Liberty Managing Agency Limited

Annual Report and Financial Statements
31 December 2018

Registered number 3003606

Contents

Directors and Administration

Directors

Keith Nicholson	Chairman & Independent Non-Executive Director
Matthew Moore	President & Managing Director
Philip Hobbs	Deputy Managing Director
Nigel Davenport	Executive Director
Graham Brady	Executive Director
Christopher Hanks	Independent Non-Executive Director
Richard Reid	Independent Non-Executive Director

Company Secretary
Vacant

Registered Office
20 Fenchurch Street
London
EC3M 3AW

Company Registration Number
3003606

Registered Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Strategic Report

The Directors present the Strategic Report for the year ended 31 December 2018.

Review of the Business

Principal Activities
The principal activity of Liberty Managing Agency Limited ('The Agency'/'Managing Agent') is acting as a Lloyd's managing agent for Liberty Syndicate 4472 ('the Syndicate'). The Managing Agent charges a fee and, where appropriate, a profit commission, to the Member of the Syndicate in respect of its role as managing agent.

The Agency, in its capacity as a Lloyd's managing agent, incurred expenses in connection with management and administration services provided to associated entities during the year. It recharged these expenses, along with a management fee to the Syndicate, to Liberty Corporate Capital Limited ('LCCL'), which provides the Syndicate's capacity, to Liberty Specialty Services Limited ('LSSL'), which is a coverholder for the Syndicate and other related companies.

It is wholly owned by Liberty Mutual Group Incorporated, a diversified global insurer. The group offers a wide range of insurance products and services to meet the needs of individuals, families and businesses through strategic business units and operating units. The Company is part of the Liberty Specialty Markets (LSM) operating unit, which is part of the Global Risk Solutions business unit (GRS).

Key Financial Indicators

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

	2018 $000	2017 $000
Profit before taxation for the year	7,103	55,898
Net assets surplus (per Lloyd's requirements)	34,359	81,417
Net current assets surplus (per Lloyd's requirements)	4,588	103,788

	2018 $000	Restated 2017 $000
Turnover: expenses recharged	18,712	22,427
Turnover: managing agent's fee	20,807	30,605
Turnover: managing agent's profit commission	0	9,107

Profit before tax has decreased by $49m in the current year. The decrease is primarily driven by a reduction in managing agency fee percentage, the removal of profit commission as the Syndicate has made losses for all open year of accounts together with an increase in administration expenses due to changes in the LSM expense allocation model.

The Agency continues to meet Lloyd's solvency requirements for managing agents.

Principal Risks and Uncertainties
The principal risks and uncertainties facing the Agency arise from two sources:

1) The Agency is dependent on other members of the group, principally the Syndicate, for its turnover in terms of the management fee and the reimbursement of recharged expenses. As such, risks that are inherent to the operation of other group members also impact the Agency. These are outlined in the financial statements of each entity, copies of which can be obtained from the registered office of this Agency.
2) Risks resulting from its own activities. The activities of the Agency itself give rise to certain risks which are outlined below.

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

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

The objective of the Agency's risk management activities is to enable it to engage with risks in a controlled fashion that is consistent with the Board's appetite and its available capital capacity while retaining the ability to implement its long term business plans.

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 counterparties 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 Agency 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.

Operational Risk
Operational risk is the risk of loss to the Agency resulting from the inadequate or failed internal processes, people and systems, or from external events. 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.

Market Risk
Market risk is the risk of fluctuations in net asset value due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and other assets and liabilities. 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.

Other Risks

Group Risk
Group risk is the risk of loss to the Agency 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 Report (continued)

Strategic Risk
Strategic risk is the risk of loss to the Agency 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 Syndicate's strategy and through controls relating to the development of new business opportunities.

Pension Scheme Shortfalls
The Agency operates a defined benefit pension scheme for certain staff members, which closed to future accrual in July 2012. Reported results may be adversely affected by changes in pension costs and funding requirements due to lower than expected investment returns, changes in demographics and higher life expectancy. These risks are continually monitored by the independent scheme actuaries to determine an appropriate funding approach and an asset allocation strategy designed to reduce and diversify the risk inherent in the investment portfolios.

