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Marketform

# SYNDICATE 2468

## SYNDICATE ANNUAL ACCOUNTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

# SYNDICATE 2468

## CONTENTS

# SYNDICATE 2468

## DIRECTORS AND ADMINISTRATION

**MANAGING AGENT:**

Marketform Managing Agency Limited

**Directors**

J E Mumford (Non-Executive Chairman)
V Badal
S E H Barr
A C Durkin (resigned as director 11/09/14)
S P Lotter
P V Olsen (Non-Executive)
J G F O'Neill
A S Ribaudo
A J Walker (Non-Executive)

**Company secretary**

A C Durkin (resigned as company secretary 31/07/14)

J M Taylor (appointed 31/07/14 resigned 17/10/14)

Acting Company Secretary A Walley (appointed 18/10/14)

**Managing agent's registered office**

20 Gracechurch Street

London EC3V 0BG

**Managing agent's registered number**

03584320

**SYNDICATE:**

**Active underwriter**

S P Lotter

**Bankers**

Barclays Bank PLC

**Principal investment managers**

Lloyd's Treasury

**Registered auditors**

Ernst & Young LLP

**Solicitors**

Clyde & Co

**Consulting actuaries**

Towers Watson

# SYNDICATE 2468

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the managing agent present their report for the year ended 31 December 2014.

These Syndicate annual accounts are 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 ("the 2008 Regulations").

In addition to these Syndicate annual accounts there is also a separate set of underwriting year accounts drawn up on the three year funded basis which have been prepared to show the cumulative result for the 2012 underwriting account and also a set of underwriting year accounts showing the cumulative result of the 2007 and prior years of account in run-off.

### Principal Activities

The principal activity of Syndicate 2468 is that of underwriting insurance and reinsurance risks and this is conducted through the Lloyd's market. The Syndicate historically specialised in underwriting non-USA third party casualty business. The current classes underwritten by the Syndicate are Medical Malpractice, General Liability, Professional Indemnity, Personal Accident, Directors and Officers, Bloodstock, Marine Liability, Hull, Cargo, War, Political Violence and Political Risk businesses.

### Results

The result for the year ended 31 December 2014 is a Loss of £16.0m (2013: profit of £0.7m). The results are discussed in the Key Performance Indicators section below.

The board of Marketform Managing Agency Limited (MMA) resolved to leave the 2007 year of account open due to the continuing uncertainty of the Italian Public Hospitals Medical Malpractice reserves. The Syndicate ceased underwriting this business from the 2008 year of account. The settlement of these claims continues to be managed actively and the number of open claims on this account has reduced from 1,488 at December 2013 to 964 at December 2014. The current net reserve held against IPH is £104.6m (2013: £127.0m).

The board of MMA resolved to close the 2012 year of account at a loss of £6.3m.

### Key Performance Indicators

| | 2014 | 2013 | Movement |
|---|---|---|---|
| Capacity (underwriting year) | £175.0m | £145.0m | £30.0m |
| Gross premiums written | £190.7m | £186.2m | £4.5m |
| Net premiums earned | £150.6m | £153.1m | (£2.5m) |
| Total recognised (loss)/gain for the year | (£16.0m) | £0.7m | (£16.7m) |
| Claims ratio (net) | 69.1% | 54.2% | 14.9% |
| Expense ratio (net) | 46.3% | 47.1% | (0.8%) |
| Combined ratio (net) | 115.4% | 101.3% | 14.1% |

In calculating the expense ratios and combined ratios shown above, profit or losses on exchange have been excluded from the net operating expenses. The combined ratio is calculated as the sum of the net claims and net expenses.

The loss for the year ended 31 December 2014 is £16.0m. The loss is mainly due to deteriorations in Dutch Hospital business in the Medical Malpractice class, Australian Binder in the General Liability class, sports sector in the Personal Accident class and reduction in Medical Malpractice reinsurance recoverables which collectively resulted in additional losses of £27.7m.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (cont.)

The net loss ratio for the period is 69.1% (2013: 54.2%). The resulting combined ratio has deteriorated from 101.3% for 2013 to 115.4% for 2014.

The gross written premium is £190.7m, an increase of £4.5m over 2013. The ceded written premium is £33.4m (2013: £30.6m).

Net Earned premium is £150.6m, decreasing by £2.5m from the net premium earned in 2013.

The acquisition costs, i.e. brokerage and commission, have decreased from 35.0% in 2013 to 33.4% in 2014 as a result of a combination of changes in the product mix.

Administrative expense has increased to £19.4m from £18.6m in 2013 driven by increase in cost of accommodation due to office relocation and increase in headcount.

### Development of Individual Years of Account

The Managing Agent's Report contained in the separate underwriting year accounts includes a review of the run-off result of the 2007 year of account and the 2012 year of account.

### Investment Report

#### (a) Investment Policy and Management

Alliance Bernstein Limited was replaced by Lloyd's Treasury who manage the fixed interest portfolios denominated in US dollars and Canadian dollars. GAM, Pictet and Bluebay were also appointed during the year. Pooled funds were used to invest in other asset classes to diversify investment risk and to seek higher returns.

MMA has in place an investment risk policy and an investment strategy for the Syndicate that are aligned to the risk appetite. These permit the investment manager to invest in a range of fixed interest securities, whilst limiting the exposure to credit, liquidity and other investment risks. The policy also allows the Investment Committee to recommend investment in other asset classes. An analysis of the investments held at 31 December 2014 by security rating and type is shown in note 11 to the accounts.

#### (b) Review of Calendar Year 2014

The investment yield was 2.1% for the year (2013: 2.1%). Following a strategic review by P-Solve Meridian, Alliance Bernstein was replaced by Lloyd's Treasury to manage the fixed interest portfolios. GAM, Pictet and Bluebay were also appointed during the year.

