 2015/35 - Sustainability risk, to include the identification and assessment of sustainability risks and the integration into relevant policies sustainability risks.

Other significant events during the reporting period and up to the date of the report

Prudential Regulation Authority (PRA) Third country branch application

Since 1 January 2021, the Company's UK Branch was operating within the UK Temporary Permissions Regime (TPR) until full authorisation was approved as 'Third Country Branch', effective 1 December 2022. Prior to full approval, the UK Branch was deemed authorised by the PRA and was subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (registered number 829959). The UK Branch is also registered with Companies House (registered number BR024143). The TPR allows European Economic Area (EEA) based firms to operate in the UK for a limited period while seeking full authorisation.

Macroeconomic and geopolitical challenges

Many observers predict that the conflict between Russia and Ukraine will continue for some time. Sanctions continue to be applied and are actively monitored. The backdrop of this "long war" along with the aftereffects of the pandemic, the resulting impact of the energy crisis and sustained high levels of inflation have required a shift in monetary policy. The notable rise in economic inflation above Central Banks' targets was originally caused by factors including the post-Covid-19 stimulus, supply chain restrictions, rising energy prices and labour shortages. This in turn is impacting debt servicing for governments, companies and individuals, leading to global concerns regarding recession, the cost of living crisis and civil unrest. Additionally, the current volatility in the banking sector has increased market uncertainty which will be managed through our approach to counter market risk. We continue to monitor the situation with regards to these systemic risk environment factors in accordance with our RMF.

Directors' Report (continued)

Going concern

The Financial Statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the Financial Statements, the Company's latest business plan, and the Company's current solvency calculations. The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Subsequent events and future developments

LSM/LMRe is committed to supporting its clients and stakeholders throughout the market cycle.

We aim to maximise opportunities in the Company market and still hold true to our ethos of delivering as a high performing, financial services company. Our commitment to helping people prosper and transition in a changing environment, remains steadfast.

The Company will continue to look for growth where opportunities and our risk appetite allows. We focus on profitability, supported by our enhanced data and analytics capability, and our attention to detail in maintaining a competitive expense ratio.

Other matters

The Company did not conduct any activities in the field of research and development, nor did it own or repurchase its own shares in the year under review. It did not invest in derivative financial instruments in the year.

Auditors

Ernst & Young S.A. have indicated their willingness to continue in office as the Company's auditors.

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

DocuSigned by:

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Dirk Billemon
Executive Director
14 April 2023

Ernst & Young
Société anonyme

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Independent auditor's report

To the Shareholders of
Liberty Mutual Insurance Europe SE
5-7 rue Leon Laval
L-3372 Leudelange

Opinion

We have audited the financial statements of Liberty Mutual Insurance Europe SE (the "Company"), which comprise the balance sheet as at 31 December 2022, and the profit and loss account for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Description

At 31 December 2022, the provision for claims outstanding amounts to EUR 5.992.088.000 of which EUR 3.790.874.000 are incurred but not reported ("IBNR"). As referred to in the accounting policies (note 2 of the financial statements), such provision comprises of the estimated costs of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses.

We considered the valuation of the gross IBNR provision for insurance liabilities as a key audit matter as such valuation incorporates judgement for the expected ultimate cost of claims incurred, but not yet reported (IBNR), at the reporting date. It is reasonably possible that uncertainties inherent in the reserving process, delays in insurers reporting losses to the Company, together with the potential for adverse development, could lead to the ultimate amount paid varying materially from the amount estimated at this reporting date.

How the matter was addressed in our audit

We understood, assessed and tested the design and operational effectiveness of the key controls in the reserving process including the review and approval of the reserves, and controls over the extraction of data from the appropriate sources.

Supported by our actuarial specialists we evaluated management's methodology against market practice and challenged management's assumptions and their assessment of major sensitivities, based on our market knowledge and industry data where available. The main areas of judgement include the level of reserves held for specific losses, the loss development patterns selected and the initial expected loss ratios.

Using management's data we independently re-projected a proportion of the claims provisions investigating significant differences between our projections and management's booked reserves. Using our own re-projections, we then considered whether the provisions for insurance liabilities held at the year- end fall within a reasonable range of estimates.

We have read the related disclosures and considered whether they satisfy the requirements of accounting standards.

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Measurement of estimated premium within Gross Written Premium income

Description

For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables which are not known with certainty at the point of binding the policy. Subsequent adjustments to those estimates arise as updated information relating to those pricing variables becomes available and are recorded in the period in which they are determined. These estimates are judgemental and therefore could result in misstatements of revenue recognised in the financial statements.

How the matter was addressed in our audit

We obtained an understanding of the estimation process and tested the design effectiveness of key controls, including the monitoring of estimated premium income.

We ensured that the estimation methodology has been correctly applied and that the data used is appropriate.

