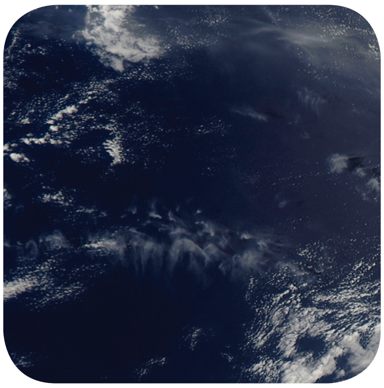







# Liberty Syndicates

## Syndicate 4472 Annual Accounts under UK GAAP
## 31 December 2012

# Contents

# Twenty twelve summary

£163.4m profit for financial year ended 31st December 2012

Progress

Investment

Optimism

Despite testing market conditions, Syndicate 4472 produced a profit of £163.4m for the financial year ended 31 December 2012. The Syndicate's performance exceeded expectations and is a marked improvement on 2011.

This positive result was driven by a below average catastrophe toll for the year and sustained profitable growth. Our progress continues to be underpinned by a disciplined approach to underwriting, claims processing and procurement, and investment in key areas. Highlights this year include taking on a market-leading speciality product team led by Peter Smith and opening a new office in Colombia.

Our flexibility and innovation has stood the Syndicate in good stead in 2012. And looking ahead, we're cautiously optimistic about 2013, with the Syndicate having reached £1bn stamp capacity.

| | 2012 £m | 2011 £m |
|---|---|---|
| Gross premiums written | 1,107.1 | 1,080.4 |
| Profit for the financial year | 163.4 | 6.9 |
| Combined ratio | 94% | 109% |

# Chairman's statement

Rigour

Discipline

Quality

Liberty Syndicates' profitable performance in 2012, against a backdrop of challenging market conditions and the continuing uncertainty of the economic outlook, reflects the Syndicate's adherence to strict underwriting discipline. The presence of high quality management, a strongly-embedded team ethos, core strengths of the Syndicate, and our rigorous approach to the policy of writing lines of business that offer profitable growth opportunities, contributed to the better than expected result achieved in the year under review.

The London Market, with Lloyd's at its heart, continues to be the world's premier specialist insurance marketplace. Liberty Syndicates continues to play its role in bringing attractive business to Lloyd's, particularly from emerging markets in Latin America where the Syndicate has real expertise. We continue to explore other markets and are well placed to take advantage of the opportunities they offer. I have every confidence that Liberty Syndicates will continue to make a valuable contribution to the future of the Lloyd's market.

On a sad note, 2012 saw the death of Derek Scott, one of our non-executive directors. Derek's contribution to the business was valued by the Board and the Management team. He will be greatly missed.

Finally, I would like to thank our President and Managing Director, Nick Metcalf and his team for their continuing efforts and the contribution they made to the performance of Liberty Syndicates last year.

**Keith Nicholson**
Chairman

# Managing Director's statement

Opportunity

Diversification

Flexibility

For the financial year ended 31 December 2012, Syndicate 4472 produced a profit of £163.4m (2011: £6.9m profit). This is ahead of expectations for the year and significantly better than 2011, driven principally by the below average catastrophe toll for the year in 2012 as compared to industry catastrophe losses of c. $120bn in 2011. This exceptional performance includes the impact of Hurricane Sandy in October, which while it is expected to be a significant (re)insurance loss that continues to develop, remains within our risk appetite. That the Syndicate is able to absorb such a loss and still post a strong result is reflective of the high quality, well diversified underwriting portfolio that we have developed, with many lines of business contributing to what has been an excellent year in terms of pure underwriting performance. This is particularly pleasing given the importance of underwriting discipline in such a low investment yield environment.

The quality of our business and business diversity is reflected in this set of results and I would like to recognise the contribution made by the Liberty Syndicates team in this success. The business operates at the highest level based upon delivery of market-leading expertise and service standards. During 2012, we continued our strategy of further building out our strong operating platform through the selection of new business opportunities whilst developing existing lines of business. That we were successful in these goals in 2012 underlines the strength of the Liberty Syndicates brand and reputation within the market. I am glad to report that these new additions made an immediate contribution to the business during the year.

## Looking forward to 2013

I look forward to 2013 with cautious optimism. The market continues to face a number of threats including European sovereign debt issues, poor investment returns, market dislocation and reducing margins in a number of lines of business. Any rate increases are likely to be restricted to loss affected contracts or very specific niches. Elsewhere the environment looks challenging. I am confident however that Liberty Syndicate's market leading position will continue to yield access to high quality business that is consistent with our risk appetite and that Liberty Syndicates remains well placed to take advantage of any suitable new opportunities that provide the required margin.

Last year, I noted that any optimism about the state of the (re)insurance market had to be tempered with caution and this is just as valid when looking into 2013. I continue to be surprised by the level of capitalisation that remains in global insurance markets. It would appear that the traditional idea of a market wide turn is no longer valid. Although business specific rate increases are available, the level of capacity within the market and the apparent investor apathy towards ever decreasing returns on their capital, mean it is likely that soft market conditions will continue to prevail. However, Liberty Syndicates' position within the Liberty Mutual Group affords us the flexibility to adjust strategy quickly, thus reacting to changing market conditions and maximising profitability.

Liberty Syndicates has invested considerable resource into the development of sophisticated modelling techniques and pricing models. These provide management with a clear view of the risks faced by the business and give them the tools to deploy relevant strategies to mitigate them.

## Our business

Liberty Syndicates is organised around high quality staff in both underwriting and support functions. A notable development in the last year has been the incorporation of Solvency II and the ORSA within the business as usual structure of the Syndicate. In line with the latest regulatory requirements, the ORSA is now a key part of the decision making process of the business and further supports our commitment to the provision of the highest quality support for the underwriting teams and management decision making.

