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Syndicate 1301

Annual Report and Accounts

Year ended 31 December 2014

SYNDICATE 1301
INDEX TO FINANCIAL STATEMENTS AND REPORTS
Year ended 31 December 2014

SYNDICATE 1301
DIRECTORS AND ADMINISTRATION
Year ended 31 December 2014

Directors
The directors named below held office for the period January 1st 2014 to December 31st 2014.
B Hurst-Bannister (Chairman and Non-Executive)
A Alecock
N Attwood
N Barton (Non-Executive)
D Kirby (Chief Executive Officer)
P O'Shea (appointed 15th May 2014)
D Smith (appointed 11th August 2014)
E Gilmour (appointed 19th February 2015)

Former directors who served during the year
D O'Donohoe (resigned 15th May 2014)
T Harris (resigned 16th May 2014)
L Lee-Tsang-Tan (resigned 31st October 2014)
R Lowe (Non-Executive, resigned 10th December 2014)

No director had any interest in the voting share capital of the managing agent at any time during the year.

Managing agent's secretary
Clare Traxler (appointed 1st April 2014)
Siobhan Hextall (appointed 2nd June 2014)
R Mankiewitz (resigned 1st April 2014)
S French (resigned 22nd January 2014)

Managing agent's registered office
88 Leadenhall Street
London
EC3A 3BP

Managing agent's registered number
08039754

Active underwriter
Neil Attwood

Bankers
Citibank N.A.
Royal Bank of Canada
Barclays Bank plc

Registered Auditors
KPMG LLP
15 Canada Square
London
E14 5GL

Directors' interests
None of the Directors of the managing agent have any participation in the Syndicate's premium income capacity.

Report of the Directors of the managing agent

The Directors of the managing agent present their report and the audited annual accounts for the year ended 31 December 2014.

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

Results

The result for Syndicate 1301 in calendar year 2014 is a profit of £1.5m (2013: (£4m)). The Syndicate's key financial performance indicators during the year were as follows:

	2014	**2013**
	£m	**£m**
Gross written premiums	**141.1**	147.6
Gross Premiums Earned	**136.4**	126.7
Net Premiums Earned	**116.5**	107.2
Profit/(Loss) for the financial year	**1.5**	(4.0)
Claims Ratio	**58.9%**	58.5%
Commission Ratio	**25.5%**	31.4%
Expense Ratio	**14.3%**	14.1%
Combined ratio	**98.7%**	104.0%

Foreign exchange gains and losses have been allocated to the expenses ratio. This is because administrative expenses are predominately charged in US dollars.

Principal activity

The Syndicate's principal activity during the year continued to be the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. Syndicate 1301 underwrites a mixture of reinsurance and property business, as well as a range of specialty lines. Syndicate 1301 trades through the Lloyd's worldwide licenses and rating platform. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very Strong) rating from Fitch.

SYNDICATE 1301
REPORT OF THE DIRECTORS OF THE MANAGING AGENT
Year ended 31 December 2014

Review of the business

The result for the year was a profit of £1.5m (2013: loss of £4m).
The continued emphasis on underwriting profitability has resulted in the net loss ratio remaining largely unchanged from the previous year at 58.9% compared to 58.5% in 2013. The Syndicate and its majority capital provider continue to be committed to developing as a specialty insurer within the Lloyd's market. To this end, from January 2014 Torus transferred the Excess Casualty portfolio previously written by Torus Insurance UK Limited and a select book of US Hospitals Medical Malpractice business previously written on the US Company paper to the Syndicate. Premium volume for 2014 reduced compared to 2013, to £141.1m from £147.6m, as market conditions deteriorated and we continued to focus on bottom line growth.

Although the premium volume has reduced from the original business plan, the gross loss ratios are better than forecast. However, the expenses and reinsurance costs are fixed and linked to the original estimated income and are therefore relatively higher than we would estimate them to be going forward.

Business Profile

In keeping with the focus on developing as a specialty insurer in the Lloyds market, in 2014 the portfolio included the following lines of business:

Worldwide Direct and Facultative Property
Worldwide Property Special Risks (jewellers, fine art, specie and cash in transit)
Worldwide Accident and Health
Worldwide Personal Accident Treaty
Worldwide Property Schemes
Worldwide War and Terrorism
Worldwide Marine Hull
Worldwide Marine Liability
Worldwide Marine Cargo
Worldwide Construction
General Aviation
Offshore Energy
Terror
Excess Casualty
US Healthcare Professional Liability

During 2014 market conditions and pricing levels were challenging. However, we were able to achieve rate increases in the loss affected areas of the portfolio. The Property Direct and Facultative portfolio is focused on commercial and industrial risks on an excess of loss basis. The Property Special Risks account and the PA Catastrophe books also had to contend with a challenging rating environment.

