Important information about Syndicate Reports and Accounts

Report and Accounts 31 December 2014

318

MSF Pritchard
Syndicate 318

Beaufort Underwriting Agency Limited

MSF Pritchard Syndicate 318 has traded continuously at Lloyd's for over quarter of a century. In that time the Syndicate has grown and evolved to meet the changing demands of its clients and is well positioned to take advantage of the opportunities seen in today's increasingly volatile marketplace. Over time, the Syndicate has built up longstanding relationships with, and offered continuity to, its brokers, clients and capital providers alike. The combination of its experienced team of underwriting, claims and support personnel, and the ability to make the best use of increasingly sophisticated statistical techniques in support of its decisions, maximises the offering it presents to each of its counterparties.

2014 Annual accounts

2012 Underwriting year of account

Beaufort Underwriting Agency Limited

2014 calendar year

£135.7m (2013: £148.6m)
gross premiums written

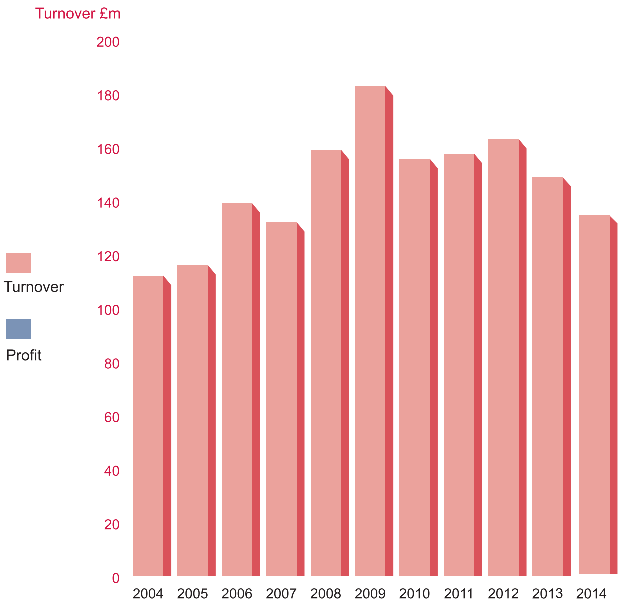
0.5% (2013: 0.6%)
annual investment yield

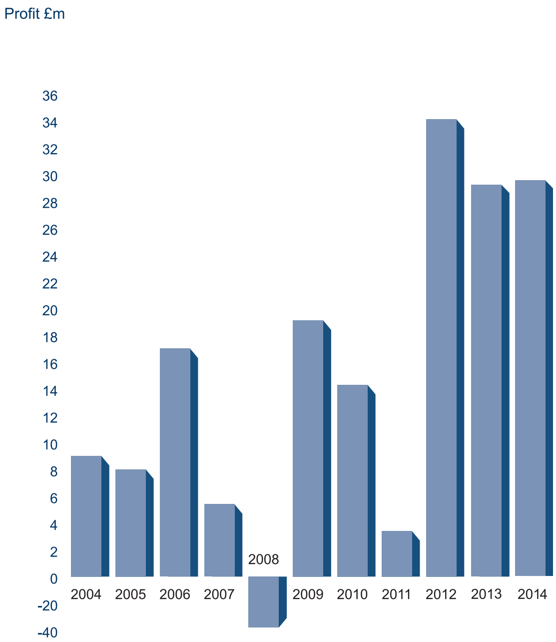
£29.5m (2013: £29.2m)
profit for year

£235m
2014 capacity

76.2% (2013: 78.9%)
Combined ratio including managing agency fee and profit commission

Syndicate 318 results on an annual accounting basis





Underwriter's report for the year ended 31 December 2014

Introduction

The Syndicate's results have been reported in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). These report and accounts are reported on an annual accounting basis. However, since the Syndicate benefits from a diverse capital base of traditional Names, as well as corporate members, where possible and appropriate, we have endeavoured to explain the events of the calendar year in the context of the underlying years of account.

Managing agents are also required to prepare a managing agent's report, financial statements and related notes, and supporting disclosure for members participating on the 2012 underwriting year of account, which closed at 31 December 2014. These are incorporated into this document on pages 37 to 60.

Reinsurance to Close ("RITC")

The RITC provides the basis of risk transfer from one set of underwriting members to another, upon closure of an underwriting year of account after a minimum of 36 months. The members on the 2012 year of account have paid an RITC premium to the members on the 2013 year of account, as part of this process. Details of the RITC premium can be found in the 2012 underwriting year of account report on page 44.

Profit for the Calendar Year

I am delighted to report that the profit for the calendar year, under UK GAAP, was £29.5m (2013: profit of £29.2m) and the combined ratio 76.2% (2013: 78.9%).

2012 Underwriting Year of Account (Profit for the closing year)

The 2012 underwriting year of account has closed with a profit of 12.2% after standard personal expenses to a traditional Name. As previously noted, this is reported in more detail on pages 37 to 60.

Key Events of Calendar Year 2014

The overall trend of premium rating in the Syndicate's core International Property account, continued to be downwards in 2014, as competition increased on open market business and the absence of market changing natural catastrophe events in the year continued to supress rates in the market. Some balance in the book was provided by the business written under delegated authorities, which are generally less sensitive to rating fluctuations.

It was a relatively quiet year for natural catastrophes, with hurricanes Odile and Gonzalo, being the only named windstorms that the Syndicate had significant exposure to. There were also a small number of risk losses which impacted on the account in the year. However, the overall loss experience in the year has been good.

Following a number of years of downwards pressure on Aviation rates, there was some stabilisation in the second half of the year, following the well publicised Malaysian Airlines and Air Asia losses. These were not losses to the Syndicate, but did help stem the tide of rate decreases which have affected the market for several years. The level of premium income has remained relatively consistent with 2013, and the account has benefited from a particularly low frequency of large losses in the year.

Overall, it has been another profitable year for the Syndicate, with strong contribution to profits coming from all classes of business. The Syndicate has benefited from lower than average claims experience in the current year, as well as significant reserve releases from prior accident years.

2015 and beyond

We expect the market to continue to be difficult throughout 2015, with premium income levels under pressure. Overcapacity and intense competition for capacity remain features of a softening market.

The market losses in Aviation for Malaysia Airlines are evidence that even major events will not necessarily have the lasting effect of significantly changing the rating environment. Whilst the availability of cheaper and more comprehensive reinsurance is of benefit to the Syndicate, it is also likely to be an additional factor in the suppression of rate increases for primary insurers.

We believe that we have the underwriting skill to navigate our way through this difficult period in the market, but are aware that low loss frequency, and prior year improvements on reserves cannot be relied upon for a basis of profitability every year.

I will now review in more detail each area of the account.

Aviation

The level of premium income written on the account has fallen slightly during the year owing to a combination of falling rates and underwriters not renewing business they believe fell outside the Syndicate’s profitability criteria. The Aviation account has benefited from the lowest incidence of large losses since the Syndicate began underwriting this class in 1998, as the Syndicate’s book was not affected by the major events in the year. There have been no new large losses on the account that have been notified to the Syndicate in 2015.

When combined with positive movements on prior year reserves, the account has performed exceptionally well during the year.

International and US Property

The International and US Property account remains the largest class of business written by the Syndicate. The market continued to be challenging in 2014, particularly for direct and facultative business, where downward pressure on rates has been most intense. This has been coupled with increasing competition in the market, which has led to a fall in premium income. The business written under US binding authorities has held up better, where rates are generally much less sensitive to changes in the market. The level of premiums written during the year has fallen by around 10%, although approximately half of the overall reduction is attributable to rates of exchange fluctuations in the US dollar. This was offset to some extent by reinsurance to close premiums received from Syndicate's 1318 and 2318, which in aggregate were just over £2m.

In spite of the softening rating environment in the market, it has been another profitable year for the Property account. The level of catastrophe losses in the year has been relatively benign. There have also been a number of favourable outcomes on the settlement of prior year claims, and a healthy release on prior year reserves.

2014 Year of Account (International and US Property)

The loss experience on the 2014 underwriting year has so far been relatively good. There were only two named windstorms in the year that had a significant impact on the account which were hurricanes Odile and Gonzalo, but the aggregate of these losses fell well within our planned catastrophe budget expectations. There have also been a number of large risk losses in the year, but these have not been outside the normal expectations of the Syndicate.

Loss	**Net US$ (m)**
Hurricane Odile	14.3
Hurricane Gonzalo	2.1
Total	16.4

The table above illustrates the current estimates for hurricanes Odile and Gonzalo.

2013 Year of Account (International and US Property)

The account has performed exceptionally well in the calendar year, with only three large risk losses reported; the aggregate quantum of these losses being $4.8m. There was no significant exposure to catastrophe losses in the year, whilst reserves set at 31 December 2013 have proven to be robust.

We expect the final outcome of the 2013 underwriting year for the Property account to be positive.

2012 Year of Account and Prior (International and US Property)

The reserves set at 31 December 2013 have again proved to be robust, and we have been encouraged by improvements on prior year claims where a release overall has been possible.

