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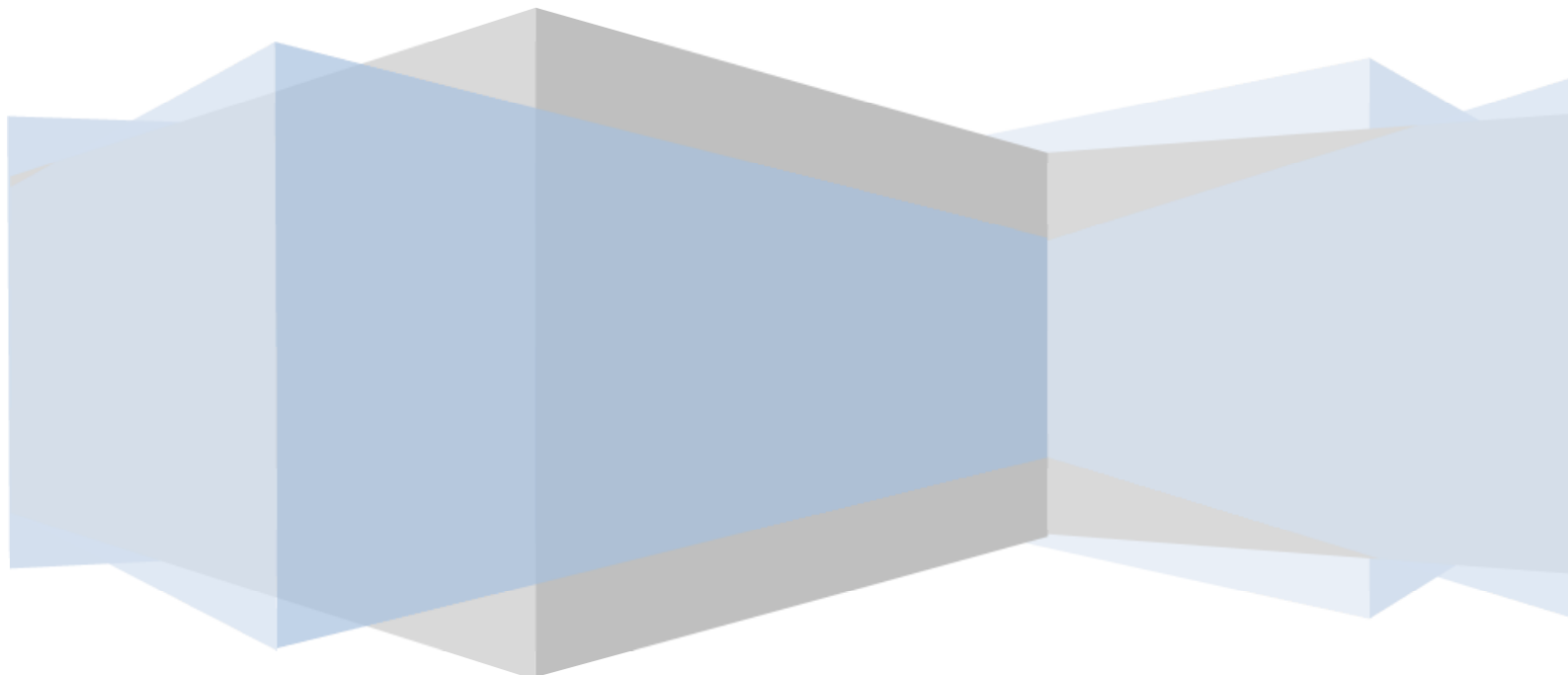
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# **Sirius International Managing Agency Ltd – Syndicate 1945 Report and Accounts**

31 December 2014





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## Directors and Administration

### MANAGING AGENT:

The directors named below held office for the period 1 January 2014 to 30 June 2014 while Asta Managing Agency Ltd (AMA) acted as the managing agency for the Syndicate.

T Riddell (Chairman)\*  
G Erulin\*  
L Harfitt  
A Hubbard (appointed 1 April 2014)  
D Hunt  
D Murphy\*  
S Norton  
J Ramage\*  
J Tighe  
H Westcott (resigned 30 April 2014)

\*Non- Executive Directors

### Company Secretary

C Chow

On July 1 2014 Sirius International Managing Agency Ltd (SIMA), was authorised by the UK Financial Conduct Authority, the Prudential Regulation Authority and Lloyd's as a managing agency and on that date, took over management of Syndicate 1945.