We performed independent re-projections of ultimate premium per underwriting year for the 2022 and prior underwriting years where ultimate premiums are booked, applying our own assumptions and comparing these to the Company's booked ultimate premium on a class of business. Where there were significant variances, we challenged management's assumptions used for bias and consistency in approach from prior year.

For the data used in our independent re-projections, we corroborated premium data to underlying policy and finance systems in order to test the completeness and accuracy of this data set.

For a sample of policy estimates in respect of the 2022 underwriting year, we corroborated the estimated premium for polices such as binders, inward reinsurance to third party supporting evidence such as third party signed slips. Additionally, to corroborate estimates, including for coverholder business, where similar policies and binders have been written previously, we performed back testing against historical experience of estimated premium income compared to actual premium signed.

We performed analytical review procedures on a class of business level, comparing actual premium to management's business forecasts.

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Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' report but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and of those charged with governance for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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working world

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other matters and other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Shareholders on 21 April 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 4 years.

The Directors' report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Brice Bultot

Luxembourg, 14 April 2023

Balance Sheet – Assets

As at 31 December 2022

	Notes	2022 €000	2021 €000 Restated
Investments		**4,881,669**	**4,473,354**
Other financial investments			
Shares and other variable yield transferable and units in unit trust	**9**	508,460	187,807
Debt securities and other fixed income transferable securities	**9**	4,266,624	4,037,569
Deposits with credit institutions		50,368	167,660
Deposits with ceding undertakings		56,217	80,318
Subrogation and salvages		**31,136**	**22,105**
Reinsurers' share of technical provisions		**2,993,192**	**2,905,718**
Provision for unearned premiums	**16**	564,501	590,362
Provision for claims outstanding	**16**	2,428,691	2,315,356
Debtors		**2,378,600**	**2,370,979**
Debtors arising out of direct insurance operations - intermediaries		1,246,447	1,218,956
Debtors arising out of reinsurance operations	**14**	1,077,540	1,030,965
Other debtors	**14**	54,613	121,058
Other assets		**535,475**	**200,444**
Tangible assets	**11**	4,304	3,629
Cash at bank and in hand		420,076	182,515
Other assets	**2.2.18,8**	111,095	14,300
Prepayments and accrued income		**559,376**	**502,903**
Deferred acquisition costs		525,387	482,231
Other prepayments and accrued income		33,989	20,672
Total assets		**11,379,448**	**10,475,503**

The accompanying notes form an integral part of these financial statements.

Balance Sheet – Liabilities
As at 31 December 2022

	Notes	2022 €000	2021 €000
Capital and reserves		**1,900,538**	**1,767,710**
Subscribed capital or equivalent funds	**12**	255,424	255,424
Share premium account	**12**	1,617,534	1,098,434
Legal reserve	**12**	4,042	-
Revaluation reserve	**12**	(311,309)	27,979
Profit brought forward	**12**	381,831	305,034
(Loss)/Profit for the financial year	**12**	(46,984)	80,839
Technical provisions		**7,953,274**	**6,790,408**
Provision for unearned premiums	**15**	1,961,186	1,872,612
Provision for claims outstanding	**15**	5,992,088	4,917,796
Provision for other risks and charges		**265,491**	**153,571**
Deferred tax liabilities	**8**	-	13,865
Foreign exchange provision		265,491	139,706
Creditors		**1,053,391**	**1,588,798**
Creditors arising out of direct insurance operations	**13**	70,931	5,890
Creditors arising out of reinsurance operations	**13,14**	886,582	1,322,353
Other creditors including taxation and social security	**13,14**	95,878	260,555
Accruals and deferred income		**206,754**	**175,016**
Total liabilities		**11,379,448**	**10,475,503**

The accompanying notes form an integral part of these financial statements.

Profit & Loss – Technical Account – Non-life insurance
For the year ended 31 December 2022

	Notes	2022 €000	2021 €000
Earned premiums, net of reinsurance		**833,789**	**808,596**
Gross premiums written	**3**	2,985,337	2,848,796
Outward reinsurance premiums		(2,020,211)	(1,851,154)
Change in provision for unearned premiums, gross	**3**	(87,347)	(222,218)
Change in provision for unearned premiums, reinsurers' share		(43,990)	33,172
Allocated investment return transferred from the non-technical account		**60,385**	**57,107**
Claims incurred, net of reinsurance		**(628,659)**	**(501,275)**
Claims paid, net of reinsurance		**(168,009)**	**(484,489)**
Gross amount	**3**	(1,175,553)	(900,780)
Reinsurers' share		1,007,544	416,291
Change in provision for claims		**(494,963)**	**(43,005)**
Gross amount	**3**	(1,000,272)	(901,450)
Reinsurers' share		505,309	858,445
Change in net subrogation and salvages	**3**	**34,313**	**26,219**
Net operating expenses		**(270,580)**	**(268,259)**
Acquisition costs	**4**	(761,539)	(697,925)
Change in deferred acquisition costs	**4**	38,914	59,476
Administrative expenses	**5,6,7**	(166,616)	(174,393)
Reinsurance commission and profit participation		618,661	544,583
Balance on the technical account for non-life insurance business		**(5,065)**	**96,169**

The accompanying notes form an integral part of these financial statements.

