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# ATRIUM

ANNUAL REPORT AND ACCOUNTS 2014  
Syndicate 609



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### DIRECTORS

- Paul O’Shea** Non-Executive Chairman
- James Lee** Managing Director
- James Cox** Compliance Director
- Steve Cook** Deputy Chairman
- Toby Drysdale** Executive Director
- Andrew Elliott** Non-Executive Director
- Gordon Hamilton** Non-Executive Director
- Richard Harries** Executive Director
- Brendan Merriman** Executive Director
- Scott Moser** Non-Executive Director
- Nick Packer** Non-Executive Director
- Samit Shah** Executive Director
- Kirsty Steward** Executive Director
- Andrew Winyard** Executive Director

### ADVISORS

- Auditor**  
KPMG LLP
- Solicitors**  
Clyde & Co LLP  
Linklaters
- Bankers**  
Lloyds Banking Group Plc
- Investment Managers**  
GR–New England Asset Management
- Company Secretary**  
Martha Bruce  
Bruce Wallace Associates Limited

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (Lloyd's Regulations 2008).

Separate underwriting year accounts for the closed 2012 year of account can be found on pages 24 to 46.

## RESULTS

The Board of Directors are pleased to announce the first calendar year result as a merged Syndicate. The Syndicate 609 result for calendar year 2014 is a profit of £56.8m (2013 – profit of £54.1m). The syndicate benefitted from favourable development on the back years that contributed £38.4m to the result. Profits will be distributed by reference to the results of individual underwriting years.

## PRINCIPLE ACTIVITY AND REVIEW OF THE BUSINESS

The syndicate's principal activity during the year continued to be the transaction of general insurance and reinsurance business at Lloyd's.

## RISK STRATEGY

Understanding its Risk Universe, the range of risks to which it is exposed, quantification and management of those risks enable the syndicate to determine the capital required to provide suitable security to its policyholders and to ensure that syndicate capital providers are delivered returns appropriate for the risk they assume. Management of risk, return and capital is the core discipline of Atrium's business, against which all significant strategic and operational decisions are evaluated.

The Directors are responsible for setting the Risk Strategy for the syndicate and for oversight of its implementation. The syndicate's Risk Strategy is to assume underwriting risk in a number of classes of business where management believe that the risks and expected margins can be evaluated, and that the underwriting teams, supported by other Agency functions can operate with competitive advantages.

As part of the annual business planning process, the Board determines a Risk Policy Statement, which sets out the levels of planned risk taking, sometimes referred to as Risk Appetite, the basis on which these risk levels will be monitored, and the actions to be taken in the event of deviations from the planned levels. The Agency has a comprehensive governance framework within which the syndicate's exposures to these risks are managed. The governance framework is discussed further below.

## BUSINESS AND PERFORMANCE EVALUATION

With effect from 1 January 2014 the 2011 year of account of Syndicate 570 was reinsured to close into the 2012 year of account

of Syndicate 609. The Council of Lloyd's granted consent to the Agency to merge Syndicate 570 and Syndicate 609, with effect from the 2012 year of account, on 19 July 2011. As a result, the balance sheet presented in these accounts at 31 December 2014 reflects the effect of the reinsurance to close transaction.

Syndicate 570 primarily underwrote a book of US Professional Liability, Property and Casualty insurance and reinsurance, and Accident & Health business. Syndicate 609 specialised in Marine and Aviation insurance and reinsurance, Non-marine Property, Energy, War and Terrorism insurance. Syndicate 609's business plan for the 2012 year of account, and subsequent years, has reflected the expectation that all existing lines of business written by Syndicate 570 and Syndicate 609 have continued to be written in Syndicate 609 along with several new lines of business added since the merger. These include International Casualty and Marine Reinsurance.

In underwriting a diversified portfolio of classes, using their skill, knowledge and historic claims data to evaluate the potential claims costs and to determine the appropriate premium, and also by taking a limited amount of market and credit risk in investing the cash-flows generated by this activity, the syndicate aims to reward its capital providers with results that are considered attractive relative to the risks assumed.

The key performance measure for the syndicate is Return on Capital, determined by comparing the Total Recognised Gains and Losses to the Syndicate's Economic Capital Assessment ('ECA') set by the Corporation of Lloyd's on agreement of the Syndicate's Solvency Capital Requirement ('uSCR') derived from its Internal Model, including Solvency II balance sheet adjustments. Return on Capital and the following Key Performance Indicators (KPI's) are monitored regularly by the Directors. Throughout 2014 the KPI's have been monitored by reference to the 2013 combined results of Syndicate 570 and Syndicate 609.

	2014 609 £m	570 £m	2013 609 £m	Combined £m
Gross premiums written	365.0	(1.9)	380.4	378.5
Net earned premiums	322.6	4.1	324.5	328.6
Total Recognised Gains and Losses	56.8	14.4	54.1	68.5
Loss ratio	41%	(426%)	41%	35%
Combined ratio	84%	(261%)	83%	79%
Investment return	5.7	(0.3)	0.1	(0.2)
Adjusted ECA	171.9	16.5	149.9	166.4
Return on adjusted ECA	32%	87%	36%	41%

The loss ratio for the year is 41% (2013 – 35%). The syndicate has continued to benefit from favorable development on the back years, contributing a saving of 13% on the loss ratio (2013 Combined Syndicate – 13%).

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

## INVESTMENT PERFORMANCE

In a challenging investment environment the syndicate continues to adopt a defensive investment strategy investing in short-dated instruments taking exposure only to highly rated debt. The investment objective is to achieve an investment return from taking a limited amount of market and credit risk in investing the cashflows generated by its principal activity which is underwriting. The table below compares our actual investment performance with the 2014 plan. At the time that the plan was set there was an expectation that yield curves would rise during 2014 affecting the value of our assets. The movement in yield curves was not as significant as expected and is the main driver of the performance being ahead of expectations.

Investment Return	Plan	Actual
US Dollar	0.47%	0.83%
Canadian Dollar	0.94%	1.39%
Euro	0.17%	1.63%
Sterling	0.77%	2.00%

The Board has continued to monitor exposures to the Eurozone crisis and believes that it has taken appropriate measures to mitigate the risks that arise from uncertainty over the values of certain EU sovereign debt. The syndicate has Euro denominated investments but under the terms of the investment guidelines the Sovereign securities are restricted to Austria, Finland, France, Germany and the Netherlands. The Euro denominated investments amount to less than 15% of the total investment portfolio.

## FOREIGN EXCHANGE

The effects of exchange rate movements are recorded in two elements. Transactions during the year, translated at the average rate for the year, gave rise to foreign exchange losses which are identified within the analysis of Operating Expenses, note 3. Revaluation of all balances at the closing rate of exchange on 31 December 2014 resulted in a foreign exchange gain and is included within the Statement of Total Recognised Gains and Losses.

The rates of exchange used in preparing the financial statements are as follows:

	2014		2013	
	Average	Closing	Average	Closing
US Dollar: £ Sterling	1.65	1.56	1.56	1.66
Euro: £ Sterling	1.24	1.29	1.18	1.20
Canadian Dollar: £ Sterling	1.82	1.81	1.61	1.76

## PRINCIPAL RISKS AND UNCERTAINTIES

### Governance

The Board recognises the critical importance of having efficient and effective risk management systems in place but also recognises that it can only mitigate risks, and not eliminate them entirely. In preparation for the forthcoming Solvency II regime, the Board has developed its Own Risk and Solvency Assessment ('ORSA'), comprising the entirety of the processes that it uses to identify, assess, monitor and report the risks faced by its managed syndicate and to determine the capital necessary to mitigate retained risks. Critical to the efficacy of the ORSA are the effective operation of the Risk Management Framework ('RMF'), the Governance Structure and Atrium's Internal Model. The RMF comprises the so-called "Three Lines of Defence" approach to risk management and reporting.

The RMF is the mechanism through which Atrium ensures it is implementing effective and enterprise wide risk management practices across its business. Key to Atrium's business is the management of risk, return and capital, against which all significant strategic and operational business decisions are evaluated. Over many years Atrium has established systems of governance and risk management that enable it to manage its business prudently.

The RMF is the articulation of these systems of risk management and governance and how the various elements interact.

The RMF encompasses the broad range of activities undertaken across the organisational hierarchy to ensure that risks are managed appropriately, spanning from the high level strategy set by the Board to the day to day underwriting decisions being made by syndicate staff and the controls in place to govern these. The RMF can be illustrated as follows:

**Strategy:** This describes Atrium's strategy setting process and explains how this filters down through the organisation; incorporating the Syndicate's Business Strategy, Risk Strategy, Business Plan, Risk Policy Statement and Risk Policies.

**Business Activities:** The individual syndicate and agency business units are responsible for implementing the strategy and business plans in accordance with the framework set out in the risk policies. The people, controls, management information, processes and senior management oversight in place across the business units serve as the "First Line of Defence" in the RMF.

**Risk Governance Structure:** The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the RMF is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee ('ERC'), which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees, discussed further below.

**Independent Assurance:** Atrium has in place a Compliance Function and an Actuarial Function in addition to the Risk Management Function (fulfilled by the ERC as referenced in the previous paragraph). These functions have specific responsibilities documented in their terms of reference and are staffed by fit and proper individuals with suitable qualifications, expertise and experience. The activities of these functions seek to provide the Board with assurance as to the appropriateness and effectiveness of the various elements of the RMF, the internal control environment, and the calculation of capital. There are a number of risk management tools which support independent assessment and reporting of risk. Taken together this Independent Assurance comprises the "Second Line of Defence".

**Independent Oversight:** The RMF provides for independent oversight and challenge via the operation of the Internal Audit Function, the External Auditors, as well as the Audit Committee and Risk Committee, both of which are Committees of the Board with membership comprised of Non Executive Directors. Together these four groups provide the "Third Line of Defence". The Risk Committee is charged with providing independent oversight and review of Atrium's RMF and its constituent parts whilst the Audit Committee, along with its broader responsibilities for the financial statements and financial reporting process, has oversight of internal controls and the Internal Audit Function.

### **Executive Risk Committee (ERC)**

Atrium's Risk governance structure is comprised of the ERC and its three Risk Sub-Committees.

The ERC fulfils the Risk Management Function, and coordinates the risk management activities conducted for the Agency's managed syndicate. It is responsible for ensuring that the RMF and Internal Model, operates effectively, and for maintaining an aggregated and holistic view of risks to the syndicate and reporting on them to the Board, Committees and management as appropriate. It also ensures that there is robust and effective management, governance and oversight of Atrium's Internal Model which is used to set capital and is also widely used within the business.

