# INTEGRATED ABILITY FINANCIAL STABILITY

LIBERTY MUTUAL INSURANCE EUROPE

ANNUAL REPORT 2013

Liberty Specialty Markets

# CONTENTS



Pages 2 to 43 (excluding 5) represent a complete reproduction of the annual report and financial statements of the Company. All other pages did not form part of these financial statements and consequently represent unaudited information.

## GWP

# +23%

Our investment in growth means that we continued to expand our business, with GWP exceeding $1bn for the first time.

## NET ASSETS

# $767m

After eleven consecutive profitable years we continued to increase our capital and surplus base.

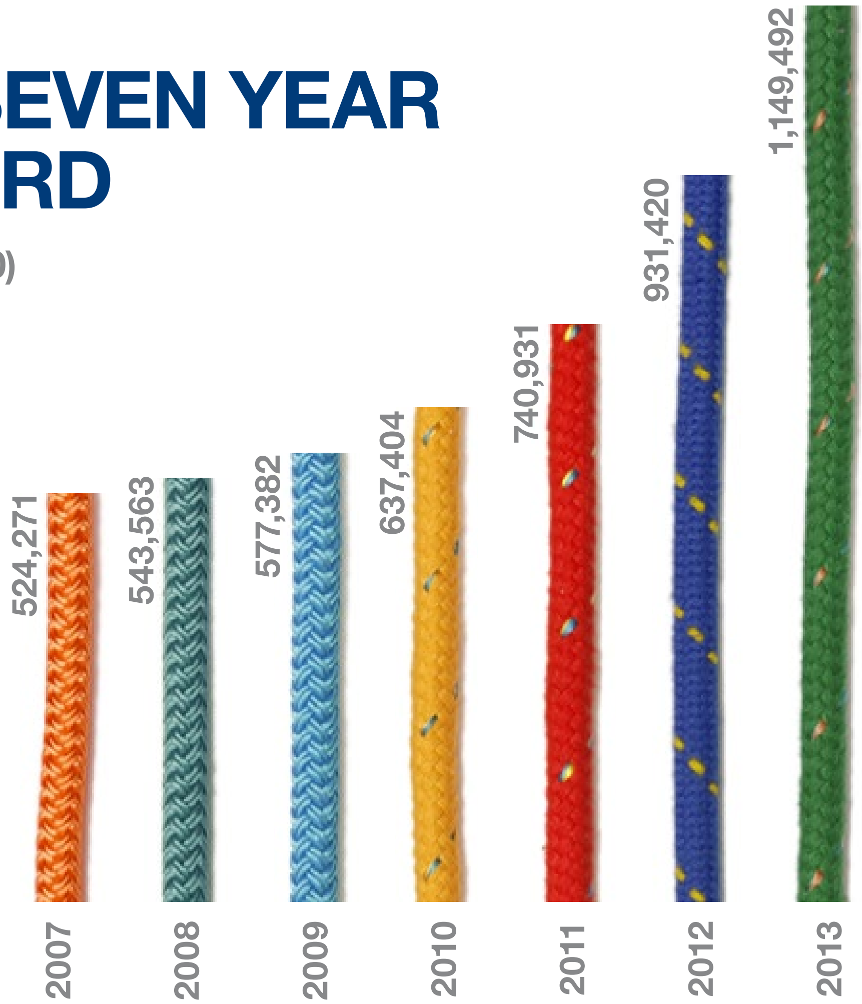
## PROFITS

# $85.6m

Our underwriting expertise and market selection generated strong returns.

# THE SEVEN YEAR RECORD

GWP (in $000)



# PRESIDENT'S STATEMENT

Our strategy of identifying and investing in growth areas meant that, despite highly competitive market conditions, Liberty Mutual Insurance Europe Limited (LMIE) was able to continue expanding its business in 2013.

As a result, gross written premium (GWP) rose above $1bn for the first time, up 23% to $1.15bn. Our control over costs and conservative approach to underwriting helped to reduce our combined ratio to 92.5% and achieve pre-tax profits of $85.6m, despite a fall in realised net investment gains of $27.6m compared to 2012. We were again able to strengthen our asset base, as net assets grew by 8.8% to $767m.

## AN INTEGRATED FUTURE

During the second half of the year Liberty announced the integration of Liberty Mutual Insurance Europe with Liberty Syndicates and Liberty Mutual Reinsurance to form Liberty Specialty Markets. This creates a single platform with an enhanced proposition, distributed through a stronger brand and united product offering.

For existing LMIE brokers and insureds I believe there are a number of benefits. They will retain the security of the full strength of LMIE's balance sheet, while having access to a wider range of products and coverage, as well as increased levels of service and expertise, supported by a fully joined-up approach across markets. In addition, internal benefits include enhanced management and systems.

## COMMERCIAL GROWTH

LMIE investments in the UK and Ireland corporate mid-market continued to pay off in 2013, with business volume growing 32%. We further built on our network during the year, establishing a Glasgow office which was positively received by brokers and insureds.

All LMIE regions performed well, in particular our Leeds office, which, after little more than 18 months, is now firmly established and has registered strong growth, reinforcing our belief in the value of local knowledge and service, backed by global scale and expertise.

Growth was further supported by carefully selected delegated underwriting authorities. We took the decision during the year to sell our Vision Underwriting renewal rights as it was not core to our commercial strategy and could be more appropriately served through delegated underwriting authorities.

We introduced Property and Combined underwriting platforms in Q1 and these have proved effective in monitoring rates and aggregation on a real-time basis, while also adding to and improving client experience with rapid policy issuance and enhanced contract certainty.

Our book of mobile phone insurance continued to grow strongly as we entered into new markets and consolidated our position in France and the UK.

## INTERNATIONAL EXPANSION

Business volume grew by 22% in LMIE's European operations and we continued to focus on broadening our offering both geographically and in terms of products.

We entered into a strategic arrangement with Liberty Insurance in Moscow to address the increasing flow of business opportunities we are seeing out of Russia and Eastern Europe. Our recently opened contact desk in Geneva also performed well in sourcing business opportunities in the French-speaking region of Switzerland.

In France we launched Commercial Property lines and focused on regional development, establishing our first presence outside Paris, in Lyon, during the year, again underlining the importance we attach to having local service and presence, particularly in the mid-market sector.

LMIE's Middle East and South East Asia operations, centred in Dubai and Singapore respectively, grew strongly with business volume up 20%. This was not only a result of economic growth in these regions but also our growing reputation there. We are increasingly seen as leaders in Energy, Construction, Financial lines and Casualty business. Our newly launched Energy sector terrorism cover in Dubai was well received and in Construction a number of key hires have helped us to take lead positions and firmly establish ourselves as a key provider of capacity for complex construction risks.

## SPECIALTY BUSINESS

Business volume in LMIE's London Specialty operations grew 21% despite tough market conditions that saw rates remain flat and oversupply a feature. Our growth was supported by our relationship with Dual, where we provide capacity to their Financial lines portfolio.

Our ability to successfully navigate tough market conditions can be seen in Aviation, where rates continued to soften as a result of increased competition. During the year, we strengthened the team by bringing in a recognised market leader to head the team, and we are leveraging the expertise of our team and our enhanced reputations to move from following to lead positions. This strategy, we believe, will put us in a stronger position to profit from the market ahead.

## OUR MARKETS

There were no major systemic events in the year which impacted us, although our growing UK commercial operations meant that we carefully monitored weather conditions as areas suffered from heavy rainfall, winds and flooding.

Our extensive modelling and monitoring of aggregation, supported by our cautious underwriting philosophy, limited our exposure to these adverse weather conditions and our share of liabilities was limited to well below our share of the market.

Two years ago we took the underwriting decision to exit Tier One banks, reducing our exposure since then by $0.5bn. Not only has this decision been validated by subsequent events, but the overall volume of the Financial lines book has not been adversely affected, with growth coming from smaller, less volatile financial risks.

## SYSTEMS AND SUPPORT

During the year we successfully relocated our data centre to a more secure base outside London with no reduction in capability or service standards. Our commitment to investing in new technology can be seen by our development of new underwriting platforms for Energy and international Casualty. We continue to play an active role in the industry, in a number of International Underwriting Association forums.

## ASSOCIATION FORUMS

Our role as the official insurance partner for the Test Match Grounds for 2013 during the Ashes and New Zealand tours provided a powerful opportunity to establish our brand more prominently throughout London and the regions. In motor racing we built on our position as a key insurance provider to the sport by sponsoring new and established drivers, including former F1 driver Mark Blundell.

We continue to encourage staff to support local communities through volunteering and fundraising activities. During the year we also took action to reduce waste by cutting energy use and increasing recycling.

