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**Syndicate 780**  
**Annual Accounts**  
**31 December 2014**

## **Syndicate 780 Annual Accounts**

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# Syndicate 780

## Report of the Directors of the Managing Agent

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

### Directors

The Directors of the Managing Agent who served during the year ended 31 December 2014 were as follows:

T J Ambridge	Chief Risk Officer
W E Beveridge	Chief Underwriting Officer and Active Underwriter
H H Bohling	Non-Executive Director
J Cloutier	Non-Executive Chairman (appointed Chairman 22 October 2014)
P W J Cresswell	Non-Executive Chairman (resigned 22 October 2014)
N P Fitzgerald	Chief Executive Officer
P J Green	Finance Director
I M Hewitt	Risk and Compliance Director
N N H Smith	Non-Executive Director (appointed 4 July 2014)

### Directors' Interests

No Directors participated directly on the Syndicate in the calendar year.

Further details of Director's interests in Group companies are described in Note 18 of the Accounts.

### Business Review

The principal activity of the Syndicate continues to be the underwriting of general insurance and reinsurance business in the Lloyd's market.

Advent Underwriting Limited (AUL), the Managing Agent of Syndicate 780, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Advent Capital (No.3), a subsidiary of Advent Capital (Holdings) LTD. (Advent), continues to provide capacity for Syndicate 780.

### Strategic Report

The key disclosures required by the Strategic Report have been considered in the sections below, these being the results of the business, future outlook and risk management.

### Result for the Calendar Year

The overall result for 2014 is a profit of £28.4 million for the year, of which a profit of £18.9 million was attributable to the technical result. The technical result analysed by year of account was: a profit of £28.3 million on the 2012 and prior years of account, a profit of £8.1 million on the 2013 account and a loss of £17.5 million on the 2014 account. The investment result on the funds in syndicate assets was a profit of £7.5 million, which is included in the non technical result.

The Syndicate undertook a significant restructuring of its underwriting businesses during the second half of 2013 and through 2014. Market pressures on its traditional property reinsurance markets, due to low levels of catastrophe activity and surplus market capital, led the Syndicate to rebalance its portfolio with new, primarily insurance.

Gross premiums written decreased 6.8% to £125.7 million in 2014, from £134.9 million in 2013, with the new classes of business and underwriting teams added in 2013 and in 2014 providing significant volumes of business to offset the reductions seen in the property reinsurance classes as a result of the refocusing of appetite in the classes most impacted by market conditions. Further additional hires have been made in 2014, adding retail accident and health and commercial property binder experience, with the benefits expected to be seen in 2015.

Net premiums earned decreased by 17.1% to £89.1 million for the year ended 31 December 2014 from £107.5 million in 2013. The transition to a greater proportion of insurance business, which is written more evenly through the year, resulted in a slower earning of premium and an increase in unearned premium at 31 December 2014.

The expense ratio, excluding foreign exchange, for 2014 was 41.1% compared with 39.8% for 2013. The increased expense ratio is due to higher expenses from an increase in staff and investment in infrastructure, combined with the impact of reduced net earned premiums.

The Syndicate continues to have in place a Treaty Quota Share arrangement with Wentworth, a related company, which covers 50% of the Treaty Property Reinsurance business and in 2014 also covers the Marine Reinsurance business.

The 2013 and prior years of account have seen favourable net claims development, resulting in a release of £15.6 million of reserves held at 31 December 2014 (2013: release of £8.8 million).

## Syndicate 780

### Report of the Directors of the Managing Agent (Continued)

The Syndicate's investments are managed by Hamblin Watsa Investment Counsel (HWIC). The investment return of 6.32% (2013: 2.26%) primarily relates to realised and unrealised gains on the Syndicate's long dated Government and Municipal bonds. The Syndicate realised some equity gains in the first half of the year, with the proceeds mainly invested in other equity opportunities. Unrealised losses on these new investments have offset the realised gains.

#### Investment Return

	2014 £'000	2013 £'000
Average monthly Syndicate funds available for investment	326,460	337,806
Aggregate net investment return in respect of Syndicate and FAL investments	20,635	6,731
Calendar year net investment yield:		
Sterling	(0.92)%	2.31%
Euro	23.23%	45.71%
US dollars	4.53%	(3.51)%
Canadian dollars	0.92%	1.00%
<b>Total yield</b>	<b>6.32%</b>	<b>2.26%</b>

#### Member's balances

Member's balances have increased from £121.3 million at 31 December 2013 to £137.3 million at 31 December 2014 due to a combination of factors. The increase in members balances from profit for the financial year, combined with the release of funds at Lloyd's in Syndicate trust funds, was partially offset by the loss call on the 2011 year of account.

#### Future Outlook

Syndicate 780's 2015 business plan and SCR have been approved by Lloyd's, with gross premium of £160.7 million. Competitive market conditions prevail across all classes of business, with surplus capacity putting pressure on rates, terms and conditions. In addition, broker portfolio placements and greater cedent risk retention has put pressure on signings.

Our underwriting teams have resisted these pressures by managing broker relationships and are reviewing the results of the 1 January 2015 renewals to develop plans for the remainder of the year. The 2015 plan assumed that overall rates would reduce by approximately 1.3% compared with the 2014 YOA. Excluding the marine classes where the loss activity resulted in a rise in expected rates, the reduction is now expected to be approximately 8.2%.

#### Internal Control and Risk Management

##### Overview

The Board of Directors of the Managing Agent (Advent Underwriting Limited - AUL) is responsible for the oversight of the Syndicate's systems of internal control, for reviewing their effectiveness at least annually and for reporting on the effectiveness of controls in the Annual Accounts. Executive Management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

Every employee is responsible for internal control and is informed of their role through detailed job descriptions, policies, procedures manuals and communications from Business Unit Leaders and the Board of Directors.

