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HISCOX

Hiscox Syndicate 3624

Report and Accounts 2014

Contents

Directors and administration
Hiscox Syndicate 3624

Managing agent:

Managing agent
Hiscox Syndicates Limited (HSL) is the managing agent of aligned Syndicate 3624, composite Syndicate 33, and Special Purpose Syndicate 6104. HSL is an indirectly wholly-owned subsidiary of Hiscox Ltd.

Directors
R S Childs (Non Executive Chairman)
S J Bridges (Non Executive)
C J Foulger (Non Executive)
J S Jones
H C V Keeling (Non Executive)
M C S Krefta
P A Lawrence
I J Martin
B E Masojada
J Pinchin
N B Tyler
R C Watson
I T Webb-Wilson (Non Executive)

Company secretary
J K Taylor

Managing agent's registered office
1 Great St Helen's
London
EC3A 6HX

Managing agent's registered number
02590623

Syndicate:

Active underwriter
R C Watson

Bankers
Lloyds Bank plc
Citibank

Investment manager
Payden and Rygel Global Ltd

Registered auditors
KPMG Audit Plc

Report of the Directors of the managing agent
Hiscox Syndicate 3624 annual accounts

The Directors of the managing agent present their report for Syndicate 3624 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').

Results
The result for Syndicate 3624 in calendar year 2014 is a loss of £7.0m (2013: loss of £0.2m). The Syndicate's key financial performance indicators during the year were as follows:

	2014 £m	2013 £m	% change
Gross premiums written	**324.4**	305.6	6%
Gross premiums earned	**279.8**	245.6	14%
Net premiums earned	**227.5**	212.9	7%
Total recognised loss for the year	**(7.0)**	(0.2)	2,849%
Claims ratio	**60%**	61%	-1%
Commission ratio	**38%**	34%	4%
Expense ratio	**5%**	6%	-1%
Combined ratio	**103%**	101%	2%

In calculating the claims and expense ratios, foreign exchange gains and losses are allocated to the claims ratio.

Principal activity
The principal activity of Syndicate 3624 is the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. Syndicate 3624 trades through the Lloyd's worldwide licences and rating. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very strong) rating from Fitch. The geographical and currency split of its business is shown below:

2014 geographical split of gross premiums written (%)	
UK	**2%**
Europe	**12%**
North America	**34%**
Asia	**6%**
Rest of the world	**46%**

2014 gross premiums written settlement currency (%)	
GBP	**12%**
EUR	**6%**
USD	**80%**
CAD	**2%**

Review of the business

Syndicate 3624 was established as an aligned corporate syndicate for the 2009 year of account. In its first year all of the Syndicate's business was generated through Hiscox owned distribution channels, in particular Hiscox Inc., the Group's service company in the US. In subsequent years a number of additional lines of business were added to the portfolio, some of which were sourced through Hiscox owned service companies and some through normal London Market broking channels. From the period 2009 to 2014 inclusive gross premiums written increased from £76m to £324m.

The principal classes of business written by the Syndicate include:

Auto fire, theft and collision (£79m gross premiums written in 2014)

This account focuses on FTC (fire, theft and collision) business sourced through the White Oak Underwriting Agency Limited in which Hiscox has a 10% shareholding and the Active Underwriter of the Syndicate, Richard Watson, is a Director. The account has a focus on agricultural and forestry equipment.

Auto extended warranty (£49m in 2014)

This account is also sourced through the White Oak Underwriting Agency Limited. The account is written on a worldwide basis with significant exposure from exclusive arrangements with manufacturers selling into China.

Aviation (£22m in 2014)

A London Market aviation account including exposure to airlines, products, airports and general aviation.

International errors and omissions and directors and officers' (£25m in 2014)

This account focuses on smaller premium E&O and D&O policies written through the local offices of the Dual managing general agency.

Hiscox US liability classes (£64m in 2014)

This account is written through Hiscox Inc., Hiscox US's service company. The Syndicate pays a commission to Hiscox Inc. to source smaller premium E&O and D&O business from the Hiscox offices on the ground in the US.

Hiscox US property classes (£25m in 2014)

This account, sourced through Hiscox Inc., includes commercial property business written through wholesale brokers in the US and a construction account.

Healthcare (£21m in 2014)

This account provides a range of insurance and reinsurance products for hospitals, allied health organisations and physician groups and is written by a team in Bermuda through Hiscox Agency Ltd (HAL), Hiscox's Bermudan service company.

Technology, media and telecoms (£28m in 2014)

This account provides liability insurance for clients from the technology and media industries and is sourced the Hiscox owned service companies in the UK, Europe and US.

Other smaller accounts (£11m in 2014)

This includes insurance for event cancellation and pilot's loss of licence.

Year of account	Capacity £m
2009	80
2010	150
2011	250
2012	250
2013	250
2014	300
2015	350

In 2014 gross premiums written increased from £306m to £324m driven by the White Oak Underwriting Agency Limited business and the professional indemnity business written through Hiscox's network of offices in the US. This was partially offset by the transfer of some of the event cancellation business to another Group company and a small reduction in the Dual premium. Net premium written reduced from £271m to £233m following the purchase of a 50% quota share reinsurance for the White Oak Underwriting Agency Limited business. The Syndicate made a loss of £7m in the year. The main drivers of the loss are a large film production claim on the media account, a large claim on the construction account and some reserve strengthening on the international E&O account.

The 2012 year of account closed with a gain of £6.4m on the Syndicate's £250m of capacity. The result was driven by reserve releases across most classes of business with particularly strong releases coming from the US business.

Further growth is anticipated for 2015 including the transfer of a small casualty treaty account written by Syndicate 33 through HAL. The international E&O and D&O account written through Dual will be reduced in 2015.

Capital

One of the main advantages of trading through Lloyd's is the considerably lower capital ratios that are available due to the diversification of business written in Syndicate 3624 and in Lloyd's as a whole. The size of the Syndicate is increased or reduced according to the strength of the insurance environment in its main classes.

Lloyd's are utilising models developed for Solvency II to meet obligations under ICAS, which will provide equivalent protection to policyholders. Syndicate capital is determined through the submission and agreement by Lloyd's of an ultimate Solvency Capital Requirement ('SCR') which is subject to an uplift determined by the Franchise Board to calibrate the capital required by Lloyd's. HSL uses an internal capital model to measure its SCR, based on a rigorous process of risk identification and quantification assessed at a 1:200 confidence level which draws upon the skills of the Hiscox organisation and is reflected in Hiscox Syndicates Limited's own risk and solvency assessment. The model is based on regulatory requirements and has been approved by Lloyd's.

Lloyd's unique capital structure provides excellent financial security to policyholders and capital efficiency for members. This chain of security provides the financial strength that ultimately backs insurance policies written at Lloyd's and has three links:

1. all premiums received by syndicates are held in trust as the first resource for paying policyholders' claims;
2. every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating

members' underwriting liabilities. They are set with reference to the SCR together with the Lloyd's uplift. Since FAL is not under the control of the managing agent, no amount has been shown in the financial statements. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses;

3. the central assets are available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met from the resources of any member further up the chain.

Lloyd's also retains the right to request a callable contribution equal to 3% of capacity from the syndicate.

Lloyd's works in co-operation with insurance regulators in the United States and other parts of the world to strengthen further the security of a Lloyd's policy. This has resulted in significant amounts of the Syndicate's funds being held in various trust funds where they cannot be used as 'working capital' to pay claims, reinsurance premiums or expenses. This places a strain on the Syndicate's working capital. Consequently we may need to make a cash call, at some time in the future, to improve the Syndicate's working capital position.

