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Ariel Syndicate 1910

Annual Report and Accounts
31 December 2014

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Directors and Administration

MANAGING AGENT:

Managing Agent

Asta Managing Agency Limited

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

D Lednor

Bankers

Barclays plc

Citibank NA

Bank New York Mellon

RBC Dexia

External Investment Managers

Goldman Sachs Asset Management Inc

Statutory Auditors

PricewaterhouseCoopers LLP

Report of the Directors of the Managing Agent

The Directors of Asta Managing Agency Ltd ("Asta") present their report in respect of Syndicate 1910 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 profit of £51.5m (2013 profit: £64.0m).

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.

Income earned in respect of Corporate Member's Funds at Lloyd's, which had been placed in the syndicate, amounted to £1.7m (2013: £2.0m). The foreign exchange movement in the year was a loss of £0.1m.

Total Recognised Gains for calendar year 2014 is £53.1m.

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

	2014 £m	2013 £m
Property Catastrophe	122.3	128.0
Contingent Outage	15.6	14.3
Property Insurance	17.1	14.2
Marine and Energy	37.6	46.6
Space	0.5	0.6
Aviation	0.2	0.4
	<u>193.3</u>	<u>204.1</u>

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

	2014 £'000	2013 £'000
Gross written premiums	193,314	204,088
Profit for the financial year	53,219	66,064
Total recognised gains and losses relating to the financial period	53,074	58,956
Claims ratio	19%	13%
Expenses ratio	33%	45%
Combined ratio	52%	58%

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.

Report of the Directors of the Managing Agent

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.

The return on capacity for the 2012 closed year of account at 31 December 2014 is shown below together with forecasts for the two open years of account.

	2012 YOA Closed	2013 YOA Open	2014 YOA Open
Capacity (£'000)	255,000	255,080	232,083
Result/forecast (£'000)	71,442	55,086	32,885
Return on capacity (%)	28.02%	21.6%	14.2%

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 Syndicate can be met. Portfolios are invested in high-quality, short-term fixed income securities. Regular investment committee meetings and formal procedures are in place to monitor investments, their returns, and the economic outlook.

The return on Syndicate funds by currency is shown below:

	Currency	2014 '000	2013 '000
Average syndicate funds available	Combined Sterling	214,665	296,391
	Sterling	3,886	4,509
	Euro	5,017	5,709
	US Dollars	290,284	446,760
	Canadian Dollars	8,606	6,888
	Japanese Yen	457,302	590,744
	Australian Dollars	22,303	20,074
	NZ Dollars	3,053	-
Investment return for the year	Combined Sterling	2,417	1,848
	Sterling	4	5
	Euro	-	-
	US Dollars	3,168	2,589
	Canadian Dollars	85	46
	Japanese Yen	-	-
	Australian Dollars	593	470
	NZ Dollars	38	-
Calendar year investment return %	Combined Sterling	1.13%	0.62%
	Sterling	0.11%	0.11%
	Euro	-	-
	US Dollars	1.09%	0.58%
	Canadian Dollars	0.98%	0.67%
	Japanese Yen	-	-
	Australian Dollars	2.66%	2.34%
	NZ Dollars	1.25%	-

Returns are compared to benchmarks set as part of the investment guidelines. The Syndicate investment strategy is to preserve capital and minimise investment risk.

Financial Investments

Financial investments consist primarily of government and corporate debt securities. Investment guidelines do not allow the holding of equities or stock lending transactions. At 31 December 2014 the portfolio composition was as follows;

	2014 £'000	2013 £'000
Government debt	89,407	52,791
Corporate debt	-	67,142
Liquidity funds	61,715	65,323
	<u>151,122</u>	<u>185,256</u>

Principal Risks and Uncertainties

The Syndicate sets 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 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 approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers 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 Agency 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.

In addition, an Investment committee reporting to the Syndicate Board ensures that the Syndicate's investments are held in high quality instruments.

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 and support the Lloyd's internal model application in April 2015.

The Agency has made considerable investment in people and systems and 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.

Ariel and Asta established a Special Purpose Syndicate 6117, backed by individual names advised by the member's agent Hampden, which has written a 25% whole account quota share of the net premiums, claims and expenses of Syndicate 1910 2014 underwriting year.

With effect from 1st January 2015, Syndicate 6117 renewed the whole account quota share of Syndicate 1910 2015 underwriting year but with a reduced reinsurance cession of 20%.

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 Syndicate 1910 capacity for the 2015 underwriting year of account is £202.3m (2014 underwriting year of account: £232.0m).

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

Report of the Directors of the Managing Agent

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.