The Syndicate's systems of internal control consist of a number of interrelated components as outlined below:

##### Control Environment

The control environment sets the tone of the business influencing the control consciousness of its Directors and employees, sometimes referred to as the "tone at the top". It provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board of Directors.

The control environment is communicated to employees through the following key policies approved by the Board:

- Corporate objectives and risk appetite
- Code of Business Conduct and Ethics
- Whistle Blowing

## Syndicate 780

### Report of the Directors of the Managing Agent (Continued)

- Anti-Bribery and Corruption, Confidentiality and Trading Responsibilities regarding Fairfax
- Anti-money laundering and financial crime
- Documented policies and procedures for each operational business area

As a small organisation, AUL's culture is hands-on with extensive interaction between directors, Business Unit Leaders and employees and one which takes pride in maintaining strong underwriting disciplines throughout the insurance cycle while acknowledging the potential volatility in short term results arising from catastrophe events.

#### Risk Assessment

The Syndicate faces a variety of risks from both internal and external sources that require identification, assessment and management. Risk management is the process that enables a business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess the risks against risk appetite;
- Where possible and commercially desirable, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured and assessed.

As the environment in which the Syndicate is operating is constantly changing, the risk assessment process needs to be dynamic and updated on an on-going basis.

The key risks, as assessed by AUL, are set out below:

- **Insurance risk:**
  - **Underwriting and risk selection:** The Syndicate is exposed to risk when underwriters select and price insurance and reinsurance business as there is uncertainty over the ultimate loss ratios.
  - **Extreme losses:** Insurance costs are not fixed and known at the time a policy is issued, so claims can significantly exceed premiums received in any period. Although the frequency and severity of claims may have been priced accurately, in extreme circumstances, claims may be sufficiently large to threaten the Syndicate's capital base.
  - **Reserving:** The Syndicate has a provision on its balance sheet for the estimated ultimate cost of claims. Some of these claims are long tailed in nature and as such, they are susceptible to adverse development (e.g. due to latent exposures, legal reform and unforeseen deterioration of known losses).
- **Other financial risks:**
  - **Credit risk:** The Syndicate is exposed to the risk that a counterparty will be unable to pay amounts in full when due. The Syndicate is exposed to credit risk through reinsurance recoverables and amounts due from intermediaries and policyholders. There remains an increased risk of counterparty failure in a challenging economic climate.
  - **Market risk:**
    - **Matching** – Mismatches in the duration of the Syndicate's assets and liabilities due to movements in interest rates may lead to an increase in capital requirements while a mismatch in assets and liabilities denominated in foreign currencies may lead to losses from changes in exchange rates.
    - **Asset** – The Syndicate's investments (comprising individual holdings in sovereign and corporate fixed interest securities as well as equities, derivatives, real estate and cash) are also exposed to the risk of default and/or fluctuations in market prices.
    - **Liquidity risk** – The Syndicate may not have cash available to pay obligations when due at a reasonable cost, particularly for major catastrophe events where it has to post US situs funds on gross incurred claims or where it has to pay gross claims before collecting the related reinsurance.
- **Operational risk:**
  - The Syndicate is exposed to a range of operational risks, some of which could have a direct financial impact such as:
    - inaccurate **management information** (e.g. through staff error, inadequate processes or loss of IT systems) causing inadequate pricing, reserving or exposure management;
    - loss of office **facilities** (though fire, flood, terrorism, etc.);
    - **outsourcing** issues; and
    - **fraud**.

## Syndicate 780

### Report of the Directors of the Managing Agent (Continued)

- Other operational risks may not have direct financial losses, but may be equally damaging to the Syndicate's business model if not managed effectively. These include:
  - **Reputational:** AUL's business model relies on the maintenance of its good reputation. For example, AUL's ability to attract and retain staff or business from brokers will be undermined if it suffers reputational damage from the actions of AUL itself or indirectly due to the actions of employees.
  - **Conduct:** AUL has a duty to ensure that the process and outcome from doing business with AUL is fair for all policyholders.
  - **Regulatory:** AUL is regulated by the Prudential Regulation Authority (PRA), the Financial Conduct Authority and Lloyd's of London, and AUL is at risk of censure, fine or restriction of business if it fails to run the business in compliance with the applicable rules and regulations.
  - **Cultural:** There is a risk that AUL fails to ensure it has a culture that promotes an effective and efficient working environment which encourages teamwork from all members of staff.
  - **Political changes:** There is a risk that AUL's business model is impacted by changes to the economic landscape, for example, changes to the tax regime or the legal framework.
- **Other Risks:**
  - **Group** – The risk of the Fairfax group being unable to support the Syndicate, particularly in the provision of new capital if it is required.
  - **Strategic** – The Syndicate faces the risk of loss through the setting of an inappropriate strategy or the ineffective execution of an appropriate strategy.
  - **Capital** – AUL has to ensure that it has sufficient capital from a regulatory perspective in order to trade on the Lloyd's platform within the PRA's regulatory regime.

Ownership of risks and controls within AUL is clearly defined. The Risk Function coordinates an assessment of all risks through a quarterly risk review, carried out in line with policies and procedures, to ensure that risks remain relevant and up-to-date.

All risks have a risk appetite recommended by the Chief Risk Officer to the Board of Directors for their approval. When any risk falls outside AUL's risk appetite, action plans are agreed, implemented and monitored. Risk mitigation actions have clearly defined owners and implementation timescales.

AUL's risk appetite for extreme losses, its major insurance risk, is to limit the pre tax cost of a single event catastrophe loss, after reinsurance recoveries and reinstatement premiums, to an acceptable percentage of Advent Capital (Holdings) LTD's (Advent's) shareholders' equity.

#### Control Activities

Control activities are the policies and procedures that are set by Executive Management to manage risk and support the delivery of AUL's objectives.

AUL maintains and updates policies and procedures addressing all key areas of the business.

