Liberty Syndicates

Annual Report 2011

Contents

2011 was a year marked by the second highest catastrophe losses on record, global economic uncertainty and an insurance market softened by ready access to capital. Faced with these challenges, Liberty Syndicates performed creditably to emerge with a profit of £6.9m. While not in line with Liberty's initial expectations, this result demonstrates the innate robustness of the company's business model and its underlying profitability, even when faced with such adverse conditions.

During the year, considerable progress was made in achieving the Syndicate's longer term ambitions. Its network of international offices was strengthened; staff retention remained high and the Syndicate continued to attract market-leading industry figures to join its ranks.

Short term factors may have impacted on the business's financial return, but its underlying strength and resilience has cemented its position as the 'must see market' for specialist insurance.

Headline Financials	**2011 £m**	**2010 £m**
Gross premiums written	**1,080.4**	**1,035.3**
Profit for the financial year	**6.9**	**129.6**
Combined ratio	**109%**	**92%**

The company is well-placed to take advantage of the opportunities that are offered through our position at Lloyd's.

Keith Nicholson
Chairman

Experience has shown that the only way to maintain such underwriting discipline effectively is through the presence of high-quality management and a robust team ethos, both of which are core strengths at Liberty Syndicates.

I am delighted to have been invited to be Chairman of Liberty Syndicates, joining an excellent management team led by Nick Metcalf.

2011 was a challenging year for the market with the second highest catastrophe losses on record. Despite this, Liberty Syndicates produced a creditable performance. This reflects a strict underwriting discipline and a policy of diversification into lines of business where there were profitable growth opportunities.

Experience has shown that the only way to maintain such underwriting discipline effectively is through the presence of high-quality management and a robust team ethos, both of which are core strengths at Liberty Syndicates.

In these challenging times Liberty Syndicates continues to demonstrate a long-term commitment to its clients as evident through our renewals for 2012. This is complemented by the focus of our team on increasing the very high level of service that the company delivers to its brokers and clients.

The London Market, with Lloyd's at its heart, is the world's premier specialist insurance marketplace. Its status has been confirmed by leading international companies relocating their centre of operations here.

The company is well-placed to take advantage of the opportunities that are offered through our position at Lloyd's. I have every confidence that Liberty Syndicates will continue to play a significant role in its ongoing story.

I should also like to thank Nick Metcalf and his team for their contribution to Liberty Syndicates' performance in the last year.

Keith Nicholson
Chairman

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.

Nick Metcalf
Chief Executive Officer

During 2011 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.

For the financial year ended 31 December 2011, Syndicate 4472 produced a small profit of £6.9m (2010 £129.6m profit). Whilst this is clearly below the expectations I had at the beginning of the year, this result has to be taken against the backdrop of the second costliest catastrophe year on record with losses to the industry expected to be around $108bn. Unlike other costly catastrophe years, the 2011 losses have been characterised as much by their frequency as their scale, which combined to make 2011 an especially challenging year for the whole industry. In this light, and set against industry performance, the relatively small profit reported for the year by the Syndicate remains a creditable performance. That the Syndicate is in this position, and not a worse one, is testament to the underlying profitability of the underwriting portfolio and to the value of the recent strategy of diversification within that portfolio.

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 2011 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 2011 underlines the strength of the Liberty Syndicates brand and its 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 2012

I look forward to 2012 with cautious optimism. Whilst the market faces a number of threats including European sovereign debt issues, poor investment returns and market dislocation, I am confident that Liberty Syndicates' market-leading position will continue to yield access to high quality business that is consistent with our risk appetite. The events of 2011 and the effects of the introduction of the new RMS windstorm model (v.11) are

Liberty Syndicates has invested considerable resource into the development of sophisticated modelling techniques and pricing models.

expected to lead to rate increases being available in a number of territories and lines of business. Furthermore, whilst market dislocation is a threat to the business, it also presents an opportunity and the Syndicate is well placed to take advantage of any opportunities that fall within its risk appetite and provide the required margin.

Any optimism for 2012 continues to be tempered with a degree of caution, however, as 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 and, although line of 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 Insurance 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 provide them with 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. Following significant changes to the operating structure in 2009, the past year has seen us continue to build on and improve within a stable structure. This has seen us strengthen resources in a number of functions particularly with regard to the risk management side of the business, as part of our ongoing commitment to the successful implementation of Solvency II and to the provision of the highest quality support for the underwriting teams.