Solvency Risk
The Agency is required by Lloyd's to maintain set levels of solvency and report them on a quarterly basis. This is managed through regular monitoring and planning of the required solvency levels based on changing business operations and regulatory requirements. Where appropriate, the Agency actively coordinates these plans with its parent entities at Liberty Mutual Group.

Significant events during the reporting period and up to the date of the report
On 23 June 2016, through a referendum, the UK voted to leave the EU and on 29 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. This process is still ongoing and is expected to continue over 2019. 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 response to Brexit and, specifically the loss of access to the Single Market which enabled underwriters at Lloyd's to underwrite insurance and reinsurance from all EU member states on a cross-border basis, Lloyd's set up a dedicated European subsidiary during 2018.

Lloyd's new insurance company based in Brussels (Lloyd's Insurance Company S.A.), authorised and regulated by the National Bank of Belgium, has been set up to enable Lloyd's underwriters to continue to access risks located in EEA countries.

Liberty Managing Agency Limited is authorised to underwrite EU risks on behalf of Lloyd's Brussels, and those risks are in turn reinsured by Syndicate 4472. In addition, Liberty Specialty Markets has established an intermediary coverholder, Liberty Specialty Markets Europe S.à.r.l. (LSME) in Luxembourg, which acts on behalf of Syndicate 4472.

In furtherance to LSM's Brexit Strategy, the company transferred its Germany branch to LSME on 1 May 2019 and the France branch is expected to transfer to a new company ("LSME 2") in the first quarter of 2020. This is expected to support LSM's plans to grow its operations in Europe.

By order of the Board

Graham Brady
Executive Director
10 June 2019
Company registration number: 3003606

Directors' Report

The Directors present their Annual Report and the audited financial statements of Liberty Managing Agency Limited for the year ended 31 December 2018.

Directors and Directors' interests
The current Directors are listed on page 1. Directors who held office between 1 January 2018 and the date of signing the financial statements were:

Keith Nicholson	Chairman & Independent Non-Executive Director	Appointed 15 September 2011
John Dunn	Group Finance Director	Resigned 5 December 2018
Philip Hobbs	Deputy Managing Director	Appointed 11 December 2017
Nigel Davenport	Executive Director	Appointed 10 December 2018
Christopher Hanks	Independent Non-Executive Director	Appointed 31 October 2013
Gordon McBurney	Independent Non-Executive Director	Resigned 26 February 2018
Christopher Peirce	Independent Non-Executive Director	Resigned 24 January 2018
Richard Reid	Independent Non-Executive Director	Appointed 19 June 2013
Frank Robinson	Independent Non-Executive Director	Resigned 22 February 2018
Graham Brady	Executive Director	Appointed 27 February 2019
Peter Smith	Executive Director	Appointed and resigned on 8 October 2018

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

Company Secretary
The position of Company Secretary is currently vacant.

Results and Dividends for the Year
The profit after taxation for the year amounted to \$4.9m (2017: \$45.8m). The Agency paid a dividend of \$100m to its immediate parent company Liberty UK and Europe Holdings during 2018 (2017: \$61k).

Future Developments
The Agency will continue to manage Syndicate 4472 ("the Syndicate") and to provide administration services for other related entities.

As part of Liberty Specialty Markets, the Syndicate will continue to transact general insurance and reinsurance business via the Lloyd's underwriting platform. The Syndicate will continue to adjust the levels of business written to maintain the desired return on risk; this will include adjusting levels of premium income written in different classes, while monitoring risk rigorously with a fully integrated planning, pricing and risk monitoring process and an effective reinsurance programme to protect capital in line with the Board's risk appetite.

Going Concern
The Directors are satisfied that the Agency has adequate resources to continue in business for the foreseeable future. Consequently, they continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and financial statements.

Charitable Contributions
In 2018 there were donations of \$12,203 made to various charities (2017: \$9,670).

Directors' Report (continued)

Disabled Employees
The Agency gives full consideration to applications for employment from disabled persons where the candidate'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 Agency's Equal Opportunities Policy.