Profit & Loss – Non-Technical Account

For the year ended 31 December 2022

	Notes	2022 €000	2021 €000
Balance on the technical account for non-life insurance business		**(5,065)**	**96,169**
Investment income		**108,322**	**93,467**
Income from other investments		91,843	70,045
Gains arising from the realisation of investments		16,479	22,744
Unrealised gains on investments		-	678
Investment charges		**(39,629)**	**(27,650)**
Investment management charges including interest charges		(12,119)	(14,764)
Losses arising from the realisation of investments		(27,175)	(12,886)
Unrealised losses on investments		(335)	-
Allocated investment return transferred to the technical account		**(60,385)**	**(57,107)**
Other expenses		**(20,536)**	**(18,622)**
(Loss)/Profit on ordinary activities before tax		**(17,293)**	**86,257**
Tax on ordinary activities		(29,691)	(5,418)
(Loss)/Profit for the financial year		**(46,984)**	**80,839**

The accompanying notes form an integral part of these financial statements.

The Financial Statements were approved by the Board of Directors on 5 April 2023 and were signed on its behalf by:

DocuSigned by:

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Dirk Billemon
Executive Director
14 April 2023

Notes to the Financial Statements

1. General information

Liberty Mutual Insurance Europe SE (the Company) is a limited liability company incorporated as a Societas Europaea in Luxembourg on 1 March 2019. The registered office is at 5-7 rue Leon Laval, Leudelange, Luxembourg. The Company is registered at the Registre de Commerce et des Sociétés, Luxembourg under number B232280.

The objective of the Company is to act as a general insurer and reinsurer, either in Luxembourg or abroad, and to carry out any other activities that are directly linked to such purpose and which facilitate or promote its accomplishment in accordance with the applicable laws and regulations.

The Company, formed on 21 December 1972, and previously known as Liberty Mutual Insurance Europe Limited and registered at UK Companies House under registered number 1088268, was formed by merger as a Societas Europaea on 18 July 2018.

The Company changed its domicile, from the United Kingdom to Luxembourg, effective 1 March 2019.

The Directors' Report, attached to these financial statements, provides further information regarding significant events during the year under review and to the date of approval of these accounts.

The Financial Statements cover those of the individual entity and are prepared as at, and for the year ended, 31 December 2022, together with comparatives for the year ended 31 December 2021.

2. Accounting policies

2.1. Basis of preparation

Ceded technical provisions and Debtors arising out of reinsurance operations have been restated for 2021. These reclassifications had no impact on profit & loss. See notes 10 and 16 for additional information.

The financial statements of the Company have been prepared in accordance with the Law of 8 December 1994, as amended, and with the accounting policies generally accepted and applied within the insurance and reinsurance industry in Luxembourg. The accounting policies and the valuation rules, except for those defined by the law or the Commissariat aux Assurances, are determined and applied by the Board of Directors.

In accordance with Article 60.1 of the Law of 8 December 1994 as subsequently modified, the Company has decided to apply the fair value option for certain types of assets as described in the below notes.

The preparation of the financial statements requires the use of accounting estimates that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. It also requires management to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period in which the assumptions changed.

Management believes that the underlying assumptions are appropriate and that the financial statements therefore present the financial position and results fairly.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements (continued)

2.2. Summary of significant accounting policies

2.2.1. Currency

2.2.1.1 Functional currency

The Company is authorised to underwrite policies throughout the EEA via branches established in Belgium, France, Germany, Italy, Ireland, the Netherlands and Spain. The Company is also authorised to underwrite policies through its branches in Switzerland and the United Kingdom.

The functional currency of each branch is determined by factors specific to the operations of each branch. The functional currency is the currency of the primary economic environment in which it operates, and transactions and balances in currencies other than functional currencies are treated as foreign currency transactions. The Company maintains accounting records in US Dollars.

Transactions expressed in currencies other than US Dollars are translated to US Dollars at the exchange rate effective at the time of the transactions. Assets and liabilities, denominated in currencies other than US Dollars, are translated into US Dollars at the rate of exchange prevailing at the balance sheet date. Income and expenses are translated at average rates.

The resulting foreign exchange gains or losses are included in the non-technical account of the profit and loss account.

2.2.1.2 Presentation currency

The financial statements are prepared in Euros, which is the presentational currency of the Company.

The results of each branch of the business, where the functional currency is not Euros, are translated to the presentation currency on the following basis:

- Assets and liabilities are translated at the exchange rate of the date of the balance sheet.
- Capital and reserves are maintained at historical rates.
- Income and expenses are translated at the average annual exchange rate for the period of the profit and loss account.
- Any resulting overall exchange gains are recognised as a foreign exchange translation provision on the balance sheet.
- Any resulting overall exchange losses are initially offset against any foreign exchange translation provision within the balance sheet, with any surplus over the provision recognised as an exchange loss in the non-technical account of the profit and loss account.

