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asta

icat

Syndicate 4242

2012 Underwriting Year Report and Accounts

Three Years Ended 31 December 2014

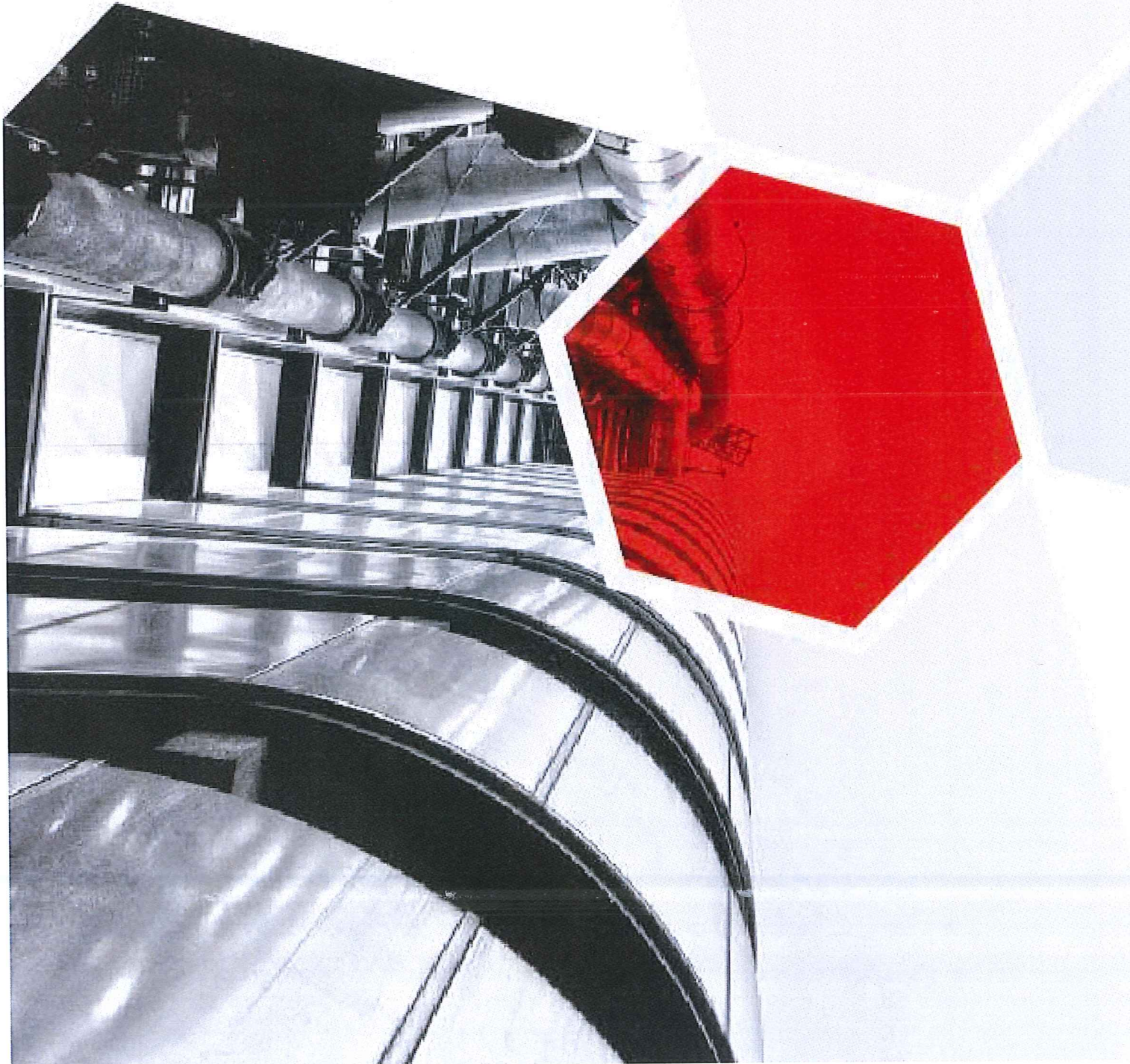


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Directors and Administration

Managing Agent

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell, Chairman and Non-Executive Director

Y A Bouman

G M J Erulin, Non-Executive Director

L Harfitt

A J Hubbard, Non-Executive Director

D J G Hunt

D F C Murphy, Non-Executive Director

S P A Norton

J W Ramage, Non-Executive Director

J M Tighe

Company Secretary

C Chow

Managing Agent's Registered Office

5th Floor Camomile Court

23 Camomile Street

London

EC3A 7LL

Registered Number

01918744

Directors and Administration (Continued)

Syndicate

Active Underwriter

G E Butler (1 January 2012 through 31 December 2013)

M H McConnell (appointed 1 January 2014)

Primary Coverholder

International Catastrophe Insurance Managers LLC (ICAT)

Claims Administrator

Boulder Claims LLC

Investment Manager

General Re – New England Asset Management

Bankers

Citibank NA

Barclays Bank Plc

Lloyds Bank

The Bank of New York Mellon Corporation

Registered Auditors

KPMG LLP

Signing Actuary

P J Tippin, KPMG LLP

Report of the Directors of the Managing Agent

Three Years Ended 31 December 2014

The directors of the Managing Agent (the directors) present their report below, together with audited 2012 underwriting year accounts for Syndicate 4242 (the Syndicate) on pages 12 to 28.

