

Important information about Syndicate Reports and Accounts

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Liberty Syndicate 4472

Annual Report and Financial Statements for the year
ended 31 December 2016

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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	Group Chief Underwriting Officer
Christopher Hanks	Non-Executive
Gordon McBurney	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

Syndicate Secretary

Joseph Cassidy

Managing Agent's Registered Office

20 Fenchurch Street
London
EC3M 3AW

Managing Agent's Registered Number

3003606

Active Underwriter

Peter Smith

Investment Managers

Liberty Mutual Group Asset Management Inc.

Registered Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Managing Agent's Report

The Directors of the Managing Agent present their report for Syndicate 4472 for the year ended 31 December 2016. The Syndicate's Managing Agent is a company registered in England and Wales.

Strategic Report

Principal activity and review of the business

The Syndicate's principal activity is the transaction of general insurance and reinsurance business. There have not been any significant changes to the Syndicate's principal activity during the year.

Underwriting Performance

The result for the calendar year is a profit of \$196.2m (2015: \$76.5m)

Key Performance Indicators	2016 \$m	2015 restated \$m
Gross Premiums Written	1,830.6	1,763.2
Net Earned Premium	1,372.3	1,499.7
Underwriting Result	32.2	71.4
Profit for the Financial Year	196.2	76.5
Claims Ratio %	55%	53%
Expense Ratio %	43%	42%
Combined Ratio % ⁽ⁱ⁾	98%	95%

(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.

Despite challenging market conditions, and withdrawal from significant amounts of lower-quality business, new opportunities in market facilities and growth in established lines has led to an increase in the Syndicate's gross written premiums of 3.8% when compared to 2015.

Net earned premium reduced by 8.5% to \$1,372.3m (2015: \$1,499.7m) due to longer earning periods on long tail business and associated earnings impact on reduced and run off lines, together with increased ceded premiums.

The Syndicate's claims ratio slightly worsened to 55% (2015: 53%). While 2016 brought higher exposure to losses including Canadian wildfires, Hurricane Matthew and New Zealand earthquakes, increased reinsurance recoveries on casualty and property lines led to a decline in net incurred claims from \$802m to \$751.9m.

The increase in the expense ratio from 42% to 43% is also driven by the reduction in earned premiums, as net operating expenses has fallen following increased focus on expense management, partly offset by the introduction of profit commission charged by the Managing Agent following changes to the managing agency agreement in 2014.

Overall, the underwriting profit after expenses amounted to \$32.2m (2015: \$71.8m) and the combined ratio increased by 3% on the previous year.

Managing Agent's Report (continued)

Review of financial position

Financial investments have stayed relatively stable, increasing from \$4,080.2m to \$4,122.9m.

Reinsurers' share of technical provisions has increased from \$476.3m to \$684.8m, attributable to increased provisions for unearned premiums and claims in line with increased ceded premiums and a deterioration in the loss experience for certain contracts.

Gross technical provisions have decreased from \$4,263.1m to \$4,213.5m, largely due to the effect of currency fluctuation, particularly in relation to Pound Sterling.

Investment Performance

Total investment return for 2016 was \$114.5m versus \$27.4m in 2015, as the year did not suffer the significant unrealised losses seen in 2015.

The gross income from investment for 2016 was \$113.1m versus \$121.7m in 2015. This slight decrease is a function of the current low yield investment environment. Net unrealised losses on investments were \$8.9m in 2016 versus \$78.3m in 2015, driven by the in-year movement in the US risk free yield curve.

Foreign exchange gains

The Syndicate made net gains totalling \$49.5m (2015: loss of \$22.3m) on holding foreign currencies, mostly as a result of sterling weakness against the Syndicate functional currency of United States Dollar.

Principal risks and uncertainties

The principal risks and uncertainties facing the Syndicate are grouped as intrinsic, operational or other risks. Intrinsic risk incorporates the principal risks faced by the Syndicate and includes insurance risk, market risk, credit risk and liquidity risk. Other risk includes group risk and strategic risk.

The objective of the Syndicate's risk management activities is to enable it to engage with risks in a controlled fashion that is consistent with the Board's appetite and its available capital capacity while retaining the ability to implement its long term business plans and meet its obligations to policyholders.

Intrinsic Risk

Insurance Risk

Insurance risk incorporates premium risk and reserve risk. Premium risk is the variation of underwriting results from plan for reasons other than operational or insurance counterparty risk. This is influenced by the frequency and severity of claims events.

Premium risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Syndicate's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual events.

Reserve risk is the variation in policyholder reserves for prior accident years required for reasons other than operational or insurance counterparty risk. This is influenced by uncertainty in the notification of claims and value of claims paid.

Reserve risk is mitigated through the use of detailed analysis performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long term reserve profile of the Syndicate remains stable.

Managing Agent's Report (continued)

Market Risk

Market risk is the risk of fluctuations to the net asset value due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net liabilities.

The principal causes of market risk are:

- Interest rate risk: The risk of fluctuations to the net asset value due to movements in the term structure of risk free rate.
- Spread risk: The risk from the widening of the spread over "risk free" yield curve.
- Credit risk: comprises
 - Default risk: The risk that a bond defaults and we recover less than the full valuation of the bond.
 - Migration risk: The risk that the credit rating of a bond moves to a lower rating before maturity. Bonds that migrate will experience changes in valuations due to the use of yield curves based on different ratings.
- Private equity risk: The risk of fluctuations in the net asset value due to the volatility in the valuation of the private equity funds.
- Financial exchange risk: The risk of fluctuations in the net asset value due to changes in the level and volatility of currency exchange rates and mismatches between the assets and liabilities.
- Asset concentration risk: The risk of an exposure having the potential to result in significant large losses.

Market risk is mitigated through the use of a diversified investment strategy operating within Board risk appetites and operationalised through the investment guidelines.

Credit Risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations. The principal source of credit risk arises from the inability of reinsurers to meet their contractual obligations as they become due.

Credit risk is mitigated through controls encompassing due diligence and continued monitoring to ensure the appropriate selection of counterparties and Board risk appetites to prevent inappropriate credit risk concentrations.

Liquidity Risk

Liquidity risk is the probability of loss arising from situations where the Syndicate either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands.

Liquidity risk is mitigated through the use of asset-liability modelling and through the maintenance of a diversified and appropriately liquid portfolio of assets.

Operational Risk

Operational risk is the risk of loss to the Syndicate resulting from the inadequate or failed internal processes, people and systems, or from external events. Operational risk is mitigated through the use of the three lines of defence model in conjunction with a system of documented, monitored and tested internal controls.

Other Risks

Group risk is the risk of loss to the Syndicate arising from its membership of both Liberty Mutual Group and Liberty Specialty Markets.

Group risk is mitigated through the monitoring of Liberty Mutual Group's financial strength and business strategy developments. In addition, the chairman of any committee reviewing risk information ensures that due attention is given to each legal entity within Liberty Specialty Markets, even in times of stress to one entity.

Managing Agent's Report (continued)

Strategic risk is the risk of loss to the Syndicate arising from key business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is mitigated through the development and implementation of the Syndicate's strategy and through controls relating to the development of new business opportunities.

These risks are covered in substantial detail in Note 16 to the financial statements.

Directors' Report

Directors

The current Directors are listed on page 1. Directors who held office between 1 January 2016 and the date of signing the financial statements were:

Keith Nicholson	Chairman
Nick Metcalf	President & Managing Director
John Dunn	Group Finance Director
Matthew Moore	Group Chief Underwriting Officer
Christopher Hanks	Non-Executive
Gordon McBurney	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

None of the Directors has any participation on the Syndicate.

