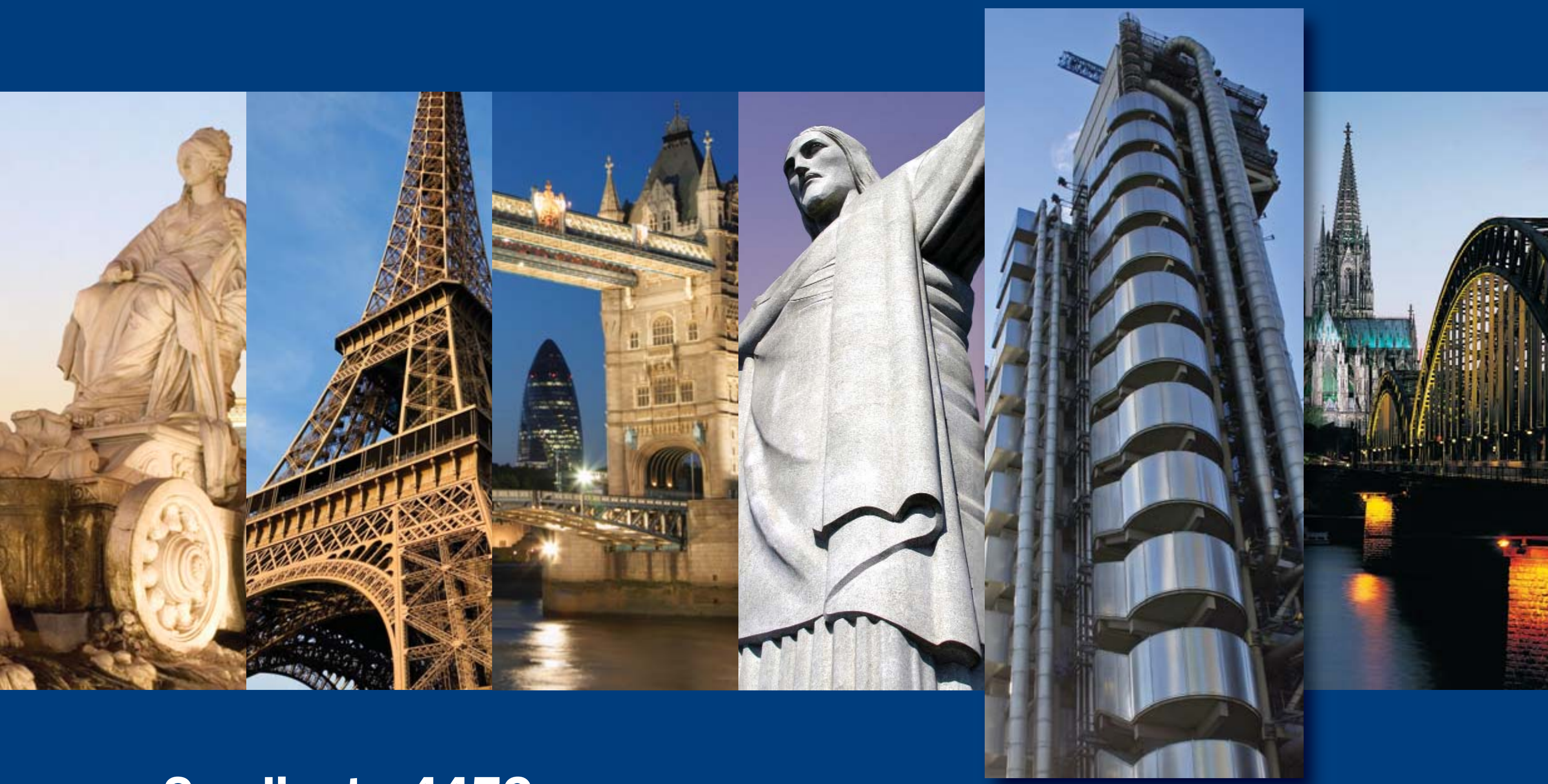
Liberty Syndicates



Syndicate 4472
Annual Report & Accounts
31 December 2009

Contents

Directors and administration

Managing Agent
Liberty Syndicate Management Limited

Directors

Brian FitzGerald	Chairman
Nick Metcalf	Chief Executive Officer
John Dunn	Director of Finance
Tom Corfield	Active Underwriter (until 31 March 2009), Director of Underwriting (Resigned 9 November 2009)
Matthew Moore	Active Underwriter and Chief Underwriting Officer (Appointed 1 April 2009)
Danny Forsythe (USA)	Non Executive (Alternate to Tom Ramey until 11 March 2009, Alternate to David Long from 12 March 2009)
Gordon McBurney (USA)	Non-Executive
Tom Ramey (USA)	Non-Executive (Resigned 11 March 2009)
David Long (USA)	Non-Executive (Appointed 12 March 2009)
Richard Youell	Non-Executive
Derek Scott	Non-Executive