Conclusion

I am delighted to report another profit for the year, on both a calendar year, and an underwriting year basis. Whilst we expect markets to be difficult in 2015 we are confident we have the requisite skills to meet the challenges that lie ahead, and continue to generate profits to all our capital providers.

D. C. Eales
Active Underwriter
17 March 2015

Corporate information

MANAGING AGENCY:
DIRECTORS AND ADMINISTRATION

Beaufort Underwriting Agency Limited is the Lloyd's Managing Agent for MSF Pritchard Syndicate 318 and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Directors:

R.G. Carter *(non-executive chairman)*
M.J. Cox *(non-executive)*
C.J.W. Czapiewski *(non-executive)*
A.S. Dawe *(resigned 30/09/2014)*
D.C. Eales
A. Hoffmann
C.A.A. Niebuhr *(non-executive)*
G.M. Tuck

Company secretary

P. Langridge

The registered office of Beaufort Underwriting Agency Limited is One Minster Court, Mincing Lane, London EC3R 7AA. The registered number of Beaufort Underwriting Agency Limited is 4039137.

Syndicate:
Active underwriter

Derek Eales was appointed Active Underwriter of Syndicate 318 on 1 July 2013.

Bankers

Citibank, N.A.
Royal Bank of Canada
Lloyds Banking Group Plc

Investment managers

Amundi (UK) Ltd

Actuaries

Lane Clark & Peacock LLP

Syndicate auditors

Mazars LLP

The Managing Agent presents its report for the period ended 31 December 2014.

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the "Regulations") require the Managing Agent to prepare syndicate annual accounts for Syndicate 318 at 31 December each year which give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

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

a) select suitable accounting policies which are applied consistently, with the exception of changes arising on the adoption of new accounting standards in the year;

b) make judgements and estimates that are reasonable and prudent;

c) state whether applicable accounting standards have been followed, subject to any material differences disclosed and explained in the financial statements; and

d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that there will be future years of account of the Syndicate.

The Managing Agent is responsible for keeping proper accounting records that 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 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Key Risks

The Syndicate is exposed to a variety of risks when undertaking the activities associated with the running of the business. The Board has policies and procedures in place to identify and manage the risks to the Syndicate. The key risks to the Syndicate are: Insurance risk; Credit risk; Liquidity risk; Market risk and Operational risk.

Corporate Governance and Risk Management

The Board consists of a number of sub-committees each with written terms of reference which consider, monitor and report on aspects of the Managing Agency's business. The Board is represented on each committee and retains overall responsibility for the Syndicate's business.

The Managing Agency maintains a risk framework for the identification, assessment, management and monitoring of the risks which it is exposed to across all aspects of its day-to-day business operations and maintains a risk register based on the output of this framework. The risk framework encompasses all core risk areas including insurance, credit, investment, liquidity, market, concentration and operational risk. Various controls operate in respect of these risk areas and their performance and continued suitability are monitored via the Managing Agency Board and/or relevant sub-committee and through the use of key risk and control indicators.

Audit Committee

The Audit Committee has the delegated authority of the Board to consider all aspects and matters pertaining to the external audit and internal audit of the managing agency and managed syndicate, including an assessment of the performance, effectiveness and suitability of these functions.

Risk Committee

The Risk Committee has the delegated authority of the Board to consider all aspects and matters pertaining to the identification, assessment, monitoring and mitigation of risk within the Managing Agency and managed syndicate including an assessment of the performance, effectiveness and suitability of the risk management function and risk framework. The Risk Committee is responsible for the consideration of operational risk issues and maintains the Managing Agency's risk register.

General Business Committee

The General Business Committee has the delegated authority of the Board to consider any matters that do not require consideration by the full Board. In general, the committee considers the more day-to-day administrative and operational issues relating to the Managing Agency and managed syndicate.

Investment Committee

The Investment Committee has the delegated authority of the Board to recommend, implement and monitor an appropriate investment policy, investment guidelines and performance measures for the managed syndicate; for assessing the performance, effectiveness and continued suitability of the investment managers; and for ensuring compliance with relevant prudential rules. The Investment Committee has specific responsibility for the consideration of market, liquidity and concentration risk relating to the investment of managed syndicate assets.

Claims & Reserving Committee

The Claims & Reserving Committee is a sub-committee of the Board and has responsibility for reviewing and monitoring all aspects of the managed syndicate's claims performance and claims service delivery.

Syndicate Management Committee

The Syndicate Management Committee has the delegated authority of the Board to consider, monitor and review all aspects of the underwriting strategy, management and performance of the managed syndicate. The Syndicate Management Committee has specific responsibility for the consideration of insurance, reinsurance and claims risk.

To assist it in fulfilling its obligations, the Syndicate Management Committee has constituted a sub-committee which addresses specific areas of managed syndicate operations in more detail:

Reinsurance Operations Group

The Reinsurance Operations Group is a sub-committee of the Syndicate Management Committee and has responsibility for reviewing and monitoring all aspects of the managed syndicate's reinsurance arrangements and for ensuring effective communication between the underwriting, claims and reinsurance areas.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board of MSP Underwriting Limited. MSP Underwriting Limited is the intermediate holding company of Beaufort and employs all Managing Agency and managed syndicate staff. The Remuneration Committee is responsible for the determination of the remuneration, benefits and bonus arrangements of the senior executives and officers of the Managing Agency and managed syndicate; for the review and approval of the general level of remuneration and benefits for other staff; ensuring compliance with parent company remuneration policy and guidelines; and ensuring that remuneration arrangements are consistent with principles of sound risk management and corporate governance.

Underwriting Activities

The Syndicate underwrites in two core business areas: International and US Property, and Aviation. The composition of the account is broadly consistent with last year, although Property now makes up a slightly smaller proportion of the total premium written.

The level of gross written premiums has decreased during the year to £135.7m in 2014 from £148.6m in 2013. The decrease in premium income is owing to a combination of rates of exchange as well as a fall in premiums written by the Syndicate in the year. The main driver of the fall in premium owing to currency exchange has resulted from the change in the average rate of exchange, which is the rate used to translate the profit and loss account. The average rate of the US dollar has moved from 1.56 in 2013 to 1.65 in 2014. The overall reduction in premium from rates of exchange movements in the year is £8m. The remainder of the fall in premium has resulted from pressure on the rating environment due to increasing competition in the market. The Property account has been affected by these factors more than the Aviation account.

Result for the 2014 Calendar Year

For the year ended 31 December 2014, Syndicate 318 has generated an overall profit of £29.5m (2013: profit of £29.2m), and a combined ratio of 76.2% (2013: 78.9%)

An analysis of the contribution to the overall result made by the individual underwriting years of account is as follows:

	2012 and Prior Years of Account £000	2013 Year of Account £000	2014 Year of Account £000	2014 Calendar Year Combined £000	2013 Calendar Year Combined £000
Gross Earned Premium	2,898	62,829	74,531	140,258	155,033
Reinsurer's Share	(218)	(4,822)	(14,789)	(19,829)	(22,705)
Net Earned Premium	2,680	58,007	59,742	120,429	132,328
Gross Claims Paid	(31,716)	(20,299)	(7,886)	(59,901)	(112,281)
Reinsurer's Share	5,476	1,160	167	6,803	10,350
Net Claims Paid	(26,240)	(19,139)	(7,719)	(53,098)	(101,931)
Change in provision for gross claims	45,795	(4,818)	(35,630)	5,347	46,178
Change in provision for reinsurer's share	(3,528)	(104)	1,623	(2,009)	(6,841)
Change in provision for net claims	42,267	(4,922)	(34,007)	3,338	39,337
Net Operating Expenses	(4,681)	(18,996)	(18,379)	(42,056)	(41,824)
Balance on Technical Account	14,026	14,950	(363)	28,613	27,910
Net Investment Income	492	372	(26)	838	1,305
Profit/(loss) for the financial year	14,518	15,322	(389)	29,451	29,215
Currency translation differences on foreign currency	2,375	1,303	415	4,093	(2,890)
Total recognised gains and losses since last annual report	16,893	16,625	26	33,544	26,325

Technical Result

The technical profit has been primarily generated by the strong underwriting performance on the 2013 year of account, which has had a good loss experience in the year, as well as a significant contribution from the 2012 & prior years of account, which have benefited from reserve releases in the year. The relatively low catastrophe loss experience, and absence of large losses on the Aviation account, has also meant that the 2014 year of account has had very good underwriting performance to date.

The investment return has fallen in the year, owing to market conditions. The investment landscape remains extremely difficult, as the low interest rate environment continues.

Contribution of 2014 year of account to the calendar year result

The 2014 year of account has contributed a loss for the calendar year, before investment income, of £0.4m. The result is marginally worse than the 2013 year of account calendar year result at the same stage of progression, which produced a profit of £0.3m. Although, the 2014 year has not been a severe year for catastrophe events, it has incurred more losses from windstorms than 2013 at the same stage. However, the performance of the Aviation account has been much better than 2013.

The Syndicate continues to earn its acquisition costs in line with gross earned premium, whilst administration expenses, and Names' expenses are earned as they are incurred. Managing agent's profit commission is 'earned' in line with cumulative profits to a year of account, when there is reasonable certainty of payment, after allowances for the potential impact of deficit clauses within the Agency Agreement.