In 2015, the Torus Group will be transferring the Onshore Energy and Power and Utilities portfolios which are currently written by Torus Insurance UK Limited. In addition, business previously written by the US Company in Brazil will be transferred to the Syndicate.
We are optimistic for 2015 despite the competitive market environment, as we believe the sound underwriting philosophy and diversification will enable us to deliver the targeted returns. The Syndicate will continue to diversify the account by growing the less volatile classes during the year.

Worldwide Direct and Facultative Property
This account currently comprises single and multi-territory industrial and commercial risks written predominantly on an excess of loss basis. The Syndicate is an established lead in this sector and has produced good results since 2000, although we have seen an increase in loss activity.
The Syndicate will continue to write primary business from the USA and selected full value business. The Syndicate plans to write more US business, with firm restrictions regarding catastrophe exposures.

Worldwide Property Special Risks
This account is comprised of jewellers block risks emanating from Europe, the Far East, Australasia and the USA. In addition, a modest portfolio of Specie and Private Fine Art is also written. It is the intention to balance this portfolio with more Fine Art, Cash in Transit and General Specie business.

Worldwide Accident and Health
The Syndicate continues to write a specialist niche account covering aircrew, yacht and fishing vessel crews. In addition to this existing portfolio we plan to expand the portfolio to include general PA Accidental Death and Temporary Disability. We will also include a Sports PA account for professional and amateur sports.

Worldwide Personal Accident Treaty
We will maintain the account at the current level for 2015. Although the market is still competitive we believe the profitability to be acceptable.

Worldwide Property Schemes
After the departure of the team early in 2014, we have decided to continue with a select number of portfolios that continue to produce the required profit margins. The account was reduced for 2014 compared to the original plan and will remain at a similar level for 2015.

Worldwide War and Terrorism
The focus of this portfolio is on Industrial property, with oil, gas and power installations. Pricing is competitive especially in the USA, but our exposures in this area are lower than that of our peers.

Worldwide Marine Hull, Liability and Cargo
Liability rates have continued to increase modestly during 2014, but the Hull and Cargo rates are not expected to move significantly. Estimated growth in this class for 2014 was driven by rates and new opportunities becoming available.

Worldwide Construction
This business is predominantly international. It is sourced via London brokers and placed mainly on a subscription basis as direct or facultative reinsurance. The portfolio is currently 30% Latin America, 20% North America, 10% Middle East and North Africa, 10% Far East and Australia, 5% Europe, 5% UK and 20% rest of the world.

General Aviation
The business written by the Syndicate consists of some market line slips and consortium plus some open market business from Brazil and Canada.

Offshore Energy
The business written consists of renewal business from the Middle East and new opportunities in Brazil, Canada and Kuwait.

Excess Casualty
The focus of this portfolio is medium to large size US and multi-national commercial and industrial risks attaching well above the level of attritional loss performance. The principal focus is on US domiciled companies because they typically buy large limits, provide appropriate levels of information and are more transparent in terms of coverage and forms. This portfolio has historically been written by the UK Company and was transferred to the Syndicate at the start of 2014.

US Healthcare Professional Liability
Hospital professional liability will only be written on a claims made basis. Coverage is predominantly on an excess basis, as either insurance or as reinsurance of a captive. The premium volume has been less than estimated due to the difficult market conditions and the departure of the lead underwriter in early 2014. This business was previously written in the US but is now written by the Syndicate to enhance the product offering to the client.

Outwards Reinsurance Arrangements
A comprehensive reinsurance programme is purchased by the Syndicate. For 2015 we have optimised the purchase of the protections by combining the Syndicate and Company protections where beneficial. This has enabled us to reduce the cost and/or retention levels.

Capacity for 2014 is aligned, with 35.7% funded by third party capital and the remainder funded by Torus Underwriting Limited, which is a wholly owned subsidiary of Torus Insurance Holdings Limited.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Syndicate is set out in the notes to the financial statements (risk review).

Directors' interests

None of the Directors of the managing agent who served during the year ended 31 December 2014 were underwriting Names at Lloyd's for the 2012, 2013 or 2014 years of account.