The directors prepared this report in accordance with Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) using the underwriting year basis of accounting required by Statutory Instruments No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Managing Agent

The Corporation of Lloyd's (Lloyd's) approved the 1 January 2013 transfer of the management of the Syndicate from Chaucer Syndicates Limited (Chaucer) to Asta Managing Agency Ltd (Asta). Asta also manages eight other syndicates on behalf of supporting third parties. The accounts of the Managing Agent can be obtained by application to the Managing Agent's Registered Office listed on page 2.

Underwriting Year Results

The Syndicate generated profits of \$13.5 million after standard personal expenses on gross written premiums of \$118.4 million for the 2012 underwriting year resulting in a 10.9% return on insurance capacity.

Principal Activities

The Syndicate transacts general insurance and reinsurance business in the United Kingdom (U.K.) within the Lloyd's market. The Syndicate specialises in underwriting property insurance policies covering small and middle market businesses located in areas of the United States (U.S.) that are prone to hurricanes and earthquakes. Hurricane policies include coverage for tropical storms and also provide protection against tornados, hail, and other windstorm risks. The Syndicate also offers limited flood coverage when purchased alongside hurricane or earthquake coverage and All Other Peril (AOP) coverage. AOP coverage provides protection against fires, theft, water damage, vandalism, and other covered property perils. The Syndicate also provides reinsurance to a U.S. insurance company covering personal lines property risks against named hurricanes.

The Syndicate contracts with certain wholly owned subsidiaries of Paraline Group, Ltd, a Bermuda based insurance organisation, for certain insurance services and reinsurance. These subsidiaries include International Catastrophe Insurance Managers, LLC (ICAT Managers), Boulder Claims, LLC (Boulder Claims) and Paraline Reinsurance, Ltd (Paraline Re). ICAT Managers and Boulder Claims are Delaware companies, while Paraline Re is a Bermuda company.

ICAT Managers underwrites most of the Syndicate's insurance business as its primary coverholder. ICAT Managers writes business for the Syndicate through its network of relationships with surplus lines wholesale brokers and licensed retail agents. Though the Syndicate delegates day-to-day underwriting and related operational management responsibility to ICAT Managers, the directors regularly review the results of the coverholder's monitoring procedures and supplement these procedures with Managing Agent and third party audits.

Boulder Claims provides claims administration services to the Syndicate. The Managing Agent contracts with a third party to coordinate oversight of Boulder Claims.

Report of the Directors of the Managing Agent (Continued)

Three Years Ended 31 December 2014

The insurance services that ICAT Managers and Boulder Claims (collectively, ICAT) provide to the Syndicate account for 69.6% of their total business ICAT also provides services to other syndicates and insurance carriers and claims services to a state sponsored risk pool. ICAT's main office is in Broomfield, Colorado.

The Syndicate also contracts with other parties to underwrite a small amount of insurance business subject to oversight by ICAT.

2012 Underwriting Year Business Review

Business Summary

The Syndicate entered into a binding authority with ICAT to underwrite insurance business for the 2012 underwriting year. ICAT wrote this business in the underwriting regions of the U.S, below.

- i. Eastern Seaboard
- ii. Florida
- iii. Gulf Coast
- iv. Hawaii
- v. Earthquake (California, Pacific Northwest, New Madrid, Intermountain West, Alaska, Hawaii, Mississippi, New Jersey, South Carolina, Massachusetts, and Maryland)

ICAT further divided its underwriting operations into two business units: the Platform Business Unit (PBU) and the Middle Market Business Unit (MMBU).

- i. The PBU provides coverage to small businesses that the traditional insurance industry may overlook having properties with insured values of generally \$5.0 million or less with an average value of \$1.7 million and an average premium of \$6,005. In certain areas the maximum insured value may be as low as \$1.5 million or as high as \$10.0 million. Small business policies account for 49.0% of the Syndicate's total business.
- ii. The MMBU provides coverage to middle market businesses on the lower end of the market that require customized and layered insurance solutions. Middle market properties have insured values of more than \$5.0 million, but typically less than \$35.0 million, with an average value of \$18.6 million and an average premium of \$43,118. Middle market policies account for 45.7% of the Syndicate's total business.

The Syndicate also provided proportional reinsurance to a U.S. insurance company (the Ceding Company) covering Hawaii personal lines risks (homeowners, renters, and condominium unit owners) against named hurricanes for the 2012 underwriting year. ICAT underwrote this coverage under a program manager agreement with the Ceding Company. The reinsurance arrangement includes ceding commission of 37.5% on inward reinsurance premiums. This reinsurance acceptance accounted for 5.2% of the Syndicate's total business for the 2012 underwriting year.

A separate binding authority agreement with a third party to underwrite policies covering high-value homes in the Northeast U.S. account for the rest of the Syndicate's total business.

Report of the Directors of the Managing Agent (Continued)

Three Years Ended 31 December 2014

Key Financial Performance Indicators

In the opinion of the directors, the key financial performance indicators below best represent the performance and position of the Syndicate for the underwriting year.

