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**Axis Syndicate 1686**

**Annual Report and Accounts**  
**31 December 2014**

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## **Directors and Administration**

### **MANAGING AGENT:**

#### **Managing Agent**

Asta Managing Agency Ltd

#### **Directors**

T A Riddell (Chairman)\*

Y A Bouman

G M J Erulin\*

L Harfitt

A J Hubbard\*

D J G Hunt

D F C Murphy\*

S P A Norton

J W Ramage\*

J M Tighe

Non Executive Directors\*

#### **Company Secretary**

C Chow

#### **Managing Agent's registered office**

5th Floor

Camomile Court

23 Camomile Street

London

EC3A 7LL

#### **Managing Agent's registered number**

1918744

### **SYNDICATE:**

#### **Active Underwriter**

A M Robson

#### **Bankers**

Citibank N.A.

RBC Dexia

#### **Independent Auditor**

Deloitte LLP

London

## Active Underwriter's Report

AXIS Syndicate 1686 commenced underwriting for contracts incepting from 1st January, 2014 onwards, with AXIS as the sole capital provider. AXIS is very pleased to join the Lloyd's community and recognises the efforts made by numerous colleagues and Asta Managing Agency to bring the launch to a successful conclusion and fulfil our primary aim of establishing the Syndicate on a sound footing and becoming an engaged market participant.

During the first year, an existing portfolio of business written in other AXIS underwriting platforms was renewed in fixed proportions, varying by class, into the Syndicate, with a focus on specialist classes including marine, energy, aviation, terrorism, property, casualty and professional indemnity. Risk exposures on this existing portfolio are well understood by AXIS, who ensure appropriate mitigating measures are in place so that exposures are reduced to within acceptable levels, and meet Lloyd's guidelines and the Syndicate's business plan. Naturally we were also able to access some business which was either new to AXIS or to the market in general. During the year we were pleased to gain approval to write an additional line of business, namely Directors' and Officers' Liability.

Written premium was below plan, with the main reasons being challenging market conditions, the time taken in some cases for ceding companies to approve new syndicates' security and the timing of the Syndicate's approval versus the January renewal season. Our 2014 Stamp Gross Premium was \$133.7m (£87.9m), below our SBF plan of \$180.9m (£119.0m), but with all classes of business gaining traction. (The SBF rate of exchange was £1 = \$1.52).

The Syndicate produced a UK GAAP loss of \$22.0m (£13.4m). This in the main resulted from a shortfall in top-line income against plan coupled with the predominantly fixed cost of reinsurance programmes and operating expenses, as well as some loss activity, including from Hurricane Odile in Mexico.

We will continue to build the business in 2015 from both an underwriting and a resource standpoint.

A M Robson  
Active Underwriter  
13<sup>th</sup> March 2015

## Report of the Directors of the Managing Agent

The Directors of Asta Managing Agency Ltd ("Asta") present their report in respect of Syndicate 1686 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 ("the 2008 Regulations").

### Result

The result for calendar year 2014 is a loss of \$22.0m.

### Principal activity and review of the business

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

The Syndicate predominantly writes energy, property, marine, aviation and PI insurance primarily in the United Kingdom.

A review is included in the Active Underwriter's report.

Gross written premium income by class of business for the calendar year was as follows;

	2014 \$'000
Aviation	12,536
Aviation War	671
Energy Offshore	15,046
Renewable Energy Onshore	4,975
Excess Casualty	1,854
London MGA	7,496
Marine Hull	2,640
Marine Liability	4,613
Marine Cargo	17,531
Marine War	1,176
Property	20,301
Terrorism	6,824
UK PI	15,238
Renewable Energy Offshore	7,354
Offshore Energy Gulf of Mexico Wind	555
Offshore Energy Excluding Gulf of Mexico Wind	25,243
	<hr/> 144,053



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

The Syndicate's key financial performance indicators during the year were as follows:

	<b>2014 \$'000</b>
Gross written premiums	144,053
Loss for the financial year	(22,049)
Total recognised gains and losses relating to the financial period	(22,049)
Claims ratio	71.7%
Expenses ratio	88.4%
Combined ratio	160.1%

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of net operating expenses, including exchange differences, to earned premiums net of reinsurance.