#### Information, Communication and Key Performance Indicators

Appropriate information must be identified, captured and communicated in a form and timeframe that enables directors and employees to carry out their responsibilities. AUL has an established management information system for the production of operational, financial and compliance reports which allow the Executive Management and the Board to run and control the business.

AUL has established corporate objectives and risk appetite. The key performance data required for management and control purposes has been identified as combined ratio, adequacy of reserves, exposure to catastrophe losses on a gross and net basis and performance against the approved business plan. Management reports are produced monthly for Executive Management and reported to the Board quarterly. Decision making is made at the appropriate level, within pre-agreed parameters, and communicated throughout AUL as required.

AUL maintains pro-active channels of communication with all key stakeholders including existing and prospective clients, staff, brokers, reinsurers, the shareholder, and regulators.

## **Syndicate 780**

### **Report of the Directors of the Managing Agent (Continued)**

#### **Monitoring**

Internal control systems need to be monitored to assess the quality of the system over time. AUL achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of exception reports, together with a comprehensive risk based internal audit programme.

The audit programme is risk focused with the majority of the activity centred upon those areas which are considered to generate the largest risks namely underwriting, reinsurance and claims.

AUL believes it has implemented an effective system of internal control.

#### **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 auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow Directors of the Managing Agency and the Syndicate's auditors, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

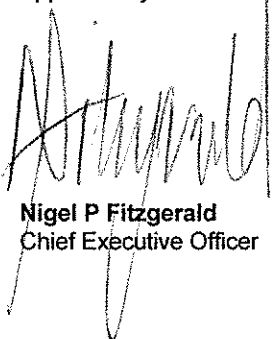
#### **Independent Auditors**

The Managing Agent intends to reappoint PricewaterhouseCoopers LLP as Syndicate auditors. PricewaterhouseCoopers LLP also act as auditors to the Managing Agent, Advent Underwriting Limited.

#### **Syndicate Annual General Meeting**

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding a syndicate annual general meeting this year.

Approved by the Board on 3 March 2015 and signed on its behalf by:



**Nigel P Fitzgerald**  
Chief Executive Officer



**Philip J Green**  
Finance Director

3 March 2015



## Syndicate 780

### Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Managing Agent's Report and the annual accounts in accordance with applicable law and regulations.

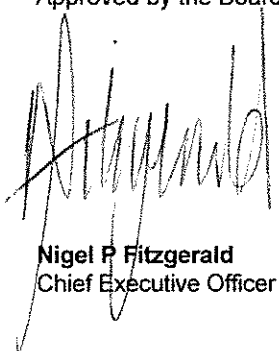
The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) requires the Managing Agent to prepare the annual accounts for each financial year. Under that law the Managing Agent is required to prepare the syndicate accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) the Managing Agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

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


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

The Managing Agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the syndicate annual accounts comply with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. 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.

Approved by the Board on 3 March 2015 and signed on its behalf by:



**Nigel P Fitzgerald**  
Chief Executive Officer



**Philip J Green**  
Finance Director

3 March 2015

# **Independent Auditors' Report to the member of Syndicate 780**

## **Report on the syndicate annual accounts**

### **Our Opinion**

In our opinion the syndicate annual accounts, defined below:

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

### **What we have audited**

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account for the year then ended;
- the statement of cash flows; and
- the notes to the syndicate annual accounts.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008**

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

### **Other matters on which we are required to report by exception**

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

## **Responsibilities for the syndicate annual accounts and the audit**

### **Our responsibilities and those of the Managing Agent**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of syndicate annual accounts involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;

## Independent Auditors' Report to the member of Syndicate 780 (continued)

- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Mark Bolton (Senior statutory auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
3 March 2015

**Syndicate 780**  
**Profit and Loss Account:**  
**Technical Account – General Business**  
Year ended 31 December 2014

	Note	2014 £'000	2013 £'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	125,715	134,936
Outward reinsurance premiums		(27,592)	(31,426)
Net premiums written		98,123	103,510
Change in the provision for unearned premiums			
– gross amount		(10,853)	5,566
– reinsurers' share		1,843	(1,596)
Change in the net provision for unearned premiums		(9,010)	3,970
<b>Earned premiums, net of reinsurance</b>		<b>89,113</b>	<b>107,480</b>
Allocated investment return transferred from the non-technical account		14,185	(1,321)
<b>Total technical income</b>		<b>103,298</b>	<b>106,159</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
– gross amount		(86,253)	(112,815)
– reinsurers' share		21,790	37,369
Net claims paid		(64,463)	(75,446)
Change in the provision for claims			
– gross amount		36,273	31,376
– reinsurers' share		(16,986)	(20,691)
Change in the net provision for claims		19,287	10,685
<b>Claims incurred, net of reinsurance</b>		<b>(45,176)</b>	<b>(64,761)</b>
Net operating expenses	3/4	(39,220)	(46,153)
<b>Total technical charges</b>		<b>(84,396)</b>	<b>(110,914)</b>
<b>Balance on the technical account for general business</b>		<b>18,902</b>	<b>(4,755)</b>

All operations are continuing.  
The accounting policies and notes on pages 16 to 29 form part of these accounts.

**Syndicate 780**  
**Profit and Loss Account:**  
**Non-Technical Account**

Year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Balance on the general business technical account		18,902	(4,755)
Investment income	8	20,749	5,504
Unrealised gains on investments		24,122	19,104
Unrealised losses on investments		(23,316)	(17,066)
Investment management expenses	8	(920)	(893)
Allocated investment return transferred to the general business technical account		(14,185)	1,321
Other income / (charges)		3,085	(449)
<b>Profit for the financial year</b>		<b>28,437</b>	<b>2,766</b>

The Syndicate has no recognised gains or losses other than the reported profit for the year.

All operations are continuing.

The accounting policies and notes on pages 16 to 29 form part of these accounts.