## OUTLOOK

While UK Property rates may harden as a result of recent adverse weather conditions we expect there to be little significant general rate improvement in the wider market. Given this, we believe that our integration into Liberty Specialty Markets will put us in a strong position to successfully navigate these conditions – enhancing the service and products we offer while also providing opportunities to improve internal efficiency, risk management and cost effectiveness.

Being part of a bigger organisation will also provide staff and management with greater opportunities to develop their skills and grow their careers – and it is to them I would like to show my thanks for the hard work that enabled us to continue growing our business in 2013.

## DIRECTORS

2013 saw some changes to the LMIE Board. Sadly, Non-Executive Director Danny Forsythe, who had been bravely battling with illness for some time, passed away early in the year. Danny was highly supportive of LMIE, and a significant presence and contributor to the Board. All Directors and staff of LMIE will miss him greatly.

The end of 2013 also saw the retirement of Malcolm McKenzie as Non-Executive Director. Malcolm was a much-valued member of the Board and we thank him for his contribution over the years and wish him every success in his retirement. In December 2013, Nick Metcalf and Chris Hanks joined the Board and we welcome both to their new role.

S P ROCKS, DIRECTOR – PRESIDENT AND MANAGING DIRECTOR | 31 MARCH 2014

Liberty Mutual Insurance Europe Limited

### LONDON
HEAD OFFICE
LONDON MARKET

Acting as a gateway to the London market and the base for some of the most highly skilled insurance professionals in Europe, our head office offers a full range of specialty products and the flexibility required to meet the needs of our brokers. Our commitment to the London market means that we have the capacity and expertise to underwrite the most complex risks.

**+21%**

BUSINESS VOLUME

### UK/IRELAND MID-MARKET
BIRMINGHAM | BRISTOL | DUBLIN | GLASGOW | LEEDS | LONDON | MANCHESTER

Our investment in expanding our branch network, strengthening our underwriting capabilities and improving the quality and accessibility of our services means we are strongly positioned to support brokers and clients. We provide a wide range of commercial insurance products through independent and national brokers.

**+32%**

BUSINESS VOLUME

### CONTINENTAL EUROPE
COLOGNE | THE HAGUE | HAMBURG | MADRID | MILAN | PARIS | ZURICH

Through independent brokers we offer a growing suite of insurance products in Europe's key strategic markets. Our customers are medium and large-sized companies operating in a wide range of industry sectors, who benefit from our technical expertise and deep understanding of their needs.

**+22%**

BUSINESS VOLUME

### INTERNATIONAL
DUBAI | HONG KONG | MALAYSIA | SINGAPORE

Our extensive network gives local brokers and insurance companies the capacity to meet demand from some of the world's fastest growing markets. With experience of the local trading environment and a wide product offering, our highly qualified teams have the underwriting authority and expertise to meet customer needs in a variety of sectors.

**+20%**

BUSINESS VOLUME

# STRATEGIC REPORT

## PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company underwrites Marine, Non-marine and Aviation insurance and reinsurance business from its head office in London and its branches across Europe, the Middle East and Asia.

During 2013, the company continued to focus on extending its geographical presence in the UK mid-market corporate sector, and through its international branches, as more fully set out in the President's statement above, and saw the first full year of income generated through our relationship with the Dual underwriting agency. The Mobile Communications business continued to expand, particularly in France.

The company's key financial performance indicators during the year were as follows:

| | 2013 $'000 | 2012 $'000 | Change % |
|---|---|---|---|
| Gross written premiums | 1,149,492 | 931,420 | 23.4 |
| Profit before taxation | 85,586 | 98,674 | (13.3) |
| Net assets | 767,316 | 705,573 | 8.8 |
| Combined ratio | 92.5% | 96.2% | |

The increase in the gross written premiums reflects organic growth across the business as more fully described in the President's statement.

The combined ratio is calculated as total technical charges excluding change in the equalisation provision over earned premiums, net of reinsurance. The combined ratio has benefited from a return to releases from prior year claims overprovisions, after a small strengthening in 2012.

Investment income, including net gains and losses on the realisation of investments, was significantly reduced from the previous year, as net realised gains reduced from $29.7m to $2.1m, reflecting a much lower level of turnover in the portfolio. In addition, investment yields decreased, although this was offset to some degree by higher invested asset values arising from strong operational cashflows.

The company operates in international markets and recorded a net loss of $6.3m during 2013 (2012: losses of $14.3m) on the translation of non-USD currencies into USD. In accordance with the company's accounting policies, a loss of $3.2m (2012: loss of $15m), being that part of the total gain relating to the retranslation of the company's principal operating currencies GBP, Euro and USD, is reflected in the Statement of Total Recognised Gains and Losses, and not in the profit and loss account.

Net assets increased by $61.7m attributable to the net profit for the year of $65.3m, less other recognised net losses of $3.5m for the year.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board sets risk appetite annually as part of the company's business planning process.

Risk management is currently undertaken on three levels:

- Risk ownership – risk owners identify risks and are responsible for establishing and maintaining appropriate controls over those risks.

- Risk control – exercised by the Risk Committee which is responsible for oversight of the operation of the risk management strategy; and by the Executive Committee, which is responsible for the management of risk in accordance with the risk appetites set by the Board. Measures of risk are monitored against risk appetite on a quarterly basis.The Risk Committee is assisted by the advisory and monitoring functions of Risk Management and Compliance. Risk Management defines and prescribes the financial and operational risk assessment processes for the business, maintains the risk registers, and undertakes regular reviews of these risks with the risk owners. Compliance advises on all areas of regulatory principles, rules and guidance, and undertakes monitoring activity on key areas of regulatory risk.
- Risk assurance – conducted by the Internal Audit function under the control and direction of the Audit Committee. Internal Audit conducts a programme of audits covering all aspects of risk ownership and risk control. The Audit Committee is satisfied that the Internal Audit function has the appropriate level of resources.

The principal risks and uncertainties facing the company are considered below:

## INSURANCE RISK

Insurance risk includes the risks that a policy will be written for too low a premium or will provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), and that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business.

Risk appetite is updated as necessary on a quarterly basis to ensure that it remains relevant and reflective of the changing needs and capabilities of the company. External events or changing market conditions that lead to a strategic shift in, for example, the company's product mix and capacity, may also trigger a review of the quantitative or qualitative appetite.

In situations where the company delegates certain aspects of first line risk ownership to external parties, such as through the delegation of underwriting or claims handling authorities, the company has put in place additional controls to ensure that these are and will continue to be controlled and monitored with the same degree of rigour as is applied in the rest of the business.

The Executive Committee of the Board then monitors performance against the business plan through the year. Reserve adequacy is monitored by the Reserving Committee which meets quarterly to establish and review the held reserves. A key element of this consideration is review of the quarterly report by the company's actuary, which includes the actuarial estimate of required reserves together with documentation supporting the material judgements and assumptions made in arriving at this estimate.

## CREDIT RISK

The company's principal credit risk exposure is the risk of non-performance by one or more of the company's reinsurers.

A key part of the company's risk management strategy is the purchase of effective reinsurance across all lines. The company purchases both proportional and non-proportional reinsurance locally and through participation in Liberty Mutual Group global treaties. There are a limited number of reinsurers worldwide with the capacity or capability to participate in these global treaties. A consequence of this is a degree of concentration of exposure with the major reinsurers.

The company's Reinsurance Committee approves all reinsurance treaties and and is required to assess and approve all new reinsurers before business is placed with them. Carriers must be A rated or better. Reinsurer exposure is reviewed quarterly. The company uses a default risk model to determine a need for specific provisions against reinsurer non-performance which are adjusted on a quarterly basis. Changes in the amount of the provisions are reflected in the profit and loss account.

## MARKET RISK

Market risk is defined as the risk of loss to the company arising from fluctuations in the values of its assets, the amount of its liabilities, or the income from its assets. Sources of market risk for the company include movements in interest rates, equity values, and exchange rates. Such movements would potentially affect the value of the company's cash and investment portfolio and the income therefrom. The company underwrites insurance policies in several currencies and consequently has an exposure to retranslation gains and losses arising from the impact of changes in exchange rates on technical assets and liabilities denominated in foreign currencies.

The company has delegated management of its investment portfolio to Liberty Mutual Group Asset Management Inc, the specialist investment management arm of Liberty Mutual Group. The portfolio is managed in accordance with investment guidelines established on behalf of the company by the Investment Committee. These guidelines set out limits on asset quality, counterparty exposure, asset concentration, and geographical concentration, compliance with which, alongside investment performance, is monitored by the Committee on a quarterly basis.