Where existing employees become disabled, it is the Agency'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.

Statement of 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 Agency'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.

Reappointment 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 the office and have been invited to do so.

By order of the Board

Graham Brady
Executive Director
10 June 2019
Company registration number: 3003606

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). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Agency and of the profit or loss of the Agency for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 Agency will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Agency's transactions and disclose with reasonable accuracy at any time the financial position of the Agency 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 Agency, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Graham Brady
Executive Director
10 June 2019
Company registration number: 3003606

Independent Auditor's Report to the members of Liberty Managing Agency Limited

Opinion

We have audited the financial statements of Liberty Managing Agency Limited for the year ended 31 December 2018 which comprise of the Income Statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 17, 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 2018 and of its profit 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 below. 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

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.

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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material

Other information (continued)

misstatement of the other information. 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

Auditor's responsibilities for the audit of the financial statements (continued)

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.

Ernst & Young LLP

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 June 2019

Income Statement

For the year ended 31 December 2018

	Notes	2018 $000	Restated 2017 $000
Turnover	2	39,518	62,139
Administrative expenses	3,4	(34,565)	(16,594)
Other operating income		2,307	1,992
Operating profit		**7,260**	**47,537**
Profit on ordinary activities before interest and tax		**7,260**	**47,537**
Interest receivable and similar income		494	39
Interest payable and similar charges		(157)	(39)
(Loss)/profit on foreign exchange translation		(494)	8,361
Profit on ordinary activities before tax		**7,103**	**55,898**
Tax on profit on ordinary activities	6	(2,155)	(10,053)
Profit on ordinary activities after tax		**4,948**	**45,845**

All the amounts above are in respect of continuing operations.

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 $000	2017 $000
Profit on ordinary activities after tax		4,948	45,845
Pension scheme - actuarial gain / (loss), net of tax	11	516	811
Total recognised gains relating to the year		**5,464**	**46,656**

Statement of Changes in Equity

For the year ended 31 December 2018

	Notes	Called up Share Capital $000	Capital contribution	Profit & Loss Account $000	Total shareholder's capital $000
2018					
As at 1 January		630	3,980	126,832	**131,442**
Profit on ordinary activities after tax		-	-	4,948	**4,948**
Pension scheme - actuarial loss, net of tax	**11**	-	-	516	**516**
Dividend		-	-	(100,000)	**(100,000)**
As at 31 December		**630**	**3,980**	**32,296**	**36,906**

	Notes	Called up Share Capital $000	Capital contribution	Profit & Loss Account $000	Total shareholder's capital $000
2017					
As at 1 January		630	3,980	80,237	**84,847**
Profit on ordinary activities after tax		-	-	45,845	**45,845**
Pension scheme - actuarial gain, net of tax	**11**	-	-	811	**811**
Dividend		-	-	(61)	**(61)**
As at 31 December		**630**	**3,980**	**126,832**	**131,442**

Statement of Financial Position

As at 31 December 2018

	Notes	2018 $000	2017 $000
Fixed assets			
Tangible fixed assets	7	18,946	19,958
Pension surplus	11	6,764	6,066
Current assets			
Debtors - amounts falling due within one year	8	102,104	234,623
Cash at bank and in hand		45,724	37,000
Other debtors		182	188
		148,010	271,811
Total assets		**173,720**	**297,835**
Current liabilities			
Deferred tax liability	6	(577)	(1,958)
Creditors - amounts falling due within one year	9	(136,237)	(164,107)
Net current assets		**11,196**	**105,746**
Total assets less current liabilities		**36,906**	**131,770**
Provisions for liabilities	13	-	(328)
Net assets		**36,906**	**131,442**
Capital and reserves			
Called up share capital	10	630	630
Capital contribution		3,980	3,980
Dividend paid		(100,000)	0
Profit and loss account		132,296	126,832
Total equity		**36,906**	**131,442**

These financial statements were approved by the board of directors and were signed on its behalf by:

Graham Brady
Executive Director
10 June 2019
Company registration number: 3003606

Notes to the Financial Statements

For the year ended 31 December 2018

1. Accounting Policies

1.1. Statement of compliance

Liberty Managing Agency Limited is a limited liability company incorporated in England. The registered office is 20 Fenchurch Street EC3M 3AW. The financial statements cover those of the individual entity and are prepared as at, and for the year ended, 31 December 2018.

