Antares Syndicate 1274

Annual Report and Accounts

31 December 2012

antares

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 (resigned 15/06/2012)
J A Battle
M C Graham, MSc, FIA (appointed 16/05/2012)

* 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 2012.

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 profit for the year is £16.1m (2011: retained loss £12.1m).

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:

	2012 £’000	2011 £’000	Change %
Gross written premiums	196,987	174,890	+12.6%
Net earned premiums	155,272	138,867	+11.8%
Profit/(loss) for the financial year	16,402	(12,205)	
Combined ratio	91.3%	110.6%	

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 2012 has increased by 12.6% in comparison to 2011. This increase is in line with the objective for the Syndicate of controlled and profitable growth. The net earned premium for 2012 has increased by 11.8% over 2011, in line with the growth in written premium. The Syndicate continues to underwrite a balanced Marine, Aviation, Transport, Property Treaty and Accident portfolio.

The combined ratio of 91.3% recorded for 2012 compares favourably with 110.6% for the previous year. This significant improvement is a consequence of lower levels of attritional and catastrophe losses incurred during 2012. Claims arising from the Japanese earthquake/tsunami, New Zealand earthquake and Thai floods combined to add 19% to the combined ratio for 2011. This contrasts with only 5% added to the 2012 combined ratio in respect of Superstorm Sandy.

Syndicate expenses of £16.8m (2011: £12.1m) and net acquisition costs of £34.9m (2011: £31.2m) were incurred during the year, in line with expectations.

Investment income of £2.9m (2011 £2.5m) was generated in the year. Levels of investments, deposits and cash have increased marginally during the year to £172.4m at 31 December 2012 (31 December 2011: £170.1m). Interest rates and investment yields remain exceptionally low and as a consequence, an investment return of 1.8% (2011: 1.6%) is achieved.

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 2013.

Principal risks and uncertainties
The Syndicate's activities expose the business to a number of risks which have the potential to affect the achievement of the business objectives. The Board of the Managing Agency (the AMAL Board) is responsible for maintaining an appropriate structure for managing these risks and acknowledges that it is not possible to eliminate risk entirely. However, the AMAL Board seeks to manage risk in line with risk appetite by maintaining effective systems and controls.

The Syndicate is exposed to the following risk categories:

Underwriting Risk is the risk that the frequency or severity of insured events exceeds the expectations of the Syndicate at the time of underwriting.

The Managing Agency manages underwriting risk through underwriting authorities, and both peer and independent expert review procedures. Pricing is determined through the use of bespoke pricing models. Underwriting authorities are monitored through systems which report adherence to individual underwriter limits (including contract limits and jurisdiction restrictions). Any delegated underwriting authorities are subject to diligence review, and regular audit.

Detailed underwriting management information is prepared regularly, including metrics for the main components of risk. These include pricing, loss ratio selection, experience variations, cycle management, reinsurance protection and catastrophe modelling through proprietary software.

Reserving Risk is the risk of loss due to previously established claims provisions, on previously exposed business, turning out to be incorrect in terms of quantum or timing.

The Managing Agency has a reserving policy which seeks to ensure consistency in reserving from year to year, and the equitable treatment of capital providers on closure of a year of account.

Reserving risk is controlled by the robust application of actuarial methodologies, sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate. Regular dialogue between actuaries, underwriters and claims adjusters also assists the process.

Claims management is the risk of loss or regulatory breach due to inappropriate claim management process and/or inadequate governance. **Claims volatility** is the risk of loss due to unexpected claim levels.

The Managing Agency manages claims related risks through a similar monitoring process to underwriting, with claims handling authority limits and standard claims reports. In addition, claims volatility is mitigated through the purchase of a comprehensive reinsurance programme.

Credit Risk is the risk of loss due to counterparty default, or failure of a counterparty to fulfil its obligations.

The Managing Agency reviews all reinsurer counterparties, and sets credit limits for the exposures to each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and market-standing. Thereafter, management of reinsurer credit risk follows active and regular review of the credit rating and financial exposure to all approved reinsurers.

Reinsurance is predominantly purchased from reinsurers rated strong or better by Standard & Poor's (or equivalent).

Market Risk is the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from fluctuations in the market prices of assets, liabilities and financial instruments.

