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Hardy (Underwriting Agencies) Limited

Syndicate 382

31 December 2014

Annual Report and Accounts

Contents

Directors and administration

Managing agent

Hardy (Underwriting Agencies) Limited

Non-executive directors

T F Motamed (Chairman)

C D Mense

T Pontarelli

G J Starling

H I Thomas

A M d'Hulster

Executive directors

D J Brosnan

P J Gage

D J Stevens

Managing agent's registered office

13th Floor

20 Fenchurch Street

London EC3M 3BY

Managing agent's registered number

1264271

Active underwriter

P J Gage

Bankers

Citibank N.A.

Barclays Bank plc

Investment managers

Conning Asset Management Limited

Registered auditor

Deloitte LLP

Reporting actuaries

KPMG Audit plc

Strategic report

Introduction

The directors of Hardy (Underwriting Agencies) Limited (“HUA”) have prepared this review in accordance with the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013.

HUA is the managing agent for Syndicate 382 (“the Syndicate”) whose principal activity is underwriting general insurance and reinsurance business at Lloyd’s of London.

HUA is wholly owned by Hardy Underwriting Group plc, which is in turn wholly owned by Hardy Underwriting Bermuda Limited (“HUB”). Hardy Underwriting Limited (“HUL”), another wholly owned subsidiary of HUB is a corporate member of Lloyd’s and provides underwriting capacity to Syndicate 382.

HUB is wholly owned by The Continental Corporation (“TCC”), a part of CNA Financial Corporation ("CNAF"), which, in turn, is controlled by the Loews Corporation (“Loews”). References to "CNA" in this report are to CNAF and its group undertakings.

CNA is the 8th largest commercial insurance writer and the 13th largest property and casualty organization in the United States. It has approximately 6,900 employees and its insurance products include commercial property and casualty coverages, including surety. CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Overview of results

The Syndicate has reported a profit for the 2014 financial year of £8.1 million (2013 restated: £22.6 million) with a combined ratio of 97.1% (2013 restated: 90.8%).

The Syndicate reported gross premiums written for the year of £266.2 million (2013 restated: £282.5 million). Premium income is lower than the prior year driven by difficult market conditions and the targeted restructuring of certain lines of business.

The Syndicate has diversified its underwriting portfolio during 2014 by entering new lines of business, including Marine Liability, Power Generation and Political Risks. Additional underwriting resources have been added to the Engineering sector through targeted recruitment. This includes further investment in the Syndicate’s Singapore underwriting platform.

As a result of an internal review of certain types of gross premium discounts, the Syndicate has changed its accounting policy with respect to the recognition of specific deductions. The previous practice was to record gross premiums written before deduction of these discounts and to record a corresponding expense within acquisition costs. The directors have agreed that a more appropriate treatment is to record gross premiums written inclusive of these discounts. Further details are contained within note 1 to the accounts.

On a calendar year basis the loss ratio of 52.7% represents an 8.3% increase over the prior year ratio of 44.4%. This increase was driven primarily by higher attritional and large loss experience. In particular, there were several significant claims emanating from the Marine and Aviation books of business. However, there were no significant losses arising from catastrophes during 2014.

Syndicate operating expenses are made up of commissions paid to brokers and general administrative expenses. In addition, HUA charged the Syndicate a fixed fee of 0.75% of allocated capacity and a profit commission of 15%. All operating expenses incurred by HUA up to 30 September 2014 were apportioned between HUA and the Syndicate on an appropriate basis.

From 1 October 2014 the Syndicate moved to a new service company operating model. During 2014 the Syndicate completed a multi-disciplinary project to put in place a consistent operating and management structure with another group company, CNA Insurance Company Limited (“CICL”). The head office of both companies was relocated to 20 Fenchurch Street in London. The core elements of the project were the establishment of a new service company, CNA Services (UK) Limited (“CNA Services”) a fellow indirect subsidiary of CNAF, to provide management and administrative services to both Hardy and CICL as well as the co-location of the Companies to 20 Fenchurch Street under a combined operating platform. Under this project, the management structure of both entities has been combined into one group. Additionally, the employment contracts of all UK employees of Hardy and CICL were transferred to CNA Services during the year. Although one-time costs have been incurred as a result of this project, the Syndicate expects cost savings to be realised over the coming years as a result of the synergies and efficiencies generated from creating a combined operating platform.

Strategic report - continued

Overview of results - continued

The expense ratio for 2014 of 44.4% represented an improvement over the prior year of 46.4%. The primary driver of the improvement was reduced headcount costs in the current year, partly offset by the costs associated with the multi-disciplinary project noted above, in particular the costs of relocating the HUA head office.

The Syndicate continues to adopt a disciplined and targeted approach to expense management. During 2014 the Syndicate has continued to make targeted and evaluated investments in new staff to support its growth strategies. In addition, the Syndicate continues to make improvements to the technology that supports the underwriting and support functions and further infrastructure investments are planned for 2015, demonstrating the Syndicate's commitment to further developing its operating infrastructure.

Investment returns contributed £1.5 million (2013: £1.8 million) to the profit for the financial year during 2014. The decrease was a result of continued falling coupon rates. The Syndicate has maintained its investment strategy and continues to invest in short-term, high quality fixed income securities. The Syndicate's investment managers operate within an agreed investment strategy determined by the Board of directors.

The Syndicate transacts insurance business in five main currencies (Sterling, Euro, US Dollars, Canadian Dollars and Japanese Yen). The Syndicate manages the currency mix of its assets to match liabilities and mitigate the economic effects of exchange rate volatility.

Key performance indicators

The Syndicate uses a range of key performance indicators (KPIs) to measure the performance of the Syndicate to determine how well it is performing against its objectives and overall strategy. These indicators are regularly reviewed by the Syndicate's management team and measured against plan and prior year data.

The following key performance indicators are considered most relevant to measuring the Syndicate's performance in 2014.

	2014 £million	2013 £million (Restated*)
Gross written premiums	**266.2**	282.5
Net written premiums	**210.2**	221.7
Profit before tax	**8.1**	22.6
Loss ratio	**52.7%**	44.4%
Expense ratio	**44.4%**	46.4%
Combined ratio	**97.1%**	90.8%

* See note 1.

Strategic report - continued

Financial position

Overview of financial position

For the 2013, 2014 and 2015 years of account, HUL provides 100% of the total underwriting capacity for all years of £330.0 million.

For the 2012 year of account, the underwriting capacity was £330.0 million, of which HUL provided £247.5 million (75.0%) and Arig Capital Limited provided £33.0 million (10.0%). A third corporate member, Hardy IC Limited, which is wholly owned by HUB, provided £49.5m (15.0%) of the underwriting capacity.

Capital to support the underwriting capacity for the Syndicate is determined through the ICAS+ process (Individual Capital Assessment on a Solvency II basis), a risk based capital assessment. This is the amount of capital that is required to reflect the risks inherent in the business. The current ICA has been established using HUA's Solvency II internal model which operates under the requirements prescribed by Lloyd's.

Investments

The Syndicate continued to benefit from strong operating cash flows, and to the extent possible, these were re-invested in the Syndicate's investment portfolio. The Syndicate has in place processes to monitor operating cash flows which ensure that investment returns are maximised whilst maintaining adequate cash resources to meet operating expense and claim requirements.

The Syndicate's investment guidelines are regularly reviewed and, as part of this process, the duration of the investment portfolio is managed to match the duration of the Syndicate's underlying liabilities. The Syndicate continues to invest primarily in high grade corporate and government bonds in accordance with its stated investment strategy.

Capital

The capital required by HUL to support the Syndicate's underwriting capacity is 61.6% of Syndicate capacity (2013: 72.7%).

The following table sets out the composition of the assets supporting the capital requirement for the 2015 year of account participation via HUL.