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 have been prepared under the historical cost convention except for the defined benefit pension obligation which is measured under the projected unit credit method.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 10 June 2019.

The financial statements are prepared in United States Dollar which is the presentation and functional currency of the Agency and rounded to the nearest $'000.

The Agency has taken advantage of the reduced disclosure requirements for qualifying entities, where possible, under FRS 102 as it is a 100% owned subsidiary of Liberty International Holdings Incorporated. A statement of cash flows has not been presented as the Agency is a qualifying entity under FRS 102 section 1.12. Its cash flows are included within the consolidated cash flow statement of Liberty International Holdings Inc.

1.3. Judgements and key sources of estimation uncertainty

1.3.1. Defined benefit pension scheme

The cost of the defined benefit pension plan is determined using an actuarial valuation. The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 102 are detailed in note 11. Post-retirement mortality assumptions are based on the SAPS light base tables. These assumptions are then combined with an allowance for future mortality improvements in line with the CMI 2014 projection factors allowing for a long-term rate of future improvements of 1.25% per annum. For a pensioner aged 65 at the year end, the assumptions are that they will live on average for a further 23.7 years if they are male and for a further 24.8 years if they are female.

There are no future salary increases as the 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.

1.4. Significant accounting policies

1.4.1. Cash and Cash Equivalents

The Agency 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 Agency is a qualifying entity under FRS 102 section 1.12. Its cash flows are included within the consolidated cash flow statement of Liberty International Holdings Inc.

1. Accounting Policies (continued)
1.4. Significant accounting policies (continued)

1.4.2 Financial Liabilities

The Agency's financial liabilities consist of intercompany balances, corporation tax and other accruals and a dilapidation provision.

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.

1.4.3 Turnover

Turnover represents the amount of expenses recharged by the Agency to the Syndicate, LCCL and LSSL as well as group undertakings. Turnover also includes managing Agents fees and a profit commission charged to the Syndicate. The managing Agents fees are based on the underwriting capacity of the Syndicate, established annually by Lloyd's. A profit commission is charged at a rate of 17.5% of the profit on a year of account basis (subject to the operation of a deficit clause) as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

1.4.4 Administrative expenses

Administrative expenses represent the expenses incurred by the Agency.

1.4.5 Fixed assets

Expenditure on leasehold improvements, computer hardware and software, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight line basis.

The periods used to depreciate such assets are as follow:

• Leasehold improvements	Remaining lease term
• Software	3 years
• Computer Equipment	3 to 5 years
• Fixture, fittings and office equipment	Lower of term of lease and 10 years

Depreciation is included as part of administrative expenses. Carrying values of the tangible fixed assets are also regularly reviewed for impairment.

1.4.6 Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Rentals under operating leases are charged to the profit and loss account in equal annual instalments over the period of the lease.

1. Accounting Policies (continued)
1.4. Significant accounting policies (continued)

1.4.7 Pension Benefits

The Agency operates a defined benefit pension which requires contributions to be made to separately administered funds. The scheme was closed to new members on July 2003 from which true membership of a defined contribution plan was, and, remains available with the Agency. Variations arising from actuarial surpluses are spread over the average remaining service lives of members to the extent that the resulting credit does not exceed the regular cost.

Employees joining on or after 1 January 2002 became members of the Agency defined contribution pension schemes. Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

Defined Benefit Pension Scheme

FRS 102 was derived from the IFRS for SMEs (International Financial Reporting Standard for Small and Medium Sized Entities) and the provisions for pensions reporting are therefore similar to those required under the revised version of the International Accounting Standard IAS 19 ("IAS19R"), which became effective for accounting periods beginning on or after 1 January 2013.

Therefore, where FRS 102 is silent on the accounting treatment to be adopted, disclosures have been prepared on the basis of what is required under IAS19R.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, both determined at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss.

