

Antares Syndicate 1274

Annual Report and Accounts

31 December 2010



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Directors and administration

MANAGING AGENT:

Managing agent from 15 January 2010

Antares Managing Agency Limited

Directors

T J Hayday*, BA, MBA, FCII (Chairman - appointed 15 January 2010)

T A Clegg*, FCII, ACI Arb (appointed 15 January 2010)

E H Gilmour*, MA, FCA (appointed 15 January 2010)

A S Minns*, LLB (appointed 15 January 2010)

R A Stuchbery*, FCII (appointed 15 January 2010)

S D Redmond, FCII

R A Sutlow, ACII, ACMA

J M Linsao, BA, JD (appointed 15 January 2010)

P M Johnson, MA, FIA (appointed 15 January 2010)

J A Battle (appointed 15 January 2010)

* Non-Executive Director

Company Secretary

J M Linsao

Managing agent's registered office

10 Lime Street, London, EC3M 7AA

Managing agent's registered number

Registered Number: 6646629

SYNDICATE 1274:

Active underwriter

J A Battle

Bankers

Citibank N.A.

Lloyds TSB Bank plc

Royal Bank of Canada

Registered auditors

Ernst & Young LLP, London

Directors and administration (continued)

Managing agent until 14 January 2010

Chaucer Syndicates Limited

Directors

R V Deutsch* (Chairman, appointed 1 January 2010)

K Barber (resigned 12 January 2011)

B P Bartell

D C Bendle (resigned 18 January 2011)

G C Butterworth

M C Carrillo (appointed 18 May 2010)

T J Carroll* (appointed 4 August 2010)

M J Cox* (resigned 1 October 2010)

K D Curtis

J Fowle (appointed 11 January 2010)

S J Helson

D S Mead (appointed 29 November 2010)

J D Perkins

R T Scholes* (Deputy Chairman, appointed 01 January 2010)

C M Stooke* (appointed 28 September 2010)

R A Stuchbery

G M Wood* (appointed 1 September 2010)

* Non-Executive Director

Company Secretary

D C Turner

Managing agent's registered office

Plantation Place, 30 Fenchurch Street, London, EC3M 3AD

Managing agent's registered number

Registered Number: 184915

Report of the Directors of the Managing Agent

The Directors of Antares Managing Agency Limited ('the Managing Agent') present their report for the year ended 31 December 2010.

The Managing Agent

From 15 January 2010 the Managing Agent is Antares Managing Agency Limited, whose registered office is 10 Lime Street, London, EC3M 7AA and registered number is 6646629.

The Managing Agent until 14 January 2010 was Chaucer Syndicates Limited whose registered office is Plantation Place, 30 Fenchurch Street, London, EC3M 3AD and registered number is 184915.

Results

The results for the year are set out on pages 11 and 12. The retained loss for the year is £2.7m (2009: retained profit £15.3m).

Principal activity and review of the business

The principal activity of Syndicate 1274 is the transaction of general insurance and reinsurance business in the United Kingdom.

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

	2010 <u>£'000</u>	2009 <u>£'000</u>	Change <u>%</u>
Gross written premiums	189,151	191,146	-1.0%
Net earned premiums	137,191	139,046	-1.3%
(Loss)/profit for the financial year	(4,824)	13,791	
Combined ratio	104.3%	90.5%	

Note: The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. The lower the combined ratio, the more profitable the result will be. A ratio of 100% is considered to represent a 'break-even' or zero profit insurance result.

For 2010, both written and earned premium have remained at the levels experienced in 2009. Although the Syndicate had planned to increase levels of underwriting during 2010, premium rating was not as favourable as anticipated and as a consequence, no overall growth is shown. During the year, the Syndicate ceased underwriting Direct & Facultative Property business due to inadequate premium rates. The Syndicate continues to underwrite a balanced Marine, Aviation, Transport, Property Treaty and Accident portfolio.

The combined ratio for 2010 has deteriorated to 104.3% from 90.5% in 2009. This results in a loss of £4.8m for 2010 in contrast to the profit of £13.8m for 2009. The key difference in the results for the two years was the relatively benign claims experience in 2009 contrasting with the catastrophe loss affected 2010. In particular, the Syndicate results for 2010 reflect net losses of £12m and £4m (US\$19m and US\$6m) in respect of the February 2010 Chilean and September 2010 New Zealand earthquakes respectively.