To support delivery of the ERC's responsibilities, there are three Risk Sub-Committees, each being responsible for oversight, review and challenge of the activities of the syndicate and in particular ensuring that activities are within risk policies, that risks are suitably identified, monitored and reported, and that appropriate contingency plans are in place.

The principal risks to which the syndicate is exposed are discussed below together with the mitigation techniques adopted. For clarity, the risks are analysed by reference to the Risk Sub-Committees that have responsibility for the relevant risk area.

### **Insurance Risk Sub-Committee (IRSC)**

The IRSC is responsible for oversight of insurance risk which includes underwriting, claims, reserving, and reinsurance. Insurance risk includes the risks that the policy might be written for too low a

premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events might be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk).

Underwriting risk is mitigated through numerous controls including underwriter peer review, authority limits, independent review of risks written, and purchase of an appropriate reinsurance programme. The Syndicate Business Forecast is completed annually and stipulates those classes of business and concentration by class that will be written during the forthcoming year. It is reviewed by the IRSC and approved by the Board prior to being submitted to the Lloyd's Franchise Board for approval. Actual performance during the year is monitored by reference to the Syndicate Business Forecast.

Claims risk is mitigated by the syndicate having a defined risk appetite which determines the net loss that it intends to retain for major catastrophe events and where deemed appropriate reinsurance is purchased to limit the impact of losses. Although the likelihood of occurrence is considered to be remote, there may be circumstances where the loss from a particular catastrophe event exceeds the net risk appetite perhaps due to the occurrence of a loss that has not been considered or where the reinsurance purchased proves to be insufficient.

Reserving risk is mitigated by the robust reserve adequacy exercise that is performed on a quarterly basis by the Actuarial Function and approved by the Board. The quarterly exercise involves a review of the paid and outstanding claims and an assessment of the appropriate provision for incurred but not reported (IBNR) claims. The reserves are considered by the IRSC and approved by the Board. The reserving is carried out based on historical development data, the claims environment and information provided by lawyers and third party claims adjusters. Although a thorough review is carried out the reserves carried may be more or less than adequate to meet the final cost of claims.

The IRSC also reviews the proposed reinsurance programme that is used to protect capital from frequency and severity of losses that may be sustained through underwriting the varied lines of business written. The review includes analysis of the reinsurance cover being purchased, assessment of the proposed counterparties and the results of the Internal Model.

### **Financial Risk Sub-Committee (FRSC)**

The FRSC is responsible for oversight of financial risks and the steps taken to mitigate them as they arise from investments, asset/liability management, credit, liquidity and concentration risks. These risks are discussed further below.

Investment risk is the risk that the syndicate's earnings are affected by changes in the value of the investment portfolio; such changes in value may be driven by changes in the economic and political environment and by movements in interest and foreign exchange rates. Atrium manages the syndicate's investments in accordance

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

with investment guidelines established by the Board that are reviewed on a regular basis. The FRSC monitors the performance of the external investment manager and the custodians responsible for the safekeeping of the investments, and reports regularly to the Board.

Asset/liability mis-match is the risk that the syndicate could incur a loss through inadequate matching of its investments with its insurance liabilities. Due to the short-tail nature of the majority of these liabilities, the syndicate does not seek to achieve a precise matching with the investment portfolio, instead developing an investment duration guideline that is broadly in line with the average payment profile of the liabilities. However, the syndicate substantially mitigates exposures to currency mis-match by investing premiums in the currency in which subsequent claims are most likely to be incurred. The majority of the syndicate's business is denominated in US dollars and accordingly the substantial part of the investment portfolio is in US dollar denominated investments.

The key aspect of credit risk is the risk of default by one or more of the syndicate's reinsurers, their investment counterparties, or insurance intermediaries. Reinsurance is placed with those reinsurers that comply with the Atrium reinsurance policy. The exposure to credit risk in the investment portfolio is mitigated through adherence to the investment guidelines which require the syndicate's investment portfolios to be held in government and corporate debt with a high credit quality rating and with a relatively short duration, thus substantially mitigating the risk of sustaining losses from default. Exposure to intermediaries is mitigated by rigorous review of new intermediaries, contractual terms of business, regulated or segregated client accounts, monitoring of balances and credit control procedures.

Liquidity risk is the risk that the syndicate will not be able to meet its short term liabilities as they fall due, owing to a shortfall in cash. This risk is mitigated through holding invested funds in high credit quality and short duration investments, and cash-flow projections are also reviewed on a regular basis. The need for overdraft facilities in case of unprojected cash flow deficit is also reviewed regularly.

Concentration risk is the exposure to loss that could arise if the bulk of the amounts recoverable by the syndicate were dependent on a limited number of reinsurers, or if investments were restricted to limited numbers of counterparties or sectors. The risk is mitigated by restricting the permitted cessions to individual reinsurers for any one underwriting year and through the investment guidelines which limit exposure to individual investment counterparties and sectors.

## **Operational Risk Sub-Committee (ORSC)**

The ORSC is responsible for oversight of the syndicate's exposures to operational, group and regulatory risks.

Operational risk includes exposure to loss from errors caused by people, processes or systems, group risk and emerging risks. The agency seeks to manage these risks by operating a control based

environment which consists of documented procedures, segregation of duties and appropriate levels of review. Regular reviews are performed by the Internal Audit department to ensure that deviations from the agency's policies, and control weaknesses, are identified and reported to the appropriate level of management and the Audit Committee when considered necessary.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency has a Compliance Officer and team who monitor regulatory developments and assess the impact on agency policy. They also carry out a compliance monitoring programme.

## **SOLVENCY II**

During the last year further progress has been made by the Agency with the implementation of Solvency II. Specifically, the Agency has met all the regulatory requirements during 2014 and continues towards incorporating Solvency II within business as usual. The Agency will continue to work closely with the Corporation of Lloyd's to ensure that Atrium remains on track to meet the demands of the Solvency II regime, and fully expects to be able to comply with the Solvency II requirements when they become effective on 1 January 2016.

## **BOARD AND MANAGEMENT CHANGES**

### **In 2014**

2014 saw a number of Board changes at Atrium. Ann Godbehere stepped down from the Board in March and was succeeded by Gordon Hamilton who is a Non-Executive Director and has taken on the role of Audit Committee Chair.

On 1 July 2014, after 14 years as Agency Managing Director, Steve Cook stepped down from this role and became Deputy Chairman of the Managing Agency. James Lee, previously Chief Operating Officer, was appointed Agency Managing Director. At the same time, Steve Cook stepped down from his role as Atrium Group Chief Executive Officer, to become Group Deputy Chairman, and was replaced by Richard Harries who also remains Active Underwriter of Syndicate 609. Brendan Merriman, our Group Chief Financial Officer, joined the Board with effect from 1 July 2014. On the same date Paul O'Shea was appointed as Chairman of the Managing Agency, replacing Nick Packer who stepped down as Chairman due to his appointment as Chief Executive Officer of Torus Insurance Holdings Limited.

### **In 2015**

Scott Moser, an Atrium Non-Executive Director since 2008, will be stepping down from the Board at the end of March 2015. The Board is delighted to announce that Stephen Riley will be succeeding Scott in this role (subject to the necessary regulatory approvals) with effect from 1 April 2015.



## DIRECTORS & OFFICERS

The Directors & Officers of the managing agent who served during the year ended 31 December 2014 were as follows:

Martha Bruce, Bruce Wallace Associates Limited (Company Secretary, appointed effective 7 April 2014)

Steve Cook

James Cox

Toby Drysdale

Andrew Elliott

Gordon Hamilton (appointed effective 16 April 2014)

Richard Harries (Active Underwriter 609)

James Lee

Brendan Merriman (appointed effective 1 July 2014)

Scott Moser

Nick Packer

Paul O'Shea

Samit Shah

Kirsty Steward

Andrew Winyard

The following Director & Officer resigned during the year:

Marla Balicao, Equiniti David Venus Ltd (Company Secretary, resigned effective 7 April 2014)

Ann Godbehere (resigned effective 28 March 2014)

## DIRECTORS' INTERESTS

Details of Directors' interests may be found in note 14 to the accounts.

## CHANGE OF AUDITORS

On 30 June 2014 Ernst & Young LLP resigned as the auditors of Syndicate 609. The Board of Directors appointed KPMG LLP as auditors of the syndicate with effect from 1 July 2014.

## RE-APPOINTMENT OF AUDITORS

The Board of Directors have re-appointed KPMG LLP as the syndicate auditors for the year ending 31 December 2015. KPMG LLP have indicated their willingness to continue in office as the syndicate auditor.

## SYNDICATE ANNUAL GENERAL MEETING

As permitted under the Syndicate Meetings (Amendment No.1) Byelaw (No.18 of 2000) Atrium Underwriters Limited does not propose to hold a Syndicate Annual General Meeting of the members of Syndicate 609. Members may object to this proposal or the intention to reappoint auditors within 21 days of the issue of these financial statements. Any such objection should be addressed to James Cox, Compliance Director, at the registered office.

## DISCLOSURE OF INFORMATION TO THE AUDITORS

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

By order of the Board



**James Lee**

Managing Director

4 March 2015



# STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the syndicate annual report and annual accounts in accordance with applicable laws and regulations.

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

In preparing the syndicate annual accounts, the managing agent is required to:

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

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

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 609

We have audited the Syndicate 609 annual accounts for the year ended 31 December 2014, as set out on pages 8 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND THE AUDITOR

As explained more fully in the Statement of managing agent's responsibilities set out on page 6, the managing agent is responsible for the preparation of the syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE SYNDICATE'S ANNUAL ACCOUNTS

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## OPINION ON SYNDICATES' ANNUAL ACCOUNTS

In our opinion the annual accounts:

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

## OPINION ON OTHER MATTERS PRESCRIBED BY THE INSURANCE ACCOUNTS DIRECTIVE (LLOYD'S SYNDICATE AND AGGREGATE ACCOUNTS) REGULATIONS 2008

In our opinion the information given in the Managing Agents' Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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



**Jonathan Bell** (Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
London  
10 March 2015

# PRINCIPAL ACCOUNTING POLICIES

SYNDICATE 609 – 31 DECEMBER 2014

## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted, except that exchange differences are dealt with in the technical account and statement of total recognised gains and losses.

## 2. ACCOUNTING POLICIES

### Premiums Written

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

### Unearned Premiums

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of the risk. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date.

### Reinsurance Premium Ceded

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

### Claims Provisions and Related Recoveries

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

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a

high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

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

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

### Acquisition Costs

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

### Unexpired Risks Provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to the classes of business which are managed together, after taking into account relevant investment returns.

### Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the

difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

### **Investments**

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

### **Taxation**

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

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

### **Foreign Currencies**

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

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising from the retranslation of opening balances in US dollars, Canadian dollars and Euros are recorded in the statement of total recognised gains and losses. The difference between the profit and loss account translated at the average rate and at the rate of exchange at the balance sheet date is recorded in the statement of total recognised gains and losses.

All other exchange differences are included in the technical account.

### **Pension Costs**

The Atrium Group operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

### **Profit Commission**

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Where profit commission is charged it is included within members' standard personal expenses within administrative expenses.

# PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	£'000	2014 £'000	£'000	2013 £'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	1		<b>365,018</b>		380,441
Outward reinsurance premiums			<b>(41,147)</b>		(49,031)
Net premiums written			<b>323,871</b>		331,410
Change in the provision for unearned premiums:					
Gross amount		<b>(1,528)</b>		(6,981)	
Reinsurers' share		<b>217</b>		86	
Change in the net provision for unearned premiums			<b>(1,311)</b>		(6,895)
<b>Earned premiums, net of reinsurance</b>			<b>322,560</b>		324,515
<b>Allocated investment return transferred from the non-technical account</b>			<b>5,710</b>		78
<b>Claims incurred, net of reinsurance</b>					
Claims paid:					
Gross amount		<b>156,028</b>		146,225	
Reinsurers' share		<b>(17,006)</b>		(15,313)	
Net claims paid			<b>139,022</b>		130,912
Change in the provision for claims:					
Gross amount		<b>498</b>		(4,289)	
Reinsurers' share		<b>(8,321)</b>		5,567	
Change in the net provision for claims			<b>(7,823)</b>		1,278
<b>Claims incurred, net of reinsurance</b>			<b>131,199</b>		132,190
<b>Net operating expenses</b>	3		<b>144,124</b>		134,312
<b>Balance on the technical account for general business</b>			<b>52,947</b>		58,091

All operations are continuing.

# PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
<b>Balance on the general business technical account</b>		<b>52,947</b>	58,091
Investment income	6	<b>10,240</b>	7,974
Unrealised losses on investments		<b>(3,283)</b>	(5,999)
Investment expenses and charges	6	<b>(1,247)</b>	(1,897)
Allocated investment return transferred to general business technical account		<b>(5,710)</b>	(78)
<b>Profit for the financial year</b>		<b>52,947</b>	58,091

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2014 £'000	2013 £'000
Profit for the financial year	<b>52,947</b>	58,091
Currency translation differences	<b>3,792</b>	(3,976)
<b>Total recognised gains and losses since last annual report</b>	<b>56,739</b>	54,115

# BALANCE SHEET: ASSETS

AT 31 DECEMBER 2014

	Notes	£'000	2014 £'000	£'000	2013 £'000
<b>Investments</b>					
Financial investments	7		<b>544,175</b>		399,204
<b>Deposits with ceding undertakings</b>			<b>929</b>		1,091
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		<b>8,884</b>		8,355	
Claims outstanding	2	<b>72,025</b>		53,450	
			<b>80,909</b>		61,805
<b>Debtors</b>					
Debtors arising out of direct insurance operations	8	<b>105,661</b>		82,937	
Debtors arising out of reinsurance operations		<b>16,386</b>		16,794	
Other debtors		<b>1,738</b>		214	
			<b>123,785</b>		99,945
<b>Other assets</b>					
Cash at bank and in hand			<b>19,345</b>		23,124
Overseas deposits			<b>48,181</b>		21,099
<b>Prepayments and accrued income</b>					
Accrued interest		<b>64</b>		70	
Deferred acquisition costs		<b>49,396</b>		45,933	
			<b>49,460</b>		46,003
<b>Total assets</b>			<b>866,784</b>		652,271



# BALANCE SHEET: LIABILITIES

AT 31 DECEMBER 2014

	Notes	£'000	2014 £'000	2013 £'000
<b>Capital and reserves</b>				
Members' balances	9,15		<b>75,339</b>	60,385
<b>Technical provisions</b>				
Provision for unearned premiums		<b>157,217</b>		149,376
Claims outstanding	2	<b>543,606</b>		378,654
			<b>700,823</b>	528,030
<b>Deposits received from reinsurers</b>				
			<b>213</b>	406
<b>Creditors</b>				
Creditors arising out of direct insurance operations	10	<b>30,325</b>		17,036
Creditors arising out of reinsurance operations		<b>28,022</b>		22,429
Other creditors		<b>20,913</b>		12,013
			<b>79,260</b>	51,478
<b>Accruals and deferred income</b>				
			<b>11,149</b>	11,972
<b>Total liabilities</b>				
			<b>866,784</b>	652,271

The Annual Report and Accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 4 March 2015 and were signed on its behalf by:



**James Lee**  
Managing Director  
4 March 2015



**Richard Harries**  
Active Underwriter  
4 March 2015

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
<b>Net cash inflow from operating activities</b>	11	<b>187,873</b>	76,665
Transfer to members in respect of underwriting participations		<b>(44,280)</b>	(44,175)
<b>Financing:</b>			
Members' agents' fees		<b>(2,600)</b>	(2,626)
Other		<b>5,156</b>	(142)
	12	<b>146,149</b>	29,722
<b>Cash flows were invested as follows:</b>			
(Decrease)/increase in cash holdings	12	<b>(3,765)</b>	1,943
Increase in overseas deposits	12	<b>25,284</b>	7,651
Net portfolio investment	12,13	<b>124,630</b>	20,128
<b>Net investment of cash flows</b>		<b>146,149</b>	29,722

# NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2014

## 1. Segmental Analysis

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

2014	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
<b>Direct insurance:</b>							
Accident and health	32,059	32,976	13,581	16,270	(1,551)	<b>1,574</b>	27,504
Motor (third party liability)	140	127	41	33	(14)	<b>39</b>	96
Motor (other classes)	8,246	7,816	7,929	2,896	(10)	<b>(3,019)</b>	8,658
Marine, aviation and transport	99,563	107,235	43,281	43,544	(8,935)	<b>11,475</b>	145,465
Fire and other damage to property	108,828	103,852	31,607	43,804	(5,956)	<b>22,485</b>	125,608
Third party liability	87,970	82,765	47,188	33,543	7,851	<b>9,885</b>	228,853
Credit and suretyship	3,526	3,378	2,665	981	(173)	<b>(441)</b>	4,353
Legal Expenses	3,389	3,414	1,242	1,605	(16)	<b>551</b>	5,789
	343,721	341,563	147,534	142,676	(8,804)	<b>42,549</b>	546,326
<b>Reinsurance</b>	21,297	21,927	8,992	6,587	(1,660)	<b>4,688</b>	73,588
<b>Total</b>	<b>365,018</b>	<b>363,490</b>	<b>156,526</b>	<b>149,263</b>	<b>(10,464)</b>	<b>47,237</b>	<b>619,914</b>

2013	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
<b>Direct insurance:</b>							
Accident and health	34,421	31,056	14,518	14,185	(1,272)	<b>1,081</b>	20,998
Motor (third party liability)	81	76	21	20	–	<b>35</b>	63
Motor (other classes)	7,665	6,444	3,841	2,587	–	<b>16</b>	4,295
Marine, aviation and transport	120,662	131,370	46,518	50,126	(15,427)	<b>19,299</b>	149,571
Fire and other damage to property	101,794	96,943	29,430	37,041	(10,551)	<b>19,921</b>	110,296
Third party liability	79,381	70,338	44,440	24,572	(1,285)	<b>41</b>	134,285
Credit and suretyship	3,157	2,907	(2,109)	832	(1,927)	<b>2,257</b>	2,374
Legal Expenses	3,829	3,270	1,785	1,504	(14)	<b>(33)</b>	3,809
	350,990	342,404	138,444	130,867	(30,476)	<b>42,617</b>	425,691
<b>Reinsurance</b>	29,451	31,056	3,492	7,918	(4,250)	<b>15,396</b>	40,534
<b>Total</b>	<b>380,441</b>	<b>373,460</b>	<b>141,936</b>	<b>138,785</b>	<b>(34,726)</b>	<b>58,013</b>	<b>466,225</b>

Commission on direct insurance gross premiums earned during 2014 were £90,636,000 (2013 – £88,250,000).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2014 %	2013 %
UK	<b>5.4</b>	7.0
Other EU countries	<b>6.3</b>	7.9
US	<b>54.0</b>	49.4
Other	<b>34.3</b>	35.7
<b>Total</b>	<b>100.0</b>	100.0

## 2. Claims Outstanding

Reassessment of claims outstanding on underwriting years 2011 & prior (2013 – 2010 & prior) resulted in an improvement of £41.2m (2013 – £28.7m).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2014

## 3. Net Operating Expenses

	2014 £'000	2013 £'000
Acquisition costs	110,191	110,725
Change in deferred acquisition costs	(1,687)	(5,240)
Administrative expenses	38,914	35,090
Loss/(profit) on exchange	1,845	(1,790)
	<b>149,263</b>	138,785
Reinsurance commissions receivable	(5,139)	(4,473)
	<b>144,124</b>	134,312

Administrative expenses include:

	2014 £'000	2013 £'000
Auditors' remuneration:		
Audit services	279	218
Other services	15	20
	<b>294</b>	238

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, managing agent's fees and profit commission) are included within administrative expenses and amount to £20,052,000 (2013 – £19,388,000).

## 4. Staff Numbers and Costs

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of salary costs:

	2014 £'000	2013 £'000
Wages and salaries	15,810	14,004
Social security costs	1,832	1,562
Other pension costs	1,739	1,613
	<b>19,381</b>	17,179

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the year, was as follows:

	2014 Number	2013 Number
Management	7	7
Underwriting	59	51
Claims	10	9
Administration	49	41
	<b>125</b>	108

## 5. Emoluments of the Directors of Atrium Underwriters Limited

The fourteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2014 £'000	2013 £'000
Salary	1,675	1,582
Pension	183	303
	<b>1,858</b>	1,885

## 5. Emoluments of the Directors of Atrium Underwriters Limited continued

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

	2014 £'000	2013 £'000
Salary	283	243
Pension	–	49
	<b>283</b>	292

## 6. Investment Return

	2014 £'000	2013 £'000
Investment income:		
Income from investments	9,877	7,965
Gains on the realisation of investments	363	9
	<b>10,240</b>	7,974
Investment expenses and charges:		
Investment management expenses, including interest	(515)	(373)
Losses on the realisation of investments	(732)	(1,524)
	<b>(1,247)</b>	(1,897)

## Calendar Year Investment Return

	2014 £'000	2013 £'000
Average syndicate funds available for investment during the year:		
Sterling	43,923	46,873
US dollars	314,401	234,069
Canadian dollars	34,231	20,795
Euro	65,759	58,229
Combined	<b>458,314</b>	359,966
Aggregate gross investment return for the year	5,696	256
Gross calendar year investment return:	%	%
Sterling	2.1	0.8
US dollars	0.9	(0.3)
Canadian dollars	1.5	1.6
Euro	1.7	0.6
Combined	<b>1.2</b>	0.1

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of investments.