The translation of opening balances, movements through the income and expenditure account, and the closing balances at different exchange rates means that, for certain movements on the technical account, including technical provisions, unearned premiums and deferred acquisition costs, foreign exchange differences may arise which will need to be taken into account when reconciling movements to the opening and closing balance sheet.

Notes to the Financial Statements (continued)

2.2.2. Other financial Investments

2.2.2.1 Shares and other variable yield securities consisting of collective investment schemes and private equity investments

Shares and other variable yield securities, collective investment schemes and private equity investments are measured at fair value. Gains or losses arising from the mark to market movement are recognised directly and immediately through the profit and loss account.

2.2.2.2 Debt securities and other fixed-income securities

Debt securities and other fixed income transferable securities are measured at fair value. Changes in fair value are recognised in the revaluation reserve and as a separate component in equity. Interest is recognised within investment income on an effective yield basis. These value adjustments may not be carried when the reasons for which they were made cease to apply. On de-recognition or adjustment in value, the cumulative fair value gains and losses, previously reported through the revaluation reserve, are transferred to the profit and loss account.

2.2.2.3 Deposits with ceding undertakings

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

2.2.3. Financial instruments recognised at fair value

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

• Level 1: the unadjusted quoted prices in active markets for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted price is usually the bid price.

• Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets.

• Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See note 9 for details of financial instruments classified by fair value hierarchy.

A financial asset or, when applicable, a part of a financial asset is derecognised when:

• The rights to the cash flows from the asset have expired; or
• when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of ownership.

Notes to the Financial Statements (continued)

2.2.4. Cash at bank and in hand

Cash in the balance sheet comprises of cash at banks and in hand. It is measured at nominal value.

2.2.5. Allocated investment return transferred from the non-technical account

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised investment gains and losses, net of investment expenses, charges and interest.

An allocation of actual investment returns on investments supporting the general insurance technical provisions and associated equity is made from the non-technical account to the technical account. Investment return related to non-insurance business and shareholders' equity is attributed to the non-technical account, in accordance with article 55 of the Luxembourg insurance accounting law.

2.2.6. Creditors

Creditors are valued at their settlement value.

2.2.7. Accruals and deferred income

This liability includes income received during the financial year but relating to a subsequent financial year, and charges which relate to the current financial year but are payable in a subsequent financial year. Deferred acquisition costs pertaining to reinsurance ceded are also included in this item.

2.2.8. Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premiums. Gross written premiums are stated gross of commission.

Written premiums are earned over the period of the policy (usually 12 months) on a straight-line basis, except for certain inwards reinsurance contracts where there is a marked unevenness in the incidence of risk over the period of cover, in which case the premium is earned on a basis which reflects the profile of risk. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

2.2.9. Estimates of ultimate premiums

Estimation techniques are necessary to quantify the ultimate premiums on all business written and are commonly used within the (re)insurance market. The majority of the estimation arises predominantly within the binder estimates where the premium amounts are dependent on the volume of policies that are insured under the binder over the coverage period. In these cases underwriters estimate an initial premium volume and then adjust throughout the life of the binder as and when new information becomes available. The process of determining the Estimated Premium Income (EPI) is based on a number of factors, which can include:

- coverholder/ reinsured business plan documents supplied prior to binding;
- historical trends of business written;
- current and expected market conditions for this line of business; and
- life to date bordereaux submissions versus expectation.

Due to the nature of the Company's business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and a receivable on the balance sheet remains.

Notes to the Financial Statements (continued)

2.2.10. Fee and commission income

Insurance policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

2.2.11. Administrative expenses

Administrative expenses specifically consist of costs arising from premium collection, portfolio administration and inward and outward reinsurance. The administrative expenses more specifically include all administrative expenses that cannot be allocated to acquisition costs, claims or investment management charges.

2.2.12. Technical provisions

2.2.12.1 Provisions for claims outstanding

Claims outstanding comprise provision for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, together with related claims handling expenses. The provisions for claims outstanding are computed separately on an individual case basis; they are assessed by the claims expert based on the information provided by policyholders or ceding undertakings, and the estimates of expected claims development by the actuaries.

The provision for claims outstanding is based on information available at the balance sheet date and is estimated to give a result within a normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example, where assumptions over claims inflation may alter in future, there is a contingent liability in respect of this uncertainty. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

2.2.12.2 Subrogation and salvages

This represents the net estimated recoverable amount arising from the acquisition of the policyholder's rights with respect to third parties, or arising from the legal ownership of insured property upon settlement of a loss. Anticipated salvage and subrogation recoveries are calculated on an individual case basis. Salvage and subrogation recoveries are shown separately on the face of the technical account and the balance sheet. The liability is not discounted for the time value of money.

