# ATRIUM

**ATRIUM UNDERWRITERS LIMITED**

SYNDICATES 570 & 609 ANNUAL ACCOUNTS 2013

## ATRIUM SYNDICATES 570 & 609 – ANNUAL ACCOUNTS



## SYNDICATE 570



## SYNDICATE 609



## DIRECTORS

**Nick Packer** Non-Executive Chairman
**Steve Cook** Managing Director
**James Cox** Compliance Director
**Toby Drysdale** Executive Director
**Andrew Elliott** Non-Executive Director
**Ann Godbehere** Non-Executive Director
**Richard Harries** Executive Director
**James Lee** Executive Director
**Nick Marsh** Executive Director
**Scott Moser** Non-Executive Director
**Paul O'Shea** Non-Executive Director
**Samit Shah** Executive Director
**Kirsty Steward** Executive Director
**Andrew Winyard** Executive Director

## ADVISORS

**Auditor**
Ernst & Young LLP
**Solicitors**
Clyde & Co LLP
Linklaters
**Bankers**
Lloyds Banking Group Plc
**Investment Managers**
GR-New England Asset Management
**Company Secretary**
Marla Bilicao
Equiniti David Venus Limited

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent present their report for the year ended 31 December 2013.

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (Lloyd's Regulations 2008).

Separate underwriting year accounts for the closed 2011 year of account will be made available to the syndicate members.

## RESULTS

The Syndicate 570 result for calendar year 2013 is a profit of £14.4m (2012 – profit of £20.6m). The result included £12.8m of profit from favourable development on back years. The Syndicate 609 result for calendar year 2013 is a profit of £54.1m (2012 – profit of £57.2m). Syndicate 609 benefitted from favourable development on the back years that contributed £26.0m to the result. Profits will be distributed by reference to the results of individual underwriting years.

## PRINCIPAL ACTIVITY

The syndicates' principal activity during the year continued to be the transaction of general insurance and reinsurance business at Lloyd's.

## RISK STRATEGY

Understanding its Risk Universe, the range of risks to which it is exposed, quantification and management of those risks enables the syndicate to determine the capital required to provide suitable security to its policyholders and to ensure that syndicate capital providers are delivered returns appropriate for the risk they assume. Management of risk, return and capital is the core discipline of Atrium's business, against which all significant strategic and operational decisions are evaluated.

The Directors are responsible for setting the Risk Strategy for each syndicate and for oversight of its implementation. The syndicates' Risk Strategies are to assume underwriting risks in a number of classes of business where management believe that the risks and expected margins can be evaluated, and that the underwriting teams, supported by other Agency functions can operate with competitive advantages.

As part of the annual business planning process, the Board determines a Risk Policy Statement, which sets out the levels of planned risk taking (sometimes referred to as Risk Appetite) the basis on which these risk levels will be monitored, and the actions to be taken in the event of deviations from the planned levels. The Agency has a comprehensive governance framework within which the syndicates' exposures to these risks are managed. The Governance framework is discussed further below.

## BUSINESS AND PERFORMANCE EVALUATION

On 19 July 2011 the Council of Lloyd's granted consent to the Agency to implement the merger of Syndicate 570 and Syndicate 609 with effect from the 2012 year of account. It was stated in the Syndicate Merger Document that the agency intended that the 2011 year of account of Syndicate 570 be reinsured to close into the 2012 year of account of the merged syndicate with effect from 1 January 2014 and the Board of Directors are pleased to announce that this has now successfully been completed as per the merger document sent to capital providers on 28 April 2011.

Syndicate 570 primarily underwrote a book of US Professional Liability, Property and Casualty insurance and reinsurance, and Accident & Health business. Syndicate 609 specialised in Marine and Aviation insurance and reinsurance, Non-marine Property, Energy, War and Terrorism insurance. From 2012 onwards Syndicate 609's business plan has included all existing lines of business previously written by the individual syndicates.

In underwriting these diversified classes, using their skill, knowledge and historic claims data to evaluate the potential claims costs and to determine the appropriate premium, and also by taking a limited amount of market and credit risk in investing the cash-flows generated by this activity, each syndicate aims to reward its capital providers with results that are considered attractive relative to the risks assumed.

The key performance measure for each syndicate is Return on Capital, determined by comparing the Total Recognised Gains and Losses to the Syndicate's Economic Capital Assessment ('ECA') set by the Corporation of Lloyd's on agreement of the Syndicate's Solvency Capital Requirement ('SCR'), including Solvency II balance sheet adjustments (adjusted ECA). Return on Capital and the following Key Performance Indicators for each syndicate are monitored by the Directors.

| SYNDICATE 570 | 2013 £m | 2012 £m |
|---|---|---|
| Gross premiums written | **(1.9)** | 31.9 |
| Total Recognised Gains and Losses | **14.4** | 20.6 |
| Investment return | **(0.3)** | 3.9 |
| Adjusted ECA | **16.5** | 37.1 |
| Return on adjusted ECA | **87%** | 56% |

As the syndicate has merged with Syndicate 609 with effect from the 2012 year of account certain ratio analysis is not relevant now that Syndicate 570 writes no new business. Consequently the combined and loss ratio analysis are no longer presented for Syndicate 570. The syndicate has continued to benefit from favorable loss development on the back years, contributing £12.8m (2012 – £11.4m) to the annually accounted result. The reduced ECA reflects the syndicate not writing any new business.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

| SYNDICATE 609 | 2013 £m | 2012 £m |
|---|---|---|
| Gross premiums written | **380.4** | 353.3 |
| Net earned premiums | **324.5** | 253.9 |
| Total Recognised Gains and Losses | **54.1** | 57.2 |
| Loss ratio | **40.7%** | 40.0% |
| Combined ratio | **83%** | 80% |
| Investment return | **0.1** | 7.5 |
| Adjusted ECA | **149.9** | 133.3 |
| Return on adjusted ECA | **36%** | 43% |

Net earned premiums have significantly increased in 2013, as expected. This reflects the earnings being generated from the merged syndicate with the commencement of the 2012 year of account. The loss ratio of 40.7% is comparable to the previous period. The syndicate has continued to benefit from favorable development on the back years, contributing a reduction of 8% to the loss ratio (2012 - 8%). The overall performance has been adversely affected by the near zero investment return and represents just over 5 percentage points of the reduced return on the syndicate's ECA for the year.

## INVESTMENT PERFORMANCE

In a challenging investment environment, both syndicates have adopted a defensive investment strategy investing in short-dated instruments taking exposure only to highly rated debt. The poor absolute returns on the portfolio reflect the impact of the rise in yields on the syndicate's significant USD fixed interest securities during the second quarter. In particular this affected the syndicates' holdings in Ginnie Mae's which lagged amid speculation that the US Central bank might soon begin to taper its quantitative easing programme that has been in place since the 2008 crisis, forcing bond prices lower.

| Investment Return | Benchmark | 570 | 609 |
|---|---|---|---|
| US Dollar | 0.47% | (0.75)% | (0.48)% |
| Canadian Dollar | 1.46% | 1.18% | 1.42% |
| Euro | (0.05)% | 0.40% | 0.43% |
| Sterling | 0.63% | – | 0.71% |

The Board has continued to monitor exposures to the Eurozone crisis and believes that it has taken appropriate measures to mitigate the risks that arise from uncertainty over the values of certain EU sovereign debt. The Syndicates have Euro denominated investments but under the terms of the investment guidelines the territories are restricted to Austria, Finland, France, Germany and the Netherlands. The Euro denominated investments amount to less than 20% of the total investment portfolio.