Investment report

The Syndicate's investments produced an income of £2.1m before expenses in 2014, a rate of return of 0.8%. This was up from £1.2m, also equivalent to 0.5%, during 2013. US bonds achieved an income of £1.28m, while the Sterling bonds added £0.13m. The remainder was derived from cash balances, money market funds and deposits with the Corporation of Lloyd's.

2014 was a year that confounded both economic and financial market expectations. The year began with high hopes that recovery was gaining traction in the US and UK and that the worst was over in Europe, Japan and several emerging markets. However, deflationary forces proved more powerful than expected, especially in the Eurozone. The global economy also had to absorb several geo-political shocks; notably war in Ukraine and sharply lower oil prices. Both growth and inflation turned out weaker than anticipated. Interest rate normalisation in the US and UK has therefore been delayed, whilst more stimulus was introduced in the Euro-area, including negative policy rates.

This unexpectedly supportive policy environment bolstered bond prices, particularly longer maturity government issues, pushing their implied yields some way back towards their 2012 trough in the US and to record lows in the Euro-area.

Syndicate investment assets totaled £320m on 31 December 2014, up from £234m at the end of 2013. Investment policy remains to invest predominantly in high-quality short-dated bonds and cash, with a maturity profile that reflects the short tail nature of underwriting commitments. The currency mix is matched to that of the net liabilities. As in previous years, there have been no investments in equities. US Dollar bonds accounted for 64% of assets as at the 31 December 2014. Sterling bonds amounted to 3%, with the balance held either in cash and equivalents or deposits with the Corporation of Lloyd's.

In the US bond portfolio, average credit quality is high and the holdings are well diversified. Tactical allocation did not change significantly last year. The portfolio was consistently positioned close to the strategic norm on interest rates with substantial exposure to the credit markets, particularly corporate bonds, where yields exceed the sovereign alternative. The Sterling and Euro assets remain insufficient to justify the costs of dedicated portfolios of segregated investments, and are instead invested in unitised funds.

Whilst it is pleasing to report unexpected bond price gains in 2014, the consequence is to depress prospective returns for 2015. Whilst profiles vary between countries and regions, the core global features remain as they have been for several years now; muted economic expansion, low inflation, ultra easy monetary policy and, as a result, elevated asset prices. The US 2015 outlook is positive, and the Federal Reserve is expected to begin to raise interest rates, but with core inflation muted, it is likely to move slowly. The UK is growing moderately, and with low inflation in prospect, base rates are expected to be on hold ahead of May's general election. Economic conditions appear weak and unlikely to improve materially in the Euro-area. The European Central Bank is under pressure to do more.

In summary, investment prospects for 2015 are challenging. Due to expansionary monetary policy, bond markets are high and overall rates of return look set to be meagre. Economic conditions are sufficiently soft that policy stimulus and elevated asset prices may persist. However, there is a risk that economic growth surprises positively, potentially driven by lower energy prices. The prospect of less supportive monetary policy that would follow is likely to cause volatility in the financial markets.

Principal risks and uncertainties

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

Directors' interests

None of the Directors of the managing agent who served during the year ended 31 December 2014 were underwriting Names at Lloyd's for the 2012, 2013, 2014 or 2015 years of account.

S J Bridges (Non Executive)
R S Childs (Non Executive Chairman)
C J Foulger (Non Executive)
J S Jones
H C V Keeling (Non Executive)
M C S Krefta (Appointed 28 November 2014)
P A Lawrence
I J Martin
B E Masojada
J Pinchin
N B Tyler
R C Watson
I T Webb-Wilson (Non Executive)

S J Bridges, formerly an Executive Director, became a Non Executive Director on 18 November 2014.

Disclosure of information to the auditors

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

Auditors

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

By order of the Board

I J Martin
Director
26 February 2015

Statement of managing agent's responsibilities
Hiscox Syndicate 3624 annual accounts

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 Syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The Syndicate 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 those Syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate annual accounts; and
4. prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume 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 prevention and detection of fraud and other irregularities.

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

Notice regarding the Annual General Meeting
Hiscox Syndicate 3624 annual accounts

Usually the only formal business conducted at the Syndicate Annual General Meeting (AGM) is the appointment of the Syndicate auditors for the following year, and usually the attendance at the AGM, when it is held, is minimal.

In accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') a Syndicate AGM was held in 2009 to appoint KPMG Audit Plc as the Syndicate's registered auditor. The 2008 Regulations allow managing agents to dispense with the requirement to hold a Syndicate AGM and contain provisions for the reappointment of the auditor providing certain criteria are met.

This year, we therefore give notice that:

1. Hiscox Syndicates Limited does not propose to hold an AGM of the members of Syndicate 3624 in 2015;
2. we propose that KPMG Audit Plc are re-appointed as the Syndicate's registered auditor for the period of one year from the date of this Annual Report;
3. members may object to the matters set out above within 21 days of this notice.

If no objections to these proposals are received from any member within the specified period we shall notify Lloyd's to that effect.

If any objections are received, depending on the level or nature of such objections, we shall then consider whether to:

1. apply for Lloyd's consent not to hold an AGM, stating the reasons why not. Lloyd's may give its consent subject to any such conditions and requirements as it may determine; or
2. convene an AGM.

By order of the Board

Jason Jones

J S Jones
Director
26 February 2015

Independent auditors' report

Hiscox Syndicate 3624 annual accounts

We have audited the Hiscox Syndicate 3624 annual accounts for the year ended 31 December 2014, as set out on pages 8 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 5, the Managing Agent is responsible for the preparation of Syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APBs) Ethical Standards for Auditors.

Scope of the audit of the Syndicate annual accounts

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

Opinion on Syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the managing agent's report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Timothy Butchart
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
London
26 February 2015

Profit and loss account: technical account – general business

Year ended 31 December 2014

Hiscox Syndicate 3624 annual accounts

	Notes	2014 £000	2013 £000
Earned premiums, net of reinsurance			
Premiums written:			
Gross premiums written	4	**324,403**	305,591
Outward reinsurance premiums		**(91,890)**	(34,297)
Net premiums written		**232,513**	271,294
Change in the provision for unearned premiums:			
Gross amount		**(44,638)**	(60,020)
Reinsurers' share		**39,591**	1,587
Change in the net provision for unearned premiums		**(5,047)**	(58,433)
Earned premiums, net of reinsurance		**227,466**	212,861
Allocated investment return transferred from the non-technical account	9	**1,859**	997
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(118,563)**	(99,842)
Reinsurers' share		**23,347**	9,154
Net claims paid		**(95,216)**	(90,688)
Change in the provision for claims:			
Gross amount		**(58,186)**	(46,383)
Reinsurers' share		**17,695**	10,449
Change in the net provision for claims		**(40,491)**	(35,934)
Claims incurred net of reinsurance		**(135,707)**	(126,622)
Net operating expenses	6, 7	**(99,067)**	(87,989)
Balance on the technical account for general business		**(5,449)**	(753)

All operations relate to continuing activities.

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

Profit and loss account: non-technical account – general business

Year ended 31 December 2014

Hiscox Syndicate 3624 annual accounts

	Notes	2014 £000	2013 £000
Balance on the general business technical account		**(5,449)**	(753)
Investment income		**2,855**	1,932
Gains on the realisation of investments		**174**	80
Unrealised gains on investments		**168**	176
Losses on the realisation of investments		**(258)**	(356)
Unrealised losses on investments		**(806)**	(652)
Investment expenses and charges		**(274)**	(183)
Allocated investment return transferred to general business technical account	9	**(1,859)**	(997)
Loss for the financial year		**(5,449)**	(753)

All operations relate to continuing activities.