### Capital Providers – Distribution of Capacity

| Year of account | **2015 £'000** | **2014 £'000** | **2013 £'000** | **2012 £'000** | **2007 £'000** |
|---|---|---|---|---|---|
| SCOR Underwriting Limited | 60,000 | 52,500 | 43,500 | 56,550 | 39,000 |
| Lavenham Underwriting Limited | 40,000 | 35,000 | 29,000 | 22,475 | 15,500 |
| Ebury Underwriting Limited | - | - | - | - | 14,000 |
| Hermanus Underwriting Limited | - | - | - | - | 15,000 |
| Sampford Underwriting Limited | 42,000 | 36,750 | 30,450 | 23,925 | 16,500 |
| GAI Indemnity Limited | 58,000 | 50,750 | 42,050 | 42,050 | - |
| **Totals** | **200,000** | **175,000** | **145,000** | **145,000** | **100,000** |

# SYNDICATE 2468

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (cont.)

### Future Developments

The Syndicate stamp capacity for the 2015 underwriting year of account is £200million.

The Syndicate's goals are to write a diversified and profitable book of business, as more fully set out in the MMA three year business plan.

### PRINCIPAL RISKS AND UNCERTAINTIES

### RISK MANAGEMENT

To support the achievement of the Syndicate's business strategy, MMA has adopted an enterprise risk management framework which ensures that all risks associated with the Syndicate's activities are identified, measured, prioritised and proactively managed in a consistent and effective manner across the organisation.

The board of MMA has agreed an overall risk appetite statement.

MMA has a Risk & Capital Committee (RCC) which is responsible to the board for the assessment of risk under a suitable risk framework. The RCC comprises senior executives and a Chairman who is a non-executive director.

The Risk Management Function has been actively engaged in the preparation of the business for Solvency II (albeit with a commencement date delayed), working with the Syndicate's actuaries to develop its Internal Model, Risk Framework and Own Risk and Solvency Assessment (ORSA) in line with Solvency II requirements. Lloyd's considers that MMA has provided sufficient evidence to give comfort that it meets the principles of Solvency II tests and standards. As at 31 December 2014, no regulatory prudential measures or capital loading have been applied.

### Insurance Risk

Insurance risk is the risk of losses arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The Syndicate's main insurance risks relate to:

- Pricing risk: the premiums charged for new or renewing risks not being adequate to cover the Syndicate's claim liabilities arising from those risks.
- Reserving risk: the current level of reserves not being adequate to pay the Syndicate's liabilities.
- Reinsurance risk: a failing in the reinsurance programme with the Syndicate not receiving the expected level of recoveries.

The board manages Insurance Risk by agreeing its appetite for these risks annually through the business plan and an Underwriting Risk Appetite statement, which set out targets for volumes, pricing, line sizes, retentions and exposure management by class of business. Performance against business plan and risk appetite is regularly monitored by the Underwriting & Claims Committee (UCC) and more frequently by monthly underwriting meetings. Claims reserves and IBNR are re-assessed quarterly by the actuarial team with input from the Syndicate's external actuaries, underwriters, claims personnel and UCC.

### Credit Risk

Credit risk is the risk of loss to the Syndicate resulting from another party failing to perform its obligations or failing to perform them in a timely fashion. The Syndicate's most significant credit risk relates to the failure of one or more of the Syndicate's reinsurers to pay due recoveries.

The board has established policies with regard to minimum reinsurance security ratings and exposure to individual reinsurer entities. The UCC monitors these policies on a regular basis and is required to approve all new reinsurers or changes in participation before business is placed with them. Letters of credit may be requested from reinsurers to collateralise the Syndicate's exposure where there is any concern about levels of exposure or the reinsurer's rating. The Credit Control Working Group is responsible for regularly monitoring and reviewing reinsurance debtors on an aged basis.

Coverholder, broker and TPA insolvency are also considered as significant credit risks which Marketform seeks to address with robust broker, coverholder and TPA selection, monitoring and credit control processes.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (cont.)

### Environmental Matters

The managing agent does not consider that a business such as a Syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators. Directors and employees of the managing agent are not provided with company cars and travel requisitions and expenses are subject to review as to whether the journey is necessary for the business. The agent seeks to maintain a high proportion of its records electronically. To help achieve this the agent is a party to the current electronic data exchange programme in the London market, which is intended to reduce the amount of paper records circulating in the market.

## OTHER DISCLOSURES

### Directors

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

V Badal
S E H Barr
A C Durkin resigned (11/09/14)
S P Lotter
J E Mumford (Non-Executive Chairman)
P V Olsen (Non-Executive)
J G F O'Neill
A S Ribaudo
A J Walker (Non-Executive)

### Annual General Meeting

The directors do not propose to hold an annual general meeting for the Syndicate for the year ended 31 December 2014.

### Auditors

Ernst & Young LLP are the Syndicate auditors for the 2014 report and accounts. Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

### Disclosure of Information to the Auditors

The directors who held office at the date of the approval of this directors' report confirm that, so far as they are individually aware, there is no relevant audit information of which the Syndicate's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Approved by Order of the Board

A S Ribaudo
Director
17th March 2015

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (cont.)

### Market Risk

Market risk relates to the risk arising from fluctuations in asset values, interest or exchange rates. There are also elements of credit risk and liquidity risk prevalent within the makeup of the investment portfolio.

The Investment Committee is responsible for recommending to the board and implementing on its behalf an investment risk policy and an investment strategy. The Syndicate has a conservative appetite in respect of investment risk which is expressed by setting an annual risk budget. The actual risk is monitored against this budget on a monthly basis.

Investment management services are provided by a number of fund managers. A majority of the fund is invested with Lloyd's Treasury. The fund managers' performance against established benchmarks is monitored each month by the finance team and also quarterly by the Investment Committee. In addition, independent investment advisors are employed as consultants to help monitor the fund managers and give advice on investment strategy.

