

Liberty Specialty Markets Limited

Annual Report and Financial Statements
31 December 2016

Registered number: 9023400

TUESDAY



A23 *A6FSLASB* #76
26/09/2017
COMPANIES HOUSE

Contents

	Page
Directors and Administration	1
Strategic Report	2
Directors' Report	4
Statement of Directors' Responsibilities	6
Independent Auditor's Report	7
Statement of Comprehensive Income	9
Statement of Changes in Equity	10
Statement of Financial Position	11
Notes to the Financial Statements	12

Directors and Administration

Directors

N J Davenport	Director
N J Metcalf	President and Managing Director
J A R Dunn	Group Finance Director

Company Secretary

J Cassidy

Registered Office

20 Fenchurch Street
London
EC3M 3AW

Company Registration Number

9023400

Registered Auditor

Ernst & Young LLP
25 Churchill Place
London, E14 5EY

Strategic Report

Principal activity and review of the business

Liberty Specialty Markets Limited (the Company) continued its principal activity as an employing entity and expense processing administrator on behalf of the Liberty Specialty Markets group of companies.

The profit after taxation for the year is £2.84m (2015: £1.72m). The Company did not pay a dividend during the year, nor do the Directors propose payment of a dividend for the year ended 31 December 2016.

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

	2016 £000	2015 £000
Turnover from continuing operations	151,260	160,935
Operating profit before tax	3,677	2,168
Net current assets	6,009	3,173
	No.	No.
Average staff number	972	932

During the year the Company seconded employees to affiliates Liberty Managing Agency Limited (LMAL), as managing agent for Lloyd's Syndicate 4472, and to Liberty Mutual Insurance Europe Limited (LMIE).

Turnover constitutes staff salary costs recharged to affiliated entities, service fees received in respect of seconded staff, and fees charged for payment processing services.

Principal Risks and Uncertainties

The principal risk categories and uncertainties facing the Company arise from two sources:

- 1) The Company is dependent on other members of the group, principally LMAL, as managing agent for Lloyd's Syndicate 4472, and LMIE, for its turnover in terms of human resources and expense administration service fees received. As such, risks that are inherent to the operation of other group members also impact the Company. These are outlined in the financial statements of each entity, copies of which can be obtained from the registered office of this Company.
- 2) Risks resulting from its own activities. The activities of the Company itself give rise to certain risks which are outlined below:

Credit Risk

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

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

Liquidity Risk

Liquidity risk is the probability of loss arising from situations where the company either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands.

Liquidity risk is mitigated through the use of asset-liability modelling and through the maintenance of a diversified and appropriately liquid portfolio of assets.

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

Operational Risk

Operational risk is the risk of loss to the company resulting from the inadequate or failed internal processes, people and systems, or from external events. Operational risk also includes reputational risk and conduct risk.

Operational risk is mitigated through the use of the three lines of defence model in conjunction with a system of documented, monitored and tested internal controls.

Other Risks

Group risk is the risk of loss to the company arising from its membership of both Liberty Mutual Group and Liberty Specialty Markets.

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

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

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

Significant events during the reporting period and up to the date of the report

Through its European branch structure, the Company has significant operations and employees in the EU and enjoys a number of benefits from the UK being a member of the EU.

On 23rd June 2016, through a referendum, the UK voted to leave the EU and on 29th March 2017, Article 50 of the Lisbon Treaty was triggered by the UK Government commencing the process of formal negotiation between the UK and the EU on the UK's exit which is expected to occur during a two year period. A high degree of uncertainty exists around what the terms of the UK's relationship with the EU will be and whether any benefits of the current four freedoms of the EU will remain. In order to continue to support our current and potential future offerings within Europe, LSM is assessing the various options available which would enable both the company and LSM to continue to operate within the EU.



J A R Dunn

Group Finance Director

19 May 2017

Company registration number: 9023400

20 Fenchurch Street

London

EC3M 3AW

Directors' Report

The Directors have pleasure in submitting their report, together with the audited financial statements of the Company for the year ended 31 December 2016.

Directors and Directors' Interests

The current Directors are listed on page 1. Directors who held office between 1 January 2016 and the date of signing the financial statements were:

N J Davenport	Chairman	Appointed 2 May 2014
N J Metcalf	President and Managing Director	Appointed 2 May 2014
J A R Dunn	Group Finance Director	Appointed 2 May 2014

According to the Register of Directors' Interests, no Director had any beneficial interest in the issued share capital of the Company or related companies at any time during the period.

J Cassidy	Company Secretary	Appointed 25 February 2016
D Turner	Company Secretary	Resigned 25 February 2016

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.

Future Developments

The Company continued provision of human resources and expense administration services to the Liberty Specialty Markets group of companies, and will continue to provide these services into the foreseeable future. It is expected that the level of services provided will grow as the activities of the wider group are expanded.

Charitable Contributions

There were \$12,644 (2015: \$nil) charitable donations made during the year under review.