There was no calendar year investment return attributable to the 2014 underwriting year, as investment manager's fees exceeded returns. This is due to average cash balances in the first 12 months of an underwriting year tend to be low relative to the other years of account.

Currency translation differences arising from conversion of the calendar year result from average to closing rates of exchange have reduced the balance on the open year by £415,285, resulting in an overall surplus of £25,528. The retranslation gain has resulted from a strengthening in the US dollar at the end of 2014.

Contribution of 2013 year of account to the calendar year result

The 2013 year of account has contributed a profit for the calendar year, before investment income of £14.9m. The calendar year has been profitable, on both the International and US property and the Aviation accounts. The 2013 year of account was not significantly affected by catastrophe losses in 2014, and there have been no large losses reported on the Aviation account. Overall, the loss experience has been very good.

The investment return for the calendar year attributable to the 2013 underwriting year of account has been positive, producing net investment income of £0.37m.

Currency translation losses following retranslation of opening balances and the calendar year result to closing rates of exchange are £1.3m. The retranslation gain has resulted from a strengthening in the US dollar at the end of 2014.

Members' balances currently stand at an overall surplus of £16.5m, after standard personal expenses. We remain positive regarding the result of the 2013 year of account, and are forecasting a profit of 5% to 10% upon closure.

Contribution of 2012 year of account to the calendar year result

The 2012 year of account has contributed a profit for the calendar year before investment income, of £14m. In 2014 there has been an improvement of £12.2m on closed year reserves, which has been the most significant contributor to the calendar year result.

The investment return for the year of £0.5m has increased the profit for the year to £14.5m

After currency translation losses following retranslation of opening balances and the calendar year result to closing rates of exchange, the total recognised gains and losses for the year are £16.9m. The retranslation gain has resulted from a strengthening in the US dollar at the end of 2014.

Operating Expenses

	2012 and Prior Years of Account £000	2013 Year of Account £000	2014 Year of Account £000	2014 Calendar Year Combined £000	2013 Calendar Year Combined £000
Acquisition Costs (Brokerage)	(387)	(13,574)	(10,729)	(24,690)	(26,621)
Acquisition Costs (Other)	(460)	(1,029)	(3,559)	(5,048)	(5,771)
Administrative Expenses	(458)	(287)	(1,488)	(2,233)	(1,834)
Profit/(loss) on Exchange	297	64	(4)	357	(51)
Standard Personal Expenses	550	(39)	(2,599)	(2,088)	(2,757)
Managing Agents Profit Commission	(4,223)	(4,131)	–	(8,354)	(4,790)
Net Operating Expenses	(4,681)	(18,996)	(18,379)	(42,056)	(41,824)

As in previous years, acquisition costs (brokerage) represent the largest single expense item in 2014, which has decreased in line with the fall in gross premiums during the year. Other operating expenses under the control of the managing agency have stayed relatively consistent in the calendar year. The Syndicate has made a large profit on exchange during the year.

Profit commission has been accrued on the 2012 and 2013 years of account.

Investment Performance

		2014 '000	%	2013 '000	%
Average Amount of Syndicate Funds		£187,318		£203,611	
Investment Return		£979	0.52%	£1,305	0.64%
By Currency:					
Sterling:*	Average Funds	£8,895		£11,675	
	Investment Return	£(33)	(0.37)%	£27	0.23%
US Dollar:	Average Funds	US$278,874		US$275,605	
	Investment Return	US$1,259	0.45%	US$1,697	0.62%
Canadian Dollar:	Average Funds	Can$17,241		Can$24,776	
	Investment Return	Can$196	1.14%	Can$307	1.24%

*Includes investment manager's fees of £140,755 (2013: £153,534).

Investment Policy

The Investment objective is to invest the Premiums Trust Funds in a manner calculated to maximise return within agreed restraints and in line with policies approved by the Managing Agency. In consideration of this policy, portfolios are predominantly invested in short-term, high quality fixed income securities. The investment managers have been instructed to invest for the highest total return consistent with maintaining agreed levels of liquidity and security. They also have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price conditions. An Investment Committee and formal procedures for monitoring investments exist in line with guidance from Lloyd's.

Review of Calendar Year 2014

The investment portfolio continued to show resilient performance in 2014 with returns above benchmark, and above the mid-point of the range estimated at the start of the year. Returns continued to show stability in volatile markets – the Bank of America Merrill Lynch 1-3 year US Government Index returned 0.62% for the year with monthly swings as high as +/- 28bp.

Global growth improved further in 2014, on both sides of the Atlantic, but largely driven by the US. US employment data continued to improve and consumption remained firm. This gave reason for the Federal Reserve to halt increasing its balance sheet in October as "tapering" came to an end, which has drawn an end to the Quantitative Easing programme. The Federal reserve also toned down the dovishness in its statement, acknowledging the need for normalisation of monetary policy, and removing its "considerable time" language in reference to keeping rates low. This has brought market expectations for the first rate hike forward, pushing yields higher, and the increasing uncertainty on the path of rates has caused a corresponding increase in fixed income volatility. Corporate bonds which performed well in the first half of the year, performed less well in the second half as credit spreads widened but from low levels.

The combined USD portfolio returned 0.55% during 2014, significantly above the Bank of America Merrill Lynch 1-month LIBID benchmark and slightly behind the 1-3 year government bond comparator. Performance was driven by corporate bond and ABS holdings which provided additional carry and benefited from some narrowing of spreads during the year. European corporate bonds and agency paper denominated in USD also continued to perform well.

Outlook for 2015

Nominal global growth is expected to rise in 2015 led by the US, with the potential to cause a bond sell-off. The Federal reserve could be less data-dependent as it moves towards a mid-year lift-off for the central bank rate. Once the base effects of lower oil prices work through, inflation could return as a theme. ECB Quantitative Easing and negative rates may push the Euro substantially lower and an ECB "Twist", where longer dated bonds may be purchased, will be added later in the year. Eurozone growth will pick up and ratings agencies may continue with grudging upgrades. Peripheral spreads will continue to tighten further as Eurozone political risks prove manageable but Greece is unlikely to win significant concessions from its creditors. UK growth expectations should rise again after the general election delivers a coalition government and the housing market outside of London is expected to improve further. Sterling could be held back as a potential EU referendum becomes an increasing market focus. Emerging markets are likely to remain under pressure all year. Some risks remain: a potential Russian default; Greek bank run/euro exit; populist-led governments gaining further traction in the UK or Spain; political opposition stalls yen depreciation.

Yields are expected to remain low and credit spreads narrow, until a path of rising interest rates is clear. Bond markets could continue to be volatile as the date of lift-off approaches. Low yields would leave limited scope for generating excess returns, but steeper yield curves are already proving more attractive. With growth improving and the potential for higher interest rates, there is a real possibility of losses for fixed income portfolios. To counter this risk, the portfolios are expected to remain positioned short duration relative to benchmarks. Corporate bonds will continue to be used to enhance portfolio yields: negative supply and continued hunt for yield, particularly outside of the Eurozone, will ensure spreads remain contained. Corporate default rates are still very low as balance sheets remain strong, and companies have had ample chance to refinance at historically low rates. The short dated nature of the portfolios and a buffer of government and sovereign-related bonds ensures there will be ample liquidity to meet potential cash flows.

Syndicate annual general meeting

The managing agent does not propose holding an annual meeting for the Syndicate.

Auditors

The managing agent proposes to appoint KPMG LLP as the Syndicate auditors with effect from 1 April 2015.

In connection with the above proposals and, in accordance with the Lloyd's Advance Consent process as set out in Market Bulletin Y3116 of 14 August 2003, the managing agent wrote to all members' agents on 25 February 2015 to seek exemption from the requirements of the Audit Arrangements Byelaw (No.7 of 1998), Paragraph 14A and the Syndicate Meetings Byelaw (No. 11 of 1994), Part B, Paragraph 2 respectively.

KPMG LLP are currently the independent auditors of the managing agency and associated corporate members. Within its memorandum to members' agents, the managing agent gave certain undertakings in respect of the management of potential conflicts of interest that could arise from the provision of audit services to both the managing agent and managed syndicate.

Statement as to disclosure of information to auditors

The directors of the Managing Agent at the date of this report have individually taken all the necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the Syndicate auditors are aware of that information. As far as the directors are aware, there is no relevant audit information of which the Syndicate auditors are unaware.

G. M. Tuck
Finance Director

Beaufort Underwriting Agency Limited
One Minster Court
London EC3R 7AA

Approved by the Board of Beaufort Underwriting Agency Limited on 11 March 2015

We have audited the Syndicate annual accounts of Syndicate 318 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes 1 to 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).

Respective responsibilities of the Managing Agent and 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 ("APB's") Ethical Standards for Auditors. This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's members as a body, for our audit work, for this report, or for the opinion we have formed.

Scope of the audit of the Syndicate annual accounts

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Syndicate annual accounts

In our opinion the Syndicate annual accounts:

- give a true and fair view of the state of affairs of Syndicate 318 as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on the 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 for which the Syndicate annual accounts are prepared is consistent with the Syndicate annual accounts.