The parent company of SIMA is Sirius International Insurance Corporation, an international (re)insurer based in Sweden focused on property and other short-tail lines of business.

The directors of SIMA from July 1 and for the rest of 2014 were:

M Channell (Chief Operating Officer)  
C Cooper (Finance Director)  
M Dashfield (Chief Executive Officer)  
L Ek (Group Non-Executive)\*  
H Franks (Independent Non-Executive)\*  
R Harman (Chief Underwriting Officer and Active Underwriter)  
J Mantz (Independent Non-Executive and chair of the Audit Committee and Remuneration and Nomination Committee)\*  
A Smith (Chief Risk Officer)  
G Thorstensson (Chairman and Group Non-Executive)\*  
A Waters (Group Non-Executive)\*#  
H Westcott (Independent Non- Executive and chair of the Risk and Capital Committee)\*

\* Non- Executive Directors

# Resigned with effect from 31 March 2015



**Company Secretary**

Clyde Secretaries Ltd.  
The St Botolph Building, 138 Houndsditch, London EC3A 7AR

None of the Directors has any participation on the Syndicate.

**Managing Agent's registered office**

The St Botolph Building, 138 Houndsditch, London EC3A 7AR

**Managing Agent's registered number**

08536887

SYNDICATE:

**Active  
Underwriter**  
R Harman

**Bankers**  
Citibank NA  
RBC Dexia

**Investment Manager**  
Amundi (UK) Ltd

**Independent Auditors**  
PricewaterhouseCoopers LLP  
7 More London  
Riverside London  
SE1 2RT



## Chief Executive Officer's Report

2014 proved to be a significant year in the life story of syndicate 1945. Firstly, the Managing Agency of the syndicate changed on 1 July 2014 when the syndicate moved away from the turnkey AMA to SIMA. In addition, in 2014 calendar year the syndicate recorded its first profit of £4.6 million.

Net premium earned was £58.1 million compared to £52.5 million in calendar year 2013, claims incurred were £29.4 million (2013 £35.1 million) and operating expenses including acquisition costs were £24.3 million (2013 £21.3 million).

2014 was notable for its low level of catastrophe losses. Our portfolio also benefited from a subdued level of risk losses.

The portfolio is still dominated by our Accident and Health portfolio with Contingency, Yachts, Property Direct and Facultative, and Marine Excess of Loss business forming the balance. In addition, we joined two new consortiums in Lloyd's, being Terrorism and Bloodstock. Both these lines were new lines for the syndicate in 2014.

2014 was the first year that Robert Harman took over as the Active Underwriter of the syndicate. I must thank Robert along with our staff for their loyalty and professionalism, as well as thanking our brokers and customers. Finally, I would also like to thank our friends at AMA who successfully supported the syndicate in its first full three years of life.

**MJ Dashfield**  
Chief Executive Officer  
17 March 2015



## Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report in respect of syndicate 1945 for the year ended 31 December 2014.

This annual report is prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations" or "IAD").

### Results

The result for calendar year 2014 is a profit of £4,602k (2013: loss £3,907k), and the total recognised profit is £5,223k (2013: loss £4,080k).

### Principal activity of the business

The syndicate's principal activity is the underwriting of direct insurance and reinsurance business in the Lloyd's market.

### Review of the Business

The syndicate underwrote four lines of business in 2014: Accident and Health, Contingency, Property and Marine and participated in consortia underwriting Bloodstock and Terrorism business.

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Accident and health	37,568	36,523
Contingency	5,635	5,993
Property	13,115	7,381
Marine	10,308	8,839
	<u>66,626</u>	<u>58,736</u>

### Investment Policy

The investment objective is to continue to invest the Premium Trust Funds within the risk appetite whilst ensuring the liquidity needs of the syndicate can be met. The current risk appetite of the syndicate is one of preserving capital and reducing counter party exposure. To ensure that US Situs funds do not have an undue concentration with Citibank, the syndicate purchased additional US Treasury notes during the year. These holdings at year end had a market value of £11.8m (2013: £6.7m). The rest of the investment portfolio comprises Money Market Mutual Fund holdings with short term maturities.



