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Liberty Syndicates

Annual Report and Financial Statements for the year
ended 31 December 2014

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Directors and Administration

Managing Agent

Liberty Managing Agency Limited

Directors

Keith Nicholson	Chairman
Nick Metcalf	President & Managing Director
John Dunn	Group Finance Director
Matthew Moore	Active Underwriter & Chief Underwriting Officer Specialty and Reinsurance
Sean Rocks	Chief Underwriting Officer Commercial
Christopher Hanks	Non-Executive
Gordon McBurney	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

Company Secretary

David Turner

Managing Agent's Registered Office

20 Fenchurch Street
London
EC3M 3AW

Managing Agent's Registered Number

3003606

SYNDICATE:

Active Underwriter

Matthew Moore

Investment Managers

Liberty Mutual Group Asset Management Inc.

Registered Auditor

Ernst & Young LLP, London

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for Syndicate 4472 for the year ended 31 December 2014.

Strategic Report

Principal activity and review of the business

The principal activity of Syndicate 4472 is the transaction of insurance and reinsurance business at Lloyd's of London, carried out at its London offices and through a network of international offices, on behalf of the corporate member Liberty Corporate Capital Limited.

The major feature of the Syndicate's activities through 2014 was the continuation of the integration of the business with that of Liberty Mutual Insurance Europe Ltd, to form the Liberty Specialty Markets ("LSM") organisation. The cornerstone of the integration process has been production of an integrated financial plan for 2015, which included consideration of the optimum platform structure for the overall LSM business, together with implementation of an integrated governance structure, and the completion of a number of key operational integration projects. This will enable the Syndicate to take advantage of a broader distribution platform and benefit from operational synergies within the larger LSM framework. The integration process is now close to completion.

Underwriting Performance

The result for the calendar year is a profit of £132.8m (2013: £66.5m)

Key Performance Indicators	2014	2013
	£m	£m
Gross Premiums Written	1,234.4	1,268.1
Net Earned Premium	969.5	1,024.8
Underwriting Result	48.8	54.5
Profit for the financial year	132.8	66.5
Claims Ratio %	57.5%	61.8%
Expense Ratio %	37.5%	32.9%
Combined ratio % ⁽ⁱ⁾	95.0%	94.7%

⁽ⁱ⁾ The combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

Gross premiums written have decreased 3% compared to 2013 on a converted Sterling basis. Underlying gross written premiums have increased by 1%, reflecting a mixture of difficult market conditions and rate reductions, organic growth in certain classes and the effect of currency fluctuation, particularly in relation to the Euro and US dollar.

Net earned premiums decreased by 5% to £969.5m (2013: £1,024.8m). Reinsurance arrangements with respect to new business written were the main driver of the increase in ceded premiums.

Overall, the Syndicate's claims ratio improved to 58% (2013: 62%), reflecting a below average Atlantic hurricane season, but an unusually high incidence of Aviation claims.

The underwriting profit before expenses amounted to £48.8m (2013: £54.5m), and includes the effect of prior year releases totalling £36.9m (2013: £2.1m strengthening). Favourable development on prior years for both direct and assumed Aviation lines and Property classes contributed significantly, whilst Motor continued to prove challenging.

Report of the Directors of the Managing Agent (continued)

Underwriting Performance (continued)

The increase in the expense ratio from 33% to 38% is driven by a change in the managing agency fee and profit commission to keep these in line with open market levels, costs resulting from the move from the previous offices to 20 Fenchurch Street and both the increase in the cost of doing business and the reduction in premiums from the rating environment.

A key focus of the integration activities is ensuring the maintenance of existing discipline and business performance, approaching opportunities in a prioritised, structured and controlled manner.

The combined ratio is consistent with the previous year, 95% (2013: 95%).

Investment Performance

Underlying income from investments increased marginally from £77.2m to £77.6m. The investing environment has remained a challenging one with the search for yield by institutions driving spreads tighter. Issuers have taken advantage of the low cost funding environment with new issues offering very little premium for the risk due to the strength of demand for spread product.

