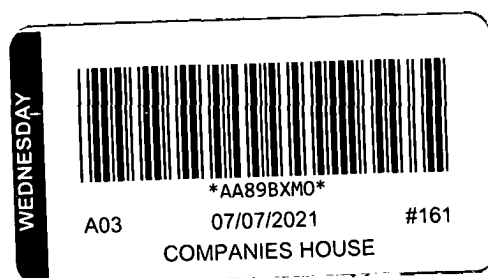


Liberty Specialty Markets Limited

Annual Report and Financial Statements

31 December 2020

Registered number: 9023400



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Directors and Administration

Directors

Nigel Davenport

Director

James Reeves

Director

Company Secretary

Angela Ocrah

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

The Directors present their Strategic Report for Liberty Specialty Markets Limited (the "Company") for the year ended 31 December 2020.

Principal Activities

The Company continued its principal activity as an employing entity and expense processing administrator on behalf of the Liberty Specialty Markets Group of companies.

Business Review

The loss after taxation for the year is £2.8m (2019: profit of £2.9m). The Company paid a dividend of £8.0m (2019: nil) during the year to its immediate parent company, Liberty UK and Europe Holdings Limited.

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

| | 2020 £000 | 2019 £000 |
|--------------------------------------|--------------|--------------|
| Turnover | 239,155 | 216,960 |
| Operating (loss) / profit before tax | (2,686) | 4,911 |
| Net assets | 2,534 | 13,450 |
| | No. | No. |
| Average staff number | 846 | 810 |

During the year the Company seconded employees to number of affiliate entities. Substantially all of the staff costs associated with these entities relates to Liberty Managing Agency Limited ("LMAL"), as managing agent for Lloyd's Syndicate 4472, and Liberty Mutual Insurance Europe Societas Europaea ("LMIE"). The other entities to which the Company seconded employees are Liberty Corporate Capital Limited ("LCCL"), Liberty Specialty Markets Europe S.a r.l. ("LSME"), Liberty Specialty Markets MENA Limited ("MENA"), Liberty Specialty Services Limited ("LSSL") and Liberty Specialty Markets Europe S.a r.l. Two ("LSME2").

Turnover constitutes staff salary costs recharged to affiliated entities, service fees received in respect of seconded staff and fees charged for payment processing services. Turnover has increased by £22.2m in line with the mark-up and increase in administration costs in the year. Administration expenses have increased in the year by £23.5m due to the increase in staff numbers across the Group and increase in Group re-charges. The operating loss before tax is driven by the increase in administration costs relative to the increase in turnover as well as a loss on foreign exchange of £4.6m, compared to a foreign exchange gain in the prior year of £1.6m. The current year exchange loss is driven mainly by the retranslation of foreign currency intercompany balances into GBP, the functional currency of the Company, at year-end rates.

Strategic Report (continued)

Section 172 of the Companies Act 2006

The Wates Corporate Governance Principles for Large Private Companies serves as the framework to demonstrate how directors have had regard for the matters set out in section 172(1) (a) to (f) ("S.172") of the Companies Act 2006 ("the Act") when performing their duty to promote the success of the Company for the benefit of its shareholders, which includes having regard to the interest of other stakeholders including the employees, suppliers, customers and those in a principle business relationship with the Company.

The below paragraphs explain how the Directors of the Company consider, both individually and together, that they have acted in accordance with their duties under S.172.

Shareholder

As a wholly owned subsidiary, the Board of LSML duly considers the views of its ultimate shareholder Liberty Mutual Holding Company Inc. and the interests of Liberty Mutual Group (the "Group") when considering any major decisions and transactions undertaken by the Company.

The Group Code of Business Ethics and Conduct embodies the Company's commitment to maintaining the highest ethical conduct and professional standards. The Group Code of Business Ethics and Conduct sets out the guiding principles of honesty, integrity and "doing the right thing", and governs interactions with key stakeholders. The Code of Business Ethics and Conduct also emphasises the importance of being a responsible business.