B Hurst-Bannister (Chairman and Non-Executive)
A Alecock
N Attwood
N Barton (Non-Executive)
D Kirby (Chief Executive Officer)
P O'Shea (appointed 15th May 2014)
D Smith (appointed 11th August 2014)
E Gilmour (appointed 19th February 2015)
D O'Donohoe (resigned 15th May 2014)
T Harris (resigned 16th May 2014)
L Lee-Tsang-Tan (resigned 31st October 2014)
R Lowe (Non-Executive, resigned 10th December 2014)

Disclosure of information to the auditors

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

Auditors

The managing agent proposes the re-appointment of KPMG LLP as the Syndicate auditors.

By order of the Board

Angela Alecock
Finance Director
17 March 2015

SYNDICATE 1301
STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES
Year ended 31 December 2014

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Syndicate annual report and 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 annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

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

1. select suitable accounting policies and then apply them consistently;

2. make judgements and estimates that are reasonable and prudent;

3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and

4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

SYNDICATE 1301
INDEPENDENT AUDITOR'S REPORT
Year ended 31 December 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1301

We have audited the Syndicate 1301 annual accounts for the year ended 31 December 2014, as set out on pages 12 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of the managing agent and 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

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

Opinion on the 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 UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other 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 the Directors of the managing agent for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

SYNDICATE 1301
INDEPENDENT AUDITOR'S REPORT
Year ended 31 December 2014

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 require 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.

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London
E14 5GL

17th March 2015

SYNDICATE 1301

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

Year ended 31 December 2014

	Notes	2014		2013	
		£000s	£000s	£000s	£000s
Earned premiums, net of reinsurance					
Gross premiums written	4		141,149		147,602
Outward reinsurance premiums			(23,677)		(21,205)
Net premiums written			117,472		126,397
Change in the provision for unearned premiums					
Gross amount	5	(4,762)		(20,926)	
Reinsurers' share	5	3,823		1,761	
Net change in provision for unearned premiums			(939)		(19,165)
Earned premiums, net of reinsurance			116,533		107,232
Allocated investment return transferred from the non-technical account			17		276
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	5	(60,455)		(59,971)	
Reinsurers' share	5	7,007		10,998	
		(53,448)		(48,973)	
Change in the provision for claims					
Gross amount	5	(14,074)		(4,848)	
Reinsurers' share	5	(1,099)		(8,880)	
		(15,173)		(13,728)	
Claims incurred, net of reinsurance			(68,621)		(62,701)
Net operating expenses	7		(46,398)		(48,846)
Balance on the technical account for general business			1,531		(4,039)

SYNDICATE 1301
PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
Year ended 31 December 2014

	Notes	2014		2013	
		£000s	£000s	£000s	£000s
Balance on the general business technical account			**1,531**		(4,039)
Investment income			**186**		143
Realised gains on investments			**222**		168
Unrealised gains on investments			-		896
Investment expenses and charges			-		(119)
Realised losses on investments			-		-
Unrealised losses on investments			**(391)**		(812)
Allocated investment return transferred to general business technical account			**(17)**		(276)
Profit/(Loss) for the financial year	**13**		**1,531**		(4,039)

All operations relate to continuing activities.

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts, therefore no statement of total recognised gains and losses has been presented.

The notes to the financial statements form an integral part of these annual accounts.

SYNDICATE 1301
BALANCE SHEET
Year ended 31 December 2014

	Notes	2014		2013	
		£000s	£000s	£000s	£000s
Assets					
Investments					
Financial investments	11,14		41,909		28,944
Deposits with ceding undertakings	14		-		-
Reinsurers' share of technical provisions					
Provision for unearned premiums	5	7,340		3,515	
Claims outstanding	5	11,589		12,450	
			18,929		15,965
Debtors					
Debtors arising out of direct insurance operations – intermediaries		43,232		41,071	
Debtors arising out of reinsurance operations		15,228		9,455	
Other Debtors		727		7,996	
			59,187		58,522
Other assets					
Deposits no time restrictions		25,599		519	
Overseas deposits	12	3,860		4,997	
			29,459		5,516
Prepayments and accrued income					
Deferred acquisition costs		10,992		12,258	
Other prepayments and accrued income		-		645	
			10,992		12,903
TOTAL ASSETS			160,476		121,850

The notes to the financial statements form an integral part of these annual accounts.