Liberty Syndicates' strong underwriting reputation has allowed us to continue to attract high quality opportunities and

Liberty Syndicates’ strong underwriting reputation has allowed us to continue to attract high quality opportunities and underwriting talent.

underwriting talent. During 2011 our underwriting portfolio was enhanced by the recruitment of a market-leading underwriter in the Global Financial & Political Risks area while we continued to diversify our distribution platform with the introduction of a new arrangement with an MGA, which has 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 a strong reputation for providing bespoke underwriting solutions to our clients and the speed of response when dealing with broker requests has further cemented our position as a ‘must see market’.

Liberty Syndicates enjoys a truly global reach to underwriting; being at Lloyd’s it lies at the heart of the London market where a concentration of specialist insurance and reinsurance expertise will continue 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 licences 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 12 months and I look forward to building upon the progress made via our hubs across Europe and Latin America during 2012.

Nick Metcalf

Nick Metcalf
Chief Executive Officer

In retrospect, 2011 may be regarded as a significant achievement in the longer-term ambitions of the Syndicate.

Matthew Moore
Chief Underwriting Officer

Our international offices in Paris, Cologne and Madrid all continued to widen and strengthen our portfolio whilst all providing huge depths of underwriting talent.

2011 provided the toughest of environments for our underwriters. As a significant writer of catastrophe exposed business, we had to accept our share of around $108bn global insured catastrophe losses. In addition, significant events from the collapse of the Gaddafi regime in Libya, the Reno Air Show crash, continued piracy in the Indian Ocean and extreme weather conditions for crops in the US all made an impact.

This of course was set against a background of global economic uncertainty and its connected challenge, the drying up of banks' credit. In a market softened by ready access to capital, there had to be an effect on our result. There was and the year did not meet our anticipated plan.

And yet I believe that, in retrospect, the year may be regarded as a significant achievement in the longer-term ambitions of the Syndicate. Almost all of our many accounts not exposed to material catastrophe losses continued to have strong profitability, enhanced their reputation amongst clients and peers, and built out their businesses in scale and durability. Whether it be Marine business, Agriculture, Personal Accident, Speciality Treaty Reinsurance amongst others, Liberty Syndicates demonstrated its effectiveness and delivered on its 'must see market' promise.

Global reach

Our international offices in Paris, Cologne and Madrid all continued to widen and strengthen our portfolio whilst all providing huge depths of underwriting talent. We are also delighted to be planning a presence in Colombia to add to our Latin American business. This unit will work with our Head of Latin America to continue to develop this exciting region for which we have high hopes.

Our people

I have taken a good deal of personal satisfaction from the high calibre of people who have recently joined the Syndicate and this has been maintained with the arrival in December of a new leader for the Global Financial Risks business. As a hugely respected leader in this field, he will bring us another dimension and we look forward

The Liberty Syndicates brand has never been more respected in our marketplace and brokers and clients alike wish to continue to deepen their relationships with us.

to his stewardship of this dynamic but challenging business.

Staff retention and energy remain at very high levels. The Liberty Syndicates brand has never been more respected in our marketplace and brokers and clients alike wish to continue to deepen their relationships with us. They recognise the strength of our capital base and an ability to offer leadership where others cannot.

New enterprises

Our strategy to diversify the portfolio by attracting undisputed market-leading underwriters to write niche business has borne significant fruit. Since 2009, $250m of new, diversifying business with margins greater than the portfolio's average has been added, with much of it having us in a lead role. This is vital to the evolution of our business and I am confident that we shall continue this trend. We have proved conclusively that we are an excellent platform upon which to build such a business strategy.

We continue to push forward with dynamic new enterprises. Be it in driving forward our global scope of Treaty Property or Agricultural Reinsurance business, our innovative distribution strategy through the MGA platform or continuing to successfully develop recently acquired accounts such as Motor or Marine Hull, we have been determined, imaginative and disciplined.

These virtues will continue to be essential. It is still difficult to make a profit at commoditised Property/Casualty business over the cycle. I am glad we have first-rank underwriters to write these classes at the Syndicate. They will need to be.

Lessons for the future

So what did we learn in 2011? We were reminded of the geographical variety, physical intensity and economic impact of the risks to which we are exposed. We had to confront the critical importance of our exposure management and reinsurance purchasing strategies. Perhaps, most of all, we re-learned that life is just unpredictable and losses will continue to defy prediction, modelled or otherwise.

We also learned that with a close eye on managing our risk and holding underwriting profitability above other distractions, we could face the most severe challenges to our business with confidence.

But we also learned that with a close eye on managing our risk and holding underwriting profitability above other distractions, we could face the most severe challenges to our business with confidence.