## **Principal risks and uncertainties**

SIMA sets the risk appetite for the syndicate annually, which is approved by the Board as part of the syndicate's business planning and Solvency Capital Requirement ('SCR') process. The SIMA Risk and Capital Committee meets quarterly to oversee the risk management framework. This committee reviews the risk profile and monitors performance against risk appetite using a series of key risk indicators. The principal risks 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 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 Underwriting Committee then monitors performance against the business plan reinstate through the year. Reserve adequacy is monitored through quarterly review by the Reserve Committee. 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. The Board's policy is that the syndicate will normally only reinsure with businesses rated in the A range or higher. SIMA participates in the Sirius Group Security Committee which assesses and is required to approve all new reinsurers before business is placed with them. No reinsurance was purchased by the syndicate for the closed 2011 and 2012 years of account.

Reinsurance is used to manage insurance risk. This does not, however, discharge the syndicates' liability as primary insurer. If a reinsurer fails to pay a claim, the syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

### **Market Risk**

Market risk is the risk arising from uncertainty of asset prices, interest rates, foreign exchange rates, and other factors related to all financial markets and investment asset management.

The key aspect of market risk for the syndicate is that it may incur losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. SIMA'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 Board.

### **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 Board reviews cash flow projections regularly and the investment portfolio is held in cash and readily realisable securities.





### **Operational Risk**

This is the risk that errors caused by people, processes, systems and external events lead to losses to the syndicate. SIMA 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.

SIMA relies on the processes of Xchanging, and therefore considers the controls in place at Xchanging as part of its control environment.

### **Regulatory Risk**

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. SIMA is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulation 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. SIMA monitors regulatory developments and assesses the impact on agency policy.

### **Solvency II**

SII will be implemented from 1 January 2016, with the passing of the Omnibus II Directive by the European Parliament in 2014. During 2014 SIMA made significant progress in developing processes and systems to meet the full SII tests and standards and are well positioned for full compliance by the end of 2015.

During 2014, SIMA has benefited from participation in the Lloyd's SII programme and the use of the internal model for Lloyd's capital setting has been a strong driver for the embedding of the model into business as usual. SIMA's programme to prepare for SII will remain in place during 2015.

### **Future Developments**

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

Whilst the syndicate has not written to planned levels, the results to date have been in line with revised expectations. The current rating environment still provides opportunities for growth, either organically or by adding new strategies. The capacity for the 2015 year of account is £105 million.

### **Directors Serving in the Year**

At Asta Managing Agency Ltd. (Managing Agent to 30 June 2014):

T Riddell (Chairman)\*  
G Erulin\*  
L Harfitt  
A Hubbard (appointed 1 April 2014)  
D Hunt  
D Murphy\*  
S Norton  
J Ramage\*  
J Tighe  
H Westcott (resigned 30 April 2014)

At Sirius International Managing Agency Ltd. (Managing Agent from 1 July 2014):

M Channell (Chief Operating Officer)



C Cooper (Finance Director)  
M Dashfield (Chief Executive Officer)  
L Ek (Group Non-Executive)\*  
H Franks (Independent Non-Executive)\*  
R Harman (Chief Underwriting Officer and Active Underwriter)  
J Mantz (Independent Non-Executive and chair of the Audit Committee and Remuneration and Nomination Committee)\*  
A Smith (Chief Risk Officer)  
G Thorstensson (Chairman and Group Non-Executive)\*  
A Waters (Group Non-Executive)\*#  
H Westcott (Independent Non- Executive and chair of the Risk and Capital Committee)\*

\* Non- Executive Directors

# Resigned with effect of 31 March 2015

#### **Statement of disclosure of information to auditors**

Each of the persons who are a director of the Managing Agent at the date of this report confirms that:

1. So far as each of them is aware, there is no information relevant to the audit of the syndicate's annual accounts for the year ended 31 December 2014 of which the auditors are unaware; and
2. The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

#### **Auditors**

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) require that the auditor of the syndicate annual accounts for the 2014 year end be appointed by the member of the syndicate.

The member proposes that PricewaterhouseCoopers LLP be reappointed as the recognised auditor for the syndicate for the 2015 year end.



### **Statement of Managing Agent's responsibilities**

The directors of the Managing Agent are responsible for preparing the Managing Agent's Report and the annual accounts in accordance with applicable law and regulations.

The IAD requires the Managing Agent to prepare annual accounts for each financial year. Under that law the directors are required to prepare the Syndicate annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The IAD requires that the directors must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the basis that the syndicate will continue to write business unless it is inappropriate to presume that the syndicate will do so.