The syndicate's portfolio consists of high quality investments which are held on a short duration basis.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2014

## 7. Financial Investments

	Market Value		Cost	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Shares and other variable yield securities and units in unit trusts	35,818	33,561	35,818	33,561
Debt securities and other fixed income securities	502,521	356,071	506,203	359,368
Loans secured by mortgage	5,807	9,572	5,787	9,471
Deposits with credit institutions	29	–	29	–
	<b>544,175</b>	399,204	<b>547,837</b>	402,400

Shares and other variable yield securities and units in unit trusts represents the syndicate's holdings in collective investment schemes.

Debt securities and other fixed income securities and loans secured by mortgage are all listed on recognised stock exchanges.

Using Standard & Poor's and Moody's as rating sources, the credit ratings of the debt and other fixed income securities are set out below:

	2014	2014	2013	2013
	£'000	%	£'000	%
Government/Government Agency	159,791	31.8	158,769	44.6
AAA/Aaa	138,854	27.6	76,285	21.4
AA/Aa	34,094	6.8	28,746	8.1
A	111,683	22.2	64,456	18.1
BBB	58,099	11.6	27,815	7.8
	<b>502,521</b>	<b>100.0</b>	356,071	100.0

The syndicate's fund manager throughout 2014 was GR–New England Asset Management (GR–NEAM). The US dollar and Canadian dollar investments are managed by GR–NEAM Inc, based in Farmington, US and the Euro portfolio are managed by GR–NEAM Limited, a sister company based in Dublin, Ireland.

## 8. Debtors Arising out of Direct Insurance Operations

	2014 £'000	2013 £'000
Due from Intermediaries	105,661	82,937

## 9. Reconciliation of Members' Balances

	2014 £'000	2013 £'000
Members' balances brought forward at 1 January	60,385	53,206
Profit for the financial year	52,947	58,091
Currency translation differences	3,792	(3,976)
Payments of profit to members' personal reserve funds	(41,785)	(46,936)
<b>Members' balances carried forward at 31 December</b>	<b>75,339</b>	60,385

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

## 10. Creditors Arising out of Direct Insurance Operations

	2014 £'000	2013 £'000
Due from Intermediaries	30,325	17,036

## 11. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2014 £'000	2013 £'000
Operating profit on ordinary activities	52,947	58,091
Realised and unrealised investment (gains)/losses	(22,156)	14,820
Increase/(decrease) in net technical provisions	153,689	(304)
(Increase)/decrease in debtors	(27,297)	34,599
Increase/(decrease) in creditors	26,959	(26,572)
Foreign exchange on balance due to members	(61)	7
Currency translation differences	3,792	(3,976)
<b>Net cash inflow from operating activities</b>	<b>187,873</b>	<b>76,665</b>

## 12. Movement in Opening and Closing Portfolio Investments Net of Financing

	2014 £'000	2013 £'000
Net cash (outflow)/inflow for the year	(3,765)	1,943
Cash flow		
Increase in deposits	25,284	7,651
Portfolio investments	124,630	20,128
Movement arising from cash flows	146,149	29,722
Changes in market value and exchange rates	22,156	(14,820)
Total movement in portfolio investments	168,305	14,902
Portfolio at 1 January	444,112	429,210
<b>Portfolio at 31 December</b>	<b>612,417</b>	<b>444,112</b>

## Movement in Cash, Portfolio Investments and Financing

	At 1 Jan 2014 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 Dec 2014 £'000
<b>Cash at bank and in hand</b>	<b>23,124</b>	(3,765)	(14)	<b>19,345</b>
<b>Overseas deposits</b>	<b>21,099</b>	25,284	1,798	<b>48,181</b>
<b>Portfolio investments:</b>				
Shares and other variable yield securities and units in unit trusts	33,561	285	1,972	35,818
Debt securities and other fixed income securities	356,071	127,698	18,752	502,521
Loans secured by mortgage	9,572	(3,393)	(372)	5,807
Deposits with credit institutions	–	27	2	29
Deposits with ceding undertakings	1,091	(192)	30	929
Deposits received from reinsurers	(406)	205	(12)	(213)
<b>Total portfolio investments</b>	<b>399,889</b>	124,630	20,372	<b>544,891</b>
<b>Total cash, portfolio investments and financing</b>	<b>444,112</b>	146,149	22,156	<b>612,417</b>

The changes to market values and currencies include £20.1m relating to currency revaluation of non-Sterling denominated investments and deposits.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2013

## 13. Net cash outflow on portfolio investments

	2014 £'000	2013 £'000
Purchase of shares and other variable yield securities and units in unit trusts	(285)	(7,907)
Purchase of debt securities and other fixed income securities	(387,602)	(133,285)
Sale of loans secured by mortgage	3,393	11,644
Purchase of deposits with credit institutions	(27)	–
Deposits with ceding undertakings	192	(412)
Sale of debt securities and other fixed income securities	259,904	109,815
Net cash outflow on portfolio investments	(124,425)	(20,145)
Deposits received from Reinsurers	(205)	17
<b>Net cash outflow on net portfolio investments</b>	<b>(124,630)</b>	<b>(20,128)</b>

## 14. Disclosures of Interest

Atrium Underwriting Group Limited (AUGL) is a wholly owned subsidiary of Alopuc Ltd (a UK holding company) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. Northshore is owned approximately 60% by a subsidiary of Enstar Group Ltd (Enstar) and approximately 40% by affiliates of Stone Point Capital LLC (Stone Point).

AUGL is the holding company of the following wholly owned subsidiaries; Atrium Underwriters Limited (AUL), Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte.Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS) and Atrium Risk Management Services (British Columbia) Ltd (ARMSBC), Atrium 5 Limited and Atrium Nominees Limited (incorporated 20 January 2015). AUL is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is the managing agent of Syndicate 609. AUHL is the holding company of ten non-continuing Lloyd's corporate members.

AUGL participates on the managed syndicate through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

	2012 Capacity £m	2013 Capacity £m	2014 Capacity £m	2015 Capacity £m
Syndicate 609	106.8	106.8	<b>106.8</b>	107.1

Atrium 5 Limited's participation on the managed syndicate as % of syndicate capacity:

	2012 %	Year of account		2015 %
		2013 %	2014 %	
Syndicate 609	25.5	25.5	<b>25.4</b>	25.4

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads a binding authority granted to AIAL to underwrite Space business. Under the terms of the binding authority, fees and profit commission are payable by the syndicate to AIAL. Fee income of US\$454,000 (2013 – US\$866,000) is payable by the syndicate to AIAL in relation to premium earned in calendar year 2014. Profit commission of US\$63,000 has been incurred by the syndicate (2013 – US\$1,984,000) during the calendar year 2014.

AGSL is a group service company. All UK employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609, ASIA charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of S\$3,342,000 were paid by Syndicate 609 to ASIA in calendar year 2014 (2013 – S\$2,987,000).

#### 14. Disclosures of Interest continued

ARMS is incorporated in Washington State, United States, and was established to support the syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of US\$1,305,000 were paid by Syndicate 609 in the calendar year 2014 (2013 – US\$1,200,000).

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of C\$814,000 were paid by Syndicate 609 to ARMSBC in the calendar year 2014 (2013 – C\$740,000).

The Directors' participations on Syndicate 609 via Nomina No. 207 LLP (the staff LLP) are as follows (this includes any Director of AUL that served during 2014 and is a partner in the LLP):

	2012 yoa £	2013 yoa £	2014 yoa £	2015 yoa £
Steve Cook	37,438	35,500	39,103	<b>46,359</b>
James Cox	33,940	37,884	48,071	<b>103,610</b>
Toby Drysdale	29,173	27,707	31,887	<b>37,723</b>
Richard Harries	199,973	250,000	300,000	<b>446,185</b>
James Lee	–	–	–	<b>45,527</b>
Brendan Merriman	–	–	–	<b>34,145</b>
Samit Shah	36,500	38,945	46,729	<b>67,984</b>
Kirsty Steward	–	–	–	<b>34,145</b>

AUL has made no loans to directors of the company during 2014 (2013 – nil). There were no loans outstanding at the balance sheet date.

Managing agency fees of £2,929,000 (2013 – £2,929,000) were paid by the syndicate to AUL. Profit commission of £14,784,000 (2013 – £13,880,000) is payable by the syndicate to AUL in relation to the 2014 calendar year result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No such payment was made in 2014 (2013 – £nil). Included within creditors is £18,456,000 (2013 – £9,989,000) in respect of profit commission payable to AUL on the 2012 year of account. £4,577,000 (2013 – £8,234,000) is included in accruals and payable after 12 months.

Given the insurance related activities undertaken within the broader Enstar group it is possible that transactions may be entered into between the managed syndicate and Enstar Group companies (including Shelbourne Syndicate Services Ltd and its managed syndicate 2008, and Torus Insurance group entities including its managed syndicate 1301). Any such related party transactions are entered into by the Syndicate on a commercial basis and managed in accordance with the protocols set out in Atrium's Conflicts of Interest Policy.

Enstar representatives serving as Directors of AUL also hold Board positions at other Enstar group companies and these individuals disclose and manage any potential conflicts of interest in line with Atrium's usual practice.

#### 15. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.



# ATRIUM

UNDERWRITING YEAR ACCOUNTS FOR  
THE 2012 YEAR OF ACCOUNT  
Syndicate 609



# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent presents their report at 31 December 2014 for the 2012 closed year of account.

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No 8 of 2006). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations ("the 2008 Regulations").

## REVIEW OF THE 2012 CLOSED YEAR OF ACCOUNT

The 2012 year of account closed with a profit of £74.2m after standard personal expenses (17.7% of capacity). There was an underwriting surplus of £38.4m attributable to business reinsured into the 2012 year of account. Further details on the underwriting results are included within the Underwriter's Report.

