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INTERNATIONAL SPECIALTY

Argo Managing Agency Limited
Report and Syndicate Annual Accounts
For the year ended 31 December 2014

Syndicate 1200

ArgoGlobal
Member Argo Group

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Section 1

Report and Syndicate Annual Accounts

Directors and Advisors

Managing agent	Argo Managing Agency Limited Exchequer Court 33 St Mary Axe London EC3A 8AA
Managing agent's registered number	03768610
Directors	J W J Spencer (Chairman) D Argyle J S Bullock P L Burrows P J Grant D J Harris K A Nealon B C Ritchie M E Watson III
Syndicate	Argo Syndicate 1200
Active underwriter	B C Ritchie
Bankers	Barclays Bank Plc 1 Churchill Place London E14 5HP
Investment managers	Conning Asset Management Ltd 24 Monument Street London EC3R 8AJ
Solicitors	Reynolds Porter Chamberlain LLP Tower Bridge House St Katharine's Way London E1W 1AA
Auditors	Ernst & Young LLP Statutory Auditor 1 More London Place London SE1 2AF

Chairman's Statement

I am pleased to present my report to you as Chairman of Argo Managing Agency Limited ('AMA') and its managed Syndicate 1200.

Results summary

Gross written premiums reduced from £424.9m in 2013 to £380.4m in 2014, yielding a £36.2m profit compared to £20.1m in the previous year. The combined ratio improved from 93% to 88.9%.

The underlying performance in 2014 evidences the benefits of the portfolio re-balancing and quality improvement initiatives carried out in recent years. However, while 2014 was another benign year in terms of natural catastrophes, the Syndicate's results were impacted by large loss activity in our Aerospace Division following an unprecedented number of Aviation war losses and reserve strengthening in our General Liability class as we restructure this book following recent disappointing loss experience. Meanwhile, the unfortunate effect of another quiet United States catastrophe season is further downward pressure on rates, and a likely intensification of what was already a very competitive marketplace.

Good progress has been made towards meeting our key performance objectives for the Syndicate. We were particularly pleased to see the improved return to capital providers from the 2012 and Prior Years of Account, and also to note that the return on capital (100% ECA) on a GAAP basis for the Calendar Year 2014 was a creditable 17% (2013: 18.9% excluding foreign exchange losses), albeit assisted by the absence of notable catastrophe events.

Portfolio & expertise

During 2014 we continued the task of optimising the blend of business written by the Syndicate with a view to managing volatility and improving capital efficiency, whilst offering a comprehensive range of coverage to our brokers.

Although market conditions are persistently challenging, and for yet another year there were few areas where pricing was not subject to downward pressure, it is pleasing to note that we reported an improved combined ratio. We believe this demonstrates our commitment to achieving underwriting excellence and maintaining discipline in difficult market conditions.

Additional underwriting talent has been recruited to reinforce our market profile in key lines of business, including property binders, onshore energy, cargo, yachts & hull, D&O liability, general liability and medical malpractice. In particular I would note that we received approval in 2014 to join the Lloyd's platforms in both Singapore and Shanghai. While premium volumes from these platforms in 2014 were relatively minor we now have a full complement of underwriting resource for the 2015 underwriting year. We have also maintained our investment in the future through our graduate programme, now in its third year.

Operations

The outsourcing of support functions has brought benefits in terms of cost and quality and is helping towards our stated target of consistently achieving a non-acquisition-cost ratio below 12%. In 2014 this ratio was 12% (2013: 10.3% excluding foreign exchange losses), reflecting the impact on written premium both of the increasingly competitive market and the de-risking of our General Liability book. We participate in cost benchmarking exercises, in which the Syndicate compares favourably with our Lloyd's peers, but are conscious that we need to consistently achieve a ratio below our target and continue to investigate ways of managing our expense base as we look to further leverage the infrastructure we have in place.

Our investment in the Claims function has paid further dividends, and AMA's performance has continued to improve both in Lloyd's published Claims Metrics, where we have been consistently benchmarked in the top 10 best performing Managing Agents, and in the most recent claims survey by Gracechurch Consulting, where we were ranked 3rd as the insurer brokers are most likely to recommend to clients.

Third party capital

We were pleased to welcome three new corporate capital partners for the 2014 Year of Account, and are most grateful to all our capital providers for their continued support of the Syndicate.

Staff commitment

2014 has been another demanding year for staff in all areas of the business, but much progress has been made; I would like to congratulate staff on the successes of the year and to commend them for their continued commitment and enthusiasm. Once again the extent to which staff have found the time to balance the demands of their roles with involvement in a wide range of community volunteering and charitable fund-raising initiatives is especially commendable.

John Spencer
Chairman

13 March 2015

Report of the Directors of the Managing Agent

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

Reporting basis

These syndicate annual accounts are prepared using the annual basis of accounting, as required by Statutory Instrument 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The underwriting results have been determined on an annual accounting basis.

Separate underwriting year accounts, prepared on the three year funded basis, show the cumulative result for the 2012 closed underwriting account, and are set out on pages 38 to 54.

Principal activities and review of the business

The principal activity of the business is that of underwriting general insurance risks, conducted through the Lloyd's market in the United Kingdom on behalf of the members of Syndicate 1200.

Calendar year results

The table below sets out the calendar year results of Syndicate 1200:

	2014 £m	2013 £m
Gross written premium	**380.4**	424.9
Profit/(loss)	**36.2**	20.1
Loss ratio %	**48.9%**	50.0%
Expense ratio %	**40.0%**	43.0%
Combined ratio %	**88.9%**	93.0%

Underwriting years of account summary

The tables below show Syndicate 1200's actual (A) results for the closed 2012 year of account and the forecast (F) results for open years of account 2013 and 2014:

Year of account summary	2014 F* £m	2013 F £m	2012 A £m
Stamp capacity	350.0	350.0	349.8
Stamp premium income	292.4	294.7	312.1
Stamp utilisation	83.5%	84.2%	89.2%
Gross written premium	380.4	384.3	419.3
Profit/(loss)	*	31.5 to (3.5)	24.8
Return/(loss) on stamp	*	9.0% to (1.0)%	7.1%

*A formal forecast range for the 2014 year of account will be released at the time of publishing results for the 3 months to 31 March 2015.

2012 YEAR OF ACCOUNT – CLOSING YEAR

We are pleased to report a profit for the 2012 closed year of account with a return on capacity of 7.1%, as previously reported the 2012 year of account was materially impacted by Super storm Sandy in the last quarter of the 2012 calendar year. We are therefore pleased that the final reported return of 7.1% a profit of £24.8m is outside the top of the forecast range at last year end (2% to 5%).

2013 AND 2014 YEAR OF ACCOUNT – OPEN

As previously reported for the 2013 year we continue to see the improvements in attritional loss experience in the books that were re-underwritten in recent years particularly the Property Division, both the Direct & Facultative and the North American Binder books. 2013 has also seen large loss activity in the Energy division and during this calendar year Aviation war losses in particular the Tripoli Airport attack. Following the decision in 2013 to change the underwriting strategy in the General Liability book the underwriting team left the Syndicate in 2014 and in the latter part of 2014 we recruited a new experienced team to take the account forward in a direction that will prove more profitable for the Syndicate. Given the increased loss experience in both this year and earlier years we have strengthened the reserving position on this account.

Following a benign catastrophe year in 2013 competition in the marketplace increased considerably in what was already a competitive market placing thus increasing the pressure on premium rates. With another benign catastrophe year in 2014 behind us and further capacity entering the marketplace we do not see the market improving in 2015. These conditions further emphasise the need for underwriting discipline and we believe our strategy of focusing on sections of the market where we believe there is adequate underwriting margin and diversifying our distribution platforms into both Singapore and Shanghai will ultimately prove successful for all of our capital partners.

The syndicate's gross premium income by class of business comprises:

Year of account	2014 F %	2013 F %	2012 A %
Short-tail			
Auto Physical Damage	–	–	2.1
International Property Treaty	2.1	1.9	4.6
Marine Cargo	3.3	2.4	1.9
Aviation	4.1	3.3	2.7
Space	1.5	1.3	1.8
Yachts & Hull	2.5	2.2	2.2
Offshore Energy	7.6	6.9	8.2
Onshore Energy	5.0	4.7	4.6
Mortgage Impairment	0.5	0.7	0.6
North American and International Property Binding Authorities	8.5	9.3	9.1
Personal Accident	10.7	9.4	8.9
Property Facultative	19.3	22.1	19.0
REO & Force Placed	4.6	3.5	3.5
	69.7	67.7	69.2

Report of the Directors of the Managing Agent

Year of account	2014 F %	2013 F %	2012 A %
Longer-tail			
Directors and Officers	3.2	2.5	1.8
Financial Institutions	–	0.2	0.1
General Liability	7.2	10.0	13.4
G L Emerging Markets	1.4	2.0	0.8
International Casualty Treaty	4.1	3.6	–
Medical Malpractice	1.5	1.7	0.7
Professional Indemnity	12.9	12.2	13.5
GL Property	–	0.1	0.5
	30.3	32.3	30.8
	100.0	100.0	100.0

The syndicate's gross premium income by geographical region comprises:

Year of account	2014 F %	2013 F %	2012 A %
North America	42.3	54.3	50.5
Caribbean and Latin America	4.4	7.3	9.4
UK	9.1	11.5	9.6
Rest of Europe	34.8	7.5	6.8
Oceania	1.3	8.7	9.4
Rest of the world	8.1	10.7	14.3
Total	100.0	100.0	100.0

Reinsurance programme purchase

Argo purchases reinsurance to assist in achieving its strategic objectives by managing risk aggregation and improving the return on capital of the syndicate as a whole. The use of proportional and excess of loss protections vary by class depending on the characteristics and performance of the line of business.

The 2014 reinsurance strategy remained in line with 2013 focusing on further reducing the ceded margin whilst remaining within the syndicate's risk appetite for each division and class. The syndicate took advantage of the continually softening market making significant savings and expanding terms and conditions. The biggest change was the replacement of the Liability Quota Share (24% cession in 2013) with an excess of loss programme attaching at £2.5m. In addition the syndicate moved to a combined marine whole account excess of loss programme to replace the separate towers of coverage that had previously been bought to cover the individual marine lines of business within this division. The property catastrophe programme was similar to that of 2013 and again included alternate indemnity based products which continued to be financially attractive within the reinsurance market. The other class specific programmes remained broadly similar to 2013 with some relatively small increases in retention to bring us in to line with the syndicate's risk appetite. The whole account net quota share was renewed at the expiring cession of 20% with a ceding commission which continues to match the syndicate's expenses.

