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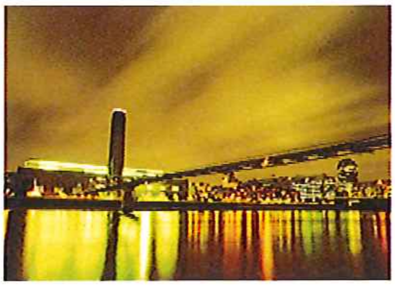
AEGIS®
London

Syndicate 1225



Annual Report

Year Ended 31 December 2014

COMMERCIAL ADVANTAGE. **MUTUAL BENEFIT**

AEGIS London

CONTENTS

COMMERCIAL ADVANTAGE. **MUTUAL BENEFIT**

Financial highlights

Profit £60.5m (2013:£45.8m) In the last five years we have made a profit of £236.5m.	**Gross written premium £371.0m (2013: £366.9m)** Gross written premium increased by £4.1m largely as a result of market conditions.
Combined ratio 83.5% (2013: 85.9%) The average combined ratio for the last five years is 88.4%.	**Investment income £12.7m (2013: £5.0m)** Investment returns increased by £7.7m as total return increased from 1.42% to 2.96%

A	A	A
A+ (strong) from Standard & Poor's[1]	A (Excellent) from A.M. Best[1]	A+ (strong) from Fitch[1]

[1] Current insurer financial strength ratings of Lloyd's of London

Strategic report

Business review

The principal activity of the business remains the transaction of general insurance and reinsurance business in the United Kingdom.

Five year financial performance

£ million	2014	2013	2012	2011	2010
Gross written premium	371.0	366.9	371.3	329.8	286.2
Underwriting profit	47.8	40.8	29.0	15.4	27.9
Investment income	12.7	5.0	21.2	15.3	19.3
Profit	60.5	45.8	52.3	30.7	47.2
Combined ratio	83.5%	85.9%	89.9%	94.2%	88.4%

Gross written premium: £371.0m (2013: £366.9m)

2014 saw an increase in gross written premium of £4.1m compared to 2013.

Gross premium written also reflects the continued diversification of the underwriting portfolio.

Our business mix is as follows:

Casualty	32%	30%	32%	35%	28%
Property	68%	70%	68%	65%	72%

Profit: £60.5m (2013: £45.8m)

AEGIS London recorded its ninth successive year of underwriting profit. This result is driven by benign loss experience.

Combined ratio: 83.5% (2013: 85.9%)

The strong combined ratio reflects the strength of AEGIS London's business model and underwriting capability. The consistency of the combined ratio reflects that AEGIS London has consciously reduced its catastrophe risk exposure and its single risk limits. This has been achieved through selective underwriting of individual risks and refusal to write business in areas that are under priced relative to their volatility.

Investment income: £12.7m (2013: £5.0m)

Investment income increased by £7.7 million during 2014 as a result of strong equity portfolio performance.

The total cash and financial investments of the Syndicate were £496.0m (2013: £484.9m).

	2014	2013	**2014**	2013
	£m	£m	**% of Total**	% of Total
Cash	**47.8**	29.2	**10%**	6%
Overseas deposits	**43.7**	58.6	**9%**	12%
Equity and unit trust	**22.4**	45.9	**4%**	10%
Fixed income	**382.1**	351.2	**77%**	72%
	496.0	484.9		

Principal risks and uncertainties

Principal risks and uncertainties of the business relate to underwriting, credit, valuation, interest rate, foreign exchange, liquidity, regulatory, and operation risk, along with reinsurance arrangements, risk appetite, and claims reserves. For further details see note 2 of these accounts.

The Syndicate has considerable financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team.

Future developments

The Syndicate intends to transact general insurance and reinsurance business via the Lloyd's platform. Our philosophy of preserving capital in softer market conditions, so that we are able to grow rapidly in stronger conditions, remains. We also retain our appetite for diversification through new product lines.