2.2.12.3 Provisions for unearned premiums

Unearned insurance and inward reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned insurance and inward reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts. The provision for unearned premiums is calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

2.2.12.4 Reinsurers' share of technical provisions

The share of technical provisions for reinsured business is determined with reference to the contractual agreement and the underlying gross business data per treaty.

2.2.13. Deferred acquisition costs

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are deferred and amortised consistent with the recognition of unearned premiums.

Notes to the Financial Statements (continued)

2.2.14. Other prepayments and accrued income

Other prepayments and accrued income include other expenditure incurred during the financial year which relates to a subsequent financial year, and income relating to the current financial year but which is not receivable until a subsequent financial year.

2.2.15. Other debtors

Other debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.2.16. Value adjustments

Value adjustments are deducted directly from the related individual asset.

2.2.17. Tangible fixed assets

Tangible fixed assets are valued at purchase price. They are depreciated on a straight-line basis over their estimated useful economic lives. The estimated useful life of the assets is as follows:

Leasehold improvements	Remaining lease term
Fixtures, fittings & equipment	5 to 10 years

The costs incurred on improvement of fixed assets are capitalised and depreciated over the estimated useful economic life of the assets on a straight-line basis.

Where the Company considers that a tangible asset has suffered a durable depreciation in value, an additional write-down is recorded to reflect this loss. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.2.18. Provisions for other risks and charges

2.2.18.1 Provision for pension and similar obligations

Defined benefit plan

The Company operated a defined benefit plan for certain employees but this scheme closed to future accrual on 1 July 2012, with active members of the scheme becoming deferred pensioners in the scheme from 2 July 2012.

Pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return of a high-quality corporate bond of equivalent term and currency to the liabilities.

In accordance with the rights and obligations created by the rules of the closed Pension scheme, a net asset due to the Company is recognised when the value of the scheme assets exceeds scheme liabilities, and conversely, a net liability payable by the Company to the scheme is recognised when the value of scheme liabilities exceeds the value of scheme assets.

Notes to the Financial Statements (continued)

2.2.18.1 Provision for pension and similar obligations (continued)

	2022 €000	2021 €000
Fair value of scheme assets	27,200	46,193
Present value of funded defined benefit obligation	(20,107)	(31,893)
Asset recognised on balance sheet	**7,093**	**14,300**

The increase in the present value of the liabilities of the Company's defined benefit pension schemes, expected to arise from employee service in the period, is charged to the profit and loss account. The net interest element is determined by multiplying the net defined benefit asset or liability by the discount rate at the start of the period, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. The net interest is recognised in the profit and loss account as administrative expenses. Re-measurement, comprising actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, and the return on the net defined benefit asset or liability are charged or credited to the revaluation reserve.

Defined contribution pension scheme

Employees joining on or after 1 January 2002 became members of the Company's defined contribution pension schemes. The contributions are recognised in the profit and loss account in the period in which they become payable. The commitment of the Company is limited to the contributions that the Company agreed to pay into the fund on behalf of its employees. The assets of the plan are held separately from the Company in independently administered funds.

2.2.18.2 Provision for taxation

The Company is subject to the general tax regulations applicable to all companies in Luxembourg. Its branches are subject to the tax regulations in their respective countries.

There is no requirement to account for or calculate deferred tax under Luxembourg GAAP. As such, the Company is only recognising deferred tax on unrealised investment gains and losses, and the unrealised gain on its pension surplus following principles aligned to IFRS.

3. Segmental result from non-life insurance operations

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

	2022 Direct insurance €000	2022 Reinsurance acceptances €000	2022 Total €000
Gross premiums written	1,795,761	1,189,576	2,985,337
Gross premiums earned	1,781,468	1,116,522	2,897,990
Gross claims incurred	(1,158,618)	(982,894)	(2,141,512)
Gross operating expenses	(560,833)	(328,408)	(889,241)
Reinsurance balance	(53,450)	120,763	67,313
Net technical account before allocated investment return	**8,567**	**(74,017)**	**(65,450)**

Notes to the Financial Statements (continued)

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

	2021 Direct insurance	2021 Reinsurance acceptances	2021 Total
	€000	€000	€000
Gross premiums written	1,946,637	902,159	2,848,796
Gross premiums earned	1,786,245	840,333	2,626,578
Gross claims incurred	(1,034,647)	(741,364)	(1,776,011)
Gross operating expenses *	(556,659)	(261,386)	(818,045)
Reinsurance balance	(127,712)	129,049	1,337
Net technical account before allocated investment return	**67,227**	**(33,368)**	**33,859**

* Gross operating expenses include investment management expenses of €5.2m. In 2022, investment management expenses are shown in net investment income.