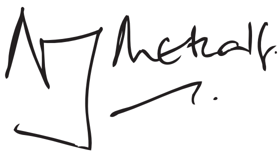
Liberty Syndicate's growing underwriting reputation has allowed us to continue to attract high quality opportunities and underwriting talent. During 2012, our underwriting portfolio was enhanced by the recruitment of a market leading team in the specialty products area led by Peter Smith. We have also continued to diversify our geographical platforms with the establishment of a new office in Colombia. Both developments have seen us write a wide range of profitable new business that would not previously have been accessible to the Syndicate.

## Clients and markets

Liberty Syndicates underwrites a broad portfolio of specialist insurance and reinsurance products. Our client-focused business operates to a mantra of exacting service standards provided via market-leading underwriting, combined with claims and risk management expertise. Liberty Syndicates has built up a strong reputation for providing bespoke underwriting solutions to our clients and the speed of our response when dealing with broker requests has further cemented our position as a must see market.

Liberty Syndicates enjoys a truly global approach to underwriting. Being at Lloyd's, it lies at the heart of the London market where a concentration of specialist insurance and reinsurance expertise continues to attract the most complex and large international business. Access to our trading partners around the world is key to the success of our business model and the Lloyd's platform with its global licenses and strong rating, combined with a sophisticated broker network, continues to be our prime distribution channel.

Liberty Syndicates' presence in local markets continued to strengthen over the past twelve months and I look forward to building upon the progress made via our hubs across Europe and Latin America during 2013.



**Nick Metcalf**
President & Managing Director

# Chief Underwriting Officer's statement

Growth

Strength

Performance

2012 produced a record underwriting result for the Syndicate and saw the continued growth of our business to reach the £1bn stamp capacity landmark for 2013. These are achievements of real significance when set against the continued background of international economic torpor, excess capacity in our industry and the 2nd largest insured loss ever sustained from a US natural catastrophe event. This was a satisfying result.

All of our divisions contributed to this result in 2012. Our three reinsurance divisions all had a very successful year. Our Cologne based London Market Reinsurance team enhanced their market-leading reputation as leaders in property, marine and speciality treaty business, notwithstanding the Costa Concordia and Storm Sandy market losses. Another strong year from our aviation treaty experts further cemented Liberty Syndicate's much admired place in profitably supporting our London market clients.

Our International Treaty Reinsurance division also had an admirable year. Writing property catastrophe to clients in (and with exposure to) every corner of the globe, demands superior underwriting talent, vision and discipline. When combined with consolidating Liberty Syndicate's place in a range of products and territories (treaty credit, agriculture, Latin America, Spain), the reputation of our business continues to grow along with our profits. That our Treaty Casualty team continues to support an outstanding reinsurance result in difficult market circumstances reveals much about their abilities and the strength of their client relationships.

All areas of our insurance business had to work hard to generate acceptable margins in 2012. Anaemic economic growth only depresses a willingness for our clients to spend more on their insurance protections, notwithstanding the undoubted value that our products bring. It is quite a feat that I can report that (allowing for reserve strengthening for Irish pyrites in our discontinued latent defect portfolio) all insurance divisions contributed planned profits.

Our Property division thoughtfully seized upon opportunities created from international market losses in 2011 to deliver a good result. A superior performance from our US business in the face of Sandy reminds us what a trusted franchise our underwriters have created. Our Contingent Lines division had many things thrown at it in 2012: the Olympics, UK wet weather, violence in the Middle East and beyond, but found ways to deliver on-target results. Our new Global Financial Risks team has immediately become recognised as an undoubted market leader and the Management team of the business has every confidence in its continued success.

In many ways our Marine division had the biggest challenges in 2012. The Costa Concordia loss (currently estimated $1.5bn) was only the most prominent marine loss of many in the year, whilst the significant exposures faced from $20bn market losses in Sandy also impacted upon our business. Yet performance across our portfolio, be it terrorism, aviation, war, marine liability or in-orbit satellite insurance, generated a good performance in 2012.

The position we have developed in the Lloyd's market provides the perfect platform for market leadership and innovation. This proposition is supported by the recruitment of Peter Smith and his team in 2012. With a long track record of offering highly respected lead terms in political risks and credit treaty, PA treaty and specialty products binding authority business, his team has a deserved reputation for client service and fresh thinking. Peter's leadership of the new Specialty Products division is highly anticipated and we believe it will be an engine for profitable growth and dynamic product and distribution strategies.

The opening of our Colombian office under Jose Ernesto Ospina further develops our Latin American strategy. We have high expectations of our first class team securing opportunities in this exciting developing market.

Underwriting is not getting any easier. Capital in our industry and in the London market continues to grow at a faster rate than underlying economic growth or consumer demand. We are presented daily with challenges, be they regulatory, because of the increased profile of the capital markets in our space, or evolving distribution business models. Yet our underwriters, claims team, actuaries, reinsurance buyers and exposure managers met them admirably in 2012 and we will continue to grow stronger in 2013.

**Matthew Moore**
Chief Underwriting Officer

# Finance Director's statement

Improvement

Profitability

Growth

## FINANCIAL REPORT – 2012

The highlights from our technical and non-technical accounts are outlined below:

| £m | 2012 | 2011 |
|---|---|---|
| Gross premiums written | 1,107.1 | 1,080.4 |
| Premiums earned, net of reinsurance | 841.7 | 896.3 |
| Claims incurred, net of reinsurance | (518.3) | (693.9) |
| Net operating expenses | (275.7) | (280.5) |
| Investment return | 115.7 | 85.0 |
| **Profit for the financial year** | **163.4** | **6.9** |
| Foreign exchange translation loss | (11.1) | (29.5) |
| **Total recognised gains / (losses) for the year** | **152.3** | **(22.6)** |

The component parts of the Syndicate's underlying profit are shown below:

**Underlying profit:**

| | | |
|---|---|---|
| Total recognised gains / (losses) for the year | 152.3 | (22.6) |
| Foreign exchange translation loss | 11.1 | 29.5 |
| Investment return under UK GAAP[1] | (115.7) | (85.0) |
| Investment income under US GAAP[1] | 62.1 | 54.5 |
| Underlying profit / (loss) for the financial year | 109.8 | (23.6) |
| Combined ratio[2] | 94% | 109% |

The Syndicate manages its investments under US GAAP accounting principles and thus measures its underlying profit by removing the UK GAAP investment return and replacing it with its US GAAP investment income. The unrealised gains/losses recognised under UK GAAP may reverse in later years for those investments that the Syndicate holds until maturity.