Approved by the Board of Directors on 17th March 2015 and signed on its behalf by:

James Halley
Finance Director
17th March 2015

Profit and loss account

(for the year ended 31 December 2014)

	Notes	2014 £m	2013 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	3,4	**371.0**	366.9
Outward reinsurance premium		**(64.0)**	(70.5)
Net premiums written		**307.0**	296.4
Change in provision for unearned premiums:	13		
Gross amount		**(19.6)**	(12.1)
Reinsurers' share		**1.5**	4.9
Change in the net provision for unearned premiums		**(18.1)**	(7.2)
Earned premiums, net of reinsurance		**288.9**	289.2
Allocated investment return transferred from the non-technical account		**6.1**	4.0
Other technical income		**5.3**	3.6
Total technical income		**300.3**	296.8
Claims incurred, net of reinsurance			
Gross claims paid		**(209.1)**	(181.2)
Reinsurer's share		**56.0**	38.9
Net claims paid		**(153.1)**	(142.3)
Change in the provision for claims:	6,13		
Gross amount		**22.1**	9.4
Reinsurer's share		**(7.4)**	1.7
Change in the net provision for claims		**14.7**	11.1
Claims incurred, net of reinsurance		**(138.4)**	(131.2)
Net operating expenses	5	**(108.0)**	(120.8)
Total technical charges		**(246.4)**	(252.0)
Balance on technical account – general business		**53.9**	44.8

Profit and loss account

(for the year ended 31 December 2014)

	Notes	**2014 £m**	2013 £m
Non-technical account			
Balance on the general business technical account		**53.9**	44.8
Investment income	9	**12.7**	5.0
Allocated investment return transferred to the general business technical account		**(6.1)**	(4.0)
Profit for the financial year		**60.5**	45.8

There were no recognised gains or losses in the financial year or for the preceding financial year, other than those reported in the profit & loss account. Accordingly no statement of recognised gains and losses has been presented. All operations of the Syndicate are continuing.

The notes 1 to 18 form an integral part of these financial statements.

Balance sheet

(as at 31 December 2014)

	Notes	2014 £m	2013 £m
ASSETS			
Investments			
Financial investments	12	**404.5**	397.1
Reinsurers' share of technical provisions	13		
Provision for unearned premiums		**33.7**	30.4
Claims outstanding		**115.6**	117.3
		149.3	147.7
Debtors			
Debtors arising out of direct insurance operations	10	**97.7**	86.0
Debtors arising out of reinsurance operations	10	**15.4**	11.8
Other debtors		**1.7**	0.9
		114.8	98.7
Other assets			
Cash at bank and in hand		**47.8**	29.2
Overseas deposits		**43.7**	58.6
		91.5	87.8
Prepayments and accrued income			
Deferred acquisition costs		**44.5**	38.4
Other prepayments and accrued income		**4.0**	3.9
		48.5	42.3
TOTAL ASSETS		**808.6**	773.6

The notes 1 to 18 form an integral part of these financial statements.

Balance sheet

(as at 31 December 2014)

	Notes	2014 £m	2013 £m
LIABILITIES			
Capital and reserves			
Members' balances	14	**105.6**	99.0
Technical provisions	13		
Provision for unearned premium		**210.8**	182.6
Claims outstanding		**446.8**	451.1
		657.6	633.7
Creditors			
Creditors arising out of direct insurance operations	11	**1.6**	2.0
Creditors arising out of reinsurance operations	11	**33.1**	32.2
Other creditors		**8.6**	4.7
		43.3	38.9
Accruals and deferred income		**2.1**	2.0
TOTAL LIABILITIES		**808.6**	773.6

The Syndicate accounts (registered number: 03413859) were approved by the Board of Directors on 17th March 2015 and signed on its behalf by:

James Halley
Finance Director
17th March 2015

The notes 1 to 18 form an integral part of these financial statements.

Statement of cash flows

(for the year ended 31 December 2014)

	Notes	2014 £m	2013 £m
Net cash inflow from operating activities	15	**46.2**	23.3
Transfer to members in respect of underwriting participations		**(28.2)**	(6.8)
Transfer to members in respect of Funds in Syndicate		**(24.1)**	36.3
		(6.1)	52.8
Cash flows were invested as follows:			
Increase in cash holdings	16	**(17.4)**	(12.0)
Decrease in overseas deposits	16	**16.4**	3.8
Decrease/(Increase) in total portfolio investments	16	**7.1**	(44.6)
Net increase in cash and investments		**6.1**	(52.8)

The notes 1 to 18 form an integral part of these financial statements.