Company secretary
Tammy Lewis (Resigned 27 February 2009)
Rachael Trist (Appointed 3 December, 2009)

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

Managing agent's registered number
3003606

SYNDICATE:
Active underwriter
Matthew Moore

Investment managers
BlackRock Investment Management (UK) Limited (Appointed 2 March 2009)
AllianceBernstein Ltd (Ceased 2 March 2009)
General Re – New England Asset Management, Inc.
Payden & Rygel Global Ltd

Registered auditors
Ernst & Young LLP, London

Managing agent's report

The directors of Liberty Syndicate Management Limited present their report for the year ended 31 December 2009.

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 2009 is a profit of £146,867,000 (2008 – £131,103,000).

Profits will be distributed by reference to the results of individual underwriting years.

Principal activity and review of the business

The Syndicate's principal activity 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:

	2009 £'000	2008 £'000
Gross premiums written	1,024,565	950,895
Profit for the financial year	146,867	131,103
Combined ratio (i)	97%	92%

Notes:

(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.

Excluding the non-technical income related to the funds held in the Syndicate of £13.8m, the Syndicate's profit for the financial year was similar to that of 2008. A higher level of earned premium combined with higher investment income was largely offset by a higher level of claims incurred net of reinsurance. Net operating expenses were marginally up on last year, however, this increase was offset by marginally lower acquisition costs. Gross premiums written increased by almost 8% during the year, with the growth mainly due to increasing premium volumes through new and expanding business opportunities across the business.

The Syndicate's combined ratio increased from 92% in 2008 to 97% in 2009. The deterioration in the combined ratio was driven mainly by a higher loss ratio, but was partially offset by a small improvement in the net operating expense ratio and higher earned premiums in 2009 as compared to 2008. The growth in gross premiums written during 2009 had a positive impact on earned premium and although net operating expenses increased during the year due to an increase in acquisition costs, premises and employee costs, growth in the Syndicate's cost base was exceeded by that of the income base. The deterioration in the loss ratio resulted from a greater incidence of attritional and large losses incurred during the year, offsetting the lack of significant natural catastrophes.

The Syndicate incurred net claims for a number of losses in 2009, the largest of these being from the Air France, Yemeni and Buffalo aviation losses, as well as Winterstorm Klaus. There were also various other current year large losses incurred. Prior year loss activity included losses incurred on the Syndicate's latent defect class caused as a result of infill contamination; losses associated with the Madoff fraud case and losses due to the global economic situation. These were partially offset by loss reserve releases including those for the Mumbai terrorist attacks, China Quake and various individual risk losses.

The Syndicate continues to improve its methods of monitoring the aggregate exposure to catastrophe events at both a gross and net level to ensure the maximum return from the capital deployed against the aggregates.

Despite the continued uncertainty in the financial markets in 2009, the Syndicate's investment income after net realised and unrealised gains and losses and investment expenses and charges increased by 77% in the year – from £69.5m in 2008 to £123.2 in 2009. This result was achieved on an increased asset base arising from profits from the past three financial years generating positive cash flows. The investment return also continues to benefit from a high concentration of investments in government bonds.

Managing agent's report (continued)

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 and premiums and related reinsurance recoveries. This risk is viewed in the following constituent parts:

- Pricing risk: the risk that a policy will be written for too low a premium;
- Aggregate exposure risk: the risk that the frequency or severity of insured events will be higher than expected;
- Reinsurance Structure risk: the risk that reinsurance contracts in place to reduce gross insurance risk do not perform appropriately; and
- Reserving risk: the risk that estimates of the ultimate claims costs subsequently prove to be insufficient.

The principal controls to mitigate these risks are:

- The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volume, pricing, line size and retention by class of business. The Board then monitors performance against the business plan on an ongoing basis throughout the year;
- Benchmark pricing methodologies and rate change monitoring are in place for all classes of business;
- Risk tolerances are defined for major underwriting risk exposures, including from catastrophe loss events. Exposures are monitored and controlled through internal and external tools which estimate maximum probable losses, including stochastic modelling where appropriate; and
- Reserve adequacy is monitored by the Board's regular assessment of reserve strength in comparison to its risk appetite. Underwriting, claims and actuarial analysis all inform the level at which reserves are set and an annual actuarial review of the Syndicate's reserves provides additional assurance in this area.