FRS 102 allows the Agency to recognise a surplus on its balance sheet, provided that it is able to recover the surplus either through reduced contributions in the future or through refunds from the Scheme. There is no requirement for these refunds to have been agreed before the balance sheet date and therefore surpluses may be recognised so long as there is a theoretical route by which an entity can recover the surplus, either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognised gross of any related deferred tax balance, with the related deferred tax item included in the wider deferred tax assets and liabilities.

Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

1. Accounting Policies (continued)
1.4. Significant accounting policies (continued)

1.4.8 Foreign Currencies

The Agency's functional currency and presentational currency is United States Dollar. FRS 102 requires the Agency to assess its functional currency periodically in line with the guidance in the standard. The Agency's relationship, with and dependency on, the Syndicate is a key factor in the determination of the functional currency of the Agency. The fee charged to the Syndicate is principally in USD. The Agency is entitled to receive commission on the profits of the Syndicate from the 2014 year of account onwards.

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 (which include unearned premiums and deferred acquisition costs) 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 non-technical account.

1.4.9 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.

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.

1.4.10 Dividends

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

	2018 $000	Restated 2017 $000
Managing agent's fee	20,807	30,605
Managing agent's profit commission	-	9,107
Expenses recharged to associated entities	18,711	22,427
	39,518	62,139

Turnover is attributable to the Agency's principal activity as a Lloyd's managing agent and arises from the UK.

3. Net operating expenses

Administrative expenses include the following:

	2018 $000	Restated 2017 $000
Auditor's remuneration - audit of the financial statements (Note 5)	24	22
Directors' remuneration costs retained by the Agency	1,347	530
Directors' pension - defined contribution scheme (included above)	88	3
Depreciation of fixed assets (Note 7)	4,747	4,079
Operating lease rentals - land and buildings	8,125	7,486

During the year, the Managing Agent reviewed the accounting previously adopted in respect of Operating lease rental expense/Sub-lease rental income and rental expense recharged to associated entities. Please refer to Note 17 for the information on the impact of this restatement on the financial statements.

4. Staff costs and Directors' Remuneration

4.1. Staff costs

All UK staff are employed by Liberty Specialty Markets Limited (LSML), an affiliated company. All European are employed by the Managing Agent. The following amounts were incurred by the Agency for the staff employed directly and the staff seconded from LSML.

	2018 $000	2017 $000
Wages and salaries	13,278	4,665
Social security costs	2,969	535
Employee pension costs	1,126	391
	17,373	5,591

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For the year ended 31 December 2018

4. Staff costs and Directors' Remuneration (continued)
4.1 Staff costs (continued)

Costs relating to Directors are separately disclosed and as such have not been included in the staff costs note.

The average number of employees seconded to or employed by the Agency during the year was as follows:

	2018 Number	2017 Number
Underwriting	106	103
Claims	33	32
Administration and finance	223	218
	362	**354**

4.2 Directors' emoluments

	2018 Number	2017 Number
Number of Directors who are members of a defined contribution pension scheme	2	3

The total directors' emoluments in 2018 was $1,347k (2017: $530k). The cost retained by the Agency in respect of emoluments for the highest paid Director was $478k (2017: $137k). Included within this amount are pension contributions of $88k (2017: $nil).

5. Auditors' Remuneration

	2018 $000	2017 $000
Auditor's remuneration - audit of the financial statements	24	22

6. Taxation
6.1 Tax on profit on ordinary activities

	2018 $000	2017 $000
Current taxation:		
UK corporation tax at 19% (2017: 19.25%) - current year	1,852	10,716
Double taxation relief	-	(315)
UK corporation tax - adjustments in respect of prior years	1,445	(1,672)
UK corporation tax	**3,297**	**8,729**
Foreign taxation - current year	670	551
Foreign taxation - adjustments in respect of prior years	(247)	77
Foreign tax	423	628
Total current taxation	3,720	**9,357**

6 Taxation (continued)

The tax expense is made up as follows:

	2018 $000	2017 $000
Deferred taxation		
Fixed asset timing differences	(751)	52
Pensions costs timing differences	50	446
French profit share timing differences	(183)	-
Adjustments in respect of prior years	(682)	198
Total deferred taxation	**(1,566)**	**696**
Tax on profit on ordinary activities	**2,154**	**10,053**

Tax expense / (income) included in other comprehensive income.