SYNDICATE 1301
BALANCE SHEET
Year ended 31 December 2014

	Notes	2014		2013	
		£000s	**£000s**	**£000s**	**£000s**
Liabilities					
Capital and reserves					
Members' balances	13		**(12,386)**		(34,826)
Technical provisions					
Provision for unearned premiums	5	**61,729**		56,967	
Claims outstanding	5	**95,746**		79,107	
			157,475		136,074
Creditors – due within 1 year					
Creditors arising out of direct insurance operations – intermediaries		**1,492**		1,927	
Creditors arising out of reinsurance operations		**7,787**		8,908	
Other creditors		**6,023**		9,200	
			15,302		20,035
Accruals and deferred income			**85**		567
Total Liabilities			**160,476**		121,850

The notes to the financial statements form an integral part of these annual accounts.

The financial statements were approved by the Torus Underwriting Management Limited Board on 17th March 2015 and were signed on its behalf by:

Angela Alecock
Finance Director

SYNDICATE 1301
STATEMENT OF CASH FLOWS
Year ended 31 December 2014

	Notes	2014	2013
		£000s	£000s
Reconciliation of operating loss to net cash inflow from operating activities			
Operating profit/(loss) on ordinary activities		**1,531**	(4,039)
Changes in market value and exchange rates	**14**	**(1,325)**	338
Reclassification of investments	**14**	**5,835**	-
Increase in net technical provisions		**18,438**	31,226
Increase in debtors		**(331)**	(29,419)
Decrease in creditors		**(3,639)**	10,986
Net cash inflow from operating activities		**20,509**	9,092
Transfer from/(to) members in respect of underwriting participations	**13**	**20,909**	(1,300)
Net cash inflow from operating activities	**14**	**41,418**	7,792
Cash flows funded/invested as follows:			
Increase in cash holdings	**14**	**25,099**	519
Decrease in overseas deposits	**14**	**(1,150)**	(2,963)
Net portfolio investments	**14**	**17,469**	10,236
Net investment of cash flows	**14**	**41,418**	7,792

1. Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable law and Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 by the Association of British Insurers (as amended in December 2006), except that exchange differences are dealt with in the technical account as there are no non-technical items.

2. Accounting policies

2 (a) Premiums written

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

2 (b) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written 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.

2 (c) Reinsurance premiums ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. They are disclosed gross of commissions and profit participations recoverable from reinsurers.

2 (d) Acquisition Costs

Acquisition costs comprise those costs that are incurred, directly and indirectly, in the acquisition of new and renewed insurance contracts. These consist of commissions, premium taxes, underwriting costs and other costs, which vary with and are primarily related to, the acquisition of premiums.

Deferred acquisition costs – Acquisition costs are deferred and amortised over the same period and on the same basis as that under which the related premiums are earned. For this purpose, a proportion of underwriters' salaries are allocated to acquisition costs and deferred in line with the overall proportion of the deferral of acquisition costs.

2 (e) Unexpired risk provision

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risk provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

2. Accounting policies continued

2 (f) Claims provisions and related recoveries

A liability for unpaid losses is established where the insured event has occurred on or before the balance sheet date. The reserve for the unpaid losses is established by management based on the estimated ultimate cost of settling the claim and includes provisions for both reported claims (case reserves) and estimates relating to incurred but not reported claims ("IBNR").

IBNR is generally subject to a greater degree of uncertainty than reported claims. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques. In the initial years, the estimation of the claims will be based on pricing assumptions and comparison to industry benchmarks.

Once adequate data is available, the estimation is generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- any movements in industry benchmarks

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

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

Provisions are calculated net of any estimated amounts of salvage and subrogation recoveries, but gross of any reinsurance recoveries. No benefit has been taken for discounting the reserves.

Loss adjustment expenses

A liability is established for all costs expected to be incurred in connection with the settlement of unpaid claims. These include the direct cost relating to the investigation of the claims and other costs which cannot be associated with specific claims but are related to claims paid or in the process of settlement such as internal costs of the claims functions.

2. Accounting policies continued

Reinsurance recoverables on unpaid losses

Reinsurance recoverables are balances due from reinsurance companies for paid and unpaid losses and loss expenses that are expected to be recoverable from reinsurers under the terms of the reinsurance agreements. Reinsurance recoverables are stated net of a reserve for uncollectable reinsurance. This reserve will calculated based on management's estimate of any amounts that the Syndicate would be unable to recover from the reinsurer due to insolvency or known liquidity issues, contractual dispute or any other reason which in management's judgement is likely to warrant a reserve against a particular reinsurer.