## PRINCIPLE RISKS AND UNCERTAINTIES

### Governance

The Board recognises the critical importance of having efficient and effective risk management systems in place but also recognises that it can only mitigate risks, and not eliminate them entirely. In preparation for the forthcoming Solvency II regime, the Board has developed its Own Risk and Solvency Assessment ('ORSA'), comprising the entirety of the processes that it uses to identify, assess, monitor and report the risks faced by its managed syndicate and to determine the capital necessary to mitigate retained risks. Critical to the efficacy of the ORSA are the effective operation of the Risk Management Framework ('RMF'), the Governance Structure and Atrium's Internal Model. The RMF comprises the so-called "Three Lines of Defence" approach to risk management and reporting.

The RMF is the mechanism through which Atrium ensures it is implementing effective and enterprise wide risk management practices across its business. Key to Atrium's business is the management of risk, return and capital, against which all significant strategic and operational business decisions are evaluated. Over many years Atrium has established systems of governance and risk management that enable it to manage its business prudently.

The RMF is the articulation of these systems of risk management and governance and how the various elements interact.

The RMF encompasses the broad range of activities undertaken across the organisational hierarchy to ensure that risks are managed appropriately, spanning from the high level strategy set by the Board to the day to day underwriting decisions being made by syndicate staff and the controls in place to govern these. The RMF can be illustrated as follows:

**Strategy:** This describes Atrium's strategy setting process and explains how this filters down through the organisation; incorporating the Syndicate's Business Strategy, Risk Strategy, Business Plan, Risk Policy Statement and Risk Policies.

**Business Activities:** The individual syndicate and agency business units are responsible for implementing the strategy and business plans in accordance with the framework set out in the risk policies.

The people, controls, management information, processes and senior management oversight in place across the business units serve as the "First Line of Defence" in the RMF.

**Risk Governance Structure:** The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the RMF is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee ('ERC'), which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees, discussed further below.

**Independent Assurance:** Atrium has in place a Compliance Function and an Actuarial Function in addition to the Risk Management Function (fulfilled by the ERC as referenced in the previous paragraph). These functions have specific responsibilities documented in their terms of reference and are staffed by fit and proper individuals with suitable qualifications, expertise and experience. The activities of these functions seek to provide the Board with assurance as to the appropriateness and effectiveness of the various elements of the RMF, the internal control environment, and the calculation of capital. There are a number of risk management tools which support independent assessment and reporting of risk. Taken together this Independent Assurance comprises the "Second Line of Defence".

**Independent Oversight:** The RMF provides for independent oversight and challenge via the operation of the Internal Audit Function, the External Auditors, as well as the Audit Committee and Risk Committee, both of which are Committees of the Board with membership comprised of Non Executive Directors. Together these four groups provide the "Third Line of Defence". The Risk Committee is charged with providing independent oversight and review of Atrium's RMF and its constituent parts whilst the Audit Committee, along with its broader responsibilities for the financial statements and financial reporting process, has oversight of internal controls and the Internal Audit Function.

### Executive Risk Committee (ERC)

Atrium's risk governance structure is comprised of the ERC and its three Risk Sub-Committees.

The ERC fulfils the Risk Management Function, and coordinates the risk management activities conducted for the Agency's managed syndicate. It is responsible for ensuring that the RMF, and Internal Model, operates effectively, and for maintaining an aggregated and holistic view of risks to the syndicate and reporting on them to the Board, Committees and management as appropriate. It also ensures

that there is robust and effective management, governance and oversight of Atrium's Internal Model which is used to set capital and is also widely used within the business.

To support delivery of the ERC's responsibilities, there are three Risk Sub-Committees, each being responsible for oversight, review and challenge of the activities of the syndicate and in particular ensuring that activities are within risk policies, that risks are suitably identified, monitored and reported, and that appropriate contingency plans are in place.

The principal risks to which the syndicate is exposed are discussed below together with the mitigation techniques adopted. For clarity, the risks are analysed by reference to the Risk Sub-Committees that have responsibility for the relevant risk area.

### **Insurance Risk Sub-Committee (IRSC)**

The IRSC is responsible for oversight of insurance risk which includes underwriting, claims, reserving, and reinsurance. Insurance risk includes the risks that the policy might be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events might be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk).

Underwriting risk is mitigated through numerous controls including underwriter peer review, authority limits, independent review of risks written, and purchase of an appropriate reinsurance programme. The Syndicate Business Forecast is completed annually and stipulates those classes of business and concentration by class that will be written during the forthcoming year. It is reviewed by the IRSC and approved by the Board prior to being submitted to the Lloyd's Franchise Board for approval. Actual performance during the year is monitored by reference to the Syndicate Business Forecast.

Claims risk is mitigated by the syndicate having a defined risk appetite which determines the net loss that it intends to retain for major catastrophe events and where deemed appropriate reinsurance is purchased to limit the impact of losses. Although the likelihood of occurrence is considered to be remote, there may be circumstances where the loss from a particular catastrophe event exceeds the net risk appetite perhaps due to the occurrence of a loss that has not been considered or where the reinsurance purchased proves to be insufficient.

Reserving risk is mitigated by the robust reserve adequacy exercise that is performed on a quarterly basis by the Actuarial Function and approved by the Board. The quarterly exercise involves a review of the paid and outstanding claims and an assessment of the appropriate provision for incurred but not reported (IBNR) claims. The reserves are considered by the IRSC and approved by the Board. The reserving is carried out based on historical development data, the claims environment and information provided by lawyers and third party claims adjusters. Although a thorough review is carried out the reserves carried may be more or less than adequate to meet the final cost of claims.

The IRSC also reviews the proposed reinsurance programmes that are used to protect capital from frequency and severity of losses that may be sustained through underwriting the varied lines of business written. The review includes analysis of the reinsurance cover being purchased, assessment of the proposed counterparties and the results of the Internal Model.

### **Financial Risk Sub-Committee (FRSC)**

The FRSC is responsible for oversight of financial risks and the steps taken to mitigate them as they arise from investments, asset/liability management, credit, liquidity and concentration risks. These risks are discussed further below.

Investment risk is the risk that the syndicate's earnings are affected by changes in the value of the investment portfolio; such changes in value may be driven by changes in the economic and political environment and by movements in interest and foreign exchange rates. Atrium manages the syndicate's investments in accordance with investment guidelines established by the Board that are reviewed on a regular basis. The FRSC monitors the performance of the external investment manager and the custodians responsible for the safekeeping of the investments, and reports regularly to the Board.

Asset/liability mis-match is the risk that the syndicate could incur a loss through inadequate matching of its investments with its insurance liabilities. Due to the short-tail nature of the majority of these liabilities, the syndicate does not seek to achieve a precise matching with the investment portfolio, instead developing an investment duration guideline that is broadly in line with the average payment profile of the liabilities. However, the syndicate substantially mitigates exposure to currency mis-match by investing premiums in the currency in which subsequent claims are most likely to be incurred. The majority of the syndicate's business is denominated in US dollars and accordingly the substantial part of the investment portfolio is in US dollar denominated investments.

The key aspect of credit risk is the risk of default by one or more of the syndicate's reinsurers, their investment counterparties, or insurance intermediaries. Reinsurance is placed with those reinsurers that comply with the Atrium reinsurance policy. The exposure to credit risk in the investment portfolio is mitigated through adherence to the investment guidelines which require the syndicate investment portfolios to be held in government and corporate debt with a high credit quality rating and with a relatively short duration, thus substantially mitigating the risk of sustaining losses from default. Exposure to intermediaries is mitigated by rigorous review of new intermediaries, contractual terms of business, regulated or segregated client accounts, monitoring of balances and credit control procedures.

Liquidity risk is the risk that the syndicate will not be able to meet its short term liabilities as they fall due, owing to a shortfall in cash. This

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

risk is mitigated through holding invested funds in high credit quality and short duration investments, and cash-flow projections are also reviewed on a regular basis. The need for overdraft facilities in case of unprojected cash flow deficit is also reviewed regularly.

Concentration risk is the exposure to loss that could arise if the bulk of the amounts recoverable by the syndicate were dependent on a limited number of reinsurers, or if investments were restricted to limited numbers of counterparties or sectors. The risk is mitigated by restricting the permitted cessions to individual reinsurers for any one underwriting year and through the investment guidelines which limit exposure to individual investment counterparties and sectors.

## Operational Risk Sub-Committee (ORSC)

The ORSC is responsible for oversight of the syndicate's exposures to operational, group and regulatory risks.

Operational risk includes exposure to loss from errors caused by people, processes or systems, group risk and emerging risks. The agency seeks to manage these risks by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review. Regular reviews are performed by the Internal Audit department to ensure that any deviations from the agency's policies, and control weaknesses, are identified and reported to the appropriate level of management and the Audit Committee when considered necessary.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency has a Compliance Officer and team who monitor regulatory developments and assess the impact on agency policy. They also carry out a compliance monitoring programme.

## Solvency II

During the last year further progress has been made by the Agency with the implementation of Solvency II. Specifically, the Agency has met all the regulatory requirements during 2014 and continues towards incorporating Solvency II within business as usual. The Agency will continue to work closely with the Corporation of Lloyd's to ensure that Atrium remains on track to meet the demands of the Solvency II regime and fully expects to be able to comply with the Solvency II requirements when they become effective on 1 January 2016.

## BOARD AND MANAGEMENT CHANGES

### In 2014

2014 saw a number of Board changes at Atrium. Ann Godbehere stepped down from the Board in March and was succeeded by Gordon Hamilton who is a Non-Executive Director and has taken on the role of Audit Committee Chair.

On 1 July 2014, after 14 years as Agency Managing Director, Steve Cook stepped down from this role and became Deputy

Chairman of the Managing Agency. James Lee, previously Chief Operating Officer, was appointed Agency Managing Director. At the same time, Steve Cook stepped down from his role as Atrium Group Chief Executive Officer, to become Group Deputy Chairman, and was replaced by Richard Harries who also remains Active Underwriter of Syndicate 609. Brendan Merriman, our Group Chief Financial Officer, joined the Board with effect from 1 July 2014. On the same date Paul O'Shea was appointed as Chairman of the Managing Agency, replacing Nick Packer who stepped down as Chairman due to his appointment as Chief Executive Officer of Torus Insurance Holdings Limited.

### In 2015

Scott Moser, an Atrium Non-Executive Director since 2008, will be stepping down from the Board at the end of March 2015. The Board is delighted to announce that Stephen Riley will be succeeding Scott in this role (subject to the necessary regulatory approvals) with effect from 1 April 2015.