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 agency also maintains strict conditions for broker and coverholder appointments.

Market risk

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

The main risks of capital losses to the invested assets are that interest rates rise or that credit spreads widen, leading to the capital value of bonds falling. To mitigate these risks, the agency sets appropriate duration ranges for the portfolio with reference to the maturity profile of the Syndicate's claims liabilities and sets limits on the individual and aggregate credit exposure for each portfolio.

The agency mitigates foreign exchange rate risk by managing the currency weightings of the investment portfolios in GBP, USD and EUR against the Syndicate's principal currency exposures. The Syndicate's investment portfolio is predominantly USD fixed interest securities.

Managing agent's report (continued)

Liquidity risk
This 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.

Operational risk
This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The agency 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 agency's Chief Risk Officer. 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 agency 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 agency 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 agency's overseas operations are also subject to local laws. The agency has a dedicated Compliance Officer who monitors regulatory developments and assesses the impact on agency policies and procedures.

Future developments
The Syndicate will continue to transact general insurance and reinsurance business via the Lloyd's underwriting platform. Our philosophy of profitable growth drives our appetite for development of diversification in our insurance and reinsurance books of business through new product lines and entrance into new geographical markets.

The relatively benign loss experience of 2009, combined with a general strengthening of insurer and reinsurer balance sheets is expected to drive increased capacity in most classes of business during 2010. As a result, deterioration in the premium rating environment is forecast as the year unfolds. Strict underwriting discipline remains a priority at the Syndicate and will be instrumental in maximizing underwriting profitability as markets soften. We have developed robust underwriting management and support processes that are designed to warn of any prospective strain upon our capital position and are advanced in our preparations for the implementation of Solvency II in 2012.

Worldwide economic conditions remain potentially volatile and the agency has implemented measures to minimise the effects on the underwriting or investment portfolios of any further deterioration. The Syndicate's market leading claims management processes were enhanced during 2009 and further improvements are scheduled during 2010.

Catastrophe aggregates will continue to be monitored rigorously and modelled in conjunction with an effective reinsurance programme to protect capital in line with the Board's risk appetite.

Managing agent's report (continued)

Directors
The Directors of the managing agent who served during the year ended 31 December 2009 were as follows:

Brian FitzGerald
Chairman

Nick Metcalf
Chief Executive Officer

John Dunn
Director of Finance

Tom Corfield
Active Underwriter (until 31 March 2009)
Director of Underwriting
(Resigned 9 November 2009)

Matthew Moore
Active Underwriter and Chief Underwriting Officer (Appointed 1 April 2009)

Danny Forsythe (USA)
Non Executive (Alternate to Tom Ramey until 11 March 2009, Alternate to David Long from 12 March 2009)

Gordon McBurney (USA)
Non-Executive

Tom Ramey (USA)
Non-Executive (Resigned 11 March 2009)

David Long (USA)
Non-Executive (Appointed 12 March 2009)

Richard Youell
Non-Executive

Derek Scott
Non-Executive

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 agency 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.

Auditors
The Syndicate's sole member, Liberty Corporate Capital Limited, has resolved to reappoint Ernst & Young LLP as the recognised auditors for 2010. 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
Chief Executive Officer
London

16 March 2010

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law 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:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. 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 auditors' report

to the member of Syndicate 4472

We have audited the Syndicate's annual accounts for the year ended 31 December 2009 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 19. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Syndicate's members, as a body, 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 members those matters we are required to state to them in an auditors' 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditors

As described in the Statement of Managing Agent's Responsibilities the managing agent is responsible for the preparation of the annual accounts in accordance with applicable United Kingdom law and Accounting Standards.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the annual accounts give a true and fair view of the state of the Syndicate's affairs as at 31 December 2009 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 properly prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We also report to you whether in our opinion the information given in the Managing Agent's Report is consistent with the annual accounts.

In addition we report to you if, in our opinion, the managing agent in respect of the Syndicate has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration of directors of the managing agent and other transactions is not disclosed.

We read the Managing Agent's Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

Independent auditors' report (continued)

to the member of Syndicate 4472

Opinion

In our opinion:

- the annual accounts give a true and fair view of the state of the Syndicate's affairs as at 31 December 2009 and of its profit for the year then ended;
- the annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- the annual accounts have been properly prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008; and
- the information given in the Managing Agent's Report is consistent with the annual accounts.