Traditionally, the performance of the Syndicate has been assessed by measuring, as a percentage of underwriting capacity, the 36 month result on a funded accounting basis for a "closed" underwriting year of account.

Shown below is the forecast for the 2014 year of account (at balance sheet rates):

	<b>2014 YOA Open \$'000</b>
Capacity (\$'000)	185,378
Forecast result (\$'000)	(18,431)
Return on capacity (%)	(9.9%)

## Investment Policy

The investment objective is to invest the Premium Trust Funds to maximise return within agreed constraints and risk appetite whilst ensuring the liquidity needs of the Agency can be met.

## Principal Risks and Uncertainties

The Syndicate sets its risk appetite annually, which is approved by the Agency as part of the Syndicate's business planning and Solvency Capital Requirement ('SCR') process. The Agency's Risk Committee meets quarterly to oversee the risk management framework. The Syndicate Board reviews the risk profile and monitors performance against risk appetite using a series of key risk indicators. The principal risk and uncertainties facing the Syndicate are as follows:

## **Insurance Risk**

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business plan monthly through the year. Reserve adequacy is monitored through quarterly review by the Syndicate actuary. It is also reviewed by an independent firm of actuaries.

## **Credit Risk**

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Syndicate Board's policy is that the Syndicate will only reinsure with businesses rated in the A range or higher. The Agency has established a Reinsurance and Intermediaries Security Committee which assesses and is required to approve all new reinsurers and intermediaries before business is placed with them.

## **Market Risk**

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board, a sub-committee of the Asta Board.

Exposure to changes in interest rates comes from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high quality floating rate notes.

## **Liquidity Risk**

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the Syndicate Board reviews cash flow projections regularly.



## Operational Risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a director responsible for compliance who monitors regulatory developments and assesses the impact on agency policy.

## Group / Strategic

This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business.

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

## Solvency II

Solvency II implementation is due to go live on 01 January 2016. Syndicate progress is on track in order to meet the required deadlines.

Asta has made considerable investment in people and systems over recent years which has provided the Syndicate with a robust framework in order to manage Solvency II activity. Asta continues to deliver to the Lloyd's timetable and expects the Syndicate to be fully Solvency II compliant.

## Future Developments

The Syndicate will continue to transact the current classes of general direct insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The Financial Reporting Council has issued a suite of new accounting standards that replace existing UK GAAP from 1 January 2015. As part of this change the Syndicate will be adopting FRS 102 and FRS 103 and is well advanced in its preparations. The impact of the change from old to new UK GAAP is not expected to result in any significant changes to the underlying accounting for the Syndicate's results or financial position but it is recognised that the level and detail of disclosures required will change.

The capacity for the 2015 year of account is \$188.3m.

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

### Directors serving in the year

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

T A Riddell (Chairman)	
Y A Bouman	Appointed 04 July 2014
G M J Erulin	
L Harfitt	
A J Hubbard	Appointed 01 April 2014
D J G Hunt	
D F C Murphy	
S P A Norton	
J W Ramage	
J M Tighe	
H M Westcott	Resigned 30 April 2014

### Disclosure of Information to the Auditors

So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow Directors of the Agency and the Syndicate's auditors, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

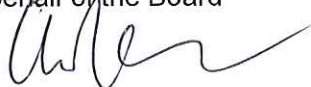
### Auditors

The Managing Agency intends to reappoint Deloitte LLP as the Syndicate's auditors.

### Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 25 April 2015.