1 Investment return under UK GAAP includes net unrealised gains/losses on investments as calculated using UK GAAP. Investment income under US GAAP does not include net unrealised gains/losses as calculated under US GAAP.

2 The combined ratio is the ratio of claims incurred, net of reinsurance and net operating expenses to premiums earned, net of reinsurance. It excludes investment income and realised and unrealised gains/losses.

The improvement in profitability from 2011 was driven both by below average market catastrophes during 2012 compared to 2011 and by the continuing growth in profitable business. This increase was partially offset by unfavourable development on prior year losses, including the strengthening of reserves of our run off latent defects book and in our reserving methodology for periodic payment orders in the motor reinsurance account.

Gross premiums written were only marginally higher in 2012 compared to 2011. However, underlying gross premiums grew by 17% after stripping out the effect of the planned non-renewal of our less profitable personal lines quota share reinsurance contract in 2012 and the lower level of reinstatement premiums recorded in 2012 compared to 2011 due to the low level of catastrophe losses. Gross earnings were higher in 2011 due to the higher level of reinstatement premiums. An increase in outwards reinsurance premiums written and earned, principally driven by a new property quota share reinsurance contract, has resulted in a reduction in net earned premium for the year.

Net operating expenses overall marginally declined in 2012 compared with 2011 due to offsetting factors. We incurred a higher level of administrative expenses which were offset by higher reinsurance commissions related to reinsurance quota share contracts. The higher level of administrative expenses was driven by higher performance related costs as well as a planned increase in personnel costs consistent with our continued strategy of profitable growth.

## Investment income

Our underlying investment income increased from £54.5m to £62.1m. As in 2011, the investment base has increased even though depressed market yields and spreads continued in 2012. We restructured our portfolio into longer duration and higher yielding assets which has benefited our yield. We benefited again from unrealised gains on investments in 2012. These low yields will continue to challenge our profitability in future years.

## Foreign exchange

The majority of the Syndicate's premium income is underwritten in US dollars. We are also a fully aligned syndicate with a US parent and report internally in US dollars. However, for the purpose of this report, the net assets in each individual currency are converted back to Sterling, resulting in a currency translation movement of (£11.1m).

## Solvency II and IFRS

Our first year of Solvency II in business as usual mode has provided the benefits that we planned for as part of the Solvency II program. Our new challenge is the developing requirements of IFRS and US GAAP, especially in respect of insurance contract accounting, which while adopting many of the concepts of Solvency II and thus fitting well with our business model, insists on retaining key differences across each basis.

## Syndicate operations

We have continued to grow and develop our operational team in line with the growth of the business. This growth brings some benefits from economies of scale, but equally importantly, allows us to significantly enhance the operation of the business as it faces the ongoing challenges that inevitably come.

**John Dunn**
Finance Director

# Directors and administration

### Managing Agent
Liberty Syndicate Management Limited

### Directors

| | |
|---|---|
| Keith Nicholson | Chairman |
| Nick Metcalf | President & Managing Director |
| John Dunn | Finance Director |
| Matthew Moore | Active Underwriter & Chief Underwriting Officer |
| Danny Forsythe (USA) | Non-Executive |
| Gordon McBurney (USA) | Non-Executive |
| Richard Youell | Non-Executive |
| Derek Scott | Non-Executive (deceased 1st August 2012) |
| Christopher Peirce (USA) | Non-Executive (appointed with effect 6th December 2012) |

### Company secretary
Rachael Trist

### Managing agent's registered office
Plantation Place South
60 Great Tower Street
London
EC3R 5AZ

### Managing agent's registered number
3003606

### SYNDICATE:
### Active underwriter
Matthew Moore

### Investment managers
Liberty Mutual Group Asset Management Inc.

### Registered auditor
Ernst & Young LLP, London

# Managing agent's report

The Directors of Liberty Syndicate Management Limited present their report for the year ended 31 December 2012. This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008").

## Results

The result for calendar year 2012 is a profit of £163,454,000 (2011: £6,884,000). Profits will be available for distribution by reference to the results of individual underwriting years.

## Principal activity and review of the business

The principal activity of Syndicate 4472 ("the Syndicate") during the year continued to be the transaction of general insurance and reinsurance business. The Syndicate's key financial performance indicators during the year were as follows:

| £m | 2012<br>£000 | 2011<br>£000 | Change<br>% |
|---|---|---|---|
| Gross premiums written | 1,107,138 | 1,080,357 | 2% |
| Profit for the financial year | 163,454 | 6,884 | 2274% |
| Total recognised gains / (losses) relating to the year | 152,363 | (22,627) | – |
| Combined ratio (i) | 94% | 109% | |

(i) The combined ratio is the ratio of claims incurred, net of reinsurance and net operating expenses to premiums earned, net of reinsurance. It excludes investment income and realised and unrealised gains and losses.

The Syndicate's profit for the financial year has improved from 2011. This increase was principally driven by a lower than average level of catastrophes and a higher amount of net investment income, partially offset by lower net earned premiums (lower gross earned premium combined with higher outwards reinsurance premium earned).

The underwriting result (balance on the general business technical account less allocated investment return) has increased from a loss of £78.1m in 2011 to a profit of £47.8m in 2012. This is reflected in the Syndicate's combined ratio which improved from 109% in 2011 to 94% in 2012. The improvement in the combined ratio was driven by a lower loss ratio as discussed in more detail below.

