Antares Syndicate 1274

Annual Report and Accounts

31 December 2011

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Contents

Directors and administration

MANAGING AGENT:
Antares Managing Agency Limited

Directors
T J Hayday*, BA, MBA, FCII (Chairman)
T A Clegg*, FCII, ACIArb
E H Gilmour*, MA, FCA
A S Minns*, LLB
R A Stuchbery*, FCII
S D Redmond, FCII
R A Sutlow, ACII, ACMA
J M Linsao, BA, JD
P M Johnson, MA, FIA
J A Battle

* 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

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 2011.

The Managing Agent
The Managing Agent is Antares Managing Agency Limited, whose registered office is 10 Lime Street, London, EC3M 7AA and registered number is 6646629.

Results
The results for the year are set out on pages 10 and 11. The retained loss for the year is £12.1m (2010: retained loss £2.7m).

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:

	2011 £'000	2010 £'000	Change %
Gross written premiums	174,890	189,151	-7.5%
Net earned premiums	138,867	137,191	+1.2%
(Loss) for the financial year	(12,205)	(4,824)	
Combined ratio	110.6%	104.3%	

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.

Gross written premium for 2011 has reduced by 7.5% in comparison to 2010 caused largely by the decision to cease underwriting Direct & Facultative Property business during the last quarter of 2010. The net earned premium for 2011 has, by contrast, increased marginally over 2010 reflecting a reduction in reinsurance premium costs coupled with residual earnings from the Direct & Facultative Property account. The Syndicate continues to underwrite a balanced Marine, Aviation, Transport, Property Treaty and Accident portfolio.

The combined ratio of 110.6% for 2011 is principally the consequence of the significant level of catastrophe claims that occurred during the year. In particular the Syndicate has recorded net losses of £16.9m in respect of the Japanese earthquake/tsunami in March 2011 and £4.8m arising from the New Zealand earthquake in February 2011. More recently, £4.9m net claims have been incorporated into the result as a provision for estimated Thai flood losses. In aggregate, these three loss added 19% to the combined ratio.

Syndicate expenses of £12.1m (2010: £14.1m) and net acquisition costs of £31.2m (2010: £31.2m) were incurred during the year, in line with expectations.

Investment income of £2.5m (2010 £1.1m) was credited in the year. Although the levels of cash and investments have risen marginally during the year to £151.6m at 31 December 2011 from £146.7m at 31 December 2010, interest rates and investment yields remain exceptionally low and as a consequence, an investment return of 1.6% (2010: 0.8%) is recorded.

Future developments
Syndicate 1274 does not anticipate any change in its strategy of achieving controlled, profitable growth and will continue to maintain a balanced portfolio for 2012.

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 Agent'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 relation 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 that it has a natural currency mismatch as syndicate expenses are disproportionately higher in Sterling than compared to revenues. The Syndicate mitigates this by adopting a policy of, where possible, 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
Operational risk 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 Internal Audit.

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.

J M Linsao

Company Secretary

02 March 2012

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 Auditors' Report to the Members of Syndicate 1274

We have audited the syndicate annual accounts of Syndicate 1274 for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, 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 7, 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. In addition, we read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited syndicate annual accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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.

Independent Auditors' Report to the Members of Syndicate 1274 (cont.)

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.

Ernst & Young LLP

T J Leggett (Senior statutory auditor)

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

London

Date: 02 March 2012

Profit and loss account: Technical account – General business

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	174,890	189,151
Outward reinsurance premiums		(40,388)	(48,890)
Net premiums written		134,502	140,261
Change in the provision for unearned premiums:			
Gross amount		2,193	(2,771)
Reinsurers' share		2,172	(299)
Change in the net provision for unearned premiums		4,365	(3,070)
Earned premiums, net of reinsurance		138,867	137,191
Allocated investment return transferred from the non-technical account		2,489	1,110
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(87,714)	(75,830)
Reinsurers' share		14,006	9,621
Net claims paid		(73,708)	(66,209)
Change in the provision for claims			
Gross amount		(52,741)	(56,374)
Reinsurers' share		16,411	26,513
Change in the net provision for claims	4	(36,330)	(29,861)
Claims incurred, net of reinsurance		(110,038)	(96,070)
Net operating expenses	5	(43,523)	(47,055)
Balance on the technical account for general business		(12,205)	(4,824)

All the amounts above are in respect of continuing operations.