Post balance sheet event

On February 27, 2017 the UK Ministry of Justice announced a change in the so called Ogden rate, which is used for discounting personal injury claims in the calculation of lump sum compensation awards, from 2.5% to -0.75% with effect from March 20, 2017.

The Managing Agent has reviewed the potential impact of the change, taking into account the significant uncertainties that might affect the ultimate cost of the decision, and has concluded that the likely ultimate cost is within the margins held by the syndicate in order to deal with such uncertainties. The most significant impact is on the Motor Reinsurance class of business.

As detailed in note 1.3.1, the ultimate costs of such claims remain subject to the uncertainties affecting all claims.

As a consequence, no adjustment to the syndicate financial statements has been made in respect of this event.

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.

On the 23rd of June, the UK voted against continued membership of the European Union. The implications of this vote for the Syndicate are being carefully assessed by the Directors.

Managing Agent's Report (continued)

The Board of the Managing Agent are reviewing the implications for the business of the UK's decision to leave the European Union, and are actively considering the most appropriate course of action necessary to secure the continuity of the business for the benefit of policyholders, the shareholder, our staff and other stakeholders.

Auditors

Disclosure of Information to the Auditors

In the case of each of the persons who are Directors of the Managing Agent at the time the report was approved:

- So far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware; and
- Having made enquiries of fellow Directors of the Managing Agent and the Syndicate's auditor, each Director has taken all the steps that he ought to have taken as a Director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

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

On behalf of the Board

Nick Metcalf
President & Managing Director
London

21 March 2017

Managing Agent's responsibilities statement

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.

Independent auditors' 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 2016 which comprise the Income Statement, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 21. 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), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'.

This report is made solely to the syndicate's member, 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 member 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 member 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 syndicate annual accounts sufficient to give reasonable assurance that the syndicate 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 syndicate annual accounts. In addition, we read all the financial and non-financial information in the annual reports and financial statements 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 syndicate annual accounts

In our opinion the syndicate annual accounts:

- ▶ give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'; 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 syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Independent Auditors' 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

21 March 2017

Income Statement

Technical Account – General Business

for the year ended 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Gross premiums written	3	1,830.6	1,763.2
Outward reinsurance premiums		(477.1)	(384.4)
Net premiums written		1,353.5	1,378.8
Change in the provision for unearned premiums:			
Gross amount		(57.1)	70.9
Reinsurers' share		75.9	50.0
Change in net provision for unearned premiums	14	18.8	120.9
Earned premiums, net of reinsurance		1,372.3	1,499.7
Allocated investment return transferred from the non-technical account	8	80.0	15.7
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(844.8)	(934.4)
Reinsurers' share		47.8	124.6
Net claims paid		(797.0)	(809.8)
Change in the provision for claims			
Gross amount		(113.4)	21.3
Reinsurers' share		158.5	(13.5)
Change to the net provision for claims	15	45.1	7.8
Claims incurred, net of reinsurance		(751.9)	(802.0)
Net operating expenses	4	(588.2)	(626.3)
Balance on the general business technical account		112.2	87.1

All the amounts above are in respect of continuing operations.

Income Statement

Non-Technical Account – General Business

for the year ended 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Balance on the general business technical account		112.2	87.1
Investment income	8	128.7	111.4
Unrealised (losses)/gains on investments	8	(8.9)	(78.3)
Investment expenses and charges	8	(5.3)	(5.7)
Allocated investment return transferred to the general business technical account		(80.0)	(15.7)
Exchange gains and losses		49.5	(22.3)
Profit for the financial year		196.2	76.5

There are no items of income or expense for this or the restated preceding period other than those reported in the Income Statement, thus no Statement of Comprehensive Income has been prepared.

Statement of Changes in Members' Balances

for the year ended 31 December 2016

	2016	2015
	\$m	restated \$m
Balance due to member brought forward at 1 January	1,115.2	1,136.1
Profit for the financial year	196.2	76.5
Net distribution of closed year profits	(174.4)	(97.1)
Amounts due directly from member	-	(0.3)
Balance due to member carried forward at 31 December	1,137.0	1,115.2

Statement of Financial Position - Assets

for the year ended 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Investments			
Financial investments	9	4,122.9	4,080.2
Reinsurers' share of technical provisions			
Claims outstanding	15	476.0	334.5
Provision for unearned premiums	14	208.8	141.8
		684.8	476.3
Debtors			
Debtors arising out of direct insurance operations	10	447.4	419.8
Debtors arising out of reinsurance operations		393.3	418.0
Other debtors		-	0.3
		840.7	838.1
Other assets			
Cash at bank and in hand	13	19.6	30.6
Other assets	12	77.4	132.3
		97.0	162.9
Prepayments and accrued income			
Accrued interest		28.4	32.5
Deferred acquisition costs	11	217.7	223.1
Other prepayments and accrued income		32.7	24.2
		278.8	279.8
Total Assets		6,024.2	5,837.3

Statement of Financial Position - Liabilities

as at 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Members' balances			
Profit and loss account		1,137.0	1,115.2
Technical provisions			
Claims outstanding	15	3,377.6	3,442.3
Provision for unearned premiums	14	835.9	820.8
		4,213.5	4,263.1
Creditors			
Creditors arising out of direct insurance operations		3.3	4.3
Creditors arising out of reinsurance operations		418.8	327.8
Other creditors		169.7	68.5
		591.8	400.6
Accruals and deferred income			
		81.9	58.4
Total Liabilities		6,024.2	5,837.3

The annual accounts on pages 10 to 48 were approved by the Board of Liberty Managing Agency Limited and were signed on its behalf by

Nick Metcalf
Liberty Managing Agency Limited

21 March 2017

Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Cash Flow			
Operating result		196.2	76.5
Decrease in gross technical provisions		(49.6)	(270.5)
Increase in reinsurers' share of gross technical provisions		(208.5)	(24.6)
Increase/(decrease) in debtors		(1.2)	39.6
Increase in creditors		214.7	53.1
Investment return		(114.5)	(27.4)
<i>Net cash flows from operating activities</i>		37.1	(153.3)
Cash flows from investing activities			
Purchase of equity and debt instruments		(2,724.8)	(2,051.0)
Sale of equity and debt instruments		2,658.1	2,024.0
Investment income received		123.4	105.7
Foreign exchange		68.8	143.8
<i>Net cash flows from investing activities</i>		125.5	222.5
Cash flows from financing activities			
Distribution of closed year profits		(120.1)	(248.5)
Cash injections to Funds in Syndicate		161.0	248.5
Closed year profit released to member		(215.3)	(97.1)
<i>Net cash flows from financing activities</i>		(174.4)	(97.1)
Net decrease in cash and cash equivalents		(11.8)	(27.9)
Cash and cash equivalents at beginning of year		57.8	91.8
Foreign exchange on cash and cash equivalents		(1.3)	(6.1)
Cash and cash equivalents at end of year		44.7	57.8
Cash at bank and in hand		19.6	30.6
Short term deposits with credit institutions		25.1	27.2
Cash and cash equivalents at end of year	13	44.7	57.8

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies

1.1. Statement of compliance

Syndicate 4472 is the vehicle on which (re)insurance business is conducted at Lloyd's on behalf of the corporate capital provider, Liberty Corporate Capital Limited (LCCL). The Syndicate is managed by Liberty Managing Agency Limited (LMAL). Registered details for the managing agent can be found on page 1. The financial statements cover those of the Syndicate and are prepared as at, and for the year ended, 31 December 2016.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (The Regulations 2008), and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies.