Syndicate expenses of £14.1m (2009: £14.1m) and net acquisition costs of £31.2m (2009: £27.4m) were incurred during the year, in line with expectations.

Investment income of £1.1m (2009 £0.5m) was credited in the year. Although the levels of cash and investments have risen steadily during the year to £146.7m at 31 December 2010 from

£120.5m at 31 December 2009, interest rates and investment yields remain exceptionally low. As a consequence, investment income has increased only modestly since last year.

Future developments

Syndicate 1274 does not anticipate any change in its strategy of controlled, profitable growth and will continue to maintain a balanced portfolio for 2011.

Principal risks and uncertainties

The Board sets risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment process. The Managing Agent has established a Risk and Capital Committee that meets monthly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing Syndicate 1274 are as follows:

Insurance risk

Insurance risk includes the risk that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the plan on a quarterly basis throughout the year. Catastrophe modelling software is utilised to model maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through quarterly review by the Managing Agency's chief actuary coupled with an actuarial review conducted by an external actuary once a year.

Syndicate 1274 manages underwriting risk through monthly reporting utilising centrally prepared detailed underwriting management information packs. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, experience variations, cycle management, reinsurance protection and catastrophe modelling.

Underwriting authorities, underwriting peer, independent and expert review procedures and the audit and review of delegated arrangements, all contribute to the strength of the underwriting control environment.

Underwriting exposure is controlled via risk policy coding systems, setting of maximum lines, setting of jurisdiction limits, strict underwriter authority limits, Realistic Disaster Scenario modelling, reinsurance programme design, policy limitations and exclusions, imposed deductibles and standard policy wording and coverage clauses.

The Managing Agent records and monitors individual risk exposures for the Syndicate on a regular basis to ensure they remain within the policies and guidelines set. Aggregations of risk are monitored using specialist software tools.

The Managing Agent manages Syndicate 1274 claims related risks by way of reinsurance and by a similar monitoring process to underwriting. There are strict claims handling authority limits and standard claims reports. Only approved third party adjustors and surveyors are used.

The reserving policy for the Syndicate seeks to ensure appropriate allowance for reserving risk, consistency in reserving from year to year and the equitable treatment of capital providers on closure of a year of account.

Booked reserves provide the basis for the Syndicate results and forecasts. The Board of the Managing Agent ultimately approves the booked reserves.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners, and access to a history of loss data.

Credit risk

The Managing Agent reviews all reinsurer counterparties with whom Syndicate 1274 wishes to conduct business and sets credit limits for the recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, management of reinsurer credit risk follows active and regular review of the credit rating and financial exposure to all approved reinsurers.

Reinsurance in respect of Syndicate 1274 is predominantly purchased from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets.

Investment strategy and investment risk management

The Managing Agent philosophy is that investment activities are complementary to the primary underwriting activities of the business and should not therefore divert or utilise financial resources otherwise available for insurance operations.

The preservation of capital and maintenance of sufficient liquidity to support the business and the enhancement of investment returns, within a set of defined risk constraints which limit the duration and credit risks of investments, are at the heart of the financial market risk policies adopted by the Managing Agent.

Syndicate 1274 has investments in short-term bank deposits, UCITS funds and a portfolio of US Dollar denominated debt securities managed by BlackRock, a professional portfolio manager.

Financial Market risk

Syndicate 1274 underwrites a significant proportion of insurance business in currencies other than sterling, which gives rise to a potential exposure to currency risk. In addition, the Syndicate recognises a natural currency mismatch in a business in which expenses are disproportionately higher in Sterling than compared to revenues. The Syndicate mitigates this by adopting a policy, where possible, of matching assets and liabilities by currency.

In addition, the Managing Agent will use options and other hedging products to minimise currency exposure of the Syndicate if considered appropriate.

Liquidity risk

Liquidity risk is the risk that Syndicate 1274 may not be able to meet its liabilities as they fall due, owing to a shortfall in cash. The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. To mitigate this risk the Managing Agent monitors cash flow of the Syndicate on a daily basis.

Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Managing Agent seeks to manage this risk with detailed procedures manuals and a structured programme of testing of processes and systems by the Internal Audit team.

Regulatory risk

The Managing Agent is required to comply with the requirements of the Financial Services 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 Managing Agent has a Compliance Officer, who monitors regulatory developments and assesses the impact on its policies. The Managing Agent also undertakes a compliance-monitoring programme on behalf of Syndicate 1274.

Directors' interests

None of the Directors have any participation in the Syndicate's premium income capacity.

Disclosure of information to the Auditors

The Directors each confirm that:

- so far as they are aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order 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 intends to reappoint Ernst & Young LLP as the Syndicate's auditors.

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J M Linsao

Company Secretary

March 2011

Statement of managing agent's responsibilities

The Managing Agent is responsible for preparing the syndicate annual report and annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

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

The Managing Agent is responsible for keeping proper accounting records which 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 business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1274

We have audited the syndicate annual accounts of Syndicate 1274 for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the Cash Flow Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with 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 the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the managing agent is responsible for the preparation of syndicate annual accounts 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 Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual accounts.

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 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual 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 requires us to report to you, if in our opinion:

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

T J Leggett (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

Date:

Profit and loss account: Technical account – General business

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
<i>Earned premiums, net of reinsurance</i>			
Gross premiums written	3	189,151	191,146
Outward reinsurance premiums		(48,890)	(42,690)
Net premiums written		<u>140,261</u>	<u>148,456</u>
Change in the provision for unearned premiums:			
Gross amount		(2,771)	(9,842)
Reinsurers' share		(299)	432
Change in the net provision for unearned premiums		<u>(3,070)</u>	<u>(9,410)</u>
<i>Earned premiums, net of reinsurance</i>		137,191	139,046
<i>Allocated investment return transferred from the non-technical account</i>			
		1,110	526
<i>Claims incurred, net of reinsurance</i>			
Claims paid			
Gross amount		(75,830)	(37,302)
Reinsurers' share		9,621	10,186
Net claims paid		<u>(66,209)</u>	<u>(27,116)</u>
Change in the provision for claims			
Gross amount		(56,374)	(48,646)
Reinsurers' share		26,513	(9,050)
Change in the net provision for claims	4	<u>(29,861)</u>	<u>(57,696)</u>
<i>Claims incurred, net of reinsurance</i>		(96,070)	(84,812)
<i>Net operating expenses</i>	5	(47,055)	(40,969)
<i>Balance on the technical account for general business</i>			
		<u>(4,824)</u>	<u>13,791</u>

All the amounts above are in respect of continuing operations.

Profit and loss account: Non-technical account for the year ended 31 December 2010

	<i>Notes</i>	2010 £000	2009 £000
<i>Balance on the general business technical account</i>		(4,824)	13,791
Investment income	9	1,387	591
Unrealised (losses) on investments	9	(240)	(65)
Investment expenses and charges	9	(37)	-
Allocated investment return transferred to general business technical account		(1,110)	(526)
<i>Result for the financial year</i>		<u>(4,824)</u>	<u>13,791</u>

Statement of total recognised gains and losses for the year ended 31 December 2010

	2010 £000	2009 £000
Result for the financial year	(4,824)	13,791
Currency translation differences on foreign currency net investment	2,082	1,518
<i>Total recognised gains and losses relating to the financial year</i>	<u>(2,742)</u>	<u>15,309</u>

Balance sheet - Assets

at 31 December 2010

	Notes	2010 £000	2009 £000
Investments			
Financial investments	8	123,159	102,189
Deposits with ceding undertakings			
		126	308
Reinsurers' share of technical provisions			
Provision for unearned premiums		7,331	7,491
Claims outstanding		47,779	21,126
		<u>55,110</u>	<u>28,617</u>
Debtors			
Debtors arising out of direct insurance operations	11	38,764	30,635
Debtors arising out of reinsurance operations		30,309	30,219
Other debtors		7	1,003
		<u>69,080</u>	<u>61,857</u>
Other assets			
Cash at bank and in hand		23,492	18,304
Other	12	11,685	6,139
Prepayments and accrued income			
Other prepayments and accrued income		969	3
Deferred acquisition costs		14,194	12,070
		<u>15,163</u>	<u>12,073</u>
Total assets		<u>297,815</u>	<u>229,487</u>