Profit and loss account: Non-technical account
for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Balance on the general business technical account		(12,205)	(4,824)
Investment income	9	2,722	1,387
Unrealised (losses) on investments	9	(92)	(240)
Investment expenses and charges	9	(141)	(37)
Allocated investment return transferred to general business technical account		(2,489)	(1,110)
Result for the financial year		(12,205)	(4,824)

Statement of total recognised gains and losses
for the year ended 31 December 2011

	2011 £000	2010 £000
Result for the financial year	(12,205)	(4,824)
Currency translation differences on foreign currency net investment	83	2,082
Total recognised gains and losses relating to the financial year	(12,122)	(2,742)

Balance sheet - Assets
at 31 December 2011

	Notes	2011 £000	2010 £000
Investments			
Financial investments	8	114,817	123,159
Deposits with ceding undertakings		122	126
Reinsurers' share of technical provisions			
Provision for unearned premiums		9,576	7,331
Claims outstanding		64,904	47,779
		74,480	55,110
Debtors			
Debtors arising out of direct insurance operations	11	40,897	38,764
Debtors arising out of reinsurance operations		36,640	30,309
Other debtors		67	7
		77,604	69,080
Other assets			
Cash at bank and in hand		36,775	23,492
Other	12	18,516	11,685
Prepayments and accrued income			
Other prepayments and accrued income		1,570	969
Deferred acquisition costs		14,284	14,194
		15,854	15,163
Total assets		338,168	297,815

Balance sheet - Liabilities
at 31 December 2011

	Notes	2011 £000	2010 £000
Capital and reserves			
Members' balances	13	(15,791)	4,237
Technical provisions			
Provision for unearned premiums		74,679	76,134
Claims outstanding		246,015	190,555
		320,694	266,689
Deposits received from reinsurers		236	260
Creditors			
Creditors arising out of direct insurance operations	14	7,424	7,553
Creditors arising out of reinsurance operations		25,520	18,182
Other creditors		85	894
		33,029	26,629
Accruals and deferred income		-	-
Total Liabilities		338,168	297,815

The annual accounts on pages 10 to 26 were approved by the Board of Antares Managing Agency Limited on 02 March 2012 and were signed on its behalf by

S D Redmond	R A Sutlow
Managing Director	Finance & Operations Director
02 March 2012	02 March 2012

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities	15	18,997	29,698
Financing:			
Repayment of Member balances		(15,187)	-
Capital provided by/(released to) Members		7,281	(1,703)
	16	11,091	27,995
Cash flows were invested as follows:			
Increase in cash at bank	16	12,869	3,473
Increase in deposits	16	6,812	4,919
Increase/(decrease) in financial investments	16	(8,590)	19,603
Net investment of cash flows	16	11,091	27,995

Notes to the annual accounts
at 31 December 2011

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 incepted 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 handing 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 2011

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 2011

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 2011

3. Segmental analysis

An analysis of the underwriting result before investment return for 2010 and 2011 is set out below:

2011	*Gross written premiums £000*	*Gross premiums earned £000*	*Gross claims incurred £000*	*Gross operating expenses £000*	*Reinsurance balance £000*	*Total £000*	*Net technical provisions £000*
Direct insurance:							
Accident & Health	4	36	(7)	(6)	(5)	18	(24)
Marine aviation and Transport	67,589	67,367	(39,641)	(18,006)	(6,525)	3,195	(76,377)
Fire and other damage to property	9,038	13,417	(4,346)	(3,320)	(7,564)	(1,813)	(18,778)
Third-party liability	43,294	40,656	(25,712)	(9,464)	(2,437)	3,043	(80,258)
Miscellaneous	714	623	(337)	(148)	(46)	92	(960)
	120,639	122,099	(70,043)	(30,944)	(16,577)	4,535	(176,397)
Reinsurance	54,251	54,984	(70,412)	(12,579)	8,778	(19,229)	(69,817)
	174,890	177,083	(140,455)	(43,523)	(7,799)	(14,694)	(246,214)