Ernst & Young LLP

Stuart Wilson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
(Statutory Auditor)
London

16 March 2010

Profit and loss account: Technical account – general business

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	1,024,565	950,895
Outward reinsurance premiums		(185,989)	(137,573)
Net premiums written		838,576	813,322
Change in the provision for unearned premiums:			
Gross amount		5,535	6,611
Reinsurers' share		2,703	(20,740)
Change in the net provision for unearned premiums		8,238	(14,129)
Earned premiums, net of reinsurance		846,814	799,193
Allocated investment return transferred from the non-technical account		109,361	69,511
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(571,421)	(426,053)
Reinsurers' share		49,468	75,481
Net claims paid		(521,953)	(350,572)
Change in the provision for claims			
Gross amount		9,483	(58,411)
Reinsurers' share		(6,632)	(35,379)
Change in the net provision for claims		2,851	(93,790)
Claims incurred, net of reinsurance		(519,102)	(444,362)
Net operating expenses	4	(304,016)	(293,239)
Balance on the general business technical account		133,057	131,103

All the amounts above are in respect of continuing operations.

Profit and loss account: Non-technical account

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Balance on the general business technical account		133,057	131,103
Investment income	7	86,554	72,817
Unrealised gains / (losses) on investments		39,254	(1,259)
Investment expenses and charges	7	(2,637)	(2,047)
Allocated investment return transferred to general business technical account		(109,361)	(69,511)
Profit for the financial year		146,867	131,103

All operations are continuing.

Statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £000	2008 £000
Profit for the financial year	146,867	131,103
Effect of foreign exchange translation	(9,438)	82,395
Total recognised gains relating to the year	137,429	213,498

Balance sheet – assets

at 31 December 2009

	Notes	2009 £000	2008 £000
Investments			
Financial investments	8	1,868,132	1,703,722
Reinsurers' share of technical provisions			
Provision for unearned premiums		23,601	33,711
Claims outstanding		205,600	236,036
		229,201	269,747
Debtors			
Debtors arising out of direct insurance operations	9	6,172	5,068
Debtors arising out of reinsurance operations		224,907	425,461
		231,079	430,529
Other assets			
Cash at bank and in hand		44,082	63,746
Other	10	25,206	24,566
Prepayments and accrued income			
Accrued interest		16,699	12,823
Deferred acquisition costs		77,736	89,197
Other prepayments and accrued income		10,222	34,678
		104,657	136,698
Total assets		2,502,357	2,629,008

Balance sheet – liabilities

at 31 December 2009

	Notes	2009 £000	2008 £000
Capital and reserves			
Member's balance	11, 19	397,443	294,415
Technical provisions			
Provision for unearned premiums		343,614	388,985
Claims outstanding		1,635,865	1,807,020
		1,979,479	2,196,005
Creditors			
Creditors arising out of direct insurance operations	12	124	407
Creditors arising out of reinsurance operations	13	101,393	123,883
Other creditors		18,979	8,177
		120,496	132,467
Accruals and deferred income		4,939	6,121
Total liabilities		2,502,357	2,629,008

The annual accounts on pages 12 to 28 were approved by the Board of Liberty Syndicate Management Limited and were signed on its behalf by

Nick Metcalf

Nick Metcalf
Liberty Syndicate Management Limited

16 March 2010

Statement of cash flows

for the year ended 31 December 2008

	Notes	2009 £000	2008 £000
Net cash inflow from operating activities	14	258,311	225,687
Transfers to members in respect of underwriting participations	11	–	(55,459)
	15	258,311	170,228
Cash flows were invested as follows:			
Decrease in cash holdings	15	(19,233)	(15,840)
Increase / (decrease) in overseas deposits	15	2,094	(1,608)
Increase in net portfolio investments	15	275,450	187,676
Net investment of cash flows		258,311	170,228

Notes to the annual accounts

at 31 December 2009

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

Premiums written

Premiums written and outward reinsurance premiums comprise the total premiums receivable and payable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. All premiums are shown inclusive 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

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.

Reinsurance premium ceded

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

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 made 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.

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 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.

Notes to the annual accounts

at 31 December 2009

2. Accounting policies (continued)

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.

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.

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 cash calls received from the member, less any transfers to the member in respect of underwriting participations, are included within member's balances. At each year end date this balance is retranslated at year end exchange rates. The resultant foreign exchange gain/(loss) is recorded directly in the reconciliation of member's balances.