The portfolio comprises a broad spread of investment grade instruments, including bonds issued by Eurozone sovereign states collectively known as the "GIIPS" states. Total value of exposure to GIIPS sovereign debt is less than $68.5m within an overall portfolio valued at in excess of $1.86bn. The performance of GIIPS bonds is currently subject to monthly review and reporting to the Executive Committee of the Board, and to formal review at a strategic level with the investment managers through the Investment Committee.

The company follows a policy of matching foreign currency denominated assets and liabilities so as to minimise the impact of exchange rate movements. Shareholder surplus is currently held in USD. Thus overall the company holds limited net assets in non USD currencies and consequently this restricts balance sheet exposures to exchange rate movements.

## LIQUIDITY RISK

Liquidity risk is the risk of loss to the company arising from the company being insufficiently liquid to meet all cashflow commitments as and when they fall due. It is company policy that all funds are held in cash or in readily marketable instruments.

This requirement is reflected in the investment guidelines. The duration of investment instruments is matched to the anticipated duration of liabilities to policyholders and the currency of investment instruments is matched to the currency of anticipated liabilities to policyholders. Shorter term needs are anticipated through a process of cashflow forecasting with the backing of a bank loan facility which can be drawn upon if needed to cover immediate requirements.

The directors believe that these actions provide assurance that the company will be able to continue to meet its obligations as and when they fall due. In making this assessment, the directors have fully considered the effect of current market conditions on asset values and asset marketability.

## OPERATIONAL RISK

Operational risk is defined as the risk of loss to the company arising from inadequate or failed internal processes, people, and systems. The company manages operational risk through the three mechanisms of risk ownership, risk control and risk assurance described above.

Through recent and planned business developments, the company has experienced and expects to continue to experience growth in business volumes. The company's risk management framework is under constant review and development to ensure this growth is appropriately managed, with commensurate investment in people, systems and related reporting and monitoring processes.

## REGULATORY RISK

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to a change in regulations. The Company is required to comply, inter alia, with the requirements of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The Company's overseas operations are also subject to local laws. The company has a dedicated Compliance team which monitors regulatory developments and assesses the impact on the company's policies and procedures.

## FUTURE DEVELOPMENTS

In September 2013 Liberty Mutual Insurance Group announced the creation with immediate effect of Liberty Specialty Markets, a new operation created by integrating the company's existing Lloyd's Syndicate, Liberty Mutual Insurance Europe and US-based Liberty Mutual Reinsurance operations. Liberty Specialty Markets will seek opportunities for growth and improved performance, while continuing to provide its current wide range of product capability and capacity for specialty markets worldwide.

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

S P ROCKS, DIRECTOR – PRESIDENT AND MANAGING DIRECTOR | 31 MARCH 2014
COMPANY NUMBER: 1088268

Liberty Mutual Insurance Europe Limited

# DIRECTORS' REPORT

The directors have pleasure in submitting their report, together with the audited financial statements of the company, for the year ended 31 December 2013.

## DIRECTORS' INTERESTS

The current directors are listed on page 11. Directors who held office between 1 January 2013 and the date of signing the financial statements were:

| | |
|---|---|
| S P Rocks | Chairman - President and Managing Director |
| J F McCammon | Director (Appointed 4 January 2013) |
| N J Metcalf | Director (Appointed 10 December 2013) |
| D J Prince | Director (Resigned 14 March 2014) |
| D T N Forsythe (USA) | Non-Executive Director (Deceased 20 May 2013) |
| C D Hanks | Non-Executive Director (Appointed 6 December 2013) |
| G J McBurney (USA) | Non-Executive Director |
| M G McKenzie | Non-Executive Director (Resigned 25 September 2013) |
| C L Peirce (USA) | Non-Executive Director (Appointed 7 January 2013) |
| F W Robinson (USA) | Non-Executive Director (Appointed 22 January 2013) |
| J P Spencer | Non-Executive Director |

According to the Register of Directors' Interests, no director has any beneficial interest in the issued share capital of the company.

## FIXED ASSETS

The changes in the company's fixed assets for the year are set out in Note 12.

## DONATIONS

During the year the company made charitable donations of $1,890 (2012: $12,349) and made no political donations (2012: nil).

## EMPLOYEES

During the year an average number of 510 (2012: 480) staff were employed. The total aggregate remuneration of employees amounted to $96.3m (2012: $89.5m).

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. The policy is principally operated through the company's intranet, in which employees are provided with regular information regarding the company's performance, and are encouraged to present suggestions and raise questions regarding the company's performance. In addition, periodic meetings are held with management. The company operates discretionary performance-related remuneration schemes which enable employees to share in the success of the company and to be rewarded for good service and incentivised for future performance. The company invests in staff training to develop the skills of employees to maximise the service levels provided to customers and business partners.

Full and fair consideration is given to the recruitment of disabled people and to the offering of proper training, career development and promotion opportunities for them. Every effort is made to retain, in suitable employment, any member of staff who becomes disabled whilst employed by the company.

Where this is not possible, a permanent health insurance scheme is in place for those staff who are unable to return to suitable employment.

## GOING CONCERN

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements, the company's latest business plan, and the company's current solvency calculations. The directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

## DISCLOSURE OF INFORMATION TO THE AUDITORS

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

## AUDITORS

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

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

S P ROCKS, DIRECTOR – PRESIDENT AND MANAGING DIRECTOR | 31 MARCH 2014
COMPANY NUMBER: 1088268

Liberty Mutual Insurance Europe Limited

## Registered office and advisers

**Directors**
S P Rocks
N J Metcalf
J F McCammon
G J McBurney
C D Hanks
C L Peirce
F W Robinson
J P Spencer

**Company Secretary**
David Turner

**Registered Office**
3rd Floor, Two Minster Court
Mincing Lane
London EC3R 7YE

**Company Number**
1088268

**Corporate Bankers**
Lloyds Banking Group Plc
City Office
PO Box 72
Gillingham Business Park
Gillingham
Kent ME8 0SL

**Independent Auditors**
Ernst & Young LLP
1 More London Place
London SE1 2AF

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF LIBERTY MUTUAL INSURANCE EUROPE LIMITED

We have audited the financial statements of Liberty Mutual Insurance Europe Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of the equalisation provisions, the amount set aside at 31 December 2013, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on general business technical account, and profit before tax, are disclosed in note 30.

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

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

## OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 December 2013 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.

## OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion 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.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Ernst & Young LLP

*Stuart Wilson (Senior statutory auditor)*
*for and on behalf of Ernst & Young LLP,*
*Statutory Auditor*
*London*
*31 March 2014*

# FINANCIAL STATEMENTS

for the year ended 31 December 2013

# Profit and Loss Account
## for the year ended 31 December 2013

| Technical Account - General Business | NOTES | 2013 $000 | 2012 $000 |
|---|---|---|---|
| Gross premiums written | 3 | 1,149,492 | 931,420 |
| Outward reinsurance premiums | | (518,620) | (472,403) |
| Net premiums written | | 630,872 | 459,017 |
| Change in the unearned premium | | | |
| - gross amount | 2 | (88,080) | (54,117) |
| - reinsurers' share | 2 | 16,976 | 33,005 |
| - net amount | 2 | (71,104) | (21,112) |
| Earned premiums, net of reinsurance | 2 | 559,768 | 437,905 |
| Allocated investment return transferred from the Non-Technical Account | | 44,295 | 70,353 |
| Total Technical Income | | 604,063 | 508,258 |
| Claims paid | | | |
| - gross amount | | (407,467) | (362,199) |
| - reinsurers' share | | 215,862 | 189,781 |
| - net of reinsurance | | (191,605) | (172,418) |
| Change in the provision for claims | | | |
| - gross amount | 28 | (270,804) | (157,954) |
| - reinsurers' share | 28 | 154,563 | 73,438 |
| - net of reinsurance | 28 | (116,241) | (84,516) |
| Claims incurred net of reinsurance | | (307,846) | (256,934) |
| Net operating expenses | 4 | (209,942) | (164,299) |
| Change in the equalisation provision | 30 | (9,187) | (8,680) |
| Total Technical Charges | | (526,975) | (429,913) |
| Balance on the Technical Account for General Business | | 77,088 | 78,345 |

# Profit and Loss Account
## for the year ended 31 December 2013 *(continued)*

| Non-Technical Account | NOTES | 2013 $000 | 2012 $000 |
|---|---|---|---|
| Balance on the Technical Account for General Business | | 77,088 | 78,345 |
| Investment income and gains on realisation of investments | 5 | 58,379 | 92,316 |
| Investment expenses and charges | 6 | (2,512) | (2,380) |
| Foreign exchange (losses)/gains | | (3,074) | 746 |
| Allocated investment return transferred to the General Business Technical Account | | (44,295) | (70,353) |
| Profit on ordinary activities before tax | 7 | 85,586 | 98,674 |
| Tax on profit on ordinary activities | 8 | (20,296) | (25,329) |
| Profit on ordinary activities after tax | 21 | 65,290 | 73,345 |

All the amounts above are in respect of continuing operations.