The Exposure Management team has driven on to an even greater understanding of our exposures throughout an ever wider territorial scope across even more product lines. In risks which either may or may not benefit from vendor models, this team has provided a core understanding of the risks to the portfolio which has proved invaluable. We know we are as strong as anyone in this discipline and it should be at the core of our work going forward.

In an often extraordinary year we have required resilience in our abilities and determination to execute our strategy. In these circumstances, these have, I believe, been demonstrated. We look forward to 2012 to justify the support that the Board and our parent has so enthusiastically given us.

Matthew Moore
Chief Underwriting Officer

Given the backdrop of the second worst natural catastrophe loss year on record we are pleased with this result.

Being more responsive to new business opportunities has played an important role in our success of launching our new business classes and distribution channels.

John Dunn
Director of Finance

2011 saw the Syndicate's underlying result decrease from a profit of £121.1m to a loss of £23.6m. Given the backdrop of the second worst natural catastrophe loss year on record we are pleased with this result.

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

£m	2011	2010
Gross premiums written	1,080.4	1,035.3
Premiums earned, net of reinsurance	896.3	825.2
Claims incurred, net of reinsurance	(693.9)	(468.9)
Net operating expenses	(280.5)	(292.0)
Investment return	85.0	65.3
Profit for the financial year	**6.9**	**129.6**
Foreign exchange translation (loss) / gain	(29.5)	10.9
Total recognised (losses) / gains for the year	**(22.6)**	**140.5**

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

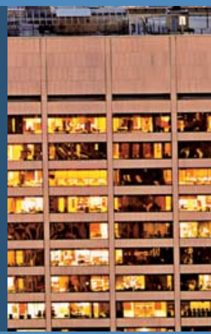
Underlying profit:		
Total recognised (losses) / gains for the year	(22.6)	140.5
Foreign exchange translation loss / (gain)	29.5	(10.9)
Investment return under UK GAAP[1]	(85.0)	(65.3)
Investment income under US GAAP[1]	54.5	56.9
Underlying (loss) / profit for the financial year	**(23.6)**	**121.2**
Combined ratio[2]	**109%**	**92%**

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.

We have continued to grow our diversifying classes as well as adding new business classes and distribution channels during 2011.



The deterioration in profitability from 2010 was driven by significant claims experience in the year. In nearly every month in 2011 a new catastrophe loss was recorded, with the following notable events: Australian floods, New Zealand earthquakes, Cyclone Yasi, Japanese earthquake, US tornadoes, Danish floods, Hurricane Irene and Thai floods.

As in 2010, gross written premium was only marginally higher in 2011 than in 2010. Once again this masks significant growth in a number of areas. We have continued to grow our diversifying classes as well as adding new business classes and distribution channels during 2011. Offsetting this growth was a fall in the less profitable but non-correlating personal lines quota share reinsurance premium, the contract for which was not renewed for 2012.

Net operating expenses overall marginally declined in 2011 as compared with 2010. Acquisition costs benefited from a change in the mix of business with lower acquisition costs in 2011. However, given the way that our European operations are now structured, the costs for these operations are classified by the Syndicate as a commission rather than as an administrative expense. The decline in administrative expenses was also driven by a reclassification of claims-associated costs, initially incurred as underwriting expenses to claims incurred, net of reinsurance, combined with lower performance related costs following losses sustained in the year. Underneath this decline however, we have continued to increase our personnel costs consistent with our continued strategy of profitable growth.

Investment income

Our underlying investment income reduced slightly from £56.9m to £54.5m. As in 2010, the investment base increased, but depressed market yields and spreads required us to invest new premiums at low yields, which reduced our underlying investment income. We benefited again from unrealised gains on investments in 2011 as yields fell further. These low yields will continue to challenge our profitability in future years.

The investment we have made in previous years to strengthen the operational team is now showing its value.

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 (£29.5m).

Solvency II

As Solvency II is becoming embedded within our business, we are starting to realise its benefits in further enhancements, both in our business planning, risk acceptance and monitoring and in our risk reward and capital management decisions. However, the extended timeframe for Solvency II implementation risks prolonging the process of demonstrating our compliance with the standards. This will delay us in fully realising the benefits of Solvency II. We hope that we are able to break through into full business as usual for Solvency II in 2012.

Syndicate operations

The investment we have made in previous years to strengthen the operational team is now showing its value by enabling us to be more responsive to new business opportunities. This has played an important role in our success of launching our new business classes and distribution channels.

John Dunn

John Dunn
Director of Finance

Dean Pitts
Head of Insurance

"Proud to promote us as market leaders in all of our insurance lines, Liberty Syndicates is at the forefront of responding to our clients requirements."