The risk of material exchange rate losses arising out of mis-matches between assets and liabilities is also considered a material market risk and the managing agency has implemented a strategy of hedging its position to mitigate losses arising from exchange rate fluctuations.

### Liquidity Risk

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due.

The Chief Financial Officer has responsibility on behalf of the board for ensuring that sufficient liquidity is maintained to meet liabilities on a day to day basis and for an extreme event, i.e. the funding of the Syndicate's biggest Realistic Disaster Scenario (RDS) event. Budgetary and cash flow planning routines, the adequacy of financial resources and the matching of assets and liabilities are conducted by the finance department and reviewed at the Investment Committee and board. The managing agency has a Liquidity Contingency Plan and it is not envisaged that liquidity is a significant issue for Syndicate 2468 given the size and liquidity of the investment portfolio against the gross RDS exposures.

### Operational Risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people or systems, or from external events. There are elements of operational risk within all other risk categories and controls to mitigate operational risk are contained throughout the Syndicate's risk register.

The most significant stand-alone operational risks are regulatory risk, the failure to get approval of the Internal Model for Solvency II, and the loss of key employees or premises. A variety of methods are used to mitigate these distinct risk events and operational risk generally which is inherent in all other risk categories. These include:

- Business continuity planning and testing;
- Staff retention measures and staff appraisals and training;
- Use of procedure manuals and authority levels;
- Internal audit around key controls; and, where relevant
- Purchase of insurance policies.

The Operations Committee is responsible for many of the key areas of operational risk in the business. These include IT and project management, premises and people.

### Strategic Risk

Strategic risk is the risk of loss arising from changes in the business environment and from adverse strategic decisions or a lack of responsiveness to changes in the business environment. The Syndicate recognises a number of these risks within the risk register and the management of these risks lies with the MMA board.

## OTHER PERFORMANCE INDICATORS

### Employment Matters

The managing agent considers its employees to be a key resource and seeks to provide a good working environment that is safe and complies with appropriate employee legislation.

## STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") require the managing agent to prepare Syndicate annual accounts at 31 December each year which 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:

a) select suitable accounting policies and apply them consistently except where relevant accounting requirements change;

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

c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate annual accounts; and

d) prepare the Syndicate annual accounts on a going concern basis unless it is inappropriate to 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 relating to the Syndicate included on the managing agent's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITOR'S REPORT

### To the Members of Syndicate 2468

We have audited the syndicate annual accounts of Syndicate 2468 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with 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 7, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual accounts. In addition, we read all the financial and non-financial information in the Syndicate 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.

### Opinion on syndicate 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the 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.

**Emphasis of matter – quantification of insurance contract liabilities**

In forming our opinion on the annual accounts, which is not modified, we have considered the adequacy of the disclosures made by the managing agent in note 4 to the annual accounts, relating to the uncertainty regarding the ultimate cost of a reinsurance to close which has resulted in the managing agent deciding to not close the 2007 run-off year of account. The ultimate estimate of the reinsurance to close is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the annual accounts.

Ernst & Young LLP

**Stuart Wilson (Senior statutory auditor)**

**For and on behalf of Ernst & Young LLP, Statutory Auditor**

London

17 March 2015

# SYNDICATE 2468

## PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

### For the year ended 31 December 2014

| | Notes | £'000 | 2014<br>£'000 | *£'000* | *2013<br>£'000* |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 3 | | 190,659 | | *186,186* |
| Outward reinsurance premiums | | | (33,417) | | *(30,600)* |
| Net premiums written | | | 157,242 | | *155,586* |
| Change in the provision for unearned premiums: | | | | | |
| Gross amount | | (9,347) | | *(2,854)* | |
| Reinsurers' share | | 2,655 | | *353* | |
| | | | (6,692) | | *(2,501)* |
| **Earned premiums, net of reinsurance** | | | 150,550 | | *153,085* |
| **Allocated investment return transferred from the non-technical account** | | | 7,976 | | *7,434* |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid | | | | | |
| Gross amount | | (122,354) | | *(154,975)* | |
| Reinsurers' share | | 30,181 | | *40,537* | |
| Net claims paid | | (92,173) | | *(114,438)* | |
| Change in the provision for claims | | | | | |
| Gross amount | | 14,024 | | *59,113* | |
| Reinsurers' share | | (25,943) | | *(27,669)* | |
| | | (11,919) | | *31,444* | |
| **Claims incurred, net of reinsurance** | | | (104,092) | | *(82,994)* |
| **Net operating expenses** | 5 | | (82,437) | | *(68,756)* |
| **Balance on the technical account for general business** | | | (28,003) | | *8,769* |

All operations are continuing.

*The notes on pages 15 to 30 form an integral part of the accounts*

# SYNDICATE 2468

## PROFIT AND LOSS ACCOUNT: NON TECHNICAL ACCOUNT
## For the year ended 31 December 2014

| | Notes | 2014 £'000 | *2013 £'000* |
|---|---|---|---|
| **Balance on the general business technical account** | | **(28,003)** | *8,769* |
| Investment income | **8** | **8,260** | *7,423* |
| Unrealised gains on investments | | **2,565** | *3,532* |
| Investment expenses and charges | **9** | **(1,221)** | *(1,835)* |
| Unrealised losses on investments | | **(1,628)** | *(1,686)* |
| Allocated investment return transferred to general business technical account | | **(7,976)** | *(7,434)* |
| **(Loss)/ Profit for the financial year** | | **(28,003)** | *8,769* |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
## For the year ended 31 December 2014

| | Notes | 2014 £'000 | *2013 £'000* |
|---|---|---|---|
| (Loss)/Profit for the financial year | | **(28,003)** | *8,769* |
| Gain/(Loss) on foreign currency translation | **10** | **11,993** | *(8,044)* |
| **Total recognised gains and losses since last report** | | **(16,010)** | *725* |