On behalf of the Board



C Chow  
Company Secretary

13 March 2015

## Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and 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 the Syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). 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:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- 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 that 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 the 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 website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## **Independent auditors' report**

### **To the member of Syndicate 1686**

We have audited the Syndicate annual financial statements for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. 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 the 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual 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 (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the Syndicate annual 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 (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
13 March 2015



## Profit and loss account: Technical account – General business

for the year ended 31 December 2014

	Notes	2014 \$'000	\$'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	144,053	
Outward reinsurance premiums		<u>(53,337)</u>	
Net premiums written			90,716
Change in the provision for unearned premiums			
Gross amount		(79,045)	
Reinsurers' share		<u>25,040</u>	
Change in net provision for unearned premiums			(54,005)
<b>Earned premiums, net of reinsurance</b>			<u>36,711</u>
<b>Allocated investment return transferred from the non-technical account</b>			14
<b>Claims incurred, net of reinsurance</b>			
Claims paid - Gross amount		(1,268)	
- Reinsurers' share		<u>259</u>	
Net claims paid		<u>(1,009)</u>	
<b>Change in the provision for claims</b>			
Gross amount		(40,962)	
Reinsurers' share		<u>15,659</u>	
Change in net provision for claims		<u>(25,303)</u>	
<b>Claims incurred, net of reinsurance</b>	4		(26,312)
<b>Net operating expenses</b>	5		(32,462)
<b>Balance on the technical account</b>			<u>(22,049)</u>

All operations are continuing.

The notes on pages 16 to 24 form part of these financial statements.

## Profit and loss account: Non-technical account

for the year ended 31 December 2014

	Notes	2014 \$'000
Balance on the technical account – general business		(22,049)
Investment Income	7	14
Allocated investment return transferred to general business technical account		(14)
Loss for the financial year	9	<u>(22,049)</u>

All operations are continuing.

## Statement of total recognised gains and losses

for the year ended 31 December 2014

	Notes	2014 \$'000
Loss for the financial year		(22,049)
Total recognised gains and losses since last annual report		<u>(22,049)</u>

All operations are continuing.

The notes on pages 16 to 24 form part of these financial statements.

## Balance sheet – Assets

at 31 December 2014

	Notes	2014 \$'000	\$'000
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	8		31,098
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		25,040	
Claims outstanding		<u>15,712</u>	40,752
<b>Debtors</b>			
Due within one year			
Debtors arising out of direct insurance operations	10	21,706	
Debtors arising out of reinsurance operations	11	28,506	
Other debtors		<u>22</u>	50,234
Due after one year			
Debtors arising out of direct insurance operations	10	<u>122</u>	122
<b>Other Assets</b>			
Cash at bank and in hand	16	5,420	
Overseas deposits	16	<u>593</u>	6,013
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		11,283	
Other prepayments and accrued income		<u>1,716</u>	12,999
<b>TOTAL ASSETS</b>			<u><b>141,218</b></u>

The notes on pages 16 to 24 form part of these financial statements.

## Balance sheet – Liabilities

at 31 December 2014

	Notes	2014 \$'000	\$'000
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Members' balances	9		(22,049)
<b>Technical provisions</b>			
Provision for unearned premiums		79,045	
Claims outstanding		<u>40,561</u>	119,606
<b>Creditors</b>			
Due within one year			
Creditors arising out of direct insurance operations	12	381	
Creditors arising out of reinsurance operations	13	28,129	
Other creditors including taxation and social security		<u>11,666</u>	40,176
Due after one year			
Creditors arising out of direct insurance operations		<u>82</u>	82
Accruals and deferred income			3,403
<b>TOTAL LIABILITIES</b>			<u><b>141,218</b></u>

The notes on pages 16 to 24 form an integral part of these annual accounts.

The annual accounts on pages 11 to 24 were approved by the Board of Asta Managing Agency Ltd on 13 March 2015 and were signed on its behalf by



D J G Hunt  
Director  
13<sup>th</sup> March 2015

## Statement of cash flows

for the year ended 31 December 2014

	Notes	2014 \$'000
<b>Net cash inflow from operating activities</b>	14	37,111
Transfer to members in respect of underwriting participations		-
<b>Net cash outflow</b>	14	<u>37,111</u>
Cash flows were invested as follows:		
Increase in cash holdings	16	5,420
Increase in deposits	16	593
Net portfolio investment	16	31,098
<b>Net investment of cash flows</b>		<u>37,111</u>



## Notes to the Financial Statements

At 31 December 2014

### 1. Basis of Preparation

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 ("the ABI SORP").