Nigel Tatlock
Property Division

- North American Property
- International Property
- Speciality US
- Speciality International

David Morris
Contingent Lines Division

- Personal Accident
- Contingency
- Global Financial Risks
- Latent Defects
- Legal Indemnities
- Specialty Motor
- Strike Risk Management

Simon Clapham
Marine Division

- Marine War
- Marine Liability
- Aviation War
- Cargo
- Fine Art & Specie
- Terrorism
- Marine Hull

Global Reach

Liberty Syndicates transacts a comprehensive range of insurance and reinsurance business across the globe.

Please visit our website **www.libertysyndicates.com/globalreach** for full information on where we can underwrite business and which products we offer in those countries.

Key:
- Yes
- Reinsurance only
- In limited circumstances
- No

Dieter Winkel
Head of Reinsurance

"Our strategy has been tested during 2011 and the partnership with our brokers and clients was demonstrated by the continued support with capacity and product design."

Eric Sugier
Worldwide Division

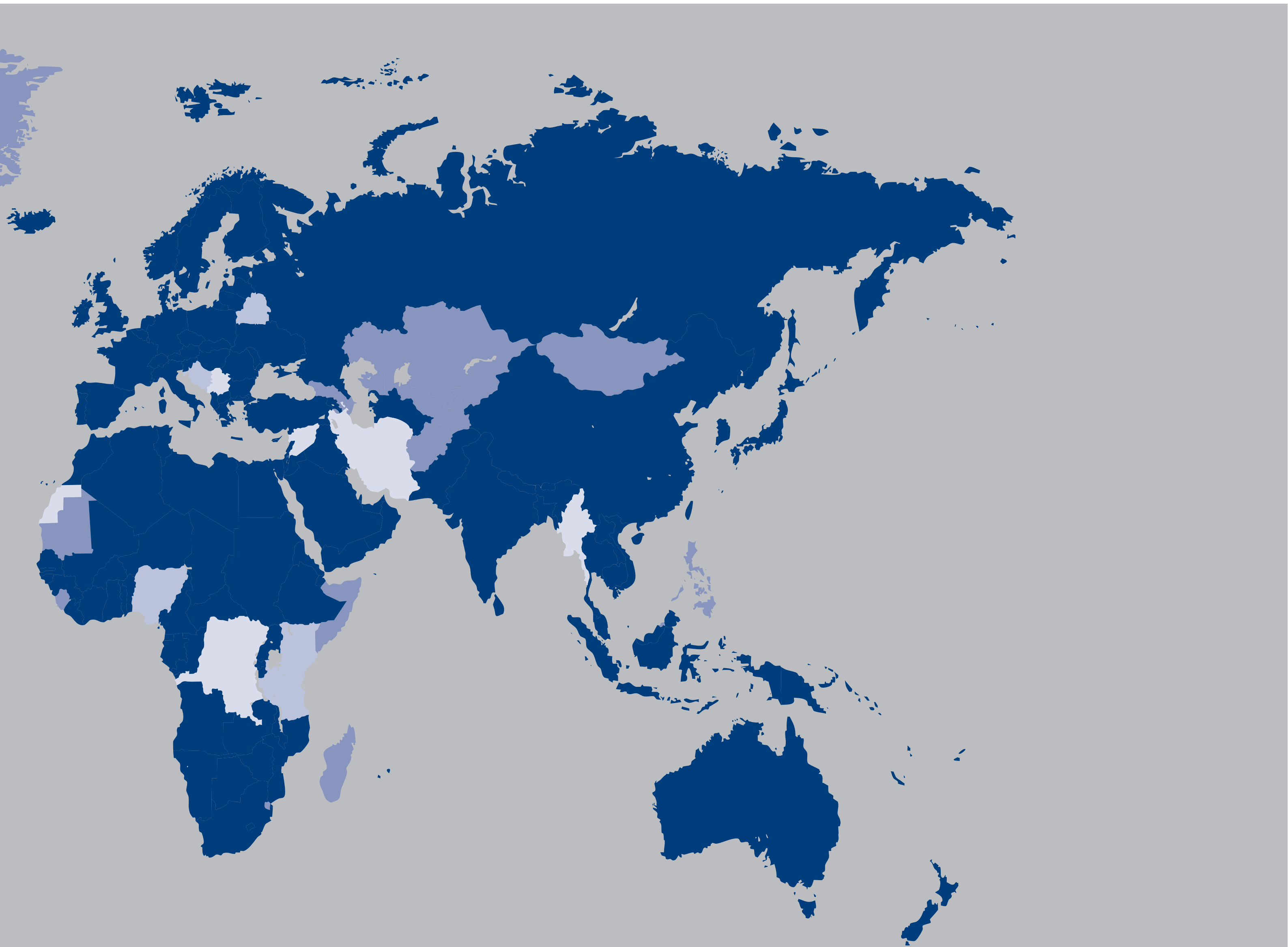
Property & Casualty
Agriculture & Weather
Trade Credit & Bonds