Matters on which we are required to report by exception

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

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

Raymond Tidbury (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St. Katharine's Way
London E1W 1DD
17 March 2015

Profit and loss account for the year ended 31 December 2014

Technical account – general business

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	135,721		148,612	
Outward reinsurance premiums		(19,322)		(24,065)	
Change in the provision for unearned premiums					
Gross amount		4,537		6,421	
Reinsurers' share		(507)		1,360	
			120,429		132,328
Allocated investment return transferred from the non-technical account			838		1,305
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(59,901)		(112,281)	
Reinsurers' share		6,803		10,350	
		(53,098)		(101,931)	
Change in the provision for claims					
Gross amount		5,347		46,178	
Reinsurers' share		(2,009)		(6,841)	
		3,338		39,337	
			(49,760)		(62,594)
Net operating expenses	4		(42,056)		(41,824)
Balance on the technical account – for general business			29,451		29,215

All items relate only to continuing operations.

The notes on pages 23 to 36 form part of these accounts.

Non-technical account

	Note	2014 £000	2013 £000
Balance on the general business technical account		29,451	29,215
Income from investments		2,063	2,998
Realised gains on investments		–	–
Unrealised gains on investments		–	–
Realised losses on investments		(656)	(873)
Unrealised losses on investments		(428)	(666)
Investment expenses and charges		(141)	(154)
Allocated investment return transferred to general business technical account		(838)	(1,305)
Profit for the financial year	13	29,451	29,215

Statement of Total Recognised Gains and Losses

	Note	2014 £000	2013 £000
Profit for the financial year		29,451	29,215
Currency translation differences on foreign currency	13	4,093	(2,890)
Total recognised gains since last annual report		33,544	26,325

The notes on pages 23 to 36 form part of these accounts.

Balance sheet as at 31 December 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Assets					
Investments					
Other financial investments	8		192,041		172,278
Reinsurers' share of technical provisions					
Provision for unearned premiums		3,363		3,671	
Claims outstanding		14,321		15,643	
			17,684		19,314
			209,725		191,592
Debtors					
Debtors arising out of direct insurance operations	9	29,180		26,178	
Debtors arising out of reinsurance operations	10	8,728		14,793	
Other debtors	11	1,308		1,428	
			39,216		42,399
Other assets					
Cash at bank and in hand		505		834	
Other	12	8,196		9,493	
			8,701		10,327
Prepayments and accrued income					
Deferred acquisition costs		12,902		13,740	
Other prepayments and accrued income		1,752		1,682	
			14,654		15,422
Total assets			272,296		259,740

The notes on pages 23 to 36 form part of these accounts.

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Liabilities					
Capital and reserves					
Members' balances	13		45,232		32,707
Technical provisions					
Provision for unearned premiums		59,571		61,102	
Claims outstanding		149,101		147,686	
			208,672		208,788
Creditors					
Creditors arising out of direct insurance operations	14	1,009		1,055	
Creditors arising out of reinsurance operations	15	5,567		8,808	
Other creditors including taxation and social security	16	506		29	
Accruals and deferred income		11,310		8,353	
			18,392		18,245
Total liabilities			272,296		259,740

The financial statements on pages 18 to 36 were approved by the Board of Beaufort Underwriting Agency Limited on 11 March 2015 and were signed on its behalf by

D. C. Eales
Active Underwriter

G. M. Tuck
Finance Director

17 March 2015

The notes on pages 23 to 36 form part of these accounts.

Statement of cash flows for the year ended 31 December 2014

	Note	2014 £000	2013 £000
Reconciliation of operating profit to net cash inflow/(outflow) from operating activities			
Operating profit on ordinary activities		29,451	29,215
Realised and unrealised investments (gains)/losses	17	(7,403)	6,098
Income from investments		(1,922)	(2,844)
Increase/(decrease) in net technical provisions		1,514	(49,116)
Decrease in debtors		3,951	3,812
Increase in creditors		147	5,067
Currency translation on differences in foreign currency net investments		4,093	(2,890)
Net cash inflow/(outflow) from operating activities		29,831	(10,658)
Net cash inflow/(outflow) from operating activities		29,831	(10,658)
Returns on investment and servicing of finance:			
Investment charges		(141)	(154)
Interest received		2,063	2,998
Transfer to members in respect of underwriting participations	13	(21,019)	(9,259)
		10,734	(17,073)
Cash flows were invested as follows:			
Decrease in cash holdings		(329)	775
Increase in deposits		187	(3,143)
Increase in shares and other variable yield securities		(3,328)	(16,672)
Net sale of investments		14,204	1,967
Net investment of cash flows	17	10,734	(17,073)

The notes on pages 23 to 36 form part of these accounts.

1 Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 as amended in December 2006 ("the ABI SORP").

2. Accounting policies

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Premiums written comprise premiums on contracts which incepted during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

(b) Unearned premiums

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

(c) Reinsurance premium ceded

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

(d) Claims Incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end.

(e) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques and underwriting judgements applied by the Active Underwriter and the Managing Agency's management and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be

2 Accounting policies *continued*

(e) Claims provisions and related recoveries *continued*

experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

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

(f) Unexpired risks provision

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

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

(g) Acquisition costs

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

(h) Foreign currencies

Income and expenditure in US dollars and Canadian dollars are translated into Sterling at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

2 Accounting policies *continued*

(h) Foreign currencies *continued*

Syndicate assets and liabilities are translated into Sterling at the rates of exchange at the balance sheet dates. Differences arising on translation of foreign currency amounts are included in the statement of recognised gains and losses.

(i) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid market value and deposits with credit institutions and overseas deposits are stated at cost.

(j) Investment return

Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, 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 to reflect the investment return on funds supporting underwriting business.

(k) Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings.

No provision has been made for any other overseas tax payable by members on underwriting results.

2 Accounting policies *continued*

(l) Pension costs

The intermediate parent company of the Managing Agent operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses.

(m) Operating lease rentals

Amounts recharged by the Managing Agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the charge relates.

(n) Net operating expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of the Syndicate, the amounts in question are apportioned using varying methods depending on the expense type. Expenses which are incurred jointly for the Managing Agent and Syndicate are apportioned depending on the amount of work performed, resources used and the volume of business transacted. Net operating expenses are allocated to the year of account for which they are incurred.

3 Particulars of business written

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

2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Motor (other classes)	252	264	(230)	(74)	77	37
Marine aviation and transport	6,635	6,096	454	(1,908)	(838)	3,804
Fire and other damage to property	76,292	78,510	(32,348)	(22,281)	(9,824)	14,057
	83,179	84,870	(32,124)	(24,263)	(10,585)	17,898
Reinsurance acceptances	52,542	55,388	(22,430)	(17,793)	(4,450)	10,715
Total	135,721	140,258	(54,554)	(42,056)	(15,035)	28,613

2013	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Motor (other classes)	214	261	(281)	(93)	(11)	(124)
Marine aviation and transport	4,972	6,615	(4,018)	(1,741)	(99)	757
Fire and other damage to property	79,440	79,065	(39,601)	(21,702)	(4,918)	12,844
	84,626	85,941	(43,900)	(23,536)	(5,028)	13,477
Reinsurance acceptances	63,986	69,092	(22,203)	(18,288)	(14,168)	14,433
Total	148,612	155,033	(66,103)	(41,824)	(19,196)	27,910

All premiums were written in the UK. All net assets and profits are derived from UK business.

Geographical analysis by destination

	2014 Gross premiums written £000	2013 Gross premiums written £000
UK	8,580	12,186
US	78,527	72,819
Other	48,614	63,607
Total	135,721	148,612

4 Net operating expenses

	2014 £000	2013 £000
Acquisition costs	28,316	31,731
Change in deferred acquisition costs	1,422	661
Administrative expenses	12,675	9,381
(Profit)/loss on currency exchange	(357)	51
	42,056	41,824

Administrative expenses include:

	2014 £000	2013 £000
Auditors' remuneration		
Audit services	167	164
Operating lease rentals		
Property	379	392

5 Staff numbers and costs

All staff are employed by the intermediate parent company of the Managing Agency. The following amounts were recharged to the Syndicate in respect of salary costs:

	2014 £000	2013 £000
Wages and salaries	4,270	4,435
Social security costs	518	567
Other pension costs	534	514
	5,322	5,516

The average number of employees employed by the intermediate parent company of the Managing Agency but working for the Syndicate during the year was as follows:

	2014 No	2013 No
Administration and finance	19	18
Underwriting	16	18
Claims	10	9
	45	45

6 Emoluments of the directors of Beaufort Underwriting Agency Limited

The directors of Beaufort Underwriting Agency Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2014 £000	2013 £000
Emoluments	659	765
Contributions to defined contribution pension schemes	84	65
	743	830

7 Active Underwriter's emoluments

The Active Underwriter received the following aggregate remuneration charged as a syndicate expense:

	2014 £000	2013 £000
Emoluments	274	293
Contributions to defined contribution pension schemes	44	19
	318	312

8 Financial Investments

	Market value		Cost	
	2014 £000	2013 £000	2014 £000	2013 £000
Shares and other variable yield securities and units in unit trust funds	14,115	14,562	14,115	14,562
Debt securities and other fixed income securities	171,301	148,671	171,746	149,296
Participation in investment pools	6,625	9,045	6,625	9,045
Total investments	192,041	172,278	192,486	172,903

Shares and other variable yield securities and units in unit trusts and debt securities and other fixed income securities are all listed on recognised stock exchanges.