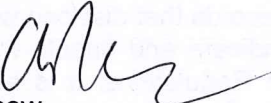
Auditors

The Managing Agent intends to reappoint PricewaterhouseCoopers 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
17 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 members of Syndicate 1910

Our Opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows 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

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss account for the year then ended;
- the statement of total recognised gains and losses for the year then ended;
- the cash flow statement; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on 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 for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

Independent Auditors' Report (Continued)

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nick Wilks

Nick Wilks (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2015

Profit and loss account: Technical account – General business

for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000	2013 £'000
Earned premiums, net of reinsurance				
Gross premiums written	3	193,314		204,088
Outward reinsurance premiums		<u>(93,912)</u>		<u>(55,233)</u>
Net premiums written			99,402	148,855
Change in the provision for unearned premiums				
Gross amount		(928)		4,455
Reinsurers' share		<u>7,810</u>		<u>(578)</u>
Change in net provision for unearned premiums			6,882	3,877
Earned premiums, net of reinsurance			<u>106,284</u>	<u>152,732</u>
Allocated investment return transferred from the non-technical account				
			463	(267)
Claims incurred, net of reinsurance				
Claims paid - Gross amount		(42,929)		(39,552)
- Reinsurers' share		<u>11,062</u>		<u>7,090</u>
Net claims paid		<u>(31,867)</u>		<u>(32,462)</u>
Change in the provision for claims				
Gross amount		(3,670)		17,135
Reinsurers' share		<u>15,719</u>		<u>(5,148)</u>
Change in net provision for claims		<u>12,049</u>		<u>11,987</u>
Claims incurred, net of reinsurance			(19,818)	(20,475)
Net operating expenses	5		(35,400)	(67,972)
Balance on the technical account			<u>51,529</u>	<u>64,018</u>

All operations are continuing.

The notes on pages 17 to 29 form part of these financial statements.

Profit and loss account: Non-technical account

for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Balance on the technical account – general business		51,529	64,018
Investment Income	7	2,359	4,322
Unrealised gains on investments		53	583
Investment expenses and charges	8	(249)	(3,076)
Unrealised losses on investments		(10)	(50)
Allocated investment return transferred to general business technical account		(463)	267
Profit for the financial year		<u>53,219</u>	<u>66,064</u>

Statement of total recognised gains and losses

for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Profit for the financial year		53,219	66,064
Foreign exchange movement on members' funds		(145)	(7,108)
Total recognised gains and losses since last annual report		<u>53,074</u>	<u>58,956</u>

All operations are continuing.

The notes on pages 17 to 29 form part of these financial statements.

Balance sheet – Assets

at 31 December 2014

	Notes	2014		2013	
		£'000	£'000	£'000	£'000
ASSETS					
Investments					
Other financial investments	9		151,122		185,256
Reinsurers' share of technical provisions					
Provision for unearned premiums		17,330		8,652	
Claims outstanding		<u>24,785</u>		<u>7,687</u>	
			42,115		16,339
Debtors					
Debtors arising out of direct insurance operations	11	2,616		4,676	
Debtors arising out of reinsurance operations	12	57,411		36,674	
Other debtors		<u>1,898</u>		<u>1,063</u>	
			61,925		42,413
Other Assets					
Cash at bank and in hand		20,091		45,447	
Overseas deposits	13	<u>6,187</u>		<u>10,786</u>	
			26,278		56,233
Prepayments and accrued income					
Deferred acquisition costs		8,299		8,014	
Other prepayments and accrued income		<u>19</u>		<u>7</u>	
			8,318		8,021
TOTAL ASSETS			<u>289,758</u>		<u>308,262</u>

The notes on pages 17 to 29 form part of these financial statements.

Balance sheet – Liabilities

at 31 December 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
LIABILITIES					
Capital and reserves					
Members' balances	14		99,543		162,605
Technical provisions					
Provision for unearned premiums		64,888		60,663	
Claims outstanding		<u>76,621</u>		<u>69,876</u>	
			141,509		130,539
Creditors					
Creditors arising out of direct insurance operations	15	6,881		447	
Creditors arising out of reinsurance operations	16	31,462		1,618	
Other creditors including taxation and social security		<u>5,589</u>		<u>5,422</u>	
			43,932		7,487
Accruals and deferred income			4,774		7,631
TOTAL LIABILITIES			<u>289,758</u>		<u>308,262</u>

The notes on pages 17 to 29 form an integral part of these annual financial statements.