The syndicate continued to place the reinsurance programme with high quality reinsurers, nearly all being within the Tier 1 reinsurers rated A- to AAA by Standard and Poor's, with any below this rating providing collateral for their full exposure in the form of a Trust Fund.

Investments

Allocation of investments is conservative and is predominately in cash and fixed interest securities of high credit quality with little exposure to volatile asset classes. This satisfies the syndicate's liquidity requirements in respect of routine claim and expense payments. In addition, Lloyd's centrally manages various overseas funds and deposits on behalf of the syndicate. However, by far the largest element of the syndicate's funds (71%) are held in fixed interest portfolios that are managed by Conning Investment Management Ltd which therefore has a dominant influence on the overall investment return. All investments are managed within risk constraints and duration, liquidity and credit limits (average must be A/A2 or above) are approved by the Board of Directors of the Managing Agency. The investment benchmarks set for the fixed income portfolios are predominantly a combination of the Barclays 1-3 year government and corporate indices and the investment manager's performance is compared to these benchmarks.

The following mark to market annualised investment returns were achieved by Conning during 2014 (Conning and BlackRock for 2013):

	2014	2013
	%	%
Sterling	**2.3**	0.1
Euros	**2.6**	1.0
United States dollars	**1.3**	0.5
Canadian dollars	**2.5**	1.7

Overall investment returns for 2014 were significantly higher than 2013 for all currencies. This was mainly due to yield curves steepening in 2013 (producing capital losses on a mark-to-market basis) whereas in 2014 the curve either remained similar to 2013 which was the case with USD or flattened for GBP, CAD and the EURO (producing capital gains). In addition absolute yield levels fell for GBP and EURO.

Foreign exchange exposure policy

The aim of our policy is to minimise foreign exchange volatility. To achieve this, we aim to match our assets and liabilities in currency, where possible subject to regulatory funding requirements.

Principal risks and uncertainties

Note 26 in the notes to the financial statements provides an analysis of the key insurance and financial risks to which the syndicate is exposed.

Donations

Charitable donations during the year amounted to £Nil (2013: £Nil).

Outlook

Low investment returns, inflationary pressure on claims and the competitive underwriting environment are again issues that will ensure 2015 is another challenging year for the Lloyd's market and the syndicate. Our strategy to grow the book in Speciality Lines and focus on improving the underlying performance will continue in 2015.

Report of the Directors of the Managing Agent

Directors and officers serving in the year

The directors of the managing agent, who served during the year ended 31 December 2014 and to the date of this report, were:

Directors and officers
J W J Spencer (independent non-executive; Chairman)
D Argyle
J S Bullock (non-executive)
P L Burrows (non-executive)
P J Grant (non-executive)
D J Harris
K A Nealon (non-executive)
B C Ritchie
M E Watson III (non-executive)

Annual general meeting

The directors do not propose to hold an annual general meeting for the syndicate. If any members' agent or direct corporate supporter of the syndicate wishes to meet with them, the directors will be happy to do so.

Disclosure of information to auditors

The syndicate's auditors are Ernst & Young LLP. The directors who held office at the date of 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 steps that he ought to have taken as a director to make himself aware of any relevant audit information, and to establish that the syndicate's auditors are aware of that information.

Auditors

The syndicate's auditors, Ernst & Young LLP, are deemed to be reappointed under the provisions of The Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 and Section 487(2) of the Companies Act 2006.

Approved by the Board of Argo Managing Agency Limited and signed on behalf of the Board:

David Harris

D J Harris
Director

13 March 2015

Statement of Managing Agent's Responsibilities

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

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

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

- select suitable accounting policies, and then apply them consistently;
- make judgements and 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 notes to the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping 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 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 prevention and detection of fraud and other irregularities.

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

Report of the Independent Auditors

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1200

We have audited the syndicate annual accounts of Syndicate 1200 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Cash Flows and the related notes 1 to 27. 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 9, 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 Report and Accounts to identify material inconsistencies with the audited syndicate annual accounts. 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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Managing 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.

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

13 March 2015

Profit and Loss Account

Year ended 31 December 2014

	Note	2014 £m	2013 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	2	**380.4**	424.9
Outward reinsurance premiums		**(114.4)**	(155.5)
Net premiums written		**266.0**	269.4
Change in the provision for unearned premiums			
– Gross amount	2	**5.9**	(16.8)
– Reinsurers' share		**(13.2)**	9.5
Change in the net provision for unearned premiums		**(7.3)**	(7.3)
Earned premiums, net of reinsurance		**258.7**	262.1
Allocated investment return transferred from the non-technical account		**7.4**	1.8
Claims incurred, net of reinsurance			
Claims paid			
– Gross amount	2	**(152.4)**	(204.8)
– Reinsurers' share		**29.6**	76.1
Net claims paid		**(122.8)**	(128.7)
Change in the provision for claims			
– Gross amount	2	**(37.2)**	(6.1)
– Reinsurers' share		**33.7**	4.2
Change in the net provision for claims		**(3.5)**	(1.9)
Claims incurred, net of reinsurance		**(126.3)**	(130.6)
Net operating expenses	4	**(103.6)**	(113.2)
Balance on the technical account for general business		**36.2**	20.1
Non-technical account			
Balance on the technical account for general business		**36.2**	20.1
Investment income		**9.0**	4.5
Investment expenses and charges		**(0.2)**	(0.3)
Unrealised losses on investments		**(1.4)**	(2.4)
Allocated investment return transferred to the technical account for general business	7	**(7.4)**	(1.8)
Profit for the financial year	14	**36.2**	20.1

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

All items relate only to continuing operations.

Balance Sheet
at 31 December 2014

	Note	2014 £m	2013 £m
Investments			
Financial investments at fair value	8	**284.8**	290.3
		284.8	290.3
Reinsurers' share of technical provisions			
Provision for unearned premiums		**42.2**	55.4
Claims outstanding		**156.4**	288.5
		198.6	343.9
Debtors			
Debtors arising out of direct insurance operations	9	**98.4**	92.5
Debtors arising out of reinsurance operations	10	**4.9**	14.0
Other	11	**5.6**	5.5
		108.9	112.0
Other assets			
Cash at bank and in hand		**9.6**	9.4
Overseas deposits	12	**69.3**	85.5
		78.9	94.9
Prepayments and accrued income			
Deferred acquisition costs		**44.0**	47.9
Other prepayments and accrued income	13	**0.8**	0.2
		44.8	48.1
Total assets		**716.0**	889.2
Capital and reserves			
Members' balances	14	**18.8**	(10.3)
Technical provisions			
Provision for unearned premiums		**164.8**	170.7
Claims outstanding		**430.0**	554.9
		594.8	725.6
Creditors			
Creditors arising out of direct insurance operations	15	**3.7**	13.1
Creditors arising out of reinsurance operations	16	**82.4**	132.9
Other creditors including taxation and social security	17	**5.9**	10.6
		92.0	156.6
Accruals and deferred income		**10.4**	17.3
Total liabilities		**716.0**	889.2

Approved by the Board of Argo Managing Agency Limited on 13 March 2015 and signed on its behalf by:

D Argyle
Director

D J Harris
Director

Statement of Cash Flows

Year ended 31 December 2014

	Note	**2014 £m**	2013 £m
Reconciliation of operating loss to net cash flows from operating activities			
Profit for the financial year	14	**36.2**	20.1
Unrealised investment (losses)/gains	18	**(111.9)**	18.8
Increase in net technical provisions		**14.5**	3.5
Increase/(decrease) in debtors		**6.4**	(12.5)
(Decrease) in creditors		**(71.5)**	(108.9)
Net cash (outflow) from operating activities		**(126.3)**	(79.0)
Transfer to members in respect of underwriting participations	14	**(6.9)**	(2.2)
Financing activities:			
Members' agent's fees	14	**(0.2)**	(0.2)
		(133.4)	(81.4)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	18	**0.5**	(7.7)
(Decrease) in overseas deposits	18	**(15.9)**	(3.2)
Net portfolio investment	18	**(118.0)**	(70.5)
Net investment of cash flows		**(133.4)**	(81.4)

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies
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 by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP"), except as follows. Realised exchange gains and losses have been included in the technical account as they are considered to arise only in respect of technical account transactions. The ABI SORP recommends that they should be included in the non-technical account.

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:

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Premiums written

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

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.

Reinsurance premium ceded

Outward reinsurance premiums are accounted for on an earned basis in the same accounting period as the premiums for the related direct or inwards business being reinsured, except for Losses Occurring During Treaty reinsurance which is earned from the start of the reinsurance policy over the life of the policy.

Claims incurred and reinsurers' share

Claims paid comprise claims and claim handling expenses paid during the period. Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. The provision for claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported ("IBNR"). The amount of IBNR, which is based on statistical techniques of estimation applied by the syndicate's in-house actuaries and reserving team, is reviewed by external consulting actuaries. These statistical techniques generally involve projecting, from past experience, the development of claims over time to form a view of the likely ultimate claims to be expected 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 for internal and external claims handling costs. For the most recent years, where a higher degree of volatility may arise from projections, estimates may partly be based on rating and other models of the business accepted, and assessments of underwriting conditions.

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

Hence the two most critical assumptions for claims provisions are that the past is a reasonable predictor of future claims development, and that rating and other models used, including pricing models for recent business, are fair indicators of the ultimate claims that will be incurred.

1. Accounting Policies (continued)

The uncertainty of such estimations generally decreases with the time that has elapsed since policy inception. In addition, short tail claims such as property, where claims are typically notified and settled quickly, will normally have less uncertainty after a few years than long tail risks, such as some liability business, where it may be several years before claims are fully advised and settled. Where disputes exist over coverage under policies, or the relevant law governing a claim changes, uncertainty in the estimation of outcomes may increase.