The directors of the Managing Agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The directors of the Managing Agent are responsible for keeping proper accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the annual accounts comply with the IAD. They are 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.

On behalf of the Board

MJ Dashfield  
Chief Executive Officer  
17 March 2015

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1945**

## **Report on the syndicate annual accounts**

### **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 statement of cash flows;
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and 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 9, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

### **Independent auditors' report to the Member of Syndicate 1945**

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.

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 Report 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 (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
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	66,626	58,736
Outward reinsurance premiums		(3,313)	(3,085)
Net premiums written		<u>63,313</u>	<u>55,651</u>
Change in the provision for unearned premiums:			
Gross amount		(5,232)	(4,347)
Reinsurers' share		36	1,161
Change in the net provision for unearned premiums		<u>(5,196)</u>	<u>(3,186)</u>
<b>Earned premiums, net of reinsurance</b>		<b>58,117</b>	<b>52,465</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>144</b>	<b>63</b>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(23,241)	(22,006)
Reinsurers' share		463	80
Net claims paid		<u>(22,778)</u>	<u>(21,926)</u>
Change in the provision for claims			
Gross amount		(7,051)	(13,592)
Reinsurers' share		452	379
Change in the net provision of claims		<u>(6,599)</u>	<u>(13,213)</u>
Claims incurred, net of reinsurance		(29,377)	(35,139)
Net operating expenses	5	(24,282)	(21,296)
<b>Total technical charges</b>		<b><u>(53,659)</u></b>	<b><u>(56,435)</u></b>
<b>Balance of the technical account for general business</b>		<b><u>4,602</u></b>	<b><u>(3,907)</u></b>

All the amounts above are in respect of continuing operations.



## Profit and loss account: Non-technical account

For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Balance on the general business technical account		4,602	(3,907)
Investment income	7	173	68
Net losses on investments		(25)	(3)
Investment expenses and charges	7	(4)	(2)
Allocated investment return transferred to general business technical account		(144)	(63)
<b>Profit/(Loss) for the financial year</b>		<b>4,602</b>	<b>(3,907)</b>

## Statement of total recognised gains and losses

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Profit/(Loss) for the financial year	4,602	(3,907)
Currency translation difference on foreign currency net investment	621	(173)
<b>Total recognised profit/ (loss) relating to the financial year</b>	<b>5,223</b>	<b>(4,080)</b>

There is no difference between the results disclosed in the profit and loss account and the historical cost profits and losses.



## Balance sheet — Assets

At 31 December 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
<b>Investments</b>					
Financial investments	8		32,004		20,716
<b>Reinsurers's share of technical provisions</b>					
Provision for unearned premiums		1,201		1,120	
Claims outstanding		<u>853</u>		<u>369</u>	
			2,054		1,489
<b>Debtors</b>					
Debtors arising out of direct insurance operations	9	8,710		2,411	
Debtors arising out of reinsurance operations	10	9,998		6,222	
Other debtors		<u>2,090</u>		<u>1,073</u>	
			20,798		9,706
<b>Other assets</b>					
Cash at bank and in hand		2,395		1,179	
Overseas deposits		<u>3,291</u>		<u>1,922</u>	
			5,686		3,101
<b>Prepayments and accrued income</b>					
Deferred acquisition costs		7,422		6,465	
Other prepayments and accrued income		<u>6</u>		<u>23</u>	
			7,428		6,488
<b>Total Assets</b>			<b><u>67,970</u></b>		<b><u>41,500</u></b>





## Balance sheet — Liabilities

At 31 December 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Member's balances	12		(4,058)		(11,625)
<b>Technical provisions</b>					
Provision for unearned premiums		25,696		19,738	
Claims outstanding	4	33,525		25,444	
			59,221		45,182
<b>Creditors</b>					
Creditors arising out of direct insurance operations	13	467		104	
Creditors arising out of reinsurance operations	14	3,376		1,235	
Other creditors including taxation and social security		3,504		3,238	
			7,347		4,577
<b>Accruals and deferred income</b>			5,460		3,366
<b>Total liabilities</b>			<b>67,970</b>		<b>41,500</b>

The notes on pages 17 to 28 form an integral part of these annual accounts.