	2018 $000	2017 $000
Deferred tax:		
Actuarial gains / (losses) on defined benefit pension scheme	278	459

6.2 Factors affecting the tax expense for the year

The tax assessed for the year is higher (2017: lower) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2018 $000	2017 $000
Profit on ordinary activities before tax	**7,103**	**8,384**
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	1,350	10,760
Income not taxable for tax purposes	(116)	-
Expenses not deductible for tax purposes	154	258
Deferred tax at rates other than the standard rate for the year	53	195
Higher tax rates on overseas earnings	268	551
Double taxation relief	-	(315)
UK corporation tax under- / (over) provided in previous years	1,445	(1,672)
Foreign tax (over-) / under-provided in previous years	(247)	77
Deferred tax over-provided in previous years	(682)	198
Prior year French profit share adjustment	(70)	-
Tax expense for the year	**2,155**	**10,053**

Notes to the Financial Statements
For the year ended 31 December 2018

6 Taxation (continued)

6.3 Deferred tax

Deferred tax assets and liabilities are recognised at the substantively enacted rate, for the respective jurisdictions, at the balance sheet date. A reduction in the UK corporation rate from 20% to 19% took effect from 1 April 2017.

There will be a further reduction in the UK tax rate to 17% from 1 April 2020 and reductions to the French corporate tax rate to 28% from 1 January 2020, 26.5% from 1 January 2021 and 25.0% from 1 January 2022. The deferred tax balance at 31 December 2018 reflects these enacted tax rates, where relevant. There has been no material impact to the deferred tax balances as a result of these rate changes.

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

	2018 $000	2017 $000
Deferred tax asset	1,784	-
Deferred tax liability	(2,361)	(1,958)
Deferred tax asset / (liability) at end of year	**(577)**	**(1,958)**

	2018 $000	2017 $000
Decelerated capital allowances	1,599	166
Defined benefit pension scheme surplus	(2,361)	(2,123)
French profit sharing timing difference	185	0
Deferred tax asset / (liability) at end of year	**(577)**	**(1,958)**

An analysis of the movement in deferred tax is as follows:

	2018 $000	2017 $000
Deferred tax asset / (liability) at start of year	(1,958)	(720)
Deferred tax (expense) / income for the year	884	(498)
Effect of changes in tax rates	-	-
Deferred tax (over-) / under-provided in previous years	682	(198)
Deferred tax (expense) / credit in other comprehensive income	(278)	(459)
Foreign Exchange Movement	93	(83)
Deferred tax asset / (liability) at end of year	**(577)**	**(1,958)**

The amounts of deferred tax expected to unwind are too uncertain to predict when they will reverse.

Notes to the Financial Statements
For the year ended 31 December 2018

7. Tangible assets

	Leasehold improvements $000	Furniture & fixtures $000	Computer hardware $000	Computer software $000	Total $000
Cost:					
As at 1 January 2018	9,547	3,269	7,540	14,359	34,715
Other adjustments	2	198	282	(752)	(270)
Additions	-	570	318	2,740	3,628
Disposals	-	-	(42)	-	(42)
As at 31 December 2018	**9,549**	**4,037**	**8,098**	**16,347**	**38,031**
Depreciation:					
As at 1 January 2018	2,031	1,044	4,483	7,199	14,757
Other adjustments	(67)	13	(67)	(256)	(377)
Provided during the year	516	380	1,233	2,618	4,747
Disposals	-	-	(42)	-	(42)
As at 31 December 2018	**2,480**	**1,437**	**5,607**	**9,561**	**19,085**
Net book value at 31 December 2018	**7,069**	**2,600**	**2,491**	**6,786**	**18,946**
Net book value at 1 January 2018	7,516	2,225	3,057	7,160	19,958