*The notes on pages 15 to 30 form an integral part of the accounts*

# SYNDICATE 2468

## BALANCE SHEET - ASSETS
## At 31 December 2014

| | Notes | £'000 | 2014 £'000 | *£'000* | *2013 £'000* |
|---|---|---|---|---|---|
| **Investments** | | | | | |
| Financial investments | **11** | | **313,390** | | *299,308* |
| **Reinsurers' share of technical provisions** | | | | | |
| Provision for unearned premiums | | **20,701** | | *18,130* | |
| Claims outstanding | | **106,448** | | *134,215* | |
| | | | **127,149** | | *152,345* |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | **12** | **50,142** | | *48,227* | |
| Debtors arising out of reinsurance operations | **13** | **7,684** | | *11,035* | |
| Other debtors | | **4,122** | | *8,061* | |
| | | | **61,948** | | *67,323* |
| **Other assets** | | | | | |
| Cash at bank and in hand | | **8,727** | | *9,011* | |
| Other | **14** | **62,203** | | *67,409* | |
| | | | **70,930** | | *76,420* |
| **Prepayments and accrued income** | | | | | |
| Deferred acquisition costs | | **27,967** | | *25,861* | |
| Other prepayments and accrued income | | **2,738** | | *863* | |
| | | | **30,705** | | *26,724* |
| **TOTAL ASSETS** | | | **604,122** | | *622,120* |

*The notes on pages 15 to 30 form an integral part of the accounts*

# SYNDICATE 2468

## BALANCE SHEET - LIABILITIES
## At 31 December 2014

| | Notes | £'000 | 2014 £'000 | *£'000* | *2013 £'000* |
|---|---|---|---|---|---|
| **Capital and reserves** | | | | | |
| Members' balances | **15** | | **(74,843)** | | *(80,890)* |
| **Technical provisions** | | | | | |
| Provision for unearned premiums | | **96,903** | | *87,318* | |
| Claims outstanding | | **549,509** | | *581,108* | |
| | | | **646,412** | | *668,426* |
| **Creditors** | | | | | |
| Creditors arising out of direct insurance operations | **16** | **905** | | *7,682* | |
| Creditors arising out of reinsurance operations | **17** | **16,653** | | *10,029* | |
| Other creditors | **18** | **12,440** | | *13,348* | |
| | | | **29,998** | | *31,059* |
| **Accruals and deferred income** | | | **2,555** | | *3,525* |
| **TOTAL LIABILITIES** | | | **604,122** | | *622,120* |

The Syndicate Annual Accounts were approved on behalf of the Board of Marketform Managing Agency Limited on 17th March 2015 and were signed on its behalf by

A S Ribaudo

Director

*The notes on pages 15 to 30 form an integral part of the accounts*

# SYNDICATE 2468

## CASH FLOW STATEMENT

## For the year ended 31 December 2014

| | Note | 2014 £'000 | *2013 £'000* |
|---|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Inflow from Operating Activities** | | | |
| Operating (loss)/profit on ordinary activities | | **(28,003)** | *8,769* |
| Realised and unrealised investment losses including foreign exchange | 20 | **6,663** | *15,868* |
| Increase/(Decrease) in net technical provisions | | **3,182** | *(43,197)* |
| Decrease/(Increase) in debtors | | **1,395** | *(8,195)* |
| (Decrease)/Increase in creditors | | **(2,032)** | *12,578* |
| Exchange differences on foreign currency translation | | **11,993** | *(8,044)* |
| **Net Cash Outflow from Operating Activities** | | **(6,802)** | *(22,221)* |
| **Cash Flow Statement** | | | |
| Net Cash Outflow from Operating Activities | | **(6,802)** | *(22,221)* |
| Transfer from/(to) Members in respect of underwriting participations | | **2,057** | *(3,785)* |
| **Financing** | | | |
| Cash call from Members | | **20,000** | *60,000* |
| | 20 | **15,255** | *33,994* |
| Cash flows were invested as follows | | | |
| (Decrease)/Increase in cash holdings | | **(265)** | *3,857* |
| (Decrease)/Increase in overseas deposits | | **(5,075)** | *6,062* |
| Net portfolio investment | 21 | **20,595** | *24,075* |
| **Net Investment of Cash Flows** | 20 | **15,255** | *33,994* |

*The notes on pages 15 to 30 form an integral part of the accounts*

### 1. Basis of Preparation

These Annual Accounts 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, and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2006 by the Association of British Insurers.

### 2. Accounting Policies

#### a) Basis of Accounting

Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

i) Premiums Written

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

ii) Unearned Premiums

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

iii) 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.

iv) Claims Incurred and Reinsurers' Share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Any amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's in house reserving team with input from the claims department and underwriters. Cognisance is also made to the views of the external consulting actuaries, who provide the statutory sign-off. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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.

## 2. Accounting Policies (cont.)

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

Accordingly the 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 including pricing models for recent business are reasonable indicators 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, 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 provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

### b) Unexpired Risks Provision

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

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.

### c) Net Operating Expenses (including Acquisition Costs)

Net operating expenses include acquisition costs, profit and loss on exchange and amounts charged to Members through the Syndicate.

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

### d) Foreign Currencies

Transactions in US dollars, Canadian dollars, Australian 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.

All assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange at the balance sheet date or if appropriate at the forward contract rate.

Exchange differences arising from the retranslation of the opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account items from average rate to the closing balance sheet rate are included in the Statement of Total Recognised Gains and Losses. Also included are unrealised gains/losses on the revaluation of foreign exchange contracts at the year end.