Report of the Directors of the Managing Agent (continued)

Principal Risks and Uncertainties

Insurance Risk

The Directors of the Managing Agent agree the appetite for insurance risk annually through the business plan which sets targets for volume, pricing, line size and concentration by class of business and which takes account of expected activity within the Syndicate. The Directors then monitor performance against the business plan.

Benchmark premium methodologies are in place for all classes of business and are reported against plan at the underwriting divisional meetings. The Exposure Management team is responsible for the modelling of catastrophe exposures and the reporting of all insurance concentration risk, against plan, to the Exposure Management Working Group. The Outwards Reinsurance team, support the Chief Underwriting Officer in the purchase and management of the reinsurance purchased by the Syndicate; the Outwards Reinsurance Committee provide oversight and challenge to this process.

The Directors achieve comfort over the adequacy of claims reserves by operating a range of controls. Detailed analysis is performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis and underwriter review. In addition, an independent third party performs an annual actuarial review of reserve adequacy and the Syndicate's reserves are benchmarked to Lloyd's peers.

A panel of independent peer reviewers, made up of former class underwriters, are retained as external contractors. Reviews are undertaken of a sample of risks written by the Syndicate and the conclusions are reported to the Underwriting Risk Working Groups, which are attended by divisional underwriting heads and other key support staff; these groups report to the Managing Agent's Risk Management Committee.

Market Risk

The Syndicate is exposed to a range of market risk factors including: interest rate movements, credit spreads, market liquidity and foreign exchange rate movements. As the Syndicate operates in a global insurance market, foreign exchange movements can have a material impact on the overall result. This can come from mismatches between the currencies in which the assets and liabilities are denominated. The currency mix is therefore monitored on a regular basis by the Managing Agent's Finance function and the Investment Committee in order to ensure that currencies are matched as well as possible.

The Managing Agent determines duration ranges for the investment portfolios as part of the overall risk appetite; this is set to reflect the maturity profile of claims and sets limits on the individual and aggregate credit exposure for each portfolio. The Managing Agent manages currency weightings of the investment portfolios in GBP, USD, CAD and EUR against principal currency exposures.

Concentration Risk

Concentration risk is the risk of increased losses due to the concentration of assets or liabilities leading to an undiversified portfolio. This can be caused by either the failure to monitor concentrations or the failure to understand correlations occurring between assets and/or liabilities. The financial effect could be severe if risk concentrations go undetected until losses occur.

The Managing Agent manages concentration risk in a number of ways. Within insurance risk, concentrations are managed via the writing of a diverse portfolio of risks spread both geographically and by coverage type. In addition the Exposure Management Working Group monitors the material known risk concentrations. Within credit risk controls are in place to limit the exposure to any single entity. Within market risk the systemic risk of money market default is monitored.

Reverse stress tests and scenario stress tests are used to provide assurance that the applied correlation between risks, under extreme circumstances, is appropriate and in line with expectations. The level of correlation derived from this method is compared to the statistical and judgmentally derived correlation factors that are used in the Syndicate's Internal Model.

Report of the Directors of the Managing Agent (continued)

Principal Risks and Uncertainties (continued)

Credit Risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers, brokers or coverholders. Board approved criteria have been set for reinsurance purchases based on internal assessment, major credit rating agency benchmarks and maximum exposure to each counterparty.

The Managing Agent maintains strict conditions for external broker and coverholder appointments and a clear process for their renewal. All are subject to due diligence once a year in order to minimise the potential for excessive credit risk.

Liquidity Risk

The Syndicate maintains a portfolio of liquid investments, within its investment funds, that could reasonably be expected to realise near total market value on any particular day in order to meet potential liquidity requirements following an extreme risk occurrence. The Managing Agent prepares cash flow projections and monitors cash flows to mitigate the risk of a liquidity shortfall.

The provisions made for ensuring that there is an appropriate level of liquidity are also subject to annual scenario stress tests and reverse stress tests. These are in addition to the modelling that is performed in the Internal Model.