In determining the reserve for uncollectable reinsurance, the Syndicate will consider the recoverable balance by reinsurer net of any collateral held. The definition of collateral for this purpose is generally limited to assets held in trust, letters of credit and liabilities held by the Syndicate with the same legal entity for which the Syndicate believes there is a legal right of offset.

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

2 (g) Foreign currencies

The functional currency of the Syndicate is Pound Sterling. Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at monthly average rates prevailing at the time of the transactions.

At the balance sheet date, monetary assets and liabilities are translated at the year end rates of exchange. Unearned premiums and deferred acquisition costs are non-monetary assets and liabilities and accordingly are not retranslated from the historic rates. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within net operating expenses in the technical account.

The rates of exchange used to translate monetary balances at the period end in foreign currencies into sterling are as follows:

	31 December 2014	31 December 2013
US Dollars	**1.56**	1.63
Canadian Dollars	**1.81**	1.73
Euros	**1.29**	1.19

2. Accounting policies continued

2 (h) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions 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.

2 (i) Investment return

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

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

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the General Business Technical Account. Investment return has been wholly allocated to the Technical Account as all investments relate to the Technical Account.

Investment income from cash and overseas deposits are accrued to the end of the year.

2 (j) Taxation

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

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

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

2 (k) Pension costs

The Torus Group operates a defined benefit scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

3. Risk Review

The Board of Directors of the managing agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has delegated more detailed oversight of risk management to the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The Audit and Risk Committee is chaired by an Independent Non-Executive Director. The Committee reports regularly to the Board of Directors on its activities.

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. Policies are subject to Board approval and ongoing review by management, risk management and internal audit. The Syndicate's Audit & Risk Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

In preparation for the proposed Solvency II regime, the Board has developed its Own Risk and Solvency Assessment ('ORSA'), comprising the entirety of the processes that it uses to identify, assess, monitor and report the risks faced by the Syndicate and to determine the capital necessary to mitigate retained risks.

Insurance Risk

The predominant risk to which the Syndicate is exposed is insurance risk which is the risk that insurance premiums will not be sufficient to cover future insurance losses and associated expenses. Insurance risk can be sub-categorised into i) underwriting risk including the risk of catastrophe and systemic insurance losses and ii) reserving risk

(i) Underwriting Risk

The Board of Directors of the managing agent sets the Syndicate's underwriting strategy for accepting and managing underwriting risk, seeking to exploit identified opportunities in the light of other relevant anticipated market conditions. The Syndicate Business Forecast is completed annually and stipulates those classes of business and concentration by class that will be written in the forthcoming year. It is reviewed and approved by the Board prior to being submitted to the Lloyd's Franchise Board for approval. Actual performance during the year is monitored by comparison to the Syndicate Business Forecast.
The Board has delegated more detailed oversight of underwriting to the Underwriting Committee.
TUML's underwriters and management consider underwriting risk at an individual contract level and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in the context of historical portfolio experience and prospective factors.

Underwriting risk is mitigated through numerous controls including underwriter peer review, authority limits, line structures, independent review of risks written, and purchase of an appropriate reinsurance programme.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular reviews. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite. These parameters cover areas such as maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. All delegations are controlled through these tight underwriting guidelines and limits and ongoing monitoring and review.

3. Risk Review continued

(ii) Reserving Risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle those claims and associated expenses. The Syndicate's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 2(f).

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

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

Financial Risk

The Syndicate is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of financial risk for the Syndicate are investment risk, asset/liability management, market risk, credit risk and liquidity risk. These risks are discussed further below.

The Syndicate's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Syndicate's financial performance. The Investment Committee produces quarterly investment reports for the Syndicate's Audit and Risk Committee and Board. Quarterly risk management on financial risks is reported to the Syndicate Executive Committee.

Investment risk is the risk that the Syndicate's earnings are affected by changes in the value of the investment portfolio. The Syndicate's current investment strategy is highly conservative in approach, with very low investment risk within the portfolio. The Syndicate's funds are held in cash and overseas deposits which are invested in short duration fixed income securities, all of which are investment grade.

Asset/liability mis-match is the risk that the Syndicate could incur a loss through inadequate matching of its investments with its insurance liabilities. This is mitigated by investing premiums in the currency in which subsequent claims are most likely to be incurred. The majority of the Syndicate's business is denominated in US dollars and accordingly the majority of the investments held are in US dollars.