For the year ended 31 December 2022, the lines of business splits for the direct insurance business were as follows:

	2022 Gross premiums written	2022 Gross premiums earned	2022 Gross claims incurred	2022 Gross operating expenses	2022 Reinsurance balance	2022 Net technical account
	€000	€000	€000	€000	€000	€000
Accident and health	7,360	6,608	(3,520)	(3,086)	(480)	(478)
Motor, general liability	1,396	1,414	(3,541)	(404)	2,112	(419)
Marine, aviation and transport	113,380	109,772	(55,743)	(35,778)	(14,317)	3,934
Fire and other damage to property	355,088	304,767	(199,818)	(75,841)	(27,945)	1,163
General liability	1,065,536	1,102,685	(778,312)	(345,528)	13,897	(7,258)
Credit and Suretyship	184,605	189,083	(112,500)	(64,659)	(9,636)	2,288
Others	68,396	67,139	(5,184)	(35,537)	(17,081)	9,337
Total	**1,795,761**	**1,781,468**	**(1,158,618)**	**(560,833)**	**(53,450)**	**8,567**

Notes to the Financial Statements (continued)

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

	2021 Gross premiums written	2021 Gross premiums earned	2021 Gross claims incurred	2021 Gross operating expenses	2021 Reinsurance balance	2021 Net technical account
	€000	€000	€000	€000	€000	€000
Accident and health	4,867	3,958	(1,104)	(1,625)	(317)	912
Motor, general liability	4,754	3,934	(2,629)	(987)	(397)	(79)
Motor, other	4,482	4,300	(2,311)	(2,378)	261	(128)
Marine, aviation and transport	146,183	136,466	(79,381)	(44,391)	(14,360)	(1,666)
Fire and other damage to property	328,680	305,417	(194,915)	(76,864)	(21,697)	11,941
General liability	1,161,809	1,079,166	(683,272)	(333,348)	(41,926)	20,620
Credit and Suretyship	187,550	184,003	(51,421)	(58,927)	(49,481)	24,174
Others	108,312	69,001	(19,614)	(38,139)	205	11,453
Total	**1,946,637**	**1,786,245**	**(1,034,647)**	**(556,659)**	**(127,712)**	**67,227**

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

	2022	2021
	€000	€000
Luxembourg	35,648	25,901
UK	539,319	542,575
USA	160,261	124,629
EU Member States other than the country of the headquarter	1,103,920	1,079,645
Other Countries	1,146,189	1,076,046
Total	**2,985,337**	**2,848,796**

4. Commissions

Commissions incurred during the year amounted to €344.6m (2021: €319.0m) in respect of direct written premiums, and €379.0m (2021: €319.4m) in respect of reinsurance premiums accepted. Included within these amounts are commissions incurred with related parties, totalling €176.2m (2021: €110.6m). Commissions are included in acquisition costs within the technical account.

Notes to the Financial Statements (continued)

5. Personnel employed during the year

All UK staff are employed by Liberty Specialty Markets Limited (LSML), an affiliated company. European staff are employed by Liberty Specialty Markets Europe S.A R.L. (LSME) and Liberty Specialty Markets Europe Two S.A R.L. (LSME2). The following amounts were incurred by the Company for the staff seconded from LSML, LSME and LSME2:

	2022 €000	2021 €000
Wages and salaries	86,641	91,584
Social security costs	10,495	11,177
Other pension costs	8,126	7,172
Total	**105,262**	**109,933**

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

The Company did not employ any employees directly during 2022 or 2021. The average number of employees seconded to the Company during the year was as follows:

	2022 Number	2021 Number
Underwriting	182	160
Claims	44	43
Administration	364	314
Management	4	5
Total	**594**	**522**

6. Remuneration to the Board of Directors

Emoluments granted in respect of the 2022 financial year to the members of the Board of Directors by reason of their responsibilities amounted to €1.6m (2021: €2.2m) and are shown as part of administrative expenses in the profit and loss account. Executive directors are paid an executive salary and do not receive an additional board fee.

During the year, none of the directors were members of the defined benefit contribution scheme (2021: none). The executive directors were employed by fellow group companies.

7. Auditor’s Remuneration

The fees paid during 2022 and 2021 calendar years and excluding all taxes for the services rendered by the independent auditor (Ernst & Young S.A.) are as follows:

	2022 €000	2021 €000
Statutory audit fees and separate reports	163	228
	163	**228**

Notes to the Financial Statements (continued)

8. Taxation

8.1. Current Tax

	2022	2021
	€000	€000
Current tax debts consist of:		
Corporate income tax (domestic)	(4,270)	(4,360)
Municipal income tax	5,355	4,912
Net wealth tax	(50)	(28)
Foreign taxes	(17,651)	15,880
Current tax debts at 31 December (liability) / asset	**(16,616)**	**16,404**

The Company is subject to general tax regulations applicable in Luxembourg. The branches of the Company are subject to the tax regulation in their respective countries.

8.2. Deferred tax

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

	2022	2021
	€000	€000
Deferred tax debts consist of:		
Pension scheme asset	(2,526)	(5,006)
Unrealised gains/losses	102,935	(8,859)
Deferred tax asset/(liability) at 31 December	**100,409**	**(13,865)**

There is no requirement to account for or calculate deferred tax under Luxembourg GAAP. As such, the Company is only recognising deferred tax on unrealised investment gains and losses, and the unrealised gain on its pension surplus.