The annual accounts on pages 12 to 29 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
17 March 2015

Statement of cash flows

for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Net cash inflow from operating activities	17	<u>44,665</u>	<u>66,481</u>
Transfer to members in respect of underwriting participations:			
Profit distributions	17		
Closed year		2,109	(8,773)
Open year profit release		<u>(36,145)</u>	<u>(23,313)</u>
		<u>(34,036)</u>	<u>(32,086)</u>
Financing:			
Release of funds at Lloyd's in syndicate		<u>(88,770)</u>	<u>(105,735)</u>
Net cash outflow	17	<u>(78,141)</u>	<u>(71,340)</u>
Cash flows were invested as follows:			
(Decrease)/Increase in cash holdings	18	(26,613)	11,268
(Decrease)/Increase in deposits	18	(4,530)	6,846
Decrease in portfolio investments	18	<u>(46,998)</u>	<u>(89,454)</u>
Net investment of cash flows		<u>(78,141)</u>	<u>(71,340)</u>

The notes on pages 17 to 29 form part of these financial statements.

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 inception 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.

2. Accounting Policies (Continued)

h. Foreign Currencies

Transactions in settlement currencies are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising on the retranslation of opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account for the year from the average rate to the closing balance sheet rate are taken to reserves and included in the Statement of Total Recognised Gains and Losses.

All other exchange differences are dealt with in the technical account and included within operating expenses.

The following rates of exchange have been used in the preparation of these accounts:

	2014		2013	
	Year End	Average	Year End	Average
USD	1.56	1.65	1.66	1.56
CAD	1.81	1.82	1.76	1.61
EUR	1.28	1.24	1.20	1.18
YEN	186.24	174.27	174.08	152.80
AUD	1.90	1.83	1.85	1.62
NZD	1.99	1.99	2.01	1.91

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.

2. Accounting Policies (Continued)

j. Investment Return (Continued)

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.

m. Profit Commission

Profit commission is charged by the Managing Agent based on the profit on a year of account basis. 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:

2014	Gross written premium £'000	Gross premium earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Fire and other damage to property	17,144	15,236	(4,043)	(2,719)	(3,337)	5,137
Pecuniary loss	15,617	18,031	(15,780)	(4,503)	(3,315)	(5,567)
	<u>32,761</u>	<u>33,267</u>	<u>(19,823)</u>	<u>(7,222)</u>	<u>(6,652)</u>	<u>(430)</u>
Reinsurance	160,553	159,119	(26,776)	(28,178)	(52,669)	51,496
TOTAL	<u>193,314</u>	<u>192,386</u>	<u>(46,599)</u>	<u>(35,400)</u>	<u>(59,321)</u>	<u>51,066</u>
2013	Gross written premium £'000	Gross premium earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Fire and other damage to property	14,232	13,634	(5,414)	(4,186)	(1,746)	2,288
Pecuniary loss	14,306	14,498	(2,607)	(5,981)	(4,245)	1,665
	<u>28,538</u>	<u>28,132</u>	<u>(8,021)</u>	<u>(10,167)</u>	<u>(5,991)</u>	<u>3,953</u>
Reinsurance	175,550	180,411	(14,396)	(57,805)	(47,878)	60,332
TOTAL	<u>204,088</u>	<u>208,543</u>	<u>(22,417)</u>	<u>(67,972)</u>	<u>(53,869)</u>	<u>64,285</u>

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

All contracts were concluded in the UK.

Gross operating expenses are different to net operating expenses shown in the profit and loss account by £5,286,000 (2013: £6,178,000), as commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses.

4. Claims Outstanding

The Syndicate has loss reserves for various events and for losses that are incurred but not reported (IBNR). Losses continue to develop, both positively and negatively on these open balances. Prior years have developed in line with expectation and there has not been any need for further reserve strengthening. Whilst the Syndicate has a reasonable degree of confidence as to the ultimate adequacy of its reserves for all events, volatility exists around the final settlement value, particularly in context of losses where policy holder and client statements are important.

Overall, on an aggregate basis, a reserve release of £1.3m (2013: strengthening £2.9m) net of reinsurance was made from prior year reserves.

5. Net Operating Expenses

	2014 £'000	2013 £'000
Acquisition costs	(20,661)	(46,068)
Change in deferred acquisition costs	5,080	(7,214)
Administrative expenses	(31,460)	(21,860)
Reinsurance commissions and profit participations	6,258	6,178
Profit on exchange	5,383	992
	<u>(35,400)</u>	<u>(67,972)</u>

Commission for direct insurance business for the year amounted to £3,780,268 (2013: £4,471,396)

Administrative expenses include:

	2014 £'000	2013 £'000
Auditor's remuneration		
- Audit services	(330)	(267)
- Other services	-	-
Members standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	<u>(2,874)</u>	<u>(4,119)</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 Ariel Re, and are not separately identifiable from the fee charged by Ariel Re to the Syndicate.