Market risk is the risk that future changes in market prices and/or currency fluctuations may make a financial instrument less valuable. There is currently limited risk to the Syndicate regarding market prices as the majority of the investments of the Syndicate are held in cash.

3. Risk Review continued

Credit risk is the risk of default by one or more of the Syndicate's reinsurers, their investment counterparties, or insurance intermediaries. Reinsurance is placed with reinsurers who meet Group credit rating requirements. The creditworthiness of reinsurers is reviewed on a regular basis by reviewing credit grades provided by rating agencies and other publicly available financial information. The exposure to credit risk in the investment portfolio is very low due to funds being held in cash with highly rated institutions. Exposure to insurance intermediaries is mitigated by a review of all new intermediaries, contractual terms of business, monitoring of balances and credit control procedures.

Liquidity risk is the risk that the Syndicate may be unable to meet payment of obligations when due at a reasonable cost. The primary liquidity risk is the obligation to pay claims to policy holders as they fall due. Cashflow is monitored regularly to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. These risks are managed by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review. Regular reviews are conducted by Internal Audit to ensure that any control breaches are identified and reported to the appropriate level of management and the Audit Committee when necessary.

Regulatory Risk

The Syndicate is required to comply with the requirements of many different regulatory authorities worldwide and within the UK the Prudential Regulatory Authority (PRA), The Financial Conduct 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 Agency has a Compliance Officer and team who monitor regulatory developments and assess the impact on agency policy and Syndicate activities.

Capital

One of the main advantages of trading through Lloyd's is the lower capital ratios that are available due to the diversification of business written in Syndicate 1301 and in Lloyd's as a whole. The size of the Syndicate is increased or decreased according to the strength of the insurance environment in its main classes.

Lloyd's are utilising models developed for Solvency II to meet obligations under ICAS, which will provide equivalent protection to policyholders. Syndicate capital is determined through the submission to and agreement by Lloyd's of an ultimate Solvency Capital Requirement ("SCR") which is subject to an uplift determined by the Franchise Board to calibrate the capital required by Lloyd's. Torus Underwriting Management Limited (TUML) uses an internal capital model to measure the SCR based on a rigorous process of risk identification and quantification which is reflected in the own risk and solvency assessment. The model is based on regulatory requirements and has been approved by Lloyd's.

3. Risk Review continued

Through its unique capital structure, the Corporation of Lloyd's provides financial security to policyholders and capital efficiency to members. Three levels of security were established for the Lloyd's Syndicates:

1. Liquid resources held in premium trust funds that are the first resource for paying policyholder claims. Profits are not released until full provision is made for future liabilities.

2. 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. They are set by reference to the Solvency Capital Requirement ("SCR) together with a Lloyd's uplift. Since FAL is not under the control of the managing agent, no amount has been shown in these financial statements for 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.

3. The Central Fund which comprises central assets funded by members' annual contributions and subordinated debt. The Corporation of Lloyd's regularly reviews and determines the optimum level of central assets, seeking to balance the need for robust financial security against the members' desire for cost-effective mutuality of capital. In particular, the Corporation's modelling stress tests each member's underwriting portfolio against a number of scenarios and a range of forecasts of market conditions. Members' contributions to the Central Fund for 2014 were set at 0.5% of gross written premiums.

4. Segmental analysis

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

2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Direct insurance							
Accident & Health	6,997	5,198	(1,982)	(2,257)	(869)	90	6,155
Marine, Aviation & Transport	51,321	50,750	(32,390)	(15,587)	(2,558)	215	51,058
Fire and other damage to property	41,509	41,209	(23,109)	(16,520)	(4,674)	(3,094)	38,441
Miscellaneous	2,277	2,299	(903)	(762)	(601)	33	1,567
	102,104	99,456	(58,384)	(35,126)	(8,702)	(2,756)	97,221
Reinsurance	39,045	36,931	(16,145)	(11,272)	(5,244)	4,270	41,325
Total	141,149	136,387	(74,529)	(46,398)	(13,946)	1,514	138,546

2013	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Direct insurance							
Accident & Health	2,106	2,415	(2,130)	(702)	(594)	(1,011)	2,223
Marine, Aviation & Transport	47,489	32,433	(16,864)	(18,125)	(2,861)	(5,418)	28,346
Fire and other damage to property	62,992	61,714	(32,918)	(20,658)	(6,724)	1,415	49,961
Miscellaneous	1,595	1,215	(335)	(531)	(322)	26	367
	114,182	97,777	(52,247)	(40,016)	(10,501)	(4,988)	80,897
Reinsurance	33,420	28,900	(12,572)	(11,133)	(4,520)	674	39,211
Total	147,602	126,677	(64,819)	(51,149)	(15,021)	(4,314)	120,108

4. Segmental analysis continued

Gross operating expenses are not the same as net operating expenses shown in the Profit and Loss Account, as reinsurance commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses.