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

Statement of total recognised gains and losses

Year ended 31 December 2014

Hiscox Syndicate 3624 annual accounts

	Notes	2014 £000	2013 £000
Loss for the financial year		**(5,449)**	(753)
Currency translation adjustments		**(1,570)**	515
Total recognised gains and losses for the year	14	**(7,019)**	(238)

Balance sheet – assets
at 31 December 2014
Hiscox Syndicate 3624 annual accounts

	Notes	2014 £000	2013 £000
Investments			
Financial investments	10	**200,207**	138,342
Reinsurers' share of technical provisions			
Provision for unearned premium		**58,517**	15,639
Claims outstanding		**77,408**	55,841
		135,925	71,480
Debtors			
Debtors arising out of direct insurance operations	11	**72,852**	67,921
Debtors arising out of reinsurance operations	12	**19,384**	2,734
Other debtors		**13**	56
		92,249	70,711
Other assets			
Cash at bank and in hand		**99,740**	79,408
Overseas deposits	13	**20,129**	15,861
Prepayments and accrued income			
Accrued interest		**1,159**	462
Deferred acquisition costs		**74,029**	55,272
Total assets		**623,438**	431,536

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

Balance sheet – liabilities
at 31 December 2014
Hiscox Syndicate 3624 annual accounts

	Notes	2014 £000	2013 £000
Capital and reserves			
Members' balances	14	**(26,612)**	(26,234)
Technical provisions			
Provision for unearned premium		**228,318**	170,194
Claims outstanding		**346,998**	277,124
		575,316	447,318
Creditors			
Creditors arising out of direct insurance operations	15	**–**	–
Creditors arising out of reinsurance operations	16	**66,283**	4,036
Other creditors		**774**	2,596
		67,057	6,632
Accruals and deferred income	17	**7,677**	3,820
Total liabilities		**623,438**	431,536

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

The financial statements on pages 8 to 31 were approved by the board of Hiscox Syndicates Limited on 26 February 2015 and were signed on its behalf by

I J Martin
Director

Statement of cash flows

Year ended 31 December 2014

Hiscox Syndicate 3624 annual accounts

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	18	**72,290**	48,899
Transfer in respect of underwriting participations		**6,641**	3,127
		78,931	52,026
Cash flows were invested as follows:			
Increase in cash holdings		**21,254**	29,093
Increase in overseas deposits		**4,033**	1,634
Increase in portfolio investments		**53,644**	21,299
Net investment of cashflows		**78,931**	52,026

1 Basis of preparation

These financial statements have been prepared in accordance with 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 by the Association of British Insurers in December 2006.

The Directors of the managing agent have prepared the annual accounts on the basis that the Syndicate will continue to write future business.

The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities.

2 Accounting policies

The principal accounting policies have been applied in dealing with items which are considered material in relation to the Syndicate's financial statements.

2(a) Premiums

Written gross and outwards reinsurance premiums comprise premiums on contracts incepting during the financial year. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums.

Outwards reinsurance premiums are also disclosed gross of commissions and profit participations recoverable from reinsurers.

Premiums written include estimates for 'pipeline' premiums and adjustments to premiums written in prior accounting periods.

2(b) Unearned premiums

The provision for unearned premium comprises the proportion of gross and outwards reinsurance premiums written, which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method.

2(c) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the acquisition of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which is unearned at the balance sheet date.

2(d) Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims and future claims handling expenses.

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred but unpaid up to the balance sheet date whether reported or not, together with related claims handling expenses. Anticipated reinsurance recoveries are disclosed separately as assets.

Whilst the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and 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 estimates made are reviewed regularly.

The provision for the IBNR element of outstanding claims for the Syndicate is actuarially calculated using both the Chain Ladder and Bornhuetter-Ferguson methods. There is close communication between the actuaries and underwriters and allowance is made for the rating environment.

The Chain Ladder method is adopted where sufficient development data is available in order to produce estimates of the ultimate claims and premiums by actuarial reserving group and year of account for the managed Syndicate. This methodology produces optimal estimates when a large claims development history is available and the claims development patterns throughout the earliest years are stable.

Where losses in the earlier underwriting years have yet to fully develop, a 'tail' arises on the reserving data i.e. a gap between the current stage of development and the fully developed amount. The Chain Ladder methodology is used to calculate average development factors which, by fitting these development factors to a curve, allows an estimate to be made of the potential claims development expected between the current and the fully developed amount, known as a 'tail reserve'. This tail reserve is added to the current reserve position to calculate the total reserve required.

The Bornhuetter-Ferguson method is predominantly employed to produce ultimate loss estimates when there is little development data available e.g. in relation to more recent underwriting years. The Bornhuetter-Ferguson method is based on the Chain Ladder approach but utilises estimated ultimate loss ratios. In exceptional cases the required provision is calculated with reference to the actual exposures.

Ultimate premium and claims amounts are projected both gross and net of reinsurance using reinsurance recovery rates based on historical experience, adjusted for the current reinsurance programme.

Reinsurance security is monitored continuously throughout the year involving both external sources, such as Standard & Poor's and A.M. Best's rating information on reinsurers, and internal sources. Reinsurer default rates are applied to the expected future reinsurance recoveries to determine a suitable level of bad debt provision.

Adjustments are made within the reserving methodology to remove distortions in the historical claims development patterns from large claims not expected to reoccur in the future.

2(e) Unexpired risk

Provision is made for unexpired risks arising from general business where the expected value of the claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by classes of business which are managed together, after taking into account the relevant investment return.

2(f) Investments

The Syndicate has classified its investments as financial assets at fair value through profit or loss. Management determines the classification of its investments at initial recognition. The decision by the Syndicate to designate its investments at fair value through profit or loss reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis. Regular purchases and sales of investments are accounted for at the date of trade.

A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short-term,

2 Accounting policies continued

if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Listed investments comprise those quoted on the London and other International Stock Exchanges. Investments are stated at closing bid-market prices at the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

In the case of financial instruments for which the market is no longer active or indicators of forced transactions exist, the fair value is determined using selected valuation techniques (including net present value techniques, the discounted cash flow method, comparison to similar instruments and valuation models). The valuation techniques use market observable inputs, where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items and from other observable market data. The models are calibrated to estimate the price at which an orderly transaction would take place between market participants on the reporting date, taking into account current market conditions and applying appropriate risk adjustments. As a result the valuation techniques involve a considerable amount of management judgement. This is addressed by controls over the valuation process, including a review of the valuation results by senior management, verification of assumptions made and scrutinising the adjustments to fair values resulting from considerations of additional risk factors.

2(g) Investment return

All investment return is initially recognised in the non-technical account. It is then transferred to the technical account as it all relates to funds supporting underwriting business.

Dividends on ordinary shares are recognised as income on the date the ordinary shares are marked ex-dividend. Other investment income and interest receivable are included in income on an accruals basis.

Realised gains or losses on investments represent the difference between net sales proceeds and their purchase price or their valuation at the commencement of the year.

Unrealised gains and losses on investments represent the difference between the fair value of investments at the balance sheet date and their purchase price or their valuation at the commencement of the year. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

2(h) Rates of exchange

The functional currency of the Syndicate is US Dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and the retranslation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Unearned premiums and deferred acquisition costs are non monetary assets and liabilities and accordingly are carried at historical cost in the balance sheet at the exchange rate prevailing on the original transaction date.

Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within net operating expenses in the technical account.

The results and financial position are presented in Pound Sterling rather than the functional currency of US Dollars. The translation from functional currency to presentational currency is completed as follows:

- all assets and liabilities are translated from the functional currency amount, at the closing rate at the balance sheet date;
- all income and expenses are translated at average exchange rate; and
- all resulting exchange differences are recognised separately as a foreign exchange reserve within capital and reserves.