The financial statements are prepared under the historical cost convention except for financial investments which are measured at fair value.

An underwriting year basis of accounting has been applied to all classes of business written by the Syndicate.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 21 March 2017.

The financial statements are prepared in United States Dollar (USD) which is the presentation and functional currency of the Syndicate and rounded to the nearest \$0.1m.

As permitted by FRS 103 the Syndicate has continued to apply the accounting policies that existed prior to this standard for its insurance contracts.

The Syndicate has elected to apply paragraph 6.3 of FRS 103 to claims development triangles where the Syndicate need not disclose information that occurred earlier than five years before the end of the first financial year in which this FRS applies, building up to 10 years of development with the introduction of each future period.

The Syndicate has elected to early-apply the March 2016 amendments to FRS 102, Fair value hierarchy disclosures. As a result the fair value hierarchy disclosures, including comparatives shown in Note 9 are now prepared on a basis consistent with the measurement of the financial instruments.

The 2015 comparative information has been restated. The Syndicate has changed its accounting policy for recognition and measurement of deferred acquisitions costs. Further details of the 2015 restatement of deferred acquisition costs is set out in note 2.1.

Further, the Syndicate has also restated the financial statements to correct the treatment of foreign exchange differences on brought forward net assets on transition to new UK GAAP details of which are disclosed in note 2.2.

1.3. Judgements and key sources of estimation uncertainty

1.3.1. Technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.3. Judgements and key sources of estimation uncertainty (continued)

1.3.1. Technical provisions (continued)

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years by significant lines of business. Large / Catastrophe claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of ultimate premiums.

Further details are given in Note 16.

1.3.2. Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

1.3.3. Fair value of financial assets determined using valuation techniques

Where the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or other mathematical models. The inputs from these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. For fixed-income and asset-backed securities the judgments include considerations for liquidity risk, credit risk, and prepayment rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations of specific industries and market liquidity. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in the assumptions about these factors could affect the reported fair value of the financial instruments. Further details are given in Note 9.

Notes to the Financial Statements

for the year ended 31 December 2016

1.4. Significant accounting policies

1.4.1 Financial investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments: recognition and measurement (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial assets on initial recognition. Redeemable debt securities and other fixed-income securities are classified as fair value through profit or loss and are initially measured at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Redeemable fixed-interest securities are reviewed for any permanent diminution in value periodically on a holding by holding basis. Where a permanent diminution is identified, an impairment is recognised as a realised investment loss in the income statement.

Deposits with credit institutions are also classified at fair value through profit or loss and are held at cost as the best measure for fair value. These typically consist of callable on-demand deposits with very short maturities, which are not always held to maturity, and cash letters of credit (LOCs).

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if there is a current enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, realise the assets and settle the liabilities simultaneously.

Shares and other variable yield securities and units in unit trusts consist of collective investment schemes and private equity investments. These are also designated on initial recognition as an asset to be measured at fair value with fair value changes recognised in profit or loss account at subsequent reporting periods. Realised gains and losses are also recognised through profit and loss account.

1.4.2 Cash and cash equivalents

The Syndicate has applied Part 1 General Rules and Formats of Schedule 2 to the Regulations as per FRS 102.7.20A whereby cash on the statement of financial position includes only cash and balances at central banks and loans and advances to banks repayable on demand.

Note 13 to the cash flow statement however discloses both cash at bank as well as short-term deposits with credit institutions. These consist of collateralised cash LOCs with a restriction of one month or less.

1.4.3 Fair value of financial assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: the unadjusted quoted prices in active market for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.3. Fair Value of financial assets (continued)

Note 9 illustrates the fair value hierarchy as applied to the Syndicate's financial assets.

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or

The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

1.4.4 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. In accordance with FRS 102 29.19 Income Tax, dividends are recognised at the amount receivable including withholding tax if applicable, but excluding any attributable tax credit.

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.

1.4.5 Financial liabilities

The Syndicate's financial liabilities consist of insurance creditors, intercompany balances and trade payables.

All financial liabilities are recognised initially at fair value. Intercompany balances are repayable on demand and are typically settled within one year. Intercompany balances are subsequently measured at amortised cost should they remain unsettled over a year. A financial liability is derecognised when the obligation under the liability is discharged or expires.

Insurance Contracts

1.4.6 Product Classification

Insurance contract are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.6. Product Classification (continued)

specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

1.4.7. Premiums

Gross written premiums represent premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to business written in previous financial years, and are stated gross of commissions but net of taxes, duties levied on premiums and other deductions. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

1.4.8. Profit Commission

Profit Commission is charged by the managing agent at a rate of 17.5% of the profit on a year of account basis subject to the operation of a deficit clause. This is charged to the Syndicate as incurred but does not become payable until after the appropriate year of account closes at 36 months.

1.4.9. Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims management costs that have been determined by an apportionment of employment costs, and any adjustments to claims outstanding from previous years.

Internal claims handling costs, including remuneration costs of the claims department, are reclassified from administrative expenses and included within claims incurred.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risk.

1.4.10. Claims outstanding

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported (IBNR) is established from statistical analysis undertaken by the Syndicate's actuaries. The methods used and the estimates made are reviewed regularly. Significant delays are experienced in the notification and settlement of certain claims.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.10. Claims outstanding (continued)

In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to change when compared with the cost of previously settled claims including:

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

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

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

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

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.

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

1.4.11. Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts, and over the term of the reinsurance contract for losses-occurring contracts.

1.4.12. Provisions for unexpired risks

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.12. Provisions for unexpired risks (continued)

of deferred acquisition costs. The overall assessment of whether a provision is necessary is made on the basis of all categories of business. No account is taken of future investment income.

At 31 December 2016 and in the comparative year, the Syndicate did not have an unexpired risks provision.

1.4.13. Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, the renewal of existing insurance contracts and the deferral of other costs directly related and incremental to successful acquisition of a new or renewed insurance contract, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Amortisation is reported in the technical account.

Commissions receivable on outwards reinsurance contracts are amortised over the term of the outwards reinsurance premiums and deferred to the extent that they are attributable to outwards reinsurance premiums unearned as at the balance sheet date.

1.4.14. Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

1.4.15. Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method.

1.4.16. Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration paid or payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.17. Pension Costs

Liberty Specialty Markets Limited (LSML) operates a defined contribution pension scheme. Pension contributions relating to managing agency staff working on behalf of the Syndicate, as seconded from LSML are charged to the Syndicate and included within net operating expenses.

LMAL operates a defined benefit 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.

1.4.18. Foreign Currencies

The Syndicate's functional currency and its presentational currency are USD.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions, or at an appropriate average rate. Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

These exchange differences are recorded in the non-technical account.

1.4.19. Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from Syndicate 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.

Notes to the Financial Statements

for the year ended 31 December 2016

2. 2015 Comparative Restatement

2.1 Change in accounting policy: recognition of deferred acquisition costs

Until 31 December 2015, the Syndicate adopted a policy of deferring only external commission costs which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts, to the extent that they are attributable to premiums unearned at the balance sheet date.

During 2016, the Syndicate implemented a new policy, extending deferral to other costs directly related and incremental to successful acquisition activities of a new or renewed insurance contract. The acquisition costs that can be capitalised under the revised policy include incremental direct costs that meet the criteria referred to above, and typically include a portion of an employee's salary and benefits that are directly related to time spent on identifiable acquisition activities, as well as other clearly identifiable acquisition costs.