Customers

The Company acts as the employing entity and expense processing administrator on behalf of the Liberty Specialty Markets Group of companies. Accordingly, it considers Liberty Managing Agency Limited, as managing agent for Lloyd's Syndicate 4472 and the UK branch of Liberty Mutual Insurance Europe SE to whom it provides these services to be key stakeholders. Common directorships across these key stakeholders provide channels of communication to ensure customer needs are understood and met.

Employees

The Board recognise that employees are key to the Company's strength and success. The Directors are committed to ensuring high levels of employee engagement. Employee surveys are regularly conducted, and results taken into account to identify and implement actions for improvement. The Directors are committed to putting people first by providing an environment of conscious inclusion, where everybody feels that they are valued and belong. A range of inclusive, family friendly policies that support its people to be their unique selves at work and promote a healthy work-life balance are in place. The Directors are also committed to their responsibility to ensure that the Company's operations comply with applicable laws and regulations, including health and safety standards and practices in the workplace.

Suppliers

The Board reviews the actions taken to prevent modern slavery and associated practices in any part of the supply chain and approves a Modern Slavery Statement in accordance with the Modern Slavery Act 2015 each year. Further detail on actions taken by the Company in compliance with the Modern Slavery Act 2015 is set out on the Liberty Specialty Markets website. The Company has also adopted a policy on responsible procurement as part of its commitment to being a responsible business.

Community and Environment

The Board ensures that the Company demonstrates its commitment to being a responsible business through many aspects of its work. The Company adopts policies on operations and the environment (sustainability and climate change). It also has a programme of corporate social responsibility, engaging with the community in which it operates. To this end, LSM has established a Social Responsibility Committee whose duties include establishing and reviewing Corporate Social Responsibility policies and programmes covering sustainability, community relations and charitable donations. The CSR programme covers a range of support and activities, all with the overarching aim of helping the communities in which the Company operates to prosper.

Strategic Report (continued)

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 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.

The principal risks and uncertainties facing the Company are grouped as intrinsic, operational or other risks. Intrinsic risk incorporates the principal risks faced by the Company and includes market risk, credit risk and liquidity risk. Other risk includes group risk and strategic risk.

Intrinsic Risk

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 fellow group companies 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 defined as the probability of 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 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.

Market Risk

Market risk is the risk of fluctuations in net asset value due to volatility. The principal causes of market risk for the Company is Currency risk, the risk of fluctuations in net asset value due to changes in the level and volatility of currency exchange rates and mismatches between the assets and liabilities principally on inter-company accounts.

Market risk is mitigated through the use of a diversified investment strategy operating within Board risk appetites and operationalised through the investment guidelines.

Strategic Report (continued)

Operational Risk

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

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

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.

COVID-19

The ongoing COVID-19 global pandemic has made 2020 an exceptionally challenging year for our people, our customers and economies around the world.

The Liberty Specialty Markets Group (LSM) has demonstrated resilience and strength during this challenging time. Internally, we continue to support working from home for our staff and the pandemic has been treated as an event under LSM's Business Continuity Plan with effect from 24 February 2020.

Management has been monitoring, reviewing and has subsequently assessed the impacts of the continued disruption caused by COVID-19 for LSM in respect of its financial statements as at 31 December 2020.

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

On 31 January 2020, the UK left the EU. As a result, there was a transitional period which ran to 31 December 2020, during which the UK was no longer a member of the EU but was still subject to EU rules and remained a member of the Customs Union. During the transition period, the UK and EU negotiated the rules to be applied to future trading and other relationships.

Liberty's European Sub-group, Liberty International European Holdings SLU (Spain) ("LIEH"), completed a restructuring effective 22 December 2020, to simplify the Solvency II subgroup. There is no direct impact on LSML, except that it no longer forms part of the Spanish SII subgroup.

Strategic Report (continued)

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

James Reeves

James Reeves

Director

27 May 2021

Company registration number: 9023400

20 Fenchurch Street
London
EC3M 3AW

Directors' Report

The Directors present their Annual Report and the audited financial statements of Liberty Specialty Markets Limited for the year ended 31 December 2020.

Directors and Directors' Interests

The current Directors are listed on page 1. Directors who held office between 1 January 2020 and the date of signing the financial statements were:

| | | |
|-----------------|----------|------------------------|
| Nigel Davenport | Director | Appointed 2 May 2014 |
| James Reeves | Director | Appointed 30 July 2018 |

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.