The assessment of these provisions can be the most subjective aspect of an insurer's accounts, and may result in greater uncertainty than is found within the financial statements of other businesses. The directors of the managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available. However, ultimate liability can be varied by further information and events and this may result in significant adjustments to the provisions. Modifications to claims provisions established in prior years are shown in the financial statements for the period in which the adjustments are made. Provisions are not discounted for investment earnings that may arise on funds retained to meet future liabilities. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision

Sometimes claims, related expenses and deferred acquisition costs, anticipated to arise after the end of the financial period (for contracts concluded before that date), are projected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs. In such circumstances a provision for unexpired risks will be included within technical provisions in the balance sheet. Such provision is calculated separately for classes of business which are managed together.

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.

Where expenses are incurred by or on behalf of the managing agent for the administration of the managed syndicate, they are apportioned using methods appropriate to the type of expense. Expenses which are incurred jointly for the managing agent and managed syndicate are apportioned between the managing agent and syndicate on bases dependant upon 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 contracts are recognised by reference to the percentage of business bound compared to written. All other operating expenses are accounted for on an accruals basis.

Profit commission

Profit commission within these financial statements is charged at a rate of 15% on the first 15% of profits and 20% thereafter. Profit commission is payable on distributable results and is subject to the operation of a three year deficit clause.

Distribution of profits and collection of losses

Lloyd's has regulations on solvency and the distribution of profits and payment of losses between a syndicate and its members. Lloyd's continues to require syndicate membership to be on an underwriting year basis, and profits and losses belong to members according to their membership. Normally profits and losses are transferred between a syndicate and its members after results for an underwriting year are finalised after 36 months. This period may be extended if an underwriting year is placed in run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of that underwriting year, subject to Lloyd's regulations.

Foreign currencies

Income and expenditure in Euros (EUR), US dollars (USD), Canadian dollars (CAD), Japanese Yen (JPY) and Australian Dollars (AUD) are translated at 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.

Monetary assets and liabilities are translated into sterling at the rates of exchange at the balance sheet date. Differences arising on the translation of the members' balances brought forward and the technical account are included in net operating expenses.

Non-monetary assets and liabilities, including deferred acquisition costs and unearned premiums are translated into the functional currency using monthly average rates of exchange prevailing at the time of the transaction as a proxy for the transactional rates. The translation difference arising on non-monetary items is recognised in net operating expenses.

The profit or loss on fair valuing forward currency contracts is reflected in the technical account.

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

Notes to the Financial Statements

Year ended 31 December 2014

1. Accounting Policies (continued)

Exchange rates

The rates of exchange used in preparing the financial statements were:

	2014		2013	
	Average	**Closing**	Average	Closing
Euro	**1.23**	**1.26**	1.18	1.20
US dollar	**1.65**	**1.56**	1.56	1.63
Canadian dollar	**1.81**	**1.78**	1.60	1.73
Japanese yen	**172.7**	**185.5**	151.1	167.3
Australian dollar	**1.82**	**1.84**	1.60	1.80

Investments

The syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit and loss (FVTPL). This is in accordance with the syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis.

Gains or losses on the revaluation of financial assets held at fair value are recognised through the profit and loss account. Investments in unlisted securities are valued at fair value.

Purchases and sales of investments are recognised on the trade date, which is the date that the syndicate commits to purchase or sell the assets. These are initially recognised at fair value, and subsequently re-measured at fair value based on quoted bid prices. Changes in the fair value of investments are included in the profit and loss account in the period in which they arise.

If the market for an investment is not active, the syndicate establishes fair value by using valuation techniques such as recent arm's length transactions or reference to similar listed investments.

Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price or valuation at the previous year-end. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses from earlier periods for 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 investment return on funds supporting underwriting business.

Regulatory Issues

The syndicate is required to comply with the requirements of the Financial Conduct Authority, Prudential Regulation Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Argo Group devotes considerable resources to meet its regulatory obligations, including a compliance officer and internal audit functions.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. Managing agents can recover UK basic rate income tax deducted from syndicate investment income, and consequently any distribution to members or 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 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 balance sheet under the heading 'other debtors'.

No provision has been made for any other foreign taxes payable by members on underwriting results.

Pension costs

Argo Management Services Limited is a service company which operates a defined contribution pension scheme. Pension contributions are recharged to group companies and the syndicate based on employees' time and are included within net operating expenses.

2. Segmental analysis

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

2014	**Gross premiums written £m**	**Gross premiums earned £m**	**Gross claims incurred £m**	**Gross operating expenses £m**	**Reinsurance balance £m**	**Total £m**	**Net technical provisions £m**
Direct insurance:							
Accident and health	**25.8**	**27.7**	**(11.3)**	**(9.4)**	**(3.9)**	**3.1**	**17.2**
Motor (third party liability)	**0.1**	**0.1**	**0.5**	**–**	**(0.3)**	**0.3**	**0.2**
Motor (other classes)	**(1.4)**	**(1.4)**	**0.3**	**0.2**	**0.2**	**(0.7)**	**1.0**
Fire and other damage to property	**99.8**	**100.4**	**(27.0)**	**(27.4)**	**(22.6)**	**23.4**	**68.7**
Third party liability	**108.0**	**112.4**	**(71.0)**	**(30.4)**	**(12.4)**	**(1.4)**	**150.4**
Miscellaneous	**45.2**	**43.2**	**(30.4)**	**(10.4)**	**(5.2)**	**(2.8)**	**42.0**
	277.5	**282.4**	**(138.9)**	**(77.4)**	**(44.2)**	**21.9**	**279.5**
Reinsurance acceptances	**102.9**	**103.9**	**(50.7)**	**(26.2)**	**(20.1)**	**6.9**	**116.7**
Total	**380.4**	**386.3**	**(189.6)**	**(103.6)**	**(64.3)**	**28.8**	**396.2**

2013	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m
Direct insurance:							
Accident and health	28.7	25.8	(19.7)	(10.7)	(3.1)	(7.7)	15.5
Motor (third party liability)	(0.1)	(0.1)	(0.5)	–	(0.2)	(0.8)	1.0
Motor (other classes)	7.7	9.6	(3.2)	(2.7)	(7.3)	(3.6)	3.6
Fire and other damage to property	109.8	111.1	(37.9)	(31.1)	(32.3)	9.8	62.5
Third party liability	128.2	119.1	(82.3)	(39.1)	6.0	3.7	149.1
Miscellaneous	38.8	40.1	(31.9)	(7.1)	(3.8)	(2.7)	36.2
	313.1	305.6	(175.5)	(90.7)	(40.7)	(1.3)	267.9
Reinsurance acceptances	111.8	102.5	(35.4)	(22.5)	(25.0)	19.6	113.8
Total	424.9	408.1	(210.9)	(113.2)	(65.7)	18.3	381.7

Total commissions for direct insurance accounted for in the year amounted to £75.2m (2013: £58.1m).

All premiums written are for contracts with external customers and are concluded in the UK.

2. Segmental analysis (continued)

Analysis of gross premium written by geographical area is shown below:

	Gross premiums written 2014 £m	**Gross premiums written 2014 %**	Gross premiums written 2013 £m	Gross premiums written 2013 %
North America	**161.0**	**42.3**	196.6	46.3
Caribbean and Latin America	**16.9**	**4.4**	30.4	7.2
UK	**34.6**	**9.1**	49.6	11.6
Rest of Europe	**132.2**	**34.8**	28.3	6.7
Oceania	**4.8**	**1.3**	49.3	11.6
Rest of the world	**30.9**	**8.1**	70.7	16.6
Total	**380.4**	**100.0**	424.9	100.0

3. Change in the net provision for claims

The syndicate's approach to establishing the technical provision for claims outstanding and the reinsurers' share thereof has been similar to that at the previous year-end. Differences arose on the provisions established at the current year-end compared to the estimated ultimate costs of those claims at the previous year-end. The change amounts to an decrease in 2014 of previous provisions of £18.0m (2013: £0.5m decrease).

4. Net operating expenses

	2014 £m	2013 £m
Brokerage and commission	**74.0**	64.5
Other acquisition costs	**13.0**	14.1
Acquisition costs	**87.0**	78.6
Change in deferred acquisition costs	**(2.6)**	(4.8)
Administrative expenses	**18.3**	24.2
Foreign exchange losses/(gains) on transactions	**2.6**	0.1
Foreign exchange losses on translation	**(1.7)**	15.1
	103.6	113.2
Administrative expenses include: Auditors' remuneration consisting of audit of the syndicate annual accounts, services pursuant to regulations and Lloyds Byelaws.	**0.3**	0.3
Members' standard personal expenses:		
Lloyd's central fund contributions	**0.8**	1.1
Lloyd's subscriptions	**1.5**	1.2
Managing agent's fees	**2.1**	2.1
Managing agent's profit commission	**0.7**	0.2
	5.1	4.6

5. Employees

All staff are employed by Argo Management Services Limited (AMS). The following amounts were recharged to the syndicate as salary costs (this excludes any benefits where the costs are retained elsewhere in the managing agency or other companies in the group):

	2014 £m	2013 £m
Wages and salaries	**19.3**	15.3
Social security costs	**2.9**	2.1
Pension costs	**1.5**	1.4
Other	**0.5**	0.4
	24.2	19.2

Other costs include: severance and redundancy payments and holiday pay.

The average number of full-time equivalent employees employed by AMS but working for the syndicate during the year was as follows:

	2014	2013
Underwriting	**73**	66
Administration and finance	**71**	57
Claims	**13**	14
Investments	**1**	1
	158	138

6. Directors' and active underwriters' emoluments

The directors of Argo Managing Agency Limited received the following aggregate remuneration, charged to the syndicate and included within net operating expenses:

	2014 £m	2013 £m
Emoluments	**1.3**	1.2
Payments to defined contribution pension schemes	**0.1**	0.1
	1.4	1.3

The active underwriter received the following aggregate remuneration, charged as a syndicate expense:

	2014 £m	2013 £m
Emoluments	**0.3**	0.6
Payments to defined contribution pension schemes	**–**	0.1
	0.3	0.7

The above amounts exclude any benefits not recharged to the syndicate. Amounts not recharged in calendar years 2013 and 2014 included the active underwriter charges in relation to options granted in the group holding company, Argo Group International Holdings, Ltd (see note 23).

The active underwriter's profit share remuneration is charged to Argo Managing Agency Limited.