## FOREIGN EXCHANGE

The effects of exchange rate movements are recorded in two elements. Transactions during the year, translated into £ Sterling at the average rate for the year, gave rise to foreign exchange losses which are identified within the analysis of Net Operating Expenses, note 3. Revaluation of all balances at the closing rate of exchange on 31 December 2013 resulted in a foreign exchange loss for both Syndicate 570 and Syndicate 609 and is included within the Statement of Total Recognised Gains and Losses.

The rates of exchange used in preparing the financial statements are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Average | Closing | Average | Closing |
| US Dollar: £ Sterling | **1.56** | **1.66** | 1.59 | 1.63 |
| Euro: £ Sterling | **1.18** | **1.20** | 1.23 | 1.23 |
| Canadian Dollar: £ Sterling | **1.61** | **1.76** | 1.58 | 1.62 |

## PRINCIPAL RISKS AND UNCERTAINTIES

### Governance

The Board recognises the critical importance of having efficient and effective risk management systems in place but also recognises that it can only mitigate risks, and not eliminate them entirely. In preparation for the proposed Solvency II regime, the Board has developed its Own Risk and Solvency Assessment ('ORSA'), comprising the entirety of the processes that it uses to identify, assess, monitor and report the risks faced by its managed syndicates and to determine the capital necessary to mitigate retained risks. Critical to the efficacy of the ORSA are the effective operation of the Risk Management Framework ('RMF') and the Governance Structure. The RMF comprises the so-called "Three Lines of Defence" approach to risk management and reporting.

The RMF is the mechanism through which Atrium ensures it is implementing effective and enterprise wide risk management practices across its business. Key to Atrium's business is the management of risk, return and capital, against which all significant strategic and operational business decisions are evaluated. Over many years Atrium has established systems of governance and risk management that enable it to manage its business prudently. The RMF is the articulation of these systems of risk management and governance and how the various elements interact.

The RMF encompasses the broad range of activities undertaken across the organisational hierarchy to ensure that risks are managed appropriately, spanning from the high level strategy set by the Board to the day to day underwriting decisions being made by syndicate staff and the controls in place to govern these. The RMF can be illustrated as follows:

**Strategy:** This describes Atrium's strategy setting process and explains how this filters down through the organisation; incorporating the Syndicate's Business Strategy, Risk Strategy, Business Plan, Risk Policy Statement and Risk Policies.

**Business Activities:** The individual syndicate and Agency business units are responsible for implementing the strategy and business plans in accordance with the framework set out in the risk policies. The people, controls, management information, processes and senior management oversight in place across the business units serve as the "First Line of Defence" in the RMF.

**Risk Governance Structure:** The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the RMF is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee ('ERC'), which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees, discussed further below.

**Independent Assurance:** Atrium has in place Compliance, Internal Audit and Actuarial Functions in addition to the Risk Management Function (fulfilled by the ERC as referenced in the previous paragraph). These functions have specific responsibilities documented in their terms of reference and are staffed by fit and proper individuals with suitable qualifications, expertise and experience. The activities of these functions seek to provide the Board with assurance as to the appropriateness and effectiveness of the various elements of the RMF, the internal control environment, and the calculation of capital. There are a number of risk management tools which support independent assessment and reporting of risk.

**Independent Oversight:** The RMF provides for independent oversight and challenge via the operation of the Audit Committee and Risk Committee, both of which are Committees of the Board with membership comprised of Non Executive Directors. The Risk Committee is charged with providing independent oversight and review of Atrium's RMF and its constituent parts whilst the Audit Committee, along with its broader responsibilities for the financial statements and financial reporting process, has oversight of internal controls and the Internal Audit Function.

### Executive Risk Committee

The ERC fulfils the Risk Management Function, and co-ordinates the risk management activities conducted for the Agency's managed syndicates. It is responsible for ensuring that the RMF operates effectively, and for maintaining an aggregated and holistic view of risks to the syndicates and reporting on them to the Board, Committees and management as appropriate.

To support delivery of the ERC's responsibilities, there are three Risk Sub-Committees, each being responsible for oversight, review and challenge of the activities of the syndicates and in particular ensuring that activities are within risk policies, that risks are suitably identified, monitored and reported, and that appropriate contingency plans are in place.

The principal risks to which the syndicates are exposed are discussed below together with the mitigation techniques adopted. For clarity, the risks are analysed by reference to the Risk Sub-Committees that have responsibility for the relevant risk area.

### Insurance Risk Sub-Committee (IRSC)

The IRSC is responsible for oversight of insurance risk which includes underwriting, claims, reserving, and reinsurance. Insurance risk includes the risks that the policy might be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events might be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk).

Underwriting risk is mitigated through numerous controls including underwriter peer review, authority limits, line structures, independent review of risks written, and purchase of an appropriate reinsurance programme. The Syndicate Business Forecast is completed annually and stipulates those classes of business and concentration by class that will be written during the forthcoming year. It is reviewed by the IRSC and approved by the Board prior to being submitted to the Lloyd's Franchise Board for approval. Actual performance during the year is monitored by reference to the Syndicate Business Forecast.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Claims risk is mitigated by the syndicates having a defined risk appetite which determines the net loss that it intends to retain for major catastrophe events and where deemed appropriate reinsurance is purchased to limit the impact of losses. Although the likelihood of occurrence is considered to be remote, there may be circumstances where the loss from a particular catastrophe event exceeds the net risk appetite perhaps due to the occurrence of a loss that has not been considered or where the reinsurance purchased proves to be insufficient.

Reserving risk is mitigated by the robust reserve adequacy exercise that is performed on a quarterly basis by the Actuarial Function and approved by the Board. The quarterly exercise involves a review of the paid and outstanding claims and an assessment of the appropriate provision for incurred but not reported (IBNR) claims. The reserves are considered by the IRSC and approved by the Board. The reserving is carried out based on historical development data, the claims environment and information provided by lawyers and third party claims adjusters. Although a thorough review is carried out the reserves carried may be more or less than adequate to meet the final cost of claims.

The IRSC also reviews the proposed reinsurance programmes that are used to protect capital from frequency and severity of losses that may be sustained through underwriting the varied lines of business written. The review includes analysis of the reinsurance cover being purchased and assessment of the proposed counterparties.

**Financial Risk Sub-Committee (FRSC)**

The FRSC is responsible for oversight of financial risks and the steps taken to mitigate them as they arise from investments, asset/liability management, credit, liquidity and concentration risks. These risks are discussed further below.

Investment risk is the risk that the syndicates' earnings are affected by changes in the value of the investment portfolio; such changes in value may be driven by changes in the economic and political environment and by movements in interest and foreign exchange rates. Atrium manages the syndicates' investments in accordance with investment guidelines established by the Board that are reviewed on a regular basis. The FRSC monitors the performance of the external investment manager and the custodians responsible for the safekeeping of the investments, and reports regularly to the Board.

Asset/liability mis-match is the risk that the syndicate's could incur a loss through inadequate matching of its investments with its insurance liabilities. Due to the short-tail nature of the majority of these liabilities, the syndicates do not seek to achieve a precise matching with the investment portfolio, instead developing an investment duration guideline that is broadly in line with the average payment profile of the liabilities. However, the syndicates substantially mitigate exposure to currency mis-match by investing premiums in the currency in which subsequent claims are most likely to be incurred. The majority of the syndicates' business is denominated in US dollars and accordingly the substantial part of the investment portfolio is in US dollars.

The key aspect of credit risk is the risk of default by one or more of the syndicates' reinsurers, their investment counterparties, or insurance intermediaries. Reinsurance is placed with those reinsurers in accordance with the Atrium Policy for the purchase of Reinsurance. The exposure to credit risk in the investment portfolio is mitigated through adherence to the investment guidelines which require the syndicates' investment portfolios to be held in government and corporate debt with a high credit quality rating and with a relatively short duration, thus substantially mitigating the risk of sustaining losses from default. Exposure to intermediaries is mitigated by rigorous review of new intermediaries, contractual terms of business, regulated or segregated client accounts, monitoring of balances and credit control procedures.