The Syndicate adopted this policy in order to achieve consistency with the treatment adopted in the financial statements of Liberty International Holdings Incorporated, and to provide a fairer presentation of the results and financial position of the Syndicate, bearing in mind the need to align recognition of costs with associated income. The 2015 deferred acquisition costs was restated based on the new policy.

	Effect on 2016 \$m	Effect on 2015 \$m	Effect on 2014 and prior \$m
Increase in profit	-	3.3	9.7
Increase in members' balance	13.0	13.0	9.7
Total Increase in DAC	13.0	13.0	9.7

2.2 Foreign exchange losses arising from brought forward net assets

At the time of transition to FRS 102 and 103, the Syndicate revalued its opening member's balances. Instead of taking the foreign exchange differences to the non-technical account of the income statement, it was incorrectly taken to other comprehensive income. During the current year, this has been reversed and the financial statements have been restated to reflect the change.

The effect of the correction has been to decrease the profit for the year ended 31 December 2015 by \$35.6m and increase OCI by the equivalent amount. This has no impact on members' balance.

Notes to the Financial Statements

for the year ended 31 December 2016

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
2016						
Direct insurance:						
Accident & Health	53.9	64.6	(30.7)	(31.7)	(6.3)	(4.1)
Motor (third-party liability)	14.3	15.1	(16.9)	(5.1)	2.1	(4.8)
Motor (other classes)	11.8	9.1	(12.7)	(3.0)	12.7	6.1
Marine aviation & transport	168.9	160.7	(90.4)	(62.4)	(7.5)	0.4
Fire & other damage to property	360.9	341.4	(192.9)	(118.5)	(29.0)	1.0
Third party liability	410.0	367.0	(247.9)	(107.1)	(85.7)	(73.7)
Miscellaneous	244.2	238.8	(160.9)	(101.3)	(9.8)	(33.2)
	1,264.0	1,196.7	(752.4)	(429.1)	(123.5)	(108.3)
Reinsurance	566.6	576.8	(205.8)	(265.3)	34.8	140.5
Total	1,830.6	1,773.5	(958.2)	(694.4)	(88.7)	32.2

Notes to the Financial Statements

for the year ended 31 December 2016

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
2015 restated						
Direct insurance:						
Accident & Health	69.6	74.4	(39.2)	(35.5)	(5.8)	(6.1)
Motor (third-party liability)	17.2	37.6	(49.7)	(12.8)	0.3	(24.6)
Motor (other classes)	7.6	35.9	(51.5)	(12.0)	6.4	(21.2)
Marine aviation & transport	161.2	160.8	(66.8)	(58.6)	(20.8)	14.6
Fire & other damage to property	347.0	374.3	(138.9)	(133.3)	(59.5)	42.6
Third party liability	343.9	285.0	(186.2)	(86.5)	(38.8)	(26.5)
Miscellaneous	247.4	268.2	(164.3)	(120.9)	(9.5)	(26.5)
	1,193.9	1,236.2	(696.6)	(459.6)	(127.7)	(47.7)
Reinsurance	569.3	597.9	(216.5)	(235.6)	(26.7)	119.1
Total	1,763.2	1,834.1	(913.1)	(695.2)	(154.4)	71.4

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

Commissions on direct insurance gross premiums written during 2016 were \$343.1m (2015: \$311.7m).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2016 \$m	2015 \$m
UK	96.8	410.8
Other EU Countries	208.2	333.3
Americas	595.3	618.8
Worldwide	930.3	400.3
Total	1,830.6	1,763.2

Notes to the Financial Statements

for the year ended 31 December 2016

4. Net Operating Expenses

	2016	2015
	\$m	restated \$m
Acquisition costs	(464.7)	(430.2)
Change in deferred acquisition costs	6.7	(20.3)
Administrative expenses	(236.4)	(244.7)
Gross operating expenses	(694.4)	(695.2)
Reinsurance commissions receivable	106.2	68.9
Net operating expenses	(588.2)	(626.3)

The member's standard personal expenses are included within administrative expenses and include Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission.

5. Staff costs and Directors' remuneration

5.1. Staff costs

All staff are employed by Liberty Specialty Markets Limited. Employees are seconded to the Managing Agent to perform work on the Syndicate, for and on behalf of the member. The following amounts were recharged from the Managing Agent to Syndicate 4472 in respect of salary costs:

	2016	2015
	\$m	\$m
Wages and salaries	86.9	101.1
Social security costs	11.6	10.7
Other pension costs	5.9	5.3
Other	4.9	4.0
Total	109.3	121.1

The average number of employees seconded to the Managing Agent by Liberty Specialty Markets Ltd to work on the Syndicate during the year was as follows:

	2016	2015
	Number	Number
Administration and finance	239	227
Underwriting	122	123
Claims	35	36
Total	396	387

Notes to the Financial Statements

for the year ended 31 December 2016

5. Staff costs and Directors remuneration (continued)

5.2. Directors' remuneration

	2016	2015
	\$m	\$m
Emoluments	2.4	3.2

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.

6. Auditors' remuneration

Auditors' remuneration is included as part of the administrative expenses in note 4 to the financial statements.

	2016	2015
	\$m	\$m
Auditor's remuneration:		
- Audit of Syndicate annual accounts	0.7	0.8
- Other services pursuant to Regulations and Lloyd's Byelaws	0.2	0.2
- Other non-audit services	0.4	0.4
Total	1.3	1.4

7. Active underwriter emoluments

The position of Active Underwriter received remuneration of \$555,000 (2015: \$676,000) charged to the Syndicate and included within net operating expenses.

Notes to the Financial Statements

for the year ended 31 December 2016

8. Investment return

	Technical account		Non Technical account		Total	
	General business					
	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m
Income from other financial investments	79.3	90.5	33.8	31.2	113.1	121.7
Net losses on realisation of investments	9.6	(8.3)	6.0	(2.0)	15.6	(10.3)
Total investment income	88.9	82.2	39.8	29.2	128.7	111.4
Net unrealised gains/(losses) on investments	(5.6)	(62.3)	(3.3)	(16.0)	(8.9)	(78.3)
Investment expenses and charges	(3.3)	(4.2)	(2.0)	(1.5)	(5.3)	(5.7)
Total investment return	80.0	15.7	34.5	11.7	114.5	27.4

9. Financial investments

	Carrying Value	Purchase Price	Listed
	\$m	\$m	\$m
2016			
Shares and other variable yield securities and units in unit trust	100.1	103.4	73.7
Debt securities and other fixed income securities	3,678.8	3,684.6	545.5
Loans secured by mortgage	318.9	322.5	-
Deposits with credit institutions	25.1	25.1	-
Total	4,122.9	4,135.6	619.2

	Carrying Value	Purchase Price	Listed
	\$m	\$m	\$m
2015			
Shares and other variable yield securities and units in unit trust	120.2	119.7	100.4
Debt securities and other fixed income securities	3,532.0	3,606.4	881.9
Loans secured by mortgage	400.8	404.1	-
Deposits with credit institutions	27.2	27.2	-
Total	4,080.2	4,157.4	982.3

Notes to the Financial Statements

for the year ended 31 December 2016

9. Financial investments (continued)

All shares and other variable yield securities, debt securities and loans and deposits with credit institutions are designated at fair value through profit & loss.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
2016	\$m	\$m	\$m	\$m
Shares and other variable yield securities and units in unit trusts	73.7	-	26.4	100.1
Debt securities and other fixed income securities	605.7	3,073.1	-	3,678.8
Loans and deposits with credit institutions	53.9	367.5	-	421.4
Total	733.3	3,440.6	26.4	4,200.3

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
2015				
Shares and other variable yield securities and units in unit trusts	100.4	-	19.8	120.2
Debt securities and other fixed income securities	881.9	2,642.0	8.1	3,532.0
Loans and deposits with credit institutions	60.2	500.1	-	560.3
Total	1,042.5	3,142.1	27.9	4,212.5

Included within the Level 1 category are unadjusted quoted prices in active markets for identical assets that the Syndicate's asset manager has the ability to access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available, except as follows:

If the Syndicate holds a large number of similar assets that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets individually. In that case, fair value may be measured using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower level in the fair value hierarchy.