The Syndicate's financial assets comprise a portfolio of fixed income securities, UCITS funds and cash. The portfolio of fixed income securities is managed by a professional fund manager, under a segregated investment mandate, and in accordance with guidelines approved by the AMAL Board. The guidelines permit investment in a range of fixed income investment products, including government securities, corporate bonds and asset backed securities,

The Syndicate underwrites a significant proportion of business in currencies other than Sterling, which gives rise to a potential exposure to currency risk. In addition, the Syndicate has a natural currency mismatch, as a higher proportion of its expenses are incurred in Sterling. The Managing Agency mitigates this by adopting a policy of, where possible, matching assets and liabilities by currency.

Liquidity Risk is the risk of loss, or inability to realise investments and other assets in order to settle financial obligations when they fall due.

The Managing Agency is subject to calls on the Syndicate cash resources, mainly in respect of claims on insurance business, on a daily basis. To mitigate this risk the Managing Agency monitors cash flows on a daily basis.

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people, and systems; or from external events impacting the ability to operate. This risk encompasses all functions rendered in the course of conducting business. This includes legal and regulatory risk, but excludes risks arising from strategic and reputational risk

The Managing Agency seeks to manage this risk with detailed procedure manuals and a structured programme of testing of processes and systems by Internal Audit.

Strategic Risk is the risk of loss, or failure to take advantage of opportunities, due to poor strategic and capital planning processes and/or inadequate governance structures. This includes reputational risk that is recognised as a by-product of inappropriate/inadequate management and mitigation of other risk categories.

The Managing Agency mitigates this risk through a variety of planning techniques including robust business planning, stress and scenario testing and capital contingency planning

Regulatory risk is the risk that the Managing Agency fails to meet the regulatory 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. Antares Managing Agency Limited has a Compliance department that monitors regulatory developments and assesses the impact on agency policy.

Risk Governance

The AMAL Board is ultimately responsible for ensuring the effective management and control of risk affecting the Syndicate. The AMAL Board is committed to maintaining sound risk management and control systems that are suitable, effective and proportionate to protect the interests of all stakeholders, including those of its capital providers and policyholders. The AMAL Board has, for practical reasons, delegated its day-to-day responsibility for different aspects of the risk management to Committees and the senior management.

The AMAL Board utilises a "Three Lines of Defence" model for risk governance.

First Line of Defence (1LOD): Those individuals undertaking any activity or making decisions on behalf of the Managing Agency are responsible for managing the risk that is attached to that activity. They are the 'first risk managers'.

Second Line of Defence (2LOD): Those functions and Committees responsible for the provision of the risk management framework, and policies within which the 1LOD is expected to operate, and who are responsible for providing assurance to the AMAL Board of adherence to that framework;

Third Line of Defence (3LOD): Oversight of the above by the Board level Audit Committee and Risk and Capital Committee, together with Internal Audit.

Main risk reporting is through the Risk, Actuarial and Exposure Management Departments, who routinely engage individual business units and report to the Board and its Committees.

Risk Appetite

Risk Appetite is the amount of risk that the AMAL Board is prepared to take in pursuit of its objectives. Although set by the AMAL Board, Risk Appetite is driven by key stakeholders, including capital providers and regulators, and includes both qualitative and quantitative statements.

The Risk Appetite Statement covers all material risk categories (Underwriting, Reserve, Credit, Market, Liquidity and Operational Risk). In addition, it details the approved Risk Appetite and Risk Tolerances for losses arising from various events, based upon the extent to which the risks could impact the business.

Risk Monitoring and controls

Risk management processes are based on risk identification; assessment and quantification; response; and monitoring and reporting.

All risk categories are identified in the risk register. Supporting controls mitigate the inherent impact of the risks to a residual level that is within the approved risk appetite, and tolerance levels. All risk categories and related controls are assigned risk owners and control owners that are responsible for managing the risks.

Risk assessments are recorded in the risk register. The risk register is maintained through regular review by the Risk Department and through the self-certification process. The Risk Department provides regular reports on key risk issues and actions required to the AMAL Board and its Committees.