2(i) 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.

2(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually or whenever there is an indication of impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(a) Non-financial assets
Objective factors that are considered when determining whether a non-financial asset may be impaired include, but are not limited to, the following:

- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
- the disintegration of the active market(s) to which the asset is related.

(b) Financial assets
Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

2 Accounting policies continued

(c) Impairment loss
An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

2(k) Bad debts

Bad debts are provided for only where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Syndicate. The provision is calculated on a case-by-case basis.

2(l) Reinsurers' commissions and profit participations

Reinsurers' commissions and profit participations, which include reinsurance profit commission and overriders, are treated as a contribution to expenses.

2(m) Derivative financial instruments

Derivative financial instruments are measured at initial recognition, and subsequently at fair value, with changes recognised in profit and loss. Transaction costs incurred in buying and selling derivative financial instruments are recognised in profit or loss when incurred. When derivatives are liabilities they are reported with other creditors in the balance sheet.

2(n) Cash at bank and in hand

This consists of cash at bank and in hand and deposits held at call with banks.

3 Risk review

Hiscox Syndicates Limited (HSL) has a robust governance framework in place to manage risk.

In addition, board risk owner for each of the risk categories is identified.

The Board of HSL has delegated more detailed oversight of risk management to the HSL Risk Committee. The HSL Risk Committee is chaired by an Independent Non Executive Director.

The HSL Risk Committee focuses on those areas where there is potential that insufficient action is being taken to mitigate risks and which may need to be escalated to the HSL Board.

The HSL Board approves the risk appetite with more detailed monitoring of exposures against the risk appetite being undertaken by the HSL Risk Committee.

In addition, HSL's risk management activities are regularly audited by an independent internal audit function. The internal audit function has operational independence, clear terms of reference influenced by the Board's Non Executive Directors and a clear upwards reporting structure back to the HSL Board.

The Syndicate, in common with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Syndicate's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events non-correlated to financial markets, and not by the inclination or will of policyholders.

The principal sources of risk relevant to the Syndicate's operations and its financial statements fall into two broad categories: insurance risk and financial risk, both of which are described below.

Insurance risk

The predominant risk to which the Syndicate is exposed is insurance risk which is assumed through the underwriting process. Insurance risk can be sub-categorised into i) underwriting risk including the risk of catastrophe and systemic insurance losses and the insurance competition and cycle, and ii) reserving risk.

(i) Underwriting risk

Underwriting risk is defined as the risk that insurance premiums will not be sufficient to cover future insurance losses and associated expenses. Underwriting risk also encompasses people, process and system risks directly related to underwriting.

The HSL Board sets the Syndicate's underwriting strategy for accepting and managing underwriting risk, seeking to exploit identified opportunities in the light of other relevant anticipated market conditions. Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures and line of business diversification parameters are prepared and reviewed by the HSL management team in order to translate the HSL Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved in advance of each underwriting year, The HSL Board continually reviews its underwriting strategy throughout each underwriting year in light of evolving market pricing, loss conditions and as opportunities present themselves.

HSL's underwriters and management consider underwriting risk at an individual contract level and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing underwriting risk the Syndicate routinely performs a wide range of activities including the following:

- regularly updating the Syndicate's risk models;
- documenting, monitoring and reporting on the Syndicate's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modeling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular reviews. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover

3 Risk review continued

areas such as maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. All delegations are strictly controlled through these tight underwriting guidelines and limits and extensive monitoring, review and auditing of the agencies. However, as there is no absolute guarantee that an agent will comply with the terms of its authority, the Syndicate could be exposed to unanticipated losses. Other business areas where the Syndicate is to some extent reliant on the timely and effective supply of services from third-parties include back office policy processing, data entry and cash collection.

The Syndicate's insurance contracts include provisions to contain losses such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Syndicate's exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period.

HSL compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. These require significant management judgement. Realistic disaster scenarios, are extreme hypothetical events selected to represent major events occurring in areas with large insured values. They also reflect the areas that represent significant exposure for HSL. The selection of realistic disaster scenario events is adjusted each year and they are not necessarily directly comparable from one year to the next. The events are extreme and as yet untested, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies or losses from unmodeled risks. This means that should a realistic disaster actually eventuate, HSL's final ultimate losses could materially differ from those events modeled by management.

The Syndicate also manages underwriting risk by purchasing reinsurance. Reinsurance protection such as excess of loss and quota share cover is purchased at a Syndicate level to mitigate the effect of catastrophes and unexpected concentrations of risk. In addition, some reinsurance is purchased on a shared basis with other Hiscox Group carriers. The scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market. The Syndicate is exposed to the risk that the reinsurance protection that it has bought is inadequate or inappropriate, but this is monitored and managed using modeling techniques, supervised by a dedicated reinsurance purchase group.

Reserving risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle these claims and associated expenses. This definition also applies to reserves which have been set previously.

The Syndicate's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 2(d).

Based on historical claims experience, most of the Syndicate's significant claims are notified and settled within one to five years of the insured event occurring. Those claims taking the longest time to develop and settle typically relate to casualty risks where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgements and make eventual settlements exposes the Syndicate to a degree of reserving risk in an inflationary environment.

The majority of the Syndicate's casualty exposures are written on a claims made basis. However the final quantum of these claims may not be established for a number of years after the event. Consequently a significant proportion of the casualty insurance amounts reserved on the balance sheet may not be expected to settle within one year of the balance sheet date.

Certain marine and property insurance contracts such as those relating to subsea and other energy assets, and the related business interruption risks, can also take longer than normal to settle. This is because of the length of time required for detailed subsea surveys to be carried out and damage assessments agreed together with difficulties in predicting when the assets can be brought back into full production.

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimate of case reserves and reporting to the Syndicate. The Syndicate works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

Financial risk

The Syndicate is exposed to financial risk through its ownership of financial instruments including financial liabilities. The Syndicate invests in financial assets in order to fund obligations arising from its insurance contracts and other liabilities. The key financial risk for the Syndicate is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the obligations. The most important entity and economic variables that could result in such an outcome relate to the interest rate risk, credit risk, liquidity risk and currency risk. The Syndicate's policies and procedures for managing exposure to these specific categories of risk are detailed below.

(a) Reliability of fair values

The Syndicate has elected to carry all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. All of the financial investments held by the Syndicate are available to trade in markets and the Syndicate therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing bid-market prices at the balance sheet date. The ability to obtain quoted bid-market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Syndicate. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the balance sheet date but updated for relevant perceived changes in market conditions.

At 31 December 2014, the Syndicate held asset-backed and mortgage-backed fixed income instruments in its investment portfolio. However it has minimal direct exposure to sub-prime asset classes.

Together with the Syndicate's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant

3 **Risk review** continued

factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held. The Syndicate has no direct exposure to sovereign debt in Portugal, Ireland, Italy, Greece or Spain. The Syndicate did not experience any material defaults on debt securities during the year.

Valuation of these securities will continue to be impacted by external market factors including default rates, rating agency actions, and liquidity. The Syndicate will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy, but its ability to mitigate its risk by selling or hedging its exposures may be limited by the market environment. The Syndicate's future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

(b) Interest rate risk

Fixed income investments represent a significant proportion of the Syndicate's assets and the Directors continually monitor investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Syndicate is able to underwrite or its ability to settle claims as they fall due. The fair value of the Syndicate's investment portfolio of debt and fixed income securities is inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Syndicate's debt and fixed income investments would tend to rise and vice versa.

Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset backed bonds. The investments typically have relatively short durations and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Syndicate cash flows.