Notes to the accounts

(forming part of the financial statements)

1. Basis of preparation

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

Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and prior years.

Insurance contracts premium

Gross premium written comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a 365ths basis. For premium written under facilities, such as binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of premium written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Reinsurance premium ceded

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

Insurance contracts liabilities: claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the underwriting divisions within the Syndicate have been regarded as groups of business that are managed together.

Notes to the accounts *(continued)*

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

Investments

Listed investments are stated at market value, based on a bid price, at the close of business on the balance sheet date. The cost of Syndicate investments held at the balance sheet date is deemed to be the aggregate of the value of investments held at the balance sheet date, and the cost of any new investments acquired during the year.

Overseas deposits

Overseas deposits are stated at the market value ruling at the balance sheet date.

Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges.

Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the non-technical account. A transfer is then made from the non-technical account to the technical account.

Taxation

No provision has been made in respect of UK income tax on trading income. It is the responsibility of members to settle their tax liabilities.

Overseas taxation comprises US Federal Income tax and Canadian Federal Income tax. The amounts charged to members are collected centrally through Lloyd's Members' Services Unit as part of the members' distribution process. The ultimate tax liability is the responsibility of each individual underwriting member.

Foreign currencies

The Syndicate maintains three separate currency funds, namely Sterling, US dollars and Canadian dollars.

Income and expenditure in US dollars and Canadian dollars is translated at average rates of exchange for the year. Transactions denominated in other foreign currencies are translated using the exchange rates prevailing at the dates of the transactions. Assets and liabilities, expressed in US dollars and Canadian dollars are translated into Sterling at the rates of exchange at the balance sheet date.

Assets and liabilities expressed in other foreign currencies have been translated at the rates of exchange at the balance sheet date. Where contracts to sell currency for Sterling have been entered into prior to the year end, the contracted rates have been used.

Differences arising on translation of foreign currency amounts in the Syndicate are included in net operating expenses.

Insurance debtors and creditors

In the normal course of business, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, comprise respectively the totals of all the Syndicate's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

Syndicate operating expenses

Costs incurred by the managing agent exclusively for the Syndicate are charged to the Syndicate on an accruals basis.

Expenses incurred jointly by the managing agent and the Syndicate are charged through an annual management charge. The charge reflects the expected costs of services to be provided to the Syndicate and does not include any profit element.

Retirement benefit costs

AEGIS Managing Agency Ltd operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Going concern

After making enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. In addition, the directors have a reasonable expectation that capital will be available to support future underwriting activities. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

2. Principal risks and uncertainties

Underwriting risk

The Syndicate accepts underwriting risk in a range of classes of business. The bias of the portfolio is towards short-tail property and accident risk but liability coverage is also underwritten.

In underwriting insurance or reinsurance policies the Syndicate's underwriters use their skill, knowledge and data on past claims experience to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. The business plan is subject to Lloyd's scrutiny and monitoring. Progress against this plan is monitored during the year. The Syndicate also operates under a line guide which determines the maximum liability per policy which can be written for each class and for each underwriter. These can be exceeded in exceptional circumstances but only with the approval of senior management. The Syndicate is also exposed to catastrophe losses which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the reinsurance arrangements section below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, that use their judgement to write risks on our behalf under clear authority levels. We have a regular process of coverholder audits performed during the year.

The insurance liabilities underwritten by the Syndicate are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise that in aggregate exceeds the reserve provision established.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

Notes to the accounts *(continued)*

Reinsurance arrangements

The Syndicate purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. The Syndicate also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover. For information on credit risk in respect of reinsurance debtors see the Credit Risk section.

Risk appetite

The Syndicate has a defined event risk appetite, which determines the maximum net loss that the Syndicate intends to limit its exposure to, from major catastrophe event scenarios.

These maximum losses are expected only to be incurred in extreme events. The Syndicate also adopts risk appetite maximum net limits for a number of other non-elemental scenarios including, for example, a marine collision and an offshore rig loss.