## DIRECTORS & OFFICERS

The Directors and Officers of the managing agent who served during the year ended 31 December 2014 were as follows:

Martha Bruce, Bruce Wallace Associates Limited (Company Secretary, appointed effective 7 April 2014)

Steve Cook

James Cox

Toby Drysdale

Andrew Elliott

Gordon Hamilton (appointed effective 16 April 2014)

Richard Harries (Active Underwriter 609)

James Lee

Brendan Merriman (appointed effective 1 July 2014)

Scott Moser

Nick Packer

Paul O'Shea

Samit Shah

Kirsty Steward

Andrew Winyard

The following Director & Officer resigned during the year:

Marla Balicao, Equiniti David Venus Ltd (Company Secretary, resigned effective 7 April 2014)

Ann Godbehere (resigned effective 28 March 2014)



## DIRECTORS' INTERESTS

Details of Directors' interests can be found in Note 16 to the accounts.

## CHANGE OF AUDITORS

On 30 June 2014 Ernst & Young LLP resigned as the auditors of Syndicate 609. The Board of Directors appointed KPMG LLP as auditors of the syndicate with effect from 1 July 2014.

## RE-APPOINTMENT OF AUDITORS

The Board of Directors have re-appointed KPMG LLP as the syndicate auditors for the year ending 31 December 2015. KPMG LLP have indicated their willingness to continue in office as the syndicate auditor.

By order of the Board



**James Lee**

Managing Director

4 March 2015

# STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
2. take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
3. make judgements and estimates that are reasonable and prudent; and
4. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

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

# INDEPENDENT AUDITOR'S REPORT

We have audited the syndicate underwriting year accounts for the 2012 year of account of Syndicate 609 for the three years ended 31 December 2014, as set out on pages 30, 31 and 35 to 46. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND AUDITOR

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 28, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005), which give a true and fair view.

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

## SCOPE OF THE AUDIT OF THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## OPINION ON SYNDICATE UNDERWRITING YEAR ACCOUNTS

In our opinion the syndicate underwriting year accounts:

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you if, in our opinion:

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



**Jonathan Bell** (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

London

10 March 2015

# PRINCIPAL ACCOUNTING POLICIES

SYNDICATE 609 – 31 DECEMBER 2014

## 1. BASIS OF PREPARATION

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2006) and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2012 year of account which has been closed by reinsurance to close as at 31 December 2014.

Consequently the balance sheet represents the assets and liabilities of the 2012 year of account at the date of closure. The profit and loss account and statement of cash flows reflect the transactions for that year of account during the three year period until closure.

These accounts cover the three years from the date of inception of the 2012 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

## 2. ACCOUNTING POLICIES

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

### Premiums Written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premiums written are treated as fully earned.

### Reinsurance Premium Ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

### Claims Paid and Related Recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts

provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

### Reinsurance to Close Premium Payable

The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein. The estimate of claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date. It also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified.

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

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

The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the reinsurance to close premium so determined.

### Foreign Currencies

Transactions, other than reinsurance to close, in US Dollars, Canadian Dollars and Euros are translated at the average rates of exchange for the period. Reinsurance to close premiums receivable and payable, and underwriting transactions denominated in other foreign

currencies, are included at the rate of exchange ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences are included in the technical account.

Where Canadian Dollars or Euros are sold or bought relating to the profit or loss of the closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States Dollars relating to the profit or loss of a closed underwriting account are bought or sold by members on that year, any exchange profit or loss accrues to those members.

### **Investments**

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

### **Investment Return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on the Joint Asset Trust Funds and Illinois Deposit are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account.

A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

### **Operating Expenses**

Where expenses are incurred by or on behalf of the managing agent on 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 the agency company and managed syndicate are apportioned between the agency company and the syndicate on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

### **Taxation**

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

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

### **Pension Costs**

The Atrium Group operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

### **Profit Commission**

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses.

# UNDERWRITER'S REPORT

## SYNDICATE 609

### 2012 YEAR OF ACCOUNT

I am delighted to report Syndicate 609 is declaring a profit of £74.20m after all personal expenses but before members' agents' fees. This represents a 17.7% return on stamp capacity and is ahead of forecast. Favourable run off of the back years contributed 9.2% to the result which is in line with previous years. This is an excellent result and being the first closed year of the merged Atrium Syndicates of 570 and 609, it is particularly noteworthy. Once again the return on stamp result will compare well against our Lloyd's peers, firmly in the 1st quartile of performers, which is one of our stated aims. The investment return was positive but modest, contributing 1% to the overall result.

The year was benign from a loss standpoint with the only major loss being Hurricane Sandy. The syndicate still has some open claims from the event and has set what it believes to be robust reserves. However they do remain our best estimates and the final quantum of some of them will most likely be determined in the courts. The other major events effecting the 2012 year of account result were from the back years.

Quite remarkably the costs to remove the Costa Concordia increased twice during the year, adding a further US\$315m to the overall cost! There was also further deterioration in the P&I claim for the Rena (which grounded and broke up offshore New Zealand in October 2011). The total P&I claim is now \$425m (which again mostly relates to wreck removal), equating to approximately 30 times the value of the vessel.

Across most of our classes of business we have seen the original estimated loss amounts set become increasingly accurate however, in the case of recent marine removal of wreck claims the original loss estimates have been so far out, the market should question the whole process.

The syndicate also suffered two notable claims on its US P&C account from the back years. With one of these the claimant was pressing the court for a large punitive damage award on top of the original loss. However due to the professionalism of our Head of Claims, Neil Riddington, we were able to demonstrate to the jury that we had acted in good faith and the claim was settled without any material additional damages. Despite this loss, the US P&C account has made its first profit for a couple of years and we anticipate that it will now go from strength to strength.

The gross written premium income (net of acquisition costs) was £274m which is 65% of stamp.

### 2013 YEAR OF ACCOUNT

In its second year the 2013 Year of Account has been affected by three large aviation losses. The first loss was the disappearance of flight MH370. As the plane has not yet been found the syndicate has agreed to fund 50% of the loss with the Hull All Risk insurers paying the other 50%. Our assured is therefore made good and the insurers

can then debate liability. The syndicate will pay this claim, in its entirety, if it can be proven that the loss was caused by a malicious act such as a terrorism. We are currently engaged in a process to try to determine the responsibilities of the respective policies. It is the most extraordinary and shocking loss and we along with the rest of the world are surprised that in this day and age a commercial airliner can simply disappear.

In the event it is proven that the loss to be covered under the Atrium led war policy the loss to the syndicate is estimated to be \$6.7m. The syndicate also has exposure to this loss on its Aviation Reinsurance account of \$3.5m.

The second major claim was the shooting down of MH17 over the Ukraine. As leader of the Malaysian Airlines (MAS) policy, the syndicate agreed to pay the claim within 24 hours and the funds left our account within 5 days of the event. Despite the cause of the claim being straightforward, there were complications with the settlement as the interested parties included not only MAS but also the lessee companies of the planes and separately the engines. Once again Neil Riddington handled this complex claim most professionally and he and Atrium were praised by all parties.

This loss is estimated to cost the syndicate \$10.8m gross and \$9.8m net and impacts the Aviation War and Aviation Reinsurance classes.

The final Aviation War loss was the largest of all, with the destruction of several aircraft during intense fighting at Tripoli airport. The loss is estimated to cost the market between \$600m-\$700m. Despite being a market leader in the class our loss will be less than 1% of the total claim. This was because we did not write the major airlines damaged as we felt that the rates being charged did not reflect the risk. It was no surprise to us at Atrium that Libya became unstable and fighting broke out between the various factions.

In 2014 the syndicate also suffered a Marine War loss when a dredger "sucked up" an old mine which subsequently exploded, damaging the ship.

This brings me on to a more general point that a lot of underwriters consider that the writing of War and Associated Perils business is simply "free money". The losses above and the losses from the fighting in Syria, Iraq, Egypt and Ukraine and the recent events in Paris and Sydney should suggest otherwise.

Fortunately the syndicate has a strategic aim of having a diverse and balanced portfolio so the "War" losses which have hit the 2013 Year of Account will be balanced out by good results from the other classes written by the syndicate. In particular our Property D&F and Upstream energy accounts, led by Simon Clegg and Tom Gault respectively, are expected to produce strong profits.

Our current forecast range for the year is a profit of between 0% and +10% and the final syndicate income is expected to be £306m which is 73% of stamp.

## 2014 YEAR OF ACCOUNT

The market continued to soften across most of our lines of business throughout 2014. Trading conditions were very difficult. There was a combination of new start ups, both within and outside of Lloyd's, existing operations expanding through the hiring of new teams, the growth in London based MGAs and the proliferation of broker line slips.

Atrium has not been immune to these market conditions and in early 2014, its entire Aviation team resigned to join a competitor. It was the first time in our history that we had lost a team. It was a shock; although we know all of our underwriters are highly regarded and attractive to other businesses, and a disappointment. The good news is that we have rebuilt the team with some first class individuals. I believe we now have a team in place more suited for the demands of the aviation industry in the future. Accordingly we were able to retain more business than expected. The interim period between the original teams having left and the new teams arriving showed Atrium at its best. We all worked together to provide first class service to our clients and brokers in what were trying conditions, following the high profile losses that occurred in the year.

Broker facilities/lineslips are becoming an increasing threat to those firms that want to underwrite the business and not simply be lumped into a panel of underwriters who pay the broker for the privilege to be bound on business they probably would not accept at the box.

Atrium's overall business is showing good signs of growth in two areas. Our US P&C book is benefitting from recent investments in personnel and systems. Our online system AU Gold has more products to offer along with enhanced marketing capabilities from our office in San Francisco. The 'online income' grew by over 20% to around \$50m and with the drive and determination of Lee Greenway and his team behind it we expect that to continue.

Our International Casualty account has also grown as the team settles in.

Our largest losses to date have been from Hurricane Odile in Mexico, flooding in Detroit and a Satellite launch loss. These losses are all in the region of \$5m.

With no significant catastrophe losses and only modest attritional losses advised to date, the syndicate should report a positive result for this year.

The underwriting margins are shrinking and a return to a more normal loss pattern threatens the profitability of many insurance operations.

Our current forecast range for the year is a profit of 0% and +10% and the final syndicate income is expected to be £270m which is 64% of stamp.