The notes on pages 20 to 43 form part of these financial statements.

# Statement of Total Recognised Gains and Losses
## for the year ended 31 December 2013

| | NOTES | 2013 $000 | 2012 $000 |
|---|---|---|---|
| Profit on ordinary activities after tax | 21 | 65,290 | 73,345 |
| (Losses) arising from the effect of retranslation of assets and liabilities denominated in GBP and Euro | 21 | (3,208) | (15,084) |
| Pension scheme – Actuarial (loss), net of tax | 21 | (339) | (1,835) |
| Total recognised gains relating to the year | 22 | 61,743 | 56,426 |

The notes on pages 20 to 43 form part of these financial statements.

# Balance Sheet as at 31 December 2013

| ASSETS | Notes | 2013 $000 | 2013 $000 | 2012 $000 | 2012 $000 |
|---|---|---|---|---|---|
| Investments | | | | | |
| Investments in subsidiary undertakings | 11 | - | | 728 | |
| Other financial investments | 13 | 2,045,541 | | 1,806,651 | |
| Deposits with ceding undertakings | | 15,659 | | 26,481 | |
| | | | 2,061,200 | | 1,833,860 |
| Reinsurers' share of technical provisions | | | | | |
| Provision for unearned premiums | 2 | 257,515 | | 240,754 | |
| Claims outstanding | 28 | 1,077,081 | | 929,784 | |
| | | | 1,334,596 | | 1,170,538 |
| Debtors | | | | | |
| Debtors arising out of direct insurance operations | 15 | 327,744 | | 276,181 | |
| Debtors arising out of reinsurance operations | | 49,699 | | 64,528 | |
| Other debtors | 10 | 10,745 | | 14,505 | |
| | | | 388,188 | | 355,214 |
| Other assets | | | | | |
| Tangible assets | 12 | 3,103 | | 3,385 | |
| Cash at bank and in hand | | 103,788 | | 82,657 | |
| | | | 106,891 | | 86,042 |
| Prepayments and accrued income | | | | | |
| Accrued interest | | 21,208 | | 19,812 | |
| Gross deferred acquisition costs | 4 | 90,651 | | 67,626 | |
| Other prepayments | 16 | 3,144 | | 3,423 | |
| | | | 115,003 | | 90,861 |
| Total assets | | | 4,005,878 | | 3,536,515 |

The notes on pages 20 to 43 form part of these financial statements.

# Balance Sheet as at 31 December 2013 *(continued)*

| LIABILITIES | Notes | 2013 $000 | 2013 $000 | 2012 $000 | 2012 $000 |
|---|---|---|---|---|---|
| Capital and reserves | | | | | |
| Called up share capital | 20 | 290,225 | | 290,225 | |
| Profit and loss account | 21 | 477,091 | | 415,348 | |
| | | | 767,316 | | 705,573 |
| Technical provisions | | | | | |
| Provision for unearned premiums | 2 | 614,374 | | 522,887 | |
| Gross claims outstanding | 28 | 2,271,304 | | 1,987,904 | |
| Equalisation provision | 30 | 47,138 | | 37,546 | |
| | | | 2,932,816 | | 2,548,337 |
| Creditors | | | | | |
| Creditors arising out of direct insurance operations | 15 | 3,252 | | 4,688 | |
| Creditors arising out of reinsurance operations | | 126,633 | | 131,037 | |
| Other creditors including taxation and social security | 18 | 83,901 | | 69,079 | |
| | | | 213,786 | | 204,804 |
| Accruals and deferred income | 19 | | 91,960 | | 77,801 |
| Total liabilities | | | 4,005,878 | | 3,536,515 |

The financial statements were approved by the Board of Directors on 31 March 2014 and were signed on its behalf by:

S P Rocks
Director – President and Managing Director

The notes on pages 20 to 43 form part of these financial statements.

# Notes to the Financial Statements

## 1 ACCOUNTING POLICIES

**(a) Disclosure requirements**
The financial statements have been prepared in compliance with the special provisions relating to insurance companies in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

**(b) Standard accounting practice**
The financial statements comply with applicable accounting standards and the revised ABI Statement of Recommended Practice issued in December 2005 as amended in December 2006.

The company has adopted Financial Reporting Standard No.1 (Revised 1996), and is therefore exempt from the requirement to prepare a cash flow statement as it is a 100% owned subsidiary of Liberty International Holdings Incorporated, and its cash flows are included within the consolidated cash flow statement of Liberty International Holdings Inc. As allowed under Financial Reporting Standard No.8, the company has not disclosed all related party transactions with group undertakings on the basis that the company is a subsidiary undertaking with 100% voting rights controlled within a group which produces publicly available consolidated financial statements in which the company is included.

**(c) Basis of accounting**
The annual basis of accounting has been applied to all classes of business written by the company.

**(d) Subsidiary undertakings**
The company has claimed exemption from the production of consolidated financial statements under the Companies Act 2006 s.400 as it is a subsidiary undertaking whose ultimate parent company produces consolidated accounts in a manner equivalent to financial statements drawn up under the provisions of the EU 7th Council Directive 83/349/EEC of 13 June 1983 based on Article 54(3) g of the Treaty on Consolidated Accounts.

Investments in subsidiary undertakings are held at cost less accumulated impairment losses, if any.

**(e) Premiums**
Gross written premiums represent premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to business written in previous financial years and are stated before commissions but net of taxes, duties levied on premiums and other deductions. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

**(f) Unearned premiums**
For business accounted for on an annual basis, the proportion of the premiums written in a year relating to the period of risk from 1 January to the subsequent dates of expiry of policies is carried forward as a provision for unearned premiums. The provision is calculated on the 365ths method, or, in respect of engineering/course of construction business, is calculated using an earnings profile based on the construction and maintenance period of specific policies.

**(g) Unexpired risks**
Provision is made for any anticipated shortfall of the provision for unearned premiums for claims and administrative expenses likely to arise after the end of the year from contracts concluded before that date. The overall assessment of whether a provision is necessary is made on the basis of all categories of business. No account is taken of future investment income.

**(h) Deferred acquisition costs**
Commission costs which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

**(i) Investments**
Investments, other than debt securities and other fixed interest securities, are stated at their current value. Listed investments are stated at bid price market value at close of business on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

Redeemable fixed interest securities, held as a portfolio of such securities intended to be held on an ongoing basis, are valued at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security.

Redeemable fixed interest securities are reviewed for any permanent diminution in value periodically on a holding by holding basis. Where a permanent diminution is identified, the carrying value of the security is adjusted to its fair value at that time and the difference between this value and the security's amortised cost is recorded as a realised investment loss in the profit and loss account.

## 1 ACCOUNTING POLICIES (continued)

**(j) Investment income, expenses and charges**
Investment income and expenses are accounted for on an accruals basis. In accordance with Financial Reporting Standard 16 "Current Tax", dividends are recognised at the amount receivable without any attributable tax credit.

Investment income (which includes the amortisation charge in respect of investments carried at amortised cost), realised gains and losses arising from the disposal of investments, and unrealised gains and losses are dealt with through the Non-Technical Account and then reallocated in part to the Technical Account to reflect that proportion of the investment return arising on technical provisions.

Realised gains or losses represent the difference between net sales proceeds (or fair value in the case of impairments) and purchase price, or in the case of debt securities and other fixed interest securities, amortised cost.

**(k) Unrealised gains and losses on shares and other variable yield securities and units in unit trusts**
Unrealised gains and losses on shares and other variable yield securities and units in unit trusts represent the difference between the market value at the balance sheet date and their purchase price, or if they have been previously revalued, the valuation at the last balance sheet date.

The movement in unrealised gains and losses on shares and other variable yield securities and units in unit trusts disclosed in the profit and loss account includes any reversal for previously recognised unrealised gains and losses on shares and other variable yield securities and units in unit trusts, which were disposed of in the accounting period.

**(l) Outstanding claims**
Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported is established from statistical analysis undertaken by the company's actuaries. The methods used and the estimates made are reviewed regularly. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to change when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movement in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to claim circumstances as reported, and information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class were assessed separately where appropriate, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of the large claims.

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

**(m) Claims management expenses**
Claims management expenses have been determined by an apportionment of employment costs.

# Notes to the Financial Statements *(continued)*

## 1 ACCOUNTING POLICIES (continued)

**(n) Equalisation provisions**
Equalisation provisions have been established in accordance with the requirements of the Prudential Sourcebook for Insurers and included as the equalisation provision within technical provisions.