# Managing agent's report (continued)

## Principal activity and review of the business (continued)

The lower loss ratio in 2012 was driven by a below average level of market catastrophes incurred during 2012 as compared to 2011 which was the second worst natural catastrophe loss year on record. Even given the expected significant loss from Hurricane Sandy which occurred in October 2012, the Syndicate was still able to post a strong result. The loss estimate for Hurricane Sandy recorded in the Syndicate 2012 result is a gross loss of £79.5m, £43.5m net of reinsurance and reinstatement premiums. Partially offsetting the below average 2012 level of catastrophes was an unfavourable development on prior year losses including the strengthening of reserves of the run off latent defects book and a change in the reserving methodology for periodic payment orders in the motor reinsurance account.

Gross premiums written were only marginally higher in 2012 as compared to 2011. However underlying gross premiums grew by 17% after stripping out the effect of the planned non-renewal of the less profitable personal lines quota share reinsurance contract in 2012 and the lower level of reinstatement premiums recorded in 2012 as compared to 2011 due to the lack of catastrophe losses. Gross earnings were higher in 2011 due to the higher level of reinstatement premiums. An increase in outwards reinsurance premiums written and earned, principally driven by a new property quota share reinsurance contract, has resulted in a reduction in net earned premium for the year.

Net operating expenses overall marginally declined in 2012 as compared with 2011 due to offsetting factors. A higher level of administrative expenses were incurred which were more than offset by higher reinsurance commissions related to reinsurance quota share contracts. The higher level of administrative expenses was driven by higher performance related costs as well as a planned increase in personnel costs consistent with a continued strategy of profitable growth.

## Principal risks and uncertainties

### Insurance risk

Insurance risk is defined as the risk of loss arising from inherent uncertainties about the occurrence, amount and timing of insurance liabilities, premiums and related reinsurance recoveries.

The Board agrees the appetite for insurance risk annually through a business plan which sets targets for volume, pricing, line size and retention by class of business and which takes account of expected activity within the Syndicate. The Board then monitors performance against the business plan on an ongoing basis.

In addition, benchmark pricing methodologies are in place for major classes of business and stochastic modelling and catastrophe exposure modelling is undertaken to measure key risks against agreed tolerance levels. The Board achieves comfort over the adequacy of claims reserves by operating a range of controls. Detailed analysis is performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis and underwriter review. In addition, an independent third party performs an annual actuarial review of reserve adequacy and the Syndicate's reserves are benchmarked to Lloyd's peers.

## Principal risks and uncertainties (continued)

### Insurance risk (continued)

A panel of Independent Peer Reviewers, all former class underwriters and all retained as external contractors, reviews a sample of risks written by the Syndicate and feed back their findings to the newly established Underwriting Risk Working Groups, which are attended by Divisional Underwriting Heads and other key support staff.

### Market risk

Market risk is the potential for financial losses from adverse movements in the value of assets and liabilities due to factors such as interest rate movements, credit spreads, market liquidity and exchange rate fluctuations. Foreign exchange movements can result from mismatches between the currencies in which the assets and liabilities are denominated.

The Managing Agent determines duration ranges for the investment portfolios which reflect the maturity profile of claims and sets limits on the individual and aggregate credit exposure for each portfolio. The Managing Agent manages currency weightings of the investment portfolios in GBP, USD and EUR against principal currency exposures.

### Risk concentration

Risk concentration is the risk of multiple exposures occurring simultaneously or within a planning period (typically a calendar year) and beyond the expectations of the Managing Agent. This can be caused through failing to understand how multiple exposures can be linked to one another (missed correlating factors) or through underestimating the frequency of some loss making events. The financial effect could be severe if risk concentrations go undetected until losses occur.

The Managing Agent models the aggregation of underwriting limits as part of insurance risk, models the concentrating effect of systemic money market default as part of market risk and systemic credit defaults as part of credit risk. In addition, policies are in place to identify possible correlating factors between the risk classes (prohibiting investment in insurance or reinsurance firms for example) in order to reduce the possibility of correlating factors.

Risk scenarios are additionally used to ensure that adequate consideration is given to the correlation between risks under extreme circumstances. The level of correlation derived from this method is compared to the statistical and judgmentally derived correlation factors that are used in the Syndicate’s internal model.

### Credit risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate’s reinsurers, brokers or coverholders. Board approved criteria have been set for reinsurance purchases based on internal assessment, major credit rating agency benchmarks, and maximum exposure to each counterparty. The Managing Agent also maintains strict conditions for broker and coverholder appointments.

# Managing agent's report (continued)

## Principal risks and uncertainties (continued)

### Liquidity risk

Liquidity risk is the risk that the Syndicate will not be able to meet its liabilities as they fall due. To mitigate this risk weekly cash flow projections are prepared and the Syndicate maintains a portfolio of liquid investments that could reasonably be expected to realise near total market value on any particular day in order to accommodate the liquidity requirements following an extreme insurance loss.

### Reputational risk

Reputational risk is the risk of loss of trade or sub optimal trading due to the negative perception of the Managing Agent in the eyes of a key stakeholder – taken to be insureds, brokers, employees, capital providers, rating agencies or regulators. This is mitigated through having a strategy of transparent and ethical dealings with all stakeholders and aligning the Managing Agent's strategy with a mutually beneficial long term relationship with insured and broker alike.

### Operational risk

Operational risk is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Managing Agent maintains a control environment that includes operations procedures manuals covering all aspects of the business as well as the continual maintenance of a risk register by the Managing Agent's risk team. Risk mitigation plans are prepared and implemented to treat operational risks. An Internal Audit team also prepare and execute a risk-based internal audit programme to test the effectiveness of internal controls.

The Managing Agent also has a detailed programme in place to identify and analyse risks to the integrity of certain financial information used and reported in the business. Key controls identified as part of this programme, many of which address people, process or system risk, are subject to regular internal review and the majority are also subject to independent testing.

### Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to change in regulations. The Managing Agent is required to comply, inter alia, with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Managing Agent's overseas operations are also subject to local laws. The Managing Agent has a dedicated Compliance Officer who monitors regulatory developments and assesses the impact on the Managing Agent's policies and procedures.