	2014 **£'000**	2013 £'000
Proposed level of underwriting	**330,000**	330,000
Capital requirement	**203,280**	239,910
Satisfied by:		
Investments	**134,342**	162,129
Assets deposited by Continental Casualty Company on behalf of HUL	**52,317**	84,157
Solvency surplus/(deficit) adjustment	**29,121**	(6,356)
Total Funds at Lloyd's provided	**215,780**	239,930

Strategic report - continued

Business operations

The Syndicate operates primarily in the London market through its operations at Lloyd's. In addition, the Syndicate underwrites through the Lloyd's platform from operations in Singapore and Guernsey. The Syndicate is organised into four primary business units which underwrite across most of the major classes of short tailed general insurance business. The business units are as follows:

- Marine and Aviation
- Non-Marine Property
- Specialty Lines
- Property Treaty

Underwriting staff and most support functions are located in the Syndicate's head office in London. Additional support services are also provided from an office in Norwich.

On 1 October 2014 all UK staff contracts transferred from HUA to CNA Services under the Transfer of Undertakings (Protection of Employment) Regulations 2006. From this date a management fee for the provision of management and administrative services is payable to CNA Services.

The Syndicate's strategy is to underwrite business with a focus on gross underwriting profit and to purchase reinsurance only where necessary to facilitate a meaningful line size or to protect against potential accumulations of exposure. Reinsurance is purchased on both a pro-rata and excess of loss basis with minimal use of facultative reinsurance. The Syndicate maintains a list of approved reinsurers and these typically have a rating of A- or above. Any deviation from this list requires formal assessment and approval and appropriate measures to mitigate exposure.

The Syndicate will continue to transact general insurance and reinsurance business in its current classes and is currently developing new lines of business to further diversify its portfolio.

Future developments

The Syndicate's core objectives are to be the provider of choice for its customers through the development of innovative and market leading products, to build sustainable long-term profitability, and to produce robust levels of organic growth in gross premiums written year on year.

To achieve these objectives the Syndicate is diversifying its product range and expanding its geographic reach. This includes the launch of new Healthcare and Casualty lines of business as well as a renewed focus on growth in the Syndicate's Singapore office.

Broker relationship development remains a key area of focus. The Syndicate values its relationships with its broking partners and continues to align these relationships with its product and segment specialisms.

The Syndicate continues to make further improvements to its operating infrastructure with the aim of enhancing underwriting, claims and information systems and further investments will be made in these areas. These infrastructure investments will add to a solid and stable platform upon which the Syndicate can grow in a controlled manner.

The relocation of the Syndicate's head office to 20 Fenchurch Street, together with the establishment of a service company operating model, will provide a stronger operating base on which the company can achieve its stated objectives.

CICL is exploring with the Syndicate the opportunities to enhance the customer offering by CICL taking advantage of access to the Lloyd's platform, which Hardy provides. In addition the governance structures of CICL and Hardy are currently being reviewed to identify further opportunities for integration where appropriate.

Corporate governance

Ultimate responsibility for the Syndicate's affairs rests with the Board of directors. The Board is responsible for approving the Syndicate's business plan and its strategies with regard to risk management. The Board provides leadership based on a framework of effective controls and suitable risk management, and sets the Syndicate's risk appetite. The Board also seeks to ensure compliance with all relevant internal and external regulations governing the Syndicate's activities. The Board meets quarterly.

Strategic report - continued

Corporate governance - continued

The Board has established and authorised three principal committees: an Audit Committee; a Risk and Capital Committee; and an Underwriting Committee. Each Committee has clear terms of reference for the matters for which it is responsible and is chaired by an independent non-executive director. Each committee reports to the Board. This forms the basic structure for the corporate governance framework, which is reviewed and approved by the Board at least annually to ensure continued effectiveness.

The key objective of the Audit Committee is to assist the Board to oversee: the integrity of the Syndicate's financial statements; the adequacy and effectiveness of the internal control environment; the qualifications and independence of the Syndicate's external auditors; and the performance of internal audit staff.

The key objectives of the Risk and Capital Committee are: to raise the level of risk awareness and accountability; to integrate an effective risk management process into the organisational structure, decision making process and the Syndicate's culture; and to provide a mechanism for oversight of all risk management issues. It also monitors the Syndicate's risk-based capital and is overseeing the Syndicate's Solvency II implementation. The Risk and Capital Committee assesses compliance with the Syndicate's risk management strategy, risk policies and risk appetite while ensuring that the risk register is both up to date and adequate. The Risk and Capital Committee oversees all processes that underpin the Syndicate's Own Risk and Solvency Assessment ("ORSA"). It monitors all key risks including emerging risks, and related mitigating controls.

The key objectives of the Underwriting Committee are: to oversee the Company's underwriting and reinsurance strategy; provide oversight of underwriting policies, procedures, guidelines and authorities; set standards for more complex underwriting transactions including, but not limited to, delegated underwriting, coverholder relationships and use of facultative reinsurance; to ensure appropriate underwriting controls are in place, including oversight of underwriting audits and the peer review process; and to review and monitor underwriting performance against the business plan.

Various other sub-committees of the Board cover specific areas of responsibility. The sub-committees, which meet regularly throughout the year and report to either the Audit, Risk and Capital or Underwriting committees, include:

- Compliance Committee
- Delegated Underwriting Group
- Internal Controls and Attestation Committee
- Internal Model Group
- Investment Committee
- Reserving Committee
- Solvency II Steering Committee

The Syndicate is authorised and regulated by the Prudential Regulation Authority ("PRA") and by Lloyd's and is regulated by the Financial Conduct Authority ("FCA"). The Syndicate works closely with these regulatory bodies to ensure it is compliant with all legal and regulatory requirements.

The Syndicate is committed to ensure that its strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment, of its policyholders. The Syndicate continues to reassess all aspects of its commitment to its customers to ensure that all these values are maintained and improved.

Principal risks and uncertainties

The Syndicate's overall appetite for accepting and managing varying classes of risk is defined by the Board. The Board has delegated to the Risk and Capital Committee the responsibility of identifying and assessing all material risks and ensuring that an effective risk management process is in place. The Syndicate has developed a risk and control framework which is built on an Enterprise Risk Management ("ERM") model with each business unit responsible and accountable for all aspects of risk management within that area.

Set out below are the principal risks and uncertainties to which the Syndicate is exposed. Further information on how the Syndicate manages risk is disclosed in note 2 to these financial statements.

Strategic report - continued

Principal risks and uncertainties - continued

Strategic risk

Strategic risk is the potential impact on earnings or capital from an incorrect strategy being set, improper business decisions, failure to execute plans or strategic ambitions, lack of responsiveness to industry changes and ill-disciplined growth in a soft market. Any event which would have an adverse impact to the Syndicate reputation would also rank as a strategic risk.

The Syndicate monitors strategy, risk and execution in all its operations. Annual business plans are agreed by senior management and tracked against actual performance throughout the year.

Insurance risk

Insurance risk is the risk associated directly with the Syndicate's underwriting activities. This would include the risk associated with inaccurate or inadequate pricing of insurance policies, inappropriate or poorly controlled underwriting guidelines and authority limits, inadequate or inaccurate loss reserving, and unexpectedly high frequency or severity of claims experience.

To mitigate these risks the Syndicate has in place controls and governance processes designed to closely monitor its underwriting activities. These include, but are not limited to, the operation of the Underwriting and Reserving Committees, the issuance of underwriting authority limits and guidelines, the extensive use of technical pricing models, and regular underwriting audits.

Financial risk

Financial risk includes the risk associated with investment activities, credit, liquidity and foreign currency exchange. This includes bond default risk (the risk that an issuer of bond may be unable to make timely principal and interest payments) and reinsurer default risk (the risk that the Syndicate's reinsurers would be unable or unwilling to pay their share of reinsurer liabilities). Either may result in significant financial loss to the Syndicate. Investment risk includes the impact of market volatility on asset values associated with interest rate volatility.

The Syndicate manages investment risk through its Investment Committee. The Committee is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the Committee is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events. The Syndicate has in place appropriate business processes (including business continuity plans) and relevant internal controls to substantially mitigate operational risk.

Emerging risks

As noted above, the Syndicate has processes in place to monitor and manage its exposure to risk. This includes the identification of new and emerging risks associated both directly with its insurance activities and with the wider business and economic environment. The Syndicate also monitors potential emerging risks resulting from changes in the regulatory environment. Where appropriate, the Syndicate proactively undertakes risk management activities to mitigate emerging risks.