In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the measurement date.

If the quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower level in the fair value hierarchy.

Level 2 inputs are inputs other than quoted prices that are either directly or indirectly observable in the market. If the asset has a specified contractual term, a Level 2 input must be observable for substantially the full term of the asset

Adjustments to Level 2 inputs may vary depending on factors specific to the asset type. Those factors include the condition and/or location of the asset, the extent to which the inputs relate to items that are comparable to the asset, and the volume and level of activity in the markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the

Notes to the Financial Statements

for the year ended 31 December 2016

9. Financial investments (continued)

measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

Level 3 inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. Unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability including assumptions about risk. Unobservable inputs are developed based on the best information available in the circumstances.

All manually priced broker quotes are non-binding. The Portfolio Manager makes an assessment of the reasonableness of the broker quote received. Based on the Portfolio Manager's assessment, additional quotes may be obtained to support the fair value of an investment, in which case, the average of those quotes is used as the fair value of the investment. The Portfolio Manager provides support for the manual price and the Investment Team determines the appropriate level (level 2 or level 3) for the security. Manually priced broker quotes obtained on an individual case basis that cannot be substantiated to represent an executable/ exit price are classified as level 3. If the security was actively traded (with significant volume) within a thirty day period from the last day it was manually priced, evidence of the active trade with a broker quote is appropriate documentation to classify the security a level 2. When the average of multiple broker quotes is used, the level (2 or 3) is determined based on whether or not those quotes can be substantiated.

The Syndicate asset portfolio includes Private Equity investments. These have all been classified as Level 3 based on the criteria above. The Group Portfolio Manager receives partnership statements / financial statements for each investment from which the residual values are recorded, and then potentially adjusted when combined with adjusted ending value reports. The Group Portfolio Manager then recommends a valuation for each position, based on these statements and their own assessment/judgement.

10. Debtors arising out of Direct Insurance Operations

	2016	2015
	\$m	\$m
Intermediaries	447.4	419.8

11. Deferred acquisition costs

	2016	2015
	\$m	restated \$m
At 1 January	223.1	252.9
Change in deferred acquisition costs	6.7	(20.2)
Foreign exchange	(12.1)	(9.6)
At 31 December	217.7	223.1

Notes to the Financial Statements

for the year ended 31 December 2016

12. Other Assets

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

13. Cash and cash equivalents

	2016 \$m	2015 \$m
Cash at bank and in hand	19.6	30.6
Short-term deposits with credit institutions	25.1	27.2
Total	44.7	57.8

14. Provisions for Unearned Premiums

	Gross \$m	Reinsurers' Share \$m	Net \$m
2016			
At 1 January 2016	820.8	(141.8)	679.0
Premiums written in the year	1,830.6	(477.1)	1,353.5
Premiums earned in the year	(1,773.5)	401.2	(1,372.3)
Foreign exchange	(42.0)	8.9	(33.1)
At 31 December 2016	835.9	(208.8)	627.1

	Gross \$m	Reinsurers' Share \$m	Net \$m
2015			
At 1 January 2015	927.8	(94.7)	833.1
Premiums written in the year	1,763.2	(384.4)	1,378.8
Premiums earned in the year	(1,834.1)	334.4	(1,499.7)
Foreign exchange	(36.1)	2.9	(33.2)
At 31 December 2015	820.8	(141.8)	679.0

Notes to the Financial Statements

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15. Claims Outstanding

2016	Gross \$m	Reinsurers' share \$m	Net \$m
At 1 January 2016	3,442.3	(334.5)	3,107.8
Claims incurred during the year	958.2	(206.3)	751.9
Claims paid during the year	(844.8)	47.8	(797.0)
Foreign exchange	(178.1)	17.0	(161.1)
At 31 December 2016	3,377.6	(476.0)	2,901.6

2015	Gross \$m	Reinsurers' share \$m	Net \$m
At 1 January 2015	3,605.8	(357.0)	3,248.8
Claims incurred during the year	913.1	(111.1)	802.0
Claims paid during the year	(934.4)	124.6	(809.8)
Foreign exchange	(142.2)	9.0	(133.2)
At 31 December 2015	3,442.3	(334.5)	3,107.8

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk management

16.1. Governance framework

The objective of LSM's Risk Management and Internal Control Framework (RMF) is to enable it to engage with risks in a controlled fashion that is consistent with the Board's appetite and its available capital capacity while retaining the ability to implement its long term business plans and meet its obligations to policyholders. It sets out the Syndicate's approach to, how it defines risk and cascades risk appetite and the processes for ensuring the appropriate and timely identification, reporting, monitoring and management of risk and capital. The Syndicate's senior management recognise the importance of maintaining an efficient and effective risk management system.

The RMF establishes the governance of the risk management activities undertaken within the Syndicate, including the setting of roles and responsibilities, outlining the key risk management concepts and providing a clear structure linking the individual risk policies, processes and procedures. The RMF is owned by the Board.

The key concepts includes the linkage of business strategy to risk management strategy, the identification of emerging risks, the risk universe, the management of risks through the setting of risk appetites and the creation, maintenance, recording and testing of internal controls.

The Syndicate has an established Risk Management function (which includes the Risk Management department under the Chief Risk Officer (CRO), and processes within the Capital Management and Actuarial departments), with oversight from the Risk Management Committee (a sub-committee of the Board) chaired by an independent non-executive director; the terms of reference incorporate the CRO's ability to convene a meeting independently of the executive management. In addition, the terms of reference for relevant management committees incorporate risk management responsibilities as delegated by the Board.

The Syndicate recognises that all staff have a role to play in managing the risks faced by the company. This reflects the three lines of defence model adopted by the Syndicate, consistent with market best practice, which emphasises the different roles in managing risk played by business units, advisory functions such as Risk Management, and independent assurance providers such as Internal Audit. The roles and responsibilities are documented in the risk policies, which are owned by the Board and adhere to the Syndicate's documentation standards. Each risk policy is owned by a member of the Executive Management Committee. The policies include the activities of identification, quantification, management and reporting on risks; including reporting on the performance of controls and the Syndicate's actual risk position against the Board risk appetite. The Syndicate undertakes extensive work to validate the quantification of its risk profile using the Internal Model including the use of sensitivity testing, and stress and scenario testing. The Syndicate's risk profile is reported to the Board via the ORSA and the Chief Risk Officer's report.

16.2. Capital management objectives, policies and approach

16.2.1. Capital framework at Lloyds

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirement of the syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.2. Capital management objectives, policies and approach (continued)

16.2.1. Capital framework at Lloyds (continued)

level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 4472 is not disclosed in these financial statements.

16.2.2. Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

16.2.3. Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

16.3. Insurance risk

Insurance risk incorporates premium risk and reserve risk. Premium risk is the variation of underwriting results from plan for reasons other than operational or insurance counterparty risk. This is influenced by the frequency and severity of claims events.

Reserve risk is the variation in policyholder reserves for prior accident years required for reasons other than operational or insurance counterparty risk. This is influenced by uncertainty in the notification of claims and value of claims paid.