## Future developments

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.

## Future developments (continued)

Looking forward into 2013 it is clear that whilst the marketplace remains challenging due to a number of threats including European Sovereign Debt issues, poor investment returns, market dislocation and reducing margins on a number of lines of business there may still be a number of potential opportunities in terms of both lines of business and new geographical territories. Furthermore the Managing Agent believes that the Syndicate's strong underwriting reputation will allow us to continue to attract high quality opportunities and underwriting talent. As such the Managing Agent's management will continue to review new initiatives that, if proven to meet the required return on capital, will be introduced with the objective of further diversifying the current portfolio mix driven by a philosophy of profitable growth.

In support of this philosophy of profitable growth the Managing Agent will continue to build upon and improve its high quality underwriting and support structures. The basis of this structure will continue to be organised around high quality staff and to this end the Managing Agent's management remains committed to maintaining the Syndicate's position as an employer of choice in the Lloyd's market.

### Directors

The directors of the Managing Agent who served during the year ended 31 December 2012 were as follows:

| | |
|---|---|
| Keith Nicholson | Chairman |
| Nick Metcalf | President & Managing Director |
| John Dunn | Finance Driector |
| Matthew Moore | Active Underwriter & Chief Underwriting Officer |
| Danny Forsythe (USA) | Non-Executive |
| Gordon McBurney (USA) | Non-Executive |
| Richard Youell | Non-Executive |
| Derek Scott | Non-Executive (deceased 1st August 2012) |
| Christopher Peirce (USA) | Non-Executive (appointed with effect 6th December 2012) |

None of the Directors has any participation on the Syndicate.

### Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent 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 Managing Agent and the Syndicate's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

# Managing agent's report (continued)

## Auditors

The Syndicate's sole member, Liberty Corporate Capital Limited, has resolved to reappoint Ernst & Young LLP as the recognised auditors for 2013. Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Ernst & Young LLP will be deemed to be reappointed as auditors for future years unless the member formally advises Liberty Syndicate Management Limited otherwise.

By order of the Board

**Nick Metcalf**
President & Managing Director
London

14 March 2013

# Statement of managing agent's responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable laws and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is 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 annual accounts; and
- prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

# Independent auditor's report

to the member of Syndicate 4472

We have audited the annual accounts of Syndicate 4472 ("the Syndicate") for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes 1 to 18. 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).

This report is made solely to the Syndicate's member, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's member 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 Syndicate's member, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Managing Agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 18, the Managing Agent is responsible for the preparation of the Syndicate's annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate's annual accounts 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 Syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Managing Agent; and the overall presentation of the annual accounts. In addition, we read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited annual accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on the Syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2012 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

## Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP.

**Paul Cooper (Senior Statutory Auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

14 March 2013

# Profit and loss account
# Technical account – general business

for the year ended 31 December 2012

| | Notes | 2012<br>£000 | 2011<br>£000 |
|---|---|---|---|
| Gross premiums written | 3 | 1,107,138 | 1,080,357 |
| Outward reinsurance premiums | | (196,951) | (160,402) |
| Net premiums written | | 910,187 | 919,955 |
| **Change in the provision for unearned premiums:** | | | |
| Gross amount | | (79,046) | (24,475) |
| Reinsurers' share | | 10,564 | 792 |
| **Change in the net provision for unearned premiums** | | (68,482) | (23,683) |
| **Earned premiums, net of reinsurance** | | 841,705 | 896,272 |
| **Allocated investment return transferred from the non-technical account** | | 89,015 | 64,903 |
| **Claims incurred, net of reinsurance:** | | | |
| Claims paid | | | |
| Gross amount | | (546,562) | (461,505) |
| Reinsurers' share | | 75,127 | 38,213 |
| Net claims paid | | (471,435) | (423,292) |
| Change in the provision for claims | | | |
| Gross amount | | (58,091) | (376,789) |
| Reinsurers' share | | 11,246 | 106,222 |
| Change in the net provision for claims | | (46,845) | (270,567) |
| **Claims incurred, net of reinsurance** | | (518,280) | (693,859) |
| **Net operating expenses** | 4 | (275,658) | (280,504) |
| **Balance on the general business technical account** | | 136,782 | (13,188) |

All the amounts above are in respect of continuing operations.

# Profit and loss account
# Non-technical account

for the year ended 31 December 2012

| | Notes | 2012<br>£000 | 2011<br>£000 |
|---|---|---|---|
| **Balance on the general business technical account** | | 136,782 | (13,188) |
| Investment income | 7 | 75,812 | 71,469 |
| Unrealised gains on investments | | 42,930 | 15,480 |
| Investment expenses and charges | 7 | (3,055) | (1,974) |
| Allocated investment return transferred to the general business technical account | | (89,015) | (64,903) |
| **Profit for the financial year** | | 163,454 | 6,884 |

# Statement of total recognised gains and losses

for the year ended 31 December 2012

| | 2012<br>£000 | 2011<br>£000 |
|---|---|---|
| Profit for the financial year | 163,454 | 6,884 |
| Effect of foreign exchange translation | (11,091) | (29,511) |
| **Total recognised gains / (losses) relating to the year** | 152,363 | (22,627) |

# Balance sheet assets

at 31 December 2012

| | Notes | 2012 £000 | 2011 £000 |
|---|---|---|---|
| **Investments** | | | |
| Financial investments | 8 | 2,257,299 | 2,165,443 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | | 17,435 | 10,750 |
| Claims outstanding | | 297,774 | 298,174 |
| | | 315,209 | 308,924 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 9 | 153,363 | 9,523 |
| Debtors arising out of reinsurance operations | | 254,612 | 364,957 |
| | | 407,975 | 374,480 |
| **Other assets** | | | |
| Cash at bank and in hand | | 78,620 | 103,445 |
| Other assets | 10 | 93,384 | 45,300 |
| **Prepayments and accrued income** | | | |
| Accrued interest | | 20,167 | 19,326 |
| Deferred acquisition costs | | 122,072 | 103,333 |
| Other prepayments and accrued income | | 447 | 828 |
| | | 142,686 | 123,487 |
| **Total assets** | | 3,295,173 | 3,121,079 |