2010	*Gross written premiums £000*	*Gross premiums earned £000*	*Gross claims incurred £000*	*Gross operating expenses £000*	*Reinsurance balance £000*	*Total £000*	*Net technical provisions £000*
Direct insurance:							
Accident & Health	55	25	(8)	(4)	(2)	11	(22)
Marine aviation and transport	70,346	64,687	(38,233)	(19,147)	(4,840)	2,467	(61,736)
Fire and other damage to property	24,881	29,868	(34,816)	(7,834)	806	(11,976)	(25,794)
Third-party liability	40,194	40,371	(18,119)	(9,342)	(9,524)	3,386	(65,380)
Miscellaneous	326	268	(124)	(63)	(57)	24	(472)
	135,802	135,219	(91,300)	(36,390)	(13,617)	(6,088)	(153,404)
Reinsurance	53,349	51,161	(40,904)	(10,665)	562	154	(58,175)
	189,151	186,380	(132,204)	(47,055)	(13,055)	(5,934)	(211,579)

Comparative 2010 net technical provisions in the table above have been restated to exclude deferred acquisition costs.

Commissions on direct insurance gross premiums earned were £20,732,104 during 2011 and £22,969,259 during 2010.

Gross Operating Expenses include reinsurance commissions receivable.

All premium transactions were concluded in the UK.

Notes to the annual accounts
at 31 December 2011

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

	2011 *£000*	**2010** *£000*
UK	29,701	33,702
Other EU countries	22,466	26,739
US	44,402	46,534
Central & South America	8,568	12,248
Japan	14,283	12,390
Australia	9,012	8,748
Other	46,458	48,790
Total	174,890	189,151

4. Change in net provision for claims

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

	2011 *£000*	**2010** *£000*
Outstanding claims	26,029	17,173
Claims incurred but not reported	9,405	11,415
Claims handling expenses provision	896	1,273
Change in net provision for claims	36,330	29,861

The movement in the net provision for claims includes a release of £9,564k in respect of claims outstanding at the previous year end (2010: increase £1,456k). Of this, £1.9m represents release of reserves in respect of Chile earthquake and Deepwater Horizon claims. The remainder of the release comprises other net claim reductions including the change in claims incurred but not reported (‘IBNR’).

Notes to the annual accounts
at 31 December 2011

5. Net operating expenses

	2011 *£000*	**2010** *£000*
Acquisition costs	31,546	33,331
Change in deferred acquisition costs	7	(1,763)
Administrative expenses	12,145	14,121
Loss on exchange	165	1,776
	43,863	47,465
Reinsurance commissions receivable	(340)	(410)
Net operating expenses	43,523	47,055

Administrative expenses include:

	2011 *£000*	**2010** *£000*
Auditor's remuneration		
- Audit services	158	155
- Actuarial and tax services	70	70
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission)	1,599	4,447

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:

	2011 *£000*	**2010** *£000*
Wages and salaries	5,910	5,649
Social security costs	860	749
Other pension costs	1,083	1,039
Other staff costs including recruitment, training and medical insurance	2,189	903
	10,042	8,340

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

	2011 *Number*	**2010** *Number*
Underwriting	30	30
Administration and finance	28	21
Management, H.R. and other	11	11
Claims	8	8
I.T. support	7	7
Legal, risk and compliance	5	5
	89	82

Notes to the annual accounts
at 31 December 2011

7. Emoluments of the directors of 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:

	2011	**2010**
	£000	*£000*
Total Emoluments	1,325	1,433

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

	2011	**2010**
	£000	*£000*
Total Emoluments	352	298

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 2011:	Market value		Cost	
	2011	**2010**	**2011**	**2010**
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	23,082	28,660	23,009	28,660
Debt securities and other fixed-income securities	88,558	94,499	88,939	94,754
Participation in investment pools	3,177	-	3,177	-
	114,817	123,159	115,125	123,414

Notes to the annual accounts
at 31 December 2011

9. Investment income and expenses

	2011	**2010**
	£000	*£000*
Investment income		
Income from investments	2,722	1,387
Unrealised (losses) on investments	(92)	(240)
	2,630	1,147
Investment expenses and charges		
Investment management expenses	(141)	(37)

10. Calendar year investment yield

The average amount of syndicate funds available for investment during 2011 and the investment return and yield for that calendar year was as follows:

	2011	**2010**
	£000	*£000*
Average fund	166,723	144,164
Investment return	2,630	1,147
Calendar year investment yield	1.6%	0.8%
Average funds available for investment by fund		
Sterling	60,866	45,676
United States dollars	159,755	142,503
Canadian dollars	9,555	10,416
Analysis of calendar year investment yield by fund	*%*	*%*
Sterling	2.1	1.1
United States dollars	1.3	0.7
Canadian dollars	0.7	0.3

"Average fund" is the average of bank balances, overseas deposits and investments held 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

	2011	**2010**
	£000	*£000*
Due from intermediaries	40,897	38,764

There were no balances due from policyholders arising out of direct insurance operations as at 31 December 2011 (2010: £nil).