Liquidity risk is the risk that the syndicates will not be able to meet their short term liabilities as they fall due, owing to a shortfall in cash. This risk is mitigated through holding invested funds in high credit quality and short duration investments, and cash-flow projections are also reviewed on a regular basis. The need for overdraft facilities in case of unprojected cash flow deficit is also reviewed regularly.

Concentration risk is the exposure to loss that could arise if the bulk of the amounts recoverable by the syndicates was dependent on a limited number of reinsurers, or if investments were restricted to limited numbers of counterparties or sectors. The risk is mitigated by restricting the permitted cessions to individual reinsurers for any one underwriting year and through the investment guidelines which limit exposure to individual investment counterparties and sectors.

**Operational Risk Sub-Committee (ORSC)**

The ORSC is responsible for oversight of the syndicates' exposures to operational, group and regulatory risks.

Operational risk includes exposure to loss from errors caused by people, processes or systems, group risk and emerging risks. The agency seeks to manage these risks by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review. Regular reviews are performed by the Internal Audit department to ensure that any deviations from the Agency's policies are identified and reported to the appropriate level of management and the Audit Committee when considered necessary.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change, including legal risk. The Agency has a Compliance Officer and team who monitor regulatory developments and assess the impact on agency policy and syndicate activities. They also carry out a compliance monitoring programme.

## SOLVENCY II

During the last year further progress has been made by the Agency in implementing Solvency II. Specifically, the Agency has met all the regulatory requirements during 2013 and is working towards incorporating Solvency II within business as usual. The Agency will continue to work closely with the Corporation of Lloyd's to ensure that Atrium remains on track to meet the demands of the Solvency II regime, which is now scheduled to come into force on 1 January 2016.

## GROUP DEVELOPMENTS

On 5 June 2013, Arden Holdings Limited ('AHL') entered into a definitive agreement with Enstar Group Limited subsidiaries ("Enstar") under which Enstar agreed to acquire the entire issued share capital of Atrium Underwriting Group Limited ("Atrium Group"). Enstar subsequently announced on 9 July 2013 that affiliates of Stone Point Capital LLC ("Stone Point") had committed to provide equity capital towards Enstar's previously announced acquisition of the Atrium Group, meaning that following the closing of the transaction Enstar would own 60% of the Atrium Group and Stone Point would own 40%.

The parties to the definitive purchase agreement for the acquisition entered into a deed of variation on 21 November 2013, which provided, among other things, for the payment of a $25.0m pre-completion dividend from Atrium to AHL and a corresponding $25.0m reduction in the purchase price (reducing the total purchase price from $183.0m to $158.0m). The transaction was completed on 25 November 2013. On 25 November 2013 Richard Lutenski stepped down as Chairman of the AUL Board and Nick Packer was appointed in his place. Full details of appointments and resignations during the period are detailed on page 6.

In addition, on 5 June 2013, AHL entered into a definitive agreement under which Enstar agreed to acquire the entire issued share capital of Arden Reinsurance Company Limited ("Arden Re"), which was also a subsidiary of AHL. Arden Re is a Bermuda-based reinsurance company that provides reinsurance to Atrium's corporate name. As with the Atrium Group transaction, Enstar subsequently announced on 9 July that Stone Point would be providing equity capital towards the transaction and would own 40% of Arden Re post closing of the transaction. The two transactions were governed by separate purchase agreements and the acquisition of the Atrium Group was not conditioned on the acquisition of Arden Re. On 9 September 2013, Arden Holdings completed its sale of Arden Re's entire issued share capital to Enstar and Stone Point.

## BOARD AND MANAGEMENT CHANGES

### In 2013

2013 saw a number of Board changes at Atrium. James Cox our Compliance Officer joined the Board at the start of the year and Kirsty Steward was appointed Agency Finance Director in January. As mentioned above the Atrium Group was sold during the year with the transaction completing on 25 November 2013 at which point a number of non-executive Directors stepped down from the board of AUGL to be replaced by Enstar and Stone Point representatives. At the same time Richard Lutenski stepped down as Chairman of the Atrium managing agency, and a number of Enstar representatives were appointed. Finally at the end of the year, Nick Marsh the Director of Underwriting Review and previous Active Underwriter of Syndicate 570 retired.

### In 2014

After 14 years as Agency Managing Director Steve Cook informed the Board of his plans to step down from the role during the summer of 2014 to become Deputy Chairman. The Board is pleased to announce that James Lee, the current Chief Operating Officer will be appointed Agency Managing Director with effect from 1 July 2014. At the same time, Steve Cook will also step down from his role as Atrium Group Chief Executive Officer and will be replaced by Richard Harries who will remain as Active Underwriter of Syndicate 609.

Ann Godbehere, an Atrium Non-Executive Director and Audit Committee Chair since 2007, has informed the Board of her intention to step down from the role at the end of the 2013 Group and Syndicate year end process. The Board is delighted to announce that Gordon Hamilton will be succeeding Ann in this role (subject to the necessary regulatory approvals) once Ann steps down.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

## DIRECTORS & OFFICERS

The Directors & Officers of the managing agent who served during the year ended 31 December 2013 were as follows:

SteveC ook
James Cox (appointed effective 4 January 2013)
Toby Drysdale
Andrew Elliott (appointed effective 25 November, 2013)
Ann Godbehere
Richard Harries (Active Underwriter 570 & 609)
James Lee
Scott Moser
Nick Packer (appointed effective 25 November 2013)
Paul O'Shea (appointed effective 25 November, 2013)
Samit Shah
Kirsty Steward (appointed effective 23 January, 2013)
Andrew Winyard
Marla Balicao, Equiniti David Venus Limited (Company Secretary)

The following Directors resigned during the year:

Andrew Baddeley (resigned effective 6 February 2013)
Richard Lutenski (resigned effective 25 November 2013)
Nick Marsh (resigned effective 31 December 2013)

## DIRECTORS' INTERESTS

Details of Directors' interests may be found in note 14 to the accounts.

## RE-APPOINTMENT OF AUDITORS

The Board of Directors have re-appointed Ernst & Young LLP as the syndicates' auditors for the year ending 31 December 2014. Ernst & Young LLP have indicated their willingness to continue in office as the syndicate auditor.

## SYNDICATE ANNUAL GENERAL MEETING

As permitted under the Syndicate Meetings (Amendment No.1) Byelaw (No.18 of 2000) Atrium Underwriters Limited does not propose to hold a Syndicate Annual General Meeting of the members of either Syndicate 570 or 609. Members may object to this proposal or the intention to reappoint auditors within 21 days of the issue of these financial statements. Any such objection should be addressed to James Cox, Compliance Director, at the registered office.

## DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a Director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the agency and the syndicates' auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the Board

**Steve Cook**
Managing Director
11 March 2014

# STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the syndicates' annual report and annual accounts in accordance with applicable laws 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 notes to 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 SYNDICATES 570 AND 609

We have audited the syndicates' annual accounts for the year ended 31 December 2013 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 15. 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 syndicates' 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 syndicates' 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 syndicates' 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 the syndicates' annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicates' 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 SYNDICATES' 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 syndicates' 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 Syndicate Annual Report and Accounts to identify material inconsistencies with the audited syndicates' annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material mis-statements or inconsistencies we consider the implications for our report.

### OPINION ON SYNDICATES' ANNUAL ACCOUNTS

In our opinion the annual accounts:

- give a true and fair view of the syndicates' affairs as at 31 December 2013 and of their respective profits 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 MATTERS PRESCRIBED BY THE INSURANCE ACCOUNTS DIRECTIVE (LLOYD'S SYNDICATE AND AGGREGATE ACCOUNTS) REGULATION 2008

In our opinion the information given in the Managing Agents' 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 (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 syndicates' 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

**Angus Millar** (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
12 March 2014

# PRINCIPAL ACCOUNTING POLICIES

SYNDICATES 570 AND 609 – 31 DECEMBER 2013

## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom. 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 and statement of total recognised gains and losses.