	2012 Underwriting Year \$000
Gross written premiums:	
Eastern Seaboard	12,915
Florida	42,904
Gulf Coast	34,909
Hawaii (includes direct and inward reinsurance premiums)	6,875
Earthquake	20,839
Total gross written premiums	<u>118,442</u>
Outward reinsurance premiums	<u>(42,251)</u>
Profit for the closed year of account	<u>13,528</u>
Members' balances	<u>47</u>
Loss ratio	30.4%
Combined ratio (financial basis)	82.4%

The 2012 underwriting year was affected by the catastrophe events of Hurricane Isaac and Superstorm Sandy and various large fire losses. A hard reinsurance market prevailed at the time of catastrophe reinsurance placement as reinsurers had sustained large losses for 2011 global catastrophe events, which included the Japanese earthquake and subsequent tsunami, and Hurricane Irene. The catastrophe coverage contracts increased primarily due to the addition of a 4th layer of coverage (County Weighted Industry Loss \$20.0 million excess \$200.0 million). AOP reinsurance costs increased in 2012 due to the addition of a new reinsurance program, Equipment Breakdown - this program was in-force throughout all of 2012, whereas it was in-force for only half of 2011. Despite higher reinsurance costs outlined above, the Syndicate delivered a return on capacity of 10.9%.

This table summarises the surpluses (deficits) from earlier underwriting years reinsured by the 2012 underwriting year by pure underwriting year.

	Pure Underwriting Years				
	2011 \$000	2010 \$000	2009 \$000	2008 \$000	2007 \$000
Surplus (deficit)	<u>41</u>	<u>(40)</u>	<u>—</u>	<u>—</u>	<u>—</u>

The positive development for 2011 underwriting year is mostly due to the decrease in the claims reserve and a refund for operating expenses. The adverse development for 2010 underwriting year is mostly due to the increase in the claims reserve.

Report of the Directors of the Managing Agent (Continued)
 Three Years Ended 31 December 2014

Non-financial Key Performance Indicators

	2012 Underwriting Year
Adherence to underwriting authority limits	100.0%

The Managing Agent contracted with ICAT to perform a majority of the Syndicate's activities. The Managing Agent's staff, reviewed and monitored the activities of ICAT and provided actuarial (both reserving and capital modelling), regulatory compliance, and risk management services to the Syndicate. The Managing Agent is responsible for the environmental activities of the Syndicate, though by their nature, insurers generally do not produce significant environmental emissions. Therefore, the directors do not consider it appropriate to monitor and report any performance indicators for environmental matters.

Outward Reinsurance Arrangements

Catastrophe Coverage – The Syndicate had reinsurance to protect against the occurrence of large catastrophes, each with losses in excess of \$30.0 million up to \$220.0 million (\$400.0 million in the aggregate). The Syndicate entered into a County Weighted Industry Loss (CWIL) arrangement for 10.0% of the third layer and 100.0% of the fourth layer. This arrangement limited the Syndicate's recovery to the lesser of the CWIL or the Syndicate's overall loss from a catastrophe. Before 1 April 2012, the Syndicate had similar reinsurance arrangements in place with the exception of the CWIL arrangement and the fourth layer of coverage.

The Syndicate also purchased reinstatement protection on a portion of its catastrophe coverage.

All Other Peril Coverage – The Syndicate had reinsurance to protect against the occurrence of other events such as large fires. The Syndicate reinsured losses in excess of \$1.0 million for each building up to \$15.0 million and events damaging several buildings in the same location with losses in excess of \$2.0 million up to \$10.0. For multiple sinkhole collapse and terrorism events, total coverage was limited to \$27.0 million. The Syndicate also purchased facultative reinsurance for individual large risks.

Investments

The Syndicate's investment strategy sought to preserve capital and maintain enough liquidity to support the underwriting activities of the 2012 underwriting year's business. The Managing Agent delegated the management of funds under its control in the U.S. situs trust funds to an external fund manager, General Re – New England Asset Management (GR-NEAM). The Managing Agent, in consultation with ICAT, established investment guidelines for the fund manager to follow. Under these guidelines, the fund manager maintained an investment portfolio, which focused on credit quality in the selection of investments and avoided complex instruments and investments correlated to the Syndicate's loss exposures in areas prone to hurricanes and tropical storms.

The directors evaluated the fund manager's performance against the Bank of America Merrill 0-1 year U.S. Treasury Notes and Bonds benchmark. The fund manager outperformed this benchmark by 0.2% during the last three years. U.S. trust funds include the U.S. situs trust funds and the Lloyd's Dollar Trust Fund (the Syndicate's main operating account) under the Managing Agent's control. U.S. trust funds also included the Lloyd's Joint Asset Trust Funds (JATF), which provided additional support to the U.S. situs funds. Citibank is the custodian of the U.S. situs trust funds and

Report of the Directors of the Managing Agent (Continued)

Three Years Ended 31 December 2014

Lloyd's Dollar Trust Fund, while The Bank of New York Mellon Corporation is the custodian of the JATF. The U.S. situs trust funds and JATF protect the Syndicate's policyholders as required by U.S. regulators and are unavailable for use in the Syndicate's operations.

Foreign Exchange

Foreign exchange was not significant to the Syndicate, since the Syndicate transacted all of its business in the U.S. in U.S. Dollars.

Directors

The people below were directors of the Managing Agent of the Syndicate from 1 January 2014 to the date of this report.

T A Riddell, Chairman and Non-Executive Director	
Y A Bouman	Appointed 4 July 2014
G M J Erulin, Non-Executive Director	
L Harfitt	
A J Hubbard, Non-Executive Director	Appointed 1 April 2014
D J G Hunt	
D F C Murphy, Non-Executive Director	
S P A Norton	
J W Ramage, Non-Executive Director	
J M Tighe	
H M Westcott	Resigned 30 April 2014

The directors of Chaucer, the previous Managing Agent, served in this capacity before 1 January 2013. Neither Chaucer nor Asta directors participated on the Syndicate or had an interest in any of its contracts.