Premium risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Syndicate's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual and correlated events. Reinsurance is purchased on both a proportional and non-proportional basis. The majority of the proportional

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

reinsurance is purchased on a quota share basis; this is designed to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is purchased on an excess of loss and stop loss basis. The excess of loss reinsurance is purchased on both a per-risk and catastrophe basis covering natural and non-naturally occurring perils. The stop loss is purchased on a net underwriting loss basis to protect the Syndicate's overall solvency. The non-proportional reinsurance is purchased to mitigate against shock losses to individual underwriting product lines and to protect the Syndicate's balance sheet from catastrophe losses on a multi-line basis.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The use of reinsurance exposes the Syndicate to a counterparty credit exposure; this is reported under credit risk.

The Syndicate business plan is developed in accordance with the LSM's Board risk appetites to reduce the variability of the underwriting profit through the creation of a diversified portfolio of insurance contracts. The Syndicate's portfolio of general insurance contracts is spread across multiple product lines, industry sectors and geographic regions. The Syndicate writes both insurance and reinsurance contracts; both of which predominantly cover twelve months duration. Contracts are written by specialised underwriting teams in accordance to the business plan and the underwriting controls.

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the Syndicate's risk exposure. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

Exposure to concentrations arising from the insurance contracts is a material risk to the Syndicate. The Board risk appetites include specific exposure management limits; these are cascaded down to individual underwriting portfolios. The concentrations are tiered in accordance to the Syndicate's exposure management policies; with the resulting tier determining the appropriate methodology for quantification. The Syndicate supports its internal quantification of exposure concentrations by utilising external, commercially available exposure management models. Exposure management models are validated to ensure they are parameterised appropriately for the Syndicate's portfolio, however, there remains a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of concentration of exposure the Syndicate writes, the following table shows the Syndicate's exposure to its three largest natural catastrophe perils:

Peril region	Industry Loss	Syndicate Loss Gross	Syndicate Loss Final Net
	\$m	\$m	\$m
North American Hurricane	220,338.6	784.6	371.9
European Wind	39,196.0	711.5	378.6
North American Earthquake	80,711.7	790.4	363.0

Reserve risk is mitigated through the use of detailed analysis performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long term reserve profile of the Syndicate remains stable.

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

The table below sets out the concentration of outstanding claim liabilities by type of contract:

	31 December 2016			31 December 2015		
	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
Commercial	480.6	(205.0)	275.6	484.7	(131.6)	353.1
Reinsurance	2,334.6	(222.3)	2,112.3	2,377.2	(113.8)	2,263.4
Specialty	1,398.3	(257.5)	1,140.8	1,401.2	(230.9)	1,170.3
Total	4,213.5	(684.8)	3,528.7	4,263.1	(476.3)	3,786.8

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written.

	31 December 2016			31 December 2015 restated		
	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
UK	3,144.4	(582.2)	2,562.2	2,869.8	(200.7)	2,669.1
Other EU Countries	501.4	(49.6)	451.8	773.0	(187.7)	585.3
USA	31.6	(5.0)	26.6	27.8	(30.1)	(2.3)
Worldwide	536.1	(48.0)	488.1	592.5	(57.8)	534.7
Total	4,213.5	(684.8)	3,528.7	4,263.1	(476.3)	3,786.8

The 2015 comparative of the table above has been restated to show a more appropriate view of geographic concentrations.

Key Assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of paid and incurred claims, claim handling costs and claim inflation factors for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, delays in settlement, policy conditions, and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

Sensitivities

There is a wide range of possible outcomes in assessing the technical provisions due to the uncertainty associated in estimating ultimate claims and premiums for the business written.

For all actuarial projections the final outcome will depend on the actual development of claims which in turn relies upon the appropriateness of the historic data to predict the likely development by class.

Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. Such issues would include unexpected claims inflation, shocks to the global economy, changes in legislation and the emergence of new types of claim.

The results and accuracy of some underwriting classes can be sensitive to the performance of certain key contracts, either through large exposures or through a large volume of business being written under the contract, relative to the size of the account. For example our Motor XL account is affected by a number of PPOs (Periodical Payment Orders) where there is uncertainty in the payment size of future claims. Additionally ultimate claims are highly dependent on exposure to and the future incidence of catastrophe events, either natural or man-made.

A large proportion of the Technical Provisions are in long-tail casualty classes, which increases the uncertainty relative to other classes of business. Estimates make no provision for potential and uncertainty of future claims arising from new latent causes or classes of claim not as yet materially recognised in the historical experience.

An increasingly significant amount of business is also written through coverholders which also increases the uncertainty of the business being written.

The outwards treaty reinsurance programme is predominantly denominated in Euro and USD – any recoverable event that is not settled in either of these currencies materially increases the uncertainty in the estimation of the recoveries due to movements in the foreign exchange rate from now until the date of settlement.

Significant assumptions for the Syndicate did not materially change from the previous period.

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The cumulative claims estimates and cumulative payments are translated into USD at the period end rate as at 31 December 2016. The claims development information disclosed is being increased from five years to ten years over the period 2016 - 2020.

Gross Insurance contract outstanding claims provision as at 31 December 2016:

Estimate of cumulative claims	2010 and	2011	2012	2013	2014	2015	2016	Total
	prior							
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At end of underwriting year		571.0	482.2	472.0	487.1	441.0	515.6	
One year later		976.9	876.1	977.6	970.8	884.5		
Two years later		1,019.0	908.8	980.1	1,066.6			
Three years later		977.9	916.0	957.0				
Four years later		948.0	880.8					
Five years later		936.6						
Cumulative payments		744.8	599.8	623.4	521.5	248.1	39.9	
Estimated balance to pay	914.0	191.8	281.0	333.6	545.1	636.4	475.7	3,377.6

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

Net insurance contract outstanding claims provision as at 31 December 2016:

Estimate of cumulative claims	2010 and prior \$m	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	Total \$m
At end of underwriting year		472.9	409.9	428.2	442.7	385.1	413.9	
One year later		806.9	791.6	887.3	879.4	751.1		
Two years later		843.6	815.8	880.6	936.9			
Three years later		815.1	830.6	841.6				
Four years later		796.1	799.1					
Five years later		778.8						
Cumulative payments		590.0	534.5	548.9	479.2	238.5	39.7	
Estimated balance to pay	811.0	188.8	264.6	292.7	457.7	512.6	374.2	2,901.6

16.4. Financial risk

16.4.1. Credit risk

16.4.1.1. Credit risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations.

The following policies and procedures are in place to mitigate the Syndicate's exposure to credit risk:

- Robust governance structures with the Board setting headline risk appetites and cascading this down to the rest of the business, with relevant risk mitigation strategies implemented including robust controls and monitoring of key risk indicators.
- A credit risk policy and procedure document setting out the framework for what constitutes credit risk for the Syndicate. The policy and procedure document is regularly reviewed for pertinence and for changes in the credit risk environment. Compliance with Syndicate policies and procedures is monitored, and exposures and breaches are reported to the relevant committee. All committees meet on a regular basis, with exception meetings held if necessary.
- Ensuring counterparties are within risk appetite by dealing with companies that have a good credit rating or financial standing and active mitigation of credit risk by obtaining collateral or financial guarantees where necessary and thereafter ensuring appropriate monitoring.
- From an investment perspective, credit risk captures the potential loss due to default or migration to a lower rating. An Investment Management Policy sets out the assessment and determination of what constitutes credit risk (as a subset of market risk). Compliance with the policy is monitored; exposures and any breaches are reported to the Investment Committee. The policy is reviewed regularly. Limits are set for financial investments; a minimum overall average credit rating must be maintained in addition to minimum rating requirements per asset.