Disabled Employees

The Company gives full consideration to employment applications from disabled persons where the applicant's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job requirement. Opportunities are available to disabled employees for training, career development and promotion as outlined in the Company's Equal Opportunities Policy.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training and any adjustments to working conditions to achieve this aim.

Employee Involvement

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the period, the policy of providing employees with information about the organisation including key challenges and business performance has been continued through the fortnightly, firm wide staff email communications made by the President and Managing Director.

Regular meetings are held between management and employees to allow a free flow of information and ideas.

Employees are encouraged to contribute to the overall success of the organisation, which is consistent with the Company's remuneration policy, where variable pay is determined partly on individual performance and partly on the performance of the business.

Directors' Report (continued)

Disclosure of Information to Auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquires of fellow Directors and the Company's auditor, each Director has taken all the steps that he is obliged to take as Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Appointment of Auditors

Ernst & Young LLP are deemed to be reappointed in accordance with an elective resolution made under Section 485 of the Companies Act 2006. Consequently, the Company has dispensed with the requirement to hold an Annual General Meeting and re-appoint the auditors. Ernst & Young LLP have expressed their willingness to continue in office and so have been invited to do so.

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



J A R Dunn

Group Finance Director

19 May 2017

Company registration number: 9023400

20 Fenchurch Street
London
EC3M 3AW

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland. The financial statements are required by law to give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company for the period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report (continued)

to the shareholder of Liberty Specialty Markets Limited

We have audited the financial statements of Liberty Specialty Markets Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Angus Millar (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 May 2017

Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Turnover	2	151,260	160,935
Administrative expenses	3	(147,583)	(158,767)
Profit on ordinary activities before tax		3,677	2,168
Tax on profit on ordinary activities	5	(840)	(445)
Total comprehensive income		2,837	1,723

The amounts above are in respect of continuing operations. There are no other components of comprehensive income.

The notes on pages 12 to 18 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2016

2016	Called up share capital £000	Profit and loss account £000	Total £000
At 1 January 2016	100	3,073	3,173
Operating profit	-	2,837	2,837
At 31 December	100	5,910	6,010

2015	Called up share capital £000	Profit and loss account £000	Total £000
At 1 January 2015	100	1,350	1,450
Total comprehensive income	-	-	0
Other comprehensive income	-	1,723	-
At 31 December	100	3,073	3,173

Statement of Financial Position

at 31 December 2016

	Notes	2016 £000	2015 £000
Current assets			
Debtors - amounts falling due within one year	6	108,473	27,698
Cash in bank and in hand		13,726	42,053
Total assets		122,199	69,751
Current liabilities			
Creditors - amounts falling due within one year	7	116,189	66,578
Net current assets		6,010	3,173
Capital and reserves			
Called up share capital	8	100	100
Profit and loss account		5,910	3,073
Total reserves		6,010	3,173

The notes on pages 12 to 18 form part of these financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:



J A R Dunn
Group Finance Director
19 May 2017
Company registration number: 9023400

20 Fenchurch Street
London
EC3M 3AW

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies

1.1. Statement of compliance

Liberty Specialty Markets Limited (the Company) is a limited liability company incorporated in England and Wales, registered office detailed on page 1. The financial statements cover those of the individual entity and are prepared as at, and for the year ended, 31 December 2016.

The financial statements have been prepared in compliance with FRS 102, being the applicable UK GAAP accounting standards.

The financial statements are prepared under the historical cost convention.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 19 May 2017.

The financial statements are prepared in Pound Sterling which is the presentation and functional currency of the Company and rounded to the nearest £'000.

1.3. Significant accounting policies

1.3.1. Cash and cash equivalents

The Company has applied Part 1 *General Rules and Formats of Schedule 2* to the Regulations as per FRS 102.7.20A whereby cash on the balance sheet includes only cash and balances at central banks and loans and advances to banks repayable on demand.

A statement of cash flows has not been presented as the Company is a qualifying entity. Its cash flows are included within the consolidated cash flow statement of Liberty International Holdings LLC.

1.3.2. Financial liabilities

The Company's financial liabilities consist of intercompany balances and trade payables.

All financial liabilities are recognised initially at fair value. Intercompany balances are repayable on demand and are typically settled within one year. Intercompany balances are subsequently measured at amortised cost should they remain unsettled over a year. A financial liability is derecognised when the obligation under the liability is discharged or expires.

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

Significant accounting policies (continued)

1.3.3. Fee and commission income

Turnover constitutes staff salary costs recharged to affiliated entities, service fees received in respect of seconded staff, and fees charged for payment processing services. 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.

1.3.4. Administrative expenses

Administrative expenses and payables represent expenses incurred by the Company on an accrual basis.

1.3.5. Pension benefits

Employees joining on or after 1 January 2002 became members of the Company defined contribution pension schemes. Contributions to the defined contribution scheme are recognised in the income statement in the period in which they become payable

1.3.6. Foreign currency

The Company adopted Sterling as its presentational and functional currency based on a detailed assessment.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions, or an appropriate average rate.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the Profit and Loss Account.