## 2. ACCOUNTING POLICIES

### Premiums Written

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

### Unearned Premiums

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of the risk. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date.

### Reinsurance Premium Ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

### 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.

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 financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

### Acquisition Costs

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

### 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 the classes of business which are managed together, after taking into account relevant investment returns.

### 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.

# PRINCIPAL ACCOUNTING POLICIES

SYNDICATES 570 AND 609 – 31 DECEMBER 2013

Realised gains and losses on investments carried at market value 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.

**Investments**

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions 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.

**Taxation**

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

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

**Foreign Currencies**

Transactions in US dollars, Canadian dollars and Euros are translated into £ Sterling at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising from the retranslation of opening balances in US dollars, Canadian dollars and Euros are recorded in the statement of total recognised gains and losses. The difference between the profit and loss account translated at the average rate and at the rate of exchange at the balance sheet date is recorded in the statement of total recognised gains and losses.

All other exchange differences are included in the technical account.

**Pension Costs**

The Atrium Group operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

**Profit Commission**

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a two year deficit clause. Where profit commission is charged it is included within members' standard personal expenses within administrative expenses.

# PROFIT AND LOSS ACCOUNT
# TECHNICAL ACCOUNT – GENERAL BUSINESS

## FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | £'000 | 2013 £'000 | £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 1 | | **(1,897)** | | 31,916 |
| Outward reinsurance premiums | | | **(94)** | | (3,566) |
| Net premiums written | | | **(1,991)** | | 28,350 |
| Change in the provision for unearned premiums: | | | | | |
| Gross amount | | **6,294** | | 50,130 | |
| Reinsurers' share | | **(228)** | | (2,738) | |
| Change in the net provision for unearned premiums | | | **6,066** | | 47,392 |
| **Earned premiums, net of reinsurance** | | | **4,075** | | 75,742 |
| **Allocated investment return transferred from the non-technical account** | | | **(309)** | | 3,920 |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid: | | | | | |
| Gross amount | | **39,154** | | 65,853 | |
| Reinsurers' share | | **(3,766)** | | (17) | |
| Net claims paid | | | **35,388** | | 65,836 |
| Change in the provision for claims: | | | | | |
| Gross amount | | **(56,108)** | | (43,032) | |
| Reinsurers' share | | **3,408** | | 1,890 | |
| Change in the net provision for claims | | | **(52,700)** | | (41,142) |
| **Claims incurred, net of reinsurance** | | | **(17,312)** | | 24,694 |
| **Net operating expenses** | 3 | | **3,833** | | 33,826 |
| **Balance on the technical account for general business** | | | **17,245** | | 21,142 |

All operations are continuing.

# PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | **17,245** | 21,142 |
| Investment income | 6 | **2,877** | 4,095 |
| Unrealised (losses)/gains on investments | | **(1,833)** | 592 |
| Investment expenses and charges | 6 | **(1,353)** | (767) |
| Allocated investment return transferred to general business technical account | | **309** | (3,920) |
| **Profit for the financial year** | | **17,245** | 21,142 |

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Profit for the financial year | **17,245** | 21,142 |
| Currency translation differences | **(2,829)** | (556) |
| **Total recognised gains and losses since last annual report** | **14,416** | 20,586 |

# BALANCE SHEET: ASSETS



AT 31 DECEMBER 2013

| | Notes | £'000 | 2013 £'000 | £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Investments** | | | | | |
| Financial investments | 7 | | **116,153** | | 156,090 |
| **Deposits with ceding undertakings** | | | **150** | | 151 |
| **Reinsurers' share of technical provisions** | | | | | |
| Provision for unearned premiums | | **-** | | 220 | |
| Claims outstanding | | **6,259** | | 9,693 | |
| | | | **6,259** | | 9,913 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | 8 | **8,309** | | 13,162 | |
| Debtors arising out of reinsurance operations | | **404** | | 976 | |
| Other debtors | | **1,015** | | 1,447 | |
| | | | **9,728** | | 15,585 |
| **Other assets** | | | | | |
| Cash at bank and in hand | | | **2,225** | | 1,172 |
| Overseas deposits | | | **24,519** | | 35,464 |
| **Prepayments and accrued income** | | | | | |
| Accrued interest | | **14** | | 141 | |
| Deferred acquisition costs | | **-** | | 2,273 | |
| | | | **14** | | 2,414 |
| **Total assets** | | | **159,048** | | 220,789 |

# BALANCE SHEET: LIABILITIES

AT 31 DECEMBER 2013

| | Notes | £'000 | 2013 £'000 | £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Capital and reserves** | | | | | |
| Members' balances | 9,15 | | **5,588** | | 2,344 |
| **Technical provisions** | | | | | |
| Provision for unearned premiums | | **-** | | 6,030 | |
| Claims outstanding | | **141,209** | | 197,057 | |
| | | | **141,209** | | 203,087 |
| **Creditors** | | | | | |
| Creditors arising out of direct insurance operations | 10 | **8,671** | | 8,936 | |
| Creditors arising out of reinsurance operations | | **591** | | 1,237 | |
| Other creditors | | **2,043** | | 4,376 | |
| | | | **11,305** | | 14,549 |
| **Accruals and deferred income** | | | **946** | | 809 |
| **Total liabilities** | | | **159,048** | | 220,789 |

The Annual Report and Accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 11 March 2014 and were signed on its behalf by:

**Steve Cook**
Managing Director
11 March 2014

**Richard Harries**
Active Underwriter
11 March 2014

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Net cash outflow from operating activities** | 11 | **(34,110)** | (23,452) |
| **Transfer to members in respect of underwriting participations** | | **(11,718)** | (11,215) |
| **Financing:** | | | |
| Other | | **535** | 1,018 |
| | 12 | **(45,293)** | (33,649) |
| **Cash flows were invested as follows:** | | | |
| Increase/(decrease) in cash holdings | 12 | **1,023** | (8,843) |
| Decrease in Overseas Deposits | 12 | **(10,825)** | (4,143) |
| Net portfolio investment | 12,13 | **(35,491)** | (20,663) |
| **Net investment of cash flows** | | **(45,293)** | (33,649) |

# NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2013

## 1. Segmental Analysis

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

| 2013 | Gross premiums written £'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 and health | (9) | 1,612 | (2,455) | 1,618 | (1,074) | **1,375** | 7,846 |
| Motor (third party liability) | (15) | (5) | (13) | (1) | 18 | **27** | (16) |
| Motor (other classes) | (611) | (599) | (182) | (140) | (138) | **(415)** | 1,956 |
| Marine, aviation and transport | (308) | (308) | (2,230) | (9) | (386) | **1,545** | 3,463 |
| Fire and other damage to property | (4,667) | (3,056) | (2,193) | 507 | (6) | **(1,376)** | 8,425 |
| Third party liability | 3,140 | 6,036 | (4,120) | 2,273 | (361) | **7,522** | 73,254 |
| Credit and suretyship | (267) | (166) | (494) | 32 | 1,788 | **2,084** | 1,375 |
| Legal Expenses | 156 | 156 | (336) | 77 | (1) | **414** | 1,069 |
| | (2,581) | 3,670 | (12,023) | 4,357 | (160) | **11,176** | 97,372 |
| **Reinsurance** | 684 | 727 | (4,931) | 634 | 1,354 | **6,378** | 37,578 |
| **Total** | **(1,897)** | **4,397** | **(16,954)** | **4,991** | **1,194** | **17,554** | **134,950** |