Strategic report - continued

Going concern

The Syndicate has strong risk management disciplines across its operations. In particular, the potential impacts of external conditions are continually assessed and mitigating actions continue to be taken where appropriate. The Syndicate's financial condition has grown stronger in the current year. It operates with a broad range of brokers, customers and other business contacts in different product lines and geographic areas. As a consequence, the HUA directors believe that the Syndicate is well placed to manage its business risks successfully despite the current economic conditions.

After making all relevant enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 to the financial statements.

Approval

Approved by the Board of directors and signed on its behalf by:

D J Brosnan

Director

13th Floor,
20 Fenchurch Street,
London EC3M 3BY

17 March 2015

Report of the directors of the managing agent

The directors of HUA, the managing agent of Syndicate 382, present their report and accounts for the year ended 31 December 2014.

Directors

The directors who have held office in HUA since 1 January 2014 are as follows:

Executive directors

P J Gage

D J Stevens

The following executive director was appointed during 2014:

D J Brosnan (appointed 19 February 2014)

The following executive director resigned during 2014:

B J Merry (resigned 18 February 2014)

Non-executive directors

C D Mense
T F Motamed
T Pontarelli
G J Starling
H I Thomas

The following non-executive director was appointed during 2014:

A M d'Hulster (appointed 2 July 2014)

Statement of managing agent's responsibilities

HUA 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 HUA to prepare Syndicate annual accounts as at 31 December each year to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit and loss for that year. In preparing the Syndicate annual accounts, HUA is required to:

- select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

The directors is responsible for keeping adequate accounting records which: disclose with reasonable accuracy at any time the financial position of the Syndicate; and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. They are 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.

Results

For the 2014 year the Syndicate reported a profit of £8.1 million (2013: £22.6 million).

Report of the directors of the managing agent - continued

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and
2. the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor of the Syndicate.

Information included in strategic report

In accordance with section 414C(11) of the Companies Act, the Syndicate has chosen to set out the following information in the strategic report which would otherwise be required to be contained in the directors' report:

- information on the financial risk management objectives and policies;
- indication of the exposures to relevant key risks; and
- indication of likely future developments in the business of the Syndicate.

Approval

Approved by the Board of directors and signed on its behalf by:

D J Brosnan

Director

13th Floor,
20 Fenchurch Street,
London EC3M 3BY

17 March 2015

Independent Auditor's Report to the members of Syndicate 382

We have audited the Syndicate annual financial statements for the year ended 31 December 2014 which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Syndicate's members, as a body, in accordance with regulation 10 of 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 opinions we have formed.

Respective responsibilities of managing agent and auditor

As explained more fully in the statement of managing agent's responsibilities, the managing agent is responsible for the preparation of Syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate annual financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the annual financial statements sufficient to give reasonable assurance that the annual financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) regulation 2008

In our opinion the information given in the strategic report and the managing agent's report for the financial year in which the financial statements are prepared is consistent with the annual financial statements.

Independent Auditor's report to the members of Syndicate 382 - continued

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 financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Colin Rawlings FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

17 March 2015

Profit and loss account - Technical account – General business

	Notes	2014 £'000	2013 £'000 (Restated*)
Gross premiums written	3	**266,229**	282,524
Outward reinsurance premiums		**(56,061)**	(60,825)
Premiums written, net of reinsurance		**210,168**	221,699
Change in provision for unearned premiums			
– gross amount		**12,516**	2,305
– reinsurers' share		**(717)**	945
Earned premiums, net of reinsurance		**221,967**	224,949
Claims paid			
– gross amount		**155,356**	181,739
– reinsurers' share		**(32,879)**	(57,315)
Net claims paid		**122,477**	124,424
Change in the provision for claims:			
– gross amount		**(21,047)**	(78,908)
– reinsurers' share		**15,446**	54,289
Claims incurred, net of reinsurance		**116,876**	99,805
Net operating expenses	6	**98,531**	104,363
Balance on the technical account for general business		**6,560**	20,781

The notes 1 to 17 form an integral part of these financial statements.
* See note 1.

Profit and loss account - Non-Technical account

	Notes	2014 £'000	2013 £'000 (Restated*)
Balance on the technical account for general business		**6,560**	20,781
Income from investments	5	**1,607**	1,867
Unrealised gains on investments		**448**	305
Unrealised losses on investments		**(560)**	(365)
Investment expenses and charges		**(2)**	-
Profit for the financial year		**8,053**	22,588

All the amounts above are in respect of continuing operations.

There are no recognised gains and losses in the year other than those dealt with in the technical and non-technical accounts and therefore a statement of total recognised gains or losses has not been prepared.

The notes 1 to 17 form an integral part of these financial statements.

* See note 1.

Balance sheet

Assets	**Notes**	**2014 £'000**	2013 £'000 (Restated*)
Investments - other financial investments	9	**146,610**	110,453
Provision for unearned premiums	14	**28,098**	22,730
Claims outstanding	14	**79,649**	92,973
Reinsurers' share of technical provisions		**107,747**	115,703
Debtors arising out of direct insurance operations		**104,367**	113,761
Debtors arising out of reinsurance operations		**11,995**	26,449
Other debtors		**90**	383
Debtors – amounts falling due within one year		**116,452**	140,593
Debtors arising out of direct insurance operations		**248**	73
Debtors – amounts falling due after one year		**248**	73
Cash at bank and in hand		**15,506**	12,875
Overseas deposits	10	**17,110**	23,836
Other assets		**32,616**	36,711
Accrued interest		**497**	410
Deferred acquisition costs		**26,576**	33,860
Prepayments and accrued income		**1,424**	717
Prepayments and accrued income		**28,497**	34,987
Total assets		**432,170**	438,520

The notes 1 to 17 form an integral part of these financial statements.

* See note 1.

Balance sheet - continued

Liabilities	**Notes**	**2014 £'000**	2013 £'000 (Restated*)
Members balances	11	**12,141**	(16,967)
Provision for unearned premiums	14	**136,122**	148,639
Claims outstanding	14	**235,385**	250,224
Technical provisions		**371,507**	398,863
Creditors arising out of direct insurance operations		**3,651**	5,508
Creditors arising out of reinsurance operations		**40,542**	40,216
Other creditors		**4,090**	11,078
Creditors – amounts falling due within one year		**48,283**	56,802
Accruals and deferred income		**239**	(178)
Other payables		**239**	(178)
Total liabilities		**432,170**	438,520

The notes 1 to 17 form an integral part of these financial statements.

* See note 1.

These financial statements were approved by the Board of directors of HUA on 17 March 2015 and signed on its behalf by:

D J Brosnan

Director

D J Stevens

Director

Statement of cash flows

Reconciliation of operating profit to net cash outflows from operating activities

	Notes	**2014 £'000**	2013 £'000
Profit for the financial year		**8,053**	22,588
Unrealised investment and foreign exchange differences		**(4,172)**	9,951
Decrease in technical provisions		**(19,400)**	(30,111)
Decrease in debtors		**30,456**	9,703
Decrease in creditors		**(8,102)**	(1,341)
Net cash inflow from operating activities		**6,835**	10,790
Cash flow statement			
Net transfers from the member in respect of underwriting participations		**21,055**	3,937
Net cash inflow	12	**27,890**	14,727
Cash flows were invested as follows			
Increase in cash holdings	12	**3,300**	3,310
Decrease in overseas deposits	12	**(6,688)**	(6,979)
Net portfolio investments	13	**31,278**	18,396
Net investment of cash flows		**27,890**	14,727

Notes to the accounts

1. Accounting policies

Basis of accounting

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008 and applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice on Accounting for Insurance Business in December 2006.

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and under the historical cost accounting rules as modified by the revaluation of investments. The Syndicate has adopted all material recommendations of the Statement of Recommended Practice ("SORP") on Accounting for Insurance Business issued by the Association of British Insurers ("ABI") in December 2005 as amended in December 2006.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The Syndicate's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business operations paragraph, which forms part of the Strategic report.

The directors have a reasonable expectation that the Syndicate and HUA have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currencies

Foreign currency transactions are converted to functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in the technical account. Non-monetary assets and liabilities denominated in foreign currency are converted to functional currency at historical rates and are not subject to revaluation.

Basis of accounting for underwriting activities

Contracts are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay benefits that were significantly greater than the premium received. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk. The Syndicate has not issued any investments contracts in the current or prior year.