Reputational Risk

Reputational risk is the risk of loss of confidence in the Syndicate due to the negative perception of the Managing Agent in the eyes of a key stakeholder. Key stakeholders include; insureds, brokers, employees, capital providers, rating agencies and regulators. The risk can manifest itself in a number of ways including the reduction of capital provided or the loss of trade. Reputational risk is mitigated through a strategy of transparent and ethical dealings with all stakeholders and aligning the Managing Agent's strategy with a mutually beneficial long term relationship with capital providers, insureds and brokers alike.

Operational Risk

The Managing Agent maintains a control environment that includes policy, process and procedure documents covering all aspects of the business as well as the continual maintenance of a risk register by the Managing Agent's Risk Management team. Risk mitigation plans are prepared and implemented to handle operational risks; disaster recovery and business continuity plans are in place and undergo regular exercising. Additionally, the Internal Audit team prepare and execute a risk-based internal audit programme to test the effectiveness of internal controls. Audit findings are reported to the Audit Committee. The Audit Committee is satisfied that the Internal Audit function has the appropriate resources.

The Managing Agent also has a detailed programme in place to identify and analyse risks to the integrity of the financial information used and reported within 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 testing.

The Operational Risk Working Group, attended by the heads of functions, discusses the operational processes and any emerging risks or risk events that have occurred. Any material items are escalated to the Risk Management Committee for further discussion.

Regulatory Risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to a change in regulations. The Managing Agent is required to comply, *inter alia*, with the requirements of the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Managing Agent's overseas operations are also subject to local laws. The Head of Compliance, whose reporting line is to the Chief Risk Officer, monitors regulatory developments and assesses the impact on the Managing Agent's policies, processes and procedures.

Report of the Directors of the Managing Agent (continued)

Directors' Report

Future Developments

The Syndicate will continue to transact general insurance and reinsurance business via the Lloyd's underwriting platform within the integrated Liberty Specialty Markets organisation, and will continue to take advantage of the opportunities presented by multiple underwriting platforms, including for example an expansion in the Syndicate's international presence. This will allow the Syndicate to maintain and grow its offering in a challenging market and in difficult economic conditions.

Directors

The current Directors are listed on page 1. Directors who held office between 1 January 2014 and the date of signing the financial statements were:

Keith Nicholson	Chairman
Nick Metcalf	President & Managing Director
John Dunn	Group Finance Director
Matthew Moore	Active Underwriter and Chief Underwriting Officer Specialty and Reinsurance
Sean Rocks	Chief Underwriting Officer - Commercial
Gordon McBurney	Non-Executive
Christopher Hanks	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

None of the Directors has any participation on the Syndicate.

Auditors

Disclosure of Information to the Auditors

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

Auditors

The Syndicate's managing agency, Liberty Managing Agency Limited, has resolved to reappoint Ernst & Young LLP as the recognised auditors for 2015. 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 Managing Agency Limited otherwise.

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors

Report of the Directors of the Managing Agent (continued)

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and financial statements and Directors' Report in accordance with applicable laws and regulations.

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

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

By order of the Board

Nick Metcalf
President & Managing Director
London

17 March 2015

Independent Auditor's Report

to the member of Syndicate 4472

We have audited the syndicate annual accounts of Syndicate 4472 ("the Syndicate") for the year ended 31 December 2014 which comprise Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 20. 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 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 the Auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate 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 Managing Agent's Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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 2014 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 (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

Angus Millar (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

17 March 2015

Profit and Loss Account: Technical Account – General Business

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Gross premiums written	3	1,234.4	1,268.1
Outward reinsurance premiums		(254.8)	(211.6)
Net premiums written		979.6	1,056.5
Change in provision for unearned premiums:			
Gross amount		(47.0)	(34.4)
Reinsurers' share		36.9	2.7
Change in net provision for unearned premiums		(10.1)	(31.7)
Earned premiums, net of reinsurance		969.5	1,024.8
Allocated investment return transferred from the non-technical account		68.9	9.5
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(582.7)	(517.8)
Reinsurers' share		84.9	99.0
Net claims paid		(497.8)	(418.8)
Change in the provision for claims			
Gross amount		(30.8)	(169.4)
Reinsurers' share		(29.3)	(45.0)
Change to the net provision for claims		(60.1)	(214.4)
Claims incurred, net of reinsurance		(557.9)	(633.2)
Net operating expenses	4	(362.8)	(337.1)
Balance on the general business technical account		117.7	64.0

All the amounts above are in respect of continuing operations.