1.3.7. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is recognised either in other comprehensive income or directly in equity as appropriate.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax liabilities are measured at the amount of corporate income tax expected to be paid to or recovered from taxation authorities in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

Significant accounting policies (continued)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the reversal of the timing difference.

2. Turnover

Turnover is attributable to the Company's principal activity as human resource and expense administration service provider to the Liberty Specialty Markets group of UK companies.

	2016 £000	2015 £000
Staff cost recharged to affiliated entities	142,333	152,015
Expenses administration service fee	2,851	2,734
Human resource service fee	6,076	6,186
	151,260	160,935

3. Administrative expenses

Administrative expenses include the following:

	2016 £000	2015 £000
Auditor's remuneration - audit services	20	19
Directors' remuneration - costs retained by the Company	249	226
Directors' pension - defined contribution scheme (included above)	2	5
Tax compliance services	-	6

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

4. Staff costs and directors remuneration

4.1. Staff number and costs

The Company employed all staff seconded to the Liberty Specialty Markets group of companies. Staff costs are recharged to the various entities, retaining the Company's staff cost to administrate the Company and service the various group entities. Underwriting staff costs recharged to underwriting entities are included in the technical account of the various entities as a component of underwriting expenses. Accordingly, the LSM group staff number has been included in the financial statements of the Company in order to reflect the substance of the Company's activities for the period.

The average total number of persons employed by the Company (including Directors) subject to full- or part-time secondments to affiliates during the period, analysed by category, was as follows:

	2016 No.	2015 No.
Administrative	552	517
Claims	76	77
Investments	-	3
Underwriting	344	335
	972	932

The aggregate payroll costs of total staff employed by the Company (including Directors) for the period, were as follows:

	2016 £000	2015 £000
Wages and salaries	124,845	138,233
Social security costs	15,078	12,346
Other pension costs	5,518	4,598
	145,441	155,177

4.2. Directors' remuneration

	2016 £000	2015 £000
Emoluments	249	226
Defined benefit contribution scheme	2	5
Highest paid directors' remuneration	135	124
	2016 No.	2015 No.

Directors' membership to defined benefit contribution scheme	2	3
--	---	---

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

5. Taxation

5.1. Tax on profit on ordinary activities

	2016 £000	2015 £000
Current taxation:		
UK corporation tax at 20% (2015: 20.25%) - current year	741	445
UK corporation tax - adjustment in respect of prior years	99	-
Tax on profit on ordinary activities	840	445

5.2. Factors affecting the tax expense for the year

Current Tax

The effective tax rate for the year is higher (2015: higher) than the standard rate of corporation tax in the UK. The differences are explained below

	2016 £000	2015 £000
Profit on ordinary activities before tax	3,677	2,168
Profit on ordinary activities multiplied by standard rate of UK corporation tax in the UK of 20% (2015: 20.25%)	735	439
Expenses not deductible for tax purposes	6	6
Tax (over)/under provided in previous years	99	-
Tax expense for the year	840	445

A reduction in the UK corporation rate from 21% to 20% took effect from 1 April 2015. There will be further reductions in the UK tax rate to 19% from 1 April 2017 and 17% from 1 April 2020.

There are no timing differences arising between the recognition of items in the Income Statement and their tax treatment, hence no deferred tax is provided. There are no other factors that may affect the future tax charge of the Company.

6. Debtors - amounts falling due within one year

	2016 £000	2015 £000
Amounts due from group undertakings	105,576	25,606
Other debtors	2,897	2,092
	108,473	27,698

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

7. Creditors - amounts falling due within one year

	2016 £000	2015 £000
Corporation tax due	1,070	127
Amounts due to group undertakings	29,034	3,668
Other creditors	8,020	10,823
Accruals	78,065	51,960
	116,189	66,578

Of the £1.07m corporation tax due as at 31 December 2016, £0.37m is a group relief creditor due to group undertakings.

8. Called up share capital

	2016 £000	2015 £000
Authorised, issued and fully paid		
100,000 ordinary shares of £1 each	100	100

9. Related Parties

As a qualifying entity, the Company has elected to take advantage of the exemption from the requirements of FRS 102 Section 33 *Related Party Transactions* paragraph 7.

Syndicate 4472 (the Syndicate) is a Lloyd's syndicate managed by Liberty Managing Agency Limited (LMAL), a company registered within England and Wales that operates under the LSM umbrella. The Company seconds employees to the Managing Agent to perform Syndicate duties for and on behalf of the corporate member, for which costs are re-charged to the Syndicate. Syndicate owed £90.5m (2015: £0.1m) at the balance sheet date to LSML.

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

	2016 £000	2015 £000
Entities with a significant influence over LSML		
Amounts due from related party	105,576	25,606
Amounts due to related party	29,034	3,668

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

10. Ultimate parent company

The ultimate parent company is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America. The smallest higher group of companies for which group accounts are drawn up and of which this company is a member, is Liberty International Holdings LLC, an entity incorporated and registered in the U.S.A.

The immediate parent company of Liberty Specialty Markets Limited is Liberty UK and Europe Holdings Limited.

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