**(o) Deferred taxation**
Financial Reporting Standard 19 "Deferred Tax" requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

Deferred tax is recognised as a liability or asset if the transactions or events that give the entity an obligation to pay more tax in the future or a right to pay less or receive more tax in the future have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

**(p) Exchange rates**
Assets and liabilities are translated into US dollars at the exchange rates prevailing at the balance sheet date. Income and expense transactions are translated using the rate prevailing at the date of transactions or an appropriate average rate.

Principal exchange rates used were as follows:

| | Average | Closing |
|---|---|---|
| USD: GBP | 1.56458 | 1.63560 |
| USD: EUR | 1.33050 | 1.37065 |

The company maintains separate currency ledgers for US dollars, £ sterling and Euro business. These separate foreign currency ledgers are considered by management to represent foreign branches. Exchange gains and losses arising from the retranslation into US dollars of the balance sheets of these branches using the rates of exchange prevailing at the balance sheet date, and the retranslation into US dollars of the profit and loss accounts of these branches using the average rates of exchange for the year, have been recorded in the Statement of Total Recognised Gains and losses.

Ledgers are held in US dollars in respect of the overseas branches in the Far East and Euros in respect of the overseas branches in Europe. Exchange gains and losses arising from the retranslation of the European overseas branches to US dollars continue to be recorded directly in the statement of Total Recognised Gains and Losses.

All other foreign exchange gains and losses continue to be recorded in the Non-Technical Account.

**(q) Fixed assets**
Expenditure on leasehold improvements, software, computer equipment, motor vehicles, 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 years |
| Motor vehicles | 4 years |
| Fixture, fittings and office equipment | 5 - 10 years |

Depreciation is included as part of administrative expenses.

### 1 ACCOUNTING POLICIES (continued)

**(r) Pension costs**

The company participates in a group contributory pension scheme. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. 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.

**Defined Benefit Pension Scheme**

The company has fully adopted accounting standard FRS17 "Retirement Benefits".

The difference between the fair value of the assets held in the company's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the company's balance sheet as a pension scheme asset or liability as appropriate.

The carrying value of any resulting pension scheme assets is restricted to the extent that the company is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognised net of any related deferred tax balance.

When a settlement or a curtailment occurs 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 profit and loss account. 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.

Changes in the defined benefit pension scheme asset or liability from factors other than cash contribution by the company are charged to the Profit and Loss account or the Statement of Total Recognised Gains and Losses in accordance with FRS17 "Retirement Benefits".

Employees joining on or after 1 January 2002 became members of the company defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

**(s) 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.

**(t) Salvage and subrogation recoveries**

Anticipated salvage and subrogation recoveries are calculated on an individual case basis. The level of recovery estimated is set on the basis of information which is currently available, including potential outstanding claims advices and case law. Salvage and subrogation recoveries are included in claims incurred in the profit and loss account.

# Notes to the Financial Statements *(continued)*

## 2 EARNED PREMIUMS NET OF REINSURANCE

| 2013 | Gross $000 | Reinsurance $000 | Net $000 |
|---|---|---|---|
| Premiums written | 1,149,492 | (518,620) | 630,872 |
| Unearned premiums carried forward | (614,374) | 257,515 | (356,859) |
| Unearned premiums brought forward | 522,887 | (240,754) | 282,133 |
| Exchange difference on brought forward | 3,407 | 215 | 3,622 |
| Movement per Technical Account | (88,080) | 16,976 | (71,104) |
| Premiums earned | 1,061,412 | (501,644) | 559,768 |

| 2012 | Gross $000 | Reinsurance $000 | Net $000 |
|---|---|---|---|
| Premiums written | 931,420 | (472,403) | 459,017 |
| Unearned premiums carried forward | (522,887) | 240,754 | (282,133) |
| Unearned premiums brought forward | 457,486 | (202,374) | 255,112 |
| Exchange difference on brought forward | 11,284 | (5,375) | 5,909 |
| Movement per Technical Account | (54,117) | 33,005 | (21,112) |
| Premiums earned | 877,303 | (439,398) | 437,905 |

# Notes to the Financial Statements *(continued)*

### 3 ANALYSIS OF PREMIUMS WRITTEN, CLAIMS, OPERATING EXPENSES AND REINSURANCE BALANCE

Information required by the Companies Act 2006 by class of business is as follows:

| 2013 | Gross premiums written $000 | Gross premiums earned $000 | Gross claims incurred $000 | Gross operating expenses $000 | Reinsurance balance $000 | Total $000 | Net technical provision $000 |
|---|---|---|---|---|---|---|---|
| Direct | | | | | | | |
| Marine, Aviation & Transport | 212,389 | 212,338 | (186,179) | (60,260) | 45,525 | 11,424 | 204,607 |
| Primary Direct & Fac Property | 118,579 | 104,078 | (35,250) | (33,788) | (40,221) | (5,181) | 96,785 |
| Primary Direct Commercial Financial | 112,784 | 96,602 | (3,567) | (29,516) | (38,975) | 24,544 | 113,123 |
| Primary Direct Commercial Liability | 577,954 | 520,936 | (348,701) | (162,490) | 8,878 | 18,623 | 1,049,800 |
| Personal lines | 126,736 | 126,143 | (106,491) | (43,850) | 17,961 | (6,237) | 3,027 |
| Total Direct | 1,148,442 | 1,060,097 | (680,188) | (329,904) | (6,832) | 43,173 | 1,467,342 |
| Total Non-Prop & Prop R/I Treaty Business | 1,050 | 1,315 | 1,917 | (545) | (3,880) | (1,193) | 53,461 |
| Totals | 1,149,492 | 1,061,412 | (678,271) | (330,449) | (10,712) | 41,980 | 1,520,803 |

| 2012 | Gross premiums written $000 | Gross premiums earned $000 | Gross claims incurred $000 | Gross operating expenses $000 | Reinsurance balance $000 | Total $000 | Net technical provision $000 |
|---|---|---|---|---|---|---|---|
| Direct | | | | | | | |
| Marine, Aviation & Transport | 209,008 | 208,311 | (35,736) | (60,925) | (59,546) | 52,104 | 208,163 |
| Primary Direct & Fac Property | 84,070 | 76,300 | (56,074) | (24,104) | 3,284 | (594) | 66,729 |
| Primary Direct Commercial Financial | 92,551 | 83,358 | (78,283) | (26,180) | 22,837 | 1,731 | 109,172 |
| Primary Direct Commercial Liability | 454,342 | 418,594 | (312,692) | (124,996) | (16,568) | (35,662) | 888,412 |
| Personal lines | 90,145 | 89,460 | (44,910) | (32,571) | (20,521) | (8,542) | 2,987 |
| Total Direct | 930,116 | 876,023 | (527,696) | (268,776) | (70,514) | 9,037 | 1,275,462 |
| Total Non-Prop & Prop R/I Treaty Business | 1,304 | 1,280 | 7,543 | (782) | (406) | 7,635 | 53,876 |
| Totals | 931,420 | 877,303 | (520,153) | (269,558) | (70,920) | 16,672 | 1,329,338 |

# Notes to the Financial Statements *(continued)*

## 3 ANALYSIS OF PREMIUMS WRITTEN, CLAIMS, OPERATING EXPENSES AND REINSURANCE BALANCE (continued)

The company operates its business in the following divisions:

| 2013 | Gross premiums written $000 | Gross premiums earned $000 | Gross claims incurred $000 | Gross operating expenses $000 | Reinsurance balance $000 | Total $000 | Net technical provision $000 |
|---|---|---|---|---|---|---|---|
| London Market | 509,645 | 469,722 | (322,215) | (172,914) | 5,596 | (19,811) | 889,911 |
| UK and Ireland Commercial | 230,390 | 206,391 | (118,156) | (37,546) | 2 | 50,691 | 242,843 |
| Continental Europe | 254,950 | 249,700 | (174,371) | (73,235) | 1,662 | 3,756 | 231,579 |
| International | 154,507 | 135,599 | (63,529) | (46,754) | (17,972) | 7,344 | 156,470 |
| Totals | 1,149,492 | 1,061,412 | (678,271) | (330,449) | (10,712) | 41,980 | 1,520,803 |

| 2012 | Gross premiums written $000 | Gross premiums earned $000 | Gross claims incurred $000 | Gross operating expenses $000 | Reinsurance balance $000 | Total $000 | Net technical provision $000 |
|---|---|---|---|---|---|---|---|
| London Market | 414,803 | 402,081 | (235,933) | (112,566) | (45,381) | 8,201 | 817,829 |
| UK and Ireland Commercial | 174,305 | 155,668 | (93,496) | (53,270) | (5,616) | 3,286 | 188,000 |
| Continental Europe | 215,464 | 207,173 | (111,466) | (59,547) | (30,898) | 5,262 | 187,494 |
| International | 126,848 | 112,381 | (79,258) | (44,175) | 10,975 | (77) | 136,015 |
| Totals | 931,420 | 877,303 | (520,153) | (269,558) | (70,920) | 16,672 | 1,329,338 |

Commissions payable in respect of direct insurance amounted to $139,975,757 (2012: $104,952,000). Net Technical Provisions include Gross Deferred Acquisition Costs and Deferred Reinsurance Commissions.