Balance sheet - Liabilities

at 31 December 2010

	Notes	2010 £000	2009 £000
Capital and reserves			
Members' balances	13	4,237	8,682
Technical provisions			
Provision for unearned premiums		76,134	71,010
Claims outstanding		190,555	130,701
		<u>266,689</u>	<u>201,711</u>
Deposits received from reinsurers			
		260	474
Creditors			
Creditors arising out of direct insurance operations	14	7,553	5,831
Creditors arising out of reinsurance operations		18,182	12,205
Other creditors		894	434
		<u>26,629</u>	<u>18,470</u>
Accruals and deferred income			
		-	150
Total Liabilities			
		<u>297,815</u>	<u>229,487</u>

The annual accounts on pages 11 to 27 were approved by the Board of Antares Managing Agency Limited on March 2011 and were signed on its behalf by

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R A Sutlow
Finance & Operations Director

March 2011

.....
S D Redmond
Managing Director

March 2011

Statement of cash flows

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Net cash inflow from operating activities	15	29,698	58,406
Financing:			
Capital (released to)/provided by Members	16	<u>(1,703)</u>	<u>13,320</u>
		<u>27,995</u>	<u>71,726</u>
Cash flows were invested as follows:			
Increase/(decrease) in cash at bank	16	3,473	(34,823)
Increase in deposits	16	4,919	4,460
Increase in financial investments	16	19,603	102,089
Net investment of cash flows	16	<u>27,995</u>	<u>71,726</u>

Notes to the annual accounts at 31 December 2010

1. Basis of preparation

These annual accounts 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. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted, except that exchange differences are dealt with in the technical account as there are no non-technical items.

2. Accounting policies

Premiums written

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Premiums include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Unearned premiums

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

Reinsurance premium ceded

Outwards reinsurance premiums are earned according to the type of policy. For losses occurring during (LOD) contracts the premium is earned on a straight line basis over the period of coverage. For risks attaching during (RAD) contracts the premium is earned in line with the gross premiums earned to which the risks attaching contract relates.

Claims provisions and related recoveries

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

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Notes to the annual accounts at 31 December 2010

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

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

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision

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

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

Deferred acquisition costs

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

Foreign currencies

Transactions in US dollars, Canadian dollars, Euros, Australian dollars and Japanese Yen are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

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

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

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

Notes to the annual accounts at 31 December 2010

Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value (bid value) and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Directors' valuations are used for other unlisted investments, mortgages and loans.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

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 are included in the balance sheet under the heading "other debtors".

No provision has been made for any overseas tax payable by members on underwriting results.

Pension costs

Antares Underwriting Services Limited operates a defined contribution scheme for staff working on behalf of Antares Syndicate 1274. Pension contributions relating to these members of staff are charged to the Syndicate and included within net operating expenses. Antares Underwriting Services Limited is a wholly owned subsidiary within the Antares Group.

Notes to the annual accounts at 31 December 2010

3. Segmental analysis

An analysis of the underwriting result before investment return for 2009 and 2010 is set out below:

2010	<i>Gross written premiums £000</i>	<i>Gross premiums earned £000</i>	<i>Gross claims incurred £000</i>	<i>Gross operating expenses £000</i>	<i>Reinsurance balance £000</i>	<i>Total £000</i>	<i>Net technical provisions £000</i>
Direct insurance:							
Accident & Health	55	25	(8)	(4)	(2)	11	(20)
Marine aviation and transport	70,346	64,687	(38,233)	(19,147)	(4,840)	2,467	(56,523)
Fire and other damage to property	24,881	29,868	(34,816)	(7,834)	806	(11,976)	(24,028)
Third-party liability	40,194	40,371	(18,119)	(9,342)	(9,524)	3,386	(62,277)
Miscellaneous	326	268	(124)	(63)	(57)	24	(441)
	135,802	135,219	(91,300)	(36,390)	(13,617)	(6,088)	(143,289)
Reinsurance	53,349	51,161	(40,904)	(10,665)	562	154	(54,096)
	189,151	186,380	(132,204)	(47,055)	(13,055)	(5,934)	(197,385)