Premiums

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

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

The amount due but not paid is included in insurance and reinsurance receivables in the balance sheet.

Unearned premiums

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

Notes to the accounts - continued

1. Accounting policies - continued

Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for claims outstanding and settlement expenses, including claims incurred but not reported ("IBNR"), net of salvage and subrogation recoveries.

Outward reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inward reinsurance business being reinsured.

Claims outstanding and related reinsurance recoveries

Provision is made for claims outstanding and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims IBNR at that date. Included in the provision is an estimate of the internal and external costs of handling the claims outstanding. Estimated salvage and other recoveries are deducted from claims outstanding, if material.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where there is more available information about the claim event. In calculating IBNR, the Syndicate uses a variety of estimation techniques. These are largely based on statistical analysis of historical experience, which assumes the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

Large claims are generally assessed separately by each business class, being measured on a case by case basis, to allow for the possible distortive impact of the development and incidence of the large claims.

When calculating the provision for claims outstanding, the Syndicate selects an estimation technique taking into account the individual characteristics of each business class.

Reinsurance recoveries related to the provision for claims outstanding are based upon the provision for claims outstanding, having due regard to collectability. Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with historical patterns of such recoveries, adjusted to reflect any changes in the nature and extent to the Syndicate's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each reinsurer.

The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and the directors therefore consider that its provisions for claims outstanding and related reinsurance recoveries are fairly stated. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years are included in the Technical account within the financial statements of the period when such adjustment is made.

Unexpired risks

At each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the profit and loss account as an impairment of any associated deferred acquisition costs and, where these are fully depleted, via the provision for unexpired risks. The adequacy of the provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account relevant investment return.

Notes to the accounts - continued

1. Accounting policies - continued

Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts written during the financial year. Acquisition costs are accrued over a period equivalent to that over which the underlying business is underwritten, and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The Syndicate defers only those acquisition costs which are directly related to the conclusion of insurance contracts as calculated separately for each class of business.

Operating expenses

Where expenses are incurred by or on behalf of HUA for the administration of the managed Syndicate, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for HUA and for the Syndicate are apportioned between HUA and the Syndicate depending on the amount of work performed, resources used, and the volume of business transacted.

Investment return

All investment return is recognised in the non-technical account.

Investment income comprises interest and dividends, exclusive of the tax credit and realised gains and losses on investments. Interest is dealt with on an accrual basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sales proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accrual basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

Profit commission

Profit commission within these financial statements is charged by HUA at a rate of 15% of profit subject to the operation of a deficit clause.

Tax

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 (currently 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

Investments

The Syndicate designates financial assets upon initial recognition as “fair value through profit and loss” on the basis that the Syndicate manages and evaluates the performance of its investment portfolio on a fair value basis in accordance with its investment strategy.

These financial assets are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is the quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are included in the profit and loss account in the period in which they arise.

Cash and cash equivalents

Cash and cash equivalents represent cash balances, money market deposits lodged with banks and other short-term highly liquid investments purchased within three months of maturity.

Notes to the accounts - continued

1. Accounting policies - continued

Insurance and other receivables

Insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Other financial liabilities

Other financial liabilities, including payables arising from insurance contracts, investment contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Change in accounting policy

As a result of an internal review of certain types of gross premium discounts, the Syndicate has changed its accounting policy with respect to the recognition of specific deductions. The previous practice was to record gross premiums written before deduction of these discounts and to record a corresponding expense within acquisition costs. The directors have agreed that a more appropriate treatment is to record gross premiums written inclusive of these discounts.

The amended accounting policy has been applied in the current accounting period and the comparative figures have been restated on the same basis. The adjustment has no impact on the profit for the financial year or the reported net assets. The following individual line items in the profit and loss account and balance sheet have been impacted:

Impact on profit and loss account for the financial year:

	2014 £'000	2013 £'000
Gross premiums written	**(8,174)**	(8,667)
Change in the provision for unearned premiums	**(510)**	3,807
Gross acquisition costs	**8,174**	8,667
Change in the provision for deferred acquisition costs	**510**	(3,807)
Impact on profit and loss	**-**	-

Impact on balance sheet:

	2014 £'000	2013 £'000
Impact on provision for unearned premiums	**(510)**	3,807
Impact on deferred acquisition costs	**510**	(3,807)
Impact on net assets	**-**	-

Notes to the accounts - continued

2. Risk management

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The narrative below describes how the principal risks of the Syndicate are managed.

Risk definition

Risk exists as a consequence of uncertainty and is present in all activities regardless of their size or complexity. Risk is the uncertainty associated with the delivery of the Syndicate's objectives, resulting in either a positive or negative outcome.

The Syndicate faces numerous risks to its business from both internal and external sources. These risks have the potential to impact the achievement of the Syndicate's strategic and operational objectives. Successful risk management enables the Board to understand and manage the uncertainty, and associated risk and opportunity, to which the Syndicate is exposed.

Risk statement

The Syndicate considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of Syndicate's strategic and operational objectives and goals.

The Board of HUA owns risk management within the Syndicate, and communicates its risk strategy through a risk appetite statement. The Board is also responsible for ensuring that the Syndicate's Internal Model is embedded in the operation of its business and that the model is used to improve both the understanding of risk and the quality of the decision making at all levels across the business.

Risk management is an integral part of the Syndicate's decision-making and routine management, and is incorporated within the strategic and operational planning processes at all levels across the business. Employees are expected to manage risk as defined through their roles. This ensures that an assessment of risk remains central to decision-making.

The Risk Management Function maintains a governance framework and a risk register to support the assessment of risk within the business. This includes investigation and challenge around issues and events which may affect the Syndicate's understanding or management of risk.

Risk assessments must be conducted on new ventures and activities, including projects, processes, systems and commercial activities to ensure that these are aligned with the Syndicate's objectives and goals. Any risks or opportunities arising from these assessments will be identified, analysed and reported to the appropriate management level.

Risk Appetites

The Syndicate's risk appetite statement reflects the Syndicate's risk carrying capacity, business strategy and financial goals. It describes the level and types of risk the Syndicate is prepared to bear.

Syndicate level risk appetite is set by the Board at a level that is most appropriate in the context of the Syndicate's strategy and capital constraints. The risk appetite statement sets out the types and overall amount of risk which is acceptable to achieve the business strategy. Risk appetite is an expression of the need both to limit exposure to unacceptable risks and to assume risks for which the Syndicate is well positioned to make returns from managing risk effectively.

Strategic appetites provide high level guidance, including metrics, and cover the following categories:

- Risk preference;
- Return objective;
- Volatility constraint; and
- Capital constraint

Detailed appetites provide further guidance on the levels of risk acceptable in the various risk categories. The detailed appetites follow the risk register categorisation and hence provide the limits (for risks which can be controlled) and escalation points (for risks which can only be monitored) for each risk type. Catastrophe appetites are detailed separately, to a more granular level of detail, as they are the most material to the business.

Notes to the accounts - continued

2. Risk management - continued

Business review of risk and the 'Three lines of defence' governance model

The Syndicate deploys the three lines of defence governance model. In the first line, risk is managed and monitored by the business teams in line with their set objectives, appetites and limits. Second line monitoring occurs through the Risk and Compliance functions and the Risk and Capital Committee, and is evidenced through risk reporting. Third line monitoring is through Internal Audit, supported by external audit and independent experts.

The primary method for identifying, assessing and managing risk in the Syndicate is through the first line of defence review of risk taking and/or decision making activity. Employees are expected to manage risk as defined by their role. A formal risk review takes place at least quarterly where the risk and control performance and relevance are considered. Indicators and appetites may be refreshed more regularly and will prompt ad-hoc reviews where they fall outside agreed tolerances.

The risk register is a live tool that is central to the management of risk at the Syndicate. The Risk Management Function works with risk owners to agree the material risks to which the Syndicate is exposed, as well as the relevant sub-risks, controls and key risk indicators against each risk. The full suite of risks on the register makes up the universe of risks within the Syndicate.

Developing and emerging risk

Developing risks are related to potential changes in the environment, or in the understanding of the environment, which could positively or negatively impact the Syndicate's ability to meet its short or longer term plans.