# Notes to the Financial Statements *(continued)*

### 4 NET OPERATING EXPENSES

| 2013 | Gross $000 | Reinsurance $000 | Net $000 |
|---|---|---|---|
| Acquisition costs | 196,989 | (123,995) | 72,994 |
| Deferred acquisition costs carried forward | (90,651) | 60,372 | (30,279) |
| Deferred acquisition costs brought forward | 67,626 | (56,711) | 10,915 |
| Exchange difference on brought forward | 647 | (173) | 474 |
| Change in deferred acquisition costs | (22,378) | 3,488 | (18,890) |
| Incurred acquisition costs | 174,611 | (120,507) | 54,104 |
| Administrative expenses | | | 155,838 |
| | | | 209,942 |

| 2012 | Gross $000 | Reinsurance $000 | Net $000 |
|---|---|---|---|
| Acquisition costs | 132,899 | (111,644) | 21,255 |
| Deferred acquisition costs carried forward | (67,626) | 56,711 | (10,915) |
| Deferred acquisition costs brought forward | 56,486 | (49,031) | 7,455 |
| Exchange difference on brought forward | 1,398 | (1,295) | 103 |
| Change in deferred acquisition costs | (9,742) | 6,385 | (3,357) |
| Incurred acquisition costs | 123,157 | (105,259) | 17,898 |
| Administrative expenses | | | 146,401 |
| | | | 164,299 |

### 5 INVESTMENT INCOME AND GAINS ON REALISATION OF INVESTMENTS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Income from other financial investments | 56,316 | 62,616 |
| Net gains on the realisation of investments | 2,063 | 29,700 |
| | 58,379 | 92,316 |

# Notes to the Financial Statements *(continued)*

## 6 INVESTMENT EXPENSES AND CHARGES

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Investment management expenses including interest | 2,512 | 2,380 |

## 7 PROFIT AND LOSS ACCOUNT

Profit on ordinary activities before tax is stated:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **After charging** | | |
| Depreciation | 1,515 | 1,417 |
| Operating lease rentals: | | |
| Motor vehicles and equipment | 1,135 | 1,011 |
| Land and buildings | 7,918 | 7,540 |
| Impairment charge on Investment in subsidiary undertakings | 729 | 1,161 |

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Auditors' remuneration: | | |
| Fees payable to the company's auditor for the audit of the company's annual accounts | 706 | 672 |
| The audit of the company's subsidiaries, pursuant to legislation | 164 | 152 |
| Fees payable to the company's auditors and its associates for other services: | | |
| Audit-related assurance services | 159 | 149 |
| Tax compliance services | 350 | 328 |
| Fee in respect of the audit of the group pension scheme | 12 | 11 |

# Notes to the Financial Statements *(continued)*

## 7 PROFIT AND LOSS ACCOUNT (continued)

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Directors' Remuneration** | | |
| Emoluments | 2,603 | 2,797 |

| | 2013 | 2012 |
|---|---|---|
| Number of directors who:<br>Were members of a defined benefit pension scheme during the period | - | 1 |

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Highest paid director's remuneration:<br>Aggregate of emoluments and awards under long term incentive schemes, including $44,796 (2012: $34,822) of pension contributions | 1,475 | 1,522 |

## 8 TAXATION

### (a) Analysis of charge in period

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Current tax:** | | |
| Current year: | | |
| Overseas taxation | (5,809) | (2,257) |
| UK taxation | (14,938) | (24,693) |
| Prior periods | 494 | 2,383 |
| Total current tax (see Note 8(b)) | (20,253) | (24,567) |
| **Deferred tax:** | | |
| Origination and reversal of timing differences in prior periods | 743 | (274) |
| Rate change adjustment | (786) | (488) |
| Total deferred tax | (43) | (762) |
| Tax charge on profit on ordinary activities | (20,296) | (25,329) |

# Notes to the Financial Statements *(continued)*

## 8 TAXATION (continued)

**(b) Factors affecting tax charges for period**
In 2011, the UK Government introduced an exemption regime for foreign branches of UK companies. As a result of this, the company made an election to have its foreign branches exempted from UK corporation tax from 1 January 2013.

The tax charged for the period is higher than the standard effective rate of corporation tax in the UK (23.25%). The differences are explained below:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Profit on ordinary activities before tax | 85,586 | 98,674 |
| Profit on ordinary activities multiplied by standard effective rate of corporation tax in the UK of 23.25% (2012 : 24.5%) | (19,899) | (24,178) |
| Effects of: | | |
| Differences between UK and foreign taxes on non-UK branches | 992 | - |
| Unrelieved overseas tax losses and withholding taxes | (359) | (2,257) |
| Effect of disallowable items | (1,481) | (515) |
| Tax over provided in previous years | 494 | 2,383 |
| Current tax charge for year (see Note 8(a)) | (20,253) | (24,567) |

**(c) Factors that may affect future tax charges**
The Finance Act 2012 reduced the rate of corporation tax from 24% to 23% with effect from 1 April 2013.

The Government announced in the Autumn Statement on 5 December 2012 that it intended to reduce the rate of corporation tax by a further 2% to 21% to apply from 1 April 2014. A further reduction of 1% to apply from 1 April 2015 was announced in the Budget on 20 March 2013. These further reductions in UK corporation tax rates form part of the Finance Act 2013 and were substantively enacted on 2 July 2013.

The impact of these reductions in tax rates on the deferred tax balances have been included in the above figures.

Based on current business plans, the company expects to make sufficient taxable profits in the next three financial years to support the recoverability of the deferred tax asset recognised at 31 December 2013.

# Notes to the Financial Statements *(continued)*

### 9 STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including executive directors) during the year, analysed by category, was as follows:

| | 2013 | 2012 |
|---|---|---|
| Underwriting | 299 | 309 |
| Claims | 51 | 48 |
| Administration | 160 | 123 |
| | 510 | 480 |

The aggregate payroll costs of these persons were as follows:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Wages and salaries | 79,724 | 73,663 |
| Social security costs | 10,330 | 9,378 |
| Other pension costs | 6,259 | 6,489 |
| | 96,313 | 89,530 |

Included in Other pension costs are $6,259,000 (2012: $7,069,000) in respect of defined contribution schemes and a net profit of $Nil (2012: $580,000) in respect of the defined benefit scheme.

### 10 OTHER DEBTORS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Deferred taxation (see Note 17) | 4,963 | 5,856 |
| Amounts due from group undertakings | - | 402 |
| Other debtors | 5,782 | 8,247 |
| | 10,745 | 14,505 |

# Notes to the Financial Statements *(continued)*

### 11 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Details of the company's investments in subsidiary undertakings, all of which produce their financial statements at 31 December each year, are as follows:

| Name | Type of business | Class of shares held (all held directly) | Percentage of nominal value and voting rights held by the company | Country of incorporation and operation |
|---|---|---|---|---|
| Vision Underwriting Limited | Underwriting Agency | Ordinary | 100% | UK |
| Vision Employment Health and Safety Limited | Health and Safety Services | Ordinary | 100% | UK |
| Vision Risk Management Limited | Risk Management | Ordinary | 100% | UK |

Reconciliation of movement in investments in subsidiary undertakings:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Balance at 1 January 2013 | 728 | 1,846 |
| Revaluation | 1 | 43 |
| Impairment charge | (729) | (1,161) |
| Balance at 31 December 2013 | - | 728 |

### 12 TANGIBLE ASSETS

| | Leasehold improvements $000 | Fixtures, fittings & equipment $000 | Total $000 |
|---|---|---|---|
| Cost: | | | |
| At 1 January 2013 | 3,539 | 11,884 | 15,423 |
| Revaluation | 54 | 171 | 225 |
| Additions | 800 | 623 | 1,423 |
| Disposals | (18) | (866) | (884) |
| At 31 December 2013 | 4,375 | 11,812 | 16,187 |
| Accumulated depreciation: | | | |
| At 1 January 2013 | 2,355 | 9,683 | 12,038 |
| Revaluation | 41 | 166 | 207 |
| Charge for the year | 380 | 1,135 | 1,515 |
| Disposals | (2) | (674) | (676) |
| At 31 December 2013 | 2,774 | 10,310 | 13,084 |
| Net book value at 31 December 2013 | 1,601 | 1,502 | 3,103 |
| Net book value at 31 December 2012 | 1,184 | 2,201 | 3,385 |