2009	<i>Gross written premiums £000</i>	<i>Gross premiums earned £000</i>	<i>Gross claims incurred £000</i>	<i>Gross operating expenses £000</i>	<i>Reinsurance balance £000</i>	<i>Total £000</i>	<i>Net technical provisions £000</i>
Direct insurance:							
Marine aviation and transport	48,548	42,405	(21,220)	(11,798)	(5,590)	3,797	(34,591)
Fire and other damage to property	34,643	35,804	(14,939)	(8,443)	(13,115)	(693)	(16,305)
Third-party liability	55,111	50,552	(35,529)	(10,484)	(5,941)	(1,402)	(58,342)
Miscellaneous	66	124	(78)	(22)	(11)	13	(123)
	138,368	128,885	(71,766)	(30,747)	(24,657)	1,715	(109,361)
Reinsurance	52,778	52,419	(14,182)	(10,222)	(16,465)	11,550	(51,663)
	191,146	181,304	(85,948)	(40,969)	(41,122)	13,265	(161,024)

Commissions on direct insurance gross premiums earned were £22,969,259 during 2010 and £20,832,820 during 2009.

Gross Operating Expenses include reinsurance commissions receivable.

All premium transactions were concluded in the UK.

Notes to the annual accounts at 31 December 2010

The geographical analysis of premiums by destination (or by situs of the risk) is as follows:

	2010 £000	2009 £000
UK	33,702	29,851
Other EU countries	26,739	28,724
US	46,534	52,577
Central & South America	12,248	12,613
Japan	12,390	10,778
Australia	8,748	8,900
Other	48,790	47,703
Total	<u>189,151</u>	<u>191,146</u>

4. Change in net provision for claims

The change in net provision for claims is made up of the following:

	2010 £000	2009 £000
Outstanding claims	17,173	35,381
Claims incurred but not reported	11,415	21,706
Claims handling expenses provision	1,273	609
Change in net provision for claims	<u>29,861</u>	<u>57,696</u>

The movement in the net provision for claims includes an increase of £1,456k in respect of claims outstanding at the previous year end (2009: reduction £8,954k).

Notes to the annual accounts at 31 December 2010

5. Net operating expenses

	2010 £000	2009 £000
Acquisition costs	33,331	32,303
Change in deferred acquisition costs	(1,763)	(3,229)
Administrative expenses	14,121	14,075
Loss/(profit) on exchange	1,776	(470)
	<u>47,465</u>	<u>42,679</u>
Reinsurance commissions receivable	(410)	(1,710)
Net operating expenses	<u>47,055</u>	<u>40,969</u>

Administrative expenses include:

	2010 £000	2009 £000
Auditor's remuneration		
- Audit services	155	137
- Actuarial and tax services	70	71
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission)	4,447	4,376

6. Staff numbers and costs

All staff are employed by Antares Underwriting Services Limited. The following amounts were recharged to the Syndicate in respect of salary costs:

	2010 £000	2009 £000
Wages and salaries	5,649	4,553
Social security costs	749	618
Other pension costs	1,039	880
Other staff costs including recruitment, training and medical insurance	903	430
	<u>8,340</u>	<u>6,481</u>

The average number of employees employed by Antares Underwriting Services Limited but working for the Syndicate during the year was as follows:

	2010 Number	2009 Number
Administration and finance	21	16
Underwriting	30	25
Claims	8	8
I.T. support	7	7
Legal, risk and compliance	5	3
Management, H.R. and other	11	12
	<u>82</u>	<u>71</u>

Notes to the annual accounts at 31 December 2010

7. Emoluments of the directors of Chaucer Syndicates Limited and Antares Managing Agency Limited

Chaucer Syndicates Limited was the Managing Agent for Antares Syndicate 1274 until 14 January 2010. The Directors of Chaucer Syndicates Limited received £nil remuneration charged to the Syndicate.