The purpose of actively researching and discussing developing risk as a business is to be able to identify and benefit from new opportunities ahead of the Syndicate's peers, and to avoid or mitigate potential threats to the Syndicate's business performance.

Risk quantification and modelling

The Internal Model provides a tool to quantitatively assess the material risks to which the Syndicate is exposed. The Internal Model encompasses the processes and methodologies in place for quantifying the risks faced by the Syndicate as well as the data, assumptions, applied expert judgements, model outputs and the systems of governance and independent validation. All model changes must go through a formal approval process. The Internal Model is the tool used to calculate the Syndicate's Solvency Capital Requirement.

Capital management

The capital position is managed to take account of the Syndicate's long term needs and particularly of the underwriting cycle, since the variability of the Syndicate's exposures at different points in the cycle is a critical assessment in this context. The Board's strategy is to ensure capital flexibility, tempered with regulatory and commercial requirements.

The Syndicate's corporate member is required to hold capital at Lloyd's which is held in trust in Funds at Lloyd's ("FAL"). The amount of capital required to be provided as FAL is determined by Hardy and Lloyd's through the ICAS+ process (Individual Capital Assessment on a Solvency II basis), a risk based capital assessment based upon the Syndicate's specific circumstances.

The Syndicate's regulatory capital required for the 2015 year of account is £203.3 million (2014 year of account: £239.9 million). This capital requirement was reduced by £29.1 million by way of solvency credits (2014: increased by £6.4 million by way of solvency deficits). This requirement is fulfilled by a mixture of cash and investments held by HUB and its subsidiaries, and those provided by Continental Casualty Company, a subsidiary of HUB's ultimate parent company.

Own Risk and Solvency Assessment (ORSA)

The ORSA is a process for the Syndicate to identify and assess all material risks that may impact the Syndicate's ability to meet, over the full business planning period, its strategic objectives and obligations and to ensure sufficient capital is maintained, on a continuous basis, to meet these risks.

Assessments are forward-looking, taking into account the business plan, long term plan and projections. The outcome of the assessment is an integral part of business strategy, with the assessment of risks and solvency being considered and taken into account, on an ongoing basis, in the strategic decisions of the Syndicate. The assessment is performed regularly and without any delay following any significant change in the risk profile.

Notes to the accounts - continued

2. Risk management - continued

Own Risk and Solvency Assessment - continued

The risk register focuses on the material and discrete groupings of risk emanating from the activities of the business. There are 17 high level business risks and three strategic risks. The risks can be segmented into four high level categories, Insurance risks, Finance risks, Operational risks and Strategic risks. The key mitigation activities against these risk categories are described below.

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The notes below describe how the principal risks of the Syndicate are managed.

Insurance risk

Insurance risk, in the most general sense, is the assumption of risk by an insurer from the individuals or organisations who are directly subject to the risk concerned.

There are inherent uncertainties in assuming insurance risk, some of which relate to the scope of coverage and the understanding of that scope by the insurer. The principal uncertainty, however, is associated with frequency and severity of claims and with the potential for these to be greater than expected. Insurance events must be subject to fortuity and are therefore, by their very nature, random as to number and size.

Insurers put in place strategies to manage insurance uncertainties and the framework utilised by the Syndicate is outlined below.

Management of underwriting risk

The Syndicate has developed a number of different strategies to manage underwriting risk. These are fundamental to the philosophies of the business and serve to influence the shape of the underwriting portfolio, as follows:

Management of underwriting risk - diversification

This has been achieved across and within classes of business by identification of specific niches, by a spread of individual risk size and by avoiding geographical concentrations.

Management of underwriting risk - price sensitivity

The Syndicate underwriters focus on the pricing of each risk to satisfy themselves that the price is at or above the technical long run average price required to achieve a suitable profit margin. There is a focus on profit margin and long term sustained profitability which may give risk to short term income volatility over the underwriting cycle.

Management of underwriting risk - predominantly short tail business

The underwriting portfolio is primarily focused on risks where: the insured event gives rise to the physical damage or loss; occurs suddenly; and is relatively easily quantifiable. Claims in these circumstances are typically notified and settled relatively promptly. A short tail portfolio of this type means that reserve deterioration and investment return will be of less significance and will not be relied upon to produce a positive underwriting result. This contrasts with longer tail risks where ultimate claim cost takes longer to determine and is therefore subject to greater uncertainty. Reserve movements and investment returns are correspondingly likely to be more material. The Syndicate has a risk appetite limiting the amount of longer tail exposures.

The required approach to underwriting risk is communicated to individual underwriters via the overall parameters for underwriting set out in the business plan, and also via specific underwriting authorities which ensure that risks are selected within the given template for the class of business. Internal processes and controls confirm that the authorities are being complied with in practice.

Notes to the accounts - continued

2. Risk management - continued

Concentration risk - control of aggregating exposures

Measurement and control of exposures are the means by which volatility within the portfolio is constrained. It goes to the heart of the business' appetite for risk, since exposures are contained at a level that represents the extent to which the Syndicate is prepared to bear a net loss. Within an insurance business, concentrations of risk may arise from a single insurance contract or through a number of related contracts. Whilst some level of claims activity from these concentrations is expected on a regular basis, certain events, or a series of events, may occur that stress the business financially. Examples of such events are hurricanes and earthquakes. The extent of the impact may also be very dependent on the size and location of the insured events.

Control of concentrated exposures in vulnerable locations is clearly vital, and is the key to maximising the potential for good underwriting profit in loss free periods without, on the downside, over-exposing capital to the impact of large and costly events. Factors which would impact the assumption of risk in these circumstances include an appropriate pricing of risk, a spread of risk across geographical territories and the availability, subject to cost, of a suitable reinsurance programme. The Syndicate determines the maximum total exposure levels to a range of events that it is prepared to accept. Beyond this level, no further exposure may be assumed. At any point in time, the current exposure position for the underwriting portfolio is available to underwriters to enable them to assess the impact of individual risk exposures on the whole account.

The Syndicate uses a number of modelling tools for this purpose, and their main objective is to simulate catastrophe losses so as to measure the effectiveness of the reinsurance programme and to confirm that the net exposure to which the Syndicate is exposed has not exceeded the predetermined limit. A number of stress and scenario tests are also run during the year to examine the exposure to specific types of events.

Management of reinsurance risk

Treaty reinsurance is purchased to proactively manage the volatility inherent in writing short tail, catastrophe exposed business. The Syndicate seeks to balance cost versus protection achieved though outward reinsurance treaty protections.

As well as protecting the business against catastrophe exposure, reinsurance is also purchased to lay off risks that have characteristics that the Syndicate does not wish to retain, for example, aviation liabilities and also to control net exposures on single risks or aggregations of risks. Both proportional and non-proportional reinsurances are employed. Facultative reinsurance may also be used in certain predetermined circumstances for individual large lines. The focus on adequacy of pricing generally means that the underwriting team is comfortable to underwrite most classes of business without significant levels of facultative reinsurance.

The erosion and ongoing adequacy of the reinsurance programme as well as the reinsurance credit risk are also actively monitored.

Reserve risk

Reserve risk is associated with liabilities falling to the Syndicate from insurance policies issued in the past. This is the risk that claims reserves and related claims handling reserves will be materially inadequate relative to the ultimate cost of settlement.

The Syndicate adopts a prudent philosophy and approach in quantifying the Syndicate's insurance liabilities. Under this philosophy the Syndicate seeks to provide an appropriate level of confidence in the level of insurance liabilities, through estimating individual case reserves and the ultimate estimation of the ultimate cost of claims.

The Claims department is responsible for the setting of individual case reserves. The primary source of information for claims is through the London Market bureau (Xchanging). Information is also received directly from customers and brokers, which is used to complement the official advice of claims through Xchanging.

Due to the nature of insurance business there will be a time delay between the occurrence of an event, the reporting of that event to the insurer, assessing the quantum of the loss, and final settlement. A provision for IBNR is established to provide for the future notification or development of claims which have already occurred at each statement of financial position date. The Syndicate uses a number of methodologies in estimating the provision for IBNR claims, which are highly dependent on the assumptions used. These methodologies and assumptions will vary by class of business, underwriting year and method of acceptance.