# Notes to the Financial Statements *(continued)*

### 13 OTHER FINANCIAL INVESTMENTS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Market valuations** | | |
| Shares and other variable yield securities and units in unit trusts | 1,924 | - |
| Debt securities and other fixed income securities | 1,858,852 | 1,700,783 |
| Deposits with credit institutions | 220,323 | 195,281 |
| Total Market Value of Other Financial Investments | 2,081,099 | 1,896,064 |
| **Original cost** | | |
| Shares and other variable yield securities and units in unit trusts | 1,924 | - |
| Debt securities and other fixed income securities | 1,838,418 | 1,621,173 |
| Deposits with credit institutions | 220,323 | 195,281 |
| Total Original Cost of Other Financial Investments | 2,060,665 | 1,816,454 |
| **Carrying value** | | |
| Shares and other variable yield securities and units in unit trusts | 1,924 | - |
| Debt securities and other fixed income securities at amortised cost | 1,823,294 | 1,611,370 |
| Deposits with credit institutions at original cost | 220,323 | 195,281 |
| Total Carrying Value of Other Financial Investments | 2,045,541 | 1,806,651 |

Included in the above market valuations were investments:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Listed on the UK Stock Exchange | 305,351 | 241,832 |
| Listed on other investment exchanges | 1,171,170 | 945,935 |
| | 1,476,521 | 1,187,767 |

The maturity value of debt securities and other fixed income securities is $1,797,439,536 (2012: $1,590,499,711) and the unamortised premium amounts to $25,854,393 (2012: $20,869,877).

# Notes to the Financial Statements *(continued)*

### 14 AMOUNTS DUE TO AND FROM GROUP UNDERTAKINGS

The following amounts due (to) and from group undertakings are included within:

| | 2013<br>$000 | 2012<br>$000 |
|---|---|---|
| Deposits with ceding undertakings | 2,813 | 23,171 |
| Reinsurers' share of technical provisions | 206,286 | 136,286 |
| Debtors arising out of reinsurance operations | 4,444 | 7,247 |
| Gross deferred acquisition costs | 6,308 | 740 |
| Technical provisions | (35,861) | (30,601) |
| Creditors arising out of reinsurance operations | (22,512) | (14,581) |
| Accruals and deferred income | (10,904) | (7,410) |
| Intercompany creditors | (22,507) | (20,977) |
| | 128,067 | 93,875 |

### 15 DEBTORS AND CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

All amounts are owed to or due from intermediaries.

### 16 OTHER PREPAYMENTS

| | 2013<br>$000 | 2012<br>$000 |
|---|---|---|
| Prepayments | 3,144 | 3,423 |

# Notes to the Financial Statements *(continued)*

### 17 DEFERRED TAXATION

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Other timing differences | 4,963 | 5,856 |
| Asset at start of year | 5,856 | 6,189 |
| Timing differences arising in prior periods | 743 | (274) |
| Effect of reduction in tax rate | (786) | (488) |
| Deferred tax charge in profit and loss account | (43) | (762) |
| Transfer of overseas deferred tax balances | (850) | - |
| Taxation recognised in the statement of total | | |
| Recognised gains and losses | - | 429 |
| Asset at end of year | 4,963 | 5,856 |
| Deferred tax asset included in Other debtors | 4,963 | 5,856 |
| | 4,963 | 5,856 |

### 18 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Premium taxes payable | 23,024 | 18,484 |
| Corporation taxes payable | 18,609 | 10,200 |
| Social security | 1,173 | 1,947 |
| Other creditors | 41,095 | 38,448 |
| | 83,901 | 69,079 |

### 19 ACCRUALS AND DEFERRED INCOME

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Deferred reinsurance commissions | 60,372 | 56,711 |
| Other accruals | 31,588 | 21,090 |
| | 91,960 | 77,801 |

# Notes to the Financial Statements *(continued)*

## 20 SHARE CAPITAL

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Issued and fully paid: | | |
| 290,225,000 (2012: 290,225,000) ordinary shares of $1 each | 290,225 | 290,225 |

## 21 RESERVES

| | Profit & loss account excluding pension liability $000 | Pension liability $000 | Total profit & loss account $000 |
|---|---|---|---|
| Balance at 1 January 2013 | 412,540 | 2,808 | 415,348 |
| Profit for financial year after tax | 65,260 | 30 | 65,290 |
| Change in FRS17 “Retirement Benefits”, net of tax | - | (339) | (339) |
| Gains and losses arising from the retranslation of assets and liabilities denominated in GBP and EUR | (3,178) | (30) | (3,208) |
| Balance at 31 December 2013 | 474,622 | 2,469 | 477,091 |

## 22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER’S FUNDS

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Total recognised gains relating to the year | 61,743 | 56,426 |
| Opening shareholder’s funds | 705,573 | 700,147 |
| Dividend paid | - | (51,000) |
| Closing shareholder’s funds | 767,316 | 705,573 |

## 23 COLLATERAL DEPOSITS

Debt securities and deposits with credit institutions amounting to $83,420,885 (2012 : $80,831,825) have been pledged as security in connection with certain of the company’s overseas liabilities.

# Notes to the Financial Statements *(continued)*

### 24 OTHER COMMITMENTS

Annual commitments at 31 December under non-cancellable operating leases are shown below:

| | 2013 Land and buildings $000 | 2012 Land and buildings $000 |
|---|---|---|
| Operating leases expiring within one year | 922 | - |
| Operating leases expiring within two to five years | 5,873 | 6,923 |
| Operating leases expiring after five years | 6,317 | 79 |

During 2013, the company entered into an agreement to lease office space with effect from March 2014 under a 17.7 year lease, at an annual cost of $6,316,590.

### 25 CONTINGENT LIABILITY

The company has entered into a letter of credit in favour of the Institute of London Underwriters ("ILU") for certain potential liabilities in respect of the Institute's building in Leadenhall Street, London EC3. During 2013 drawings on the letter of credit amounted to $Nil (2012: $Nil) and its value at 31 December 2013 was $548,189 (2012: $541,991).

On 14 February 2008, the company provided a guarantee on behalf of a fellow group undertaking, Liberty Syndicate Management Limited, in respect of that company's financial obligations related to a property tenancy expiring on 22 February 2017. The maximum potential obligation of the company under the guarantee is dependent, inter alia, on future rent reviews but is estimated by the company to be $5,696,415.

The company has provided to the Labuan Offshore Financial Services Authority an irrevocable and unconditional guarantee that it will meet all of the company's obligations relating to its insurance operations in Labuan, Malaysia.

# Notes to the Financial Statements *(continued)*

## 26 PENSION SCHEMES

**Defined benefit pension scheme**

The company participated in a funded group defined benefit scheme in the UK, together with fellow subsidiaries of Liberty Mutual Holding Company 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. As such there is no future service liability, and no asset in relation to refund of surplus recognised on the balance sheet. The information disclosed below is in respect of Liberty Mutual Insurance Europe Limited's participation in the scheme.

FRS 17 (para 37, 41, 42), states that the pension asset becomes irrecoverable as a result of curtailment and an asset can only be recognised if the company has a refund agreement with the trustee. Liberty Mutual Insurance Europe Limited does not have a refund agreement in place. Therefore, the pension asset has not been recognised.

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the scheme as at 1 July 2010. The present values of the defined benefit obligation were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the period in which they occur, through the Statement of Recognised Gains and Losses (STRGL).

Following the UK Government's announcement in summer 2010, the inflation index to be used to derive statutory pension increases was changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). Due to a number of differences between the indices, including both constituents and construction, CPI is expected to be less than RPI over the long term, which means that the scheme liabilities reduced. The change was recognised at October 2010, following the pension trustees' decision to adopt CPI in the determination of Scheme liabilities. Following discussions with our pensions advisers, we recognised the reduction as a negative past service cost - that is, as a change to the constructive obligation to provide certain benefits to scheme members.