The annual accounts on pages 12 to 28 were approved by the Board of Sirius International Managing Agency Ltd on 17 March 2015 and were signed on its behalf by

MJ Dashfield  
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	15	12,356	11,277
Loss collection on 2012 closed year of account		2,344	-
<b>Net cash inflow</b>		<b>14,700</b>	<b>11,277</b>

	Notes	2014 £'000	2013 £'000
<b>Cash flows were invested as follows:</b>			
Increase/(Decrease) in cash holdings	16	1,268	(1,046)
Increase in deposits	16	1,398	1,450
Increase in portfolio investments	16	12,034	10,873
<b>Net investment of cash flows</b>		<b>14,700</b>	<b>11,277</b>



## Notes to the accounts at 31 December 2014

### 1. Basis of preparation

These financial statements have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom and comply with the Statement Of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers.

### 2. Accounting policies

#### Basis of accounting

The financial statements have been prepared on a going concern and 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:

#### Gross Premiums written

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. Premiums include estimates for pipeline premiums, representing amounts due to the Syndicate but not yet received or notified.

#### Unearned premiums

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

#### Reinsurance Premium Ceded

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

#### Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is an aggregate of estimates made on an individual case basis and the estimated ultimate cost of these case reserves not settled as at the balance sheet date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date. This is calculated through statistical methods. These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having written the business previously under the London branch of Sirius International Insurance Corporation.

Where a high degree of volatility arises from projections, estimates may be based in part on output from rating models and assessments of underwriting conditions.



### **Claims provisions and related recoveries (continued)**

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future 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 reinsurers' share of provisions for claims is based on the 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. A number of statistical methods are used to assist in making these estimates.

The directors consider that the provision for gross claims and related recoveries is 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 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 annual accounts for the year in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

### **Unexpired risks provision**

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial year 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 by reference to classes of business which are managed together, after taking into account relevant investment return.

### **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.

### **Foreign currencies**

Income and expenditure in US Dollars, Canadian Dollars, Euros, Australian Dollars and Japanese Yen are translated at the average rates of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

The syndicate translates monetary assets and liabilities denominated in foreign currencies 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.

### **Investments**

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



## 2. Accounting policies (continued)

### 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 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 purchase price.

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.

### Operating expenses

Where expenses are incurred by or on behalf of the managing agent for the administration of the managed syndicate, these expenses are apportioned using varying methods depending in the type of expense. Expenses which are incurred jointly by the managing agent and the syndicate are apportioned between the two entities depending on the amount of work performed, resources used and the volume of business transacted.

### 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' 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 United States Federal Income Tax payable on underwriting results or investment earnings. 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.

### Pension costs

SIMA does not employ any staff directly, and does not operate a pension scheme. No pension contributions are charged directly to the syndicate.

### Profit commission

The AMA agreement, included provision for a profit commission at 7.5% of the profit on a year of account basis and this was not subject to a deficit clause. This profit commission is charged to the syndicate as incurred but does not become payable until after the year of account closes, normally a period of 36 months. The SIMA managing agency agreement does not include provision for any profit commission.



### 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>2014 Direct insurance:</b>						
Accident and Health	11,576	11,442	(10,359)	(5,275)	-	(4,192)
Marine	1,275	1,070	(1,205)	(409)	(9)	(553)
Fire and other damage to property	9,884	7,291	(4,416)	(3,103)	(888)	(1,116)
Pecuniary loss	5,546	6,017	(1,859)	(1,780)	(954)	1,424
	28,281	25,820	(17,839)	(10,567)	(1,851)	(4,437)
Reinsurance	38,345	35,574	(12,453)	(13,715)	(511)	8,895
	66,626	61,394	(30,292)	(24,282)	(2,362)	4,458

	Gross written premium £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
<b>2013 Direct insurance:</b>						
Accident and Health	17,910	17,537	(13,535)	(6,877)	-	(2,875)
Marine	1,044	364	(244)	(276)	(39)	(195)
Fire and other damage to property	4,847	2,324	(1,345)	(1,398)	(230)	(649)
Pecuniary loss	5,539	4,933	(2,226)	(2,060)	158	805
	29,340	25,158	(17,350)	(10,611)	(111)	(2,914)
Reinsurance	29,396	29,231	(18,248)	(10,928)	(1,111)	(1,056)
	58,736	54,389	(35,598)	(21,539)	(1,222)	(3,970)

All business has been underwritten in the United Kingdom.

Included within the reinsurance balance are commissions in respect of outward reinsurance of £690k (2013: £243k).



#### 4. Claims Outstanding

The syndicate has loss reserves for various events and for losses that are incurred but not reported (IBNR). 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 cedant statements are material. As a result of favourable experience during 2014, there has been a release of £4.7m of prior year reserves.