8. Debtors - amounts falling due within one year

	2018 $000	2017 $000
Amounts due from group undertakings	100,370	229,422
Prepayments and accrued income	1,734	2,732
Other debtors	-	2,469
	102,104	**234,623**

9. Creditors - amounts falling due within one year

	2018 $000	2017 $000
Corporation tax	13,530	9,757
Amounts owed to group undertakings	93,984	129,801
Accruals	28,723	24,549
	136,237	**164,107**

10. Called up share capital

	2018 $000	2017 $000
Issued and fully paid		
Ordinary shares of £1 each	630	630

11. Pension schemes

The Agency recognises pension scheme surplus in accordance with the requirements of IFRIC 14. The Agency does not believe the IASB's proposed amendments to IFRIC 14 will affect its ability to receive a refund of surplus in this situation. However, the Agency will review this conclusion again once the amendments are finalised.

The Agency participated in a funded group defined benefit scheme in the UK, together with fellow subsidiaries of Liberty Mutual Holding Agency Inc. The 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.

The Scheme is administered by a separate board of Trustees which is legally separate from the Agency. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the Scheme, employees are entitled to annual pensions on retirement at age 65 of one-sixtieth of final pensionable salary for each year of service. Pensionable salary is defined as basic salary less the Basic State Pension. Benefits are also payable on death and following other events such as withdrawing from active service.

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 1 July 2016 and showed a deficit of £81,991k.

The Agency and fellow employer subsidiaries paid deficit contributions of £474,000 in July 2013 and £480,000 in July 2014, which were intended to make good this shortfall. The next funding valuation is due no later than 1 July 2019.

No allowance has been made for administration expenses (including PPF levies). These are met directly by the Agency and fellow employer subsidiaries and are allowed for elsewhere in those Agency's accounts.

The valuation used for the FRS 102 disclosures has been based on a full assessment of the liabilities of the Scheme as at 1 July 2016, updated to the balance sheet date. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the period in which they occur, (but outside the income statement), through Other Comprehensive Income (OCI).

Assumptions

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 102 are set out below:

Notes to the Financial Statements

For the year ended 31 December 2018

11. Pension schemes (continued)

Main financial assumptions

At 31st December	2018 % p.a.	2017 % p.a.
RPI inflation	3.3	3.2
CPI inflation	2.2	2.1
Rate of general long-term increase in salaries	N/A	N/A
Pension increase (fixed 3%)	3.0	3.0
Pension increase (fixed 5%)	5.0	5.0
Pension increase (LP15)	3.2	3.1
Discount rate for scheme liabilities	3.2	2.5

The post-retirement mortality assumptions are based on the SAPS Light base tables. This assumption is then combined with an allowance for future mortality improvements in line with the CMI 2014 projection factors allowing for a long-term rate of future improvements of 1.25% per annum.

For a pensioner aged 65 at the year end, the assumptions are that they will live on average for a further 23.7 years if they are male and for a further 24.8 years if they are female.

Asset allocation

The fair value of the assets in the scheme were:

Value at 31 December	2018 $000	2017 $000
UK equities	12,857	17,151
Alternatives	5,544	4,556
Liability hedging	(3,352)	(2,160)
Corporate bonds	2,216	4,260
Fixed interest gilts	3,472	2,472
Index-linked gilts	4,326	4,805
Property	1,524	1,599
Cash/net current assets	3,077	1,818
Total	**29,664**	**34,500**

Reconciliation of funded status to balance sheet

Value at 31 December	2018 $000	2017 $000
Fair value of scheme assets	29,664	34,500
Present value of funded defined benefit obligations	(22,900)	(28,434)
Asset recognised in the balance sheet	**6,764**	**6,066**

11. Pension schemes (continued)

Breakdown of amounts recognised in profit and loss

	2018 $000	2017 $000
Operating cost		
Financing cost		
- Interest on net defined benefit liability/(asset)	(144)	(111)
Pension expense recognised in profit and loss	**(144)**	**(111)**