The reinsurance balance represents the (charge) to the technical account from the aggregate of all items relating to reinsurance outwards.

The geographical analysis of premiums by reference to the situs of the risk is as follows:

	2014 £000	2013 £000
United Kingdom	**1,021**	2,928
European Union member states (excluding UK)	**8,172**	8,387
United States	**23,788**	10,559
Other	**108,168**	125,728
Total	**141,149**	147,602

5. Technical provisions

	Provision for unearned premiums £000	Claims outstanding £000	Total £000
Gross			
Balance brought forward	56,967	79,107	**136,074**
Exchange difference	-	2,565	**2,565**
Claims paid in the year	-	(60,455)	**(60,455)**
Movement in the year	4,762	74,529	**79,291**
Balance carried forward	61,729	95,746	**157,475**
Reinsurance			
Balance brought forward	3,515	12,450	**15,965**
Exchange difference	2	238	**240**
Reinsurance recoveries in the year	-	(7,007)	**(7,007)**
Movement in the year	3,823	5,908	**9,731**
Balance carried forward	7,340	11,589	**18,929**
Net technical provisions at 31 December 2014	**54,389**	**84,157**	**138,546**
Net technical provisions at 31 December 2013	**53,452**	**66,656**	**120,108**

6. Movement in prior year's provision for claims outstanding.

The movement in net provision for claims includes a release of £6.2m in respect of claims outstanding at the previous year end (2013 £3.5m).

This release is primarily in respect of favourable development of New Zealand and Japanese earthquake catastrophe losses.

7. Net operating expenses

	2014 £000	2013 £000
Acquisition costs	**28,340**	34,692
Change in deferred acquisition costs	**1,383**	(1,033)
Administrative expenses	**14,331**	10,769
Members' standard personal expenses	**3,328**	2,758
Net foreign exchange (gains) and losses	**(984)**	1,660
Total	**46,398**	48,846

8. Auditor's remuneration

	2014 £000	2013 £000
Audit of the Syndicate annual accounts	**10**	10
Other services pursuant to legislation including audit of regulatory returns	**177**	225
Total	**187**	235

9. Staff numbers and costs

All staff were employed by a Torus Group service company. The following amounts were recharged to the Syndicate in respect of salary costs:

	2014 £000	2013 £000
Wages and salaries	**9,135**	6,616
Social security costs	**1,117**	885
Other pension costs	**974**	771
Other	**1,388**	168
Total	**12,614**	8,440

9. Staff numbers and costs (continued)

The average number of employees employed by Torus Insurance Management Limited but working for the Syndicate during the year was as follows:

	2014	2013
Administration and finance	**17**	18
Underwriting	**21**	25
Claims	**3**	4
Total	**41**	47

10. Emoluments of the directors of the managing agent

The directors of Torus Underwriting Management Limited and the active underwriter received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2014 £000	2013 £000
Directors of Torus Underwriting Management Limited	**1,304**	1,333
Active underwriter	**245**	232
Total	**1,549**	1,565

11. Financial investments

	Market Value		Cost	
	2014 £000	2013 £000	2014 £000	2013 £000
Cash and other variable yield securities	**41,909**	28,943	**41,909**	28,943

12. Overseas deposits

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders in overseas markets and enable the Syndicate to operate in those markets. The access to those funds is restricted and the Syndicate cannot influence the investment strategy.