All other differences arising on translation of foreign currency amounts are included in the technical account.

## 2. Accounting Policies (cont.)

### e) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments and overseas deposits are stated at bid market value. All investments are considered portfolio investments.

### f) 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 funds supporting underwriting business. All investment return is considered to arise on such funds.

### g) 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 have been included in the technical account under the heading 'net operating expenses'.

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

### h) Pension Costs

Marketform Management Services Limited (MMSL), on behalf of the managing agent, makes contributions to employees' individual pension plans. Pension contributions relating to Syndicate employees are charged to the Syndicate and included within net operating expenses.

## 3. Segmental Analysis

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

| **2014** | **Gross Written Premiums £'000** | **Gross Premiums Earned £'000** | **Gross Claims Incurred £'000** | **Gross Operating Expenses £'000** | **Reinsurance Balance £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| **Direct Insurance:** | | | | | | |
| **Third Party Liability** | **103,927** | **98,820** | **(60,355)** | **(47,380)** | **(20,585)** | **(29,500)** |
| **Accident and Health** | **19,633** | **18,848** | **(14,333)** | **(9,037)** | **(459)** | **(4,981)** |
| **Fire and other damage to property** | **20,045** | **19,498** | **(12,554)** | **(7,329)** | **1,349** | **964** |
| **Energy Non-Marine** | **270** | **132** | **(2,386)** | **(68)** | **541** | **(1,781)** |
| **Energy Marine** | **1,263** | **1,195** | **60** | **(579)** | **(238)** | **438** |
| **Marine** | **9,425** | **9,239** | **(4,233)** | **(4,162)** | **(2,016)** | **(1,172)** |
| **Pecuniary Loss** | **16,756** | **13,264** | **(4,655)** | **(5,169)** | **(2,958)** | **482** |
| **Transport** | **2,871** | **3,951** | **(4,037)** | **(1,563)** | **(122)** | **(1,771)** |
| **Motor (other classes)** | - | - | - | - | - | - |
| | **174,190** | **164,947** | **(102,493)** | **(75,287)** | **(24,488)** | **(37,321)** |
| **Reinsurance Acceptances:** | **16,469** | **16,365** | **(5,837)** | **(7,150)** | **(2,036)** | **1,342** |
| **Total** | **190,659** | **181,312** | **(108,330)** | **(82,437)** | **(26,524)** | **(35,979)** |

| *2013* | *Gross Written Premiums £'000* | *Gross Premiums Earned £'000* | *Gross Claims Incurred £'000* | *Gross Operating Expenses £'000* | *Reinsurance Balance £'000* | *Total £'000* |
|---|---|---|---|---|---|---|
| *Direct Insurance:* | | | | | | |
| *Third Party Liability* | *107,540* | *112,618* | *(55,899)* | *(44,337)* | *(13,180)* | *(798)* |
| *Accident and Health* | *14,982* | *12,032* | *(5,349)* | *(4,844)* | *(1,176)* | *663* |
| *Fire and other damage to property* | *16,832* | *15,281* | *(5,938)* | *(4,684)* | *(2,416)* | *2,243* |
| *Energy Non-Marine* | *57* | *45* | *(22)* | *(18)* | *(2)* | *3* |
| *Energy Marine* | *955* | *834* | *(1,143)* | *(314)* | *573* | *(50)* |
| *Marine* | *9,912* | *10,329* | *(7,744)* | *(3,663)* | *(737)* | *(1,815)* |
| *Pecuniary Loss* | *12,151* | *10,545* | *(3,476)* | *(3,009)* | *(2,486)* | *1,574* |
| *Transport* | *6,318* | *6,419* | *(7,079)* | *(2,439)* | *1,092* | *(2,007)* |
| *Motor (other classes)* | *(43)* | *(18)* | *18* | *(50)* | *125* | *75* |
| | *168,704* | *168,085* | *(86,632)* | *(63,358)* | *(18,207)* | *(112)* |
| *Reinsurance Acceptances:* | *17,482* | *15,247* | *(9,230)* | *(5,398)* | *828* | *1,447* |
| *Total* | *186,186* | *183,332* | *(95,862)* | *(68,756)* | *(17,379)* | *1,335* |

Total commissions for direct insurance written in the year amounted to £41.7million (*2013: £42.3million*). All premiums written are in respect of contracts concluded in the UK.

### 3. Segmental Analysis (cont.)

Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commission in respect of outward reinsurances was received and set off in arriving at the net operating expenses.

The geographical analysis of gross written premiums is as follows;

| | **2014** | *2013* |
|---|---|---|
| | **£'000** | *£'000* |
| UK | **21,285** | *27,891* |
| Other EU Countries | **24,223** | *31,115* |
| Other | **76,113** | *54,365* |
| Australia | **40,817** | *35,407* |
| North America | **28,221** | *37,408* |
| | **190,659** | *186,186* |

### 4. Italian Public Hospitals Claims

There has been continued incurred movement in 2014 on Italian Public Hospitals within the medical malpractice class. The uncertainty around the ultimate cost of Italian Public Hospitals claims for the 2007 & prior YOAs has reduced and now stabilised. Nevertheless, the MMA Board has elected to keep the year open at this time because the book has not developed to a level necessary to close the year. Net claims provisions for Italian Public Hospitals on the 2007 & prior years of account amount to £104.6million as at 31 December 2014 *(2007 & prior years at 31 December 2013 £127million).*

# SYNDICATE 2468

## NOTES TO THE ACCOUNTS
## At 31 December 2014

### 5. Net Operating Expenses

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Brokerage and commissions | **47,537** | *48,602* |
| Other acquisition costs | **4,930** | *4,222* |
| Acquisition costs | **52,467** | *52,824* |
| Change in deferred acquisition costs | **(2,144)** | *749* |
| Administrative expenses | **19,358** | *18,551* |
| Loss/(Profit) on exchange | **12,756** | *(3,368)* |
| | **82,437** | *68,756* |