Breakdown of amounts recognised in other comprehensive income

	2018 $000	2017 $000
Return on plan assets below/(in excess of) that recognised in net interest	2,816	(1,789)
Actuarial (gains)/losses due to changes in actuarial assumptions	(2,893)	1,031
Actuarial (gains)/losses due to changes in demographic assumptions	(784)	34
Actuarial (gains)/losses due to liability experience	67	(546)
Gross of tax amount recognised in other comprehensive income	**(794)**	**(1,270)**
Deferred tax on defined benefit pension plan	278	459
Total (gains)/losses recognised in other comprehensive income	**(516)**	**(811)**

Changes in the present value of the defined benefit obligation

	2018 $000	2017 $000
Opening defined benefit obligation	28,434	27,359
Current service cost		
Interest expense on defined benefit obligation	660	763
Actuarial (gain)/losses on liabilities	(3,610)	537
Net benefits paid out	(1,320)	(2,232)
Re-translation of opening balance	(1,264)	2,007
Closing defined benefit obligation	**22,900**	**28,434**

Notes to the Financial Statements
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11. Pension schemes (continued)

Changes in the fair value of scheme assets

	2018 $000	2017 $000
Opening fair value of scheme assets	34,500	30,602
Interest income on scheme assets	804	878
Remeasurement (losses)/gains on scheme assets	(2,816)	1,848
Contributions by the employer	-	1,159
Net benefits paid out	(1,320)	(2,233)
Re-translation of opening balance	(1,504)	2,246
Closing fair value of assets	**29,664**	**34,500**

Actual return on Scheme assets

Interest income on scheme assets	804	878
Remeasurement (loss)/gain on scheme assets	(2,816)	1,848
(Deficit)/surplus in the scheme	**(2,012)**	**2,726**

12. Obligations under leases and hire purchase contracts

12.1. Onerous lease provision

The Agency recognises provisions in relation to an onerous lease on a building occupied prior to integration totalling $nil (2017: $141k). This comprised fees in respect of final exit of leases on previously occupied premises that have since been assigned to other parties.

12.2. Operating lease commitments

The Agency leases various office spaces under non-cancellable operating leases. The leases are of varying length and have varying clauses, terms and rights attached to them.

The Agency is committed to make the following payments during the next year in respect of non-cancellable operating leases:

	2018 $000	2017 $000
Not later than one year	8,024	6,081
Later than one year and not later than five years	28,058	19,806
Later than five years	54,505	57,173
	90,587	**83,059**

Notes to the Financial Statements

For the year ended 31 December 2018

13. Dilapidation provision

	2018 $000	2017 $000
As at 1 January	328	291
Utilised during the year	(328)	-
Exchange difference	-	37
As at 31 December	-	**328**

The dilapidation provision related to contractual obligations of the Agency on surrender of property leases to reinstate the premises to the same state and condition as before occupancy including making good on all damage caused by the removal. This provision was fully utilised in 2018.

14. Post-reporting date event

The company transferred its Germany branch to LSME on 1 May 2019. There have been no other significant events occurring after the reporting date of these financial statements.

15. Related party transactions

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

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

Related party transactions	**Amounts owed from related party $000**	**Amounts owed to related party $000**
Entities with a close relationship with the Company		
2018	100,370	93,984
2017	229,422	129,801

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. During the year, the Agency charged the Syndicate $20.6m (2017: $30.6m) in Agency fees for its services. The Agency did not charge the Syndicate any profit commission in 2018 (2017: $9.1m).

16. 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 agency is a member of is Liberty International Holdings LLC.

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

17. Prior year adjustment

During the year, the Managing Agent reviewed the accounting previously adopted in respect of Operating lease rental expense/Sub-lease rental income and rental expense recharged to associated entities. As a result of this review, it was determined that rental expense and sub-lease income should be presented on a gross basis rather than as a net expense. The cumulative effects of the adjustment required to correct this treatment at 31 December 2017 result in an increase in Turnover of $5.7m ($2m Other operating income, $3.7m Expense Recharged to Associated Entities) and a corresponding increase in Administrative Expenses of $5.7m. This adjustment had no impact on the Company's net assets.