9 Debtors arising out of direct insurance operations

	2014 £000	2013 £000
Due within one year		
– intermediaries	29,180	26,178
	29,180	26,178

10 Debtors arising out of reinsurance operations

	2014 £000	2013 £000
Due within one year	8,728	14,793
	8,728	14,793

11 Other debtors

	2014 £000	2013 £000
Due within one year	1,150	1,270
Due after one year	158	158
	1,308	1,428

Included within other debtors are £507,313 (2013: £620,219) relating to members' agents fees paid by the Syndicate on behalf of members and other non standard personal expenses.

12 Other assets – other

	2014 £000	2013 £000
Amounts advanced in Illinois USA as a condition of carrying on business there	91	76
Amounts advanced in Australia, South Africa and other countries as a condition of carrying on business there	8,105	9,417
	8,196	9,493

13 Reconciliation of members' balances

	2014 £000	2013 £000
Members' balance at 1 January	32,707	15,641
Recalculation of currency balances	4,093	(2,890)
Profit for the financial year	29,451	29,215
Transfer to members' personal reserve funds	(21,019)	(9,259)
Members' balances carried forward at 31 December	45,232	32,707

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Members' balances do not include members' agent's fees or non standard personal expenses.

14 Creditors arising out of direct insurance operations

	2014 £000	2013 £000
Due within one year	1,009	1,055

15 Creditors arising out of reinsurance operations

	2014 £000	2013 £000
Due within one year	5,567	8,808

16 Other creditors

	2014 £000	2013 £000
Due within one year	506	29

17 Movement in opening and closing portfolio investments net of financing

	2014 £000	2013 £000
Net cash outflow from the year	(142)	(2,368)
Cash flow – portfolio investments	10,876	(14,705)
Movement arising from cash flows	10,734	(17,073)
Changes in market value and exchange rates	7,403	(6,098)
Total movement in portfolio investments net of financing	18,137	(23,171)
Balance brought forward at 1 January	182,605	205,776
Balance carried forward at 31 December	200,742	182,605

	At 1 January 2014 £000	Cash Flow £000	Changes to market value and currencies £000	At 31 December 2014 £000
Cash at bank and in hand	834	(329)	–	505
Overseas deposits	9,493	187	(1,484)	8,196
Shares and other variable yield securities and units in unit trusts	14,562	(1,157)	710	14,115
Debt securities and other fixed income securities	148,671	14,204	8,427	171,302
Participation in investment pools	9,045	(2,171)	(250)	6,624
Total portfolio investments	182,605	10,734	7,403	200,742

18 Net cash inflow/(outflow) on portfolio investments

	2014 £000	2013 £000
Purchase of shares and other variable yield securities	(1,157)	(9,023)
Sale of debt securities and other fixed income securities	14,204	1,967
Purchase of debt securities and other fixed income securities	(2,171)	(7,649)
	10,876	(14,705)
Sale of deposits with credit institutions	–	–
Net cash inflow/(outflow) on portfolio investments	10,876	(14,705)

19 Related parties

Beaufort Underwriting Agency Limited – Ultimate parent company

The ultimate parent company of Beaufort Underwriting Agency Limited ("BUAL") is Münchener Rücksversicherungs-Gesellschaft Aktiengesellschaft in München ("Munich Re"). Munich Re is incorporated in Germany, and acquired the entire issued share capital of MSP Underwriting Limited ("MSP"), the previous ultimate holding company of BUAL, in November 2007. MSP is the intermediate holding company of BUAL.

Group accounts for Munich Re are available from the Company Secretary of BUAL, One Minster Court, London EC3R 7AA, or at www.munichre.com/publications, selecting investor relations.

Beaufort Underwriting Agency Limited directors' interests in Munich Re

C.A.A. Niebuhr held 20 shares and A. Hoffmann held 50 shares in Munich Re. None of the other directors of BUAL or their families held shares in Munich Re at 31 December 2014.

For the 2013, 2014 and 2015 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2013	214,291	91.2
2014	214,357	91.2
2015	214,357	91.2

Other disclosures

M.J. Cox is a director of Independent Services Group Limited ("ISG") and associated Group companies ISG Advisory Services Limited and ISG-IT Limited of which he is also chairman. ISG also owns Independent Broking Services Limited ("IBS"), which is a Lloyd's broker. Mr Cox is not involved in the day to day operations of IBS, or has any involvement in the placement of such business with Syndicate 318 which is written on normal market terms arm's length. For the period covered by these reports and accounts, business was placed by IBS with Syndicate 318. Until 23 May 2014 Mr Cox was also a director of Ace European Group Limited ("Ace") and Ace Underwriting Agencies Limited, which manages Lloyd's Syndicate 2488. None of BUAL's managed Syndicates purchases reinsurance protection from either Ace or Syndicate 2488. However, Syndicate 318 participates in certain facultative reinsurances of both Ace and Syndicate 2488. Mr Cox is not involved in the negotiation of any of these contracts, which are written on normal market terms at arm's length.

Bell and Clements Limited

Bell and Clements Limited ("BCL") a fellow subsidiary and related party of Munich Re is an intermediary authorised and regulated by the Financial Conduct Authority, and is a Lloyd's broker. Syndicate 318 has underwritten a number of contracts of insurance and reinsurance, and binding authorities, placed by BCL. For 2014, Gross Written Premiums under these contracts amounted to £542,657 (2013: £861,761) with acquisition costs on Gross Written Premiums amounting to £150,022 (2013: £240,646).

19 Related parties *continued*

Munich Re Underwriting Limited

Munich Re Underwriting Limited (“MRUL”) is a Lloyd’s managing agency which manages Watkins Syndicate 457, underwriting predominately marine and energy business and is a wholly owned subsidiary of Munich Re Holding Company (UK) Limited. Its ultimate parent company is also Munich Re. None of the Directors of Munich Re Underwriting Limited participates directly as an underwriting member of Syndicate 318.

Münchener Rückversicherungs-Gesellschaft (“Munich Reinsurance Company”)

The Syndicate purchases reinsurance protection from Munich Re. Total premiums ceded in respect of these contracts amounted to £72,484 (2013: £356,788). Actual and anticipated recoveries under these arrangements amount to £2,099 as at 31 December 2014 (2013: £10,517).

All contracts are written on normal market terms at arm’s length.

Great Lakes Reinsurance (UK) plc (“GLUK”)

From the 2010 year of account, BUAL entered into an agreement with GLUK whereby the Syndicate would underwrite certain Airline business on behalf of GLUK, a wholly owned subsidiary of Munich Re. The agreement was conditional on a number of factors including that, for new and renewal business, the Syndicate would underwrite for its own account in accordance with its line structure in the first instance, and only those risks where the Syndicate participates would be accepted on GLUK’s behalf.

In April 2012, members of the Syndicate were consulted on an extension to the agreement to cover General Aviation business. This was for the purposes of allowing the Syndicate to manage (but not participate in) a specific facility on GLUK’s behalf. At the renewal anniversary, the Syndicate would have the right to review its decision whether to participate or not for the forthcoming year.

In each case, an over-rider is payable by GLUK to the Syndicate equivalent to 4% of gross premiums (after brokerage) which is credited against Syndicate expenses. At 31 December 2014, the following amounts have been accrued and are payable to the Syndicate:

2013:	£389,140 and US$355,688
2014:	£165,180 and US$94,556

In respect of the 2012 year of account, the syndicate received £364,101 and US$632,050 in the calendar year.

19 Related parties *continued*

Inter-syndicate transactions

During the period to which these reports relate, the Syndicate underwrote reinsurances of Syndicate 457, managed by MRUL.

It was agreed by the Board of the Managing Agency on 6 February 2014, that Syndicate 1318 and Syndicate 2318, would pay a reinsurance to close premium to Syndicate 318 in respect of the 2011 year of account. The reinsurance to close premium received in respect of Syndicate 1318 was £2,485,420, at average rates of exchange, and for Syndicate 2318 was £25,000.

Beaufort Underwriting Services Limited (formerly Evergreen Underwriting Services Limited)

Beaufort Underwriting Services Limited ("BUSL") acted solely as a service company for the introduction of UK/Eire commercial, homeowners' property and liability and aviation risks to Syndicate 318. BUSL is an appointed representative of BUAL under the requirements of the Financial Conduct Authority. During the year, there were no cash transactions between BUSL and the Syndicate, or any amounts due to or from the Syndicate at the 31 December 2014 in respect of BUSL.

The Syndicate ceased accepting new or renewal business via BUSL on 31 December 2009.

Beaufort Underwriting Agency Limited

Amounts payable to BUAL at 31 December 2014 totalled £476,393 (2013: £164,508 receivable). These amounts are included in "Other creditors".