Administrative expenses include:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Fees payable to the Syndicate's Auditors for: | | |
| - Audit of the Syndicate Annual Accounts and Lloyd's Returns | **265** | *178* |
| - Other services pursuant to regulations and Lloyds Byelaws | **-** | *65* |
| - Taxation compliance services | **8** | *8* |
| | **273** | *251* |
| Members' standard personal expenses | **2,481** | *2,424* |

### 6. Employees Numbers and Costs

All employees are employed by MMSL which recharges the relevant costs of employment to the Syndicate. The following amounts are included in administrative expenses in respect of salary costs:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Wages and salaries | **7,735** | *6,960* |
| Social security costs | **880** | *829* |
| Other pension costs | **576** | *568* |
| | **9,191** | *8,357* |

The average number of employees employed by MMSL but working for the Syndicate during the year was as follows:

| | 2014 Number | 2013 Number |
|---|---|---|
| Administration and finance | **66** | *61* |
| Underwriting | **46** | *41* |
| Claims | **19** | *21* |
| | **131** | *123* |

## 7. Emoluments of the Directors of MMA and the Active Underwriter

The directors of MMA received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Emoluments | **1,444** | *1,456* |
| Contributions to individual pension plans | **72** | *127* |
| | **1,516** | *1,583* |

The active underwriter received the following remuneration charged as a Syndicate expense:

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Emoluments | **332** | *257* |
| Contributions to an individual pension plan | **6** | *38* |
| | **338** | *295* |

## 8. Investment Income

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Income from investments | **6,461** | *6,351* |
| Gains on the realisation of investments | **1,799** | *1,072* |
| | **8,260** | *7,423* |

## 9. Investment Expenses and Charges

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Investment management expenses, including interest | **328** | *549* |
| Losses on realisation of investments | **893** | *1,286* |
| | **1,221** | *1,835* |

## 10. Exchange Differences on Foreign Currency Translation

Exchange differences arising from the retranslation of the opening Balance Sheet items at the closing Balance Sheet rate and the retranslation of the Profit and Loss Account items from average rate to the closing Balance Sheet rate are included in the Statement of Total Recognised Gains and Losses. Also included are unrealised gains/losses on the revaluation of foreign exchange contracts at the year end.

## 11. Financial Investments

| | Market value | | Cost | |
|---|---|---|---|---|
| | 2014 £'000 | *2013 £'000* | 2014 £'000 | *2013 £'000* |
| Shares and other variable yield securities | **181,696** | *116,478* | **180,813** | *113,949* |
| Debt securities and other fixed income securities | | | | |
| Government securities | **69,589** | *57,232* | **69,468** | *57,703* |
| Government agencies | - | - | - | - |
| Guaranteed government debt | **18,916** | *18,900* | **18,983** | *18,986* |
| Corporate bonds | **42,071** | *47,344* | **42,224** | *47,386* |
| Mortgage backed instruments | - | *121* | - | *121* |
| Provincial and municipal debt | **1,118** | *57,728* | **1,145** | *57,418* |
| SupraNational | - | - | - | - |
| Money market | - | - | - | - |
| Asset-backed securities | - | *1,505* | - | *1,504* |
| Inflation-linked securities | - | - | - | - |
| | **131,694** | *182,830* | **131,820** | *183,118* |
| | **313,390** | *299,308* | **312,633** | *297,067* |

## 11. Financial Investments (cont.)

The market value of the debt securities and other fixed income securities analysed by security rating is as follows:

| Security Rating | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Long-term credit ratings: | | |
| AAA | **73,867** | *75,553* |
| AA+ | **12,894** | *30,628* |
| AA | **1,654** | *32,679* |
| AA- | **22,801** | *5,905* |
| A+ | **5,718** | *5,783* |
| A | **6,460** | *17,817* |
| A- | **3,531** | *6,901* |
| BBB+ | **2,991** | *3,540* |
| BBB | **1,778** | *2,220* |
| BBB- | - | *588* |
| BB | - | - |
| Not rated | - | - |
| Short-term credit ratings | | |
| A-1+ | - | *1,216* |
| A-1 | - | - |
| | **131,694** | *182,830* |

## 12. Debtors arising out of Direct Insurance Operations

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Due within one year: | | |
| Intermediaries | **50,052** | *48,134* |
| Due after one year: | | |
| Intermediaries | **90** | *93* |
| | **50,142** | *48,227* |

## 13. Debtors arising out of Reinsurance Operations

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Due within one year | **7,638** | *10,947* |
| Due after one year | **46** | *88* |
| | **7,684** | *11,035* |

## 14. Other Assets

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

## 15. Reconciliation of Members' Balances

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Members' balances at 1 January | **(80,890)** | *(137,830)* |
| (Loss)/Gain for the financial year | **(16,010)** | *725* |
| Transfer from/(to) Members in respect of 2011/2010 account | **2,057** | *(3,785)* |
| Cash calls from Members | **20,000** | *60,000* |
| Members' balances carried forward at 31 December | **(74,843)** | *(80,890)* |

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.

## 16. Creditors arising out of Direct Insurance Operations

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Due within one year: | | |
| - Intermediaries | **898** | *7,677* |
| Due after one year | | |
| - Intermediaries | **7** | *5* |
| | **905** | *7,682* |

There are no creditors due after 5 years.

## 17. Creditors arising out of Reinsurance Operations

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Due within one year | **16,653** | *10,029* |
| Due after one year | - | - |
| | **16,653** | *10,029* |

## 18. Other Creditors

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Due within one year | **9,968** | *9,723* |
| Due after one year | **2,472** | *3,625* |
| | **12,440** | *13,348* |

There are no creditors due after 5 years.