Results and Dividends

The Company reported a net loss before tax of £2.7m (2019: profit of £4.9m). The key driver of the loss was the increase in administration costs of £23.5m relative to the increase in turnover of £22.2m as well as a loss on foreign exchange of £4.6m (2019: gain of £1.6m). The Company paid a dividend of £8.0m (2019: nil) during the year to its immediate parent Company, Liberty UK and Europe Holdings Limited.

Future Developments

The Company continues its provision of human resources and expense administration services to the Liberty Specialty Markets Group of companies, and it is expected that the level of services provided will grow as the activities of the wider group are expanded.

Going Concern

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the Company's latest management information 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. In preparing the going concern assessment, management have considered the impact of the COVID-19 outbreak on worldwide economic activity and how it might impact the financial position of the Company. However, the Directors do not currently believe that this will materially impact on the performance of the Company until 31 May 2022. As LSML's business operations are predominantly dependent on the performance of LMIE and Lloyd's Syndicate 4472, we have reviewed the current capital strength of the two entities and are confident that the capital strength of both entities would be sufficient to support the operations of LSML. In addition, given the capital strength and available liquidity within the wider LSM Group, the Directors are confident that this would be sufficient to support the operations of LSML in the future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Charitable Contributions

There were £570k (2019: £241k) of 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. Opportunities are available to disabled employees for training, career development and promotion as outlined in the Company's Equal Opportunities Policy.

Directors' Report (continued)

Disabled Employees (continued)

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.

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, the Directors have all taken the steps that they are obliged to take as Directors in order to make themselves 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.

Energy Consumption and Greenhouse Gas Emissions

The company is exempt from providing disclosures in relation to greenhouse gas emissions, energy consumption and energy efficiency action under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which came into force on 1 April 2019, and apply to financial years starting on or after 1 April 2019. The company consumed less than 40,000 kWh of energy in the United Kingdom during the year ended 31 December 2020, therefore the disclosure is not required.

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

James Reeves

James Reeves

Director

27 May 2021

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 Auditors' Report

To the members of Liberty Specialty Markets Limited

Opinion

We have audited the financial statements of Liberty Specialty Markets Limited (the "Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of changes in Equity, the Statement of Financial Position and the related notes 1 to 11, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 31 May 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independent Auditors' Report

To the members of Liberty Specialty Markets Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Independent Auditors' Report

To the members of Liberty Specialty Markets Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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 directors are 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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the direct laws and regulations related to elements of Company law, tax legislation, and the financial reporting framework (UK Generally Accepted Accounting Practice).
- We obtained a general understanding of how the Company is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed minutes of the Board of directors; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. Further, we performed audit procedures which included testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.

Independent Auditors' Report

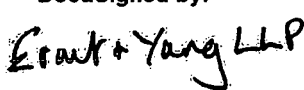
To the members of Liberty Specialty Markets Limited (continued)

- We designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, and inquiring about the Company's methods of enforcing and monitoring compliance with such policies.
- In addition, we considered the impact of Covid-19 on the Company, including an assessment of the consistency of operations and Company-wide controls in place as they transitioned to operating remotely for a significant proportion of 2020, and making enquiries of management via the use of video conferencing. We performed analytical review procedures to assess for unusual movements throughout the year.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

DocuSigned by:

95CC9D34CB794DA...

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

28 May 2021

Statement of Comprehensive Income

for the year ended 31 December 2020

| | Notes | 2020 £000 | 2019 £000 |
|--|-------|----------------|--------------|
| Turnover | 2 | 239,155 | 216,960 |
| Administrative expenses | 3 | (237,221) | (213,691) |
| Profit on ordinary activities before interest and tax | | 1,934 | 3,269 |
| Interest receivable and similar income | | - | 60 |
| Interest payable and similar charges | | (1) | - |
| (Loss) / gain on foreign exchange translation | | (4,619) | 1,582 |
| (Loss) / Profit on ordinary activities before tax | | (2,686) | 4,911 |
| Tax on result on ordinary activities | 5 | (142) | (1,968) |
| Total comprehensive (loss) / income | | (2,828) | 2,943 |