Notes to the accounts - continued

2. Risk management - continued

Reserve risk - continued

Critical to the reserve setting process is the assumption that the past claims development experience can be used to predict the future claims development and hence the ultimate cost of claims. Triangulation statistics that show the historical development of premiums and claims for each class of business and underwriting year are used to assist in the process of determining reserves. Numerous other factors and assumptions are applied to the claims historical progression data to assist in setting these estimates. The factors include changes over time to the business mix and method of acceptance within each class of business, rating and conditions, legislation and court awards, claims inflation and economic conditions. By its nature, the process involves a significant amount of judgement, although every effort is made to ensure that the process and resultant reserves are set on a consistent basis and will be sufficient to meet the cost of claims when they are finally settled.

There is a significant amount of uncertainty in the reserve established, which may be more or less than adequate. The level of uncertainty varies between classes of business and generally increases for longer tail classes of business. Any change in the estimate of a reserve, or a settlement at a value other than the reserve provided, is recognised in the reporting period in which the change is identified. The following table quantifies the impact on the Syndicate's profit and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

	2014 £'000		2013 £'000	
	Gross of reinsurance	**Net of reinsurance**	Gross of reinsurance	Net of reinsurance
Impact of a 1% variance in:				
Claims liability	**2,354**	**1,557**	2,502	1,573
Combined ratio	**2,787**	**2,220**	2,848	2,249

Financial risk

Financial risks can be broken down into the following categories:

Credit risk

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations resulting in a financial loss to the Syndicate. The Syndicate is exposed to credit risk primarily through its investment and insurance activities.

The exposure to credit risk from holdings in debt and other fixed income securities, is managed by adherence to the Syndicate's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average Standard & Poor's credit rating of the Syndicate's debt and other fixed income securities remained high throughout the year, and at 31 December 2014 was "AA-" (2013: "AA-").

The Syndicate is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are the reinsurers' share of claims outstanding and debtors arising out of direct and reinsurance operations from both policyholders and intermediaries. Ceded reinsurance is used to mitigate risks arising from inwards business. Ceded reinsurance does not discharge the Syndicate's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. Reinsurance coverages are normally placed with reinsurers who are included on the approved reinsurance security listing used by the Syndicate. Generally, these reinsurers will have a Standard & Poor's credit rating of "A" or better. With regard to direct insurance and reinsurance receivables, the Syndicate operates processes to review broker security and to monitor arrangements with managing general agents. Receivables consist of payments of premium due from a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Syndicate does not have any significant credit risk exposure to any single counterparty or any group of counterparties. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

Notes to the accounts - continued

2. Risk management - continued

Financial risk - continued

Credit risk - continued

The assets bearing credit risk are summarised below:

	2014 £'000	2013 £'000
Other financial investments	**146,610**	110,453
Reinsurers' share of claims outstanding	**79,649**	92,973
Debtors arising out of direct insurance operations	**104,615**	113,834
Debtors arising out of reinsurance operations	**11,995**	26,449
Cash at bank and in hand	**15,506**	12,875
Overseas deposits	**17,110**	23,836
Total assets bearing credit risk	**375,485**	380,420

The concentration of credit risk is substantially unchanged compared to the prior year.

The carrying amount of the above assets at the balance sheet date represents the maximum credit risk exposure. At year end, the Syndicate does not hold any investments in wrapped debt or other such fixed income securities. As such, the credit ratings above are entirely independent of the rating of any bond insurers.

Other financial investments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. The credit rating for other financial investments is detailed below. The ratings are derived from Standard & Poor's or Moody's Investor Services, Inc.

	2014 £'000	2013 £'000
Government/Government Agency	**6,485**	9,079
AAA/Aaa	**43,178**	29,764
AA/Aa	**33,912**	38,441
A	**50,492**	29,615
BBB	**12,543**	3,554
Total other financial investments bearing credit risk	**146,610**	110,453

Other financial investments and cash at bank are neither past due nor impaired.

Notes to the accounts - continued

2. Risk management - continued

Credit risk - continued

The Standard & Poor's or equivalent credit rating for reinsurers' share of technical provisions and debtors arising out of reinsurance operations is detailed below:

	2014 £'000	2013 £'000
AAA	**-**	-
AA	**10,646**	7,509
A	**71,464**	85,103
BBB	**5,426**	8,553
Below BBB or not rated	**4,108**	18,257
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	**91,644**	119,422

Liquidity risk

Liquidity risk is the risk that cash may not be available, or that assets cannot be liquidated at a reasonable price, to pay obligations when they fall due. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising through insurance and reinsurance contracts. In respect of business underwritten in certain international regions there is a requirement to collateralise regulated trust funds in respect of gross insurance liabilities. This puts an additional burden on the Syndicate's liquidity.

The table below summarises the maturity profile of the Syndicate's financial and insurance liabilities (including interest payments) based on an analysis by estimated timing of the amounts recognised in the balance sheet for insurance liabilities, and based on remaining undiscounted contractual obligations for all other liabilities.

	Within 1 year 2014 £'000	**1-2 years 2014 £'000**	**3-5 years 2014 £'000**	**over 5 years 2014 £'000**	**Total 2014 £'000**
Claims outstanding	122,330	92,269	16,032	4,754	**235,385**
Creditors - amounts falling due within one year	48,283	-	-	-	**48,283**
Accruals and deferred income	-	239	-	-	**239**
As at 31 December 2014	170,613	92,508	16,032	4,754	**283,907**

	Within 1 year 2013 £'000	1-2 years 2013 £'000	3-5 years 2013 £'000	over 5 years 2013 £'000	Total 2013 £'000
Claims outstanding	112,845	116,169	21,210	-	250,224
Creditors - amounts falling due within one year	56,802	-	-	-	56,802
Accruals and deferred income	-	(178)	-	-	(178)
As at 31 December 2013	169,647	115,991	21,210	-	306,848

Notes to the accounts - continued

2. Risk management - continued

Liquidity risk - continued

The table below summarises the maturity profile of the Syndicate's financial and insurance assets where the maturity profile is an analysis by estimated timing of the amounts recognised in the balance sheet.

	Within 1 year 2014 £'000	**1-2 years 2014 £'000**	**3-5 years 2014 £'000**	**over 5 years 2014 £'000**	**Total 2014 £'000**
Other financial investments	65,774	43,805	37,031	-	**146,610**
Reinsurers' share of claims outstanding	41,393	31,222	5,425	1,609	**79,649**
Debtors	116,452	248	-	-	**116,700**
Cash at bank and in hand and overseas deposits	32,616	-	-	-	**32,616**
Prepayments and accrued income	28,497	-	-	-	**28,497**
As at 31 December 2014	284,732	75,275	42,456	1,609	**404,072**

	Within 1 year 2013 £'000	1-2 years 2013 £'000	3-5 years 2013 £'000	over 5 years 2013 £'000	Total 2013 £'000
Other financial investments	25,064	37,119	38,732	9,538	110,453
Reinsurers' share of claims outstanding	41,928	43,164	7,881	-	92,973
Debtors	140,593	73	-	-	140,666
Cash at bank and in hand and overseas deposits	36,711	-	-	-	36,711
Prepayments and accrued income	34,987	-	-	-	34,987
As at 31 December 2013	279,283	80,356	46,613	9,538	415,790

The Board manages this risk by structuring its working capital to ensure that there are available cash resources or sufficiently liquid investments to meet expected cash flow requirements. The Syndicate's investment guidelines are structured to ensure that Syndicate investments can be liquidated at short notice to meet higher levels of demand in exceptional circumstances.

The Syndicate has no significant concentrations of liabilities that would result in a concentrated cash outflow or assets that may result in restrictions in liquidating at short notice.

Liquid funds and cash flow forecasts are monitored regularly to ensure that the need for sufficient liquidity is balanced against investment return objectives.

Market risk

Market risks are principally related to the Syndicate's investment activity, notably its holding of debt and other fixed income investments. Within this area, the primary risks to which the Syndicate is exposed are: concentration risk, currency risk and interest rate risk.

The Syndicate manages these exposures through its Investment Committee. The committee is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the committee is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

The investment management function is outsourced to external fund managers.

Notes to the accounts - continued

2. Risk management - continued

Market risk - continued

The Investment Committee has established an asset allocation policy of investing primarily in listed debt, other fixed income securities and cash. The policy also stipulates that surplus cash can only be held on deposit with highly rated credit institutions until such time as suitable investments in appropriate listed debt and other fixed income securities can be made.