Chris Rudd
London Division

London Market Risks
Aviation XL

Kevin Ritchie
Casualty Reinsurance Division

General Treaty Casualty
Medical Malpractice
London Market Treaty Casualty
Motor Third Party Liability



All information is correct as at March 2012 and is subject to applicable laws and regulations.

Directors and administration

Managing Agent
Liberty Syndicate Management Limited

Directors

Keith Nicholson	Chairman (appointed with effect 15th September 2011)
Brian FitzGerald	Chairman (resigned with effect 7th September 2011)
Nick Metcalf	Chief Executive Officer
John Dunn	Director of Finance
Matthew Moore	Active Underwriter and Chief Underwriting Officer
Danny Forsythe (USA)	Non-Executive
Gordon McBurney (USA)	Non-Executive
Richard Youell	Non-Executive
Derek Scott	Non-Executive
David Long (USA)	Non-Executive (resigned with effect 6th January 2011)

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
BlackRock Investment Management (UK) Limited (effective to 9th May 2011)
General Re – New England Asset Management, Inc. (effective to 9th May 2011)
Payden & Rygel Global Ltd (effective to 9th May 2011)
Liberty Mutual Group Asset Management Inc. (effective from 9th May 2011)

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 2011.

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 2011 is a profit of £6,884,000 (2010 – £129,552,000). Profits will be distributed 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:

	2011 £'000	2010 £'000	Change %
Gross premiums written	1,080,357	1,035,254	4%
Profit for the financial year	6,884	129,552	(95%)
Total recognised (losses) / gains relating to the year	(22,627)	140,482	(116%)
Combined ratio (i)	109%	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.

The Syndicate's profit for the financial year was lower than that of 2010. This reduction was driven by a higher than average level of catastrophes, which were partially offset by increased net earned premiums and a lower level of net operating expenses.

The underwriting result (balance on the general business technical account less allocated investment return) has decreased from a profit of £64.2m in 2010 to a loss of £78.1m in 2011. This is reflected in the Syndicate's combined ratio which deteriorated from 92% in 2010 to 109% in 2011. The deterioration in the combined ratio was driven by a higher loss ratio as discussed in more detail below, partially offset by lower net operating expenses incurred during the year.

The higher loss ratio in 2011 was driven by significant claims experience in the year, as well as a lower level of prior year reserve releases as compared to 2010. 2011 was the second worst natural catastrophe loss year on record. In nearly every month the Syndicate incurred losses from a new market event catastrophe which included the New Zealand earthquakes, Cyclone Yasi, the Japan earthquakes, the Australian floods, the Danish floods, Hurricane Irene, the Thailand floods, the Reno Air Crash and several United States tornadoes. Partially offsetting the higher level of catastrophe losses occurring during 2011 was a net release from reserves in respect of prior years related to large losses for such events as the Chile earthquake, the recession losses, and Xynthia as these claims developed. In addition, there was a reduction in prior year reserves as a result of the low emergence of attritional losses on the recent years of account.

Gross premiums written were only marginally higher in 2011 as compared to 2010. This improvement masks the significant growth in a number of areas. We have continued to grow our diversifying classes as well as adding new business classes and distribution channels during 2011. Offsetting this growth was a planned decline in the less profitable but non-correlating personal lines quota share reinsurance premium, the contract for which was not renewed for 2012.

Net operating expenses overall marginally declined in 2011 as compared with 2010. Acquisition costs benefited from a change in the mix of business with lower acquisition costs in 2011 however, given the way that our European operations are now structured, the costs for these operations reach the Syndicate as a commission rather than as an administrative expense. The decline in administrative expenses was also driven by a reclassification of claims associated costs initially incurred as underwriting expenses to claims incurred, net of reinsurance, combined with lower performance related costs following losses sustained in the year,

Managing agent's report (continued)

partially offset by the planned increase in personnel costs consistent with our 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.

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 Agency 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 Agency 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 Agency. 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 Agency 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.

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.

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.