Notes to the Financial Statements
Year ended 31 December 2014

7. Net investment income and expenses

	2014 £m	2013 £m
Income from investments	**8.1**	8.9
Gains on realisation of investments	**4.5**	2.0
Losses on realisation of investments	**(3.6)**	(6.4)
Unrealised gains on investments	**0.2**	0.3
Unrealised losses on investments	**(1.6)**	(2.7)
	7.6	2.1
Investment management expenses, including interest	**(0.2)**	(0.3)
	7.4	1.8

Calendar year investment yield

The average value of syndicate funds available for investment during the calendar year and the investment return and yield for that calendar year were:

	2014 £m	2013 £m
Average fund	**356.1**	397.5
Investment return	**7.4**	1.8
Calendar year investment yield	**2.08%**	0.45%

Average funds available for investment by currency

	2014 £m	2013 £m
Sterling	**52.8**	66.9
Euro	**12.1**	20.5
United States dollars	**148.1**	160.1
Canadian dollars	**132.7**	147.9
Australian dollars	**8.8**	1.8

Analysis of calendar year investment yield by currency

	2014 %	2013 %
Sterling	**2.6**	2.4
Euro	**1.7**	(1.0)
United States dollars	**2.3**	(1.2)
Canadian dollars	**1.8**	1.3
Australian dollars	**2.7**	0.3

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

8. Financial investments at fair value

	Market value		Cost	
	2014 **£m**	2013 £m	**2014** **£m**	2013 £m
Shares and other variable yield securities and units in unit trusts	**25.6**	32.1	**25.6**	32.1
Debt securities and other fixed income securities	**258.8**	257.5	**257.6**	258.2
Participation in investment pools	**0.4**	0.7	**0.2**	0.5
	284.8	290.3	**283.4**	290.8

Debt securities and other fixed income securities are all listed on recognised stock exchanges. Participation in investment pools comprises a residual portfolio of UBP hedge funds, a significant element of which was liquidated in 2014 and the balance is expected to be liquidated over the next four years.

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

	2014 **£m**	2013 £m
AAA/Aaa	**113.1**	97.6
AA/Aa	**55.2**	71.7
A	**77.1**	76.6
BBB/Baa or lower	**13.4**	11.6
	258.8	257.5

The maturity bands of the bond holdings with Conning were:

	2014 **£m**	**2014** **%**	2013 £m	2013 %
Less than 1 year	**45.6**	**17.6**	41.0	15.9
1 – 2 years	**70.0**	**27.1**	65.5	25.5
2 – 3 years	**90.5**	**34.9**	61.3	23.8
3 – 4 years	**30.0**	**11.6**	44.0	17.1
4 – 5 years	**11.7**	**4.5**	31.2	12.1
Over 5 years	**11.0**	**4.3**	14.5	5.6
	258.8	**100.0**	257.5	100.0

The syndicate's fund managers at 31 December 2014 were:

Manager	Funds Managed
Conning Asset Management Ltd	Sterling, Euro, US dollar and Canadian dollar
Western Asset Management Co. Ltd	US dollar liquid funds
UBP	US dollar
Fiera Capital Corporation	US and Canadian dollar cash

Notes to the Financial Statements
Year ended 31 December 2014

9. Debtors arising out of direct insurance operations

	2014 £m	2013 £m
Due within one year: intermediaries	**98.4**	92.5

10. Debtors arising out of reinsurance operations

	2014 £m	2013 £m
Due within one year	**4.9**	14.0

11. Other debtors

	2014 £m	2013 £m
Due from Argo Underwriting Agency Limited	**0.5**	–
Due from Argo Direct Limited	**0.2**	1.3
Federal Income tax	**2.4**	3.0
Recoverable taxes	**2.5**	0.6
Other	**–**	0.6
	5.6	5.5

Amounts due from members for fee advances made to members' agents are included in members' balances (see note 14).

12. Other assets

	2014 £m	2013 £m
Overseas deposits in Australia	**43.5**	51.4
Overseas deposits in Illinois and Kentucky, USA	**2.4**	6.4
Overseas deposits in South Africa and other countries	**23.4**	27.7
	69.3	85.5

Overseas deposits were placed as a condition of carrying on business in these territories.

13. Other prepayments and accrued income

	2014 £m	2013 £m
Prepaid expenses	**0.8**	0.2

14. Members' balances

	2014 £m	2013 £m
Members' balances brought forward at 1 January	**(10.3)**	(28.0)
Profit for the financial year	**36.2**	20.1
Members' agents' fees	**(0.2)**	(0.2)
Transfers to members' personal reserve funds	**(6.9)**	(2.2)
Members' balances carried forward at 31 December	**18.8**	(10.3)

Members participate on syndicates by years of account and their ultimate results, assets and liabilities are assessed on policies incepting in that year of account for their membership of a particular year.

15. Creditors arising out of direct insurance operations

	2014 £m	2013 £m
Due within one year: intermediaries	**3.7**	13.1

16. Creditors arising out of reinsurance operations

	2014 £m	2013 £m
Due within one year	**82.4**	132.9
Due after one year	**–**	–
	82.4	132.9

17. Other creditors including taxation and social security

	2014 £m	2013 £m
Amount due to Argo Underwriting Agency Limited	**–**	0.7
Amount due to Argo Management Services Limited	**5.2**	8.5
Amount due to Argo Direct Limited	**–**	0.5
Investment trade creditor	**–**	0.7
Profit commission payable	**0.7**	0.2
Due within one year	**5.9**	10.6

The investment trade creditor at 31 December 2013 represents investment purchases where the settlement date was post year end. This amount has now been paid.

Notes to the Financial Statements

Year ended 31 December 2014

18. Movement in opening and closing portfolio

	2014 £m	2013 £m
Net cash (outflow)/inflow for the year	**0.5**	(7.7)
(Decrease) in overseas deposits	**(15.9)**	(3.2)
Cash flow – portfolio investments (note 20)	**(118.0)**	(70.5)
Movement arising from cash flows	**(133.4)**	(81.4)
Changes in market value and exchange rates	**111.9**	(18.8)
Total movement in portfolio investments net of financing	**(21.5)**	(100.2)
Balance brought forward at 1 January	**385.1**	485.3
Balance carried forward at 31 December	**363.6**	385.1

19. Movement in cash, portfolio investments and financing

	At 1 January 2014 £m	Cash flow £m	Changes to market value and currencies £m	**At 31 December 2014 £m**
Cash at bank and in hand	9.4	0.5	(0.3)	**9.6**
Overseas deposits	85.4	(15.8)	(0.4)	**69.2**
Total cash and deposits	94.8	(15.3)	(0.7)	**78.8**
Shares and other variable yield securities and units in unit trusts	32.1	(93.4)	86.9	**25.6**
Debt securities and other fixed income securities	257.5	(24.2)	25.6	**258.9**
Participation in investment pools	0.7	(0.4)	0.1	**0.4**
Total portfolio investments	290.3	(118.0)	112.6	**284.9**
Total cash, portfolio investments and financing	385.1	(133.3)	111.9	**363.7**

20. Net cash (inflow)/outflow on portfolio investments

	2014 £m	2013 £m
Purchase of shares and other variable yield securities and units in unit trusts	**615.5**	176.5
Purchase of debt securities and other fixed income securities	**116.2**	145.1
Sales of shares and other variable yield securities and units in unit trusts	**(708.9)**	(180.7)
Sale of debt securities and other fixed income securities	**(140.4)**	(210.9)
Sale of participation in investment pools	**(0.4)**	(0.5)
Net cash inflow on portfolio investments	**(118.0)**	(70.5)

21. Post balance sheet events

The reinsurance premium to close the 2012 year of account at 31 December 2014 was agreed by the managing agent on 16 February 2015. The technical provisions at 31 December 2014 include, in relation to the 2012 and prior accounts, a net amount equal to the net reinsurance to close premium.

The following amount will be transferred in sterling to/(from) members' personal reserve funds during the second quarter of 2015:

	2014 £m	2013 £m
2011 year of account	**–**	6.9
2012 year of account	**24.6**	–
	24.6	6.9

22. Funds at Lloyd's

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

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

In addition to the FAL and any additional funds a member may introduce to meet losses, there is a central fund controlled by Lloyd's which it may utilise to meet any syndicate liabilities that are not met by a member.

Notes to the Financial Statements
Year ended 31 December 2014

23. Related parties

Lloyd's market regulations require that a managing agent is responsible for employing the underwriting staff and managing the affairs of each syndicate at Lloyd's on behalf of the syndicate members. The managing agent of Syndicate 1200 is Argo Managing Agency Limited (AMA). The immediate parent company of AMA is Argo Management Holdings Limited (AMH). The parent company of AMH is Argo Underwriting Agency Limited (AUA) which was acquired by Argo International Holdings Limited (formerly Argo Acquisition, Limited) on 14 May 2008.

Argo International Holdings Limited is a wholly owned subsidiary of Argo Group International Holdings, Ltd headquartered in Hamilton, Bermuda. Information on the Argo Group and its subsidiaries is available at www.argolimited.com, or from 110 Pitts Bay Road, Pembroke, HM08, Bermuda.

Stock options granted to the directors of the managing agent, and those who served during the year, and the active underwriters of the syndicate by Argo Group International Holdings, Ltd comprise:

	1 January 2014	Movement	31 December 2014
Restricted stock awards			
J S Bullock	20,042	(2,318)	17,724
D J Harris	12,294	12,048	24,342
M E Watson III	81,107	(13,766)	67,341
	113,443	(4,036)	109,407
Non qualified stock options			
J S Bullock	51,058	(28,969)	22,089
SAR stock appreciation right grant/cash settlements			
D Argyle	22,381	18,312	40,693
J S Bullock	203,710	22,229	225,939
B C Ritchie	45,202	43,916	89,118
M E Watson III	446,271	83,896	530,167
	717,564	168,353	885,917
Save as you earn scheme			
D J Harris	391	334	725

The cost of these stock options is charged through Argo Underwriting Agency Limited and not recharged to the syndicate.

23. Related parties (continued)

A number of 100% owned corporate member subsidiaries of AUA and Nomina No 550 LLP, beneficially owned by AUA, provide capacity to Syndicate 1200.

FAL for the following members, whose capacity is shown below, is provided by the Argo group, either directly by AUA or through a funded limited liability 50% quota share reinsurance contract with Argo Re on arm's length terms.