| 2012 | Gross premiums written £'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 and health | 12,891 | 21,559 | 6,643 | 9,507 | 1,174 | **6,583** | 16,152 |
| Motor (third party liability) | 46 | 103 | (124) | 13 | 118 | **332** | 23 |
| Motor (other classes) | 303 | 1,276 | 1,309 | 654 | 692 | **5** | 2,681 |
| Marine, aviation and transport | 935 | 7,983 | (1,945) | 3,500 | (2,956) | **3,472** | 7,372 |
| Fire and other damage to property | 4,222 | 17,778 | 7,668 | 8,551 | (876) | **683** | 17,616 |
| Third party liability | 10,578 | 24,966 | 11,767 | 10,128 | (1,991) | **1,080** | 114,098 |
| Credit and suretyship | 623 | 1,134 | (361) | 422 | (276) | **797** | 3,240 |
| Legal Expenses | 296 | 1,161 | 779 | 534 | (2) | **(154)** | 1,671 |
| | 29,894 | 75,960 | 25,736 | 33,309 | (4,117) | **12,798** | 162,853 |
| **Reinsurance** | 2,022 | 6,086 | (2,915) | 1,745 | (2,832) | **4,424** | 30,321 |
| **Total** | **31,916** | **82,046** | **22,821** | **35,054** | **(6,949)** | **17,222** | **193,174** |

Commission on direct insurance gross premiums earned during 2013 were £1,853,000 (2012 - £24,728,000).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

| | 2013 % | 2012 % |
|---|---|---|
| UK | **8.9** | 7.7 |
| Other EU countries | **18.5** | 7.6 |
| US | **33.1** | 57.9 |
| Other | **39.5** | 26.8 |
| **Total** | **100.0** | 100.0 |

## 2. Claims Outstanding

Reassessment of claims outstanding on underwriting years 2010 & prior (2012 – 2009 & prior) resulted in an improvement of £12.8m (2012 – £7.8m).

### 3. Net Operating Expenses

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Acquisition costs | **625** | 10,282 |
| Change in deferred acquisition costs | **2,363** | 18,497 |
| Administrative expenses | **2,737** | 6,058 |
| (Profit)/loss on exchange | **(734)** | 217 |
| | **4,991** | 35,054 |
| Reinsurance commissions receivable | **(1,158)** | (1,228) |
| | **3,833** | 33,826 |

Administrative expenses include:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Auditors' remuneration: | | |
| Audit services | **128** | 122 |
| Other services | **4** | 4 |
| | **132** | 126 |

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, managing agent's fees and profit commission) are included within administrative expenses and amount to £1,781,000 (2012 - £3,612,000).

### 4. Staff Numbers and Costs

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of staff costs:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Wages and salaries | **740** | 1,161 |
| Social security costs | **87** | 151 |
| Other pension costs | **69** | 94 |
| | **896** | 1,406 |

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the year, was as follows:

| | 2013 Number | 2012 Number |
|---|---|---|
| Management | **1** | 2 |
| Underwriting | **3** | 12 |
| Claims | **1** | 3 |
| Administration | **3** | 9 |
| | **8** | 26 |

### 5. Emoluments of the Directors of Atrium Underwriters Limited

The fourteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Salary | **50** | 142 |
| Pension | **10** | 27 |
| | **60** | 169 |

**5. Emoluments of the Directors of Atrium Underwriters Limited** continued

The Active Underwriter received the following remuneration charged as a syndicate expense:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Salary | - | - |
| Pension | - | - |
| | - | - |

**6. Investment Return**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Investment income: | | |
| Income from investments | 2,869 | 3,998 |
| Gains on the realisation of investments | 8 | 97 |
| | 2,877 | 4,095 |
| Investment expenses and charges: | | |
| Investment management expenses, including interest | (158) | (193) |
| Losses on the realisation of investments | (1,195) | (574) |
| | (1,353) | (767) |

**Calendar Year Investment Return**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Average syndicate funds available for investment during the year | | |
| Sterling | - | - |
| US dollars | 94,288 | 123,554 |
| Canadian dollars | 18,708 | 23,248 |
| Euro | 12,516 | 12,972 |
| **Combined** | 125,512 | 159,774 |
| Aggregate gross investment return for the year | (268) | 3,516 |
| Gross calendar year investment return: | % | % |
| Sterling | - | - |
| US dollars | (0.6) | 2.2 |
| Canadian dollars | 1.4 | 1.1 |
| Euro | 0.5 | 4.4 |
| **Combined** | (0.2) | 2.2 |

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of investments. The syndicate's portfolio consists of high quality investments which are held on a short duration basis.

### 7. Financial Investments

| | Market Value | | Cost | |
|---|---|---|---|---|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Shares and other variable yield securities and units in unit trusts | **4,153** | 8,127 | **4,153** | 8,127 |
| Debt securities and other fixed income securities | **109,593** | 143,433 | **110,371** | 142,016 |
| Loans secured by mortgage | **2,361** | 4,478 | **2,333** | 4,426 |
| Deposits with credit institutions | **46** | 52 | **46** | 52 |
| | **116,153** | 156,090 | **116,903** | 154,621 |

Shares and other variable yield securities and units in unit trusts represents the syndicate's holdings in collective investment schemes.

Debt securities and other fixed income securities and loans secured by mortgage are all listed on recognised stock exchanges.

Using Standard & Poor's and Moody's as rating sources, the credit ratings of the debt and other fixed income securities are set out below:

| | 2013 £'000 | 2013 % | 2012 £'000 | 2012 % |
|---|---|---|---|---|
| Government/Government Agency | **43,929** | **40.0** | 91,339 | 63.7 |
| AAA/Aaa | **36,060** | **32.9** | 21,061 | 14.7 |
| AA/Aa | **6,741** | **6.2** | 7,252 | 5.0 |
| A | **17,383** | **15.9** | 18,790 | 13.1 |
| BBB | **5,480** | **5.0** | 4,991 | 3.5 |
| | **109,593** | **100.0** | 143,433 | 100.0 |

The syndicate's fund manager throughout 2013 was GR-New England Asset Management (GR-NEAM). The US dollar and Canadian dollar investments are managed by GR-NEAM Inc, based in Farmington, US and the Euro portfolio is managed by GR-NEAM Limited, a sister company based in Dublin, Ireland.

### 8. Debtors Arising out of Direct Insurance Operations

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Due from Intermediaries | **8,309** | 13,162 |

### 9. Reconciliation of Members' Balances

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Members' balances brought forward at 1 January | **2,344** | (8,088) |
| Profit for the financial year | **17,245** | 21,142 |
| Currency translation differences | **(2,829)** | (556) |
| Payments of profit to members' personal reserve funds | **(11,172)** | (10,154) |
| **Members' balances carried forward at 31 December** | **5,588** | 2,344 |

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.