## 19. Movement in opening and closing portfolio investments net of financing

| | 2014 £'000 | *2013 £'000* |
|---|---|---|
| Net cash (outflow)/ inflow for the year | **(265)** | *3,857* |
| Cash flow - overseas deposits | **(5,075)** | *6,062* |
| - portfolio investments | **20,595** | *24,075* |
| Movement arising from cash flows | **15,255** | *33,994* |
| Changes in market value and exchange rates | **(6,663)** | *(15,868)* |
| Total movement in portfolio investments | **8,592** | *18,126* |
| Portfolio at 1 January | **375,728** | *357,602* |
| Portfolio at 31 December | **384,320** | *375,728* |

### 20. Movement in cash, portfolio investments and financing

| | At 1 January 2014 £'000 | Cash Flow £'000 | Changes to Market value and currencies £'000 | 31 December 2014 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | **9,011** | **(265)** | **(19)** | **8,727** |
| Overseas deposits | **67,409** | **(5,075)** | **(131)** | **62,203** |
| | **76,420** | **(5,340)** | **(150)** | **70,930** |
| Portfolio investments: | | | | |
| Shares and other variable yield securities | **116,478** | **70,676** | **(5,458)** | **181,696** |
| Debt securities and other fixed income securities | **182,830** | **(50,081)** | **(1,055)** | **131,694** |
| | **299,308** | **20,595** | **(6,513)** | **313,390** |
| Total cash, portfolio investments and financing | **375,728** | **15,255** | **(6,663)** | **384,320** |

### 21. Net cash inflow on portfolio investments

| | **2014 £'000** | *2013 £'000* |
|---|---|---|
| Purchase of shares and other variable yield securities | **162,305** | *86,364* |
| Purchase of debt securities and other fixed income securities | **385,897** | *359,720* |
| Sale of shares and other variable yield securities | **(91,629)** | *(79,355)* |
| Sale of debt securities and other fixed income securities | **(435,978)** | *(342,654)* |
| Net cash inflow on portfolio investments | **20,595** | *24,075* |

### 22. Related Parties

The immediate parent undertaking of Marketfrom Managing Agency (MMA) is Marketform Holdings Limited ("MHL"). S P Lotter (appointed 28 August 2014), J G F O'Neill and A S Ribaudo are directors of MHL. A C Durkin resigned as a director of MHL on 28 August 2014.

At 31 December 2014 the ultimate UK parent undertaking of MMA was Marketform Group Limited ("MGL") which owns 100% of the issued share capital of MHL. As at 31 December 2014, S P Lotter, J G F O'Neill and A S Ribaudo were directors of MGL (S G Turner resigned as a director of MGL on 15 January 2014).

American Financial Group Inc (AFG), a company incorporated in Ohio, USA is the ultimate parent undertaking of MGL. Group accounts for MGL, and accounts for MHL, are available from the Company Secretary of MMA, 5th Floor, 20 Gracechurch Street, London, EC3V 0BG.

At 31 December 2014, GAI Holding Bermuda Ltd (GAIHB), which is a wholly owned subsidiary of AFG, owned 100% of the shares in MGL. On 9 June 2014, GAIHB made a cash capital contribution of £10 million to MGL. No directors of MMA have interests in the ordinary share capital of MGL.

GAIHB is the parent company of GAI Indemnity Ltd (GAII), the capital provider of £42,050,000 for 2012 and 2013 years of account and £50,750,000 for the 2014 year of account of the Syndicate. The ultimate parent undertaking of both GAIHB and GAII is AFG.

Great American Insurance Co., (GAIC) a wholly owned subsidiary of AFG participates as a reinsurer of the Syndicate. The premiums paid to that reinsurer in 2014 amounted to £3,732,061 (2013: £2,720,661). These represent approximately 11.94% (2013: 9.45%) of the outward reinsurance spend of the Syndicate. The Syndicate also has four inwards reinsurance agreements with GAIC which amounted to premiums of £92,671 in the calendar year 2014.

MHL owns 100% of the ordinary issued share capital of Marketform Limited (ML), a service company through which the Syndicate receives a substantial percentage of its premium income.

J G F O'Neill, A S Ribaudo and A Wakeley are directors of ML. Anne Durkin resigned as a director of ML on 11 September 2014. Prior to January 2011, the Syndicate as leader, along with other syndicates, provided a facility in respect of Medical Malpractice business, known as the Marketform Consortium (but not registered as a consortium), to ML. From 1 January 2011 ML became a Lloyd's Service Company. The percentage of total gross written premium income introduced to the Syndicate via the Service Company in 2014 amounted to 7.8% (2013: 8.0%). The Syndicate has a participation in the Marketform Consortium of 100% on the primary layer on the 2013-2015 years of account, 100% on the primary layer and 51% on the excess layer for the 2012 year of account and 89% on the primary layer and 37.5% on the excess layer for the 2007 year of account.

ML is also a provider of Professional Indemnity, General Liability, Personal Accident, Directors and Officers and Bloodstock business to the Syndicate and the percentage of total gross written premium income from this source in 2014 amounted to 0.3% (2013: 0.4%).The commission that ML received in 2014 from business introduced to the Syndicate (including the Marketform Consortium) amounted to £223,352 (2013: £1,254,000).

Lavenham Underwriting Limited (LUL), a fellow subsidiary undertaking of MMA's immediate parent undertaking MHL, has provided capacity to the underwriting years whose transactions are reflected in these accounts as follows:

2007: £15,500,000 (15.5% of allocated capacity)

2012: £22,475,000 (15.5% of allocated capacity)

2013: £29,000,000 (20.0% of allocated capacity)

2014: £35,000,000 (20.0% of allocated capacity)

### 22. Related Parties (cont.)

At 31 December 2014 LUL's Funds at Lloyd's to support its underwriting comprised a letter of credit provided by Barclays Bank PLC of £42,858,446, which is guaranteed by AFG, and cash of £5,274,016.