13. Reconciliation of members' balances

	2014 £000	2013 £000
Members' balances at 1 January	**(34,826)**	(29,487)
Profit/(Loss) for the financial year	**1,531**	(4,039)
Payments of deficit/(surplus) from/to members' personal reserve funds	**20,909**	(1,300)
Members' balances at 31 December	**(12,386)**	(34,826)

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

14. Movement in cash, opening and closing portfolio investments net of financing

	2014 £000	2013 £000
Net cash inflow for the year	**25,099**	519
Cash flow		
- (Decrease) in overseas deposits	**(1,150)**	(2,963)
- Increase in portfolio investments	**17,469**	10,236
Movement arising from cash flows	**41,418**	7,792
Changes in market value and exchange rates	**1,325**	(338)
Reclassification of investments	**(5,835)**	-
Total movement in portfolio investments net of financing	**36,908**	7,454
Portfolio at 1 January	**34,460**	27,006
Portfolio at 31 December	**71,368**	34,460

15. Movement in cash, portfolio investments and financing

	At 1 January 2014 £000	Cash flow £000	Reclassification of investments £000	Changes to market value and currencies £000	At 31 December 2014 £000
Cash at bank and in hand	520	25,099	-	(20)	**25,599**
Overseas deposits	4,997	(1,150)	-	13	**3,860**
Cash and other portfolio investments	28,943	17,469	(5,835)	1,332	**41,909**
Total cash, portfolio investments and financing	34,460	41,418	(5,835)	1,325	**71,368**

16. Net cash outflow on portfolio investments

	2014 £000	2013 £000
Purchase of shares and other variable yield securities	**(82,956)**	(64,362)
Sale of shares and other variable yield securities	**65,487**	54,126
Net cash inflow on portfolio investments	**(17,469)**	(10,236)

17. Related parties

Torus Insurance Holdings Limited, a company incorporated in Bermuda, is the immediate parent company. Enstar Group Limited, a company incorporated in Bermuda, is the ultimate parent company and ultimate controlling party. Copies of the consolidated financial statements of Enstar Group Limited can be obtained from The Secretary, Enstar Group Limited, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM JX Bermuda.

Torus Underwriting Limited is a corporate member within the Torus Group which owns capacity in various years of account of the Syndicate.

Torus Insurance Management Limited is a service company which employs all UK Torus Group staff including underwriters, claims and reinsurance staff.

The Syndicate has a cover holder agreement with Torus Insurance Management Limited who is an approved Lloyd's coverholder. Included in the gross written premiums of £141.1m are premiums of £36.1m which have been written under the terms of this contract. In total, 26% of the gross written premiums for the year related directly to this coverholder agreement.

The 2014 year end balance sheet has a pipeline debtor of £23.9m due from Torus Insurance Management Limited. The balance is not overdue.

Torus Underwriting Management Limited recharges the Syndicate for expenses incurred during the calendar year. The expenses recharged totalled £20.5m and at the year end the balance sheet has a creditor due of £4.0m.

In April 2013 Torus Underwriting Management Limited made a loan of £8m to the Syndicate to support short term liquidity requirements. Interest was payable at a rate of LIBOR + 2.5%. As at 31 December 2013 there was a £5.7m balance outstanding on the loan. In 2014 this amount was repaid in full.

In addition, the Syndicate has paid the following amounts in the year:

	2014 £m	2013 £m
Managing agency fees to Chaucer Syndicates Limited	-	0.4
Managing agency fees to Torus Underwriting Management Limited	**1.8**	1.2
Expenses recharged by Torus Group companies	**17.9**	11.9

17. Related parties (continued)

B Hurst-Bannister is a non-executive director of Price Forbes & Partners Ltd ("Price Forbes") and The Standard Club Limited. During the year the Syndicate wrote £3.4m of premiums placed by Price Forbes and paid commissions of £0.5m on this business. The Syndicate wrote £1.0m of premiums placed by The Standard Club and paid commissions of £0.2m on this business.

In October 2014, B Hurst-Bannister resigned as a non-executive director of a number of Xchanging subsidiary companies which provide insurance processing services to the Syndicate. He joined the Board of Charles Taylor plc in October 2014. B Hurst-Bannister is also a non-executive director of Talbot Underwriting Limited from which the Syndicate has received reinsurance recoveries amounting to £0.2m in the calendar year. All provisions of services are entered into on an arm's length basis.

The Syndicate is supported by Torus Underwriting Limited, Arig Capital Limited and Treimco Limited, who provided 78.89%, 10% and 11.11%, respectively, of its underwriting capacity for the 2014 underwriting year of account. (2013: Torus Underwriting Limited provided 82.5%, Arig Capital Limited 10%, Treimco Limited 7.5%).

During the year transactions have been entered into between the Syndicate and the managed Syndicate within Enstar Group companies (Atrium managed Syndicate 609). Any such related party transactions are entered into by the Syndicate on a commercial basis.