Disclosure of Information to Auditors

Each of the directors who held office at the approval date of this report confirms to the best of their knowledge, that there is no relevant audit information of which the Syndicate's auditors are unaware, and each Director took all action necessary as a Director to become aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

On behalf of the Board



Charmaine Chow
Company Secretary
13 March 2015

Statement of Managing Agent's Responsibilities

Three Years Ended 31 December 2014

The Managing Agent must prepare underwriting year accounts for the members of Syndicate 4242 (the Syndicate) in accordance with Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare underwriting year accounts for the Syndicate for each underwriting year closed by reinsurance to close at 31 December to give a true and fair view of the closed year's result.

In preparing underwriting year accounts for the Syndicate, the Managing Agent must:

- i. select suitable accounting policies and apply them consistently throughout each underwriting year and from one underwriting year to the next, subject to changes from newly adopted accounting standards. Where items affect more than one underwriting year, the Managing Agent must ensure that the Syndicate treats the affected member equitably. In particular, the premium charged for reinsurance to close should be equitable between the reinsured and reinsuring members of the Syndicate;
- ii. account for all income and charges for the closed underwriting year regardless of the date received or paid;
- iii. make reasonable and prudent judgments and accounting estimates; and
- iv. state whether they followed applicable accounting standards, subject to any material departures disclosed and explained in the notes to the underwriting year accounts.

The Managing Agent must keep adequate accounting records that disclose with reasonable accuracy at any time the financial condition of the Syndicate and enable the Managing Agent to ensure that the Syndicate's underwriting year accounts comply with the 2008 regulations. The Managing Agent must also safeguard the assets of the Syndicate by taking reasonable steps to prevent and detect fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the U.K. governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Syndicate 4242 – 2012 Closed Year of Account

We have audited the syndicate underwriting year accounts for the 2012 year of account of Syndicate 4242 for the three years ended 31 December 2014, as set out on pages 12 to 27. The financial 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 auditors' 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 auditors

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the Managing Agent is responsible for the preparation of syndicate underwriting year accounts under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the syndicate underwriting year accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of syndicate underwriting year 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 underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2012 closed year of account;
- 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 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Independent Auditors' Report to the Members of Syndicate 4242 – Closed 2012 Year of Account (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires us to report to you if, in our opinion:

- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London

15 Canada Square
London
E14 5GL
13 March 2015

Profit and Loss Account - Technical Account - 2012 Underwriting Year
 Three Years Ended 31 December 2014

	Note	\$000
Technical account - General business:		
Earned premiums, net of reinsurance:		
Gross premiums written	4	118,442
Outward reinsurance premiums		<u>(42,251)</u>
Earned premiums, net of reinsurance		76,191
Reinsurance to close premiums received, net of reinsurance		757
Allocated investment return transferred from the non-technical account	5	6
Claims incurred, net of reinsurance:		
Claims paid:		
Gross amount		(22,327)
Reinsurers' share		<u>977</u>
Claims paid		(21,350)
Reinsurance to close premium payable, net of reinsurance	12	<u>(2,541)</u>
Claims incurred, net of reinsurance		(23,891)
Net operating expenses	6, 7	<u>(39,535)</u>
Balance on technical account - general business	11	<u><u>13,528</u></u>

The underwriting year closed and therefore all items relate to discontinued activities.

The notes on pages 15 to 27 form part of these underwriting year accounts.

Profit and Loss Account - Non-technical Account - 2012 Underwriting Year
 Three Years Ended 31 December 2014

	Note	\$000
Balance on the technical account - general business		13,528
Investment income	5	107
Unrealised gains on investments	5	7
Investment expenses and charges	5	(80)
Unrealised losses on investments	5	(28)
Allocated investment return transferred to general business technical account	5	(6)
Profit for the closed year of account		<u>13,528</u>

The underwriting year closed and therefore all items relate to discontinued activities.

Syndicate 4242 had no recognised gains and losses for the 2012 underwriting year other than those included in the Profit and Loss Account. Therefore, the directors of the Managing Agent have not presented a separate Statement of Total Recognised Gains and Losses for the 2012 underwriting year.

The notes on pages 15 to 27 form part of these underwriting year accounts.

Balance Sheet - 2012 Underwriting Year
At 31 December 2014

	Note	<u>\$000</u>
Assets:		
Investments:		
Other financial investments	8	2,139
Debtors:		
Other debtors		—
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	12	—
Other assets	9	727
Prepayments and accrued income		<u>10</u>
Total assets		<u><u>2,876</u></u>
Liabilities:		
Amounts due to members	10	47
Reinsurance to close premiums payable to close the account - gross amount	12	2,541
Creditors:		
Creditors arising out of direct insurance operations		18
Creditors arising out of reinsurance operations		—
Other creditors	13	<u>13</u>
		31
Accruals and deferred income		<u>257</u>
Total liabilities		<u><u>2,876</u></u>

The board of Asta Managing Agency Ltd approved Syndicate 4242's underwriting year accounts on pages 12 to 27 on 9 March 2015, which the Director below signed on the board's behalf.



David J G Hunt
Director
13 March 2015

The notes on pages 15 to 27 form part of these underwriting year accounts.