Notes to the annual accounts

at 31 December 2009

2. Accounting policies (continued)

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 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.

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. Any investment return 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. Costs in respect of the scheme relating to Managing Agency staff working on behalf of the Syndicate are charged to the Syndicate.

Notes to the annual accounts

at 31 December 2009

3 Segmental analysis

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

2009	Gross written premiums £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	54,600	53,258	(23,096)	(23,041)	(3,101)	4,020	(51,461)
Marine aviation & transport	82,963	83,049	(26,825)	(25,736)	(28,400)	2,088	(64,444)
Fire & other damage to property	135,569	129,540	(59,330)	(41,701)	(27,000)	1,509	(152,463)
Third party liability	36,252	34,659	(19,284)	(10,086)	(1,973)	3,316	(150,054)
Miscellaneous	68,005	84,765	(112,919)	(34,189)	11,635	(50,708)	(213,311)
	377,389	385,271	(241,454)	(134,753)	(48,839)	(39,775)	(631,733)
Reinsurance	647,176	644,829	(320,484)	(175,654)	(85,220)	63,471	(1,118,545)
	1,024,565	1,030,100	(561,938)	(310,407)	(134,059)	23,696	(1,750,278)

2008	Gross written premiums £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	41,556	41,466	(16,321)	(18,226)	(1,331)	5,588	(56,833)
Marine aviation & transport	107,418	116,301	(27,144)	(36,548)	(41,656)	10,953	(93,595)
Fire & other damage to property	105,607	101,692	(63,615)	(31,776)	(9,480)	(3,179)	(196,705)
Third party liability	49,945	36,723	(13,617)	(15,764)	(4,232)	3,110	(209,548)
Miscellaneous	11,358	10,261	(4,816)	(3,120)	(1,382)	943	(26,919)
	315,884	306,443	(125,513)	(105,434)	(58,081)	17,415	(583,600)
Reinsurance	635,011	651,063	(358,951)	(194,112)	(53,823)	44,177	(1,342,658)
	950,895	957,506	(484,464)	(299,546)	(111,904)	61,592	(1,926,258)

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

Notes to the annual accounts

at 31 December 2009

3. Segmental analysis (continued)

Included within net claims incurred in the Technical Account – General Business is a deterioration of £7,397,870 (2008 – release of £52,792,000) 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.

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows

	2009 £000	2008 £000
UK	227,044	187,326
Other EU Countries	152,865	107,831
Americas	511,258	546,670
Worldwide	133,398	109,068
Total	1,024,565	950,895

4. Net operating expenses

	2009 £000	2008 £000
Acquisition costs	(246,219)	(252,973)
Change in deferred acquisition costs	(4,681)	8,216
Administrative expenses	(61,219)	(54,596)
Profit / (loss) on exchange	1,712	(193)
Gross operating expenses	(310,407)	(299,546)
Reinsurance commissions receivable	6,391	6,307
Net operating expenses	(304,016)	(293,239)
Administrative expenses include:		
Auditors' remuneration:		
– Audit services	371	332
– Non audit services	240	297
	611	629

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

Notes to the annual accounts

at 31 December 2009

5. Staff numbers and costs

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

	2009 £000	2008 £000
Wages and salaries	27,849	24,255
Social security costs	3,470	2,989
Other pension costs	1,763	2,257
Other	646	407
	33,728	29,908

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

	2009 Number	2008 Number
Administration and finance	95	79
Underwriting	74	70
Claims	13	13
Investments	1	2
	183	164

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:

	2009 £000	2008 £000
Emoluments	2,206	1,764

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

Emoluments		
Tom Corfield (until March 31, 2009)	126	539
Matthew Moore (effective April 1, 2009)	267	–
	393	539

During the year the directors of the managing agency provided services to Syndicate 4472. The amounts shown above are the full amount recharged to Syndicate 4472 in respect of director emoluments for these services.