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for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.1. Credit risk (continued)

16.4.1.1. Credit risk – Rating

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position.

	Neither due nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Total
2016	\$m	\$m	\$m	\$m
Debt securities	3,675.6	-	3.2	3,678.8
Loans with credit institutions	318.9	-	-	318.9
Deposits with credit institutions	25.1	-	-	25.1
Overseas deposits as investments	77.4	-	-	77.4
Reinsurer' share of claims outstanding	476.0	-	-	476.0
Reinsurance debtors	6.6	5.2	-	11.8
Cash at bank and in hand	19.6	-	-	19.6
Insurance debtors	408.0	39.4	-	447.4
Other debtors	869.1	-	-	869.1
Total credit risk	5,876.3	44.6	3.2	5,924.1

	Neither due nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Total
2015	\$m	\$m	\$m	\$m
Debt securities	3,526.4	-	5.6	3,532.0
Loans with credit institutions	400.8	-	-	400.8
Deposits with credit institutions	27.2	-	-	27.2
Overseas deposits as investments	132.3	-	-	132.3
Reinsurer' share of claims outstanding	334.5	-	-	334.5
Reinsurance debtors	6.6	28.8	-	35.4
Cash at bank and in hand	30.6	-	-	30.6
Insurance debtors	385.5	34.3	-	419.8
Other debtors	804.5	-	-	804.5
Total credit risk	5,648.4	63.1	5.6	5,717.1

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.1. Credit risk (continued)

16.4.1.1. Credit risk – Rating (continued)

The tables below provide information regarding the credit risk exposure of the syndicate at 31 December 2015. Assets have been classified by way of a waterfall approach. Three rating agents are used in this analysis where possible. Where each of the three provide a rating, the median is selected. However, where at least two of the ratings are equivalent, the majority prevails. If only two ratings are provided, then prudence prevails and the lower of the two is selected. Where only one rating is obtainable, that rating is used. Internal ratings are then applied for those instances where an external rating does not exist.

Credit rating relating to financial assets that are neither past due nor impaired

	AAA	AA	A	BBB	<BBB	Not Rated	Total
2016	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shares and other variable yield securities and unit trust	-	30.0	0.1	43.6	-	26.4	100.1
Debt securities	876.5	806.8	1,058.6	885.0	48.7	-	3,675.6
Loans with credit institutions	48.0	73.8	2.5	-	194.6	-	318.9
Deposits with credit institutions	-	-	-	25.1	-	-	25.1
Overseas deposits as investments	44.9	9.1	10.1	4.7	-	8.6	77.4
Reinsurer' share of claims outstanding	-	94.9	350.9	-	0.1	30.1	476.0
Reinsurance debtors	-	0.5	6.1	-	-	-	6.6
Cash at bank and in hand	-	12.4	20.9	(13.7)	-	-	19.6
Total credit risk	969.4	1,027.5	1,449.2	944.7	243.4	65.1	4,699.3

Credit rating relating to financial assets that are neither past due nor impaired

	AAA	AA	A	BBB	<BBB	Not Rated	Total
2015	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shares and other variable yield securities and unit trust	-	9.3	60.2	30.9	-	19.8	120.2
Debt securities	1,195.8	630.3	875.9	806.1	18.3	-	3,526.4
Loans with credit institutions	350.0	3.4	3.3	39.2	4.9	-	400.8
Deposits with credit institutions	-	-	-	27.2	-	-	27.2
Overseas deposits as investments	81.1	27.7	15.1	7.7	0.3	0.4	132.3
Reinsurer' share of claims outstanding	-	86.0	230.4	-	0.1	18.0	334.5
Reinsurance debtors	-	0.8	5.3	-	-	0.5	6.6
Cash at bank and in hand	-	-	25.0	(1.7)	-	7.3	30.6
Total credit risk	1,626.9	757.5	1,215.2	909.4	23.6	46.0	4,578.6

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.1. Credit risk (continued)

16.4.1.1. Credit risk – Rating (continued)

Maximum Credit Exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit risk portfolio. This enables management to focus on the applicable risks and comparison of credit exposures. The attributable financial ratings are assessed and updated regularly. During the year all live counterparties were within acceptable limits and had acceptable ratings, there were no breach of set limits.

The amount of change during the period in the fair value of financial instruments held at fair value through profit and loss attributable to changes in credit risk was \$3.3m (2015: \$4.4m).

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

There have been no day 1 profits recognised in respect of financial instruments designated at fair value through profit or loss.

Collateral

Credit Risk is also mitigated by entering into collateral agreements. The Investment Committee monitors the market value, credit quality and asset type of the collateral. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty, with the relevant procedures being completed and management having to give sign off regarding the acceptability of types of collateral and the value of collateral held. These arrangements are then monitored to ensure parameters are adhered to and valuations or ratings continue to be acceptable. Collateral was mainly held in the form of Letters of Credit and funds held within designated accounts.

16.4.2. Liquidity risk

Liquidity risk is the probability of loss arising from situations where the Syndicate either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands. LSM maintains sufficient liquidity to meet liabilities as they fall due. Cash will only be held for routine cash flow purposes, or where there is a specific regulatory requirement, as LSM accepts liquidity risk to maximise invested assets.

LSM holds capital to cover the risk that assets are required to be liquidated below book value in a stressed (1 in 200 year) scenario, as well as balancing the liquidity of the investment portfolio.

Based on reviews of the historic liquidity of assets in stressed scenarios, LSM will ensure that the weighting of investment grade bonds rated AAA-AA will exceed 20% of the total investment portfolio for each legal entity.

The Syndicate will maintain a diversified and appropriately liquid portfolio aimed at minimising the mismatch in cash flows between the assets and net-liabilities. Illiquid investments will be considered on a case-by-case basis depending on the supporting justification; these securities will be subject to regular review to ensure the impact on liquidity risk is immaterial.

The Syndicate has an LOC of £391.4m that can be converted to cash in 30 days (or Liberty Mutual Group could elect to provide cash and not utilise the LOC); this gives the ability for the Syndicate to address any material short-term liquidity requirements, and provides an opportunity / some flexibility to go longer with the remainder of the assets.

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16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.2. Liquidity risk (continued)

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
2016	\$m	\$m	\$m	\$m	\$m	\$m
Outstanding claim liabilities	-	570.3	1,333.0	661.1	813.2	3,377.6
Creditors	591.8	-	-	-	-	591.8
Total credit risk	591.8	570.3	1,333.0	661.1	813.2	3,969.4

	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
2015	\$m	\$m	\$m	\$m	\$m	\$m
Outstanding claim liabilities	-	647.0	1,268.1	599.4	927.8	3,442.3
Creditors	400.6	-	-	-	-	400.6
Total credit risk	400.6	647.0	1,268.1	599.4	927.8	3,842.9

16.4.3. Market risk

Market risk is the risk of fluctuations to the net asset value (NAV) due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net-liabilities. Market risk is comprised of:

- Exchange rate risk
- Equity risk
- Credit and Spread risk
- Interest rate risk

The following policies and procedures are in place to govern the exposure to market risk

- An Investment Management Policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate.
- The Investment Management Policy details how the company measures, monitors and mitigates the potential market risks posed by the investment portfolio. Compliance with the policy is monitored with exposures and any breaches reported to the Investment Committee and the Risk Committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- The measurement, monitoring and reporting of market risk takes into account the profile of the net technical provisions and is reflective of the financial risk caused by the interaction of the assets and liabilities.