The risk appetite policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against the event risk appetite. The following assumptions and procedures are used in the process;

- the data used reflects the information supplied to the Syndicate by insured and ceding companies. This may prove to be inaccurate or could develop during the policy period.
- the exposures are modelled using a mixture of stochastic models and underwriter input to arrive at 'damage factors' – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate.
- the reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is included but may prove to be inadequate.
- reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be an unmodelled loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

Claims reserves

Claims reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% variation in the total net claims reserves would be £3.3 million (2013: £3.3 million).

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of legal advisers.

Property catastrophe claims such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Syndicate. There is uncertainty over the adequacy of information and modelling of major losses for a period of several months after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes, for which a large IBNR has to be established, represent the most difficult classes to reserve because claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for US liability written on a losses occurring basis.

The use of historical development data, adjusted for known changes to wordings or the claims environment, is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims.

Notes to the accounts *(continued)*

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. A credit risk could therefore have an impact upon the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. Syndicate 1225 is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

As well as an actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's ability to perform these duties in a timely manner. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The Syndicate's investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

At 31 December 2014, total cash and investments amounted to £496.0 million, of which 77% relates to debt and other fixed income securities and loans with credit institutions. The residual element of the portfolio relates to cash, overseas deposits and equities. The portfolio remains of high quality, as illustrated by the asset allocation table shown below. This table relates to financial investments and excludes cash, overseas deposits and equities. The credit ratings on debt securities are composite ratings based on Standard & Poor's, Moody's and Fitch.

	2014 £m	**2014 %**	2013 £m	2013 %
Sovereign Debt (US & Canadian)	**30.3**	**7.9**	44.9	12.8
Government/Government Agency	**36.8**	**9.6**	20.6	5.9
AAA/Aaa	**69.4**	**18.2**	59.0	13.8
AA/Aa	**47.0**	**12.3**	68.1	19.3
A	**82.0**	**21.5**	81.4	23.2
BBB	**69.5**	**18.2**	36.9	10.5
BB and lower	**47.1**	**12.3**	40.3	14.5
	382.1	**100.0**	351.2	100.0

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security and exposure limits prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on rating agency review and the Syndicate's own ratings for each reinsurer. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer.

Credit risk in respect of premium debt is overseen by the Syndicate's Security Committee. The key controls include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

Valuation risk

The Syndicate's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits, and SSAE 16 reports are obtained.

Notes to the accounts *(continued)*

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Syndicate's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security; the greater its price volatility. This risk is mitigated by continual review of our investment strategies. Overall the Syndicate seeks to balance the potential for adverse results arising from interest rate movements against investment return.

Foreign exchange risk

Policyholders' assets are held in the base currencies of Sterling, US dollars and Canadian dollars, which represent the majority of the Syndicate's liabilities by currency. This limits underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-base currencies. These transactions are converted into sterling at the prevailing spot rate once the premium is received. Consequently there is exposure to currency movements between the exposure being written and the premium being converted. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Syndicate is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk is mitigated by internal monitoring which includes asset and liability matching. It is not management's intention to take speculative currency positions in order to make currency gains. Overall the Syndicate's foreign exchange risk appetite seeks to minimise the potential for adverse results arising from foreign exchange rate movements.

Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis. Liquid assets are also held in excess of the immediate requirements to avoid the Syndicate having to be a forced seller of any of its assets, which may result in prices below market value being realised, especially in periods of below normal investment market activity. This practice of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch.

Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios.

Regulatory risk

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the 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. AEGIS London has a Compliance Officer who monitors regulatory developments and assesses the impact on our policy.

Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Syndicate. The Syndicate manages these risks through internal compliance monitoring and the use of detailed procedure manuals. In addition, AEGIS London has an Internal Audit department which assists the business to meet the strategic and operational objectives of the Syndicate through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

Notes to the accounts *(continued)*

3. Segmental analysis

The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

2014	Gross premiums written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	78.6	72.5	(48.7)	(21.7)	(0.3)
Fire and other damage to property	115.3	109.3	(29.9)	(31.9)	(11.6)
Third party liability	61.3	56.5	(37.4)	(17.0)	(0.4)
Miscellaneous	8.4	6.9	(3.0)	(7.7)	(0.4)
	263.6	245.2	(119.0)	(78.3)	(12.7)
Reinsurance acceptances	107.4	106.2	(68.0)	(29.7)	(1.2)
	371.0	351.4	(187.0)	(108.0)	(13.9)