Notes to the Financial Statements

7. Investment Income

	2014 £'000	2013 £'000
Income from investments	1,271	4,322
Gains on the realisation of investments	1,088	-
	<u>2,359</u>	<u>4,322</u>

8. Investment Expenses

	2014 £'000	2013 £'000
Investment management expenses	(162)	(207)
Losses on realisation of investments	(87)	(2,869)
	<u>(249)</u>	<u>(3,076)</u>

9. Financial Investments

	2014 Market value £'000	2014 Cost £'000	2013 Market value £'000	2013 Cost £'000
Shares and other variable securities and units in unit trusts	61,715	61,715	65,323	65,323
Debt securities and other fixed income securities	89,407	89,352	119,933	118,729
	<u>151,122</u>	<u>151,067</u>	<u>185,256</u>	<u>184,052</u>

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

10. Reinsurance on Claims Outstanding

The year end assessment of the recoverability of the Syndicate's reinsurance assets has been taken into account in arriving at the provision for bad and doubtful debts. The Managing Agent considers the provision is fairly stated based on the current information available.

The table below shows a breakdown of the exposure to reinsurers by credit quality, net of provision for doubtful debts:

	2014 £'000	2013 £'000
A rated and/or fully collateralised	<u>24,785</u>	<u>7,687</u>

11. Debtors arising out of Direct Insurance Operations

	2014 £'000	2013 £'000
Due within one year – intermediaries	2,616	4,676
Due after one year - intermediaries	-	-
	<u>2,616</u>	<u>4,676</u>

12. Debtors arising out of Reinsurance Operations

	2014 £'000	2013 £'000
Due within one year – intermediaries	54,687	36,606
Due after one year - intermediaries	2,724	68
	<u>57,411</u>	<u>36,674</u>

The figures above are mainly estimates of future pipeline premium in respect of inwards written business.

13. Overseas Deposits

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The Syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories.

Overseas deposits are stated at cost or market value, as notified by Lloyd's.

Notes to the Financial Statements

14. Reconciliation of Member's Balances

	2014 £'000	2013 £'000
Retained profit		
Member's balance brought forward at 1 January	162,605	245,158
Profit for the year	51,529	64,018
Other recognised losses	(145)	(7,108)
At 31 December	<u>213,989</u>	<u>302,068</u>
Cash distributions	<u>(34,037)</u>	<u>(32,086)</u>
Net balance at 31 December	179,952	269,982
Release of funds at Lloyd's in Syndicate trust funds	(88,770)	(105,735)
Currency movement on brought forward funds at Lloyd's in syndicate	6,671	(3,687)
Other Movement in member's balance	<u>1,690</u>	<u>2,045</u>
Member's balance carried forward to 31 December	<u>99,543</u>	<u>162,605</u>

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.

15. Creditors arising out of Direct Insurance Operations

	2014 £'000	2013 £'000
Due within one year	<u>6,881</u>	<u>447</u>
	6,881	447

16. Creditors Arising Out of Reinsurance Operations

	2014 £'000	2013 £'000
Due within one year	9,461	1,618
Due after one year	<u>22,001</u>	<u>-</u>
	<u>31,462</u>	<u>1,618</u>

Notes to the Financial Statements

17. Reconciliation of Operating Profit to Net Cash (Outflow)/Inflow from Operating Activities

	2014 £'000	2013 £'000
Operating profit on ordinary activities	53,219	66,064
Realised and unrealised investments (gains)/losses and changes in exchange rates	(14,052)	10,538
Decrease in net technical provision	(14,806)	(18,119)
(Increase)/Decrease in debtors and prepayments	(19,809)	13,252
Increase in creditors and accruals	33,587	5,543
Differences on foreign currency net investment	6,526	(10,797)
Net cash inflow from operating activities	44,665	66,481
Distribution loss/(profit) - Closed year	2,109	(8,773)
Distribution (profit) - Open years	(36,145)	(23,313)
Release of funds at Lloyd's in Syndicate Trust Funds	(88,770)	(105,735)
Total outflow	<u>(78,141)</u>	<u>(71,340)</u>

18. Movement in Opening and Closing Portfolio Investments Net of Financing

	2014 £'000	2013 £'000
Net cash (outflow)/inflow for the year	(26,613)	11,268
Cash flow		
(Decrease)/Increase in deposits	(4,530)	6,846
Decrease in portfolio	(46,998)	(89,454)
Movement arising from cash flows	(78,141)	(71,340)
Changes in market value and exchange rates	14,052	(10,538)
Total movement in portfolio investments	<u>(64,089)</u>	<u>(81,878)</u>
Portfolio at 1 January	241,489	323,367
Portfolio at 31 December	<u>177,400</u>	<u>241,489</u>