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

The notes on pages 17 to 26 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2020

| 2020 | Called up share capital £000 | Profit and loss account £000 | Total £000 |
|-----------------------|---|---|-----------------------|
| At 1 January 2020 | 100 | 13,350 | 13,450 |
| Dividends paid | - | (8,088) | (8,088) |
| Loss for the year | - | (2,828) | (2,828) |
| At 31 December | 100 | 2,434 | 2,534 |

| 2019 | Called up share capital £000 | Profit and loss account £000 | Total £000 |
|-----------------------|---|---|-----------------------|
| At 1 January 2019 | 100 | 10,407 | 10,507 |
| Profit for the year | - | 2,943 | 2,943 |
| At 31 December | 100 | 13,350 | 13,450 |

The notes on pages 17 to 26 form part of these financial statements.

Statement of Financial Position

at 31 December 2020

| | Notes | 2020 £000 | 2019 £000 |
|--|-------|---------------|----------------|
| Non-current assets (restated) | | | |
| Debtors – amounts falling due after more than one year | 6 | 8,608 | 6,038 |
| | | 8,608 | 6,038 |
| Current assets | | | |
| Debtors - amounts falling due within one year | 6 | 45,667 | 157,139 |
| Prepayments and accrued income | | 5,341 | 2,604 |
| Cash at bank and in hand | | 17,085 | 5,878 |
| | | 68,093 | 165,621 |
| Total assets | | 76,701 | 171,659 |
| Current liabilities | | | |
| Creditors: Amounts falling due within one year | 7 | 73,910 | 158,209 |
| Provisions | | 257 | - |
| Net assets | | 2,534 | 13,450 |
| Capital and reserves | | | |
| Called up share capital | 8 | 100 | 100 |
| Profit and loss account | | 2,434 | 13,350 |
| Total reserves | | 2,534 | 13,450 |

The notes on pages 17 to 26 form part of these financial statements.

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

James Reeves

James Reeves
Director
27 May 2021
Company registration number: 9023400

20 Fenchurch Street
London
EC3M 3AW

Notes to the Financial Statements

for the year ended 31 December 2020

1. Accounting Policies

1.1. Statement of compliance

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 2020.

The financial statements have been prepared in compliance with FRS 102, being the applicable UK GAAP accounting standards, and in accordance with the Companies Act 2006.

The financial statements are prepared under the historical cost convention.

1.2. Basis of preparation

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. The financial statements have been prepared on a going concern basis. In preparing the going concern assessment as described in the Directors' Report, management have considered the impact that the outbreak of COVID-19 has had on worldwide economic activity and how it might impact the financial position of the Company. Turnover constitutes staff salary costs recharged to affiliated entities, service fees received in respect of seconded staff and fees charged for payment processing services. A significant amount of uncertainty remains around the premiums and claims exposure of the wider LSM group and there is potential that in future years, growth expectations of staff numbers are limited. This is currently under review as part of the 2022 planning cycle. However, the Directors do not currently believe that this will materially impact on the performance of the Company in the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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

The Company has taken advantage of the exemption, under paragraph 1.12(b), from preparing a statement of cash flows on the basis that it is a qualifying entity and its parent company, Liberty International Holdings LLC, includes the company's cash flows in its consolidated financial statements.

Prior year correction

The 31 December 2019 deferred tax asset balance has been restated from current to non-current assets.

This restatement does not change the value or quantum of the deferred tax asset and merely changes the presentation from current to non-current assets on the statement of financial position. This adjustment has no impact on the Company's net assets.

Per FRS 102 (para 10.23), the nature of the error, and correction amount for each financial statement line affected and amount of correction at the beginning of the earliest period presented has been included.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

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 statement of financial position 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 Assets

The Company's financial assets consist of intercompany balances, corporation tax and other prepayments.

As permitted by FRS 102, the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments: recognition and measurement (as adopted for use in the EU) to account for all of its financial instruments.