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity based sensitivity analysis, if market interest rates had increased by 100 basis points at the balance sheet date, the fair value might have been expected to decrease by £3.3m (2013: decrease of £1.9m) assuming the only balance sheet area impacted was debt and fixed income financial assets.

Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity, Convexity measures the sensitivity of modified duration to changes in the yield to maturity.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non interest-bearing. The Syndicate's debt and fixed income assets are further detailed in note 10. The Syndicate has no significant borrowings carrying interest rate risk.

The market value of the Syndicate's holdings of deposits with credit institutions is less exposed to movements in interest rates due to the very short time frame to their maturity.

The Syndicate holds significant portfolios of investments to support its obligations, including its insurance liabilities, and its profits depend in part upon the returns that these achieve. Changes in interest rates, equity returns and other economic variables can therefore affect financial performance. To mitigate this risk the Syndicate has a detailed investment strategy that seeks to minimise the concentration of investment risk in a particular issuer or sector. The majority of investment assets held are low risk, high-quality, short duration debt securities and fixed-term deposits.

Table a)	31 December 2014 % weighting	31 December 2013 % weighting
Government issued bonds and instruments	**28**	30
Government supported*	**11**	5
Asset backed securities	**7**	6
Mortgage backed instruments – agency	**1**	1
Mortgage backed securities – non agency	**4**	4
Corporate bonds	**49**	54

*Includes supranational debt, agency debt.

3 Risk review continued

(c) Credit risk

The Syndicate has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in solvency or be unable to pay amounts in full when due. The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Syndicate interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Syndicate's agreed contractual terms and conditions.

Key areas of exposure to credit risk include:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- counterparty risk with respect to cash and cash equivalents, and investments and other including deposits and derivative transactions deposits.

The Syndicate's maximum exposure to credit risk is represented by the carrying values of monetary assets and reinsurance assets included in the balance sheet. The Syndicate structures the levels of credit risk accepted by placing limits on their exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Syndicate has a large number of internationally dispersed debtors with unrelated operations.

The Syndicate purchases reinsurance protection to contain exposure from single claims and the aggregation of claims from catastrophic events and share the exposure with our reinsurance partners. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year. The Syndicate's experience of bad debt losses arising from its reinsurance arrangements compares favourably with industry averages. The agency has established a reinsurance security committee which assesses and is required to approve all new reinsurers before business is placed with them.

The Syndicate also mitigates credit counterparty risk by concentrating debt and fixed income investments in high-quality instruments, including a particular emphasis on government bonds and municipal agency instruments issued mainly by European Union and North American countries.

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposed.

An analysis of the Syndicate's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating at 31 December, is presented below:

Table b)

As at 31 December 2014	AAA £000	AA £000	A £000	Other/ non rated £000	Total £000
Debt securities and other fixed income securities	**48,791**	**76,510**	**54,266**	**20,640**	**200,207**
Reinsurers share of claims outstanding (excluding IBNR)	**–**	**3,617**	**9,720**	**691**	**14,028**
Cash at bank and in hand	**–**	**–**	**99,740**	**–**	**99,740**
Overseas deposits	**9,781**	**7,349**	**2,672**	**327**	**20,129**
Total	**58,572**	**87,476**	**166,398**	**21,658**	**334,104**
Amounts attributable to largest single counterparty	**–**	**55,683**	**–**	**–**	**55,683**

As at 31 December 2013	AAA £000	AA £000	A £000	Other/ non rated £000	Total £000
Debt securities and other fixed income securities	34,613	58,683	30,617	14,429	138,342
Reinsurers share of claims outstanding (excluding IBNR)	_	2,652	7,127	507	10,286
Cash at bank and in hand	–	–	79,408	–	79,408
Overseas deposits	7,822	5,904	1,947	188	15,861
Total	42,435	67,239	119,099	15,124	243,897
Amounts attributable to largest single counterparty	–	45,822	–	–	45,822

The Syndicate has no material debtors arising from direct insurance and reinsurance operations that are past due and impaired at the reporting date. The Syndicate believes that impairment of these debtors is not appropriate on the basis of the stage of collection of amounts owed to the Syndicate.

The Syndicate has no financial assets that would be past due or impaired whose terms have been renegotiated. The amounts attributable to the largest single counterparty represents holdings of US treasury stock, in both this year and last.

At 31 December 2014 the Syndicate held no material debt and fixed income assets that were past due or impaired beyond their reported fair values, either for the current period under review or on a cumulative basis (2013: £nil). For the current period and prior period, the Syndicate did not experience any material defaults on debt securities.

3 Risk review continued

(d) Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Syndicate is exposed to daily cash calls on its available cash resources, mostly for the settlement of claims. The Syndicate's approach is to maintain liquid assets that can be translated to cash at short notice without any significant capital loss. These funds are monitored by management on a regular basis.

A significant proportion of investment assets held are low risk, high-quality, short duration debt securities and fixed-term deposits. The contractual maturity profile of investment assets at 31 December was as follows:

Table c)	Debt securities and other fixed income securities £000	Cash at bank and in hand £000	Overseas deposits £000	2014 Total £000	2013 Total £000
Less than one year	**13,579**	**99,740**	**–**	**113,319**	87,746
Between one and two years	**56,352**	**–**	**–**	**56,352**	36,226
Between three and five years	**102,542**	**–**	**–**	**102,542**	75,107
Over five years	**17,501**	**–**	**–**	**17,501**	8,576
Sub-total	**189,974**	**99,740**	**–**	**289,714**	207,655
Perpetual notes and other non-dated instruments	**10,233**	**–**	**20,129**	**30,362**	25,956
Total	**200,207**	**99,740**	**20,129**	**320,076**	233,611

Average contractual maturity analysed by denominational currency of investments.

Table d)	2014 Years	2013 Years
US Dollar	**3.9**	3.6

The contractual maturity for US Dollars of 3.9 years (2013: 3.6 years) is based, for relevant securities, on the legal maturity date of the total pool of collateral for those securities. The Syndicate's participation in these investments is supported by collateral that matures at an earlier date than that of the total pool. Based on this earlier maturity date the average expected maturity for US Dollars would be 1.6 years (2013: 1.5 years).

The following is an analysis by business segment of the estimated timing of net cash flows based on the claims liabilities balance held at 31 December 2014 and 2013. The Syndicate does not discount claims liabilities. The estimated phasing of settlement is based on current estimates and historical trends and the actual timing of future settlement cash flows may differ materially from the disclosure below.

3 Risk review continued

Table e)

2014	Within one year £000	Between one and two years £000	Between two to five years £000	Over five years £000	Total £000
Accident and health	**2,949**	**1,471**	**1,012**	**84**	**5,516**
Motor – third-party liability	**138**	**70**	**48**	**4**	**260**
Motor – other	**829**	**418**	**289**	**21**	**1,557**
Marine, aviation and transport	**13,017**	**6,217**	**4,395**	**281**	**23,910**
Fire and other damage to property	**11,180**	**10,649**	**21,076**	**10,268**	**53,173**
Third-party liability	**31,761**	**34,087**	**72,639**	**37,405**	**175,892**
Miscellaneous	**3,381**	**1,723**	**1,276**	**136**	**6,516**
Reinsurance	**1,444**	**762**	**514**	**46**	**2,766**
Total	**64,699**	**55,397**	**101,249**	**48,245**	**269,590**

2013	Within one year £000	Between one and two years £000	Between two to five years £000	Over five years £000	Total £000
Accident and health	1,979	986	680	57	3,702
Motor – third-party liability	211	109	82	10	412
Motor – other	1,263	653	491	60	2,467
Marine, aviation and transport	11,964	5,937	4,164	362	22,427
Fire and other damage to property	6,778	4,841	8,700	3,755	24,074
Third-party liability	27,604	30,313	63,977	32,985	154,879
Miscellaneous	5,527	2,905	2,353	365	11,150
Reinsurance	1,134	592	410	36	2,172
Total	56,460	46,336	80,857	37,630	221,283

(e) Currency risk

The majority of the Syndicate's gross written premium is in US Dollars, consequently movements in the £/US$ exchange rate may have a material effect on its financial performance and position. The Syndicate's financial assets are denominated in the same currencies as its insurance liabilities, leaving the profit or loss as the main currency exposure. This profit and loss is distributed in accordance with Lloyd's rules using a combination of Sterling and US Dollars.