Total fees payable to BUAL in respect of services provided to the Syndicate amounted to £4,581,539 (2013: £4,516,539). Profit commission of £7,175,579 is due in respect of the 2012 year of account (2011: £5,254,770). Profit commission of £4,131,699 has been accrued on the 2013 year of account (2012: £2,953,019). No profit commission has been accrued on the 2014 year of account. The 2013 year of account will normally close at 31 December 2015 and the 2014 year of account at 31 December 2016.

Expenses totalling £8,862,960 (2013: £8,592,926) were recharged to the Syndicate by BUAL. Where expenses were incurred jointly by the Managing Agent and the Syndicate, they were apportioned as follows:

Salaries and related costs	– according to time of each individual spent on Syndicate matters
Accommodation costs	– according to number of personnel
Other costs	– as appropriate

The reinsurance premium paid to close the 2012 year of account at 31 December 2014 was agreed by the Board of the Managing Agency on the 5 February 2015. Consequently the technical provisions at 31 December 2014 have been presented in the balance sheet under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account – gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw.

20 Post balance sheet events

A total of £28,510,800.26 will be transferred to members' personal reserve funds on 10 April 2015 in respect of the 2012 year of account.

21 Funds at Lloyd's

In case Syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL).

The Syndicate takes into account a variety of risks when calculating its Solvency Capital Requirement to arrive at its capital for the forthcoming year, in accordance with the Solvency II guidelines. This is the reviewed and approved by Lloyd's.

The level of required FAL each member has to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten. FAL is not hypothecated to any specific syndicate participation by a member. Therefore, there are no specific funds available to a syndicate which can be precisely identified as its capital.

2012 Underwriting Year of Account

Financial highlights

318

2012 underwriting account

£235m
syndicate capacity

£28.7m
profit for closed year (before non-standard personal expenses)

17.2%
return on gross premium

£166.9m
gross premium written (including brokerage)

80.9%
combined ratio

12.2%
return on capacity

2012 Underwriting Year of Account

Managing agent's report

The Managing agent presents its report on the 2012 year of account of Syndicate 318 closed at 31 December 2014 together with an overview of the 2013 year of account to be closed 31 December 2015 and the 2014 year of account to be closed at 31 December 2016. Detailed underwriting account descriptions as well as future trading prospects are covered in the Underwriter's report.

2012 Year of Account

I am delighted to report that the 2012 year of account has closed on a three year basis with an underwriting profit of £28.7m, which equates to an overall profit on allocated share after all personal expenses (other than Members' agency fees), of 12.2%. This represents an improvement against the mid-point forecast this time last year of a profit of 5% of capacity. The results on an annual accounting basis are shown in the main body of the report and accounts; this commentary is applicable to the closing and open years on a conventional year of account basis only.

Capacity for the 2012 year increased to £235m following the merger of Syndicate 1318's book of business into Syndicate 318 for the 2012 underwriting year.

For the 2012 pure underwriting year, the Syndicate continued to underwrite two main classes being International and US Property and Aviation. Gross Premiums after brokerage at closing rates of exchange are £137.9m, which equates to a capacity utilisation of 58.7%. Included in gross premiums are reinsurance to close premium of £2.6m from Syndicate 1318, and £25,000 from Syndicate 2318 in respect of the 2011 year of account. The latter part of 2014 witnessed a strengthening of the US dollar against Sterling, which has had a beneficial effect on the closing underwriting result. The Syndicate continued to be conservative in its investment policy, with the investment return only contributing just over £1m to the overall result, in what continues to be a challenging investment environment. Syndicate operating expenses were £6.9m.

The Syndicate was able to purchase a similar reinsurance programme to 2011 at marginally better terms. The year has benefited from strong underwriting performance, particularly on the Property account, in spite of losses incurred on Superstorm Sandy. The reserving of prior years of account continued to be robust, and we have seen reserve improvements on both classes of business.

International and US Property

The Property account experienced some growth in 2012, almost exclusively from business transferred into the Syndicate, following the merger of Syndicate 1318's binder business into the account in 2012. In other parts of the book, premiums began to fall as the market softened, following a run of international catastrophe losses in 2010 and 2011, which had improved rates in many areas of the book.

There were a number of catastrophe losses in the year, which the Syndicate was exposed to. By far the largest of these was Superstorm

Sandy, which made landfall on the US eastern seaboard in late October. There were also a number of smaller catastrophe losses in the year. The major catastrophe losses to affect the year are summarised in the table below.

Loss	Gross US$ (m)	Net US$ (m)
Hurricane Isaac	4.0	3.9
Superstorm Sandy	38.0	35.0
US Tornados	4.4	4.4
Total	46.4	43.3

Overall, it was a relatively active year for catastrophe losses on the Property account, although in aggregate, not much more than business plan expectations. The account did not experience a particularly high frequency of large losses, and once again has made a very good contribution to the Syndicate's profit for year.

Aviation

The Aviation market continued to soften in 2012, and the overall level of premium fell slightly from 2011. Gross premium income, excluding brokerage, for the Aviation account was £18.2m.

There were a number of large losses on the Aviation account in the year, most notably Dana Airlines, and Lion Mentari Airlines, which in aggregate resulted in losses of $9m to the Syndicate.

Prior year surplus

The reserves established at last year end in respect of 2012 and prior years have developed favourably during 2014. This has resulted in a release of £12.9m which has contributed to the overall result.

2013 Year of Account

The Syndicate has maintained its capacity for the year at £235m for the 2013 year. The gross premium income after brokerage is forecast at £123.2m for the year, which is £12.5m lower than the premium income for the pure 2012 underwriting year. The majority of this decrease was on the Property account, and in particular on policies underwritten on direct and facultative business, where the competition has been most intense. The premium income on the Aviation account also reduced significantly, as the market softened quite dramatically in 2013.

The loss experience for the 2013 year of account has been extremely positive to date, with lower than planned exposure to catastrophe losses. Whilst, the Aviation account witnessed a small number of large losses in the 2013, the current calendar year has proven to be extremely benign for both airline and general aviation losses.

We remain positive about the outcome for the 2013 year. I am pleased to report that the Syndicate is currently forecasting a profit in the range of 5% to 10% as set out on page 12 of the Review of business section.

2014 Year of Account

The Syndicate maintained its capacity for the 2014 year at £235m. The current estimate of gross premium income for the year, excluding brokerage, is £117.8m. Almost all of this decrease has been on direct and facultative business written in the Property account, where rate reductions, as well as intense competition have continued to be a feature of the market. The Syndicate has been able to obtain better value on its outward reinsurance programme for both the Property, and Aviation accounts, as the reinsurance market has continued to soften in the absence of major catastrophe events. The reinsurance market has also been affected by the emergence of alternative capital, which has significantly increased competition in the sector.

The loss experience for the Syndicate to date has been positive, and we are optimistic that the outcome of the 2014 underwriting year will be profitable.

G. M. Tuck
Finance Director

Beaufort Underwriting Agency Limited
Third Floor
One Minster Court
London EC3R 7AA

17 March 2015

Statement of managing agent's responsibilities

The Managing Agent is responsible for preparing Syndicate underwriting year accounts in accordance with applicable law and the Lloyd's Syndicate Accounting Byelaw.

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 (the "Lloyd's Regulations") require the Managing Agent to prepare Syndicate underwriting year accounts for Syndicate 318 in respect of any underwriting year which is being closed by reinsurance to close at 31 December. These syndicate underwriting year accounts must give a true and fair view of the result of the closed year of account.

In preparing these Syndicate underwriting year accounts, the Managing Agent is required to:

a) select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, to ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

b) take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

c) make judgements and estimates that are reasonable and prudent; and

d) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

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

2012 Underwriting Year of Account

Independent auditor's report to the Members of Syndicate 318 – 2012 closed year of account

We have audited the Syndicate underwriting year accounts for the 2012 year of account of Syndicate 318 for the three years ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, the related notes 1 to 17 and the Statement of Managing Agent's Responsibilities. 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).

Respective responsibilities of the Managing Agent and Auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 41, the Managing Agent is responsible for the preparation of Syndicate underwriting year accounts, under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), which give a true and fair view.

Our responsibility is to audit and express an opinion on the Syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

This report is made solely to the members on the 2012 year of account of the Syndicate, 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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members on the 2012 year of account of the Syndicate as a body, for our audit work, for this report, or for the opinion we have formed.

Scope of the audit of the Syndicate underwriting year accounts

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on the Syndicate underwriting year accounts

In our opinion the Syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2012 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) 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 underwriting year accounts are not in agreement with the accounting records.

Raymond Tidbury (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St. Katharine's Way
London E1W 1DD
17 March 2015

2012 Underwriting Year of Account

Profit and loss account for the 36 months ended at 31 December 2014

Technical account – general business

	Note	2014 £000	2014 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	166,946	
Outward reinsurance premiums		(21,970)	
			144,976
Reinsurance to close premiums received, net of reinsurance	3		65,301
Allocated investment return transferred from the non-technical account			1,048
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(86,260)	
Reinsurers' share		7,263	
		(78,997)	
Reinsurance to close premium payable, net of reinsurance	4	(58,764)	
			(137,761)
Net operating expenses	6		(44,862)
Balance on the technical account – for general business			28,702

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 49 to 60 form part of these accounts.