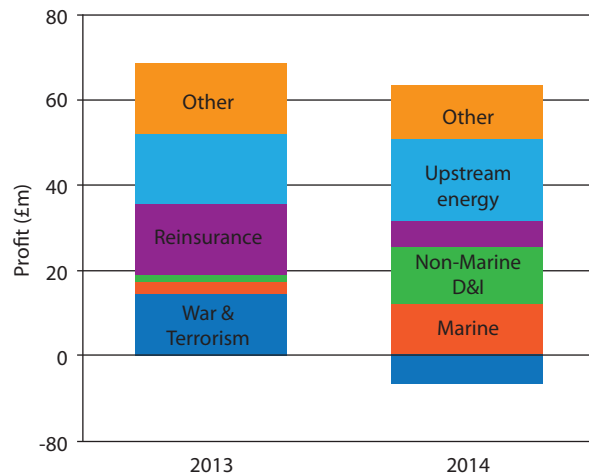
## 2015 AND THE FUTURE

There was no respite from the difficult trading conditions for the 1st January renewals. The syndicate did take advantage of the uncertainty over the renewal of TRIA (the US state backed terrorism protection pool) by providing stand alone cover to some cedants.

We have a new team writing Marine Reinsurance. It was reassuring to see that they were shown a lot of business despite only starting in November, which was a testament to both them and Atrium.

This continues our aim "to be a premier provider of a balanced range of insurance and reinsurance classes".

The importance of balance and diversity can be shown in the make up of annual accounted result for 2013 and 2014. Both years were profitable but the profit was made up of different classes in different years.



The last 4 months has seen a significant increase in merger and acquisition activity throughout the insurance industry. It is not unexpected as organic growth becomes more difficult to achieve. We cannot be sure what the insurance landscape will look like in 12 months time although we can be fairly certain it would have gone through a bigger change in that period than the previous 5 years, if this M&A activity continues.

The challenge to Atrium is to remain relevant in this changing world. We still strongly believe that both our brokers and clients want to deal with the "decision makers". Decision making ability gets diluted in large organizations. We will not lose our empowered underwriting culture.



# UNDERWRITERS REPORT

## SYNDICATE 609

We do have to be efficient. Bigger competitors should be able to achieve economies of scale although these economies are often lost in the growth of middle management. Atrium has excellent Business Solutions and Operations teams and we need to maintain total focus on operational efficiency. An example of this is the development of AU-Gold which is providing Atrium with both cost and process efficiencies.

We will not be a company whose operation is adversely affected by regulation. Our Compliance and other agency functions know that a professional approach and a focus on getting it right first time ensures that any changes in regulation can be handled. Our continued positive assessments by our regulator for Solvency II readiness is testament to this.

Atrium will continue to seek to grow although our continued focus on the bottom line will remain paramount. We know we can attract high quality underwriters who share our values. We know we have to get closer to our clients, hence the establishment of operations in Singapore and San Francisco.

The future outlook does look tough but I think it needs to be and if there are to be fewer insurance entities in the future, we will make sure that Atrium is one of them.

Thank you to Toby Drysdale, the syndicate deputy underwriter, and all of the Atrium employees who have contributed to another successful year.



**Richard Harries**

Active Underwriter, Syndicate 609

4 March 2015

# PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 2012 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2014

	Notes	£'000
<b>Syndicate allocated capacity</b>		418,450
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	381,451
Outward reinsurance premiums		(47,610)
Earned premiums, net of reinsurance		333,841
<b>Reinsurance to close premium received, net of reinsurance</b>		
At transaction rates of exchange		279,083
Revaluation to closing rates of exchange		11,772
Reinsurance to close premium received, net of reinsurance at closing rates of exchange	2	290,855
		624,696
<b>Allocated investment return transferred from the non-technical account</b>		4,377
<b>Claims incurred, net of reinsurance</b>		
Claims paid		
Gross amount		142,569
Reinsurers' share		(14,968)
		127,601
<b>Reinsurance to close premium payable, net of reinsurance</b>	3	277,497
		405,098
<b>Net operating expenses</b>	4	149,813
<b>Balance on the technical account for general business</b>	8	74,162

# PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 2012 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2014

	Notes	£'000
<b>Balance on the technical account for general business</b>		74,162
Investment income	7	11,377
Unrealised losses on investment		(5,171)
Investment expenses and charges	7	(1,829)
Allocated investment return transferred to general business technical account		(4,377)
<b>Profit for the 2012 closed year of account</b>		74,162

# BALANCE SHEET

FOR THE 2012 CLOSED YEAR OF ACCOUNT AT 31 DECEMBER 2014

	Notes	£'000
<b>Assets</b>		
Investments	9	387,374
Deposits with ceding undertakings		40
Debtors	10	18,162
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	50,926
<b>Other assets</b>		
Cash at bank and in hand		17,597
Overseas deposits		26,660
Prepayments and accrued income		60
<b>Total assets</b>		<b>500,819</b>
<b>Liabilities</b>		
Amounts due to members	11	71,549
Reinsurance to close premium payable to close the account - gross amount	3	328,423
Creditors	12	97,302
Accruals and deferred income		3,545
<b>Total liabilities</b>		<b>500,819</b>

The 2012 closed year underwriting accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 4 March 2015 and were signed on its behalf by:



**James Lee**  
Managing Director  
4 March 2015



**Richard Harries**  
Active Underwriter  
4 March 2015

# STATEMENT OF CASH FLOWS

FOR THE 2012 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2014

	Notes	£'000
<b>Net cash inflow from operating activities</b>	13	60,450
Transfer to members in respect of underwriting participations		–
Members' agents' fees paid on behalf of members		(2,613)
	14	57,837
<b>Cash flows were invested as follows:</b>		
Increase in cash holdings	14	17,597
Decrease in overseas deposits	14	(3,147)
Net portfolio investment	14,15	43,387
<b>Net investment of cash flows</b>		57,837

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE 2012 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2014

## 1. Segmental Analysis

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

	Gross premiums written (note 1) £'000	Gross claims incurred (note 2) £'000	Gross operating expenses £'000	Reinsurance balance (note 3) £'000	Total £'000
<b>Direct insurance:</b>					
Accident and health	31,698	12,871	15,877	(1,375)	<b>1,575</b>
Motor (third party liability)	87	31	25	(14)	<b>17</b>
Motor (other classes)	5,440	3,611	2,443	(9)	<b>(623)</b>
Marine, aviation and transport	139,425	31,143	57,254	(16,334)	<b>34,694</b>
Fire and other damage to property	95,602	39,131	40,346	(5,051)	<b>11,074</b>
Third party liability	69,815	36,621	29,863	7,096	<b>10,427</b>
Credit and suretyship	3,209	2,549	979	(80)	<b>(399)</b>
Legal Expenses	2,663	924	1,317	(11)	<b>411</b>
	347,939	126,881	148,104	(15,778)	<b>57,176</b>
<b>Reinsurance</b>	33,512	12,854	9,097	(3,801)	<b>7,760</b>
	381,451	139,735	157,201	(19,579)	<b>64,936</b>
<b>RITC received</b>	290,855	331,257	–	45,251	<b>4,849</b>
<b>Total</b>	672,306	470,992	157,201	25,672	<b>69,785</b>

1. Gross premiums written are treated as fully earned.
2. Gross claims incurred comprises gross claims paid and gross reinsurance to close premium payable.
3. The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on reinsurance to close payable.
4. All premiums are concluded in the UK.

## 2. Reinsurance to Close Premium Receivable

	£'000
Gross notified outstanding claims	141,399
Reinsurance recoveries anticipated	(21,585)
Net notified outstanding claims	119,814
Provision for gross claims incurred but not reported	180,349
Reinsurance recoveries anticipated	(21,080)
Provision for net claims incurred but not reported	159,269
<b>Reinsurance to close premium receivable, net of reinsurance at transaction rates of exchange</b>	<b>279,083</b>
Revaluation to closing rates of exchange	11,772
<b>Reinsurance to close premium receivable, net of reinsurance at closing rates of exchange</b>	<b>290,855</b>

### 3. Reinsurance to Close Premium Payable

	£'000
Gross notified outstanding claims	131,755
Reinsurance recoveries anticipated	(18,818)
Net notified outstanding claims	112,937
Provision for gross claims incurred but not reported	196,668
Reinsurance recoveries anticipated	(32,108)
Provision for net claims incurred but not reported	164,560
<b>Reinsurance to close premium payable, net of reinsurance</b>	<b>277,497</b>

The reinsurance to close is effected to the 2013 year of account of Syndicate 609.

### 4. Net Operating Expenses

	£'000
Acquisition costs	107,932
Administrative expenses	42,628
Profit on exchange	(5,131)
Allocation to reinsurance to close premium receivable, net of reinsurance	11,772
	157,201
Reinsurance commissions receivable	(7,388)
	149,813

Administrative expenses include:

	£'000
Auditors' remuneration	
Audit services	326
Other services	8
Managing agent's profit commission	18,456

Members' standard personal expenses are included within administrative expenses and amount to £23,535,000.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2012 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2014

## 5. Staff Numbers and Costs

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of salary costs:

	<b>£'000</b>
Wages and salaries	14,150
Social security costs	1,666
Other pension costs	1,487
	<b>17,303</b>

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the three years, was as follows:

	<b>Number</b>
Management	5
Underwriting	46
Claims	7
Administration	38
	<b>96</b>

## 6. Emoluments of the Directors of Atrium Underwriters Limited

The fourteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	<b>£'000</b>
Emoluments	2,009

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

	<b>£'000</b>
Emoluments	288

## 7. Investment Return

	<b>£'000</b>
Investment income:	
Income from investments	11,063
Gains on the realisation of investments	314
	<b>11,377</b>
Investment expenses and charges:	
Investment management expenses, including interest	(575)
Losses on the realisation of investments	(1,254)
	<b>(1,829)</b>

**8. Balance on Technical Account**

	<b>£'000</b>
Balance excluding investment return and operating expenses	
Profit attributable to business allocated to the 2012 pure year of account	180,637
Profit attributable to business reinsured into the 2012 year of account	38,961
	219,598
Allocated investment return transferred from the non-technical account	4,377
Net operating expenses	(149,813)
	74,162

**9. Investments**

	<b>Market Value</b>	<b>Cost</b>
	<b>£'000</b>	<b>£'000</b>
Shares and other variable yield securities and units in unit trusts	29,510	29,510
Debt securities and other fixed income securities	352,960	355,892
Loans secured by mortgage	4,875	4,859
Deposits with credit institutions	29	29
	387,374	390,290

Debt securities and other fixed income securities and loans secured by mortgage are all listed on recognised stock exchanges.