2013	Gross premiums written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	84.1	81.9	(49.6)	(26.9)	(3.4)
Fire and other damage to property	128.3	124.3	(66.3)	(41.1)	(7.3)
Third party liability	69.6	54.3	(31.0)	(22.3)	(2.7)
Miscellaneous	4.4	3.7	(1.2)	(4.8)	(0.4)
	286.4	264.2	(148.1)	(95.1)	(13.8)
Reinsurance acceptances	80.5	90.6	(23.7)	(25.7)	(11.2)
	366.9	354.8	(171.8)	(120.8)	(25.0)

The net assets of Syndicate 1225 are managed as a whole and are not allocated to a separate business segment.

Notes to the accounts *(continued)*

4. Brokerage

Gross premiums written are stated before the deduction of brokerage. Brokerage for the year was £84.8m (2013: £77.9m).

5. Net operating expenses

	2014 £m	2013 £m
Acquisition expenses	**84.8**	77.9
Change in net deferred acquisition costs	**(4.7)**	(1.1)
Administrative expenses	**32.7**	29.2
(Profit)/Loss on exchange	**(4.8)**	14.8
	108.0	120.8

Administrative expenses include:

Auditor's remuneration	£	£
- Syndicate audit	**67,000**	65,000
- Other services pursuant to legislation: regulatory audits	**59,200**	57,500
	126,200	122,500

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

6. Prior years' claims provision

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

	2014 £m	2013 £m
Favourable movement in technical provisions	**41.7**	33.3

Notes to the accounts *(continued)*

7. Staff numbers and costs

Employees

The average number of employees employed by AEGIS Managing Agency Limited during the year was as follows:

	2014	2013
Administration and finance	**49**	52
Underwriting and reinsurance	**57**	54
Claims	**8**	8
	114	114

Salary costs

The following amounts were recharged to the Syndicate in respect of salary costs:

	2014 £m	2013 £m
Wages and salaries	**9.8**	9.7
Social security costs	**1.3**	1.2
Other pension costs	**1.4**	1.2
	12.5	12.1

8. Directors' emoluments

AEGIS Managing Agency Limited charged the Syndicate the following amounts in respect of emoluments paid to its directors and the active underwriter of the Syndicate:

	2014 £m	2013 £m
Emoluments	**2.0**	1.9
Compensation for loss of office	**0.0**	0.1
	2.0	2.0

The following aggregate remuneration was charged to the Syndicate in respect of persons holding the position of active underwriter:

	2014 £m	2013 £m
Emoluments	**0.4**	0.3

Notes to the accounts *(continued)*

9. Investment income

	2014 £m	2013 £m
Income from investments	**16.3**	15.1
Realised investment gains / (losses)	**0.7**	(5.1)
Net unrealised losses on investments	**(2.5)**	(3.3)
Investment expenses and charges	**(1.8)**	(1.7)
Total investment income	**12.7**	5.0

10. Debtors arising out of direct insurance and reinsurance operations

	2014 £m	2013 £m
Debtors arising out of direct insurance operations	**97.7**	86.0
Debtors arising out of reinsurance operations	**15.4**	11.8
	113.1	97.8

11. Creditors arising out of direct insurance and reinsurance operations

	2014 £m	2013 £m
Creditors arising out of direct insurance operations	**1.6**	2.0
Creditors arising out of reinsurance operations	**33.1**	32.2
	34.7	34.2

Notes to the accounts *(continued)*

12. Financial investments

	At valuation		At cost	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Shares & other variable yield securities & unit trusts	**22.4**	45.9	**19.8**	42.2
Debt securities & other fixed income securities	**302.1**	242.6	**307.5**	244.7
Loans guaranteed by mortgage	**80.0**	108.6	**80.5**	109.1
	404.5	397.1	**407.8**	396.0

Of the above categories all shares and other variable yield security investments (£22.4m) together with all loans guaranteed by mortgage (£80.0m) are listed on recognised stock exchanges. Debt securities and other fixed income securities listed on recognised stock exchanges have a carrying value of £147.3m (2013: £105.3m).