Notes to the Financial Statements

19. Movement in Cash and Portfolio Investments

	At 1 January 2014 £'000	Cash Flow £'000	Changes to market value and currencies £'000	At 31 December 2014 £'000
Cash at banks	45,447	(26,613)	1,257	20,091
<i>Deposits:</i>				
Overseas deposits	10,786	(4,530)	(69)	6,187
Total deposits	10,786	(4,530)	(69)	6,187
<i>Portfolio investments:</i>				
Shares and other variable yield securities and units in unit trusts	65,323	(7,633)	4,025	61,715
Debt securities and other fixed income securities	119,933	(39,365)	8,839	89,407
Total portfolio investments	185,256	(46,998)	12,864	151,122
Total cash portfolio investments and financing	241,489	78,141	14,052	177,400

20. Net Cash Inflow on Portfolio Investments

	2014 £'000	2013 £'000
Purchase of shares and other variable yield securities and units in unit trusts	-	(43,684)
Purchase of debt securities and other fixed income securities	(121,977)	(268,216)
Sales of shares and other variable yield securities and units in unit trusts	7,634	-
Sale of debt securities and other fixed income securities	161,341	401,354
Net cash inflow on portfolio investments	46,998	89,454

21. Post Balance Sheet Events

During 2015, the following amounts are proposed to be transferred to the personal reserve fund of Ariel Corporate Member Ltd.

	2014 £'000	2013 £'000
2013 year of account	44,946	36,145

22. 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).

Related Parties

Syndicate 1910's dedicated capital provider is Ariel Corporate Member Limited. Ariel Corporate Member Limited (ACML), Ariel Re (Holdings) Limited (Ariel Holdings), ACRC Limited (ACRC) and Ariel Re Bda Limited (ARBL) shared the same ultimate parent, Global Atlantic Financial Group Limited (GAFG).

On 8 July 2014 GAFG and Ariel Holdings (collectively the Sellers) entered into a Stock Purchase Agreement with Banco BTG Pactual S.A. (BTG), a sociedade anônima organized under the Laws of Brazil, whereby BTG agreed to purchase, and the Sellers agreed to sell, all the direct and indirect subsidiaries of Ariel Holdings, including ACML (the BTG transaction). The BTG transaction closed on 2 February 2015 following the fulfilment of all closing conditions.

Global Atlantic Financial Group Limited participated in the Property & Casualty market via Ariel Holdings, a wholly owned subsidiary, based in Bermuda.

Ariel Holdings, through its subsidiaries, provided management services recharging £7.8m to the Syndicate; the total recharge to the Syndicate in 2014 was £37.6m (2013: £11.6m). At 31 December, £5.5m was due (2013: £5.1m).

The amount of premium written with ACRC in the period was £0.7m (2013: £1.8m). The amount of reinsurance purchased from ACRC was £3.6m (2013: £3.9m). At 31 December, the amount receivable was £nil (2013: £nil).

The amount of premium written under a Managing General Agency (MGA) agreement with ARBL in the period was £156.6m (2013: £136.1m). At 31 December, the amount receivable was £39.5m (2013: £39.6m).

MGA Profit Commission payable to ARBL at year end amounted to £nil (2013: £17.1m).

Ariel and Asta established a Special Purpose Syndicate 6117, backed by individual names advised by the member's agent Hampden, which has written a 25% whole account quota share of the net premiums, claims and expenses of Syndicate 1910 2014 Underwriting Year.

Notes to the Financial Statements

Related Parties (Continued)

The net amount of premium ceded with Syndicate 6117 under the whole account quota share was £33m, with overriding and profit commission earned coming to £1m. As this quota share reinsurance is placed on a funds withheld basis, the net amount due as at 31 December 2014 of £18.7m will not become payable until the 2014 underwriting year closes after 36 months, i.e. 31 December 2016.

23. Funds at Lloyd's

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

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

24. Funds in Syndicate

Ariel Corporate Member Limited (ACML), the 100% owner of the capital on Syndicate 1910, has agreed with Lloyd's to place some of its FAL with the Syndicate as funds in Syndicate ("FIS").

These annual accounts incorporate assets held and the investment return achieved on the FIS.

During 2014, the corporate member was able to release US\$138.25m (£88.77m) as it increased its FAL with the substitution of appropriate assets.

25. Derivatives

The Syndicate has not purchased any forward foreign currency contracts to hedge currency exposure.