# Balance sheet liabilities

at 31 December 2012

| | Notes | 2012 £000 | 2011 £000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Member's balance | 11, 18 | 560,487 | 467,235 |
| **Technical provisions** | | | |
| Provision for unearned premiums | | 498,779 | 438,843 |
| Claims outstanding | | 2,096,603 | 2,092,173 |
| | | 2,595,382 | 2,531,016 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 12 | 3,131 | 3,945 |
| Creditors arising out of reinsurance operations | 13 | 96,905 | 76,309 |
| Other creditors | | 29,626 | 38,425 |
| | | 129,662 | 118,679 |
| **Accruals and deferred income** | | 9,642 | 4,149 |
| **Total liabilities** | | 3,295,173 | 3,121,079 |

The annual accounts on pages 21 to 38 were approved by the Board of Liberty Syndicate Management Limited and were signed on its behalf by

**Nick Metcalf**
Liberty Syndicate Management Limited

14 March 2013

# Statement of cash flows

for the year ended 31 December 2012

| | Notes | 2012 £000 | 2011 £000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 14 | 220,667 | 182,806 |
| **Transfers to member in respect of underwriting participations** | 11 | (32,496) | – |
| | 15 | 188,171 | 182,806 |
| **Cash flows were invested as follows:** | | | |
| (Decrease) / increase in cash holdings | 15 | (21,319) | 73,297 |
| Increase in overseas deposits | 15 | 50,264 | 11,650 |
| Increase in net portfolio investments | 15 | 159,226 | 97,859 |
| **Net investment of cash flows** | | 188,171 | 182,806 |

# Notes to the annual accounts

at 31 December 2012

## 1. Basis of preparation

These financial statements have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted, except that exchange differences are dealt with in the technical account as there are no non-technical items.

## 2. Accounting policies

### Gross premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year, as well as adjustments arising in the financial year to premiums on contracts incepted in prior accounting periods. All premiums are shown gross of commissions and exclusive of duties and taxes thereon. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

### Unearned premiums

Gross premiums written are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

### Outwards reinsurance premium

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

### Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

# Notes to the annual accounts (continued)

## 2. Accounting policies (continued)

### Claims provisions and related recoveries (continued)

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in the notification and settlement of certain claims, and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than or greater than the amount provided. Any differences between claims provisions and subsequent settlements are dealt with in the technical account – general business of later years.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

The two most critical assumptions regarding claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

### Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

### Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

## 2. Accounting policies (continued)

### Foreign currencies

Monetary assets and liabilities are translated into Sterling 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. The Syndicate maintains separate currency ledgers for US dollar, Canadian dollar and Euro business. These non-sterling businesses are considered by management to represent foreign branches. Exchange gains and losses arising from the retranslation into Sterling of the balance sheets of these branches using the rates of exchange prevailing at the balance sheet date, and the retranslation into sterling 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.

Exchange gains and losses arising from other foreign currencies are included in the technical account.

Undistributed profits on closed years of account plus investment return earned on those undistributed profits plus cash calls received from the member, less any transfers to the member in respect of underwriting participations, are included within member's balances. This accumulated component of the member's balance is held in Sterling and US dollars for future distribution. The US dollar balance is retranslated at the year-end exchange rates at each balance sheet date resulting in a movement in the reconciliation of member's balances. The corresponding foreign exchange gain / (loss) is recorded directly in the statement of recognised gains and losses, as part of the overall foreign exchange translation.

### Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

### Investment return

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

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

# Notes to the annual accounts (continued)

## 2. Accounting policies (continued)

### Investment return (continued)

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been allocated to the technical account in respect of actual investment return on investments supporting the general insurance technical provisions and member balances. Any investment returns on investments that relate to undistributed profits on closed years remain in the non-technical account.

### Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic-rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by the corporate member on underwriting results.

### Pension costs

Liberty Syndicate Management Limited operates a defined contribution pension scheme. Pension contributions relating to managing agency staff working on behalf of the Syndicate are charged to the Syndicate and included within net operating expenses.

Liberty Syndicate Management Limited also operates a defined benefits pension scheme, which provides benefits based on final pensionable pay for all qualifying employees. The scheme was curtailed in July 2012. Costs in respect of the scheme relating to managing agency staff working on behalf of the Syndicate are charged to the Syndicate.

### Internal claims handling costs

Internal claims handling costs, including compensation costs of the claims department, are reclassified from administrative expenses and included in claims incurred (net of reinsurance).

## 3. Segmental analysis

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

| 2012 | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 | Total £000 | Net technical provisions £000 |
|---|---|---|---|---|---|---|---|
| **Direct insurance:** | | | | | | | |
| Accident & health | 86,943 | 76,919 | (40,249) | (20,624) | (1,896) | 14,150 | 78,482 |
| Motor (third-party liability) | 40,893 | 29,292 | (28,206) | (7,854) | (522) | (7,290) | 69,965 |
| Motor (other classes) | 28,270 | 19,079 | (12,420) | (5,116) | (2,249) | (706) | 38,445 |
| Marine aviation & transport | 117,741 | 117,331 | (86,320) | (31,459) | 3,915 | 3,467 | 215,525 |
| Fire & other damage to property | 205,084 | 194,616 | (96,154) | (52,182) | (38,122) | 8,158 | 244,424 |
| Third party liability | 46,600 | 34,343 | (11,066) | (9,208) | (2,286) | 11,783 | 233,777 |
| Miscellaneous | 119,453 | 107,104 | (81,810) | (28,717) | 18,634 | 15,211 | 297,752 |
| | 644,984 | 578,684 | (356,225) | (155,160) | (22,526) | 44,773 | 1,178,370 |
| **Reinsurance** | 462,154 | 449,408 | (248,428) | (138,653) | (59,333) | 2,994 | 1,101,803 |
| | 1,107,138 | 1,028,092 | (604,653) | (293,813) | (81,859) | 47,767 | 2,280,173 |