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 17 are set out below:

| At 31 December | 2013<br>% | 2012<br>% | 2011<br>% |
|---|---|---|---|
| Rate of increase in salaries | N/A | N/A | 4.1 |
| Rate of increase in pensions in payment where Limited Price Indexation (LPI) applies | 3.2 | 2.7 | 2.9 |
| Discount rate | 4.5 | 4.5 | 4.9 |
| Inflation assumption (RPI) | 3.5 | 2.9 | 3.1 |
| Inflation assumptions (CPI) | 2.5 | 2.2 | 2.2 |

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 45 who retires at age 60 will live on average for a further 30 years after retirement if they are male and for a further 31.1 years after retirement if they are female. Pensioners currently aged 60 are expected to live for a further 29.4 years if they are male and a further 30.4 years if they are female.

The Company employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at 31 December 2013.

### 26 PENSION SCHEME (continued)

The assets in the scheme and the expected return were:

| At 31 December | Long-term rate of return expected at 2013 % | Value at 2013 $000 | Long-term rate of return expected at 2012 % | Value at 2012 $000 | Long-term rate of return expected at 2011 % | Value at 2011 $000 |
|---|---|---|---|---|---|---|
| Equities | 7.5 | 18,759 | 7.5 | 9,524 | 7.8 | 6,501 |
| Bonds | 4.0 | 7,347 | 4.2 | 10,079 | 4.6 | 10,707 |
| Other (property, cash etc) | 4.1 | 10,151 | 4.0 | 13,555 | 4.2 | 12,981 |
| Total market value of assets | | 36,257 | | 33,158 | | 30,189 |
| Present value of scheme liabilities | | (33,211) | | (29,913) | | (28,453) |
| Surplus in the scheme | | 3,046 | | 3,245 | | 1,736 |
| Assets not recoverable in the future | | 3,046 | | 3,245 | | - |
| Net pension asset (after adjustment for deferred tax) | | - | | - | | 1,302 |

**Analysis of the amount charged/(credited) to operating profit**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Current service cost | - | 265 |
| Curtailment | - | (640) |

**Analysis of the amount credited / (charged) to net investment income**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Expected return on pension scheme assets | 1,346 | 1,573 |
| Interest on pension scheme liabilities | (1,346) | (1,368) |
| Net return | - | 205 |

# Notes to the Financial Statements *(continued)*

## 26 PENSION SCHEME (continued)

**Analysis of amount recognised in Statement of Total Recognised Gains and Losses ("STRGL")**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Actual return less expected return on pension scheme assets | 1,485 | 195 |
| Experience gains and losses arising on the scheme liabilities | (95) | 176 |
| Changes in assumptions underlying the present value of the scheme liabilities | 225 | (1,303) |
| Total value of items recognised in the STRGL in respect of liabilities | 130 | (1,127) |
| Change in assets not recoverable in the future | (2,056) | (2,167) |
| Actuarial (loss)/gain recognised in STRGL | (441) | (3,099) |

**Changes to the present value of the defined benefit obligation**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Opening defined benefit obligation | 29,913 | 28,453 |
| Movement in year: | | |
| Current service cost | - | 270 |
| Interest cost | 1,346 | 1,395 |
| Contributions by participants | - | 37 |
| Actuarial (gains)/losses on liabilities | 2,249 | 2,029 |
| Net benefits paid out | (620) | (602) |
| Past service costs | - | - |
| Curtailments | - | (2,570) |
| Retranslation of opening balance | 323 | 901 |
| Closing defined benefit obligation | 33,211 | 29,913 |

# Notes to the Financial Statements *(continued)*

### 26 PENSION SCHEME (continued)

**Changes to the fair value of scheme assets**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Opening fair value of assets | 33,158 | 30,189 |
| Movement in year: | | |
| Expected return on assets | 1,346 | 1,604 |
| Actuarial gain/(losses)on assets | 1,552 | 199 |
| Contributions by the employer | 461 | 777 |
| Contributions by participants | - | 37 |
| Net benefits paid out | (620) | (602) |
| Retranslation of opening balance | 360 | 954 |
| Closing fair value of assets | 36,257 | 33,158 |

**History of experience gains and losses**

| | 2013 $000 | 2012 $000 | 2011 $000 | 2010 $000 | 2009 $000 |
|---|---|---|---|---|---|
| Total market value of assets | 36,257 | 33,158 | 30,189 | 26,421 | 24,939 |
| Present value of scheme liabilities | (33,211) | (29,913) | (28,453) | (28,093) | (26,783) |
| Surplus/(deficit) in the scheme actual return on scheme assets: | 3,046 | 3,245 | 1,736 | (1,672) | (1,844) |
| Amount | 1,485 | 195 | 955 | 375 | 2,013 |
| Percentage of scheme assets | 4% | 1% | 3% | 1% | 8% |
| **Experience gains and losses on scheme liabilities**: | | | | | |
| Amount | (95) | 176 | 1,391 | 214 | (34) |
| Percentage of the present value of the scheme liabilities | 0% | 1% | 5% | 1% | 0% |
| **Total amount recognised in Statement of Total Recognised Gains and Losses:** | | | | | |
| Amount | (441) | (3,099) | 2,945 | (820) | (1,070) |
| Percentage of the present value of the scheme liabilities | (1%) | (11%) | 10% | (3%) | (4%) |

**Defined contribution scheme**
The company operates a defined contribution pension scheme, the Company Pension Scheme, for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the year end, included in Other creditors (Note 18) are $647,980 (2012 : $618,514).

### 27 TRANSACTIONS WITH DIRECTORS AND OFFICERS

Fees of $50,249 (2012 : $63,108) in respect of Mr M G McKenzie were paid to McKenzie Consulting Limited, a company controlled by Mr M G McKenzie. Resignation took place on 25 September 2013. There were no other transactions requiring disclosure between Liberty Mutual Insurance Europe Limited and its directors and officers during the year ended 31 December 2013.

### 28 CHANGE IN THE PROVISION FOR CLAIMS

| 2013 | Gross $000 | Reinsurance $000 | Net $000 |
|---|---|---|---|
| Claims outstanding carried forward | (2,271,304) | 1,077,081 | (1,194,223) |
| Claims outstanding brought forward | 1,987,904 | (929,784) | 1,058,120 |
| Exchange difference on brought forward | 12,596 | 7,266 | 19,862 |
| Movement per Technical Account | (270,804) | 154,563 | (116,241) |

| 2012 | Gross $000 | Reinsurance $000 | Net $000 |
|---|---|---|---|
| Claims outstanding carried forward | (1,987,904) | 929,784 | (1,058,120) |
| Claims outstanding brought forward | 1,798,001 | (841,484) | 956,517 |
| Exchange difference on brought forward | 31,949 | (14,862) | 17,087 |
| Movement per Technical Account | (157,954) | 73,438 | (84,516) |

### 29 PRIOR YEARS CLAIMS

An over-provision of reserves of $20,032,544 (2012: Under-provision $2,091,878) arose between the outstanding claims provision at the beginning of the year, payments made during the year and the provision at the end of the year.

### 30 EQUALISATION PROVISION

These provisions, which amount to $47,138,000 as at the year end (2012: $37,546,000), are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, and are required by Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to be included within technical provisions in the balance sheet, notwithstanding that it does not represent a liability at the balance sheet date. This has had the cumulative effect of reducing shareholders' funds by $36,178,000 net of tax (2012: $28,723,000). The movement in equalisation provisions during the year resulted in a decrease in the General Business Technical Account result of $9,187,000 (2012: decrease of $8,680,000) and the profit before taxation of $9,592,000 (2012: decrease of $9,566,000).

### 31 PARENTAL GUARANTEE

On 15 February 2002 the board of Liberty Mutual Insurance Company agreed to grant a guarantee covering the company's insurance obligations.This was ratified by the Massachusetts' Department of Insurance on 10 May 2002. The original guarantee was updated and re-issued on 13 April 2006.

### 32 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 USA.

The immediate parent company of Liberty Mutual Insurance Europe Limited is Liberty UK and Europe Holdings Limited (formerly Liberty ITB UK and Europe 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.

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**About Liberty Mutual Insurance Group**
“Helping people live safer, more secure lives” since 1912, Boston-based Liberty Mutual Insurance Group is a diversified global insurer and the third largest property and casualty insurer in the U.S. based on 2013 direct premiums written, as reported by the National Association of Insurance Commissioners.

Liberty Mutual Insurance Group also ranks 81st on the Fortune 100 list of largest corporations in the U.S. based on 2012 revenue. As of December 31, 2013, Liberty Mutual Insurance Group had $121.2 billion in consolidated assets, $102.2 billion in consolidated liabilities and $38.5 billion in annual consolidated revenue.

Liberty Mutual Insurance Group offers a wide range of insurance products and services, including personal automobile, homeowners, workers compensation, property, commercial automobile, general liability, global specialty, group disability, reinsurance and surety. Liberty Mutual Insurance Group (www.libertymutualinsurance.com) employs over 50,000 people in more than 900 offices throughout the world.

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