**Syndicate 780**  
**Balance Sheet: Assets**  
at 31 December 2014

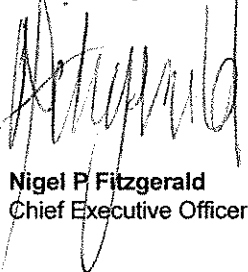
	Note	2014 £'000	2013 £'000
<b>Investments</b>			
Financial investments	9	320,477	305,580
Deposits with ceding undertakings		1	1
		<b>320,478</b>	<b>305,581</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		4,572	2,728
Claims outstanding		44,921	61,652
		<b>49,493</b>	<b>64,380</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	10	24,386	11,027
Debtors arising out of reinsurance operations	11	32,418	34,093
Other debtors		5,066	2,700
		<b>61,870</b>	<b>47,820</b>
<b>Other assets</b>			
Cash at bank and in hand		6,036	21,765
		<b>6,036</b>	<b>21,765</b>
<b>Prepayments and accrued income</b>			
Accrued interest		29	33
Deferred acquisition costs		11,938	7,721
		<b>11,967</b>	<b>7,754</b>
<b>Total assets</b>		<b>449,844</b>	<b>447,300</b>

The accounting policies and notes on pages 16 to 29 form part of these accounts.

**Syndicate 780**  
**Balance Sheet: Liabilities**  
at 31 December 2014

	Note	2014 £'000	2013 £'000
<b>Members' balances</b>	12	137,289	121,310
<b>Technical provisions</b>			
Provision for unearned premiums		49,543	38,689
Claims outstanding		240,246	269,182
		<b>289,789</b>	<b>307,871</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	2,321	487
Creditors arising out of reinsurance operations	14	16,890	15,105
Other creditors including taxation and social security		3,295	2,292
		<b>22,506</b>	<b>17,884</b>
<b>Accruals and deferred income</b>		260	235
<b>Total liabilities</b>		<b>449,844</b>	<b>447,300</b>

The Syndicate Financial Statements on pages 11 to 29 were approved by the Board of Advent Underwriting Limited on 3 March 2015 and were signed on its behalf by:



**Nigel P Fitzgerald**  
Chief Executive Officer



**Philip J Green**  
Finance Director

# Syndicate 780

## Statement of Cash Flows

Year ended 31 December 2014

	Note	2014 £'000	2013 £'000
<b>Net cash outflow from operating activities</b>	15	(13,381)	(3,528)
<b>Transfer from members in respect of underwriting participations</b>			
Loss call	12	40,339	10,430
		<b>40,339</b>	<b>10,430</b>
<b>Financing</b>			
Release of Funds at Lloyd's in Syndicate trust funds		(58,657)	(17,074)
	16	<b>(31,699)</b>	<b>(10,172)</b>
<b>Cash flows were invested as follows</b>			
Decrease in cash holdings		(16,669)	(3,986)
Decrease in overseas deposits		(8,226)	(11,967)
Decrease in other deposits		-	(66)
Net financial investments	17	(6,804)	5,847
<b>Net investment of cash flows</b>		<b>(31,699)</b>	<b>(10,172)</b>

The accounting policies and notes on pages 16 to 29 form part of these accounts.



# Syndicate 780

## Notes to the Accounts

Year ended 31 December 2014

### 1. Basis of Preparation

These financial statements have been prepared in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD), 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 December 2006) by the Association of British Insurers as applicable.

The Directors of the Managing Agent have prepared the financial statements on the basis that the Syndicate will continue to write future business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. This process is further explained in Note 20.

These financial statements have been prepared using the historic cost convention with the revaluation of financial assets and financial liabilities at fair value through the profit and loss account.

### 2. Accounting Policies

#### Basis of Accounting

The following accounting policies have been consistently applied.

#### Insurance and Reinsurance Business

The results for insurance and reinsurance business written are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance.

- (i) Premiums written relate to business inception during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Syndicate, less an allowance for cancellations.
- (ii) Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums reserve and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.
- (iii) Acquisition costs, which represent commission and other related expenses, are expensed over the period in which the related premiums are earned.
- (iv) Reinsurance premium costs of "losses occurring during" policies are charged over the period for which coverage is provided. Other reinsurance premium costs are recognised over the period in which related gross written premiums are earned.
- (v) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- (vi) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported (IBNR), less any amounts paid in respect of those claims. The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claim has happened. Classes of business where the IBNR proportion of the total reserve is high, such as casualty, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the Syndicate's underwriting and claims processes which might accelerate or slow down the development and/or

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

- recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in mix of business
- the impact of large losses
- movements in industry benchmarks

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

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

For major natural catastrophe events, the original loss estimate for all 'on risk' exposures is analysed using computer simulation to ascertain those accounts likely to be impacted. From the initial output, modelled loss estimates, per account, are generated. An underwriting review of the account, by cedant, is then conducted to validate the individual loss estimates and, where applicable, amend the model driven estimates with underwriter input relevant to the particular features of the loss and its anticipated impact on an account. Where accounts cannot be analysed using catastrophe-modelling software, benchmark analysis is conducted, again on an account by account basis, to generate loss estimates. As more specific client information becomes available the ultimate loss estimates are updated from the initial forecast to reflect the client specific data.

Where possible, the Syndicate adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections resulting from the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Actual claims experience will always differ from projected estimates. Such differences in relation to risks previously earned are recognised in the income statement in the accounting period during which the difference is identified.

The Syndicate's claims reserves are calculated by AUL's Reserving Actuary and Underwriters with input from the Head of Claims and Reinsurance Administration. These reserves are reviewed and approved monthly by the Reserving Group and Executive Management and at each Board meeting. Annually, the reserves of the Syndicate are reviewed by external actuaries who issue valuation opinions on the adequacy of reserves.