The Syndicate's balance sheet accounting exposure to exchange rate movements in respect of net monetary assets held in foreign currencies is presented below. In considering net foreign currency exposure in the Syndicate, management adjust these net reported monetary assets for the further underlying economic exposure associated with the holding of unearned premium and deferred acquisition cost reserves on the Syndicate's balance sheet. The net amount of these non-monetary liabilities represents the Syndicate's future obligation to provide insurance protection services to policyholders and it is therefore realistic to expect that the majority of this net liability position will be converted, during 2015, into monetary obligations in the form of the resultant claims and administrative expenses.

3 Risk review continued

The profile of the Syndicate's assets and liabilities, categorised by currency at their translated carrying amount was as follows:

Table f)

At 31 December 2014	Sterling £000	US Dollar £000	Euro £000	CAD £000	Total £000
Financial investments	10,233	189,974	–	–	200,207
Reinsurers' share of technical provisions	1,246	69,702	4,664	1,796	77,408
Debtors	5,689	79,347	8,603	(1,390)	92,249
Cash at bank and in hand	21,847	37,432	33,795	6,666	99,740
Overseas deposits	14,465	4,519	–	1,145	20,129
Prepayments and accrued income	277	882	–	–	1,159
Total monetary assets	53,757	381,856	47,062	8,217	490,892
Technical provisions	(63,094)	(242,402)	(38,886)	(2,616)	(346,998)
Creditors, accruals and deferred income	(4,747)	(56,948)	(3,408)	(1,954)	(67,057)
Total monetary liabilities	(67,841)	(299,350)	(42,294)	(4,570)	(414,055)
Net monetary assets	(14,084)	82,506	4,768	3,647	76,837
Non monetary assets	11,321	111,030	7,988	2,207	132,546
Non monetary liabilities	(21,770)	(193,536)	(17,103)	(3,586)	(235,995)
Members balances by currency	(24,533)	–	(4,347)	2,268	(26,612)

At 31 December 2013	Sterling £000	US Dollar £000	Euro £000	CAD £000	Total £000
Financial investments	10,095	128,247	–	–	138,342
Reinsurers' share of technical provisions	119	53,377	2,262	83	55,841
Debtors	11,934	53,762	3,709	1,306	70,711
Cash at bank and in hand	22,650	21,499	31,453	3,806	79,408
Overseas deposits	11,167	3,969	–	725	15,861
Prepayments and accrued income	70	392	–	–	462
Total monetary assets	56,035	261,246	37,424	5,920	360,625
Technical provisions	(52,232)	(189,873)	(33,347)	(1,672)	(277,124)
Creditors, accruals and deferred income	(1,579)	(4,289)	(79)	(685)	(6,632)
Total monetary liabilities	(53,811)	(194,162)	(33,426)	(2,357)	(283,756)
Net monetary assets	2,224	67,084	3,998	3,563	76,869
Non monetary assets	10,177	56,458	3,377	899	70,911
Non monetary liabilities	(26,491)	(133,662)	(11,330)	(2,531)	(174,014)
Members balances by currency	(14,090)	(10,120)	(3,955)	1,931	(26,234)

Sensitivity analysis

A 10% strengthening of the Pound Sterling against the following currencies at 31 December would have increased/(decreased) members balances and profit for the financial year by the amounts shown overleaf. This analysis assumes that all other variables, in particular interest rates, remain constant.

3 Risk review continued

Table g)

31 December 2014	Monetary basis Effect on net monetary assets £000	Economic exposure Effect on members balances £000
US Dollar	(8,251)	–
Euro	(477)	435
Canadian Dollar	(365)	(227)

31 December 2013	Monetary basis Effect on net monetary assets £000	Economic exposure Effect on members balances £000
US Dollar	(6,708)	1,012
Euro	(400)	396
Canadian Dollar	(356)	(193)

Limitations of sensitivity analysis

The above tables demonstrate the impact of a change in a major input assumption while other assumptions remain unchanged. It should be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Syndicate's assets and liabilities are actively managed. Additionally, the financial position of the Syndicate may vary at the time that any actual market movement occurs. For example, the Syndicate's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk. These represent the Syndicate's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Regulatory issues

The Syndicate is required to comply with the requirements of the Prudential Regulation Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Hiscox Group devotes considerable resources to meet its regulatory obligations, including compliance and internal audit functions.

Operational risk

Operational risk is the risk of loss from people, processes or systems or external events with origins outside the scope of other risk categories. HSL actively monitors and controls its operational risks through the operational risk committee and operational leadership team. Examples of key operational risks for the Syndicate include IT performance and stability, voluntary staff exit rate and the delivery of major projects.

HSL recognise that the ability to continue operations in the event of a business interruption, whether from a major disaster or minor incident, is a fundamental factor in meeting the expectations of our customers and internal and external stakeholders. Both the Syndicate and Lloyd's have a formal disaster recovery plan which, in the event of an incident, will support alternative accommodation strategies. All IT systems are assessed for recovery time objectives and investment has been made into remote working technology providing access to corporate systems away from the office and ensuring that this technology is well used and familiar to staff.

4 Segmental analysis

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

2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Accident and health	**5,328**	**5,093**	**(4,265)**	**(1,915)**	**–**	**(1,087)**
Motor – third-party liability	**2,576**	**1,793**	**(1,196)**	**(622)**	**(20)**	**(45)**
Motor – other classes	**15,457**	**10,758**	**(7,175)**	**(3,733)**	**(119)**	**(269)**
Marine aviation and transport	**58,559**	**45,097**	**(27,954)**	**(13,392)**	**(3,441)**	**310**
Fire and other damage to property	**48,142**	**45,271**	**(30,612)**	**(13,697)**	**(4,219)**	**(3,257)**
Third-party liability	**136,934**	**129,497**	**(81,556)**	**(51,260)**	**(2,856)**	**(6,175)**
Miscellaneous	**54,245**	**38,968**	**(23,560)**	**(13,371)**	**(602)**	**1,435**
Total	**321,241**	**276,477**	**(176,318)**	**(97,990)**	**(11,257)**	**(9,088)**
Reinsurance	**3,162**	**3,288**	**(431)**	**(1,077)**	**–**	**1,780**
Total	**324,403**	**279,765**	**(176,749)**	**(99,067)**	**(11,257)**	**(7,308)**

2013	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Accident and health	5,179	5,263	(2,018)	(2,403)	–	842
Motor – third-party liability	2,218	1,160	(804)	(477)	–	(121)
Motor – other classes	13,307	6,962	(4,825)	(2,864)	–	(727)
Marine aviation and transport	51,648	38,410	(26,478)	(12,193)	(387)	(648)
Fire and other damage to property	48,836	38,207	(27,770)	(10,377)	(6,937)	(6,877)
Third-party liability	129,395	122,557	(66,368)	(46,274)	(5,690)	4,225
Miscellaneous	49,599	28,299	(17,004)	(11,963)	(93)	(761)
Total	300,182	240,858	(145,267)	(86,551)	(13,107)	(4,067)
Reinsurance	5,409	4,713	(958)	(1,438)	–	2,317
Total	305,591	245,571	(146,225)	(87,989)	(13,107)	(1,750)

All premiums were concluded in the UK.