Notes to the Underwriting Year Accounts Three Years Ended 31 December 2013

(1) Basis of Preparation

The directors of the Managing Agent (the directors) prepared these 2012 underwriting year accounts for Syndicate 4242 (the Syndicate) in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and accounting standards in the United Kingdom (U.K.) applicable to the Syndicate as if it were an insurance company formed and registered under the Companies Act 2006. These underwriting year accounts also comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 and amended in December 2006.

Members participate in the Syndicate on an underwriting year basis under agency agreements with the Managing Agent; each underwriting year is a separate annual venture. Agency agreements grant underwriting control to the Managing Agent; members have no access to funds controlled by the Syndicate. The Managing Agent normally keeps each underwriting year open for three calendar years before determining the result for the year and potentially releasing funds to the members of the year. The Managing Agent assesses the result and net assets for each underwriting year based on the insurance policies incepting in that year for the membership of that year. The directors may also release funds early on open underwriting years if they can determine the ultimate profitability of the year with enough accuracy (generally at the end of two calendar years).

The directors prepared these accounts for the 2012 underwriting year, which closed on 31 December 2014 by payment of a reinsurance to close (RITC) premium to the 2013 underwriting year, on an underwriting year basis. Therefore, the profit and loss account reflects transactions on the 2012 underwriting year over the last three years. The balance sheet shows the ending assets and liabilities of the 2012 underwriting year at the closure of the year.

(2) Managing Agent

The Corporation of Lloyd's (Lloyd's) approved the 1 January 2013 transfer of the management of the Syndicate from Chaucer Syndicates Limited (Chaucer) to Asta Managing Agency Ltd (Asta).

(3) Accounting Policies

The directors consistently applied the material accounting policies below in preparing these underwriting year accounts.

(a) Gross Premiums

Gross premiums consist of premiums on insurance contracts bound during the underwriting year. Gross premiums also include inward reinsurance premiums from ceding insurance companies on the underlying policies bound during the underwriting year, an inward portfolio transfer from the last underwriting year and an outward portfolio transfer to the next underwriting year. The Syndicate shows premiums gross of coverholder commissions and excludes taxes and fees levied on them.

Notes to the Underwriting Year Accounts (Continued)
Three Years Ended 31 December 2013

(3) Accounting Policies (Continued)

(b) *Outward Reinsurance Premiums*

Outward reinsurance premiums include premiums on outward reinsurance contracts that reduce the underwriting year's exposure to losses from catastrophes and all other property perils. The directors allocate catastrophe reinsurance premiums to underwriting years based on each year's contribution to the weighted average modelled losses of the reinsurance contracts. The directors charge the costs of reinsurance for all other property perils to underwriting years based on when the reinsured policies incept. Reinsurance transactions do not relieve the Syndicate of its primary obligations to its policyholders.

(c) *Claims Paid, Net of Reinsurance Recoveries*

Gross claims paid include the settlement costs of claims against insurance contracts bound during the underwriting year and related claims handling expenses. The directors allocate catastrophe reinsurance recoveries to underwriting years based on each year's share of the underlying losses from the affected insurance contracts triggering the recoveries. The directors credit recoveries against all other property perils to underwriting years based on when the reinsured policies incept.

(d) *RITC Premium Payable*

The directors determine RITC premiums based on the cost of settling all notified but not settled claims outstanding at the closure of the underwriting year. RITC premiums also include a provision for the estimated cost of claims incurred but not reported (IBNR) at the closure of the underwriting year based on statistical methods and includes adjustments for catastrophes and other significant events, changes in historical trends, economic and social conditions, judicial decisions, and legislation, as necessary. In evaluating the provision, the directors used the findings of the Syndicate's actuaries, which included an associated third party claims administrator's loss estimates for large catastrophes.

The claims administrator, together with loss modelling staff, base the selected estimate of losses for each large catastrophe after considering the range of ultimate loss estimates using various methods. Such methods include expected claim count and average cost per claim, incurred loss development, stochastic event scenario modelling from different software vendors, market share analysis, and other information, including independent third party evaluations. For smaller catastrophes and all other property perils, the Syndicate's actuaries apply Initial Expected Loss Ratios (IELRs) for each class of business, which is segmented by homogeneous regions and/or policy types. The Syndicate's actuaries develop these IELRs against catastrophe models, market data, and past claims on similar classes of business.

Notes to the Underwriting Year Accounts
Three Years Ended 31 December 2013

(3) Accounting Policies (Continued)

(d) RITC Premium Payable (Continued)

The provision for claims outstanding is subject to significant variability. While the directors believe that the determined provision for gross claims and reinsurance recoveries is adequate, establishing this liability is a judgmental and inherently uncertain process. Therefore, it is possible that actual losses may not conform to the assumptions that the directors used in determining the amount of this provision. Accordingly, the ultimate provision may be significantly greater or less than the amount RITC premiums determined at the closure of the underwriting year. The nature, however, of short tail claims, such as the property insurance that the Syndicate underwrites, where policyholders typically notify the Syndicate of their claims within an average of 25 days and the Syndicate typically settles these claims within a short time period is normally less uncertain after a few years than long tail risks, such as some liability lines of business, where it may be several years before policyholders advise their insurance carriers of their claims and the carriers settle them.

The directors based the reinsurers' share of the provision for claims outstanding on the provisions for reported claims and IBNR, net of estimated irrecoverable amounts from potential reinsurer insolvencies based on the type of balance and security ratings of the involved reinsurers. The directors used statistical methods to help them make these estimates.