Year of account	2012		2013		2014		2015	
	£m	%	£m	%	£m	%	£m	%
Argo (No. 604) Limited	262.6	75.0	262.6	75.0	237.9	68.0	206.2	58.9
Argo (No. 616) Limited	11.5	3.3	11.5	3.3	2.5	0.7	0.5	0.1
Nomina No 550 LLP	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2
	274.8	78.5	274.8	78.5	241.1	68.9	207.4	59.2

FAL for the following members, whose capacity is shown below, is provided by trade insurers through funded limited liability 100% quota share reinsurance contracts. The corporate members concerned received commission of £345,650 (2013: £279,788) from the providers of these funded limited liability quota share contracts to cover administrative costs.

Year of account	2012		2013		2014		2015	
	£m	%	£m	%	£m	%	£m	%
Argo (No. 607) Limited	22.0	6.3	22.0	6.3	–	–	–	–
Argo (No. 703) Limited	–	–	–	–	23.0	6.6	26.5	7.6
Argo (Alpha) Limited	14.7	4.2	14.7	4.2	25.6	7.3	25.6	7.3
Argo (Beta) Limited	–	–	–	–	11.8	3.4	12.0	3.4
Argo (Chi) Limited	–	–	–	–	–	–	10.0	2.9
Argo (Delta) Limited	–	–	–	–	–	–	15.0	3.5
	36.7	10.5	36.7	10.5	60.4	17.3	89.1	24.7

AMA entered into transactions with the syndicate as follows:

Members' expenses include agent's fees and profit commission payable to the managing agent, and subscriptions and central guarantee fund contributions paid to Lloyd's. These are charged on an underwriting year of account, rather than calendar year, basis. For the 2012 underwriting year of account, AMA has charged an agent's fee of 0.6% of capacity. When the year of account result is finalised, usually after 36 months, AMA will charge a profit commission of 15% on the return on stamp up to 15%, and 20% above 15% return on stamp (2013: as 2014). Within the financial statements for the 2014 calendar year, fees of £2.1m have been included in net operating expenses with £0.7m for profit commission. (2013: fees £2.1m and profit commission £0.2m). At December 2014 there were no unpaid fees (2013: £nil) or profit commission (2013: £nil) due to be paid in future periods.

The managing agent incurs a large proportion of the expenses incurred in operating the syndicate and recharges them through its service company, Argo Management Services Limited (AMS), to the syndicate on a basis that reflects the syndicate's use of resources. The recharges are included in net operating expenses, acquisition costs, claims incurred and investment expenses and charges. Included within the recharges are amounts relating to the remuneration of directors of AMA. The total amount recharged by the managing agent to the syndicate during 2014 was £35.0m (2013: £31.4m) excluding agent's fees and profit commission. At December 2014 an amount of £5.2m (2013: £8.5m) was due to the managing agent for expenses. No interest is payable on this amount.

24. Pension obligations

AMS operates a defined contribution pension scheme for its employees including syndicate staff. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses. The cost of the contributions made for the year was £1.5m (2013: £1.4m) and there were no outstanding or prepaid contributions at the end of this year or the previous year.

Notes to the Financial Statements
Year ended 31 December 2014

25. Service companies
Argo Direct Limited (ADL) is a 100 percent subsidiary of AMA, set up to write small to medium size commercial liability risks. Any profits or losses incurred by the UK branch are paid to or reimbursed by the syndicate. No directors or officers of the managing agency receive any remuneration or benefits from ADL.

	2014 £m	2013 £m
Gross premium booked through ADL in calendar year	**8.2**	10.4
Commission received by ADL in calendar year	**0.8**	1.1

26. Risk management
The syndicate's activities expose it to a variety of financial and non-financial risks. The board of the managing agency is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk.

Each year, the board of the managing agency prepares a capital assessment for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks below are all reflected in the capital assessment; over two thirds of the total assessed value of the risks concerned is attributable to insurance risk.

Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It sets out new, strengthened EU-wide requirements on capital adequacy and risk management for insurers. Implementation of Solvency II has been delayed across Europe; the revised expected date is 1 January 2016.

During 2013, material progress continued with respect to the development of risk management processes, risk governance structures and the internal capital model. The syndicate has continued to meet the deadlines agreed with Lloyd's and the FCA in order to achieve Solvency II compliance.

The following describes the syndicate's exposure to these risks and the steps management have taken to mitigate their impact from a quantitative and qualitative perspective.

Insurance risk
The very nature of the syndicate's business exposes it to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract.

The main underwriting risks which affect the syndicate are:

- Catastrophic events: the risk that catastrophic events occur which will lead to claims not anticipated by the syndicate;
- Rating levels: the risk that the expected attritional losses and anticipated catastrophic events, together with the cost of reinsurance, will result in claims which exceed the premium income of the syndicate;
- Reserving levels: the risk that the reserves established by the syndicate at the previous year-end prove to be inadequate.

26. Risk management (continued)

Catastrophic events

The syndicate has developed underwriting guidelines which limit the authority of the underwriting teams and limit exposure geographically and by assured entities. The syndicate models Realistic Disaster Scenarios (RDS) which provide an estimate of the effect on the syndicate results of an aggregation of the claims arising from a large range of disasters including those specified by Lloyd's. The syndicate uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses, which are used to measure the effectiveness of both the underwriting guidelines to limit exposure to these scenarios and its reinsurance programmes.

The following, taken from recent submissions to Lloyd's, illustrate the effect of RDS on the underwriting results.

Description of RDS as at 1 July 2014	Industry loss/ Event size £bn	Gross loss to syndicate £m	Net loss to syndicate £m
Worldwide Property			
1. Miami windstorm	73.1	92.0	19.3
2. North East US windstorm	45.6	73.8	28.1
3. Gulf of Mexico windstorm	65.2	136.6	56.8
4. Los Angeles earthquake	45.6	102.8	33.7
5. San Francisco earthquake	45.6	112.1	33.7
6. Japanese earthquake	28.7	13.7	10.9

Description of RDS as at 1 January 2014	Industry loss/ Event size £bn	Gross loss to syndicate £m	Net loss to syndicate £m
Worldwide Property			
1. Miami windstorm	75.3	99.5	13.0
2. North East US windstorm	47.0	68.1	17.1
3. Gulf of Mexico windstorm	67.2	155.0	51.1
4. Los Angeles earthquake	47.0	106.1	14.1
5. San Francisco earthquake	47.0	132.0	18.8
6. Japanese earthquake	28.9	10.3	8.2

Where exposures are not calculated in sterling they are converted to sterling using monthly exchange rates advised by Lloyd's.

Rating levels

The managing agent produces an annual business plan for the syndicate under its management. The plan is produced by anticipating rating levels and terms and conditions attaching to risks expected to be underwritten by the syndicate. Performance against the plan is monitored on a regular basis through a system of underwriting committees, as well as regular review by the board of the managing agency. If market conditions change after the plan is produced, a revised plan is prepared and authorised by the managing agent's board. In this way, rating levels of both businesses written and reinsurance purchased are subject to constant review. Should risks be assessed as uneconomical, they will be declined.

Business volume

If the volume of business underwritten is less than that planned by the syndicate, the expense ratio is likely to increase. Achieved business volumes may be linked to rating levels, for instance because of easier or tougher market conditions, in which case the effects of changes in both rating levels and business volumes will accumulate.

26. Risk management (continued)

Reserving risk

In order to mitigate reserving risk, the syndicate uses a number of approaches, including accepted actuarial techniques, to project gross and net premiums written and insurance liabilities. The results of these analyses are agreed with the underwriting teams and with syndicate management and are subject to formal peer review. In addition, the syndicate commissions an external independent actuary to perform his own assessment of the syndicate's gross and net premium's written and insurance liabilities. The managing agent ensures that the held reserves are at least as strong as the external actuary's reserves.

Assumptions, changes in assumptions and sensitivity

The reserves carried by the syndicate are calculated using a number of methods to project ultimate gross and net premiums written and insurance liabilities. The principal methods applied are:

- A case by case review of certain lines of business;
- The use of hurricane modelling techniques for major hurricane events during the year;
- Benchmarking certain lines of business based on previous underwriting experience, in particular the longer tail classes of business;
- Actuarial techniques such as the chain ladder method and the Bornhuetter-Ferguson method. These are mainly applied to the classes of business that have a relatively stable development pattern.

The major assumptions underlying the reserves established by the syndicate are:

- The syndicate's past claims development experience (with appropriate adjustment for known changes) can be used to project future claims development factors;
- The syndicate will experience normal incidence of bad debts against future reinsurance recoveries.

The loss reserves established by the syndicate are sensitive to various factors:

- The Ultimate Loss Ratio (ULR) established to cover attritional losses of the syndicate. A 10% net adverse movement in the ULR, applied to the cumulative net earned premium for those years open during the calendar year, would reduce the profit of the syndicate by:

Calendar year	**2014** **£m**	2013 £m
Syndicate 1200	**49.0**	41.0

- The percentage of premiums earned during the calendar year. A 10% decrease in the net earned premium, for those years open during the calendar year, would reduce the profit of the syndicate by:

Calendar year	**2014** **£m**	2013 £m
Syndicate 1200	**17.0**	16.3

26. Risk management (continued)

Reinsurance risk

Reinsurance risk arises from two different sources:

- The first relates to concentration risk whereby recoveries from claims paid are due from a limited number of reinsurers. To mitigate this risk, the syndicate places its reinsurance in line with policy guidelines managed by reference to counterparty limits that are set each year and are subject to regular reviews.
- The second source of reinsurance risk relates to credit risk. Credit risk arises where reinsurers fail to meet their financial obligations in full as they fall due.

To understand the syndicate's exposure to credit risks both now and in the future, the table below shows the credit rating, categorised by the rating agencies and used by the syndicate in its reporting to Lloyd's.

	Moody's	Standard & Poor's
Tier 1	AA+ to A-	AAA to A-
Tier 2	B++ to B+	BBB+ to BB-
Tier 3	B to C-	B+ to CCC
Tier 4	D to NR	R to NR

	2014		2013	
	£m	**%**	£m	%
Tier 1	**156.4**	**100.0**	288.5	100.0
Tier 2	**–**	**–**	–	–
Tier 3	**–**	**–**	–	–
Tier 4	**–**	**–**	–	–
	156.4	**100.0**	288.5	100.0

Nil% (2013: Nil%) of Tier 1 is collateralised.