### 10. Creditors Arising out of Direct Insurance Operations

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Due from Intermediaries | **8,671** | 8,936 |

### 11. Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Operating profit on ordinary activities | **17,245** | 21,142 |
| Realised and unrealised investment losses | **4,537** | 9,476 |
| Decrease in net technical provisions | **(58,224)** | (97,883) |
| Decrease in debtors | **8,257** | 59,504 |
| Decrease in creditors | **(3,107)** | (15,178) |
| Foreign exchange on balance due to members | **11** | 43 |
| Currency translation differences | **(2,829)** | (556) |
| **Net cash outflow from operating activities** | **(34,110)** | (23,452) |

### 12. Movement in Opening and Closing Portfolio Investments Net of Financing

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Net cash inflow/(outflow) for the year | **1,023** | (8,843) |
| Cash flow | | |
| Decrease in deposits | **(10,825)** | (4,143) |
| Portfolio investments | **(35,491)** | (20,663) |
| Movement arising from cash flows | **(45,293)** | (33,649) |
| Changes in market value and exchange rates | **(4,537)** | (9,476) |
| Total movement in portfolio investments | **(49,830)** | (43,125) |
| Portfolio at 1 January | **192,877** | 236,002 |
| **Portfolio at 31 December** | **143,047** | 192,877 |

### Movement in Cash, Portfolio Investments and Financing

| | At 1 Jan 2013 £'000 | Cash flow £'000 | Changes to market value and currencies £'000 | At 31 Dec 2013 £'000 |
|---|---|---|---|---|
| **Cash at bank and in hand** | **1,172** | 1,023 | 30 | **2,225** |
| **Overseas deposits** | **35,464** | (10,825) | (120) | **24,519** |
| **Portfolio investments:** | | | | |
| Shares and other variable yield securities and units in unit trusts | **8,127** | (3,968) | (6) | **4,153** |
| Debt securities and other fixed income securities | **143,433** | (29,333) | (4,507) | **109,593** |
| Loans secured by mortgage | **4,478** | (2,184) | 67 | **2,361** |
| Deposits with credit institutions | **52** | (6) | - | **46** |
| Deposits with ceding undertakings | **151** | - | (1) | **150** |
| Total portfolio investments | **156,241** | (35,491) | (4,447) | **116,303** |
| **Total cash, portfolio investments and financing** | **192,877** | (45,293) | (4,537) | **143,047** |

The changes to market values and currencies include £(1.5)m relating to currency revaluation of non-Sterling denominated investments and deposits.

## 13. Net cash inflow on portfolio investments

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Sale of shares and other variable yield securities | **3,968** | 3,916 |
| Purchase of debt securities and other fixed income securities | **(50,539)** | (75,696) |
| Sale of loans secured by mortgage | **2,184** | 368 |
| Sale/(Purchase) of deposits with credit institutions | **6** | (3) |
| Deposits with ceding undertakings | **-** | 7 |
| Sale of debt securities and other fixed income securities | **79,872** | 92,071 |
| **Net cash inflow on net portfolio investments** | **35,491** | 20,663 |

## 14. Disclosures of Interest

Arden Holdings Limited (AHL), a company incorporated under the laws of Bermuda, was the ultimate holding company of Atrium Underwriting Group Limited (AUGL) up until it sold the entire shareholding in the company to the Enstar Group Ltd ("Enstar") and affiliates of Stone Point Capital LLC ("Stone Point") on 25 November 2013 (as set out in the Report of the Directors). Following the transaction AUGL is a wholly owned subsidiary of Alopuc Ltd (a UK subsidiary established to facilitate the transaction) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. Northshore is owned 60% by an Enstar group subsidiary and 40% by Stone Point.

AUGL is the holding company of the following wholly owned subsidiaries; Atrium Cockell Group Limited (ACGL), Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte. Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS), Atrium Risk Management Services (British Columbia) Ltd (ARMSBC) and Atrium 5 Ltd. AUL is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority and is the managing agent of Syndicates 570 and 609 (the 'managed syndicates'). AUHL is the holding company of ten non-continuing members of Lloyd's.

AUGL participates on the managed syndicates through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

| | 2011 Capacity £m | 2012 Capacity £m | 2013 Capacity £m | 2014 Capacity £m |
|---|---|---|---|---|
| Syndicate 570 | 35.9 | - | **-** | - |
| Syndicate 609 | 70.9 | 106.8 | **106.8** | 106.8 |

Atrium 5 Limited's participation on the managed syndicates as % of syndicate capacity:

| | Year of account | | | |
|---|---|---|---|---|
| | 2011 % | 2012 % | 2013 % | 2014 % |
| Syndicate 570 | 24.8 | - | **-** | - |
| Syndicate 609 | 25.8 | 25.4 | **25.4** | 25.4 |

On 28 April 2011, Atrium wrote to the Council of Lloyd's with a notice of the intention to merge Syndicate 570 and Syndicate 609 with effect from the commencement of the 2012 year of account. Consent to the merger was granted on 19 July 2011. Richard Harries was appointed Active Underwriter of Syndicate 570 with effect from 1 January 2012. In order to manage the run-off of Syndicate 570's business, certain Syndicate 609 underwriters have held authorities that enable them to service business on behalf of both managed syndicates. As previously reported the 2011 year of account of Syndicate 570 has now been reinsured to close into the 2012 year of account of Syndicate 609.

**14. Disclosures of Interest** continued

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads on a binding authority granted to AIAL to underwrite space business. The binding authority is led by Syndicate 609. Syndicate 570 participated on this binding authority up until 31 December 2011. Under the terms of the binding authority, fees and profit commission are payable to AIAL. No fee income (2012 - $21,000) is payable by the syndicate to AIAL in relation to premium earned in calendar year 2013. No profit commission has been incurred by the syndicate (2012 - $32,000) during the calendar year 2013.

AGSL is a group service company. All UK employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium Group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609, ASIA charges fees to the syndicate equal to its operating costs plus a small margin for transfer pricing reasons. Fees of S$2,987,000 were paid by Syndicate 609 to ASIA in calendar year 2013 (2012 - S$2,435,000).

ARMS is incorporated in Washington State USA and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the syndicates equal to its operating costs plus a small margin for transfer pricing reasons. No fees were paid by Syndicate 570 to ARMS in the calendar year 2013 (2012 - US$177,000) and fees of US$1,200,000 were paid by Syndicate 609 to ARMS in the calendar year 2013 (2012 - US$1,015,000).

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the syndicates equal to its operating costs plus a small margin for transfer pricing reasons. No fees were paid by Syndicate 570 to ARMSBC in the calendar year 2013 (2012 - C$123,000) and fees of C$740,000 were paid by Syndicate 609 to ARMSBC in the calendar year 2013 (2012 - C$850,000).

AUL managed four underwriting consortia. The Atrium Aviation Consortium was an internal consortium arrangement between Syndicate 570 & 609 on a 40%/60% split basis. Lloyd's approval was given on 21 July 2003 for this arrangement. An overrider is charged by Syndicate 609 to Syndicate 570. This consortium arrangement ceased for the 2012 year of account following the syndicate merger.

The Atrium Airline Hull War and Allied Perils Consortium and the two Atrium Aviation Reinsurance Consortia are led by Syndicate 609 and supported by various other Lloyd's syndicates, including Syndicate 570 up until the syndicate merger. Lloyd's approval was not required under the Multiple Syndicates Byelaw for these consortia. Fees and profit commission are payable by all consortium members (including Syndicate 570). AUL processes the fees and profit commission on behalf of Syndicate 609 but currently retains no remuneration in its role as manager of these consortia. Two Aviation Reinsurance Quota Share treaties are in place that replicate the Atrium Reinsurance Consortia. Profit commissions and overriders were payable by Syndicate 570 to Syndicate 609 under this arrangement. Syndicate 570's participation on all of these Consortia and Quota Share arrangements ceased for the 2012 year of account following the syndicate merger.

A Quota Share of Syndicate 609 by Syndicate 570 was entered into in relation to Aviation business underwritten on behalf of Syndicate 609 by ASIA. Under the terms of the Quota Share an overriding commission is payable by Syndicate 570 to Syndicate 609. The terms were set and agreed by the respective Active Underwriters at the time of the transaction. Lloyd's gave consent of a waiver under the Multiple Syndicates Byelaw on 9 November 2009. No overriding commission has been paid by Syndicate 570 in calendar year 2013. This arrangement ceased for the 2012 year of account following the syndicate merger.

The implementation of the syndicate merger from 1 January 2012 has resulted in the related party transactions between the two managed syndicates ceasing with effect from 2012. Now that Syndicate 570's 2011 year has closed into Syndicate 609's 2012 year, these historic transactions between the two syndicates will no longer be disclosed in future report and accounts.