Financial assets represent cash and amounts due from group undertakings for services. These intercompany receivables are initially recognised at fair value and subsequently measured at amortised costs using the effective interest method. At the end of each reporting period the intercompany receivables are assessed for objective evidence of impairment. If it is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cashflows discounted at the asset's original effective interest. The impairment loss is recognised in profit and loss account. If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit and loss account.

1.3.3. 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.

1.3.4. Turnover

Turnover constitutes staff salary and associated 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.

1.3.5. Administrative expenses

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

1.3. Significant accounting policies (continued)

1.3.6. 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.

1.3.7. Foreign currency

The company's functional currency and presentational currency is Sterling.

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 Statement of Comprehensive Income.

1.3.8. 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 statement of financial position date.

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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

1.3. Significant accounting policies (continued)

1.3.8. Taxation (continued)

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 statement of financial position date and that are expected to apply to the reversal of the timing difference.

1.4. Judgements and key sources of estimation uncertainty

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. There are no areas in the statement of comprehensive income or the statement of financial position to which material judgement or estimations of uncertainty have been applied.

1.5. Dividends

Dividends declared by the Company are recorded in the period in which the dividends are approved.

Dividends are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

2. Turnover

Turnover is attributable to the Company's principal activity as an employing entity and expense processing administrator on behalf of the Liberty Specialty Markets Group of companies.

| | 2020 £000 | 2019 £000 |
|---|----------------|----------------|
| Staff cost recharged to affiliated entities | 137,737 | 129,439 |
| Expense administration service fee | 101,418 | 87,521 |
| | 239,155 | 216,960 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

3. Administrative expenses

| | 2020 £000 | 2019 £000 |
|---|----------------|----------------|
| Auditor's remuneration - audit services | 27 | 24 |
| Staff costs | 140,512 | 127,625 |
| Other administrative expenses | 96,682 | 86,042 |
| Total administrative expenses | 237,221 | 213,691 |

4. Staff costs and directors' remuneration

4.1. Staff number and costs

The Company employed the majority of the staff which were 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.

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

| | 2020 £000 | 2019 £000 |
|-----------------------|----------------|----------------|
| Wages and salaries | 123,074 | 113,347 |
| Social security costs | 13,711 | 12,166 |
| Other pension costs | 3,727 | 2,112 |
| | 140,512 | 127,625 |

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 :

| | 2020 No. | 2019 No. |
|----------------|-------------|-------------|
| Administrative | 525 | 510 |
| Claims | 66 | 64 |
| Underwriting | 255 | 236 |
| | 846 | 810 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

4. Staff costs and directors' remuneration (continued)

4.2. Directors' remuneration

| | 2020 £000 | 2019 £000 |
|--------------------------------------|--------------|--------------|
| Emoluments | 9 | 6 |
| Defined benefit contribution scheme | 1 | 1 |
| Highest paid directors' remuneration | 5 | 3 |

| | 2020 No. | 2019 No. |
|--|-------------|-------------|
| Directors' membership to defined benefit contribution scheme | 2 | 2 |

5. Taxation

| | 2020 £000 | 2019 £000 |
|--|----------------|----------------|
| Current taxation: | | |
| UK corporation tax at 19% (2019: 19%) - current year | 2,535 | 3,073 |
| UK corporation tax - adjustments in respect of prior years | 177 | 662 |
| UK corporation tax | 2,712 | 3,735 |
| Total current taxation | 2,712 | 3,735 |
| | | |
| | 2020 £000 | 2019 £000 |
| Deferred taxation | | |
| Unpaid remuneration | (1,500) | (1,963) |
| Accelerated capital allowances | (688) | (13) |
| Adjustments due to change in tax rates | (710) | 208 |
| Adjustments in respect of prior years | 328 | 1 |
| Total deferred taxation | (2,570) | (1,767) |
| Tax on profit on ordinary activities | 142 | 1,968 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

5. Taxation (continued)

Factors affecting the tax expense for the year

The effective tax rate for the year is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below.