**10. Debtors**

	<b>£'000</b>
Arising out of direct insurance operations	
Due from intermediaries	14,307
Arising out of reinsurance operations	1,339
Other	2,516
	18,162

**11. Amounts Due to Members**

	<b>£'000</b>
Profit for the 2012 closed year of account	74,162
Members' agents' fee advances	(2,613)
Distributions to members to date	–
<b>Amounts due to members at 31 December 2014</b>	<b>71,549</b>

**12. Creditors**

	<b>£'000</b>
Arising out of direct insurance operations	
Due to intermediaries	24,411
Arising out of reinsurance operations	14,774
Managing agent's profit commission	18,456
Other	39,661
	97,302

Other creditors include inter year loans of £38,237,000.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2012 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2014

## 13. Reconciliation of Profit for the Year of Account to Net Cash Inflow from Operating Activities

	£'000
Profit for the year of account	74,162
Realised and unrealised investment losses including foreign exchange	(12,662)
Decrease in debtors	(840)
Increase in creditors	(15,577)
Non-cash consideration for net RITC receivable	(262,130)
Net reinsurance to close premium payable	277,497
<b>Net cash inflow from operating activities</b>	<b>60,450</b>

Consideration for net RITC receivable comprised:

	£'000
Non-cash consideration:	
Portfolio investments	332,666
Deposits with credit institutions	46
Overseas deposits	28,420
Debtors	17,422
Creditors	(116,424)
	262,130
Cash	16,953
	279,083

## 14. Movement in Opening and Closing Portfolio Investments Net of Financing

	£'000
Net cash inflow from the three years	17,597
Cash flow	
Decrease in overseas deposits	(3,147)
Portfolio investments	43,387
Movement arising from cash flows	57,837
Received as consideration for net RITC receivable	
Overseas deposits	28,420
Portfolio investments	332,712
Changes in market value and exchange rates	12,662
Total movement in portfolio investments	431,631
Portfolio at 1 January 2012	–
<b>Portfolio at 31 December 2014</b>	<b>431,631</b>

#### 14. Movement in Opening and Closing Portfolio Investments Net of Financing continued

##### Movement in Cash, Portfolio Investments and Financing

	At 1 Jan 2012 £'000	Cash flow £'000	Received as consideration for net RITC receivable £'000	Changes to market value and currencies £'000	At 31 Dec 2014 £'000
<b>Cash at bank and in hand</b>	–	644	16,953	–	<b>17,597</b>
<b>Overseas deposits</b>	–	(3,147)	28,420	1,387	<b>26,660</b>
<b>Portfolio investments:</b>					
Shares and other variable yield securities and units in unit trusts	–	7,645	20,716	1,149	<b>29,510</b>
Debt securities and other fixed income securities	–	45,936	304,210	2,814	<b>352,960</b>
Participation in investment pools	–	–	–	–	<b>0</b>
Loans secured by mortgage	–	(10,174)	7,740	7,309	<b>4,875</b>
Other loans	–	–	–	–	<b>0</b>
Deposits with credit institutions	–	(20)	46	3	<b>29</b>
<b>Total portfolio investments</b>	–	43,387	332,712	11,275	<b>387,374</b>
<b>Total cash, portfolio investments and financing</b>	–	40,884	378,085	12,662	<b>431,631</b>

The changes to market values and currencies include £11.1m relating to currency revaluation of non-Sterling denominated investments and deposits.

##### 15. Net Cash Outflow on Portfolio Investments

	£'000
Purchase of shares and other variable yield securities	(7,645)
Purchase of debt securities and other fixed income securities	(246,681)
Purchase of loans secured by mortgage	(255)
Sale of debt securities and other fixed income securities	200,745
Sale of loans secured by mortgage	10,429
Sale of deposits with credit institutions	20
<b>Net cash outflow on portfolio investments</b>	<b>(43,387)</b>

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2012 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2014

## 16. Disclosures of Interest

Atrium Underwriting Group Limited (AUGL) is a wholly owned subsidiary of Alopuc Ltd (a UK holding company) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. Northshore is owned approximately 60% by a subsidiary of Enstar Group Ltd (Enstar) and approximately 40% by affiliates of Stone Point Capital LLC (Stone Point).

AUGL is the holding company of the following wholly owned subsidiaries; Atrium Underwriters Limited (AUL), Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte.Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS) and Atrium Risk Management Services (British Columbia) Ltd (ARMSBC), Atrium 5 Limited and Atrium Nominees Limited (incorporated 20 January 2015). AUL is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is the managing agent of Syndicate 609. AUHL is the holding company of ten non-continuing Lloyd's corporate members.

AUGL participates on the managed syndicate through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

	2012 Capacity £m	2013 Capacity £m	2014 Capacity £m	2015 Capacity £m
Syndicate 609	106.8	106.8	<b>106.8</b>	107.1

Atrium 5 Limited's participation on the managed syndicate as % of syndicate capacity:

	2012 %	Year of account		2015 %
		2013 %	2014 %	
Syndicate 609	25.5	25.5	<b>25.4</b>	25.4

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads a binding authority granted to AIAL to underwrite Space business. Under the terms of the binding authority, fees and profit commission are payable by the syndicate to AIAL. Fee income of US\$1,964,000 was paid by the syndicate to AIAL in relation to premium earned on the 2012 year of account. Profit commission of US\$3,065,000 is due in relation to the 2012 year of account.

AGSL is a group service company. All UK employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609, ASIA charges fees to the Syndicate equal to its operating costs plus a small margin for tax reasons. Fees of S\$2,117,000 were paid by Syndicate 609 to ASIA on the 2012 year of account.

ARMS is incorporated in Washington State, United States, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the Syndicates equal to its operating costs plus a small margin for tax reasons. Fees of US\$1,015,000 were paid by Syndicate 609 to ARMS in respect of the 2012 year of account.

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of C\$850,000 were paid by Syndicate 609 to ARMSBC in respect of the 2012 year of account.

The Directors' participations on Syndicate 609 via Nomina No. 207 LLP are as follows (this includes any Director of AUL that served during 2014 and was a partner in the staff LLP):

	2012 yoa £	2013 yoa £	2014 yoa £	2015 yoa £
Steve Cook	37,438	35,500	39,103	<b>46,359</b>
James Cox	33,940	37,884	48,071	<b>103,610</b>
Toby Drysdale	29,173	27,707	31,887	<b>37,723</b>
Richard Harries	199,973	250,000	300,000	<b>446,185</b>
James Lee	–	–	–	<b>45,527</b>
Brendan Merriman	–	–	–	<b>34,145</b>
Samit Shah	36,500	38,945	46,729	<b>67,984</b>
Kirsty Steward	–	–	–	<b>34,145</b>

AUL has made no loans to directors of the company during 2014 (2013 – nil). There were no loans outstanding at the balance sheet date.

Managing agency fees of £2,929,000 were paid by the syndicate to AUL. Profit commission of £18,456,000 is payable by the syndicate to AUL in relation to the 2012 year of account result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No such payment was made in 2014. Included within creditors is £18,456,000 in respect of profit commission payable to AUL in relation to the 2012 year of account.

Given the insurance related activities undertaken within the broader Enstar group it is possible that transactions may be entered into between the managed syndicate and Enstar Group companies (including Shelbourne Syndicate Services Ltd and its managed syndicate 2008, and Torus Insurance group entities including its managed syndicate 1301). Any such related party transactions are entered into by the Syndicate on a commercial basis and managed in accordance with the protocols set out in Atrium's Conflicts of Interest Policy.

Enstar representatives serving as Directors of AUL also hold Board positions at other Enstar group companies and these individuals disclose and manage any potential conflicts of interest in line with Atrium's usual practice.

# SEVEN YEAR SUMMARY OF RESULTS

SYNDICATE 609 AT 31 DECEMBER 2014

	Notes	2012 £m	2011 £m	2010 £m	Year of Account 2009 £m	2008 £m	2007 £m	2006 £m
Syndicate allocated capacity		<b>418</b>	274	275	200	215	215	214
Aggregate net premiums		<b>334</b>	183	193	195	167	147	135
Number of underwriting members		<b>3,165</b>	3,128	3,102	2,991	2,976	2,906	2,668
<b>Results for an illustrative share of £10,000</b>		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Gross premiums		<b>9,116</b>	8,147	8,508	12,072	9,290	8,860	8,557
Gross premiums %	1	<b>91.2%</b>	81.5%	85.1%	120.7%	92.9%	88.6%	85.6%
Net premiums		<b>7,978</b>	6,675	7,040	9,758	7,739	6,847	6,299
Net premiums %	2	<b>79.8%</b>	66.7%	70.4%	97.6%	77.4%	68.5%	63.0%
Premium for the reinsurance to close an earlier year of account	3	<b>6,951</b>	5,916	5,301	7,929	6,842	6,441	7,619
Net claims	4	<b>3,049</b>	3,564	2,569	3,469	3,763	4,769	2,914
Premium for the reinsurance to close the year of account		<b>6,632</b>	5,256	5,985	7,969	7,287	6,747	7,139
Underwriting profit		<b>5,248</b>	3,771	3,787	6,249	3,531	1,772	3,865
Loss/(profit) on exchange		<b>159</b>	(107)	(69)	119	(814)	(469)	(858)
Syndicate operating expenses		<b>2,929</b>	2,074	1,944	2,719	2,063	1,836	1,888
Balance on technical account		<b>2,160</b>	1,804	1,912	3,411	2,282	405	2,835
Balance on technical account %	5	<b>23.7%</b>	22.1%	22.5%	28.3%	24.6%	4.6%	33.1%
Investment return		<b>104</b>	89	242	298	383	555	444
Profit for closed year of account		<b>2,264</b>	1,893	2,154	3,709	2,665	960	3,279
Illustrative managing agent's profit commission		<b>441</b>	364	416	720	515	161	625
Illustrative personal expenses		<b>51</b>	66	69	95	76	150	150
Profit after illustrative profit commission and illustrative personal expenses	6	<b>1,772</b>	1,463	1,669	2,894	2,074	649	2,504

## Notes

- Gross premiums as a percentage of illustrative share.
- Net premiums as a percentage of illustrative share.
- The reinsurance to close premium that has been received by the 2012 year of account has been retranslated to the rates of exchange that were applicable as at 31 December 2012. Reinsurance to close premiums receivable in respect of the 2011 and prior years of account have not been restated.
- Net claims include internal claims settlement expenses.
- Balance on technical account as a percentage of gross premiums.
- Illustrative personal expenses, including illustrative profit commission, are based on a calculation of amounts incurred by a member writing an illustrative share. For this purpose minimum fee charges are ignored.

## Memorandum Item

	2012 £m	2011 £m	2010 £m	Year of Account 2009 £m	2008 £m	2007 £m	2006 £m
<b>For an illustrative share of £10,000</b>							
Aggregation of annual fee, profit commission and syndicate expenses	<b>1,037</b>	778	815	1,330	973	594	1,038











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