9. Shares and other variable and fixed income securities

	Carrying Value	Purchase Price
2022	€000	€000
Shares and other variable-income securities and units in unit trust	508,460	508,093
Bonds and other fixed income securities	4,266,624	4,695,748
Total	**4,775,084**	**5,203,841**

	Carrying Value	Purchase Price
2021	€000	€000
Shares and other variable-income securities and units in unit trust	187,807	187,150
Bonds and other fixed income securities	4,037,569	4,025,649
Total	**4,225,376**	**4,212,799**

Notes to the Financial Statements (continued)

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

2022	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Shares and other variable yield securities and units in unit trusts	498,561	-	9,899	508,460
Debt securities and other fixed income securities	647,789	3,608,024	10,811	4,266,624
Total	**1,146,350**	**3,608,024**	**20,710**	**4,775,084**

2021	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Shares and other variable yield securities and units in unit trusts	177,317	-	10,490	187,807
Debt securities and other fixed income securities	665,628	3,368,186	3,755	4,037,569
Total	**842,945**	**3,368,186**	**14,245**	**4,225,376**

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

For bonds and other fixed income securities classified as Level 3, the areas of judgement considered in calculating fair value include considerations for liquidity risk, credit risk and prepayment rates. The discounted cash flow analysis, which forms the basis of the valuation, includes discount rates based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations of specific industries and market liquidity. Discount rates are influenced by risk free interest rates and credit risk.

The private equity investments are recorded in Shares and other variable yield securities and units in unit trusts and have been classified as Level 3. The Group Portfolio Manager receives partnership statements / financial statements for each investment from which the residual values are recorded, and then potentially adjusted when combined with adjusted ending value reports. The Group Portfolio Manager then recommends a valuation for each position based on these statements and their own assessment/judgement.

10. Debtors

	2022 €000	Restated 2021 €000
Debtors arising out of direct insurance operations (*)	1,246,447	1,218,956
Debtors arising out of reinsurance operations (*)	1,077,540	1,030,965
Other debtors	54,613	121,058
Total	**2,378,600**	**2,370,979**

* *In the prior year reporting period, €1,214.3m balance of Debtors arising out of insurance operations were presented in the line "Debtors arising out of reinsurance operations". Additionally, €326.5m balance of Debtors arising from reinsurance operations were presented under the line "Reinsurers share of technical provisions" (see note 16 - Reinsurers' share of technical provisions).*

These reclassifications had no impact on profit brought forward for the 2022 year.

Notes to the Financial Statements (continued)

11. Tangible assets

	Leasehold improvements	Fixtures, fittings & equipment	Total
	€000	€000	€000
Cost:			
At 1 January 2022	5,458	1,582	7,040
Foreign currency translation effects	358	104	462
Additions during the year	1,876	-	1,876
Disposals during the year	-	(14)	(14)
At 31 December 2022	**7,692**	**1,672**	**9,364**
Accumulated depreciation:			
At 1 January 2022	2,287	1,124	3,411
Foreign currency translation effects	150	74	224
Charge for the year	1,271	167	1,438
Disposals during the year	-	(13)	(13)
At 31 December 2022	**3,708**	**1,352**	**5,060**
Carrying value at 31 December 2022	3,984	320	4,304
Carrying value at 31 December 2021	3,171	458	3,629

12. Capital and reserves

The Company is required to allocate a minimum of 5% of its annual net income to a legal reserve, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.

The movements for the year are as follows:

2022	Called up share capital	Share premium account	Legal reserve	Revaluation reserve	Retained earnings	Profit or (loss) for the year	Total
	€000	€000	€000	€000	€000	€000	€000
At 1 January 2022	255,424	1,098,434	-	27,979	305,034	80,839	1,767,710
Allocation of result at shareholder meeting on 21 April	-	-	4,042	-	76,797	(80,839)	-
Shares issued for cash	-	519,100	-	-	-	-	519,100
Decrease of revaluation reserve	-	-	-	(339,288)	-	-	(339,288)
Loss for the year	-	-	-	-	-	(46,984)	(46,984)
At 31 December 2022	**255,424**	**1,617,534**	**4,042**	**(311,309)**	**381,831**	**(46,984)**	**1,900,538**

Notes to the Financial Statements (continued)

12. Capital and reserves (continued)

2021	Called up share capital €000	Share premium account €000	Legal reserve €000	Revaluation reserve €000	Retained earnings €000	Profit or (loss) for the year €000	Total €000
At 1 January 2021	255,424	1,098,434	-	105,940	310,525	(5,402)	1,764,921
Allocation of result at shareholder meeting on 14 April 2021	-	-	-	-	(5,402)	5,402	-
Prior Year Adjustment *	-	-	-	-	(89)	-	(89)
Decrease of revaluation reserve	-	-	-	(77,961)	-	-	(77,961)
Profit for the year	-	-	-	-	-	80,839	80,839
At 31 December 2021	**255,424**	**1,098,434**	**-**	**27,979**	**305,034**	**80,839**	**1,767,710**

* *Relating to correction for misalignment in branch retained earnings.*

Called up share capital

The share classes constituting the Company's called up share capital are detailed below:

Share Class	Nominal Value	Issued 2022	Issued 2021
Ordinary	€1.00	255,279,911	255,279,909
Ordinary Class B	€0.81	178,320	178,320

Share premium account

This statutory reserve records the amount of the nominal value received for shares sold, less transaction costs.