### 2. Accounting Policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's annual accounts.

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

#### a. Premiums Written

Gross premiums written comprise premiums on contracts inceptioned during the financial year. 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, as well as adjustments made in the year to premiums written in prior accounting periods.

#### b. Unearned Premiums

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

#### c. Reinsurance Premium Ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

#### d. Claims Incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

## **2. Accounting Policies (Continued)**

### **e. Claims Provisions and Related Recoveries**

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

Accordingly, the two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

### **f. Unexpired Risks Provision**

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

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

### **g. Deferred Acquisition Costs**

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



## Notes to the Financial Statements

### 2. Accounting Policies (Continued)

#### h. Foreign Currencies

The functional and reporting currency of the Company is the United States Dollar (USD).

Monetary assets and liabilities denominated in foreign currencies have been translated at the prevailing rate of exchange ruling at the balance sheet date and revenues and costs are converted at the average exchange rates prevailing during the year. Profits and losses arising from foreign currency transactions and on settlement of accounts receivable and payable in foreign currencies are dealt with through the profit and loss account.

#### i. Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid-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 were traded on the balance sheet date or the last trading day before that date.

#### j. 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. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

#### k. 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 (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

#### l. Pension Costs

The Managing Agent operates a defined contribution scheme. Pension contributions in respect of syndicate staff are charged to the Syndicate and included within net operating expenses.

## Notes to the Financial Statements

### 2. Accounting Policies (Continued)

#### m. Profit Commission

Profit commission is charged by the Managing Agent at a rate of 5% of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months.

#### n. Syndicate Operating Expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used and volume of business transacted.

### 3. Segmental Analysis

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

	Gross written premium \$'000	Gross premium earned \$'000	Gross claims incurred \$'000	Gross operating expenses \$'000	Reinsurance balance \$'000	Total \$'000
<b>Direct Insurance:</b>						
Marine	2,593	1,200	(4,788)	(603)	502	(3,689)
Aviation	3,688	777	(234)	(394)	(237)	(88)
Transport	6,916	2,507	(995)	(1,468)	(656)	(612)
Energy-Marine	14,967	7,732	(4,128)	(3,836)	(2,288)	(2,520)
Energy-Non Marine	5,983	2,919	(1,953)	(1,153)	(815)	(1,002)
Fire and other damage to property	34,785	13,716	(4,438)	(7,311)	(3,875)	(1,908)
Third party liability	15,488	8,263	(6,860)	(4,090)	(387)	(3,074)
Pecuniary loss	15	2	(1)	(2)	(1)	(2)
	84,435	37,116	(23,397)	(18,857)	(7,757)	(12,895)
<b>Reinsurance</b>	59,618	27,892	(18,833)	(13,605)	(4,622)	(9,168)
	144,053	65,008	(42,230)	(32,462)	(12,379)	(22,063)

All Contracts were concluded in the UK.

### 4. Claims Outstanding

There are \$18.9m of notified gross claims outstanding at year end 2014.

## Notes to the Financial Statements

### 5. Net operating expenses

	2014 \$'000
Acquisition costs	20,928
Change in deferred acquisition costs	(11,283)
RI acquisition costs	(5,920)
Change in deferred RI acquisition costs	2,721
Administrative expenses	24,109
Loss on exchange	1,907
	<u>32,462</u>

Administrative expenses include:

	2014 \$'000
Audit fees	
Fees payable to the Syndicate's auditor for the audit of these financial statements	95
Non audit fees	
Other services pursuant to legislation	69
	<u>164</u>

### 6. Emoluments of the Directors of Asta Managing Agency Ltd

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of J. M. Tighe, S.P.A. Norton and D.J.G. Hunt. J.M. Tighe's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of S.P.A. Norton and D.J.G. Hunt is disclosed in the financial statements of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the active underwriter are borne by Axis UK Services, and are not separately identifiable from the fee charged by Axis to the Syndicate.