13. Technical provisions

	Provision for unearned premium	Claims outstanding	Total
	£m	£m	£m
Gross			
At 1 January 2014	(182.6)	(451.1)	(633.7)
Movement in technical account	(19.6)	22.1	2.5
Foreign exchange movement	(8.6)	(17.8)	(26.4)
At 31 December 2014	**(210.8)**	**(446.8)**	**(657.6)**
Reinsurance			
At 1 January 2014	30.4	117.3	147.7
Movement in technical account	1.5	(7.4)	(5.9)
Foreign exchange movement	1.8	5.7	7.5
At 31 December 2014	**33.7**	**115.6**	**149.3**
Net			
At 31 December 2014	**(177.1)**	**(331.2)**	**(508.3)**
At 31 December 2013	(152.2)	(333.8)	(486.0)

The exchange rate movement reflects the opening provision at opening vs closing rates of exchange together with the difference between the technical account movement at average vs closing rates of exchange.

Notes to the accounts *(continued)*

14. Reconciliation of member's balances

	2014 £m	2013 £m
Member's balances brought forward at 1 January 2014	**99.0**	27.0
Profit for the financial year	**60.5**	45.8
Foreign exchange movement on profit distribution	**(1.6)**	(3.3)
Transfer (out) / in of Funds In Syndicate	**(24.1)**	36.3
Profit distribution	**(28.2)**	(6.8)
Member's balances carried forward at 31 December 2014	**105.6**	99.0

15. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £m	2013 £m
Operating profit on ordinary activities	**60.5**	45.8
Realised and unrealised investment (losses) / gains, including foreign exchange	**(17.1)**	21.4
Increase in debtors	**(22.4)**	(12.4)
Increase / (decrease) in net technical provisions	**22.2**	(15.5)
Increase / (decrease) in creditors	**4.6**	(12.8)
Foreign exchange movement on balance due to members	**(1.6)**	(3.2)
Net cash inflow from operating activities	**46.2**	23.3

16. Movements in cash and portfolio investments

	At 1 January 2014 £m	Cash flow £m	Changes in market values and currencies £m	At 31 December 2014 £m
Cash at bank and in hand	29.2	17.4	1.2	**47.8**
Overseas deposits	58.6	(16.4)	1.5	**43.7**
	87.8	1.0	2.7	**91.5**
Shares and other variable yield securities and units in unit trusts	45.9	(28.4)	4.9	**22.4**
Debt securities and other fixed income securities	242.6	56.4	3.1	**302.1**
Loans secured by mortgage	108.6	(35.1)	6.5	**80.0**
Total portfolio investments	397.1	(7.1)	14.5	**404.5**
Total cash and portfolio investments	484.9	(6.1)	17.2	**496.0**

17. Related parties

The ultimate parent company of AEGIS Managing Agency Limited (AMAL) is Associated Electric & Gas Insurance Services (AEGIS) incorporated in Bermuda.

AMAL recharges the Syndicate expenses incurred by AMAL in connection with the Syndicate's underwriting business. These recharges include a proportion of the remuneration payable in respect of the executives of AMAL. The total recharge for the year was £17.2m (2013: £17.1m). The balance owed to AMAL at 31 December 2014 was £0.3m (2013: £0.4m).

Transactions with AEGIS

AEGIS recharges the Syndicate certain expenses incurred by AEGIS in connection with the Syndicate's underwriting business. In turn, the Syndicate recharges AEGIS the cost of certain expenses incurred by the Syndicate on behalf of AEGIS. During the year, the net amount of these recharges was £0.4m charge to the Syndicate.

Service Company

AEGIS London Holdings Limited has a 100% subsidiary which introduces business to Syndicate 1225. The service company income received by the Syndicate is summarised below:

Service Company	**Insurance class of business introduced**	**2014 Gross Premium Written £m**	2013 Gross Premium Written £m
AEGIS London Services Limited	Contingency, Energy, A&H	**2.1**	0.9

All transactions between AEGIS London Services Limited and Syndicate 1225 are conducted on an arms length basis. The underwriting transactions of the Company are included in that of the Syndicate. The Company receives agency fees to the value of 5% of gross written premiums placed with the Syndicate. No fees are paid by this Company to any of the directors of AEGIS Managing Agency Limited.