#### 5. Net operating expenses

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	(17,918)	(16,272)
Change in deferred acquisition costs	937	1,415
Administrative expenses	(7,377)	(7,049)
(Loss)/profit on exchange	(614)	366
Reinsurers' commissions and profit participations	690	244
	<u>(24,282)</u>	<u>(21,296)</u>

Commissions for direct insurance business for the year amounted to £6,535k (2013: £6,994k).

Administrative expenses include:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Auditors; remuneration		
Audit services	(158)	(130)
Other services	(61)	(52)
	<u>(219)</u>	<u>(182)</u>

#### 6. Emoluments of the Directors of the Managing Agent

The aggregate emoluments of the directors of Asta Managing Agency Ltd (AMA) for the period 1 January 2014 to 30 June 2014 will be disclosed within the financial statements Asta's group companies for 2014. No emoluments of any of the directors of AMA were directly charged to the syndicate in 2014.

The emoluments of the active underwriter and other directors are borne by Sirius International Insurance Corporation (PUBL) or other members of the White Mountains Insurance Group (Sirius), and are not separately identifiable from the fee charged by Sirius to the syndicate. Fees to the independent non-executive directors are borne by SIMA, and no emoluments were directly charged to the syndicate in 2014.



## 7. Investment return

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Investment income</b>		
Income from investments	173	68
Gains on the realisation of investments	<u>16</u>	<u>-</u>
	<u>189</u>	<u>68</u>
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Investment expenses</b>		
Investment management expenses	(4)	(2)
Losses on the realisation of investments	<u>(42)</u>	<u>(3)</u>
	<u>(46)</u>	<u>(5)</u>





## 8. Other Financial Investments

	2014		2013	
	Market value £'000	Cost £'000	Market value £'000	Cost £'000
Debt securities and other fixed income securities	11,762	11,771	6,656	6,658
Shares and other variable yield securities and units in unit trusts	20,242	20,242	14,060	14,060
	<u>32,004</u>	<u>32,013</u>	<u>20,716</u>	<u>20,718</u>

All "Shares and other variable yield securities and units in unit trusts" are unlisted.

## 9. Debtors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due within one year - intermediaries	<u>8,710</u>	<u>2,411</u>
	8,710	2,411

## 10. Debtors arising out of reinsurance operations

	2014 £'000	2013 £'000
Due within one year - intermediaries	<u>9,998</u>	<u>6,222</u>
	9,998	6,222

## 11. 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.



## 12. Reconciliation of Member's Balances

	<b>Total 2014 £'000</b>	<b>Total 2013 £'000</b>
Year ended 31 December		
Retained loss at 1 January	(11,625)	(7,545)
Profit/(loss) for the year	4,602	(3,907)
Other recognised gains/(losses)	621	(173)
At 31 December	<u>(6,402)</u>	<u>(11,625)</u>
Loss Collection on 2011 closed year of account	2,344	-
Net balance at 31 December	<u>(4,058)</u>	<u>(11,625)</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.

## 13. Creditors arising out of direct insurance operations

	<b>2014 £'000</b>	<b>2013 £'000</b>
Due within one year	453	104
Due after one year	14	-
	<u>467</u>	<u>104</u>

## 14. Creditors arising out of reinsurance operations

	<b>2014 £'000</b>	<b>2013 £'000</b>
Due within one year	3,376	1,235
	<u>3,376</u>	<u>1,235</u>



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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit/ (loss) on ordinary activities	4,602	(3,907)
Realised /unrealised investments losses and changes in exchange rates	827	234
Increase in net technical provision	13,473	14,700
(Increase)/decrease in debtors and prepayments	(12,223)	465
Increase/(decrease) in creditors and accruals	5,056	(42)
Differences on foreign currency net investment	621	(173)
Net cash inflow from operating activities	<u>12,356</u>	<u>11,277</u>

**16. Movement in portfolio investments net of financing**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Net cash inflow/(outflow) for the year	1,268	(1,046)
Cash flow		
Increase in overseas deposits	1,398	1,450
Increase in portfolio investments	<u>12,034</u>	<u>10,873</u>
Movement arising from cash flows	14,700	11,277
Changes in market value and exchange rates	<u>(827)</u>	<u>(234)</u>
Total movement in portfolio investments	13,873	11,043
Portfolio at 1 January	23,817	12,774
Portfolio at 31 December	<u>37,690</u>	<u>23,817</u>