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| (Loss) / Profit on ordinary activities before tax | (2,686) | 4,911 |
| (Loss) / Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%) | (510) | 933 |
| Expenses not deductible for tax purposes | 857 | 164 |
| Amounts in respect of changes in tax rates | (710) | 208 |
| UK corporation tax underprovided in previous years | 177 | 662 |
| Deferred tax overprovided in previous years | 328 | 1 |
| Tax expense for the year | 142 | 1,968 |

Deferred tax assets are recognised at the substantively enacted rate, at the statement of financial position date. A reduction in the UK corporation rate from 20% to 19% took effect from 1 April 2017. The enacted UK corporation tax rate was set to reduce from 19% to 17% from 1 April 2020. The Finance Bill 2020, which was substantively enacted on 17 March 2020, included the cancellation of this future reduction. The Finance Bill 2021 was published on 11 March 2021 included that the enacted UK corporation tax rate is set to increase from 19% to 25% from 1 April 2023. As this rate change will be substantively enacted after the end of the reporting period, deferred taxes at the statement of financial position date are measured at the enacted tax rate of 19%. The impact of the corporation tax rate change on the closing deferred tax balance is £2.7m.

Deferred tax

The deferred tax asset included in the statement of financial position is as follows:

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Unpaid remuneration | 6,690 | 6,012 |
| Accelerated capital allowances | 1,196 | 26 |
| Taxable Losses | 722 | - |
| Deferred tax asset at end of year | 8,608 | 6,038 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

5. Taxation (continued)

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Deferred tax asset at start of year | 6,038 | 4,272 |
| Deferred tax income for the year | 2,898 | 1,767 |
| Deferred tax over-provided in previous years | (328) | (1) |
| Deferred tax asset at end of year | 8,608 | 6,038 |

6. Debtors

Amounts falling due within one year

| | 2020 £000 | 2019 £000 |
|-------------------------------------|---------------|----------------|
| Amounts due from group undertakings | 44,816 | 135,951 |
| Other debtors | 851 | 21,188 |
| | 45,667 | 157,139 |

In 2019, Other debtors included a VAT related debit of £7.9m with a corresponding credit in Accruals. The amounts represented reverse charge VAT which netted off to nil. In 2020 these accounts have not been included in either 'Other debtors' or 'Accruals' as they do not represent VAT receivable or payable respectively and net off to nil. This accounts for part of the decrease in 'Other debtors' from 2019 to 2020.

Amounts falling due after more than one year

| | 2020 £000 | 2019 £000 |
|--------------------|--------------|--------------|
| Deferred tax asset | 8,608 | 6,038 |
| | 8,608 | 6,038 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

7. Creditors - amounts falling due within one year

| | 2020 £000 | 2019 £000 |
|-----------------------------------|---------------|----------------|
| Corporation tax due | 7,535 | 6,295 |
| Amounts due to group undertakings | 4,485 | 52,899 |
| Accruals | 61,890 | 99,015 |
| | 73,910 | 158,209 |

Materially all of the corporation tax due above is in relation to group relief from group undertakings.

8. Called up share capital

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Authorised, issued and fully paid | | |
| 100,000 ordinary shares of £1 each | 100 | 100 |
| 100,000 Allotted Shares | | |

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 1A and paragraph 7, to not disclose related party transactions with key management personnel and related party transactions with wholly owned subsidiaries of Liberty International Holdings Incorporated (DE).

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 Incorporated, a Company 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 Incorporated 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.

11. Post Balance Sheet Events

There have been no subsequent events to report.

Notes to the Financial Statements (continued)

for the year ended 31 December 2020

12. Prior year correction

The deferred tax asset balance in 2019 of £6.0m had been incorrectly classified as a current asset as at 31 December 2019. The Company restated the 31 December 2019 deferred tax asset by reclassifying it from current assets to non-current assets in the statement of financial position in accordance with FRS 102. This restatement does not change the value or quantum of the deferred tax asset and merely changes the presentation from current to non-current assets on the statement of financial position.

The effect of the restatement on the 2019 financial statements is presented below. There is no effect in 2020.

| | Effect on 2019 £000 |
|--|---------------------------|
| Increase in non-current assets: deferred tax asset | 6,038 |
| (Decrease) in current assets: deferred tax asset | (6,038) |
| Increase/(decrease) in net assets | - |