Profit and Loss Account: Non-Technical Account

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Balance on the general business technical account		117.7	64.0
Investment income	8	72.9	69.7
Unrealised gains/(losses) on investments		14.8	(54.3)
Investment expenses and charges	8	(3.7)	(3.4)
Allocated investment return transferred to the general business technical account		(68.9)	(9.5)
Profit for the financial year		132.8	66.5

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Profit for the financial year		132.8	66.5
Effect of foreign exchange translation		0.5	14.3
Total recognised gains relating to the year		133.3	80.8

Balance Sheet - Assets

at 31 December 2014

	Notes	2014 £m	2013 £m
Investments			
Financial investments	9	2,715.6	2,482.5
Reinsurers' share of technical provisions			
Claims outstanding		227.0	253.7
Provision for unearned premiums		60.2	23.5
		287.2	277.2
Debtors			
Debtors arising out of direct insurance operations	10	249.4	221.3
Debtors arising out of reinsurance operations		291.7	274.8
Other Debtors		0.2	-
		541.3	496.1
Other assets			
Cash at bank and in hand		40.2	52.7
Other assets	11	77.3	85.4
		117.5	138.1
Prepayments and accrued income			
Accrued interest		23.7	24.1
Deferred acquisition costs		154.6	133.6
Other prepayments and accrued income		16.5	9.4
		194.8	167.1
Total Assets		3,856.4	3,561.0

Balance Sheet - Liabilities

at 31 December 2014

	Notes	2014 £m	2013 £m
Capital and reserves			
Member's balance	12, 19, 20	716.2	609.4
Technical provisions			
Claims outstanding		2,292.2	2,244.4
Provision for unearned premiums		589.8	538.6
		2,882.0	2,783.0
Creditors			
Creditors arising out of direct insurance operations	13	5.8	5.0
Creditors arising out of reinsurance operations	14	149.8	87.1
Other creditors		78.6	64.8
		234.2	156.9
Accruals and deferred income			
		24.0	11.7
Total Liabilities		3,856.4	3,561.0

The annual accounts on pages 10 to 27 were approved by the Board of Liberty Managing Agency Limited and were signed on its behalf by

Nick Metcalf
Liberty Managing Agency Limited

17 March 2015

Statement of Cash Flows

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Net cash inflow from operating activities	15	223.5	285.0
Transfers to member in respect of underwriting participations	12	(34.1)	(28.7)
	16	189.4	256.3
Cash flows were invested as follows:			
Decrease in cash holdings	16	(11.4)	(28.5)
(Decrease)/increase in overseas deposits	16	(7.0)	3.0
Increase in net portfolio investments	16	207.8	281.8
Net investment of cash flows		189.4	256.3

Notes to the Financial Statements

at 31 December 2014

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.

2. Accounting Policies

Gross Premiums Written

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

Unearned Premiums

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

Outwards Reinsurance Premium

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

Claims Provisions and Related Recoveries

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

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

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

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

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

Notes to the Financial Statements (continued)

at 31 December 2014

2. Accounting Policies (continued)

Claims Provisions and Related Recoveries (continued)

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

Unexpired Risks Provision

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

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

Deferred Acquisition Costs

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

Foreign Currencies

Monetary assets and liabilities are translated into Sterling at the exchange rates prevailing at the balance sheet date. Income and expense transactions are translated using the rate prevailing at the date of transactions or an appropriate average rate. The Syndicate maintains separate currency ledgers for US dollar, Canadian dollar and Euro business. These non-Sterling businesses are considered by management to represent foreign branches. Exchange gains and losses arising from the retranslation into Sterling of the balance sheets of these branches using the rates of exchange prevailing at the balance sheet date, and the retranslation into Sterling of the profit and loss accounts of these branches using the average rates of exchange for the year have been recorded in the statement of total recognised gains and losses.