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7 Investment return

	2009 £000	2008 £000
Investment income		
Income from investments	73,708	63,424
Gains on the realisation of investments	12,846	9,393
	86,554	72,817
Investment management expenses, including interest	(2,637)	(2,047)

8 Financial investments

	2009 Market Value £000	2009 Cost £000	2008 Market Value £000	2008 Cost £000
Shares and other variable yield securities and units in unit trusts	45,469	45,469	103,949	103,949
Debt securities and other fixed income securities	1,418,144	1,383,401	1,105,437	1,079,344
Loans secured by mortgage	387,428	379,536	430,583	449,416
Deposits with credit institutions	17,091	17,091	63,753	63,754
	1,868,132	1,825,497	1,703,722	1,696,463

9 Debtors arising out of direct insurance operations

	2009 £000	2008 £000
Intermediaries	6,172	5,068

10 Other assets

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

Notes to the annual accounts

at 31 December 2009

11 Reconciliation of member's balance

	2009 £000	2008 £000
Balance due to member brought forward at 1 January	294,415	136,376
Foreign Exchange on funds in Syndicate – 2006 year of account undistributed result	(34,401)	–
Profit for the financial year	146,867	131,103
Effect of foreign exchange translation	(9,438)	82,395
Payment of profit to member	–	(55,459)
Balance due to member carried forward at 31 December	397,443	294,415

The Member participates on the Syndicate by reference to years of account and its ultimate result, 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 from the Member is receivable when the years of account close, usually after three years or when called if earlier. The balance of the 2006 year of account has been retained within the Syndicate and has not been distributed to the Member.

12 Creditors arising out of direct insurance operations

	2009 £000	2008 £000
Intermediaries	124	407

13 Creditors arising out of reinsurance operations

	2009 £000	2008 £000
Reinsurance accepted	426	2,201
Reinsurance ceded	100,967	121,682
	101,393	123,883

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at 31 December 2009

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

	2009 £000	2008 £000
Operating profit on ordinary activities	146,867	131,103
Changes to market values and currencies on cash, portfolio investments and financing	112,925	(385,849)
Effect of foreign exchange translation	(9,438)	82,395
(Decrease) / increase in net technical provisions	(175,980)	596,875
Decrease / (increase) in debtors, prepayments and accrued income	231,491	(209,727)
(Decrease) / increase in creditors, accruals and deferred income	(13,153)	10,890
Foreign exchange movement on funds in Syndicate – 2006 year of account undistributed result	(34,401)	-
Net cash inflow from operating activities	258,311	225,687

15 Movement in opening and closing portfolio investments net of financing

	2009 £000	2008 £000
Net cash outflow for the year	(19,233)	(15,840)
Cash flow		
Increase / (decrease) in overseas deposits	2,094	(1,608)
Increase in portfolio investments	275,450	187,676
Movement arising from cash flows	258,311	170,228
Changes to market values and currencies on cash, portfolio investments and financing	(112,925)	385,849
Total movement in cash, portfolio investments and financing	145,386	556,077
Portfolio at 1 January	1,792,034	1,235,957
Portfolio at 31 December	1,937,420	1,792,034

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at 31 December 2009

16. Movement in opening and closing portfolio investments net of financing (continued)

Movement in cash, portfolio investments and financing

	At 1 Jan 2008 £000	Cash flow £000	Changes to market value and currencies £000	At 31 Dec 2009 £000
Cash and deposits:				
Cash at bank and in hand	63,746	(19,233)	(431)	44,082
Overseas deposits	24,566	2,094	(1,454)	25,206
Total cash and deposits	88,312	(17,139)	(1,885)	69,288
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	103,949	(52,795)	(5,685)	45,469
Debt securities and other fixed income securities	1,105,437	381,656	(68,949)	1,418,144
Loans secured by mortgage	430,583	(8,708)	(34,447)	387,428
Deposits with credit institutions	63,753	(44,703)	(1,959)	17,091
Total portfolio investments	1,703,722	275,450	(111,040)	1,868,132
Total cash, portfolio investments and financing	1,792,034	258,311	(112,925)	1,937,420

17 Net cash outflow on portfolio investments

	2009 £000	2008 £000
Purchase of shares and other variable yield securities	–	(87,655)
Purchase of debt securities and other fixed income securities	(1,932,046)	(2,568,843)
Loans secured by mortgage	8,708	(165,564)
Deposits with credit institutions	44,703	25,635
Sale of shares and other variable yield securities	52,795	-
Sale of debt securities and other fixed income securities	1,550,390	2,608,751
Net cash outflow on portfolio investments	(275,450)	(187,676)

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at 31 December 2009

18 Related parties

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

The ultimate parent company is Liberty Mutual Holding Company Incorporated 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 of is Liberty International Holdings Inc.

Copies of the group accounts of Liberty International Holdings Inc. and Liberty Mutual Holding Company Incorporated 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 Incorporated Group.

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at 31 December 2009

19 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 participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to 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 members' FAL to meet liquidity requirements or to settle losses.

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Notes

Liberty Syndicates