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

	At 1 January 2014	Cash Flow	Changes to market value and currencies	At 31 December 2014
	£'000	£'000	£'000	£'000
Cash at bank	1,179	1,268	(52)	2,395
<i>Deposits:</i>				
Overseas deposits	1,922	1,398	(29)	3,291
<i>Portfolio investments:</i>				
Shares and other variable yield securities and units in unit trusts	14,060	5,921	261	20,242
Debt securities and other fixed income securities	6,656	6,113	(1,007)	11,762
Total portfolio investments	20,716	12,034	(746)	32,004
Total cash portfolio investments and financing	23,817	14,700	(827)	37,690

## 18. Cash flows invested in Portfolio Investments

	2014 £'000	2013 £'000
Purchase of shares and other variable yield securities and units in unit trusts	5,921	6,634
Purchase of debt securities and other fixed income securities	15,634	4,239
Sales of shares and other variable yield securities and units in unit trusts	-	-
Sales of debt securities and other fixed income securities	(9,521)	-
Net cash (outflow)/ inflow on portfolio	12,034	10,873

## 19. Funds at Lloyd's

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



The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and 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 members' FAL to meet liquidity requirements or to settle losses.

## **20. Disclosure of Interests**

SIMA took over as the managing agent of syndicate 1945 on 1 July 2014. SIMA does not act as managing agent for any other Lloyd's syndicates.

The financial statements of SIMA can be obtained by application to company's registered office listed on page 3.

## **21. Related Parties**

Asta Managing Agency Ltd (AMA) was the managing agency of the syndicate from 1 January 2014 to 30 June 2014. SIMA became the managing agency of the syndicate from 1 July 2014.

AMA 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.

For the period to 30 June 2014, managing agent fees of £494k and service charges of £790k were paid to AMA. Additionally, as disclosed in Note 22 below, a profit commission became payable to AMA during 2014 in respect of its role as managing agent on the 2012 year of account.

AMA continues to provide certain services to the syndicate following SIMA becoming the managing agent to the syndicate, but AMA is no longer a related party.

For the period from July 2014, managing agent fees of £987k were paid to SIMA. No service charges were paid to SIMA in the period.

Sirius International Insurance Corporation (SINT), the parent company of both SIMA and White Mountains Re Sirius Capital Ltd, provided management services to the syndicate in 2014, the amount recharged was £6,620k of which £4,820k was outstanding at the end of the year. In addition, expenses of £379k were paid by SINT on behalf of the syndicate and recovered. Syndicate 1945 is also accounted for through the Sirius VAT group, and VAT of £9k was recovered on behalf of the syndicate during the year.

The £10m drawdown facility provided to the syndicate by SINT remains in place. The syndicate made no further drawdowns or repayments of this facility in 2014, and the amount owed remains at £3,000k, with a further £7,000k available to the syndicate if required. Interest on the drawn balance in 2014 amounted to £108k.

The sole capital provider for the syndicate is White Mountains Re Sirius Capital Ltd, a wholly owned subsidiary of Sirius International Insurance Corporation and part of The White Mountains Insurance Group.

The ultimate parent company is White Mountains Insurance Group Ltd (WTM) a financial services holding company incorporated in Bermuda with primary business interests in Property and Casualty insurance and reinsurance. There have been no direct transactions between WTM and syndicate 1945.

Sirius America, a wholly-owned subsidiary of the White Mountains Group cedes business to syndicate 1945. During 2014, premium ceded amounted to £5,428k with related brokerage and commissions of £1,571k and claims incurred of £3,883k.



Sirius International Insurance Corporation, a wholly-owned subsidiary of the White Mountains Group, reinsures syndicate 1945. During 2014, premiums under these reinsurance contracts amounted to £1,296k and claims recoverable were £166k.

MJ Dashfield and CM Cooper, who are directors of SIMA are also respectively Chairman and a director of Passage2Health Ltd (P2H) for which Syndicate 1945 provides underwriting capacity. Sirius International, the parent company of both SIMA and the sole capital provider to Syndicate 1945 owns 100% of P2H. During 2014, P2H ceased accepting new business, and a premium accrual of £7k brought forward was reversed. The associated commissions amounted to £2k, and were also reversed.

**22. Post Balance Sheet Events**

There are no material post balance sheet events.