Non-technical account

	2014 £000
Balance on the general business technical account	28,702
Income from investments	2,365
Realised gains on investments	–
Unrealised gains on investments	–
Realised losses on investments	(724)
Unrealised losses on investments	(457)
Investment expenses and charges	(136)
Allocated investment return transferred to general business technical account	(1,048)
Profit for the closed year of account	28,702

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

The notes on pages 49 to 60 form part of these accounts.

2012 Underwriting Year of Account

Balance sheet as at 31 December 2014

	Note	2014 £000	2014 £000
Assets			
Investments			
Other financial investments	7		86,624
Deposits with ceding undertakings			–
			86,624
Debtors			
Debtors arising out of direct insurance operations	8	35	
Debtors arising out of reinsurance operations	9	2,311	
Other debtors		944	
			3,290
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	4		10,835
Other assets			
Cash at bank and in hand		505	
Other	10	4,942	
			5,447
Prepayments and accrued income			337
Total assets			106,533

The notes on pages 49 to 60 form part of these accounts.

	Note	£000	2014 £000
Liabilities			
Capital and reserves	11		
Amounts due to members			28,702
Reinsurance to close premiums payable to close the account – gross amount	4		69,599
Creditors			
Creditors arising out of direct insurance operations	12	386	
Creditors arising out of reinsurance operations	13	567	
Other creditors including taxation and social security		103	
			1,056
Accruals and deferred income			7,176
Total liabilities			106,533

The financial statements on pages 44 to 60 were approved by the Board of Beaufort Underwriting Agency Limited on 11 March 2015 and were signed on its behalf by

D. C. Eales
Active Underwriter

G. M. Tuck
Finance Director

17 March 2015

The notes on pages 49 to 60 form part of these accounts.

2012 Underwriting Year of Account

Statement of cash flows for the 36 months ended 31 December 2014

	Note	2014 £000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit on ordinary activities		28,702
Realised and unrealised investment losses		1,181
Income from investments		(2,365)
Net reinsurance to close premium payable		58,764
Increase in debtors		(3,290)
Increase in prepayments and accrued income		(337)
Increase in creditors		1,056
Increase in accruals and deferred income		7,176
Net cash inflow from operating activities		90,887
Net cash inflow from operating activities		90,887
Returns on investment and servicing of finance:		
Investment charges		(136)
Interest received		1,320
		92,071
Cash flows were invested as follows:		
Net portfolio investment		92,071
Net investment of cash flows	17	92,071

The notes on pages 49 to 60 form part of these accounts.

1 Basis of preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts") Regulations 2008 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw and applicable accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 as amended in December 2006 ("the ABI SORP").

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2012 year of account which has been closed by reinsurance to close at 31 December 2014; consequently the balance sheet represents the assets and liabilities of the 2012 year of account and the profit and loss account and cash flow statement reflect the transactions for that year of account during the 36 months period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2. Accounting policies

Underwriting transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

Reinsurance to close premium received

(b) The reinsurance to close premium received was closed into the 2012 year of account at 31 December 2013.

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported ("IBNR").

The amount included in respect of IBNR is based on statistical techniques and underwriting judgements applied by the Active Underwriter and the Managing Agent's management and

2 Accounting policies *continued*

Reinsurance to close premium received *continued*

reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

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

Premiums written and earned

(c) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the Syndicate year of account.

Written premium is earned according to the risk profile of the policy.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

Claims paid

(d) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

2 Accounting policies *continued*

Reinsurance to close premium payable

(e) The reinsurance to close premium paid was closed into the 2013 year of account at 31 December 2014.

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

The provision for claims comprises amounts set aside for claims notified and claims IBNR.

The amount included in respect of IBNR is based on statistical techniques and underwriting judgements applied by the Active Underwriter and the Managing Agent's management and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

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

2 Accounting policies *continued*

Acquisition costs

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

Investments and investment return

(g) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years 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 to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

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

Net operating expenses

(h) Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent in relation to the administration of the Syndicate, the amounts in question are apportioned using varying methods depending on the expense type. Expenses which are incurred jointly for the Managing Agent and Syndicate are apportioned depending on the amount of work performed, resources used and the volume of business transacted. Net operating expenses are allocated to the year of account for which they are incurred.

The parent company of the Managing Agent operates a defined contribution pension scheme. It recharges salaries and related costs to the Syndicate which includes an element for pension costs. These pension costs are recognised in full in the period to which the recharge relates.

2 Accounting policies *continued*

Net operating expenses *continued*

Amounts recharged by the Managing Agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Taxation

(i) Under Schedule 19 of the Finance Act 1993, Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic 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. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

(j) Transactions in US dollars and Canadian dollars are translated at the rate of exchange at the balance sheet date. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are re-translated into Sterling at the rate of exchange at the balance sheet date.

Differences arising on the re-translation of foreign currency amounts are included in net operating expenses.

3 Particulars of business written

	Gross premiums written and earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Marine aviation and transport	6,484	(3,672)	(1,750)	(828)	234
Fire and other damage to property	84,382	(45,114)	(23,094)	(8,945)	7,229
Third party liability	–	(2,847)	–	–	(2,847)
Reinsurance acceptances	153,324	(104,226)	(20,018)	(6,042)	23,038
Total	244,190	(155,859)	(44,862)	(15,815)	27,654

All premiums were written in the UK. All net assets and profit are derived from UK business.

Total gross premium written and earned arise from gross premiums written on the underwriting year of account, and the reinsurance to close premium accepted from the 2011 and prior years of account.

Geographical analysis by destination

	2014 Gross premiums written £000
UK	77,345
US	84,274
Other	82,571
Total	244,190

4 Reinsurance to close premium payable net of reinsurance

	Reported £000	IBNR £000	Total £000
Gross outstandings	44,542	25,057	69,599
Reinsurance recoveries anticipated	(10,118)	(717)	(10,835)
Net	34,424	24,340	58,764

5 Analysis of result by year of account

	2011 & prior years of account £000	2012 pure year of account £000	2014 Total £000
Technical account balance before allocated investment return and net operating expenses	12,994	59,522	72,516
Brokerage and commission on gross premium	–	(28,971)	(28,971)
	12,994	30,551	43,545

6 Net operating expenses

	2014 £000
Acquisition costs	33,320
Administrative expenses	11,542
	44,862

The closed year profit is stated after charging:

	2014 £000
Auditors' remuneration	
Audit services	128
Operating lease rentals	
Property	294

7 Financial investments

	Market value 2014 £000
Debt securities and other fixed income securities	86,624
Total investments	86,624

8 Debtors arising out of direct insurance operations

	2014 £000
Due within one year	35
	35

9 Debtors arising out of reinsurance operations

	2014 £000
Due within one year	2,311
	2,311

10 Other assets – other

	2014 £000
Amounts advanced in Illinois USA as a condition of carrying on business there	69
Amounts advanced in Australia, South Africa and other countries as a condition of carrying on business there	4,873
	4,942

11 Reconciliation of members' balances

	2014 £000
Members' balances brought forward at 1 January	–
Profit for the closed year of account	28,702
Members' agents fees	(191)
Members' balances carried forward at 31 December 2014	28,511

12 Creditors arising out of direct insurance operations

	2014 £000
Due within one year	386
	386

13 Creditors arising out of reinsurance operations

	2014 £000
Due within one year	567
	567

14 Post balance sheet events

The reinsurance premium paid to close the 2012 year of account at 31 December 2014 was agreed by the Board of the Managing Agency on the 5 February 2015. Consequently the technical provisions at 31 December 2014 have been presented in the balance sheet under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account – gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw.

A total of £28,510,800.26 will be transferred to members' personal reserve funds on 10 April 2015 in respect of the 2012 year of account.

15 Related parties

Beaufort Underwriting Agency Limited – Ultimate parent company

The ultimate parent company of Beaufort Underwriting Agency Limited ("BUAL") is Münchener Rücksversicherungs-Gesellschaft Aktiengesellschaft in München ("Munich Re"). Munich Re is incorporated in Germany, and acquired the entire issued share capital of MSP Underwriting Ltd ("MSP"), the previous ultimate holding company of BUAL, in November 2007. MSP is the intermediate holding company of BUAL.

Group accounts for Munich Re are available from the Company Secretary of BUAL, One Minster Court, London EC3R 7AA, or at www.munichre.com/publications, selecting investor relations.

Beaufort Underwriting Agency Limited directors' interests in Munich Re

C.A.A. Niebuhr held 20 shares and A. Hoffmann held 50 shares in Munich Re. None of the other directors of BUAL or their families held shares in Munich Re at 31 December 2014.