### **Net Operating Expenses (Including Acquisition Costs and Pension Cost)**

From 2014, Advent Capital (Holdings) LTD's (ACH) expenses are charged to the Syndicate as a single management charge. Individual components of this, such as pensions, are not specifically identified. Previously, expenses attributable to the Syndicate had been specifically charged and expenses which were jointly incurred for the Agency and the managed Syndicate were apportioned according to the amount of work performed, resources used and the volume of business transacted.

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

### **Foreign Exchange**

All monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the Balance Sheet date. Non-monetary assets and liabilities are translated into sterling at historic rates of exchange. Foreign currency transactions are translated at the average rate of exchange during the year. Foreign exchange differences arising on Syndicate transactions are reported in the technical account within net operating expenses. Foreign exchange differences arising on transactions within the Funds in Syndicate are reported in the non-technical account within other income.

Monthly, the Syndicate reviews its foreign currency balance sheet, prepared in its principal currencies. Action is taken to reduce or mitigate foreign currency mismatches through the purchase or sale of the appropriate currencies or the use of forward exchange transactions where necessary.

### **Investments**

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value. Unlisted investments for which a market exists are valued by reference to an interest rate spread on an equivalent duration

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

government investment. For investments where market quotes are unavailable the Syndicate uses estimation techniques to determine fair value.

Deposits with credit institutions are stated at cost.

### 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 to reflect the investment return on the funds supporting the underwriting business. Investment return on the Funds in Syndicate is not transferred and remains in the non-technical account.

### Taxation

Under Schedule 19 of the Finance Act 1993 Managing Agents are not required to deduct basic rate income tax from trading income, including capital appreciation, of the Syndicate. Furthermore, all UK basic rate income tax deducted from Syndicate investment income is recoverable by the Managing Agents; therefore, the distribution made to members is gross of tax.

It remains the responsibility of the member to agree its corporation tax liabilities with the Inland Revenue.

The Syndicate is required to fund on account assessments of tax on US dollar and Canadian dollar source income and these amounts are then recovered by reimbursement from the Members Services Unit (MSU). At the balance sheet date such Syndicate fundings are included within other debtors. The final assessments are charged direct to the underwriting members.

### 3. Segmental Analysis

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

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
<b>2014</b>						
Direct insurance						
Accident and health	8,024	2,981	(2,479)	(2,335)	(171)	(2,004)
Motor (third party liability)	36	36	25	(13)	-	48
Motor (other classes)	(37)	(18)	240	-	-	222
Marine aviation and transport	22,605	19,339	(14,166)	(8,729)	(2,846)	(6,402)
Fire and other damage to property	21,667	20,006	(11,010)	(7,061)	(2,131)	(196)
Third party liability	323	126	(635)	(82)	(88)	(679)
	<b>52,618</b>	<b>42,470</b>	<b>(28,025)</b>	<b>(18,220)</b>	<b>(5,236)</b>	<b>(9,011)</b>
Reinsurance acceptances	73,097	72,392	(21,955)	(23,390)	(13,319)	13,728
<b>Net technical result</b>	<b>125,715</b>	<b>114,862</b>	<b>(49,980)</b>	<b>(41,610)</b>	<b>(18,555)</b>	<b>4,717</b>
<b>Investment return</b>						<b>14,185</b>
<b>Balance on technical account</b>						<b>18,902</b>

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 3. Segmental Analysis - continued

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
<b>2013</b>						
Direct insurance						
Accident and health	1,683	2,837	(1,193)	(1,518)	(12)	114
Motor (third party liability)	121	121	(528)	(31)	(3)	(441)
Motor (other classes)	412	934	(127)	(572)	-	235
Marine aviation and transport	9,252	12,778	(2,437)	(5,283)	(2,681)	2,377
Fire and other damage to property	48,925	51,104	(30,886)	(17,449)	(4,382)	(1,613)
Third party liability	8,613	7,845	(8,345)	(2,608)	(552)	(3,660)
	69,006	75,619	(43,516)	(27,461)	(7,630)	(2,988)
Reinsurance acceptances	65,930	64,883	(37,923)	(21,498)	(5,908)	(446)
<b>Net technical result</b>	<b>134,936</b>	<b>140,502</b>	<b>(81,439)</b>	<b>(48,959)</b>	<b>(13,538)</b>	<b>(3,434)</b>
<b>Investment return</b>						<b>(1,321)</b>
<b>Balance on technical account</b>						<b>(4,755)</b>

All premiums were concluded in the UK.

Total commissions for direct insurance accounted for in the year amounted to £13.6 million (2013: £8.5 million).

The geographical analysis of gross premiums written by destination is as follows:

	2014 £'000	2013 £'000
UK	29,458	27,326
Other EU	15,380	12,436
US and Canada	60,116	74,591
Other	20,761	20,583
	125,715	134,936

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 4. Operating Expenses

	2014 £'000	2013 £'000
Gross acquisition costs	27,604	25,693
Change in gross deferred acquisition costs	(4,217)	1,730
Administrative expenses	21,502	18,202
(Profit) / loss on foreign exchange	(3,279)	3,334
Gross operating expenses	41,610	48,959
Reinsurance commission and profit participation	(2,415)	(2,904)
Change in reinsurance deferred acquisition costs	25	98
Net operating expenses	39,220	46,153
Administrative expenses include:		
Auditors' remuneration		
– audit services – fees payable for audit of Syndicate accounts and Lloyd's returns	148	137
– non audit services valuation and actuarial services	164	155
– other services	64	70

Other services relate to Solvency II including the review of the Syndicate's Solvency II balance sheet in 2014.

Member's standard personal expenses are included within administrative expenses.

### 5. Claims Outstanding

The movement in the net provision for claims includes a release of £15.6 million in respect of claims outstanding at the previous year end (2013: release of £8.8 million). The release of prior year reserves was split £9.2 million reinsurance and £6.4 million insurance lines of business.

### 6. Staff Numbers and Costs

The Syndicate does not have any employees. Up to 2013 the Syndicate was recharged staff costs from those group companies which employ staff in accordance with the time allocations of staff and Directors.