### 7. Investment Return

	2014 \$'000
Investment income	
Income from investments	14
	<u>14</u>



## Notes to the Financial Statements

### 8. Financial Investments

	2014	
	Market value \$'000	Cost \$'000
Shares and other variable securities and units in unit trusts	31,098	31,098
	<u>31,098</u>	<u>31,098</u>

All "shares and other variable yield securities and units in unit trusts" are listed. These comprise 100% of the total market value of investments.

### 9. Reconciliation of Member's Balances

	2014 \$'000
Year ended 31 December 2014	
Loss for the year	(22,049)
Net balance at 31 December	<u>(22,049)</u>

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

	2014 \$'000
Due within one year - intermediaries	21,706
Due after one year - intermediaries	122
	<u>21,828</u>

### 11. Debtors Arising out of Reinsurance Operations

	2014 \$'000
Due within one year - intermediaries	28,506
	<u>28,506</u>

## Notes to the Financial Statements

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

	2014 \$'000
Due within one year	
- intermediaries	381
Due after one year	
- intermediaries	82
	<u>463</u>

### 13. Creditors Arising out of Reinsurance Operations

	2014 \$'000
Due within one year	
- intermediaries	28,129
	<u>28,129</u>

### 14. Reconciliation of operating profit to net cash inflow from operating activities

	Notes	2014 \$'000
Operating profit on ordinary activities		(22,049)
Increase in net technical provisions		78,854
Increase in debtors		(63,355)
Increase in creditors		43,661
<b>Net cash inflow from operating activities</b>		<u><b>37,111</b></u>

### 15. Movement in Portfolio Investments Net of Financing

	2014 \$'000
Net cash inflow for the year	
Cash flow	5,420
Increase in portfolio investments	<u>31,691</u>
Movement arising from cash flows	37,111
Changes in market value and exchange rates	-
	<u>37,111</u>
Total movement in portfolio investments	-
Portfolio at 1 January	-
Portfolio at 31 December	<u>37,111</u>

## Notes to the Financial Statements

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

	At 1 January 2014 \$'000	Cash Flow \$'000	At 31 December 2014 \$'000
Cash at bank	-	5,420	5,420
<i>Portfolio investments:</i>			
Shares and other variable yield securities and units in unit trusts	-	31,098	31,098
Overseas deposits	-	593	593
Total portfolio investments	-	31,691	31,691
Total cash portfolio investments and financing	-	37,111	37,111

### 17. Cash flows invested in Portfolio Investments

	2014 \$'000
Purchase of shares and other variable yield securities and units in unit trusts	(31,098)
Purchase of overseas deposits	(593)
Net cash outflow on portfolio investments	(31,691)

### 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 member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on regulatory requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

## Notes to the Financial Statements

### 19. Disclosure of Interests

#### Managing Agent's interest

Asta is currently the Managing Agent for nine Lloyd's Syndicates. Syndicates 1686, 1729, 1897, 1910, 2357, 2525, 2526, 4242 and 6117 are managed on behalf of third party capital providers.

The agency also provides administrative services to syndicates and undertakes a number of ancillary roles for clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

### 20. Related Parties

Asta provides service and support to Syndicate 1686 in its capacity as Managing Agent. Managing agent's fees of \$1.7m and service charges of \$3.0m were recharged by Asta to the Syndicate during 2014. As at 31 December 2014 an amount of \$0.5m was owed to Asta in respect of services provided.

Axis group provides staff and insurance services to Syndicate 1686. The total charged during 2014 was \$20.9m, of which \$6.5m was outstanding at the end of the year.

Axis Specialty Limited has a 20% whole account quota share agreement with Syndicate 1686. The total credited to the profit and loss account during 2014 was \$5.3m, payments in the year amounted to \$2.8m.

From time to time, syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

Axis Specialty Limited also provides reinsurance protection via an internal Excess of Loss policy, the written value in the year was \$5.3m, of which \$2.1m was paid.

### 21. Post Balance Sheet Events

There have been no material post balance sheet events.