Transactions with Directors

Certain directors of the managing agent are also directors of other companies, which may, and in some instances do, conduct business with Syndicate 1225. In all cases transactions between the Syndicate are carried out on a normal arm's length commercial terms without any involvement by the director concerned on ether side of the transaction.

18. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and other criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten.

Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

Report of Managing Agent

Executive Directors

J E Chambers	*Director*
D P Croom-Johnson	*Active Underwriter*
S R Davies	*Managing Director*
J G Halley	*Finance Director*
P J Kedney	*Director*
A J P Powell	*Director*
M C Yeldham	*Director*

Non-Executive Directors

Lord Ashton of Hyde	*Non-executive*
W R Dalton	*Non-executive*
C D Forbes	*Non-executive*
D J Greene	*Non-executive*
A J Maguire	*Non-executive Chairman*
T J Mahoney	*Non-executive*
M L Onslow	*Non-executive*
W von Schack	*Non-executive*

All directors held office during the year except for Lord Ashton of Hyde who was appointed on 14th April 2014 and resigned on 18th July 2014, D J Greene who resigned on 6th March 2014, and T J Mahoney who resigned on 12th June 2014.

Principal activity and review of business

The principal activity of the business remains the transaction of general insurance and reinsurance business in the United Kingdom. Further information can be found in the financial review given in the Strategic Report section, pages 3 to 4.

Going concern

Details regarding the going concern can be found in the Notes to the accounts. The Board has satisfied itself that the Syndicate has adequate resources to continue in operation for the foreseeable future.

Use of financial instruments

In relation to the use of financial instruments, the financial risk management objectives and policies of the Syndicate as well as the exposure of the Syndicate to risk are discussed in note 2 of these accounts.

Principal risks and uncertainties

A review of the principal risks and uncertainties is given in note 2 of these accounts. The Syndicate has considerable financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Syndicate is well positioned to manage its business risks successfully.

Future developments

Future developments are included in the Strategic Report section, pages 3 to 4.

Auditor

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

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

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Deloitte LLP has indicated its willingness to be appointed for another term and appropriate arrangements have been put in place for them to be appointed as auditors.

Approved by the Board of Directors on 17th March 2015 and signed on its behalf by:

James Halley
Finance Director
17th March 2015

Statement of Managing Agent's Responsibilities

AEGIS Managing Agency Limited is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require AEGIS Managing Agency Limited to prepare Syndicate annual report and financial statements as at 31 December each year which give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit and loss for that year.

In preparing the Syndicate annual report and financial statements, the managing agent is required to:

(a) select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;

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

(c) state whether applicable United Kingdom accounting standards have been followed; and

(d) prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

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

Independent auditor's report to the members of syndicate 1225

We have audited the syndicate annual financial statements for the year ended 31 December 2014 which comprise Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditor

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

Scope of the audit of the syndicate annual financial statements

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

Opinion on syndicate annual financial statements

In our opinion the annual financial statements:

- 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 matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Report of Managing Agent and Strategic Report for the financial year in which the annual financial statements are prepared is consistent with the annual financial statements.

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

Andrew Downes ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
17th March 2015

Administration

Managing Agent:	AEGIS Managing Agency Limited
Company Secretary:	Hayley Connell AEGIS Managing Agency Limited
Registered Office:	33 Gracechurch Street, London, EC3V 0BT
Registered Number:	03413859
Telephone: Fax:	+ 44 (0)20 7265 2100 + 44 (0)20 7265 2101
Website: E-mail:	www.AEGISLondon.co.uk enquiries@AEGISLondon.co.uk

AEGIS Syndicate 1225 at Lloyd's of London ("AES 1225") commenced operations in 1999. AEGIS Syndicate 1225 (TM) operations are supported by AEGIS London, also known as AEGIS Managing Agency Limited ("AMAL"), which provides professional staff and services for AES 1225. AEGIS Electric & Gas International Services Limited ("AEGIS International") is a corporate member of Lloyd's and the sole capital provider of AES 1225. AEGIS International, AMAL, AEGIS London Services Limited, AEGIS Electric & Gas International Services 2 Ltd & AEGIS Electric & Gas International Services 3 Ltd are subsidiaries of AEGIS through AEGIS Holding Inc.