| 2011 | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 | Total £000 | Net technical provisions £000 |
|---|---|---|---|---|---|---|---|
| **Direct insurance:** | | | | | | | |
| Accident & health | 64,662 | 74,453 | (30,839) | (19,779) | (744) | 23,091 | 70,688 |
| Motor (third-party liability) | 24,989 | 16,193 | (11,568) | (4,302) | (1,432) | (1,109) | 37,794 |
| Motor (other classes) | 16,317 | 6,495 | (2,248) | (1,726) | (353) | 2,168 | 13,563 |
| Marine aviation & transport | 99,141 | 93,568 | (45,979) | (24,857) | (3,850) | 18,882 | 268,834 |
| Fire & other damage to property | 200,836 | 210,754 | (143,810) | (55,989) | (26,846) | (15,891) | 372,200 |
| Third party liability | 43,502 | 61,699 | (31,891) | (16,391) | (6) | 13,411 | 177,223 |
| Miscellaneous | 72,990 | 56,475 | (23,288) | (15,002) | (9,279) | 8,906 | 302,120 |
| | 522,437 | 519,637 | (289,623) | (138,046) | (42,510) | 49,458 | 1,242,422 |
| **Reinsurance** | 557,920 | 536,245 | (548,671) | (144,166) | 29,043 | (127,549) | 979,670 |
| | 1,080,357 | 1,055,882 | (838,294) | (282,212) | (13,467) | (78,091) | 2,222,092 |

Reinsurers' commissions and profit participations are included in the reinsurance balance.

# Notes to the annual accounts (continued)

## 3. Segmental analysis (continued)

Commissions on direct insurance gross premiums written during 2012 were £165,191,000 (2011: £114,245,000).

Included within net claims incurred in the Technical Account – General Business is a strengthening of £49,546,124 (2011 release £49,417,755) being the difference between the provision for claims outstanding at the beginning of the year less payments made during the year on account of claims incurred in previous years and the provision for claims outstanding at the end of the year for such claims. The strengthening in 2012 was driven by unfavourable loss development on prior year attritional losses combined with deterioration in the estimated ultimate liabilities in the latent defects class caused as a result of infill contamination, as well as additional reserves in the Motor XL class related to payment protection order claims.

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

| | 2012 £000 | 2011 £000 |
|---|---|---|
| UK | 214,970 | 200,033 |
| Other EU Countries | 205,234 | 172,105 |
| Americas | 418,716 | 457,465 |
| Worldwide | 268,218 | 250,754 |
| Total | 1,107,138 | 1,080,357 |

## 4. Net operating expenses

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Acquisition costs | (239,407) | (235,089) |
| Change in deferred acquisition costs | 22,360 | 4,373 |
| Administrative expenses | (76,050) | (51,715) |
| (Loss) / Profit on exchange | (716) | 219 |
| **Gross operating expenses** | (293,813) | (282,212) |
| Reinsurance commissions receivable | 18,155 | 1,708 |
| **Net operating expenses** | (275,658) | (280,504) |

| | | |
|---|---|---|
| **Administrative expenses include:** | | |
| Auditor’s remuneration: | | |
| - Audit services | 428 | 413 |
| - Actuarial services | 262 | 205 |
| - Other services | 137 | 48 |
| | 827 | 666 |

The member’s standard personal expenses are included within administrative expenses.

## 5. Staff numbers and costs

All staff are employed by the Managing Agent. The following amounts were recharged from the Managing Agent to Syndicate 4472 in respect of salary costs:

| | 2012<br>£000 | 2011<br>£000 |
|---|---|---|
| Wages and salaries | 41,501 | 26,056 |
| Social security costs | 2,954 | 3,214 |
| Other pension costs | 2,063 | 1,185 |
| Other | 1,070 | 545 |
| | 47,588 | 31,000 |

The average number of employees employed by the Managing Agent but working for the Syndicate during the year was as follows:

| | 2012<br>Number | 2011<br>Number |
|---|---|---|
| Administration and finance | 173 | 153 |
| Underwriting | 101 | 89 |
| Claims | 20 | 18 |
| Investments | 3 | 3 |
| | 297 | 263 |

## 6. Emoluments of the Directors of Liberty Syndicate Management Limited

The Directors of Liberty Syndicate Management Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

| | 2012<br>£000 | 2011<br>£000 |
|---|---|---|
| Emoluments | 2,189 | 1,213 |

The Active Underwriter received the following remuneration charged to the Syndicate and included within net operating expenses.

| | | |
|---|---|---|
| Emoluments | 589 | 283 |

During the year the Directors of the Managing Agent provided services to Syndicate 4472. The amounts shown above are the full amount recharged to Syndicate 4472 in respect of directors' emoluments for these services.

# Notes to the annual accounts (continued)

## 7. Investment return

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Income from investments | 74,492 | 75,341 |
| Gains / (losses) on the realisation of investments | 1,320 | (3,872) |
| | 75,812 | 71,469 |
| Investment management expenses, including interest | (3,055) | (1,974) |

## 8. Financial investments

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Market Value £000 | Cost £000 | Market Value £000 | Cost £000 |
| Shares and other variable yield securities and units in unit trusts | 27,706 | 27,706 | 71,204 | 71,204 |
| Debt securities and other fixed income securities | 1,899,679 | 1,863,448 | 1,768,086 | 1,748,593 |
| Loans secured by mortgage | 313,279 | 306,765 | 307,598 | 304,052 |
| Deposits with credit institutions | 16,635 | 16,635 | 18,555 | 18,555 |
| | 2,257,299 | 2,214,554 | 2,165,443 | 2,142,404 |

Within the amounts disclosed above £1,209,961,000 (2011: £1,137,083,000) of Debt securities and other fixed income securities, £63,096,000 (2011: £46,958,000) of Loans secured by mortgage and £27,706,000 (2011: £71,204,000) of Shares and other variable yield securities and units in unit trusts are listed.