Managing agent's report (continued)

Reputational risk
Reputational risk is the risk of loss or sub optimal trading due to the negative perception of the Agency in the eyes of a key stakeholder – taken to be insured, brokers, employees, rating agencies or regulators. This is mitigated through having a strategy of transparent and ethical dealings with all stakeholders and aligning the Agency'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 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 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 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 the Agency's policies and procedures.

Future developments
The Syndicate will continue to transact general insurance and reinsurance business via the Lloyd's underwriting platform. We will continue to adjust the levels of business written to maintain our 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.

Looking forward into 2012 it is clear that whilst the marketplace remains challenging there may still be a number of potential opportunities in terms of both lines of business and new geographical territories. Furthermore we believe that Liberty Syndicate's strong underwriting reputation will allow us to continue to attract high quality opportunities and underwriting talent. As such the LSM 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 our philosophy of profitable growth.

In support of this philosophy of profitable growth we will continue to build upon and improve our 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 Agency's management remains committed to maintaining the Syndicate's position as an employer of choice in the Lloyd's market.

Managing agent's report (continued)

Directors
The directors of the Managing Agent who served during the year ended 31 December 2011 were as follows:

Keith Nicholson
Chairman (appointed with effect 15th September 2011)

Brian FitzGerald
Chairman (resigned with effect 7th September 2011)

Nick Metcalf
Chief Executive Officer

John Dunn
Director of Finance

Matthew Moore
Active Underwriter and Chief Underwriting Officer

Danny Forsythe (USA)
Non-Executive

Gordon McBurney (USA)
Non-Executive

Richard Youell
Non-Executive

Derek Scott
Non-Executive

David Long (USA)
Non-Executive (resigned with effect 6th January 2011)

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 2012. 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

15 March 2012

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 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 2011 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 25, 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 Report 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 2011 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.

Independent auditor's report (continued)

to the member of Syndicate 4472

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 (Lloyds'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

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

15 March 2012

Profit and loss account: Technical account – general business

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Gross premiums written	3	1,080,357	1,035,254
Outward reinsurance premiums		(160,402)	(132,255)
Net premiums written		919,955	902,999
Change in the provision for unearned premiums:			
Gross amount		(24,475)	(56,350)
Reinsurers' share		792	(21,463)
Change in the net provision for unearned premiums		(23,683)	(77,813)
Earned premiums, net of reinsurance		896,272	825,186
Allocated investment return transferred from the non-technical account		64,903	50,895
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(461,505)	(438,648)
Reinsurers' share		38,213	48,469
Net claims paid		(423,292)	(390,179)
Change in the provision for claims			
Gross amount		(376,789)	(54,249)
Reinsurers' share		106,222	(24,484)
Change in the net provision for claims		(270,567)	(78,733)
Claims incurred, net of reinsurance		(693,859)	(468,912)
Net operating expenses	4	(280,504)	(292,034)
Balance on the general business technical account		(13,188)	115,135

All the amounts above are in respect of continuing operations.

Profit and loss account: Non-technical account

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Balance on the general business technical account		(13,188)	115,135
Investment income	7	71,469	69,729
Unrealised gains / (losses) on investments		15,480	(1,534)
Investment expenses and charges	7	(1,974)	(2,883)
Allocated investment return transferred to the general business technical account		(64,903)	(50,895)
Profit for the financial year		6,884	129,552

All the amounts above are in respect of continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2011

	2011 £000	2010 £000
Profit for the financial year	6,884	129,552
Effect of foreign exchange translation	(29,511)	10,930
Total recognised (losses) / gains relating to the year	**(22,627)**	140,482

Balance sheet – assets

at 31 December 2011

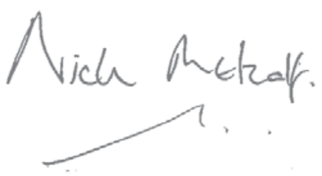
	Notes	2011 £000	2010 £000
Investments			
Financial investments	8	2,165,443	2,082,245
Reinsurers' share of technical provisions			
Provision for unearned premiums		10,750	10,509
Claims outstanding		298,174	189,477
		308,924	199,986
Debtors			
Debtors arising out of direct insurance operations	9	9,523	7,925
Debtors arising out of reinsurance operations		364,957	222,725
		374,480	230,650
Other assets			
Cash at bank and in hand		103,445	30,207
Other	10	45,300	33,786
Prepayments and accrued income			
Accrued interest		19,326	20,177
Deferred acquisition costs		103,333	98,078
Other prepayments and accrued income		828	742
		123,487	118,997
Total assets		3,121,079	2,695,871