The geographical analysis of gross premiums earned by destination, as a proxy for risk location, is as follows:	2014 £000	2013 £000
United Kingdom	**6,155**	18,155
European Union member states (excluding UK)	**34,411**	15,971
United States	**94,001**	129,204
Other	**145,198**	82,241
Total	**279,765**	245,571

5 Claims outstanding

A release of £11.8m has been made from the net reserve for claims outstanding, set at 31 December 2013, during calendar year 2014. Net reserves for claims outstanding as at 31 December 2012 had a release of £9.0m in calendar year 2013.

6 Net operating expenses

	2014 £000	2013 £000
Brokerage and commissions	**(107,818)**	(100,577)
Other acquisition costs	**(4,668)**	(4,290)
Change in deferred acquisition costs	**14,384**	22,742
Administrative expenses	**(7,271)**	(6,913)
Members' standard personal expenses	**(1,732)**	(1,886)
Gain/(loss) on exchange	**272**	(3,524)
Reinsurers' commissions and profit participations	**7,766**	6,459
	(99,067)	(87,989)

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT).

Brokerage and commissions on direct business written was £106.8m (2013: £98.9m).

	2014 £000	2013 £000
Auditors' remuneration		
Fees payable to the Syndicate's auditor for the audit of these financial statements	**80**	78
Fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	**28**	26
	108	104

7 Staff numbers and costs

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

	2014 £000	2013 £000
Wages and salaries	**4,053**	3,680
Social security costs	**519**	471
Other pension costs	**405**	368
	4,977	4,519

The average number of employees employed by the Hiscox Group and working for the Syndicate during the year was as follows:

	2014	2013
Administration and finance	**89**	74
Underwriting	**85**	83
Claims	**30**	26
	204	183

The Directors of Hiscox Syndicates Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2014 £000	2013 £000
Directors' emoluments	**213**	129

8 Active underwriter's remuneration

The active underwriter received the following remuneration charged as a Syndicate expense.

	2014 £000	2013 £000
Emoluments	**71**	19

9 Investment return

	2014 £000	2013 £000
Income from investments	**2,855**	1,932
Gains on investments	**342**	256
Losses on investments	**(1,065)**	(1,008)
	2,132	1,180
Investment expenses	**(273)**	(183)
Total	**1,859**	997

The table below presents the average amounts of funds in the year per currency and the average investment return yields in the year.

	2014 £000	2013 £000
Average amount of Syndicate funds available for investment during the year		
Sterling	**46,372**	38,851
Euro	**34,765**	27,347
US Dollar	**192,959**	151,831
Canadian Dollar	**5,699**	3,535
Total funds available for investment, in Sterling	**279,795**	221,565

	2014 %	2013 %
Annual investment yield		
Sterling	**1.6**	0.3
Euro	**0.1**	0.1
US Dollar	**0.7**	0.7
Canadian Dollar	**1.0**	0.9
Total annual investment yield percentage	**0.8**	0.5

Syndicate funds include investments, cash and overseas deposits.

10 Financial investments

	2014 fair value £000	2014 cost £000	2013 fair value £000	2013 cost £000
Debt securities and other fixed income securities	**200,207**	**201,333**	138,342	138,685
	200,207	**201,333**	138,342	138,685

All financial investments in the current and prior financial year were carried at fair value through profit or loss. No financial assets in the current or prior financial year were classified as 'held for trading' under FRS 26. The Syndicate had no material exposure to financial investments not actively traded on recognised markets.

Other financial assets under FRS 26 are cash at bank and in hand, overseas deposits, direct insurance and reinsurance debtors, other debtors and accrued income, which are classified as loans and receivables.

In order to present useful information on the inputs used to measure fair value, the Syndicate has classified its financial instruments as at 31 December 2014 using the fair value hierarchy and has adopted FRS 29 (amended).

The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

Level 1 – fair values measured using unadjusted quoted prices in active markets for identical instruments;

Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data;

Level 3 – fair values measured using valuation techniques for which significant inputs are not based on market observable data.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities and other fixed income securities	**55,917**	**144,290**	**–**	**200,207**
Total	**55,917**	**144,290**	**–**	**200,207**

The Syndicate measures the fair value of its financial assets based on prices provided by custodians who obtain market data from numerous independent pricing services. The pricing services used by the custodian obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing service uses common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Included within Level 1 of the hierarchy are Government bonds and Treasury bills which are assessed by the Syndicate as being traded in an active market where fair value is based on unadjusted quoted market prices.

Level 2 of the hierarchy contains US Government agencies, corporate securities, asset backed securities and mortgage backed securities and certain other Government securities. The fair value of these assets are based on, where obtainable, guided prices and prices derived from models with observable market inputs as discussed above. Quoted prices for US Government agencies, certain other Government securities and corporate securities are based on a limited number of transactions for those securities and as such the Syndicate considers these instruments to have similar characteristics of those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds.

Where a valuation technique is used, the Syndicate selects inputs using the most reliable source of data and where possible observable market data.

11 Debtors arising out of direct insurance operations

	2014 £000	2013 £000
Amounts due from intermediaries		
Due within one year	**72,819**	67,887
Due after one year	**33**	34
	72,852	67,921

12 Debtors arising out of reinsurance operations

	2014 £000	2013 £000
Amounts due from intermediaries	**19,384**	2,734

All amounts are due within one year.

13 Overseas deposits

Overseas deposits comprise funds which are lodged as a condition of conducting underwriting business in certain countries.

14 Reconciliation of members' balances

	2014 £000	2013 £000
Members' balances at 1 January	**(26,234)**	(29,123)
Total recognised gains and losses for the year	**(7,019)**	(238)
Payments of profit to and collection of losses from members' personal reserve funds	**6,641**	3,127
Members' balances carried forward at 31 December	**(26,612)**	(26,234)

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
Amounts due to intermediaries	**–**	–

All amounts are due within one year.

16 Creditors arising out of reinsurance operations

	2014 £000	2013 £000
Amounts due to intermediaries	**66,283**	4,036

All amounts are due within one year.

17 Accruals and deferred income

	2014 £000	2013 £000
	7,677	3,820

All amounts are due within one year.

18 Reconciliation of profit to net cash flow from operating activities

	2014 £000	2013 £000
Operating loss on ordinary activities	**(5,449)**	(753)
Realised and unrealised investment (gains)/losses including changes in exchange rate	**(7,534)**	2,757
Increase in debtors, prepayments and accrued income	**(40,992)**	(30,007)
Increase in net technical provisions	**63,553**	86,240
Increase/(decrease) in creditors	**64,282**	(9,853)
Movement in foreign currency reserve	**(1,570)**	515
Net cash flow from operating activities	**72,290**	48,899

19 Movement in opening and closing portfolio investments net of financing

	2014 £000	2013 £000
Net cash flows for the year	**21,254**	29,093
Cash flows		
Increase in overseas deposits	**4,033**	1,634
Increase in portfolio investments	**53,644**	21,299
Movement arising from cash flows	**78,931**	52,026
Changes in market value and exchange rates	**7,534**	(2,757)
Total movement in portfolio investments	**86,465**	49,269
Portfolio at 1 January	**233,611**	184,342
Portfolio at 31 December	**320,076**	233,611

Movement in cash, portfolio investments and financing

	At 1 January 2014 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2014 £000
Cash at bank and in hand	79,408	21,254	(922)	99,740
Overseas deposits	15,861	4,033	235	20,129
Debt securities and other fixed income securities	138,342	53,644	8,221	200,207
Total cash, portfolio investments and financing	233,611	78,931	7,534	320,076

20 Net cash flow on portfolio investments

	2014 £000	2013 £000
Purchase of debt securities and other fixed income securities	**(235,126)**	(133,230)
Sale of debt securities and other fixed income securities	**181,482**	111,931
Net cash flow on portfolio investments	**(53,644)**	(21,299)

21 Related parties

Hiscox Syndicates Limited manages Syndicate 3624, and also manages:

- Syndicate 33 which provides reinsurance on an arm's length basis for some risks written by Syndicate 3624;
- Syndicate 6104 which is a limited-tenancy capacity, Special Purpose Syndicate that supports the underwriting of Syndicate 33 by providing reinsurance on an arm's length basis of certain classes of catastrophe exposed insurance and reinsurance risks.