For the 2013, 2014 and 2015 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2013	214,291	91.2
2014	214,357	91.2
2015	214,357	91.2

Other disclosures

M.J. Cox is a director of Independent Services Group Limited ("ISG") and associated Group companies ISG Advisory Services Limited and ISG-IT Limited of which he is also chairman. ISG also owns Independent Broking Services Limited ("IBS"), which is a Lloyd's broker. Mr Cox is not involved in the day to day operations of IBS, or has any involvement in the placement of such business with Syndicate 318 which is written on normal market terms at arm's length. For the period covered by these reports and accounts, no business was placed by IBS with Syndicate 318. Until 23 May 2014 Mr Cox was also a director of Ace European Group Limited ("Ace") and Ace Underwriting Agencies Limited, which manages Lloyd's Syndicate 2488. None of BUAL's managed Syndicates purchases

15 Related parties *continued*

reinsurance protection from either Ace or Syndicate 2488. However, Syndicate 318 participates in certain facultative reinsurances of both Ace and Syndicate 2488. Mr Cox is not involved in the negotiation of any of these contracts, which are written on normal market terms at arm's length.

Bell and Clements Limited

Bell and Clements Limited ("BCL") a fellow subsidiary and related party of Munich Re is an intermediary authorised and regulated by the Financial Conduct Authority and is a Lloyd's broker. Syndicate 318 has underwritten a number of contracts of insurance and reinsurance and binding authorities placed by BCL. For the 2012 year of account, Gross Written Premiums under these contracts amounted to £1,271,739. Brokerage paid to BCL amounted to £359,064.

Munich Re Underwriting Limited

Munich Re Underwriting Limited ("MRUL") is a Lloyd's managing agency which manages Watkins Syndicate 457, underwriting predominately marine and energy business and is a wholly owned subsidiary of Munich Re Holding Company (UK) Limited. Its ultimate parent company is also Munich Re. None of the Directors of Munich Re Underwriting Limited participates directly as an underwriting member of Syndicate 318.

Münchener Rückversicherungs-Gesellschaft ("Munich Reinsurance Company")

The Syndicate purchases reinsurance protection from Munich Re. Total premiums ceded in respect of these contracts was £415,296 for the 2012 year. Actual and anticipated recoveries under these arrangements amount to £Nil as at 31 December 2014.

All contracts are written on normal market terms at arm's length.

Great Lakes Reinsurance (UK) plc ("GLUK")

For the 2012 year of account, Syndicate 318 entered into an agreement with GLUK whereby the Syndicate would underwrite certain Airline business on behalf of GLUK, a wholly owned subsidiary of Munich Re. The agreement was conditional on a number of factors including that, for new and renewal business, the Syndicate would underwrite for its own account in accordance with its line structure in the first instance, and only those risks where the Syndicate participates would be accepted on GLUK's behalf.

In April 2013, members of the Syndicate were consulted on an extension to the agreement to cover General Aviation business. This was for the purposes of allowing the Syndicate to manage (but not participate in) a specific facility on GLUK's behalf. At the renewal anniversary, the Syndicate would have the right to review its decision whether to participate or not for the forthcoming year.

In each case, an over-rider is payable by GLUK to the Syndicate equivalent to 4% of gross premiums (after brokerage) which is credited against Syndicate expenses.

In respect of the 2012 year of account, the Syndicate received £364,101 and US$632,050 in the calendar year.

15 Related parties *continued*

Inter-syndicate transactions

All contracts are written on normal market terms at arm's length.

It was agreed by the Board of the Managing Agency on 6 February 2014, that Syndicate 1318 and Syndicate 2318, would pay a reinsurance to close premium to Syndicate 318 in respect of the 2011 year of account. The reinsurance to close premium received in respect of Syndicate 1318 was £2,579,932, at closing rates of exchange, and for Syndicate 2318 was £25,000.

Beaufort Underwriting Services Limited (formerly Evergreen Underwriting Services Limited)

Beaufort Underwriting Services Limited ("BUSL") acted solely as a service company for the introduction of UK/Eire commercial, homeowners' property and liability and aviation risks to Syndicate 318. BUSL is an appointed representative of BUAL. During the year, there were no cash transactions between BUSL and the Syndicate, or any amounts due to or from the Syndicate at 31 December 2014 in respect of BUSL.

The Syndicate ceased accepting new or renewal business via BUSL on 31 December 2009.

Beaufort Underwriting Agency Limited

Total fees payable to BUAL in respect of services provided to the Syndicate and chargeable to the 2012 year of account amounted to £1,527,380.

Profit commission of £7,175,579 has been accrued in respect of the 2012 year of account. Expenses totalling £7,467,162 were recharged to the Syndicate in 2012 year of account by BUAL.

Where expenses were incurred jointly by the Managing Agent and the Syndicate, they were apportioned as follows:

Salaries and related costs	– according to time of each individual spent on Syndicate matters
Accommodation costs	– according to number of personnel
Other costs	– as appropriate

16 Movement in opening and closing portfolio investments net of financing

	2014 £000
Cash flow – increase in cash holdings	5,447
Cash flow – portfolio investments	86,624
Movement arising from cash flows	92,071
Total movement in portfolio investments net of financing	92,071
Balance brought forward at 1 January	–
Balance carried forward at 31 December	92,071

	At 1 January 2012 £000	Cash Flow £000	Changes to market value and currencies £000	At 31 December 2014 £000
Cash at bank and in hand	–	505	–	505
Overseas deposits	–	4,942	–	4,942
Debt securities and other fixed income securities	–	86,624	–	86,624
Total portfolio investments	–	92,071	–	92,071

17 Net cash outflow on portfolio investments

	2014 £000
Increase in cash holdings	(505)
Sale of debt securities and other fixed income securities	108,516
Purchase of debt securities and other fixed income securities	(195,140)
Decrease in overseas deposits	(4,942)
Net cash outflow on portfolio investments	(92,071)

Seven year summary of results for a traditional Name (unaudited)

An unaudited seven year summary prepared from the results of the Syndicate for a traditional Name with a £10,000 share is shown below.

This has not been prepared in accordance with UK GAAP, or the accounting policies disclosed. Gross premiums, and net operating expenses are stated net of brokerage.

Personal expenses have been stated at the amount which would be incurred pro rata by individual members writing the illustrative premium income in the Syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes has been excluded.

	2006	2007	2008	2009	2010	2011	**2012**
Syndicate allocated capacity	£158.57m	£201.58m	£201.51m	£201.83m	£225.04m	£224.89m	**£234.98m**
Capacity utilised	87.2%	65.3%	74.4%	73.7%	55.3%	56.7%	**58.7%**

Results for an illustrative share of £10,000

	£	£	£	£	£	£	**£**
Gross premiums (net of brokerage)	8,717	6,528	7,438	7,367	5,527	5,674	**5,872**
Net premiums	6,686	4,748	5,660	5,613	4,392	4,618	**4,937**
Reinsurance to close from an earlier account	4,719	3,584	3,899	4,425	3,910	3,397	**2,779**
Net claims	(4,522)	(4,469)	(5,656)	(3,931)	(4,019)	(3,725)	**(3,362)**
Reinsurance to close	(4,856)	(3,832)	(4,400)	(4,502)	(3,446)	(2,788)	**(2,501)**
Profit/(loss) on exchange	1	10	145	1	(10)	(4)	**23**
Net operating expenses	(269)	(219)	(264)	(285)	(257)	(281)	**(295)**
Balance on technical account	1,759	(178)	(616)	1,321	570	1,217	**1,581**
Investment income and gains less losses, less expenses and charges	544	166	99	82	66	75	**45**
Profit/(loss) before personal expenses	2,303	(12)	(517)	1,403	636	1,292	**1,626**
Illustrative personal expenses for a traditional Name							
Managing agent's salary	(65)	(65)	(65)	(65)	(65)	(65)	**(65)**
Central Fund contributions	(100)	(100)	(33)	(36)	(29)	(29)	**(10)**
Profit commission	(418)	–	–	(147)	(103)	(234)	**(305)**
Lloyd's subscription	(50)	(50)	(33)	(36)	(29)	(29)	**(24)**
	(633)	(215)	(131)	(284)	(226)	(357)	**(404)**
Profit/(loss) after illustrative profit commission and illustrative personal expenses	1,670	(227)	(648)	1,119	410	935	**1,222**

For the 2012 year of account, an illustrative share of £10,000 represents 0.00426% of allocated capacity.

Contacts

Underwriting Management

Derek Eales *Active Underwriter*
Telephone: 020 7220 8201
Email: derek.eales@beaufort-group.com

Simon Herring *Aviation Underwriter*
Telephone: 020 7220 8209
Email: simon.herring@beaufort-group.com

Steve Anderson *Senior Binder Underwriter*
Telephone: 020 7220 8259
Email: steve.anderson@beaufort-group.com

Agency Management

Arthur Hoffmann *Director*
Telephone: 020 7220 8267
Email: arthur.hoffmann@beaufort-group.com

Graham Tuck *Finance Director*
Telephone: 020 7220 8223
Email: graham.tuck@beaufort-group.com

Paul Langridge *Compliance Officer/Company Secretary*
Telephone: 020 7220 8264
Email: paul.langridge@beaufort-group.com

Beaufort Underwriting Agency Limited
One Minster Court
Mincing Lane
London EC3R 7AA

www.beaufort-group.com

Beaufort Underwriting Agency Limited is the Lloyd’s Managing Agent for MSF Pritchard Syndicate 318 and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Produced by Stephen Duke Limited 020 7422 0040 (14802)

318

Beaufort Underwriting Agency Limited