For 2014, the Syndicate has been charged a single management charge by ACH based on the total actual expenses of the group which is included in net operating expenses. The specific element of the costs of employees or Directors are therefore not identified. The Executive Directors comprise the key management emoluments as disclosed in ACH's accounts.

	2014 £'000	2013 £'000
Wages and salaries	-	5,265
Social security costs	-	664
Other pension costs	-	728
	-	6,657

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 6. Staff Numbers and Costs (continued)

The average number of employees who have worked on the Syndicate during the year was as follows:

	2014	2013
Underwriting	41	30
Claims and reinsurance	5	4
Finance	14	13
Management	5	4
Compliance	5	3
IT	9	9
Administration	10	8
	89	71

### 7. Emoluments of the Directors of Advent Underwriting Limited

For 2014, the Syndicate has been charged a single management charge by ACH as described above, therefore, emoluments paid to Directors have not been specifically identified. The Executive Directors comprise the key management emoluments as disclosed in ACH's accounts.

	2014 £'000	2013 £'000
Emoluments	–	1,213
Contributions to defined contribution pension schemes	–	166
	–	1,379

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

	2014 £'000	2013 £'000
Emoluments		
Duncan Lummis	–	192
William Beveridge	295	86
	295	278
Contributions to defined contribution pension schemes		
Duncan Lummis	–	29
William Beveridge	44	13
	44	42

### 8. Investment Income and expenses

	2014 £'000	2013 £'000
Investment income		
Income from investments	6,066	6,070
Net gains (losses) on the realisation of investments	14,683	(566)
	20,749	5,504
Investment management expenses	(920)	(893)

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 9. Financial Investments

	Market value		Cost	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Equities	51,620	64,831	65,532	59,243
Debt securities and other fixed income securities	236,442	213,592	221,346	206,463
Other investments	2,228	1,026	14,266	1,641
Overseas deposits	13,029	21,193	13,030	21,193
Investment pools	17,062	4,760	17,218	5,133
Deposits with credit institutions	96	178	96	178
	320,477	305,580	331,488	293,851

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

The Syndicate has investments in certain Kennedy Wilson real estate partnerships. These investments are classified as participations in investment pools. Deflation derivatives and equity call options are classed as other investments.

The Syndicate, in common with many Syndicates, makes use of a currency translation service from Xchanging, whereby premiums and claims receivable in currencies outside the Syndicate's settlement currencies (currently US\$, £, CDN\$ and Euro) are translated at the spot rate of exchange to Sterling (or in some cases US\$) at the date of payment of the claim or receipt of the premium. As significant unpaid claims incurred in 2010 and 2011 are denominated in New Zealand dollar, Australian dollar or Japanese Yen, the Syndicate has used forward exchange contracts to hedge the expected settlement cost of claims in these currencies where required.

At 31 December 2014, the Syndicate had outstanding sterling forward foreign exchange contracts to purchase NZ\$15.5 million and JPY 200 million, designated as hedges against the claims of the New Zealand and Japan earthquakes. The Syndicate also had outstanding US dollar forward foreign exchange contracts for the purchase of £7.5 million and sale of €8.25 million and CAN\$5 million to reduce its currency exposures.

The table below sets out the sensitivity of the Syndicate's fixed income portfolio to unexpected changes in interest rates, by currency of the investment.

Change in Interest rates (Basis points)	US \$'000	€'000	Converted £'000
+200	(33,497)	(907)	(22,187)
+100	(18,500)	(488)	(12,243)
-100	22,988	571	15,186
-200	51,744	1,243	34,149

#### Fair value estimation:

The Syndicate analyses financial instruments carried at fair value by valuation method and maturity band. The different levels have been defined as follows:

All short dated government debt is categorised as Level 1, as there is an active market and prices are available from multiple sources. The Syndicate has also designated its equity portfolio as Level 1 as all holdings are listed on recognised exchanges with observable prices. The Syndicate's participation in overseas deposits is split between Levels 1 and 2 based upon information provided by Lloyd's.

Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. Included in the Level 3 classification are deflation derivatives and an investment in a convertible debenture. The Syndicate has categorised the deflation derivatives as Level 3 due to the pricing being model derived from a single broker. The Syndicate has categorised the convertible debenture as Level 3 due to it being, unrated and not frequently traded.

The remainder of the portfolio is considered to be Level 2, as these assets are valued based upon prices quoted in markets that are less active, have fewer sources or are derived from prices quoted in an active market.

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 9. Financial Investments (continued)

The following table presents the Syndicate's assets that are measured at fair value, together with an analysis of when they mature.

At 31 December 2014	Total £'000	Less than 1 year £'000	1 to 2 Years £'000	2 to 3 Years £'000	More than 3 years £'000
<b>Level 1</b>					
Equities	51,620	–	–	–	–
Debt securities and other fixed income securities	125,209	125,209	–	–	–
Overseas deposits	5,994	3,263	74	1,991	666
	182,823	128,472	74	1,991	666
<b>Level 2</b>					
Debt securities and other fixed income securities	104,366	3,847	–	–	100,519
Overseas deposits	7,035	618	1,953	2,665	1,799
Investment pools	17,062	17,062	–	–	–
Deposits with credit institutions	96	96	–	–	–
	128,559	21,623	1,953	2,665	102,318
<b>Level 3</b>					
Deflation derivatives	2,228	–	–	–	2,228
Convertible debenture	6,867	–	–	–	6,867
	9,095	–	–	–	9,095
	320,477	150,095	2,027	4,656	112,079
<b>31 December 2013</b>	<b>Total £'000</b>	<b>Less than 1 year £'000</b>	<b>1 to 2 Years £'000</b>	<b>2 to 3 Years £'000</b>	<b>More than 3 years £'000</b>
<b>Level 1</b>					
Equities	64,831	–	–	–	–
Equity call option	188	–	–	–	–
Debt securities and other fixed income securities	128,063	128,063	–	–	–
Overseas deposits	2,625	1,536	1,089	–	–
	195,707	129,599	1,089	–	–
<b>Level 2</b>					
Debt securities and other fixed income securities	85,529	3,320	–	–	82,209
Overseas deposits	18,568	2,127	9,755	6,366	320
Investment pools	4,760	4,760	–	–	–
Deposits with credit institutions	178	178	–	–	–
	109,035	10,385	9,755	6,366	82,529
<b>Level 3</b>					
Deflation derivatives	838	–	–	–	838
	305,580	135,504	10,844	6,366	83,367



# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 9. Financial Investments (continued)

The Syndicate considers the asset portfolio as a whole and does not ordinarily trade between asset categories. During the year, Hamblin Watsa Investment Counsel (HWIC), after consultation with management, invested in deflation derivatives and convertible debentures, from the sale of Level 1 investments and cash. The purchased US derivatives have a notional amount of \$1.0 billion. The convertible debenture investment was purchased from the proceeds of the sale of an equity investment from the same issuer. At 31 December 2013, the Level 3 investment comprised an investment in Euro deflation derivatives with a notional amount of €1.3 billion. The maximum loss to the Syndicate in relation to the deflation derivative investments is the market value of £2.2 million at 31 December 2014 (2013: £0.9 million).

Level 3 investment movements are summarised as follows:

	2014 £'000	2013 £'000
Opening balance	838	1,600
Purchase of investments	7,375	–
Profit / (loss) recognised in the profit and loss account	882	(762)
Closing balance	9,095	838

Liquidity risk is the risk that cash may not be available to pay obligations when due. The Syndicate monitors its liquidity needs through daily monitoring and monthly cash flow forecasts.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Syndicate is exposed to credit risk are:

- amounts due from corporate bondholders
- amounts due from reinsurers on paid and outstanding losses
- amounts due from policyholders and intermediaries
- counterparty risk with respect to derivative transactions.

The Syndicate places limits on its exposure to any single counterparty for investments and reinsurers and to geographical and industry segments. The tables below summarise the assets subject to credit risk by Standard & Poors (S&P) credit rating, or equivalent where no S&P rating is available.

At 31 December 2014	AAA £'000	AA £'000	A £'000	BBB £'000	Below BBB £'000	Not Rated £'000	Total £'000
Debt securities and other fixed income securities	18,361	135,371	46,466	16,315	11,819	8,206	236,538
Investment pools	–	8	47	–	–	17,007	17,062
Overseas deposits	6,613	4,476	1,837	103	–	–	13,029
Other investments	–	–	–	–	–	2,228	2,228
Reinsurers' share of claims outstanding	–	7,928	36,863	–	–	130	44,921
Other debtors	–	–	–	–	–	5,066	5,066
Cash at bank, deposit institutions and in hand	–	551	5,485	–	–	–	6,036
	24,974	148,334	90,698	16,418	11,819	32,637	324,880

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 9. Financial Investments (continued)

At 31 December 2013	AAA £'000	AA £'000	A £'000	BBB £'000	Below BBB £'000	Not Rated £'000	Total £'000
Debt securities and other fixed income securities	8,059	141,396	36,756	11,946	11,065	4,370	213,592
Investment pools	–	–	280	–	–	4,480	4,760
Overseas deposits	12,403	6,115	2,234	438	–	3	21,193
Other investments	–	–	–	–	–	1,026	1,026
Reinsurers' share of claims outstanding	–	–	61,554	–	–	98	61,652
Other debtors	–	–	–	–	–	2,700	2,700
Cash at bank, deposit institutions and in hand	–	1,561	20,204	–	–	–	21,765
	20,462	149,072	121,028	12,384	11,065	12,677	326,688

### 10. Debtors Arising out of Direct Insurance Operations

	2014 £'000	2013 £'000
Due within one year from intermediaries	21,003	9,445
Due after one year from intermediaries	3,383	1,582
	24,386	11,027

### 11. Debtors Arising out of Reinsurance Operations

	2014 £'000	2013 £'000
Due within one year from intermediaries	23,678	25,747
Due after one year from intermediaries	8,740	8,346
	32,418	34,093

### 12. Members' Balances

	2014 £'000	2013 £'000
Member's balances at 1 January	121,310	127,252
Profit for the financial year	28,437	2,766
Loss Call	40,339	10,430
Release of Funds at Lloyd's in Syndicate trust funds	(58,658)	(17,074)
Exchange difference on member's balances	5,861	(2,064)
Member's balances carried forward at 31 December	137,289	121,310

The corporate member participates on the Syndicate 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.

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 13. Creditors Arising out of Direct Insurance Operations

	2014 £'000	2013 £'000
Due within one year to intermediaries	2,321	487

### 14. Creditors Arising out of Reinsurance Operations

	2014 £'000	2013 £'000
Due within one year to intermediaries	16,609	14,907
Due after one year to intermediaries	281	198
	16,890	15,105

### 15. Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	2014 £'000	2013 £'000
Profit for the financial year	28,437	2,766
Foreign exchange gain / (loss) on member's balances	5,861	(2,064)
Realised / unrealised losses / (gains)	(30,866)	4,627
Decrease in reinsurers' share of technical provisions	14,887	22,182
(Increase) / decrease in insurance debtors	(11,683)	16,290
(Increase) / decrease in other debtors and prepayments	(6,581)	12,608
Decrease in technical provisions	(18,083)	(40,099)
Increase / (decrease) in insurance creditors	3,619	(9,165)
Increase / (decrease) in other creditors	1,003	(10,771)
Increase in accruals and deferred income	25	98
	(13,381)	(3,528)