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

Undistributed profits on closed years of account plus investment return earned on those undistributed profits plus cash calls received from the member, less any transfers to the member in respect of underwriting participations, are included within member's balances. This accumulated component of the member's balance is held in Sterling and US dollars for future distribution. The US dollar balance is retranslated at the year-end exchange rates at each balance sheet date resulting in a movement in the reconciliation of member's balances.

Notes to the Financial Statements (continued)

at 31 December 2014

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 Managing Agency 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 Managing Agency 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 remuneration costs of the claims department, are reclassified from administrative expenses and included in claims incurred (net of reinsurance).

Notes to the Financial Statements (continued)

at 31 December 2014

3. Segmental Analysis

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

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Re- insurance balance £m	Total £m	Net technical provisions £m
2014							
Direct insurance:							
Accident & Health	54.9	60.6	(28.5)	(26.6)	(3.6)	1.9	62.9
Motor (third- party liability)	39.8	42.1	(51.8)	(10.6)	1.9	(18.4)	99.5
Motor (other classes)	55.4	57.4	(54.5)	(16.5)	(5.8)	(19.4)	78.6
Marine aviation & transport	103.8	107.4	(89.8)	(36.7)	6.0	(13.1)	215.3
Fire & other damage to property	248.0	214.2	(86.0)	(73.4)	(45.4)	9.4	303.5
Third party liability	126.5	122.7	(61.7)	(37.7)	(6.6)	16.7	326.4
Miscellaneous	192.0	159.1	(72.5)	(67.6)	(13.1)	5.9	386.5
	820.4	763.5	(444.8)	(269.1)	(66.6)	(17.0)	1,472.7
Reinsurance	414.0	423.9	(168.7)	(125.3)	(64.1)	65.8	1,122.1
Total	1,234.4	1,187.4	(613.5)	(394.4)	(130.7)	48.8	2,594.8

Notes to the Financial Statements (continued)

at 31 December 2014

3. Segmental Analysis (continued)

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Re- insurance balance £m	Total £m	Net technical provisions £m
2013							
Direct insurance:							
Accident & Health	66.0	77.3	(39.7)	(32.3)	(1.1)	4.2	67.6
Motor (third-party liability)	42.0	38.9	(32.3)	(9.3)	0.1	(2.6)	79.5
Motor (other classes)	33.9	31.2	(37.7)	(7.4)	(3.4)	(17.3)	44.3
Marine aviation & transport	109.3	118.3	(71.1)	(36.7)	(5.5)	5.0	226.3
Fire & other damage to property	254.2	231.3	(93.8)	(62.8)	(27.8)	46.9	257.7
Third party liability	107.3	96.1	(69.9)	(28.9)	(6.9)	(9.6)	305.8
Miscellaneous	163.3	147.8	(119.7)	(61.8)	(8.2)	(41.9)	384.4
	776.0	740.9	(464.2)	(239.2)	(52.8)	(15.3)	1,365.6
Reinsurance	492.1	492.8	(223.0)	(115.9)	(84.1)	69.8	1,140.2
Total	1,268.1	1,233.7	(687.2)	(355.1)	(136.9)	54.5	2,505.8

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

Commissions on direct insurance gross premiums written during 2014 were £221,195,000 (2013: £197,986,000).

Included within net claims incurred in the Technical Account – General Business is a release of £36,839,000 (2013: strengthening of £2,107,000) 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. The net release in 2014 was the result of favourable development on prior year catastrophe and attritional losses, in particular on reinsurance segments, offsetting deterioration in the estimated ultimate Motor liabilities.