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

7 March 2013

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 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows 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 Report and 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 2012 and of its profit 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 (Lloyd'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

P Cooper (Senior statutory auditor)

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

London

Date: 7 March 2013

Profit and loss account: Technical account – General business
for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	196,987	174,890
Outward reinsurance premiums		(32,417)	(40,388)
Net premiums written		164,570	134,502
Change in the provision for unearned premiums:			
Gross amount		(5,995)	2,193
Reinsurers' share		(3,303)	2,172
Change in the net provision for unearned premiums		(9,298)	4,365
Earned premiums, net of reinsurance		155,272	138,867
Allocated investment return transferred from the non-technical account		2,934	2,489
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(96,457)	(87,714)
Reinsurers' share		17,600	14,006
Net claims paid		(78,857)	(73,708)
Change in the provision for claims			
Gross amount		(29,744)	(52,741)
Reinsurers' share		18,645	16,411
Change in the net provision for claims	4	(11,099)	(36,330)
Claims incurred, net of reinsurance		(89,956)	(110,038)
Net operating expenses	5	(51,848)	(43,523)
Balance on the technical account for general business		16,402	(12,205)

All the amounts above are in respect of continuing operations.

Profit and loss account: Non-technical account

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Balance on the general business technical account		16,402	(12,205)
Investment income	9	2,377	2,722
Unrealised gains/(losses) on investments	9	738	(92)
Investment expenses and charges	9	(181)	(141)
Allocated investment return transferred to general business technical account		(2,934)	(2,489)
Result for the financial year		16,402	(12,205)

Statement of total recognised gains and losses

for the year ended 31 December 2012

	2012 £000	2011 £000
Result for the financial year	16,402	(12,205)
Currency translation differences on foreign currency net investment	(279)	83
Total recognised gains and losses relating to the financial year	16,123	(12,122)

Balance sheet - Assets
at 31 December 2012

	Notes	2012 £000	2011 £000
Investments			
Financial investments	8	120,090	114,817
Deposits with ceding undertakings		145	122
Reinsurers' share of technical provisions			
Provision for unearned premiums		6,017	9,576
Claims outstanding		80,731	64,904
		86,748	74,480
Debtors			
Debtors arising out of direct insurance Operations	11	48,768	40,897
Debtors arising out of reinsurance Operations		37,097	36,640
Other debtors		31	67
		85,896	77,604
Other assets			
Cash at bank and in hand		30,574	36,775
Other	12	21,778	18,516
Prepayments and accrued income			
Other prepayments and accrued income		1,101	1,570
Deferred acquisition costs		15,655	14,284
		16,756	15,854
Total assets		361,987	338,168

Balance sheet - Liabilities
at 31 December 2012

	Notes	2012 £000	2011 £000
Capital and reserves			
Members' balances	13	(14,204)	(15,791)
Technical provisions			
Provision for unearned premiums		77,353	74,679
Claims outstanding		265,247	246,015
		342,600	320,694
Deposits received from reinsurers		417	236
Creditors			
Creditors arising out of direct insurance operations	14	9,052	7,424
Creditors arising out of reinsurance operations		22,587	25,520
Other creditors		1,535	85
		33,174	33,029
Accruals and deferred income		-	-
Total Liabilities		361,987	338,168

The annual accounts on pages 10 to 26 were approved by the Board of Antares Managing Agency Limited on 7 March 2013 and were signed on its behalf by

S D Redmond	R A Sutlow
Managing Director	Chief Financial Officer
7 March 2013	7 March 2013

Statement of cash flows
for the year ended 31 December 2012

	Notes	**2012** *£000*	**2011** *£000*
Net cash inflow from operating activities	15	24,735	18,997
Transfer (to)/from members in respect of underwriting participations	13	(14,536)	7,281
Financing:			
Repayment of Member balances	13	-	(15,187)
	16	10,199	11,091
Cash flows were invested as follows:			
(Decrease)/increase in cash at bank	16	(4,181)	12,869
Increase in deposits	16	3,622	6,812
Increase/(decrease) in financial investments	16	10,758	(8,590)
Net investment of cash flows	16	10,199	11,091

Notes to the annual accounts
at 31 December 2012

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 2012

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 2012

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 2012

3. Segmental analysis

An analysis of the underwriting result before investment return for 2011 and 2012 is set out below:

2012	*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	(2)	1	(3)	-	1	(1)	(19)
Marine aviation and Transport	81,170	75,195	(40,247)	(23,058)	(4,045)	7,845	(89,741)
Fire and other damage to property	16,210	14,027	(1,218)	(4,658)	(1,153)	6,998	(18,676)
Third-party liability	39,528	41,876	(33,593)	(10,472)	(955)	(3,144)	(91,884)
Miscellaneous	573	624	(387)	(148)	(31)	58	(1,093)
	137,479	131,723	(75,448)	(38,336)	(6,183)	11,756	(201,413)
Reinsurance	59,508	59,269	(50,753)	(13,512)	6,708	1,712	(54,439)
	196,987	190,992	(126,201)	(51,848)	525	13,468	(255,852)

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)

Commissions on direct insurance gross premiums earned were £24,977,980 during 2012 and £20,732,104 during 2011.

Gross Operating Expenses include reinsurance commissions receivable.

All premium transactions were concluded in the UK.

Notes to the annual accounts
at 31 December 2012

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

	2012	**2011**
	£000	*£000*
UK	29,218	29,701
Other EU countries	25,994	22,466
US	52,291	44,402
Central & South America	11,185	8,568
Japan	15,466	14,283
Australia	8,714	9,012
Other	54,120	46,458
Total	196,987	174,890

4. Change in net provision for claims

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

	2012	**2011**
	£000	*£000*
Outstanding claims	7,673	26,029
Claims incurred but not reported	3,020	9,405
Claims handling expenses provision	406	896
Change in net provision for claims	11,099	36,330

The movement in the net provision for claims includes a release of £4.2m in respect of claims outstanding at the previous year end (2011: release £9.6m). The release comprises net claim reductions including the change in claims incurred but not reported (‘IBNR’).

Notes to the annual accounts
at 31 December 2012

5. Net operating expenses

	2012 *£000*	2011 *£000*
Acquisition costs	37,494	31,546
Change in deferred acquisition costs	(1,901)	7
Administrative expenses	16,833	12,145
Loss on exchange	110	165
	52,536	43,863
Reinsurance commissions receivable	(688)	(340)
Net operating expenses	51,848	43,523

Administrative expenses include:

	2012 *£000*	2011 *£000*
Auditor's remuneration		
- Audit services	151	158
- Actuarial and tax services	108	70
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission)	2,403	1,599

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:

	2012 *£000*	2011 *£000*
Wages and salaries	10,208	6,774
Social security costs	1,419	860
Other pension costs	1,192	1,083
Other staff costs including recruitment, training and medical insurance	1,427	1,325
	14,246	10,042

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

	2012 *Number*	2011 *Number*
Management	9	9
Underwriting	44	39
Claims	8	8
Administration	34	33
	95	89

Notes to the annual accounts
at 31 December 2012

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:

	2012	**2011**
	£000	*£000*
Total Emoluments	2,053	1,736

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

	2012	**2011**
	£000	*£000*
Total Emoluments	318	352

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 2012:	Market value		Cost	
	2012	**2011**	**2012**	**2011**
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	18,560	23,082	17,971	23,009
Debt securities and other fixed-income securities	98,704	88,558	98,680	88,939
Participation in investment pools	2,826	3,177	2,826	3,177
	120,090	114,817	119,477	115,125

Notes to the annual accounts
at 31 December 2012

9. Investment income and expenses

	2012	**2011**
	£000	*£000*
Investment income		
Income from investments	2,753	3,001
Realised (losses) on investments	(376)	(279)
Unrealised gains/(losses) on investments	738	(92)
	3,115	2,630
Investment expenses and charges		
Investment management expenses	(181)	(141)

10. Calendar year investment yield

The average amount of syndicate funds available for investment during 2012 and the investment return and yield for that calendar year was as follows:

	2012	**2011**
	£000	*£000*
Average fund	171,741	166,723
Investment return	3,115	2,630
Calendar year investment yield	1.8%	1.6%
Average funds available for investment by fund		
Sterling and other	56,538	60,866
United States dollars	168,863	159,755
Canadian dollars	14,221	9,555
Analysis of calendar year investment yield by fund	*%*	*%*
Sterling and other	2.7	2.1
United States dollars	1.5	1.3
Canadian dollars	0.6	0.7

“Average fund” is the average of bank balances, overseas deposits and investments held during the calendar year.