By an agreement dated 28 January 2011 between GAIC, Lavenham Underwriting Limited and MMA, GAIC agreed with effect from 1 January 2011 to reinsure Lavenham in respect of certain losses in excess of a retention arising in relation to Italian Public Hospitals business for their participation on Syndicate 2468 for the 2008 and prior years of account. The maximum aggregate limit of liability of GAIC under the agreement amounts to €8,719,000. At 31 December 2014 a recovery of £6,758,915 has been accrued by LUL, which is the aggregate limit in converted GBP. The premium paid by Lavenham to GAIC was £177,000.

SCOR Underwriting Limited is a corporate underwriting member for the 2002 to 2014 years of account. SCOR Group P&C France (a SCOR Group company) has a 7.5% line on the political risk/trade credit reinsurance. The premiums paid to that reinsurer in 2014 amounted to £124,288 (2013: £130,366). This represents approximately 0.40% (2013: 0.45%) of the outwards reinsurance spend of the Syndicate.

Sampford Underwriting Limited (SUL), a fellow subsidiary undertaking of MMA's immediate parent undertaking MHL, has provided capacity to the underwriting years whose transactions are reflected in these accounts as follows:

2007: £16,500,000 (16.5% of allocated capacity)

2012: £23,925,000 (16.5% of allocated capacity)

2013: £30,450,000 (21.0% of allocated capacity)

2014: £36,750,000 (21.0% of allocated capacity)

At 31 December 2014 SUL's Funds at Lloyd's to support its underwriting comprised a letter of credit provided by Barclays Bank PLC of £45,270,529 which is guaranteed by AFG and cash of £5,401,355.

By an agreement dated 28 January 2011 between GAIC, SUL and MMA, GAIC agreed with effect from 1 January 2011 to reinsure SUL in respect of certain losses in excess of a retention arising in relation to Italian Public Hospitals business for their participation on Syndicate 2468 for the 2008 and prior years of account. The maximum aggregate limit of liability of GAIC under the agreement amounts to €9,281,000. At 31 December 2014 a recovery of £7,194,574 has been accrued by SUL, which is the aggregate limit in converted GBP. The premium paid by Sampford to GAIC was £188,000.

In June 2014, a loan of £5,000,000 from GAIC to MGL was repaid by MGL to GAIC. Ebury Underwriting Limited (EUL) was a corporate underwriting member for the 2003 to 2007 years of account. S G Turner is a director of EUL and he owns 50% of the issued share capital. The Funds at Lloyd's were supplied by Everest Reinsurance (Bermuda) Limited who participated as a reinsurer of the Syndicate.

Hermanus Underwriting Limited (HUL) was a corporate underwriting member for the 2004 to 2007 years of account. S G Turner is a director of HUL and he owns 50% of the issued share capital. The Funds at Lloyd's were supplied by XL Re Limited who participated as a reinsurer of the Syndicate.

MMA subcontracts the employment of employees, provision of accommodation and related services to MMSL a fellow subsidiary undertaking of MMA's immediate parent undertaking MHL. D Kempson (appointed 28 August 2014), J G F O'Neill and A S Ribaudo are directors of MMSL. A C Durkin resigned as director of MMSL on 28 August 2014.

### 22. Related Parties (cont.)

The Syndicate participates in a policy providing medical malpractice protection to first-aiders employed by MMSL. The transaction was negotiated on an arm's length basis.

The standard agency terms for MMA for the 2007, 2012, 2013 and 2014 years of account are:

| | |
|---|---|
| Agency fee | 0.75% of capacity |
| Profit commission | 15.00% of the calculated profit |

Managing agency fees of £1,312,500 (2013: £1,087,000) were paid by the Syndicate to MMA. In addition, expenses incurred on behalf of the Syndicate totalling £21.8m (2013: £20.3m) were recharged to the Syndicate by the managing agent. Where expenses are incurred jointly for the agency and the Syndicate such expenses are allocated on bases that the directors consider fairly reflect the nature and usage of the expenses concerned.

There is no profit commission payable to the managing agent in respect of the result on the 2007 run-off year *(2013: £Nil in respect of the 2007 run-off year)* or on the result of the 2012 year of account *(2013: £Nil in respect of the 2011 year of account).* No profit commission has been accrued in these accounts in respect of the 2012 year of account *(2013: £Nil in respect of the 2011 year of account)* and no profit commission has been accrued in respect of the 2013 year of account *(2013: £Nil in respect of the 2012 year of account).* No profit commission has been accrued in respect of the 2014 year of account (*2013: £Nil in respect of the 2013 year of account*). Lloyd's permits interim distributions of profit commission with a final payment on closure of the year of account: the 2013 year of account will normally close at 31 December 2015 and the 2014 year of account at 31 December 2016.

### 23. Post Balance Sheet Events

The following amounts are proposed to be transferred to/ (repaid from) Members' personal reserve funds during 2015 *(2014)*.

| | **2014** **£'000** | *2013* *£'000* |
|---|---|---|
| 2007 Run-off year of account *(Cash call)* | - | *(20,000)* |
| 2012 Year of account *Profit distribution/(Loss collection) (2011 Year of account)* | **(6,291)** | *(2,316)* |
| 2013 Year of account *(2012 Year of account)* | - | - |
| 2014 Year of account *(2013 Year of account)* | - | - |
| | **(6,291)** | *(22,316)* |

### 24. Funds at Lloyd's

Every Member of Lloyd's 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 suffered by the Syndicate. In the event that a Members FAL is exhausted the application can be made for any shortfall to be met from the Lloyd's Central Fund.