Balance sheet – liabilities

at 31 December 2011

	Notes	2011 £000	2010 £000
Capital and reserves			
Member's balance	11, 18	467,235	490,142
Technical provisions			
Provision for unearned premiums		438,843	411,460
Claims outstanding		2,092,173	1,695,480
		2,531,016	2,106,940
Creditors			
Creditors arising out of direct insurance operations	12	3,945	1,805
Creditors arising out of reinsurance operations	13	76,309	75,015
Other creditors		38,425	16,255
		118,679	93,075
Accruals and deferred income		4,149	5,714
Total liabilities		3,121,079	2,695,871

The annual accounts on pages 28 to 43 were approved by the Board of Liberty Syndicate Management Limited and were signed on its behalf by



Nick Metcalf
Liberty Syndicate Management Limited

15 March 2012

Statement of cash flows

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities	14	182,806	102,807
Transfers to member in respect of underwriting participations	11	–	(64,645)
	15	182,806	38,162
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	15	73,297	(19,124)
Increase in overseas deposits	15	11,650	7,709
Increase in net portfolio investments	15	97,859	49,577
Net investment of cash flows		182,806	38,162

Notes to the annual accounts

at 31 December 2011

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 2011

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 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 for 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 recorded there.

Notes to the annual accounts

at 31 December 2011

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 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.

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. 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).

Notes to the annual accounts

at 31 December 2011

3. Segmental analysis

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

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
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
	506,120	513,142	(287,375)	(136,320)	(42,157)	47,290	1,228,859
Reinsurance	574,237	542,740	(550,919)	(145,892)	28,690	(125,381)	993,233
	1,080,357	1,055,882	(838,294)	(282,212)	(13,467)	(78,091)	2,222,092

2010	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	79,547	69,387	(40,857)	(20,700)	(1,821)	6,009	77,066
Motor (third-party liability)	11,771	5,512	(7,636)	(1,644)	(1,378)	(5,146)	5,327
Marine aviation & transport	96,001	90,629	(1,392)	(27,037)	(38,248)	23,952	89,023
Fire & other damage to property	148,772	132,547	(77,939)	(39,542)	(29,916)	(14,850)	180,286
Third party liability	61,756	60,538	(24,056)	(18,060)	(2,015)	16,407	175,161
Miscellaneous	98,850	85,838	(60,074)	(25,608)	1,165	1,321	267,050
	496,697	444,451	(211,954)	(132,591)	(72,213)	27,693	793,913
Reinsurance	538,557	534,453	(280,943)	(159,295)	(57,668)	36,547	1,113,041
	1,035,254	978,904	(492,897)	(291,886)	(129,881)	64,240	1,906,954

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

Notes to the annual accounts

at 31 December 2011

3. Segmental analysis (continued)

Commissions on direct insurance gross premium earned during 2011 were £114,245,000 (2010 – £97,875,000).

Included within net claims incurred in the Technical Account – General Business is a release of £49,417,755 (£90,505,017) 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 release in 2011 was driven by the low emergence of attritional losses on the recent years of account coupled with the release of reserves held on certain prior year market events.

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows

	2011 £000	2010 £000
UK	200,033	202,290
Other EU Countries	172,105	166,516
Americas	457,465	488,763
Worldwide	250,754	177,685
Total	1,080,357	1,035,254

4. Net operating expenses

	2011 £000	2010 £000
Acquisition costs	(235,089)	(227,475)
Change in deferred acquisition costs	4,373	18,372
Administrative expenses	(51,715)	(83,940)
Profit on exchange	219	1,157
Gross operating expenses	(282,212)	(291,886)
Reinsurance commissions receivable / (payable)	1,708	(148)
Net operating expenses	(280,504)	(292,034)
Administrative expenses include:		
Auditor's remuneration:		
– Audit services	413	416
– Actuarial services	205	195
– Other services	48	46
	666	657

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

Notes to the annual accounts

at 31 December 2011

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:

	2011 £000	2010 £000
Wages and salaries	26,056	29,853
Social security costs	3,214	2,941
Other pension costs	1,185	2,762
Other	545	778
	31,000	36,334

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

	2011 Number	2010 Number
Administration and finance	153	118
Underwriting	89	83
Claims	18	16
Investments	3	2
	263	219

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:

	2011 £000	2010 £000
Emoluments	1,213	1,896

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

Emoluments	283	434

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 director emoluments for these services.