Impairment provision

The impairment provision at 31 December 2014 is £58,876 (2013: £151,634).

Liabilities

The estimated payment period of the gross reserves are shown below and have been prepared using historical data to estimate future payment patterns.

Claims payments	<1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Thereafter £m	Total £m
Total as at 31 December 2014	**147.3**	**95.5**	**64.3**	**43.7**	**29.1**	**50.1**	**430.0**
Total as at 31 December 2013	196.1	126.1	84.5	55.9	37.1	55.2	554.9

Notes to the Financial Statements
Year ended 31 December 2014

26. Risk management (continued)

Investment risk

The syndicate manages its investments through delegation to its Finance and Investment Committee. This Committee determines the investment policy and guidelines for the management of investment risk. These are reviewed regularly and the Finance and Investment Committee delegates authority to the treasury team for day to day operations within set guidelines.

The Finance and Investment Committee meets quarterly and will normally comprise the Agency's Finance Director, Financial Controller, Treasurer, Chief Actuary, Head of Risk Management and Financial Planning & Analysis Manager.

Investment managers

Conning is the principal investment manager for the syndicate's funds.

Conning has been set the objective of managing the syndicate portfolios to benchmarks as follows:

Canadian dollar – 100% Barclays Canadian Issues 300MM 1-3 Year.
US dollar Canadian Situs – 100% Barclays US Treasury: 1-3 Year.
US dollar – 40% Barclays US Corporate A+ 1-3 Year/60% Barclays US Gov 1-3 Year.
Euro Portfolios – 40% Barclays Euro Corporate 1-3 Year A- and above/60% Barclays Euro Gov 1-3 Year ex PT, IE, IT, GR, ES.
Sterling Portfolios – 40% Barclays Sterling Credit Corp 1-3 Year ex subord/60% Barclays Sterling Gilts 1-3 Year.

The benchmarks are designed to position the portfolios conservatively (short duration and high quality) whilst allowing Conning to add corporate bond positions to the portfolio and alter duration within limits to enhance overall returns.

The investment allocation (excluding surplus cash) at the year-end can be found in note 8.

26. Risk management (continued)

The asset allocation as at 31 December is given below:

	2014 Level 1 £m	Level 2 £m	**Total £m**	2013 £m
Bonds:				
– Government securities	–	63.9	**63.9**	90.1
– Government agencies	–	36.1	**36.1**	29.2
– Commercial mortgage backed	–	11.6	**11.6**	14.6
– Corporate bonds	–	114.8	**114.8**	110.5
– Asset backed bonds	–	31.6	**31.6**	12.4
– Sovereign/Supranational	–	–	**–**	–
Pooled vehicles (hedge funds)	–	0.4	**0.4**	0.7
Collective investments	25.6	–	**25.6**	32.1
Cash and cash equivalents	10.4	–	**10.4**	10.1
Overseas deposits	–	69.3	**69.3**	85.5
	36.0	327.7	**363.7**	385.2

The security ratings and duration of corporate and underwriting unit bonds are disclosed in note 8.

For financial instruments carried at fair value, we have categorised the measurement basis into a fair value hierarchy that prioritises the inputs to the respective valuation techniques used to measure fair value:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide readily and regularly available quoted prices (i.e. US Government Bonds).

Level 2 – Inputs to a valuation model other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices) (i.e. all other US Government Bonds).

Level 3 – There were no Level 3 investments in 2013 or 2014.

The syndicate also invests through the Corporation of Lloyd's Overseas Deposit funds and Co-mingled funds, and has a residual portfolio of UBP hedge funds, a significant element of which was liquidated in 2012 and the balance is expected to be liquidated over the next four years.

Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due.

The syndicate prepares cash flow projections throughout the year to assess calls on its available cash resources, principally claims arising on its insurance business. Cash outflows arising from catastrophic events present the largest risk to the syndicate and sufficient liquidity is maintained to cater for this type of event.

Currency risk

The syndicate's main exposure to foreign currency risk arises from insurance business originating overseas, primarily denominated in US dollars. Transactions denominated in US dollars form a significant part of the syndicate's operations. This risk is, in part, mitigated by the syndicate maintaining financial assets denominated in US dollars against its major insurance exposures.

26. Risk management (continued)

The syndicate's currency exposure at the respective year ends comprised:

	GBP £m	Euro €m	USD $m	CAD $m	AUD $m	JPY ¥m	SGD $m	Conv £m
Assets	144.4	29.5	550.9	311.0	40.9	138.8	1.1	716.0
Liabilities	(170.7)	(40.4)	(574.0)	(190.2)	(46.6)	(104.0)	(1.7)	(697.2)
Net assets/(liabilities) as at 31 December 2014	**(26.3)**	**(10.9)**	**(23.1)**	**120.8**	**(5.7)**	**34.8**	**(0.6)**	**18.8**
Net non monetary assets/(liabilities)	13.8	2.8	101.2	17.0	8.7	11.4	(1.0)	91.9
Net monetary assets/(liabilities)	**(12.5)**	**(8.1)**	**78.1**	**137.8**	**3.0**	**46.2**	**(1.6)**	**110.7**
Currency hedge	25.1	8.4	70.5	(136.6)	–	–	–	–
Net currency balances as at 31 December 2014	**12.6**	**0.3**	**148.6**	**1.2**	**3.0**	**46.2**	**(1.6)**	**110.7**
Net assets/(liabilities) as at 31 December 2013	(39.0)	(13.2)	(54.5)	132.5	2.0	35.7	–	(9.5)
Net currency balances as at 31 December 2013	(25.9)	(10.6)	36.7	148.8	7.4	55.7	–	78.2

Significant fluctuations in exchange rates during 2013 resulted in foreign exchange losses particularly relating to our long Canadian position resulting from regulatory requirements. In 2014 we operated a hedging strategy that neutralised the long Canadian Dollar position and allowed the majority of our excess assets to be held in United States Dollars, an appropriate strategy given that the majority of our capital providers are USD entities.

Once the closed year of account result is agreed in converted Sterling, where possible, excess positions in other currencies are sold to negate as far as possible currency fluctuations on the distribution result.

26. Risk management (continued)

Interest rate risk

The syndicate's main exposure to fluctuation in interest rates arises in its effect on the value of funds invested in bonds. In order to mitigate this risk, the board of the managing agent together with its external investment managers, attempt to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held.

Shift in yield (basis points)	Net (reduction) increase in value Conv £m
300	(14.1)
200	(9.5)
100	(4.8)
(100)	4.1
(200)	4.4
(300)	4.4

The table above is an indication of the potential sensitivity of the value of debt securities and fixed income portfolio to changes in yield.

Unpaid claims reserves are estimated on an undiscounted basis and are therefore not subject to interest rate risk.

Annual venture risk

Under the Lloyd's annual venture regime, the managing agent (AMA) has to show annually that each syndicate under its management has enough support to carry on underwriting. To mitigate the risk that the syndicate will not have sufficient backing to continue to trade, the managing agent has adopted a policy of diversifying the syndicate's capital base.

In order to understand the syndicate's exposure to this risk, the table below shows the capital that backs the syndicate's underwriting.

	2015 %	2014 %	2013 %
Individuals and non-aligned corporates	16.1	13.8	11.0
Quota share reinsurers	24.7	17.3	10.5
Aligned AUA	59.2	68.9	78.5
	100.0	100.0	100.0

Operational risk

Much of the effect of the syndicate's exposure to operational risks is reflected in the risk headings above, and is mitigated and managed through the exercise of the management controls and actions described above. The main additional exposures are in relation to business continuity, i.e. the risk that the ability of the syndicate to continue in business will be affected by events not reflected under other headings, for example the impact of terrorist activity, and in the management of relationships and arrangements with key individuals. The syndicate maintains a disaster recovery plan for all IT risks, including those relating to the robustness and sustainability of IT infrastructure and business applications, and the arrangements to mitigate those risks. This is monitored and updated regularly. In relation to the disaster recovery plan, the syndicate has established arrangements designed to achieve an appropriate commonality of interest between the syndicate and the suppliers concerned, and these arrangements are reviewed periodically. In addition, the syndicate seeks to reduce the dependence on any individual as far as practically possible, by employing sufficient personnel with appropriate experience and expertise, and by succession planning.

26. Risk management (continued)

Staff matters

The managing agent considers its staff to be a key resource, and seeks to provide a good working environment for its staff that is safe and complies with appropriate employee legislation. During the year there have not been any actions taken by regulatory bodies with regard to staff matters. All staff are employed through Argo Management Services Limited and their costs where appropriate are recharged to the syndicate.

Environmental matters

The managing agent is a founder member of the ClimateWise initiative and measures and reports its performance annually in six key areas.

- Risk analysis
- Public policy making
- Climate awareness amongst our customers
- Incorporate climate change into our investment strategies
- Reducing the environmental impact of our business
- Report and be accountable

27. Derivatives

No derivative contracts were entered into during either 2014 or 2013.

Section 2
Underwriting Year Accounts

Report of the Directors of the Managing Agent

The directors of the managing agent present their report on the 2012 year of account of Syndicate 1200 as closed at 31 December 2014.

Review of the 2012 year of account

We are pleased to report that the 2012 year has closed with a 7.1% profit on stamp capacity.

Year of account summary	2012 £m
Stamp capacity	350.0
Stamp premium income	312.1
Stamp utilisation	89.2%
Gross premiums written	419.3
Profit	24.8
Declared profit on stamp	7.1%

A full commentary is provided in the annual accounts for the closing 2012 year of account of Syndicate 1200. Please refer to page 5.

Review of open years and outline of current trading and likely future developments

A full commentary is provided in the annual accounts. Please refer to page 5.

Auditors

The syndicate's auditors, Ernst & Young LLP, are deemed to be reappointed under the provisions of The Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 and Section 487(2) of the Companies Act 2006.

Approved by the Board of Argo Managing Agency Limited and signed on behalf of the Board:

David Harris

D J Harris
Director

13 March 2015

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing syndicate underwriting year accounts and an accompanying Report of the Directors of the Managing Agent in accordance with applicable law, Lloyd's byelaws and United Kingdom Generally Accepted Accounting Practice.

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

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

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

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005). 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.