In June 2022 the Company issued one €1 ordinary share at a premium of €236.7m.
In December 2022 the Company issued an additional one €1 ordinary share at a premium of €282.4m.

Revaluation reserve

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

13. Classification of creditors according to duration

All creditors have a duration of less than 5 years.

Notes to the Financial Statements (continued)

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

	2022 €000	2021 €000
Debtors		
Debtors arising out of reinsurance operations	303,205	30,327
Other Debtors	39,608	95,654
	342,813	**125,981**
Creditors		
Creditors arising out of reinsurance operations	603,200	1,066,289
Other Creditors, including tax and social security	23,049	120,948
	626,249	**1,187,237**

The increase in debtors arising out of reinsurance operations is associated with the balance with LMIC, which increased to €253.1m as at year end (2021: €nil).

The decrease in creditors arising out of reinsurance operations is associated with the balance with LMIC, which decreased to €482.5m as at year end (2021: €903.8m).

15. Technical provisions

Gross	Provision for unearned premiums €000	Provision for claims outstanding €000
At 1 January 2022	1,872,612	4,917,796
Change in provision	87,347	1,000,272
Foreign exchange	1,227	74,020
At 31 December 2022	**1,961,186**	**5,992,088**

Gross	Provision for unearned premiums €000	Provision for claims outstanding €000
At 1 January 2021	1,579,882	3,809,180
Change in provision	222,218	901,450
Foreign exchange	70,512	207,166
At 31 December 2021	**1,872,612**	**4,917,796**

Notes to the Financial Statements (continued)

16. Reinsurers' share of technical provisions

Reinsurers' Share	Provision for unearned premiums €000	Provision for claims outstanding €000
At 1 January 2022	590,362	2,315,356
Change in provision	(43,990)	505,309
Foreign exchange	18,129	(391,974)
At 31 December 2022	**564,501**	**2,428,691**

Reinsurers' Share Restated	Provision for unearned premiums €000	Provision for claims outstanding * €000
At 1 January 2021	527,616	1,353,700
Change in provision	33,172	858,445
Foreign exchange	29,574	103,211
At 31 December 2021	**590,362**	**2,315,356**

* *In the prior year reporting period, €326.5m balance of Debtors arising from reinsurance operations were presented under the line "Reinsurers' share of technical provisions".*

This reclassification had no impact on profit brought forward for the 2022 year.

17. Off balance sheet commitments

Off-balance sheet arrangements

In December 2020, the Company entered into an irrevocable and unconditional equity contribution commitment with its sole shareholder, Liberty Specialty Markets HoldCo SLU (LSMH), through the entry into an equity commitment agreement between the Company, LSMH and LMIC to the value of $425m. This commitment is secured by certain assets pledged in favour of the Company by LMIC under an account pledge agreement. This structure has been approved by the Commissariat aux Assurances (CAA) as Tier 2 Ancillary own funds attributable towards the Company's Solvency Capital Requirement.

The Company has not been party to any other arrangements, which is not reflected in its Balance Sheet where material risk and benefits arise for the Company.

Guarantees

On 15 February 2002, the board of Liberty Mutual Insurance Company agreed to grant a guarantee covering the Company's insurance obligations. This was ratified by the Massachusetts' Department of Insurance on 10 May 2002. The original guarantee was updated and re-issued on 29 August 2019.

The Company has provided a guarantee to the Institute of London Underwriters (ILU) in respect of that organisation's run off activities. The Company was a member of the ILU, previously a trade association representing the interests of London market insurance companies, until it ceased activities in 1998. The guarantee is supported by a Letter of Credit of €343k provided by the Company.

Notes to the Financial Statements (continued)

17. Off balance sheet commitments (continued)

The Company has also provided guarantees in respect of the lease commitments of offices occupied in France by related party LSME. LSME is a coverholder of the Company and provides services to the Company. The guarantees total €903k, and have an expiry date in 2029.

18. Ultimate parent company

The ultimate parent company is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley Street, Boston, Massachusetts 02116, U.S.A., a company incorporated in the U.S.A. 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., a company domiciled in Spain.

The immediate parent company is Liberty Specialty Markets Holdco S.L.U.

Copies of the group accounts of Liberty International European Holdings S.L.U. and of Liberty Mutual Holding Company Inc. of Boston are available from the companies' registered office, 175 Berkeley Street, Boston, Massachusetts 02116, U.S.A.