(e) Investments

Investments consist of shares and other variable yield securities and debt and other fixed income securities. The Syndicate carries investments at current or market value.

(f) Investment Return

Investment return consists of income from investments, gains and losses on the realisation of investments, and movements in unrealised gains and losses on investments, net of investment management expenses. Income from investments consists of interest, which the Syndicate recognises when earned. The Syndicate bases realised gains and losses on each investment on the difference between the sale proceeds and the cost of the investment. Movements in unrealised gains and losses on investments represent the difference between the carrying value of investments at the balance sheet date and the purchase price of investments in earlier accounting periods, after considering investment disposals. Investment management expenses consist of investment custodian and fund management fees.

The directors credit the investment return on the joint trust funds to underwriting years based on the advice of Lloyd's. The directors allocate the calendar year investment return on all other investments to underwriting years open during the calendar year in proportion to the average funds available for investment from each underwriting year.

The Syndicate first records its investment return in the non-technical account. The Syndicate then transfers this return to the general business technical account to reflect the investment return on funds supporting the Syndicate's underwriting business.

Notes to the Underwriting Year Accounts (Continued)
Three Years Ended 31 December 2013

(3) Accounting Policies (Continued)

(g) *Net Operating Expenses*

The directors charge operating expenses to the underwriting year that the Syndicate incurred them for. Operating expenses include acquisition costs, administrative expenses, and reinsurance commissions and profit participation. Acquisition costs consist of coverholder and ceding commissions (on inward reinsurance acceptances) primarily related to the production of new and renewal business. Administrative expenses consist of:

- i. operating costs,
- ii. Managing Agent fees,
- iii. Lloyd's membership costs, and
- iv. auditor fees.

Administrative expenses also include profit commissions charged by the Managing Agent. Profit commissions equal a percentage of each underwriting year's profits subject to a two-calendar-year deficit carry-forward provision. The Syndicate charges commissions to expense when incurred. The Syndicate receives a share of brokerage from reinsurance brokers and recognises it, when brokers place the reinsurance coverage.

Reinsurance commissions and profit participation consist of ceding and contingent profit commissions from reinsurers. The Syndicate recognises ceding commissions as it expenses the underlying reinsurance premiums and accrues for contingent profit commissions based the contract formulas. The Syndicate's contingent profit commission calculations include a provision for IBNR.

(h) *Taxation*

Schedule 19 of the Finance Act 1993 does not require the Managing Agent to deduct basic rate income tax from the Syndicate's trading income. Also, the Managing Agent may recover all U.K. basic rate income tax (now at 20%) deducted from the Syndicate's investment income. Therefore, payments of profits made to members of the Syndicate or their members' agents are gross of tax. Trading income includes capital appreciation, which is also paid gross of tax. The Syndicate did not make any provision for U.S. federal income tax payable on its underwriting results or investment earnings for the 2012 underwriting year. The Syndicate's members pay these taxes alongside the U.K. income taxes resulting from the Syndicate's trading and investment income for the underwriting years they participate on. The Syndicate includes any tax payments made on account of its members for the underwriting year in members' balances.

(i) *Foreign Currency Translation*

The Syndicate's functional and reporting currency is the U.S. Dollar. The directors measured foreign currency assets and liabilities for the 2012 underwriting year at the closing exchange rate in effect at the closure of the year, while they measured foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions.

Notes to the Underwriting Year Accounts (Continued)
Three Years Ended 31 December 2013

(4) Segment Reporting

The table below details the underwriting year result before investment return by class of business.

	2012 Underwriting Year					Total
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance Balance	
Fire and other damage to property	118,442	118,442	(24,111)	(40,022)	(40,787)	13,522
RITC acceptance	757	757	(769)	—	12	—
Total	<u>119,199</u>	<u>119,199</u>	<u>(24,880)</u>	<u>(40,022)</u>	<u>(40,775)</u>	<u>13,522</u>

Included in the reinsurance balance are reinsurance commissions and profit participation of \$486,209.

Gross claims incurred consist of gross claims paid and gross RITC premiums payable. The reinsurance balance consists of outward reinsurance premiums less reinsurance recoveries on gross claims paid and anticipated reinsurance recoveries on gross RITC premiums payable.

The Syndicate only wrote business in the U.S.

(5) Investment Return

	2012 Underwriting Year \$000
Income from investments	100
Gains on realisation of investments	7
Unrealised gains on investments	7
Unrealised losses on investments	(28)
Investment management expenses	(80)
Total	<u>6</u>

Notes to the Underwriting Year Accounts
Three Years Ended 31 December 2013

(5) Investment Return (Continued)

This table details the average funds available for investment, investment return, and investment yield for the underwriting year. The Syndicate held all of its investments in U.S. Dollars.

	2012 Underwriting Year \$000
	<u>13,565</u>
Average funds available for investment	13,565
Investment return	100
Investment yields	0.7%

(6) Net Operating Expenses

	2012 Underwriting Year \$000
	<u>32,556</u>
Acquisition costs	32,556
Administrative expenses	7,465
Reinsurance commissions and profit participations	<u>(486)</u>
Total	<u><u>39,535</u></u>

This table details administrative expenses included in net operating expenses for the underwriting year.