Report of the Independent Auditors

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1200 2012 CLOSED YEAR OF ACCOUNT

We have audited the syndicate's underwriting year accounts for the 2012 year of account of Syndicate 1200 for the three years ended 31 December 2014, which comprise the Profit and Loss Account, the Balance Sheet, Statement of Cash Flows and the related notes 1 to 24 and the Statement of Managing Agent's Responsibilities. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 39, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005), which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year 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 syndicate underwriting year accounts. In addition, we read all the financial and non-financial information in the Underwriting Year Report and Accounts to identify material inconsistencies with the audited underwriting year accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

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

Matters on which we are required to report by exception

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

- the managing agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

13 March 2015

Profit and Loss Account 2012 Year of Account

Closed at the end of 36 months at 31 December 2014

	Note	2012 year of account £m
Technical account – general business		
Earned premiums, net of reinsurance		
Gross premiums written	2	419.3
Outward reinsurance premiums		(159.6)
Earned premiums, net of reinsurance		259.7
Reinsurance to close premium received, net of reinsurance	3	129.6
Allocated investment return transferred from the non-technical account		4.9
Claims incurred, net of reinsurance		
Claims paid		
Gross amount	2	(171.9)
Reinsurers' share		40.6
Net claims paid		(131.3)
Reinsurance to close premium payable, gross amount	2	(218.7)
Reinsurance recoveries anticipated on the reinsurance to close premium payable		82.9
Reinsurance to close premium payable, net of reinsurance	4	(135.8)
Claims incurred, net of reinsurance		(267.1)
Net operating expenses		
Acquisition costs		(84.0)
Administrative expenses		(13.5)
Personal expenses		(4.8)
Net operating expenses	6	(102.3)
Balance on the technical account for general business		24.8
Non-technical account		
Balance on the technical account for general business		24.8
Investment income		6.3
Unrealised gains on investments		0.6
Investment expenses and charges		(0.2)
Unrealised losses on investments		(1.8)
Allocated investment return transferred to the technical account for general business	9	(4.9)
Profit for the closed year of account	15	24.8

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

Balance Sheet 2012 Year of Account

at 31 December 2014

	Note	2012 year of account £m
Assets		
Investments	10	105.0
Debtors		
Debtors arising out of direct insurance operations	11	2.5
Debtors arising out of reinsurance operations	12	3.7
Other debtors	13	1.6
		7.8
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	82.9
Other assets		
Cash at bank and in hand		3.1
Overseas deposits	14	47.4
		50.5
Prepayments and accrued income		0.3
Total assets		246.5
Liabilities		
Amounts due to members	15	24.6
Reinsurance to close premium payable, gross amount	4	218.7
Creditors		
Creditors arising out of direct insurance operations	16	0.8
Creditors arising out of reinsurance operations	17	–
Other creditors including taxation and social security	18	2.4
		3.2
Accruals and deferred income		–
Total liabilities		246.5

Approved by the Board of Argo Managing Agency Limited on 13 March 2015 and signed on its behalf by:

D Argyle
Director

D J Harris
Director

Statement of Cash Flows 2012 Year of Account

for the 36 months ended 31 December 2014

	Note	2012 year of account £m
Reconciliation of profit to net cash inflow from operating activities		
Profit for the closed year of account		24.8
Realised and unrealised investment losses	19	9.8
Net reinsurance to close premium payable	4	135.8
Increase in debtors		(8.1)
Increase in creditors		3.2
Net cash inflow from operating activities		**165.5**
Members' agents' fees paid on behalf of members	15	(0.2)
Financing activities:		
Increase in inter-year loan		–
	19	165.3
Cash flows were invested as follows:		
Increase in cash holdings	19	3.3
Increase in overseas deposits	19	52.1
Net portfolio investment	20	109.9
Net investment of cash flows	19	165.3

Notes to the Underwriting Year Accounts

for the 2012 closed year of account at 31 December 2014

1. Accounting Policies

Basis of preparation

The syndicate underwriting year accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005) and applicable accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006), ("the ABI SORP"), except as follows. Exchange gains and losses have been included in the technical account as they are considered to arise only in respect of technical account transactions. The ABI SORP recommends that they should be included in the non-technical account.

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

These underwriting year accounts cover the three years from the date of inception of the 2012 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts as required by FRS-28 are not shown.

Basis of accounting

Underwriting transactions

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

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

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

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

Gross claims paid are allocated to the same year of account where the corresponding premiums are allocated, and include internal and external claims settlement expenses. Notified claims are estimated on a case by case basis as reported, with regard to any information available from loss adjusters, and previous experience of the cost of settling claims with similar characteristics. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported ("IBNR"). The amount of IBNR, which is based on statistical techniques of estimation applied by the syndicate's in-house actuaries and reserving team, is reviewed by external consulting actuaries. These statistical techniques generally involve projecting, from past experience, the development of claims over time to form a view of the likely ultimate claims to be expected for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims includes amounts in respect of internal and external claims handling costs. For more recent years, where a high degree of volatility may arise from

1. Accounting Policies (continued)

projections, estimates may partly be based on rating and other models of the business accepted, and assessments of underwriting conditions.

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

Hence, the two most critical assumptions for claims provisions are that the past is a reasonable predictor of future claims development, and that rating and other models used, including pricing models for recent business, are fair indicators of the ultimate claims that will be incurred.

The uncertainty of such estimations generally decreases with the time that has elapsed since policy inception. In addition short tail claims such as property, where claims are typically notified and settled quickly, will normally have less uncertainty after a few years than long tail risks, such as some liability business, where it may be several years before claims are fully advised and settled. Where disputes exist over coverage under policies, or the relevant law governing a claim changes, uncertainty in the estimation of outcomes may increase.

The assessment of these provisions can be the most subjective aspect of an insurer's accounts, and may result in greater uncertainty than found within the financial statements of other businesses. The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available. However, ultimate liability can be varied by further information and events and this may result in significant adjustments to the provisions. Modifications to claims provisions established in prior years are shown in the financial statements for the period in which the adjustments are made. Provisions are not discounted for investment earnings that may arise on funds retained to meet future liabilities. The methods used, and the estimates made, are reviewed regularly.

Investments and investment return

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

Investment return is wholly allocated to the general business technical account.

Income (including interest accrued at the time of purchase, sale or revaluation of fixed interest securities) and realised and unrealised capital appreciation are allocated to underwriting accounts in proportion to average balances on each underwriting account for the calendar year.

Overseas deposits

Overseas deposits are stated at market value as at the balance sheet date. The cost of investments held within these deposits is determined either on the same basis as syndicate investments, or on a basis of notification received from Lloyd's.

Taxation

The result for a closed year, net of personal expenses, is accounted to Names and members' agents, on behalf of the underwriting members for whom they act.

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income of the syndicate. Managing agents can recover UK basic rate income tax deducted from syndicate investment income, and consequently any distribution to members or members' agents is gross of tax. Capital appreciation falls within trading income and will also be distributed gross of tax. It remains the responsibility of underwriting members to agree their personal tax liabilities with the Inland Revenue.

All payments on account of United States and Canadian federal income tax, pending receipt of final assessments and reimbursements by Lloyd's, are included in the balance sheet under the heading of other debtors. It is the personal responsibility of members resident in the United States or Canada, to agree and settle their United States or Canadian taxation liabilities. Members resident in other countries for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Notes to the Underwriting Year Accounts

for the 2012 closed year of account at 31 December 2014

1. Accounting Policies (continued)

Syndicate operating expenses

Syndicate operating expenses are allocated to the year of account for which they are incurred.

Where expenses are incurred by or on behalf of the managing agent for the administration of the managed syndicate, they are apportioned using methods appropriate to the type of expense. Expenses which are incurred jointly for the managing agent and managed syndicate are apportioned between the managing agent and syndicate on bases dependant upon the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses do not include expenses incurred in the settlement of claims.

Syndicate staff participate in a profit sharing scheme that reflects annually accounted profit of the syndicate and the Argo Group. This is paid to staff in the March or April annually.

Pension costs

Argo Management Services Limited is a service company which operates a defined contribution pension scheme. Pension contributions are recharged to group companies and the syndicate based on employees' time and are included within net operating expenses.

Profit commission

Profit commission within these financial statements is charged at a rate of 15% on the first 15% of profits and 20% thereafter. Profit commission is payable on distributed results and is subject to the operation of a three year deficit clause.

Insurance debtors and creditors

Notes 11, 12, 16 and 17 show the totals of all the syndicate's outstanding debit and credit transactions as processed by Xchanging Ins-sure Services Limited; no account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

Basis of currency translation

Transactions in euros, US, Canadian, Australian dollars and Japanese yen are translated at average rates of exchange for each calendar year as a proxy for transaction rates. The exception to this is that the reinsurance to close receivable and payable are translated at the transaction rates of exchange ruling at the effective dates of the contracts. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities are retranslated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used. Any differences are included in profit and loss on exchange.

Where euros or Canadian dollars are bought or sold relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arises in the underwriting account into which the liabilities of that year have been reinsured. Where the US dollar element of the profit or loss of a closed underwriting account is bought or sold by members on that year, any exchange profit or loss accrues to those members.

The balance sheet rates of exchange used in respect of items in these accounts were:

31 December 2014	EUR1.26	USD1.56	CAD1.78	AUD1.84	JPY185.5

2. Segmental Analysis

An analysis of the technical account balance before investment return is set out below:

2012 year of account	Gross premiums written and earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Direct insurance:					
Accident and health	27.8	(15.7)	(9.5)	(2.8)	(0.2)
Motor (third party liability)	0.3	0.4	(0.1)	(0.3)	0.3
Motor (other classes)	8.1	(4.6)	(2.5)	(0.6)	0.4
Fire and other damage to property	108.1	(48.8)	(30.0)	(23.7)	5.6
Third party liability	125.4	(72.6)	(29.3)	(24.4)	(0.9)
Miscellaneous	41.7	(30.2)	(8.6)	(6.3)	(3.4)
	311.4	(171.5)	(80.0)	(58.1)	1.8
Reinsurance acceptances	237.5	(219.1)	(22.3)	22.0	18.1
Total	548.9	(390.6)	(102.3)	(36.1)	19.9

Reinsurance acceptances includes the reinsurance to close premium of £129.6m received from the 2011 year of account of Syndicate 1200. All premiums written are for contracts concluded in the UK.