An investment management agreement has been established with the Syndicate's external fund managers. The agreement includes specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and concentration exposures. The agreement also limits concentration of exposures to single countries, economic sectors and individual securities and provides for minimum standards of creditworthiness. The external fund managers provide quarterly affirmation of compliance with these guidelines.

Market risk - currency risk

The Syndicate transacts insurance business in the five main Lloyd's settlement currencies (Sterling, Euro, US dollars, Canadian dollars and Japanese yen). Assets are held in each of these currencies to generally match the liabilities arising in each of these currencies, the main components being claims settlements to policyholders, reinsurance premiums ceded and operational expenses.

The Syndicate is exposed to movements in foreign exchange where there is a mismatch between assets and liabilities in any of these currencies representing profits or losses recognised from the Syndicate's insurance operations. When a mismatch occurs the Syndicate looks to limit this mismatch exposure, wherever possible. The Syndicate's policy is to protect this exposure through the forward sale or purchase of US dollars, usually from the twelve to eighteen month stage of development for any individual underwriting year.

The following table summarises the net carrying value of financial instruments and monetary insurance balances by currency at 31 December:

		Sterling equivalent		
	US Dollars 2014 £'000	**Euros 2014 £'000**	**Sterling and other 2014 £'000**	**Total 2014 £'000**
Other financial investments	97,197	13,525	35,888	**146,610**
Reinsurers' share of claims outstanding	45,009	6,803	27,837	**79,649**
Debtors, accrued interest and prepayments and accrued income	77,524	9,724	31,373	**118,621**
Cash at bank and in hand and overseas deposits	19,267	7,062	6,287	**32,616**
Claims outstanding	(141,275)	(24,460)	(69,650)	**(235,385)**
Creditors - amounts falling due within one year	(40,440)	459	(8,541)	**(48,522)**
Net carrying value of financial instruments and monetary insurance balances	57,282	13,113	23,194	**93,589**
Net carrying value of non-monetary assets and liabilities	(60,164)	(7,426)	(13,858)	**(81,448)**
Net exposure	(2,882)	5,687	9,336	**12,141**

Notes to the accounts - continued

2. Risk management - continued

Market risk - currency risk - continued

	Sterling equivalent			
	US Dollars 2013 £'000	Euros 2013 £'000	Sterling and other 2013 £'000	Total 2013 £'000
Other financial investments	67,249	11,418	31,786	110,453
Reinsurers' share of claims outstanding	50,272	8,177	34,524	92,973
Debtors, accrued interest and prepayments and accrued income	40,504	5,817	95,472	141,793
Cash at bank and in hand and overseas deposits	16,085	5,112	15,514	36,711
Claims outstanding	(110,821)	(32,890)	(106,513)	(250,224)
Creditors - amounts falling due within one year	(43,078)	(258)	(13,288)	(56,624)
Net carrying value of financial instruments and monetary insurance balances	20,211	(2,624)	57,495	75,082
Net carrying value of non-monetary assets and liabilities	(53,760)	(6,913)	(31,376)	(92,049)
Net exposure	(33,549)	(9,537)	26,119	(16,967)

Whilst the matching of liabilities with assets within the above currencies reduces economic exposure to currency risk, it does not prevent exchange gains and losses from being recognised in the profit and loss account. This is because, under UK GAAP, non-monetary assets and liabilities (including unearned premium and deferred acquisition costs) are translated at historic rates and all other monetary assets and liabilities are translated at closing rates. This accounting treatment for, and the associated impact on, the income statement does not reflect the Syndicate's management of foreign currency exposure outlined above.

A 10% strengthening of sterling against the following currencies at 31 December would have increased/(decreased) the Syndicate's pre-tax profits by the amounts shown below. This analysis assumes no hedging of currency and that all other variables remain constant.

	Net assets		**Profit before tax**	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
US Dollars	**(1,146)**	(404)	**(5,728)**	(2,021)
Euros	**(262)**	52	**(1,311)**	262

A 10% weakening of sterling against the above currencies at 31 December would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Notes to the accounts - continued

2. Risk management - continued

Market risk - interest rate risk

The Syndicate's exposure to interest rate risk is primarily through its investments in debt and other fixed income securities due to instrument duration and the associated duration of the liabilities arising from insurance activities. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

The actual durations measured in years for the fixed income portfolios were:

Euro	**2014 %**	2013 %
0 to 1 years	**33%**	55%
1 to 2 years	**50%**	18%
over 2 years	**17%**	27%
Total assets bearing credit risk	**100%**	100%
Average duration in years	**1.14**	1.12

US Dollar	**2014 %**	2013 %
0 to 1 years	**26%**	29%
1 to 2 years	**39%**	24%
over 2 years	**35%**	47%
Total assets bearing credit risk	**100%**	100%
Average duration in years	**1.59**	1.72

The investment portfolio is periodically analysed for changes in duration and related price change risk. The evaluation is performed by applying an instantaneous change in yield rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the fair value at risk and the resulting effect on members' funds.

To illustrate the down side risk within the debt and other fixed income securities portfolio of £107.3 million as at 31 December 2014 (2013: £78.7 million), the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously has been estimated. The Syndicate does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £1.7 million (2013: £1.3 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December would have had an equal and opposite effect to the amounts shown above.

Operational risk

The Syndicate is exposed to operational risks associated with internal processes, people, systems and external events. These exposures are analysed, monitored and managed by the Risk and Capital Committee. The Syndicate has a well developed and tested business continuity plan and IT disaster recovery plan. The operational risk management framework also includes an operational loss reporting facility handled through the Syndicate's broader risk management framework. HUA arranges business interruption insurance to help protect against financial loss.

Notes to the accounts - continued

3. Segmental Information

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

For the year ended 31 December 2014:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	4,173	5,502	(8,364)	(1,937)	(525)	(5,324)
Marine, aviation and transport	64,941	73,391	(45,280)	(25,837)	(10,189)	(7,915)
Fire and other damage to property	47,839	55,412	(17,100)	(19,507)	(7,335)	11,470
Third party liability	9,837	9,485	314	(3,339)	(1,555)	4,905
Pecuniary loss	10,914	4,552	(3,018)	(1,602)	(901)	(969)
Total direct	137,704	148,342	(73,448)	(52,222)	(20,505)	2,167
Reinsurance	128,525	130,403	(60,861)	(46,309)	(18,840)	4,393
Total	266,229	278,745	(134,309)	(98,531)	(39,345)	6,560

For the year ended 31 December 2013:

	Gross written premiums £'000 (Restated*)	Gross premiums earned £'000 (Restated*)	Gross claims incurred £'000	Net operating expenses £'000 (Restated*)	Reinsurance balance £'000	Total £'000 (Restated*)
Direct insurance						
Accident and health	1,585	2,013	(1,767)	(792)	64	(482)
Motor (third party liability)	232	232	(21)	-	-	211
Marine, aviation and transport	81,442	76,735	(32,110)	(30,594)	(13,978)	53
Fire and other damage to property	62,002	59,684	(21,933)	(22,608)	(11,002)	4,141
Third party liability	7,957	7,638	(1,094)	(2,902)	(637)	3,005
Pecuniary loss	(581)	1,423	1,743	-	(1,326)	1,840
Total direct	152,637	147,725	(55,182)	(56,896)	(26,879)	8,768
Reinsurance	129,887	137,104	(47,649)	(47,467)	(29,975)	12,013
Total	282,524	284,829	(102,831)	(104,363)	(56,854)	20,781

* See note 1.

All underwriting contracts were concluded in the UK.

Notes to the accounts - continued

4. Claims outstanding

Material over provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior accident years' claims are as follows:

	2014 £'000	2013 £'000
Marine and aviation	**3,467**	(1,415)
Non-marine property	**(612)**	(7,821)
Property treaty	**1,767**	4,293
Speciality lines	**(4,450)**	4,533
Release/(strengthening)	**172**	(410)

5. Investment income

	2014 £'000	2013 £'000
Income from investments	**1,997**	2,036
Gains on the realisation of investments	**27**	237
Losses on the realisation of investments	**(417)**	(406)
Total	**1,607**	1,867

6. Net operating expenses

	2014 £'000	2013 £'000 (Restated*)
Acquisition costs - commission	**60,012**	62,061
Acquisition costs - other	**(2,304)**	2,467
Change in gross deferred acquisition costs	**(886)**	(916)
Administrative expenses	**39,093**	35,769
Foreign exchange difference	**2,616**	4,982
Total	**98,531**	104,363

* See note 1.