	2012 Underwriting Year \$000
	<u>1,879</u>
Operating costs (includes Managing Agent recharges)	1,879
Managing Agent fees and profit commissions	5,183
Lloyd's membership costs	626
Auditor remuneration - audit fees	349
Brokerage sharing	<u>(572)</u>
Total	<u><u>7,465</u></u>

Managing Agent fees consist of the service fees paid to the Managing Agent. Fees paid to the Syndicate's auditor were primarily in relation to the audit of annual and underwriting year accounts of the Syndicate and the audit of Lloyd's regulatory returns. Audit fees also include fees for the Syndicate's half year reviews of \$28,440.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2013

(7) Directors' Compensation and Staffing

Neither Chaucer nor Asta directors received any compensation for their services during the last three years, nor did the directors participate on the Syndicate or have an interest in any of its contracts.

Chaucer employed an average of eight people that worked for the Syndicate in the administration and finance area in 2012, while Asta employed an average of ten people in 2013 and 2014. The Managing Agents recharged the Syndicate for the payroll costs of one of these employees. Service fees paid to the Managing Agents as part of their Managing Agent fees included compensation for the other employees.

International Catastrophe Insurance Managers, LLC (ICAT Managers), a Delaware company, underwrites most of the Syndicate's insurance business. Boulder Claims, LLC (Boulder Claims), also a Delaware company and a wholly owned subsidiary of ICAT Managers (collectively ICAT), provides claims administration services to the Syndicate.

The Syndicate's staff compensation expense includes compensation made to ICAT Managers for a component of salary expense for executive underwriting staff, including the Active Underwriter, who works directly for the Syndicate.

This table details the payroll recharges, included in administrative expenses under operating costs, to the Syndicate by category for the underwriting year.

	2012 Underwriting Year \$000
Wages and salaries	367
Social security costs	11
Other pension costs	3
Total	<u>381</u>

An external fund manager provides investment services to the Syndicate.

Notes to the Underwriting Year Accounts
Three Years Ended 31 December 2013

(8) Other Financial Investments

	2012 Underwriting Year \$000	
	Market value	Cost
Shares and other variable yield securities	1,793	1,780
Debt securities and other fixed income securities	346	346
Total	<u>2,139</u>	<u>2,126</u>

The Syndicate holds all of its debt and other fixed-income securities in the Lloyd's Dollar Trust Fund and the U.S. situs trust funds. Funds are required to be held in the U.S. situs trust funds to protect its policyholders as required by U.S. regulators; all of these securities are listed, but unavailable for use in the Syndicate's operations. The Syndicate did not write-down any of the 2012 underwriting year's allocated investments.

(9) Other Assets

	2012 Underwriting Year \$000
Overseas deposits	658
Cash at bank and in hand	69
Total	<u>727</u>

Overseas deposits consist of funds contributed to joint asset trust funds which Lloyd's maintains to provide additional security to U.S. policyholders and third party claimants. The Syndicate cannot direct the investment of these funds, which are also unavailable for use in its operations.

(10) Reconciliation of Amounts Due from Members

	2012 Underwriting Year \$000
Profit for the closed year of account	13,528
Members' agent fees	(173)
U.S. federal income tax payments made on account of members	(983)
Other amounts due to members	75
Early payments of profit to members' personal reserve fund	<u>(12,400)</u>
Amounts due to members at 31 December 2014	<u>47</u>

Notes to the Underwriting Year Accounts (Continued)
 Three Years Ended 31 December 2013

(11) Balance on Technical Account – General Business

	2012 Underwriting Year \$000
Profit for the closed year of account, excluding surpluses (deficits) from earlier underwriting years reinsured, net operating expenses, and allocated investment return transferred from the non-technical account	53,056
Surpluses (deficits) from earlier underwriting years reinsured:	
2011 pure underwriting year	41
2010 pure underwriting year	(40)
2009 pure underwriting year	—
2008 pure underwriting year	—
2007 pure underwriting year	—
Total surpluses (deficits) from earlier underwriting years reinsured	1
Net operating expenses	(39,535)
Allocated investment return transferred from the non-technical account	6
Balance on technical account - general business	<u>13,528</u>

(12) Net RITC Premium Payable

	2012 Underwriting Year \$000		
	Gross	Reinsurers' share	Net RITC Premium Payable
Claims notified	723	—	723
Claims IBNR	1,818	—	1,818
Total	<u>2,541</u>	<u>—</u>	<u>2,541</u>

Notes to the Underwriting Year Accounts
Three Years Ended 31 December 2014

(13) Other Creditors

	2012 Underwriting Year \$000
Amounts owed to associated companies	<u>13</u>

(14) Related Parties

Asta is the Managing Agent of the Syndicate (before 1 January 2013, Chaucer Syndicates Limited (Chaucer) was the Managing Agent).

This table details amounts paid to Asta and Chaucer on the underwriting year.

	2012 Underwriting Year \$000
Managing Agent fees on insurance capacity	1,232
Service fees	2,019
Recharges (payroll costs and expenses)	85
Profit commissions	<u>1,771</u>
Total paid	<u>5,107</u>

Commissions paid to ICAT for underwriting services totalled \$30.1 million on gross written premiums of \$118.4 million for the 2012 underwriting year. Fees paid to Boulder Claims for claims administration services totalled \$1.2 million for the 2012 underwriting year.