Notes to the annual accounts
at 31 December 2011

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 2010	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
2010 Financial year (loss)	-	(4,824)	(4,824)
Members' balances carried forward at 31 December 2010	15,187	(10,950)	4,237
Capital provided by Members	(15,187)	-	(15,187)
Settlement of 2008 Year of Account loss		7,281	7,281
Other recognised gains	-	83	83
2011 Financial year (loss)	-	(12,205)	(12,205)
Members' balances carried forward at 31 December 2011	-	(15,791)	(15,791)

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

	2011 *£000*	**2010** *£000*
Due to intermediaries	7,424	7,553

There were no balances due to policyholders arising out of direct insurance operations as at 31 December 2011 (2010: £nil).

Notes to the annual accounts
at 31 December 2011

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

	2011 *£000*	**2010** *£000*
Operating (loss) on ordinary activities	(12,205)	(4,824)
Realised/unrealised (gains) on cash and investments including foreign exchange	(701)	(3,741)
Increase in net technical provisions	34,636	38,485
(Increase) in debtors and prepayments	(9,216)	(10,382)
Increase in creditors and accruals	6,400	8,078
Retranslation of opening balances	83	2,082
Net cash inflow from operating activities	18,997	29,698

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

	2011 *£000*	**2010** *£000*
Increase in cash at bank	12,869	3,473
Increase/(decrease) in financial investments	(8,590)	19,603
Increase in deposits	6,812	4,919
Movement arising from cash flows	11,091	27,995
Changes in market value and exchange rates	701	3,741
Total movement in cash and deposits	11,792	31,736
Portfolio at 1 January	158,202	126,466
Portfolio at 31 December	169,994	158,202

Analysis of movement in cash and portfolio investments

<u>**2011**</u>	*At 1 January 2011 £000*	*Cash flow £000*	*Changes to market value and currencies £000*	*At 31 December 2011 £000*
Cash at bank and in hand	23,492	12,869	414	36,775
Deposits:				
Overseas deposits	11,685	6,782	49	18,516
Deposits with ceding undertakings	126	(5)	1	122
Deposits received from reinsurers	(260)	35	(11)	(236)
Total deposits	11,551	6,812	38	18,402
Portfolio investments:				
Debt securities and other fixed-income securities	94,499	(6,447)	506	88,558
UCITS funds	28,660	(2,143)	(258)	26,259
Total Portfolio investments	123,159	(8,590)	248	114,817
Total cash and portfolio investments	158,202	11,091	701	169,994

Notes to the annual accounts
at 31 December 2011

2010	*At 1 January 2010 £000*	*Cash flow £000*	*Changes to market value and currencies £000*	*At 31 December 2010 £000*
Cash at bank and in hand	18,304	3,473	1,715	23,492
Deposits:				
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	5,973	4,919	659	11,551
Portfolio investments:				
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	102,189	19,603	1,367	123,159
Total cash and portfolio investments	126,466	27,995	3,741	158,202

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

	2011 *£000*	**2010** *£000*
Purchase of shares and other variable yield securities and units in unit trusts	(99,397)	(113,649)
Purchase of debt securities and other fixed-income securities	(86,275)	(257,686)
Sale of shares and other variable yield securities and units in unit trusts	101,540	188,546
Sale of debt securities and other fixed-income securities	92,722	163,186
Net cash inflow/(outflow) on portfolio investments	8,590	(19,603)

18. Related parties

Syndicate 1274 has placed outwards reinsurance protection of £429,669 (2010: £572,301) with Chaucer Syndicate 1084. Syndicate 1274 has received reinsurance premiums of £651,524 (2010: £657,128) 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 2011

During 2011, Managing agency fees were charged to the Syndicate as follows:

	2011 *£000*	**2010** *£000*
Antares Managing Agency Limited	659	450

In addition to the above Managing agency fees, £14,461,344 (2010: £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.

There were no amounts due to/from Antares Managing Agency Limited at 31 December 2011 (2010: creditor £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. The amount of 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 2011 (2010: 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.

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