All premiums were concluded in the UK.

Notes to the Financial Statements (continued)

at 31 December 2014

The geographical analysis of premiums by destination is as follows:

	2014 £m	2013 £m
UK	276.5	284.1
Other EU Countries	214.8	220.7
Americas	445.6	457.7
Worldwide	297.5	305.6
Total	1,234.4	1,268.1

4. Net Operating Expenses

	2014 £m	2013 £m
Acquisition costs	(300.6)	(280.1)
Change in deferred acquisition costs	19.9	10.7
Administrative expenses	(112.8)	(85.7)
Loss on exchange	(0.9)	-
Gross operating expenses	(394.4)	(355.1)
Reinsurance commissions receivable	31.6	18.0
Net operating expenses	(362.8)	(337.1)

	2014 £000	2013 £000
Administrative expenses include:		
Auditor's remuneration:		
-Audit services	453	437
-Actuarial services	220	220
-Other services	173	157
	846	814

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

Notes to the Financial Statements (continued)

at 31 December 2014

5. Staff Numbers and Costs

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

	2014	2013
	£m	£m
Wages and salaries	47.4	49.1
Social security costs	4.1	3.5
Other pension costs	3.5	3.2
Other	1.3	1.2
	56.3	57.0

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

	2014	2013
	Number	Number
Administration and finance	253	216
Underwriting	112	89
Claims	28	22
Investments	4	4
	397	331

6. Emoluments of the Directors of Liberty Managing Agency Limited

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

	2014	2013
	£m	£m
Emoluments	2.1	2.5

Notes to the Financial Statements (continued)

at 31 December 2014

7. Active Underwriter Emoluments

The Active Underwriter received remuneration of £665,000 (2013: £710,000) charged to the Syndicate and included within net operating expenses.

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

8. Investment Return

	2014 £m	2013 £m
Income from investments	77.6	77.2
Losses on the realisation of investments	(4.7)	(7.5)
Investment income	72.9	69.7
Investment management expenses, including interest	(3.7)	(3.4)

9. Financial Investments

	2014 Market Value £m	2014 Cost £m	2013 Market Value £m	2013 Cost £m
Shares and other variable yield securities and units in unit trust	54.1	54.1	33.6	33.6
Debt securities and other fixed income securities	2,320.9	2,307.0	2,145.2	2,190.5
Loans secured by mortgage	322.5	320.8	286.7	293.3
Deposits with credit institutions	18.1	18.1	17.0	17.0
	2,715.6	2,700.0	2,482.5	2,534.4

Within the amounts disclosed above £2,215,345,000 (2013: £1,629,271,000) of debt securities and other fixed income securities, £44,682,000 (2013: £55,183,000) of loans secured by mortgage and £47,973,000 (2013: £33,637,000) of shares and other variable yield securities and units in unit trusts are listed.

Notes to the Financial Statements (continued)

at 31 December 2014

10. Debtors arising out of Direct Insurance Operations

	2014 £m	2013 £m
Intermediaries	249.4	221.3

11. Other Assets

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

12. Reconciliation of Member's Balance

	2014 £m	2013 £m
Balance due to member brought forward at 1 January	609.4	560.5
Profit for the financial year	132.8	66.5
Effect of foreign exchange translation	0.5	14.3
Net distribution of closed year profits	(34.1)	(28.7)
Foreign exchange movement on funds in Syndicate (undistributed closed year results)	7.6	(3.2)
Balance due to member carried forward at 31 December	716.2	609.4

The member participates on the Syndicate by reference to years of accounts' ultimate results, and assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year. The balance due to the member is payable when a year of account closes, usually after three years. Syndicates which are wholly aligned are able to retain closed year profits as capital to support their underwriting activities. This is known as Funds in Syndicate.

The 2006 year of account balance was retained within the Syndicate at its time of closure. Subsequently, the Syndicate also retained the results of the 2007 to 2010 years of account at their time of closure. During 2014, the 2011 year of account result was also transferred to Funds in Syndicate. Additionally, net distributions to the member of £34,126,000 (2013: £28,696,000) occurred during the calendar year.