ICAT is an indirect subsidiary of Paraline Group, Ltd. (Paraline Group), a company registered in Bermuda that also provided 47.0% of the Syndicate's insurance capacity for the 2012 underwriting year through its indirectly owned Paraline and ICAT corporate members. Paraline Reinsurance, Ltd. (Paraline Re), an indirectly owned Bermudian reinsurance company of Paraline Group supported the Paraline corporate member's participation on the Syndicate for the 2012 underwriting year, while unrelated foreign reinsurers fully supported the ICAT corporate members' participation. An affiliate of Paraline Group, Elliott CCM Limited, provided another 3.5% of capacity. The table below details the percentage of total Syndicate capacity provided by other parties.

	2012 Underwriting Year
General Insurance Corporation of India	5.0%
Hampden Agencies Limited	11.0%
IAT Reinsurance Company Ltd	7.0%
Labuan Re Underwriting Limited	14.5%
SCOR Underwriting Limited	<u>12.0%</u>
Total	<u>49.5%</u>

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2014

(14) Related Parties (Continued)

Chaucer syndicate 1084 together with other reinsurers provide non-proportional All Other Peril reinsurance to the Syndicate to protect against an event such as a large fire damaging several buildings in the same location with losses in excess of \$2.0 million up to \$10.0 million (losses in excess of \$2.5 million up to \$12.5 million before 1 April 2012); syndicate 1084's share of this coverage is 20.0% (17.5% before 1 April 2012), accounting for less than 1.0% of 2012 underwriting year's allocated overall reinsurance costs.

A reinsurance affiliate of SCOR Underwriting Limited, SCOR Global P&C SE (SCOR Global), together with other reinsurers also provides layered, non-proportional catastrophe reinsurance without prepaid reinstatement to the Syndicate to protect against the occurrence of large catastrophes, each with losses in excess of \$30.0 million up to \$220.0 million; SCOR Global's share of this coverage is 2.5% (4.4% before 1 April 2012), accounting for 2.3% of 2012 underwriting year's allocated overall reinsurance costs.

Paraline Re, together with other reinsurers provided layered, non-proportional catastrophe reinsurance premium protection to the Syndicate to cover potential reinstatement premiums. Paraline Re's share of this coverage was 14.7%, accounting for \$1.0 million or 2.5% of the 2012 underwriting year's allocated overall reinsurance costs.

A wholly owned subsidiary of Paraline Group, Paraline International, Ltd. (Paraline International), a company also registered in Bermuda, owns 30.0% of Asta's ultimate parent, Asta Capital Limited, a company incorporated in the U.K. and registered in England and Wales.

Asta is the Managing Agent for nine Lloyd's Syndicates. In addition to the Syndicate, Asta manages Syndicates 1686, 1729, 1897, 1910, 2357, 2525, 2526, and 6117 on behalf of third party capital providers that are independent of the Syndicate's capital providers. Asta also provides administrative services to syndicates and undertakes a number of ancillary roles for clients.

(15) Subsequent Event

The Syndicate will make a final profit distribution of \$1.1 million to 2012 underwriting year's participating members in the second quarter of 2015.

Asta Report – Syndicate 4242

Six Year Summary of Closed Year of Account Results
31 December 2014

	Note	Closed Year of Account					
		2012	2011	2010	2009	2008	2007
Syndicate insurance capacity (£000)		80,000	80,000	99,000	83,637	83,646	83,616
Syndicate insurance capacity (\$000)		124,000	125,600	159,390	129,637	131,324	134,622
Number of underwriting members		12	10	7	7	7	7
Earned premiums, net of reinsurance and acquisition costs (\$000)		43,635	36,900	39,299	36,821	33,813	27,549
Results for an illustrative share of £10,000 of insurance capacity		\$	\$	\$	\$	\$	\$
Gross premiums written		14,805	13,409	10,500	14,513	14,303	8,746
Earned premiums, net of reinsurance and acquisition costs		5,454	4,613	3,970	4,402	4,042	3,295
Premium for the reinsurance to close an earlier year of account		94	104	(47)	(147)	103	—
Claims paid, net of reinsurance		(2,669)	(1,627)	(1,368)	(409)	(4,919)	(488)
Premium for the reinsurance to close the year of account		(318)	(94)	(84)	56	147	(101)
Profit (loss) on foreign exchange		(5)	4	(1)	(1)	(104)	21
Operating expenses		(327)	(146)	(270)	(99)	(165)	(185)
Balance on technical account		2,230	2,854	2,200	3,802	(896)	2,542
Investment return		1	5	24	39	17	73
Profit (loss) for the closed year		2,231	2,859	2,224	3,841	(879)	2,615
Illustrative profit commission - Managing Agent's share		(242)	(289)	(251)	(308)	—	(287)
Illustrative personal expenses	1	(474)	(547)	(219)	(331)	(414)	(651)
Profit (Loss) after illustrative profit commission and personal expenses	2	1,515	2,023	1,754	3,202	(1,293)	1,677
		£	£	£	£	£	£
Profit (Loss) after illustrative profit commission and personal expenses	2	975	1,219	1,076	2,065	(823)	1,041

(1) Illustrative Personal Expenses

Illustrative personal expenses include Managing Agent fees on insurance capacity and Lloyd's membership costs (members' subscriptions and contribution to the New Central Fund).

(2) Profit (Loss) After Illustrative Profit Commission and Personal Expenses

Syndicate 4242's functional currency is the U.S. Dollar (see note (3)(i) to the underwriting year accounts); the directors therefore presented the Six Year Summary of Closed Year of Account Results in U.S. Dollars.