From 15 January 2010 the Managing Agent for Antares Syndicate 1274 is Antares Managing Agency Limited. The directors of Antares Managing Agency Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2010 £000	2009 £000
Total Emoluments	<u>1,433</u>	<u>-</u>

The active underwriter received the following remuneration charged as a syndicate expense:

	2010 £000	2009 £000
Active Underwriter (from 01/01/09 to 30/09/09)	-	309
Active Underwriter (from 01/10/09 to 31/12/10)	<u>298</u>	<u>60</u>
Total Emoluments	<u>298</u>	<u>369</u>

No advances or credits granted by the Managing Agent to any of its Directors subsisted during the year.

8. Financial investments

As at 31 December 2010:	Market value		Cost	
	<i>2010</i> £000	<i>2009</i> £000	<i>2010</i> £000	<i>2009</i> £000
Shares and other variable yield securities and units in unit trusts	28,660	102,189	28,660	101,894
Debt securities and other fixed-income securities	94,499	-	94,754	-
	<u>123,159</u>	<u>102,189</u>	<u>123,414</u>	<u>101,894</u>

Notes to the annual accounts at 31 December 2010

9. Investment income and expenses

	2010 £000	2009 £000
<i>Investment income</i>		
Income from investments	1,387	591
Unrealised (losses)/gains on overseas deposits	(240)	(65)
	<u>1,147</u>	<u>526</u>
<i>Investment expenses and charges</i>		
Investment management expenses	<u>(37)</u>	<u>-</u>

10. Calendar year investment yield

The average amount of syndicate funds available for investment during 2010 and the investment return and yield for that calendar year was as follows:

	2010 £000	2009 £000
Average fund	144,164	99,490
Investment return	1,147	526
Calendar year investment yield	0.8%	0.5%
<i>Average funds available for investment by fund</i>		
Sterling	45,676	42,520
United States dollars	142,503	84,085
Canadian dollars	10,416	6,075
<i>Analysis of calendar year investment yield by fund</i>		
	%	%
Sterling	1.1	0.9
United States dollars	0.7	0.3
Canadian dollars	0.3	0.1

“Average fund” is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

11. Debtors arising out of direct insurance operations

	2010 £000	2009 £000
Due from intermediaries	<u>38,764</u>	<u>30,635</u>

There were no balances due from policyholders arising out of direct insurance operations as at 31 December 2010 (2009: £nil).

Notes to the annual accounts at 31 December 2010

12. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

13. Reconciliation of members' balances

	Funds in Syndicate £000	Profit & Loss	Total Balance £000
Members' balances brought forward at 1 January 2009	3,500	(23,447)	(19,947)
Capital provided by Members	13,320	-	13,320
Interest on Members' balances	40	(40)	-
Other recognised gains	-	1,518	1,518
2009 Financial year profit	-	13,791	13,791
	<hr/>		
Members' balances as at 31 December 2009	16,860	(8,178)	8,682
Capital provided by Members	(1,321)	-	(1,321)
Interest on Members' balances	30	(30)	-
Revaluation of Members' balances	(382)	382	-
Other recognised gains	-	1,700	1,700
2009 Financial year (loss)	-	(4,824)	(4,824)
	<hr/>		
Members' balances carried forward at 31 December 2010	<u>15,187</u>	<u>(10,950)</u>	<u>4,237</u>

Members participate on syndicates by reference to years of account and their ultimate result; assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

14. Creditors arising out of direct insurance operations

	2010 £000	2009 £000
Due to intermediaries	<u>7,553</u>	<u>5,831</u>

There were no balances due to policyholders arising out of direct insurance operations as at 31 December 2010 (2009: £nil).

Notes to the annual accounts at 31 December 2010

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

	2010 £000	2009 £000
Operating (loss)/profit on ordinary activities	(4,824)	13,791
Realised/unrealised (gains)/losses on cash and investments including foreign exchange	(3,741)	3,619
Increase in net technical provisions	38,485	56,727
(Increase) in debtors and prepayments	(10,382)	(17,956)
Increase in creditors and accruals	8,078	707
Retranslation of opening balances	2,082	1,518
Net cash inflow from operating activities	<u>29,698</u>	<u>58,406</u>