The analysis of gross premiums by geographical area is as follows:

	North America	Caribbean and Latin America	UK	Rest of Europe	Oceania	Rest of World	Total
£m	211.9	39.6	40.2	28.4	39.4	59.8	419.3

3. Reinsurance premium received to close the 2011 account and previous

	2011 year of account £m
Gross reinsurance to close received	178.8
Reinsurance recoveries anticipated	(49.2)
Reinsurance to close premium received, net of reinsurance	129.6

4. Reinsurance premium payable to close the 2012 account and previous

	2012 year of account £m
Gross outstanding claims	134.5
Reinsurance recoveries anticipated	(56.1)
Net outstanding claims	78.4
Provision for gross claims incurred but not reported	82.9
Reinsurance recoveries anticipated	(26.8)
Provision for net claims incurred but not reported	56.1
Claims handling provision	1.3
Net premium for reinsurance to close	135.8

The 2012 year of account and previous years have been reinsured to close into the 2013 year of account.

Notes to the Underwriting Year Accounts

for the 2012 closed year of account at 31 December 2014

5. Technical account balance before allocated investment return and net operating expenses

	2012 year of account £m
Balance excluding investment return and operating expenses, other than acquisition costs	
Loss attributable to business allocated to the 2011 pure year of account	19.9
Profit attributable to business reinsured into the 2011 year of account	11.3
	31.2
Allocated investment return transferred from the non-technical account	4.9
Net operating expenses other than acquisition costs	(11.3)
	24.8

The result attributable to the reinsurance to close the 2011 year of account includes a £1.1m loss attributable to revaluation to 2014 rates of exchange.

6. Net operating expenses

	2012 year of account £m
Brokerage and commission	73.1
Other acquisition costs	10.9
Acquisition costs	84.0
Administrative expenses excluding personal expenses	7.9
Foreign exchange loss on transactions	3.1
Foreign exchange losses on translation	2.5
Administrative expenses	13.5
Lloyd's central fund contributions	0.8
Lloyd's subscriptions	1.5
Managing agent's fees	2.1
Managing agent's profit commission	0.4
Personal expenses	4.8
	102.3
Administrative expenses include:	
Auditors' remuneration consisting of audit and other services	0.4

7. Employees

All staff are employed by Argo Management Services Limited (AMS). The following amounts were recharged to the syndicate as salary costs (this excludes any benefits where the costs are retained elsewhere in the managing agency or other companies in the group):

	2012 year of account £m
Wages and salaries	13.1
Social security costs	1.8
Pension costs	1.3
Other	0.3
	16.5

The average number of full-time equivalent employees employed by AMS but working for the syndicate during the three years was as follows:

	2012 year of account
Underwriting	68
Administration and finance	61
Claims	13
Investments	1
	143

8. Directors' and active underwriter's emoluments

The directors of Argo Managing Agency Limited received the following aggregate remuneration, charged to the syndicate and included within net operating expenses:

	2012 year of account £m
Emoluments	1.3
Payments to defined contribution pension schemes	–
	1.3

The active underwriter received the following aggregate remuneration, charged as a syndicate expense:

	2012 year of account £m
Emoluments	0.2
Payments to defined contribution pension schemes	–
	0.2

The above amounts exclude any benefits not recharged to the syndicate.

The active underwriters profit share remuneration are charged to Argo Managing Agency Limited and will be reported in that company's accounts.

Notes to the Underwriting Year Accounts

for the 2012 closed year of account at 31 December 2014

9. Net investment income and expenses

	2012 year of account £m
Income from investments	9.4
Gains on realisation of investments	1.3
Losses on realisation of investments	(4.4)
Unrealised gains on investments	0.6
Unrealised losses on investments	(1.8)
	5.1
Investment management expenses, including interest	(0.2)
	4.9

For further information regarding investment income and average funds, please refer to note 7 of the annual accounts.

10. Investments

	2012 year of account Market value £m	Cost £m
Shares and other variable yield securities and units in unit trusts	12.5	12.5
Debt securities and other fixed income securities	92.4	92.1
Participations in investment pools	0.1	0.1
	105.0	104.7

11. Debtors arising out of direct insurance operations

	2012 year of account £m
Due within one year: intermediaries	2.5

12. Debtors arising out of reinsurance operations

	2012 year of account £m
Due within one year	3.7

13. Other debtors

	2012 year of account £m
Due within one year:	
Due to Argo Underwriting Agency Ltd	(0.6)
Due from Argo Direct Ltd	0.8
Federal Income tax	1.2
Recoverable taxes	0.2
	1.6

14. Other assets

	2012 year of account £m
Overseas deposits in Australia	31.5
Overseas deposits in Illinois and Kentucky, USA	1.8
Overseas deposits in South Africa and other countries	14.1
	47.4

Overseas deposits were placed as a condition of carrying on business in these territories.

15. Amounts due to members

	2012 year of account £m
Profit for the 2012 closed year of account	24.8
Members' agents' fees	(0.2)
Amounts due to members at 31 December 2014	24.6

16. Creditors arising out of direct insurance operations

	2012 year of account £m
Due within one year: intermediaries	0.8

17. Creditors arising out of reinsurance operations

	2012 year of account £m
Due within one year	–

Notes to the Underwriting Year Accounts
for the 2012 closed year of account at 31 December 2014

18. Other creditors

	2012 year of account £m
Due within one year:	
Argo Management Services Ltd	2.0
Profit commission payable	0.4
	2.4

19. Movement in cash, portfolio investments and financing

	At 1 January 2012 £m	RITC porfolio assets received £m	Other cash flow £m	Total cash flow £m	Changes to market value and currencies £m	At 31 December 2014 £m
Cash at bank and in hand	–	2.0	1.3	3.3	(0.2)	3.1
Overseas deposits	–	54.0	(1.9)	52.1	(4.7)	47.4
Total cash and deposits	–	56.0	(0.6)	55.4	(4.9)	50.5
Shares and other variable yield securities and units in unit trusts	–	17.3	(3.6)	13.7	(1.2)	12.5
Debt securities and other fixed income securities	–	153.7	(57.6)	96.1	(3.7)	92.4
Participations in investment pools	–	0.3	(0.2)	0.1	–	0.1
Total portfolio investments	–	171.3	(61.4)	109.9	(4.9)	105.0
Total cash, portfolio investments and financing	–	227.3	(62.0)	165.3	(9.8)	155.5

Consideration for the net reinsurance to close premium received comprised:

	Consideration received £m
Cash at bank and in hand	3.1
Overseas deposits	47.4
Portfolio investments	105.0
Debtors	8.1
Creditors	(27.8)
Consideration for net reinsurance to close premium received	135.8

20. Net cash outflow on portfolio investments

	2012 year of account £m
Purchase of shares and other variable yield securities and units in unit trusts	426.6
Purchase of debt securities and other fixed income securities	304.0
Purchase of participation in investment pools	0.2
Sales of shares and other variable yield securities and units in unit trusts	(412.9)
Sale of debt securities and other fixed income securities	(207.9)
Sale of participation in investment pools	(0.1)
Net cash outflow on portfolio investments	109.9

21. Post balance sheet events

The reinsurance premium to close the 2012 year of account at 31 December 2014 was agreed by the managing agent on 16 February 2015. The technical provisions at 31 December 2014 have been presented in the balance sheet under the headings “reinsurance recoveries anticipated on gross reinsurance to close premium payable” and “reinsurance to close premium payable, gross amount” in accordance with the format prescribed by the Syndicate Accounting Byelaw.

The following amounts will be transferred to members’ personal reserve funds in April 2015 in sterling:

	£m
2012 year of account	24.6

22. Related parties

All related party information is provided in note 23 to the annual accounts. This is shown on page 26.

23. Pension obligations

AMS operates a defined contribution pension scheme for its employees including syndicate staff. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses. The cost of the contributions made was £1.3m and there were no outstanding or prepaid contributions at the end of this year.

24. Service companies

Argo Direct Limited (ADL) is a 100 percent subsidiary of AMA, set up to write small to medium size commercial liability risks. Any profits or losses incurred by the UK branch are paid to or reimbursed by the syndicate. At December 2014, ADL received commission income of £0.8m in respect of premium signed. No directors or officers of the managing agency receive any remuneration or benefits from ADL.

Three Year Summary

Year of account	2010*	2011	2012
Syndicate allocated capacity in £'000	349,892	350,000	350,000
Number of underwriting members	492	442	358
Aggregate net premiums in £'000	278,280	280,291	259,671
Capacity utilised	68.6%	80.7%	89.6%
Net capacity utilised	54.8%	59.5%	53.3%
Underwriting result as % of stamp	0.7%	2.1%	7.1%

Results for an illustrative share of £10,000	£	£	£
Gross premiums	9,316	10,636	11,981
Outward reinsurance premium	(1,363)	(2,628)	(4,561)
Net premiums	7,953	8,008	7,420
Reinsurance to close premium received, net of reinsurance	8,646	2,849	3,704
Gross claims paid	(11,536)	(5,632)	(4,910)
Reinsurers' share	862	1,832	1,160
Net claims	(10,674)	(3,800)	(3,750)
Reinsurance to close premium payable gross amount	(9,616)	(9,901)	(6,249)
Reinsurance recoveries anticipated on reinsurance to close premium payable	6,766	6,195	2,369
Reinsurance to close premium payable, net of reinsurance	(2,850)	(3,706)	(3,880)
Profit/(loss) on exchange	(91)	(286)	(160)
Brokerage and commission	(2,469)	(2,054)	(2,087)
Other acquisition costs	(244)	(271)	(312)
Administrative expenses, before personal expenses	(494)	(541)	(226)
Syndicate operating expenses	(3,298)	(3,152)	(2,785)
Balance on technical account	(223)	199	709
Investment return	425	151	140
Profit/(loss) before personal expenses	202	350	849
Illustrative personal expenses Managing agent's fee	(60)	(60)	(60)
Managing agent's profit commission	–	(5)	(12)
Lloyd's central fund contribution	(33)	(39)	(22)
Lloyd's subscription	(33)	(39)	(44)
Profit/(loss) after illustrative profit commission and illustrative personal expenses	76	207	711

*A ground up whole account quota share was purchased for the 2009 and Prior Years of Account from Syndicate 2008, effective 31 December 2012. The illustrative share has been stated excluding this transaction to allow a more meaningful comparison to prior years of account.

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