Notes to the annual accounts

at 31 December 2011

7. Investment return

	2011 £000	2010 £000
Income from investments	75,341	71,749
Losses on the realisation of investments	(3,872)	(2,020)
	71,469	69,729
Investment management expenses, including interest	(1,974)	(2,883)

8. Financial investments

	2011 Market Value £000	2011 Cost £000	2010 Market Value £000	2010 Cost £000
Shares and other variable yield securities and units in unit trusts	71,204	71,204	19,382	19,382
Debt securities and other fixed income securities	1,768,086	1,748,593	1,775,249	1,781,499
Loans secured by mortgage	307,598	304,052	276,492	269,437
Deposits with credit institutions	18,555	18,555	11,122	11,122
	2,165,443	2,142,404	2,082,245	2,081,440

9. Debtors arising out of direct insurance operations

	2011 £000	2010 £000
Intermediaries	9,523	7,925

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 2011

11. Reconciliation of member's balance

	2011 £000	2010 £000
Balance due to member brought forward at 1 January	490,142	397,443
Foreign exchange on funds in Syndicate – 2006, 2007 and 2008 years of account undistributed result	(280)	16,862
Profit for the financial year	6,884	129,552
Effect of foreign exchange translation	(29,511)	10,930
Payment of profit to member – partial distribution of 2006 year of account	–	(64,645)
Balance due to member carried forward at 31 December	467,235	490,142

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 to the member is payable when the years of account close, usually after three years or when called if earlier. The balance of the 2006 year of account was retained within the Syndicate at the time of closure. However, during 2010, £64,645 of this balance was distributed to the member. There still remains a balance owing to the member for the 2006 year of account. In addition, the balance of the 2007 and 2008 years of account was also retained within the Syndicate at the time of closure.

12. Creditors arising out of direct insurance operations

	2011 £000	2010 £000
Intermediaries	3,945	1,805

13. Creditors arising out of reinsurance operations

	2011 £000	2010 £000
Reinsurance accepted	174	16
Reinsurance ceded	76,135	74,999
	76,309	75,015

Notes to the annual accounts

at 31 December 2011

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

	2011 £000	2010 £000
Operating profit on ordinary activities	6,884	129,552
Changes to market values and currencies on cash, portfolio investments and financing	14,856	(170,656)
Effect of foreign exchange translation	(29,511)	10,930
Increase in net technical provisions	315,138	156,676
Increase in debtors, prepayments and accrued income	(148,320)	(13,911)
Increase / (decrease) in creditors, accruals and deferred income	24,039	(26,646)
Foreign exchange movement on funds in Syndicate – 2006, 2007 and 2008 years of account undistributed result	(280)	16,862
Net cash inflow from operating activities	182,806	102,807

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

	2011 £000	2010 £000
Net cash inflow / (outflow) for the year	73,297	(19,124)
Cash flow		
Increase in overseas deposits	11,650	7,709
Increase in portfolio investments	97,859	49,577
Movement arising from cash flows	182,806	38,162
Changes to market values and currencies on cash, portfolio investments and financing	(14,856)	170,656
Total movement in cash, portfolio investments and financing	167,950	208,818
Portfolio at 1 January	2,146,238	1,937,420
Portfolio at 31 December	2,314,188	2,146,238

Notes to the annual accounts

at 31 December 2011

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

Movement in cash, portfolio investments and financing

	At 1 Jan 2010 £000	Cash flow £000	Changes to market value and currencies £000	At 31 Dec 2011 £000
Cash and deposits:				
Cash at bank and in hand	30,207	73,297	(59)	103,445
Overseas deposits	33,786	11,650	(136)	45,300
Total cash and deposits	63,993	84,947	(195)	148,745
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	19,382	51,543	279	71,204
Debt securities and other fixed income securities	1,775,249	11,176	(18,339)	1,768,086
Loans secured by mortgage	276,492	27,701	3,405	307,598
Deposits with credit institutions	11,122	7,439	(6)	18,555
Total portfolio investments	2,082,245	97,859	(14,661)	2,165,443
Total cash, portfolio investments and financing	2,146,238	182,806	(14,856)	2,314,188

16. Net cash outflow on portfolio investments

	2011 £000	2010 £000
Purchase of shares and other variable yield securities	(71,204)	–
Purchase of debt securities and other fixed income securities	(804,110)	(1,982,655)
Loans secured by mortgage	(27,701)	126,535
Deposits with credit institutions	(7,439)	6,658
Sale of shares and other variable yield securities	19,661	25,190
Sale of debt securities and other fixed income securities	792,934	1,774,695
Net cash outflow on portfolio investments	(97,859)	(49,577)

Notes to the annual accounts

at 31 December 2011

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 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 LLC.

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.

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 participating member's 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 member's FAL to meet liquidity requirements or to settle losses.

www.libertysyndicates.com