Hiscox Syndicates Limited is a wholly-owned indirect subsidiary of Hiscox Ltd which is the Bermuda based holding company of the Hiscox Group and which is listed on the London Stock Exchange. Hiscox Ltd has been notified of the following shareholdings of 5% or more in the ordinary shares in Hiscox Ltd as at 31 December 2014:

	% of total
Invesco Limited	**13.41%**
Massachusetts Financial Services Company	**9.88%**

Hiscox Dedicated Corporate Member Limited is a corporate member within the Hiscox Group which owns capacity in various years of account of Syndicates 33 and 3624.

Hiscox Insurance Company (Bermuda) Limited is a Class 4 insurer in Bermuda. It supplies some risk modeling services to Hiscox Syndicates Limited. Syndicate 3624 purchases some reinsurance from, and reinsures some business of, Hiscox Insurance Company (Bermuda) Limited; such reinsurances are on an arm's length basis.

Hiscox Insurance Company Limited is a PRA authorised non-life insurance company which predominantly underwrites high net worth and professions business.

Hiscox Insurance Company (Guernsey) Limited is a GFSC authorised non-life insurance company which predominantly underwrites specialist personal lines business worldwide. Syndicate 3624 purchases some reinsurance from Hiscox Insurance Company (Guernsey) Limited; such reinsurances are on an arm's length basis.

Hiscox Underwriting Group Services Limited is an employment service company which employs all UK Hiscox Group staff including underwriters, claims and reinsurance staff.

The Hiscox Group also includes a number of intermediate holding companies and inactive companies.

Insurance intermediaries

Hiscox Underwriting Ltd is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It currently places business with Hiscox carriers, including the Hiscox managed Syndicate 3624, as well as non-Hiscox carriers. It is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by Hiscox Underwriting Ltd. Hiscox Global Flying is a trading name of Hiscox Underwriting Ltd.

Hiscox Europe Underwriting Limited is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It currently places business with Hiscox carriers, including the Hiscox managed Syndicate 3624, as well as non-Hiscox carriers. It is not obliged to place business with any particular carrier and these arrangements are subject to review from time-to-time by Hiscox Europe Underwriting Ltd.

Hiscox Agency Ltd, Hiscox Inc., Hiscox AG (which leased the whole of its business to Hiscox Europe Underwriting Limited with effect from 1 April 2012), and Hiscox Insurance Services Limited are (or in some cases were) insurance intermediaries and Lloyd's Service Companies in Bermuda, USA, Germany and Guernsey respectively. Some are (or in some cases were) able to place business with Hiscox carriers, including the Hiscox managed Syndicates, and in some cases with non-Hiscox carriers. They are not obliged to place business with any particular carrier and these arrangements are (or in some cases were) subject to review from time-to-time by these companies.

Senior Wright Indemnity Limited is an FCA authorised non-life insurance intermediary which until 22 November 2013 was 30% owned by the Hiscox Group. It currently places business with various carriers, including Hiscox Insurance Company Limited and Syndicate 3624, and had previously placed some business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review from time-to-time by Senior Wright Indemnity Limited.

Hiscox Group owns a 35.4% holding in Media Insurance Brokers International Limited, the holding company of an FCA authorised non-life insurance intermediary Media Insurance Brokers Ltd which currently places business with various carriers, including Syndicate 3624, and had until 2012 previously placed some business with Syndicate 33. Media Insurance Brokers Ltd is not obliged to place business with any particular carrier and these arrangements are subject to review from time-to-time by Media Insurance Brokers Ltd.

On 28 May 2014 the Hiscox Group acquired a 10% holding in Carl Rieck GmbH, a non-life insurance intermediary in Germany, which currently places business with various carriers, including Syndicates 33 and 3624. Carl Rieck GmbH is not obliged to place business with any particular carrier and these arrangements are subject to review from time-to-time by Carl Rieck GmbH.

On 11 June 2014 the Hiscox Group acquired a 10% holding in White Oak Underwriting Agency Limited, an FCA authorised non-life insurance intermediary, which currently places business with Syndicate 3624. White Oak Underwriting Agency Limited is not obliged to place business with any particular carrier and these arrangements are subject to review from time-to-time by White Oak Underwriting Agency Limited.

Some Group Lloyd's Service Companies provided insurance business to Syndicate 3624 and charged fees equal to the costs they incurred in placing the business with the Syndicate. These service companies are not operated to maximise commission based profit. The risks placed with Syndicate 3624 are under normal market conditions.

Underwriting divisions

The Hiscox Group organises its core underwriting activities into a number of underwriting divisions. Some of these divisions underwrite for multiple Hiscox carriers, including Hiscox managed Syndicate 3624, and some also underwrite for non-Hiscox carriers. This integrated approach is aimed at maximising business opportunities by using the combined knowledge of the Group to develop new products and markets.

There are certain predetermined mechanisms for allocating certain types of insurance risks to these carriers which take into account the licences, business plans and reinsurance programmes of each carrier.

These arrangements are structured to take full and proper account of the duties owed to the members of Syndicate 3624 and to manage appropriately any potential conflicts of interest. These arrangements have been approved by the Hiscox Conflicts Committee (see overleaf) and are subject to review from time-to-time.

21 Related parties continued

Shared reinsurance

From time-to-time it is advantageous for a Hiscox managed Syndicate to share a reinsurance protection with another carrier. Such arrangements are structured to manage appropriately any potential conflicts of interest and are in the interests of all the Names on the Syndicate.

Conflicts procedure

In the event of a potential conflict of interest arising between Syndicate 3624 and either other Hiscox managed Syndicates or related companies, involving new projects or existing transactions, arrangements or relationships, a formal conflicts procedure is in place under which the particular arrangement may be referred to the Hiscox Conflicts Committee comprising nominated independent Directors of Hiscox Ltd.

Directors

Several of the Directors of Hiscox Syndicates Limited are Directors of other companies in the Hiscox Group.

R C Watson became a Director of White Oak Underwriting Agency Limited, which sources the Syndicate's FTC and auto extended warranty business, on 11 June 2014.

The following balance sheet amounts were outstanding at year-end with related parties:

Balance sheet net assets and (liabilities) outstanding relating to related group companies	**31 December 2014 £000**	**31 December 2013 £000**
Hiscox managed Syndicates	**–**	647
Hiscox Group Insurance intermediaries	**16,718**	26,302
Other Hiscox Group companies	**(70)**	(1,510)
	16,648	25,439

The following amounts reflected in the income statement were transacted with related parties:

Net income and (expenses) relating to related group companies reflected in the income statement	**2014 £000**	**2013 £000**
Hiscox managed Syndicates	**–**	1,786
Hiscox Group Insurance intermediaries	**(26,511)**	(32,947)
	(26,511)	(31,161)

Hiscox Syndicates Limited charges no managing agent fees or profit commission to Syndicate 3624.

Hiscox Underwriting Group Services Limited charges administrative services to the Syndicate on a no profit/no loss basis.

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