11. Debtors arising out of direct insurance operations

	2012	**2011**
	£000	*£000*
Due from intermediaries	48,768	40,897

There were no balances due from policyholders arising out of direct insurance operations as at 31 December 2012 (2011: £nil).

Notes to the annual accounts
at 31 December 2012

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 *£000*	Total Balance *£000*
Members' balances brought forward at 1 January 2011	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)
Capital provided by Members	-	-	-
Settlement of 2009 Year of Account profit	-	(14,536)	(14,536)
Other recognised gains	-	(279)	(279)
2012 Financial year profit	-	16,402	16,402
Members' balances carried forward at 31 December 2012	-	(14,204)	(14,204)

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

	2012 *£000*	2011 *£000*
Due to intermediaries	9,052	7,424

There were no balances due to policyholders arising out of direct insurance operations as at 31 December 2012 (2011: £nil).

Notes to the annual accounts
at 31 December 2012

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

	2012 £000	2011 £000
Operating profit/(loss) on ordinary activities	16,402	(12,205)
Realised/unrealised (gains)/losses on cash and investments including foreign exchange	8,024	(701)
Increase in net technical provisions	9,638	34,636
(Increase) in debtors and prepayments	(9,194)	(9,216)
Increase in creditors and accruals	145	6,400
Retranslation of opening balances	(279)	83
Net cash inflow from operating activities	24,735	18,997

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

	2012 £000	2011 £000
(Decrease)/increase in cash at bank	(4,181)	12,869
Increase/(decrease) in financial investments	10,758	(8,590)
(Decrease)/increase in deposits	3,622	6,812
Movement arising from cash flows	10,199	11,091
Changes in market value and exchange rates	(8,023)	701
Total movement in cash and deposits	2,176	11,792
Portfolio at 1 January	169,994	158,202
Portfolio at 31 December	172,170	169,994

Analysis of movement in cash and portfolio investments

2012	*At 1 January 2012 £000*	*Cash Flow £000*	*Changes to market value and currencies £000*	*At 31 December 2012 £000*
Cash at bank and in hand	36,775	(4,181)	(2,020)	30,574
Deposits:				
Overseas deposits	18,516	3,807	(545)	21,778
Deposits with ceding undertakings	122	25	(2)	145
Deposits received from reinsurers	(236)	(210)	29	(417)
Total deposits	18,402	3,622	(518)	21,506
Portfolio investments:				
Debt securities and other fixed-income securities	88,558	14,684	(4,538)	98,704
UCITS funds	26,259	(3,926)	(947)	21,386
Total Portfolio investments	114,817	10,758	(5,485)	120,090
Total cash and portfolio investments	169,994	10,199	(8,023)	172,170

Notes to the annual accounts
at 31 December 2012

2011	*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

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

	2012 *£000*	**2011** *£000*
Purchase of shares and other variable yield securities and units in unit trusts	(132,135)	(99,397)
Purchase of debt securities and other fixed-income securities	(98,211)	(86,275)
Sale of shares and other variable yield securities and units in unit trusts	136,061	101,540
Sale of debt securities and other fixed-income securities	83,527	92,722
Net cash (outflow)/inflow on portfolio investments	(10,758)	8,590

18. Related parties

Syndicate 1274 has placed outwards reinsurance protection of £641,510 (2011: £429,669) with Chaucer Syndicate 1084. Syndicate 1274 has received reinsurance premiums of £448,291 (2011: £651,524) 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 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
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During 2012, managing agency fees were charged to the Syndicate as follows:

	2012	2011
	£000	*£000*
Antares Managing Agency Limited	839	659

In addition to the above Managing agency fees, £18,455,595 (2011: £14,461,344) was charged by Antares Managing Agency Limited for services provided by Antares Underwriting Services Limited to the Syndicate. Antares Underwriting Services Limited is a wholly owned subsidiary within the Antares Group.

A balance of £1,428,368 (2011: £nil) was due to Antares Managing Agency Limited at 31 December 2012.

A balance of £86,308 (2011: £85,278) was due to Antares Underwriting Services Limited at 31 December 2012.

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 2012 (2011: 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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