16. Movement in opening and closing cash, deposits and portfolio investments net of financing

	2010 £000	2009 £000
Net increase /(decrease) in cash holdings	3,473	(34,823)
Increase in financial investments	19,603	102,089
Increase in bank deposits	4,919	4,460
Movement arising from cash flows	<u>27,995</u>	<u>71,726</u>
Changes in market value and exchange rates	<u>3,741</u>	<u>(3,619)</u>
Total movement in cash and deposits	<u>31,736</u>	<u>68,107</u>
Portfolio at 1 January	126,466	58,359
Portfolio at 31 December	<u>158,202</u>	<u>126,466</u>

Analysis of movement in cash and portfolio investments

2010	<i>At</i> 1 January 2010 £000	<i>Cash</i> <i>flow</i> £000	<i>Changes</i> <i>to market</i> <i>value and</i> <i>currencies</i> £000	<i>At 31</i> <i>December</i> 2010 £000
Cash at bank and in hand	18,304	3,473	1,715	23,492
<i>Deposits:</i>				
Overseas deposits	6,139	4,860	686	11,685
Deposits with ceding undertakings	308	(209)	27	126
Deposits received from reinsurers	(474)	268	(54)	(260)
Total deposits	<u>5,973</u>	<u>4,919</u>	<u>659</u>	<u>11,551</u>
<i>Portfolio investments:</i>				
Debt securities and other fixed-income securities	0	94,499	0	94,499
UCITS funds	102,189	(74,896)	1,367	28,660
Total Portfolio investments	<u>102,189</u>	<u>19,603</u>	<u>1,367</u>	<u>123,159</u>
Total cash and portfolio investments	<u>126,466</u>	<u>27,995</u>	<u>3,741</u>	<u>158,202</u>

Notes to the annual accounts at 31 December 2010

<u>2009</u>	At 1 January 2009 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2009 £000
Cash at bank and in hand	56,872	(34,823)	(3,745)	18,304
<i>Deposits:</i>				
Overseas deposits	1,563	4,460	116	6,139
Deposits with ceding undertakings	180	149	(21)	308
Deposits received from reinsurers	(256)	(249)	31	(474)
Total deposits	1,487	4,360	126	5,973
<i>Portfolio investments:</i>				
Debt securities and other fixed-income securities	0	0	0	0
UCITS funds	0	102,189	0	102,189
Total Portfolio investments	0	102,189	0	102,189
Total cash and portfolio investments	58,359	71,726	(3,619)	126,466

17. Net cash (outflow)/inflow on portfolio investments

	2010 £000	2009 £000
Purchase of shares and other variable yield securities and units in unit trusts	113,649	102,189
Purchase of debt securities and other fixed-income securities	257,686	-
Sale of shares and other variable yield securities and units in unit trusts	(188,546)	-
Sale of debt securities and other fixed-income securities	(163,186)	-
Net cash inflow on portfolio investments	19,603	102,189

18. Related parties

Syndicate 1274 has placed outwards reinsurance protection of £572,301 (2009: £411,079) with Chaucer Syndicate 1084. Syndicate 1274 has received reinsurance premiums of £657,128 (2009: £171,356) from Chaucer Syndicate 1084. Chaucer Syndicates Limited is a wholly owned subsidiary of Chaucer Holdings plc. Subsidiaries of Chaucer Holdings plc support the majority of the underwriting capacity of Chaucer Syndicate 1084. Chaucer Holdings plc is a 14% shareholder in Antares Holdings Limited. Antares Holdings Limited is the parent company of the Antares Group that supports the majority of the capacity of Syndicate 1274.

Notes to the annual accounts at 31 December 2010

During 2010, Managing agency fees were charged to the Syndicate as follows:

	2010 £000	2009 £000
Antares Managing Agency Limited	450	-
Chaucer Syndicates Limited	-	557
	<u>450</u>	<u>557</u>

In addition to the above Managing agency fees, £12,770,710 was paid to Antares Underwriting Services Limited for services provided on behalf of the Syndicate. Antares Underwriting Services Limited is a wholly owned subsidiary within the Antares Group.

Creditors at the year end include amounts due to Antares Managing Agency Limited of £450,000.

19. Funds at Lloyd's

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

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

20. Derivatives

There were no derivative contracts in force as at 31 December 2010 (2009: nil).

21. Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the Syndicate.

Antares Managing Agency Limited

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LLOYD'S

Underwriters