13. Creditors arising out of Direct Insurance Operations

	2014 £m	2013 £m
Intermediaries	5.8	5.0

Notes to the Financial Statements (continued)

at 31 December 2014

14. Creditors arising out of Reinsurance Operations

	2014 £m	2013 £m
Reinsurance ceded	149.8	87.1

15. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2014 £m	2013 £m
Operating profit on ordinary activities	132.8	66.5
Changes to market values and currencies on cash, portfolio investments and financing	(23.1)	65.0
Effect of foreign exchange translation	0.5	14.3
Increase in net technical provisions	89.0	225.7
Increase in debtors, prepayments and accrued income	(72.9)	(112.6)
Increase in creditors, accruals and deferred income	89.6	29.3
Foreign exchange movement on funds in Syndicate (undistributed closed year results)	7.6	(3.2)
Net cash inflow from operating activities	223.5	285.0

16. Movement in Opening and Closing Portfolio Investments Net of Financing

	2014 £m	2013 £m
Net cash outflow for the year	(11.4)	(28.5)
Cash flow		
(Decrease)/increase in overseas deposits	(7.0)	3.0
Increase in portfolio investments	207.8	281.8
Movement arising from cash flows	189.4	256.3
Changes to market values and currencies on cash, portfolio investments and financing	23.1	(65.0)
Total movement in cash, portfolio investments and financing	212.5	191.3
Portfolio at 1 January	2,620.6	2,429.3
Portfolio at 31 December	2,833.1	2,620.6

Notes to the Financial Statements (continued)

at 31 December 2014

16. Movement in Opening and Closing Portfolio Investments Net of Financing (continued)

Movement in cash, portfolio investments and financing

	At 1 Jan 2014 £m	Cash Flow £m	Changes to market value and currencies £m	At 31 Dec 2014 £m
Cash and deposits:				
Cash at bank and in hand	52.7	(11.4)	(1.1)	40.2
Overseas deposits	85.4	(7.0)	(1.1)	77.3
Total cash and deposits	138.1	(18.4)	(2.2)	117.5
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	33.6	20.9	(0.4)	54.1
Debt securities and other fixed income securities	2,145.2	173.9	1.8	2,320.9
Loans secured by mortgage	286.7	12.4	23.4	322.5
Deposits with credit institutions	17.0	0.6	0.5	18.1
Total portfolio investments	2,482.5	207.8	25.3	2,715.6
Total cash, portfolio investments and financing	2,620.6	189.4	23.1	2,833.1

17. Net Cash Outflow on Portfolio Investments

	2014 £m	2013 £m
Purchase of shares and other variable yield securities	(413.6)	(452.7)
Purchase of debt securities and other fixed income securities	(591.5)	(775.6)
Net (purchase)/sale of loans secured by mortgage	(12.4)	14.2
Net purchase of deposits with credit institutions	(0.6)	(0.4)
Sale of shares and other variable yield securities	392.7	445.6
Sale of debt securities and other fixed income securities	417.6	487.1
Net cash outflow on portfolio investments	(207.8)	(281.8)

Notes to the Financial Statements (continued)

at 31 December 2014

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 Inc.

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

The ultimate parent company of both Liberty Corporate Capital Limited and Liberty Managing Agency Limited is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America. The smallest higher group of companies for which group accounts are drawn up, and of which these companies are members, is Liberty International Holdings LLC.

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

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

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 their participating member's underwriting liabilities.

Since FAL is not under the management of the Managing Agent, no amount has been reported 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.

20. Funds in Syndicate (FIS)

Liberty Corporate Capital Limited holds investments in the Syndicate to be used to support the Syndicate's capital requirements of Funds at Lloyd's. This gives the Syndicate the ability to manage these funds under the same Investment Management Agreement as the other funds of the Syndicate that are held within the premium trust funds. The value of FIS as at the balance sheet date was £624,661,000 (2013: £614,187,000).