## 9. Debtors arising out of direct insurance operations

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Intermediaries | 153,363 | 9,523 |

## 10. Other assets

Other assets comprises overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

## 11. Reconciliation of member's balance

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Balance due to member brought forward at 1 January | 467,235 | 490,142 |
| Foreign exchange on funds in Syndicate (2006 – 2009 years of account undistributed result) | (26,615) | (280) |
| Profit for the financial year | 163,454 | 6,884 |
| Effect of foreign exchange translation | (11,091) | (29,511) |
| Payment of profit to member - partial distribution of 2006 year of account | (32,496) | – |
| Balance due to member carried forward at 31 December | 560,487 | 467,235 |

The member participates on the Syndicate by reference to years of accounts' ultimate results, and assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year. The balance due to the member is payable when the years of account close, usually after three years. The balance of the 2006 year of account was retained within the Syndicate at the time of closure. During 2012, £32,496,000 of this balance was distributed to the member (2011 – nil; 2010 – £64,645,000). There still remains a balance owing to the member for the 2006 year of account. In addition, the balances of the 2007, 2008 and 2009 years of account were also retained within the Syndicate at the time of closure and continue to be retained in full.

## 12. Creditors arising out of direct insurance operations

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Intermediaries | 3,131 | 3,945 |

## 13. Creditors arising out of reinsurance operations

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Reinsurance accepted | – | 174 |
| Reinsurance ceded | 96,905 | 76,135 |
| | 96,905 | 76,309 |

# Notes to the annual accounts (continued)

## 14. Reconciliation of operating profit to net cash inflow from operating activities

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Operating profit on ordinary activities | 163,454 | 6,884 |
| Changes to market values and currencies on cash, portfolio investments and financing | 73,056 | 14,856 |
| Effect of foreign exchange translation | (11,091) | (29,511) |
| Increase in net technical provisions | 58,081 | 315,138 |
| Increase in debtors, prepayments and accrued income | (52,694) | (148,320) |
| Increase in creditors, accruals and deferred income | 16,476 | 24,039 |
| Foreign exchange movement on funds in Syndicate (2006 – 2009 years of account undistributed result) | (26,615) | (280) |
| Net cash inflow from operating activities | 220,667 | 182,806 |

## 15. Movement in opening and closing portfolio investments net of financing

| | 2012 £000 | 2011 £000 |
|---|---|---|
| **Net cash (outflow) / inflow for the year** | (21,319) | 73,297 |
| Cash flow | | |
| Increase in overseas deposits | 50,264 | 11,650 |
| Increase in portfolio investments | 159,226 | 97,859 |
| Movement arising from cash flows | 188,171 | 182,806 |
| Changes to market values and currencies on cash, portfolio investments and financing | (73,056) | (14,856) |
| Total movement in cash, portfolio investments and financing | 115,115 | 167,950 |
| Portfolio at 1 January | 2,314,188 | 2,146,238 |
| Portfolio at 31 December | 2,429,303 | 2,314,188 |

### Movement in cash, portfolio investments and financing

| | At 1 Jan 2012 £000 | Cash flow £000 | Changes to market value and currencies £000 | At 31 Dec 2012 £000 |
|---|---|---|---|---|
| **Cash and deposits:** | | | | |
| Cash at bank and in hand | 103,445 | (21,319) | (3,506) | 78,620 |
| Overseas deposits | 45,300 | 50,264 | (2,180) | 93,384 |
| Total cash and deposits | 148,745 | 28,945 | (5,686) | 172,004 |
| **Portfolio investments:** | | | | |
| Shares and other variable yield securities and units in unit trusts | 71,204 | (47,064) | 3,566 | 27,706 |
| Debt securities and other fixed income securities | 1,768,086 | 200,835 | (69,242) | 1,899,679 |
| Loans secured by mortgage | 307,598 | 6,548 | (867) | 313,279 |
| Deposits with credit institutions | 18,555 | (1,093) | (827) | 16,635 |
| Total portfolio investments | 2,165,443 | 159,226 | (67,370) | 2,257,299 |
| Total cash, portfolio investments and financing | 2,314,188 | 188,171 | (73,056) | 2,429,303 |

# Notes to the annual accounts (continued)

## 16. Net cash outflow on portfolio investments

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Purchase of shares and other variable yield securities | (168,707) | (71,204) |
| Purchase of debt securities and other fixed income securities | (952,942) | (804,110) |
| Net purchase of loans secured by mortgage | (6,548) | (27,701) |
| Net sale / (purchase) of deposits with credit institutions | 1,093 | (7,439) |
| Sale of shares and other variable yield securities | 215,771 | 19,661 |
| Sale of debt securities and other fixed income securities | 752,107 | 792,934 |
| Net cash outflow on portfolio investments | (159,226) | (97,859) |

## 17. Related parties

Liberty Corporate Capital Limited is the corporate member of Syndicate 4472. Liberty Corporate Capital's immediate parent company is Liberty International Holdings Inc.

Liberty Syndicate Management Limited is the managing agent of Syndicate 4472. Liberty Syndicate Management's immediate parent company is Liberty International Holdings LLC.

The ultimate parent company of both Liberty Corporate Capital Limited and Liberty Syndicate Management Limited 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 these companies are members, is Liberty International Holdings LLC.

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

Syndicate 4472 has taken advantage of the exemption in Financial Reporting Standard 8 'Related Party Disclosures' and not disclosed transactions with entities that are part of the Liberty Mutual Holding Company Inc. Group.

## 18. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet their participating member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by the Syndicate's Individual Capital Assessment (ICA) process which calculates how much capital the Syndicate requires to cover its underlying business risks at a 99.5% confidence level. Lloyd's approves the ICA based on FSA requirements and resource criteria. The ICA process considers a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.