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

	2014 £'000	2013 £'000
Net cash outflow for the year	(16,669)	(3,986)
Cash flow		
– Decrease in overseas deposits	(8,226)	(11,967)
– Decrease in other deposits	–	(66)
– (Decrease) / increase in portfolio investments	(6,804)	5,847
Movement arising from cash flows	(31,699)	(10,172)
Changes in market value and exchange rates	30,866	(4,627)
Total movement in portfolio investments	(833)	(14,799)
Balance brought forward at 1 January	327,346	342,145
Balance carried forward at 31 December	326,513	327,346

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

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

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

	At 1 January 2014 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2014 £'000
Cash at bank and in hand	21,765	(16,669)	940	6,036
Overseas deposits	21,193	(8,226)	62	13,029
Deposits with ceding undertakings	1	–	–	1
Portfolio investments:				
Shares and variable yield securities	64,831	(15,888)	2,677	51,620
Debt securities and other fixed income securities	213,592	(3,764)	26,614	236,442
Investment pools	4,760	10,812	1,490	17,062
Deposit with credit institutions	178	(88)	6	96
Other Investments	1,026	2,124	(922)	2,228
Total cash, portfolio investments and financing	327,346	(31,699)	30,867	326,514

### 17. Net Cash Increase on Portfolio Investments

	2014 £'000	2013 £'000
Purchase of debt securities and other fixed income securities	(273,253)	(251,440)
Purchase of shares and other variable yield securities	(27,859)	(8,725)
Investment pools	(10,812)	(4,629)
Other Investments	(2,124)	–
Deposits with credit institutions	88	46
Sales of debt securities and other fixed income securities	277,017	258,901
Sales of shares and other variable yield securities	43,747	–
	6,804	(5,847)

### 18. Related Parties

The immediate parent undertaking of Advent Underwriting Limited is Advent. The ultimate parent undertaking and controlling party is Fairfax Financial Holdings Limited (Fairfax), a company incorporated in Canada. The consolidated financial statements of Fairfax are available from 95 Wellington Street, Suite 800, Toronto, Canada, M5J 2N7.

Advent Capital (No. 3) Limited, a subsidiary of Advent, has provided £200,000,000 of capacity on each of the 2012, 2013 and 2014 underwriting years.

Total fees payable to Advent Underwriting Limited in respect of services provided to the Syndicate amounted to £4,878,356 (2013: £5,000,000).

AUL manages the expenses of the group through one entity, Advent. In 2014, expenses totalling £17,258,874 (2013: £11,579,927) were recharged to the Syndicate from Advent.

Amounts due to Advent at 31 December 2014 totalled £3,162,914 (2013: £1,634,222).

Amounts due from Advent Underwriting Limited at 31 December 2014 totalled £Nil (2013: £Nil).

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2014

### 18. Related Parties (continued)

The Syndicate accepts inwards reinsurance business from and places outwards reinsurance business with, companies that are deemed to be related parties of Advent Underwriting Limited by virtue of the shareholding of Fairfax and certain of its subsidiaries in Advent. All transactions with these entities were conducted at arm's length and at normal commercial terms.

Syndicate 780 accepted inwards reinsurance premiums from related parties of £5,972,304 in 2014 (2013: £7,902,813) as set out below. 2013 comparative figures have been restated to be gross of commission for comparative purposes.

	2014 £	2013 £
Polish Re	5,727,872	6,773,657
Crum and Forster	–	20,460
Northbridge Financial Corporation	85,226	188,619
Zenith Insurance Company	66,608	50,512
Hudson	285,250	441,176
Fairfax Brazil	(192,652)	428,389
	5,972,304	7,902,813

The Fairfax Brazil negative premium amount relates to adjustments to prior years premium estimates.

Syndicate 780 ceded outwards reinsurance premiums to and received reinsurance recoveries from related parties as set out below.

	Reinsurance Premiums		Reinsurance Recoveries	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
CRC	–	157,928	–	287,724
Wentworth	13,095,854	13,583,120	2,785,543	10,166,240
Polish Re	540,697	515,985	761,515	435,422
Odyssey Re	529,593	34,527	–	–
United States Fire	5,005,359	–	1,022,006	–
	19,171,503	14,291,560	4,569,064	10,889,386

H H Bohling is the principal of the law firm CityNet Law which received £3,350 (2013: £46,944) for services rendered to the Managing Agency and other Advent group entities.

### 19. Disclosure of Interests

T J Ambridge, N P Fitzgerald, P J Green and J Cloutier are Directors of Advent Capital (Holdings) LTD.

T J Ambridge and P J Green are directors of Advent Capital (No. 3) Limited.

T J Ambridge and P J Green are Directors of Advent Group Services Limited.

T J Ambridge and P J Green were directors of Advent Re Holdings Limited until it was liquidated during 2014.

H H Bohling is a Director of Market Insurance Brokers Limited and Pool Re (Nuclear) Limited.

N H H Smith is a Director of Great Lakes Reinsurance (UK) PLC and The UK P&I Club (Europe)

## **Syndicate 780**

### **Notes to the Accounts continued**

Year ended 31 December 2014

#### **20. Funds at Lloyd's**

Every member of Lloyd's is required to hold capital to support its underwriting activities at Lloyd's, which are held in trusts and known as Funds at Lloyd's (FAL), where Lloyd's acts as trustees, or as Funds in Syndicate (FIS) where the Directors act as trustees. All of the Advent Group's capital is held as FIS. These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL/FIS that Lloyd's requires a member to maintain is determined by the Managing Agent in conjunction with Lloyd's based on the solvency capital requirements (SCR) of the syndicates on which the member participates. The SCR is calculated based upon the principles of Solvency II. The 2015 YOA has an Economic Capital Assessment (ECA) of £122.0 million. In recognition of market risk in the FIS assets, management has agreed with Lloyd's a capital load of £4.0 million.

As at 31 December 2014, £127.9 million (2013: £172.3 million) of FIS is included in investments and cash in the balance sheet.

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