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16. Risk Management (continued)

16.4. Financial Risk (continued)

16.4.4. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is the USD and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP and Canadian dollars. The Syndicate seeks to mitigate the risk by matching foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign exchange rate risk at the reporting date:

2016	GBP \$m	USD \$m	EUR \$m	CAD \$m	Total \$m
Total assets	993.4	4,174.1	631.4	225.3	6,024.2
Total liabilities	(1,144.0)	(2,947.1)	(656.0)	(140.1)	(4,887.2)
Net assets	(150.6)	1,227.0	(24.6)	85.2	1,137.0

2015 restated	GBP \$m	USD \$m	EUR \$m	CAD \$m	Total \$m
Total assets	904.9	3,906.3	831.8	194.3	5,837.3
Total liabilities	(1,245.0)	(2,748.8)	(639.6)	(88.7)	(4,722.1)
Net assets	(340.1)	1,157.5	192.2	105.6	1,115.2

The table below gives an indication of the impact of on net asset value of a percentage change in the relative strength of the USD against GBP, Canadian dollar and the Euro simultaneously.

	2016 \$m	2015 restated \$m
Dollar weakens:		
10% against other currencies	(10.0)	(9.4)
20% against other currencies	(22.5)	(21.2)
Dollar strengthens:		
10% against other currencies	8.2	7.7
20% against other currencies	15.0	14.1

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial Risk (continued)

16.4.5. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates, with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on fixed rate and variable rate financial assets.

This measures the impact on profit or loss for the year (for items recorded at fair value through profit or loss) that would arise from a reasonably possible change in interest rates on financial instruments at the period end.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that real-world movements in these variables are non-linear.

Changes in variables	Impact on result \$m	Impact on Members' balances \$m
At 31 December 2016		
+ 50 basis points	(73.6)	(73.6)
- 50 basis points	81.0	81.0
At 31 December 2015		
+ 50 basis points	(72.3)	(72.3)
- 50 basis points	77.7	77.7

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial Risk (continued)

16.4.6. Equity price risk

Equity risk arises from the level or volatility of market prices for equities.

The Syndicate's equity risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The Investment Management Policy governs the management of equity risk by setting limits on equity investments which are regularly monitored.

There is no significant concentration of equity risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments, insurance and with-profit contract assets and liabilities with all other variables held constant, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the income statement) and equity (that reflects adjustments to profit before tax and changes in fair value of available for sale financial assets that are equity instruments). The correlation of variables will have a significant effect in determining the ultimate impact on equity risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that real-world movements in these variables are non-linear.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

	Change in variables	2016		2015	
		Impact on result	Impact on equity	Impact on result	Impact on equity
Changes in variables - market indices	\$m	\$m	\$m	\$m	\$m
FTSE 100	+5%	1.3	1.3	1.0	1.0
FTSE 100	-5%	(1.3)	(1.3)	(1.0)	(1.0)

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for the year ended 31 December 2016

17. Related parties

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

Liberty Managing Agency Limited (LMAL) is the managing agent of Syndicate 4472. Liberty Managing Agency Limited's immediate parent company is Liberty International Holdings LLC. The Agency charged a fee of \$50.7m (2015: \$53.7m) to the Syndicate for its services, which is within the pre-determined percentage by year of account. The Agency also charged the Syndicate \$33.5m (2015: nil) of Profit Commission which represents 17.5% of Syndicate open year profits, under the terms of the managing agent's agreement. At the balance sheet date, the Syndicate owed LMAL \$42.5m (2015: \$45.1m).

Liberty Specialty Markets Limited is a service company from which employees are seconded to the Managing Agent to perform Syndicate duties for and behalf of the corporate member, for which costs are incurred and re-charged to the Syndicate. During the year, LSML charged a total of \$132m (2015: \$175.2m – previously charged by LMAL) to the Syndicate in recharged expenses, of which the Syndicate owed \$112.3m (2015: \$0.1m) at the balance sheet date. Liberty Specialty Markets Limited's immediate parent company is Liberty UK and Europe Holdings Limited.

Liberty Specialty Services Limited (previously Liberty Syndicate Services Limited) acts as a coverholder for the Syndicate and its related UK insurer Liberty Mutual Insurance Europe Limited (see below). The company also acts as a broker in certain reinsurance transactions for the Syndicate. During the year, the service company charged the Syndicate \$33.3m (2015: \$40.4m) in commissions, of which \$10.4m (2015: \$23.3m) was outstanding at the balance sheet date. Its ultimate parent company is Liberty Mutual Holdings Company Inc.

Liberty Mutual Insurance Europe Limited (LMIE) is a company registered within England and Wales that operates under the LSM umbrella. During the year, the Syndicate placed \$0.2m (2015: \$0.9m) of outwards reinsurance contracts with LMIE. The losses recovered from LMIE during the year amounted to \$3.4m (2015: \$4.3m) whereas \$19.8m (2015: \$24.8m) related to this reinsurance contract is included in total reinsurer's share of technical provisions in the balance sheet.

Liberty International Group (LIG) constitutes all other entities and affiliates to the Syndicate's ultimate parent company, Liberty Mutual Holdings Company. During the year, the Syndicate placed outwards reinsurance protection of \$298.7m (2015: \$251.6m) with LIG. The losses recovered from LIG during the year amounted to \$19.3m (2015: \$44.5m) whereas \$163.7m (2015: \$84.4m) related to this reinsurance contract is included in total reinsurer's share of technical provisions in the balance sheet.

Liberty Specialty Markets MENA Limited (LSM MENA), established 2015, also acts as a coverholder for the Syndicate and LMIE, for which it charges a fee for its services. The amount charged during the period was \$2.6m (2015: \$1.5m), of which an outstanding balance of \$2.2m (2015: -\$0.3m) remained at the balance sheet date. LSM MENA's immediate parent company is Liberty UK and Europe Holdings Limited.

18. Member's Funds

18.1. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA 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 annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses. Refer to note 16 for further details.

Notes to the Financial Statements

for the year ended 31 December 2016

18. Member's Funds (continued)

18.2. 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 \$1,111.2m (2015: \$1,108.1m).

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 2012 years of account at their time of closure. During 2016, the 2013 year of account result was also transferred to Funds in Syndicate. Additionally, net distributions to the member of \$174.4m (2015: \$97.1m) occurred during the calendar year.

19. Off-balance sheet arrangements

The Syndicate benefits from collateral pledged by ceded reinsurance counterparties, which is not held on the balance sheet. The collateral is held in segregated funds, and acts as additional security in the event of failure of those counterparties to meet their contractual obligations.

The Syndicate has not been party to any other arrangements, which is not reflected in its statement of financial position, where material risk and benefits arise for the Syndicate.

20. Post balance sheet events

On February 27 2017 the UK Ministry of Justice announced a change in the so called Ogden rate, which is used for discounting personal injury claims in the calculation of lump sum compensation awards, from 2.5% to -0.75% with effect from March 20 2017.

The change in rate has a significant impact on the reserves of the syndicate held in respect of such claims, as well as on future pricing decisions, and as such could be classed as an adjusting event for the purposes of these financial statements.

The managing agent has reviewed the potential impact of the change, taking into account the significant uncertainties that might affect the ultimate cost of the decision, and has concluded that the likely ultimate cost is within the margins held by the syndicate in order to deal with such uncertainties. The most significant impact is on the Motor Reinsurance class of business.

As a consequence, no adjustment to the syndicate financial statements has been made in respect of this event.

21. Ultimate parent company

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.