Administrative expenses include auditor's remuneration in respect of audit services of:

	2014 £'000	2013 £'000
Auditor's remuneration	**156**	143

Notes to the accounts - continued

7. Staff members and costs

All staff were employed by HUA up to 30 September 2014. On 1 October 2014 all staff contracts were transferred to CNA Services under the Transfer of Undertakings (Protection of Employment) Regulations 2006. From this date forward a management fee for the provision of administration services is payable to CNA Services.

The following expenses were incurred in respect of services provided to the Syndicate:

	2014	2013
	£'000	£'000
Wages and salaries	**12,271**	11,817
Social security costs	**2,015**	1,592
Pension and other staff costs	**1,912**	2,722
Total	**16,198**	16,131

The average number of employees employed by the managing agent during the year up to 30 September was as follows:

	2014	2013
	Number	Number
Underwriting activities	**40**	57
Management and administration	**89**	83
Total	**129**	140

8. Emoluments of the directors of Hardy (Underwriting Agencies) Limited

The directors of HUA received the following aggregate remuneration, which was charged to the Syndicate and included within net operating expenses:

	2014	2013
	£'000	£'000
Fees	**91**	70
Emoluments	**2,553**	941
Total	**2,644**	1,011

The amounts above represent the emoluments paid up to 1 October 2014 when the directors transferred to CNA Services (UK) Limited. Details of the emoluments paid to the directors for the remainder of the year are fully disclosed in those financial statements.

The remaining directors of HUA served during the period, listed below, were all employed and remunerated by Continental Casualty Company ("CCC"), part of the CNAF group. It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CCC:

D C Mense, T F Motamed and T Pontarelli.

Notes to the accounts – continued

8. Emoluments of the directors of Hardy (Underwriting Agencies) Limited

Other acquisition costs within Note 6 include the active underwriter's emoluments for the full year of:

	2014 £'000	2013 £'000
Emoluments	**762**	400

9. Other financial investments

	Cost 2014 £'000	Cost 2013 £'000	**Fair Value 2014 £'000**	Fair Value 2013 £'000
Debt securities and other fixed income securities	**106,312**	79,128	**107,329**	78,674
Shares and other variable yield securities	**16,692**	19,323	**16,692**	19,323
Deposits with credit institutions	**22,589**	12,457	**22,589**	12,456
Total	**145,593**	110,908	**146,610**	110,453

Using Standard and Poor's and Moody's as rating sources, the credit ratings of the investments are as follows:

	2014 £'000	**2014 %**	2013 £'000	2013 %
Government/Government Agency	**6,485**	**4**	9,079	8
AAA/Aaa	**43,178**	**29**	29,764	27
AA/Aa	**33,912**	**23**	38,441	35
A	**50,492**	**35**	29,615	27
BBB	**12,543**	**9**	3,554	3
Total	**146,610**	**100**	110,453	100

10. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain territories.

11. Reconciliation of members' balances

	2014 £'000	2013 £'000
Members' balances at 1 January	**(16,967)**	(43,492)
Profit for the financial year	**8,053**	22,588
Receipt of losses from the members	**21,055**	3,937
Members' balances at 31 December	**12,141**	(16,967)

The ultimate result, and assets and liabilities attributable to the members, are assessed by reference to the policies incepting in that year of account.

Notes to the accounts - continued

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

	2014	2013
	£'000	£'000
Movements arising from cash flows	**27,890**	14,727
Changes in market values and exchange rates	**4,172**	(9,951)
Movements arising from reclassification on cash balance	**-**	1,527
Total movement in portfolio investments	**32,062**	6,303
Portfolio at 1 January	**147,164**	140,861
Portfolio at 31 December	**179,226**	147,164

Movement in cash, portfolio investments and financing:

	At 1 January 2014	**Cash Flow**	**Changes to market value and currency**	**At 31 December 2014**
	£'000	**£'000**	**£'000**	**£'000**
Cash at bank and in hand	**12,875**	**3,300**	**(669)**	**15,506**
Overseas deposits	**23,836**	**(6,688)**	**(38)**	**17,110**
Portfolio investments				
Debt securities and other fixed income securities	**78,674**	**24,252**	**4,403**	**107,329**
Shares and other variable yield securities	**19,323**	**(2,636)**	**5**	**16,692**
Deposits with credit institutions	**12,456**	**9,662**	**471**	**22,589**
Total cash, portfolio investments and financing	**147,164**	**27,890**	**4,172**	**179,226**

The total cash flow shown above of £27.9 million contains a reclassification of £1.1m between debt securities and other fixed income securities and deposits with credit institutions.

13. Net cash outflow on portfolio investments

	2014	2013
	£'000	£'000
Purchase of debt securities and other fixed income securities	**49,306**	178,593
Sale of debt securities and other fixed income securities	**(23,942)**	(150,427)
Sale of other investments	**5,914**	(9,770)
Net cash outflow on portfolio investments	**31,278**	18,396

Notes to the accounts - continued

14. Technical provisions

	2014 £'000	2013 £'000
Gross		
Claims reported	**173,382**	179,456
Loss adjustment expenses	**5,855**	3,520
Claims incurred but not reported	**56,148**	67,248
Unearned premiums	**136,122**	148,639
Total gross insurance liabilities	**371,507**	398,863
Reinsurers' share of insurance liabilities		
Claims reported	**65,412**	69,973
Claims incurred but not reported	**14,237**	23,000
Unearned premiums	**28,098**	22,730
Total reinsurers' share of insurance liabilities	**107,747**	115,703
Net		
Claims reported	**107,970**	109,483
Loss adjustment expenses	**5,855**	3,520
Claims incurred but not reported	**41,911**	44,248
Unearned premiums	**108,024**	125,909
Total net insurance liabilities	**263,760**	283,160

Notes to the accounts - continued

14. Technical provisions - continued

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2014	148,639	250,224	398,863
Exchange adjustments	(1)	6,208	6,207
Movement in provision	(12,516)	(21,047)	(33,563)
At 31 December 2014	**136,122**	**235,385**	**371,507**
Reinsurance amount			
At 1 January 2014	22,730	92,973	115,703
Exchange adjustments	-	2,122	2,122
Movement in provision	5,368	(15,446)	(10,078)
At 31 December 2014	**28,098**	**79,649**	107,747
Net			
At 31 December 2014	**108,024**	**155,736**	263,760
At 31 December 2013	125,909	157,251	283,160

15. Related parties

The immediate parent undertaking of HUA is Hardy Underwriting Group plc a company incorporated in Great Britain and registered in England and Wales.

The ultimate parent and controlling party is Loews Corporation, incorporated in the United States of America. Group accounts for Loews Corporation are available from 667 Madison Avenue, New York, 10065-8087, USA.

Managing agent fees of £2,475,000 (2013: £2,475,000) were paid by the Syndicate to HUA during 2014.

During the year HUA recharged £33,269,000 (2013: £28,736,000) in expenses relating to the operations of the Syndicate. These amounts are included in note 6.

Notes to the accounts - continued

16. Funds at Lloyd's

Every member of Lloyd's is required to hold capital at Lloyd's. This capital is held in trust and is known as Funds at Lloyd's ("FAL"). The funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating member's underwriting activities.

The level of FAL that Lloyd's requires a member to maintain is ultimately determined by Lloyd's taking account, inter alia, of a number of factors including the nature and amount of underwriting risk assumed by the member and the assessment of the reserving risk in respect of business that has already been underwritten. FAL is not under the management of the managing agent, so no amounts have been shown in these financial statements to reflect it. The managing agent is able to make a call on member's FAL to meet liquidity requirements and to settle losses should this be required.

17. Post balance sheet events

The reinsurance premium to close the 2012 year of account of Syndicate 382 at 31 December 2014 was agreed by the managing agent on 19 February 2015.

£13,685,377 will be distributed to the members.