During 2012 and 2013 certain shared reinsurances were purchased for the benefit of both Syndicates 570 and 609. The Board determined that this was the most efficient process to protect both the ongoing and run-off businesses of the syndicates. There is the possibility that one or other syndicate exhausting the available coverage, in which case we would examine the need to purchase back-up coverage. Costs have been charged on an equitable basis determined by the Board.

## 14. Disclosures of Interest continued

The Directors' participations on Syndicates 570 & 609 via Nomina No. 207 LLP are as follows (this includes any Director of AUL that served during 2013 and was a partner in the staff LLP):

| | Syndicate 570 | Syndicate 609 | | | |
|---|---|---|---|---|---|
| | 2011 yoa £ | 2011 yoa £ | 2012 yoa £ | 2013 yoa £ | 2014 yoa £ |
| Andrew Baddeley | 7,534 | 14,289 | 28,793 | - | **-** |
| Steve Cook | 11,213 | 21,266 | 37,438 | 35,500 | **39,103** |
| James Cox | 10,382 | 19,691 | 33,940 | 37,884 | **48,071** |
| Toby Drysdale | 9,212 | 17,472 | 29,173 | 27,707 | **31,887** |
| Richard Harries | 52,242 | 99,079 | 199,973 | 250,000 | **300,000** |
| Nick Marsh | 37,671 | 71,444 | 109,115 | 109,069 | **150,000** |
| Samit Shah | 10,197 | 19,339 | 36,500 | 38,945 | **46,729** |

AUL has made no loans to Directors of the company during 2013.

No managing agency fees (2012 - £nil) were paid by the syndicate to AUL. Profit commission of £1,689,000 (2012 - £3,137,000) is payable by the syndicate to AUL in relation to the 2013 calendar year result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No payment (2012 - £nil) was made in 2013. Included within creditors is £1,689,000 (2012 - £3,137,000) in respect of profit commission payable to AUL on the 2011 year of account. No amounts (2012 - £nil) are included in accruals and payable after 12 months.

Given the insurance related activities undertaken within the broader Enstar Group it is possible that further transactions may be entered into between the managed syndicate and Enstar group companies (including Shelbourne Syndicate Services Ltd and its managed syndicate 2008). Any such related party transactions will be entered into by the syndicate on a commercial basis and managed in accordance with Atrium's Conflicts of Interest Policy.

Enstar representatives serving as Directors of AUL may also hold Board positions at other Enstar group companies and these individuals will disclose and manage any potential conflicts of interest in line with Atrium's usual practice.

## 15. 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 regulatory 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 financial statements 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.

# PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

## FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | £'000 | 2013 £'000 | £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 1 | | 380,441 | | 353,320 |
| Outward reinsurance premiums | | | (49,031) | | (45,119) |
| Net premiums written | | | 331,410 | | 308,201 |
| Change in the provision for unearned premiums: | | | | | |
| Gross amount | | (6,981) | | (55,973) | |
| Reinsurers' share | | 86 | | 1,679 | |
| Change in the net provision for unearned premiums | | | (6,895) | | (54,294) |
| **Earned premiums, net of reinsurance** | | | 324,515 | | 253,907 |
| **Allocated investment return transferred from the non-technical account** | | | 78 | | 7,547 |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid: | | | | | |
| Gross amount | | 146,225 | | 95,494 | |
| Reinsurers' share | | (15,313) | | (19,582) | |
| Net claims paid | | | 130,912 | | 75,912 |
| Change in the provision for claims: | | | | | |
| Gross amount | | (4,289) | | 12,598 | |
| Reinsurers' share | | 5,567 | | 13,098 | |
| Change in the net provision for claims | | | 1,278 | | 25,696 |
| **Claims incurred, net of reinsurance** | | | 132,190 | | 101,608 |
| **Net operating expenses** | 3 | | 134,312 | | 99,758 |
| **Balance on the technical account for general business** | | | 58,091 | | 60,088 |

All operations are continuing.

# PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | **58,091** | 60,088 |
| Investment income | 6 | **7,974** | 7,092 |
| Unrealised (losses)/gains on investments | | **(5,999)** | 1,649 |
| Investment expenses and charges | 6 | **(1,897)** | (1,194) |
| Allocated investment return transferred to general business technical account | | **(78)** | (7,547) |
| **Profit for the financial year** | | **58,091** | 60,088 |

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Profit for the financial year | **58,091** | 60,088 |
| Currency translation differences | **(3,976)** | (2,904) |
| **Total recognised gains and losses since last annual report** | **54,115** | 57,184 |

# BALANCE SHEET: ASSETS

## AT 31 DECEMBER 2013

| | Notes | £'000 | 2013 £'000 | £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Investments** | | | | | |
| Financial investments | 7 | | **399,204** | | 393,413 |
| **Deposits with ceding undertakings** | | | **1,091** | | 702 |
| **Reinsurers' share of technical provisions** | | | | | |
| Provision for unearned premiums | | **8,355** | | 8,332 | |
| Claims outstanding | | **53,450** | | 59,790 | |
| | | | **61,805** | | 68,122 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | 8 | **82,937** | | 119,118 | |
| Debtors arising out of reinsurance operations | | **16,794** | | 19,310 | |
| Other debtors | | **214** | | 463 | |
| | | | **99,945** | | 138,891 |
| **Other assets** | | | | | |
| Cash at bank and in hand | | | **23,124** | | 21,323 |
| Overseas deposits | | | **21,099** | | 14,165 |
| **Prepayments and accrued income** | | | | | |
| Accrued interest | | **70** | | 52 | |
| Deferred acquisition costs | | **45,933** | | 41,567 | |
| Other prepayments and accrued income | | **-** | | 37 | |
| | | | **46,003** | | 41,656 |
| **Total assets** | | | **652,271** | | 678,272 |

# BALANCE SHEET: LIABILITIES

AT 31 DECEMBER 2013

| | Notes | £'000 | 2013<br>£'000 | £'000 | 2012<br>£'000 |
|---|---|---|---|---|---|
| **Capital and reserves** | | | | | |
| Members' balances | 9,15 | | **60,385** | | 53,206 |
| **Technical provisions** | | | | | |
| Provision for unearned premiums | | **149,376** | | 145,211 | |
| Claims outstanding | | **378,654** | | 389,440 | |
| | | | **528,030** | | 534,651 |
| **Deposits received from reinsurers** | | | **406** | | 393 |
| **Creditors** | | | | | |
| Creditors arising out of direct insurance operations | 10 | **17,036** | | 47,302 | |
| Creditors arising out of reinsurance operations | | **22,429** | | 18,934 | |
| Other creditors | | **12,013** | | 16,077 | |
| | | | **51,478** | | 82,313 |
| **Accruals and deferred income** | | | **11,972** | | 7,709 |
| **Total liabilities** | | | **652,271** | | 678,272 |

The Annual Report and Accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 11 March 2014 and were signed on its behalf by:

**Steve Cook**
Managing Director
11 March 2014

**Richard Harries**
Active Underwriter
11 March 2014

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 11 | **76,665** | 98,654 |
| **Transfer to members in respect of underwriting participations** | | **(44,175)** | (26,164) |
| **Financing:** | | | |
| Members' agents' fees | | **(2,626)** | (2,618) |
| Other | | **(142)** | (139) |
| | 12 | **29,722** | 69,733 |
| **Cash flows were invested as follows:** | | | |
| Increase/(Decrease) in cash holdings | 12 | **1,943** | (5,956) |
| Increase in overseas deposits | 12 | **7,651** | 4,463 |
| Net portfolio investment | 12,13 | **20,128** | 71,226 |
| **Net investment of cash flows** | | **29,722** | 69,733 |

# NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2013

## 1. Segmental Analysis

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

| 2013 | Gross premiums written £'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 and health | 34,421 | 31,056 | 14,518 | 14,185 | (1,272) | **1,081** | 20,998 |
| Motor (third party liability) | 81 | 76 | 21 | 20 | - | **35** | 63 |
| Motor (other classes) | 7,665 | 6,444 | 3,841 | 2,587 | - | **16** | 4,295 |
| Marine, aviation and transport | 120,662 | 131,370 | 46,518 | 50,126 | (15,427) | **19,299** | 149,571 |
| Fire and other damage to property | 101,794 | 96,943 | 29,430 | 37,041 | (10,551) | **19,921** | 110,296 |
| Third party liability | 79,381 | 70,338 | 44,440 | 24,572 | (1,285) | **41** | 134,285 |
| Credit and suretyship | 3,157 | 2,907 | (2,109) | 832 | (1,927) | **2,257** | 2,374 |
| Legal Expenses | 3,829 | 3,270 | 1,785 | 1,504 | (14) | **(33)** | 3,809 |
| | 350,990 | 342,404 | 138,444 | 130,867 | (30,476) | **42,617** | 425,691 |
| **Reinsurance** | 29,451 | 31,056 | 3,492 | 7,918 | (4,250) | **15,396** | 40,534 |
| **Total** | **380,441** | **373,460** | **141,936** | **138,785** | **(34,726)** | **58,013** | **466,225** |

| 2012 | Gross premiums written £'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 and health | 23,061 | 12,662 | 7,714 | 5,673 | (128) | **(853)** | 13,498 |
| Motor (third party liability) | 59 | 18 | 7 | 5 | - | **6** | 47 |
| Motor (other classes) | 4,378 | 3,520 | 2,045 | 1,515 | (21) | **(61)** | 2,375 |
| Marine, aviation and transport | 143,278 | 137,349 | 28,250 | 51,542 | (76) | **57,481** | 165,788 |
| Fire and other damage to property | 86,412 | 69,172 | 26,890 | 25,203 | (23,010) | **(5,931)** | 120,620 |
| Third party liability | 58,903 | 42,646 | 21,848 | 16,218 | (4,740) | **(160)** | 106,587 |
| Credit and suretyship | 2,216 | 1,222 | 427 | 308 | 2,028 | **2,515** | 3,545 |
| Legal expenses | 2,433 | 1,318 | 851 | 606 | (8) | **(147)** | 1,841 |
| | 320,740 | 267,907 | 88,032 | 101,070 | (25,955) | **52,850** | 414,301 |
| **Reinsurance** | 32,580 | 29,440 | 20,060 | 6,188 | (3,501) | **(309)** | 52,228 |
| **Total** | **353,320** | **297,347** | **108,092** | **107,258** | **(29,456)** | **52,541** | **466,529** |

Commission on direct insurance gross premiums earned during 2013 were £88,250,000 (2012 - £57,502,000).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

| | 2013 % | 2012 % |
|---|---|---|
| UK | **7.0** | 6.1 |
| Other EU countries | **7.9** | 12.1 |
| US | **49.4** | 48.5 |
| Other | **35.7** | 33.3 |
| **Total** | **100.0** | 100.0 |

### 2. Claims Outstanding

Reassessment of claims outstanding on underwriting years 2010 & prior (2012 - 2009 & prior) resulted in an improvement of £28.7m (2012 - £23.5m). This reduces to £26m after allowing for premium, commission and expenses movements.

### 3. Net Operating Expenses

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Acquisition costs | **110,725** | 97,794 |
| Change in deferred acquisition costs | **(5,240)** | (21,429) |
| Administrative expenses | **35,090** | 30,760 |
| (Loss)/Profit on exchange | **(1,790)** | 133 |
| | **138,785** | 107,258 |
| Reinsurance commissions receivable | **(4,473)** | (7,500) |
| | **134,312** | 99,758 |

Administrative expenses include:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Auditors' remuneration: | | |
| Audit services | **218** | 185 |
| Other services | **20** | 4 |
| | **238** | 189 |

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, managing agent's fees and profit commission) are included within administrative expenses and amount to £19,388,000 (2012 - £17,853,000).

### 4. Staff Numbers and Costs

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of salary costs:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Wages and salaries | **14,004** | 13,186 |
| Social security costs | **1,562** | 1,535 |
| Other pension costs | **1,613** | 1,477 |
| | **17,179** | 16,198 |

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the year, was as follows:

| | 2013 Number | 2012 Number |
|---|---|---|
| Management | **7** | 5 |
| Underwriting | **51** | 43 |
| Claims | **9** | 5 |
| Administration | **41** | 32 |
| | **108** | 85 |

### 5. Emoluments of the Directors of Atrium Underwriters Limited

The fourteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Salary | **1,582** | 1,728 |
| Pension | **303** | 305 |
| | **1,885** | 2,033 |

### 5. Emoluments of the Directors of Atrium Underwriters Limited continued

The Active Underwriter received the following remuneration charged as a syndicate expense:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Salary | **243** | 240 |
| Pension | **49** | 48 |
| | **292** | 288 |

### 6. Investment Return

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Investment income: | | |
| Income from investments | **7,965** | 6,928 |
| Gains on the realisation of investments | **9** | 164 |
| | **7,974** | 7,092 |
| Investment expenses and charges: | | |
| Investment management expenses, including interest | **(373)** | (392) |
| Losses on the realisation of investments | **(1,524)** | (802) |
| | **(1,897)** | (1,194) |

### Calendar Year Investment Return

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Average syndicate funds available for investment during the year | | |
| Sterling | **46,873** | 3,591 |
| US dollars | **234,069** | 236,661 |
| Canadian dollars | **20,795** | 16,711 |
| Euro | **58,229** | 56,025 |
| Combined | **359,966** | 312,988 |
| Aggregate gross investment return for the year | **256** | 7,592 |
| Gross calendar year investment return: | **%** | % |
| Sterling | **0.8** | 0 |
| US dollars | **(0.3)** | 2.1 |
| Canadian dollars | **1.6** | 1.1 |
| Euro | **0.6** | 4.5 |
| Combined | **0.1** | 2.4 |

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of investments.

The syndicate's portfolio consists of high quality investments which are held on a short duration basis.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2013

## 7. Financial Investments

| | Market value | | Cost | |
|---|---|---|---|---|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Shares and other variable yield securities and units in unit trusts | **33,561** | 26,737 | **33,561** | 26,737 |
| Debt securities and other fixed income securities | **356,071** | 345,815 | **359,368** | 343,355 |
| Loans secured by mortgage | **9,572** | 20,861 | **9,471** | 20,647 |
| | **399,204** | 393,413 | **402,400** | 390,739 |

Shares and other variable yield securities and units in unit trusts represents the syndicate's holdings in collective investment schemes.

Debt securities and other fixed income securities and loans secured by mortgage are all listed on recognised stock exchanges.

Using Standard & Poor's and Moody's as rating sources, the credit ratings of the debt and other fixed income securities are set out below:

| | 2013 £'000 | 2013 % | 2012 £'000 | 2012 % |
|---|---|---|---|---|
| Government/Government Agency | **158,768** | **44.6** | 224,497 | 65.0 |
| AAA/Aaa | **76,285** | **21.4** | 39,160 | 11.3 |
| AA/Aa | **28,746** | **8.1** | 22,607 | 6.5 |
| A | **64,456** | **18.1** | 46,654 | 13.5 |
| BBB | **27,815** | **7.8** | 12,897 | 3.7 |
| | **356,070** | **100.0** | 345,815 | 100.0 |

The syndicate's fund manager throughout 2013 was GR-New England Asset Management (GR-NEAM). The US dollar and Canadian dollar investments are managed by GR-NEAM Inc, based in Farmington, US and the Euro portfolio are managed by GR-NEAM Limited, a sister company based in Dublin, Ireland.

## 8. Debtors Arising out of Direct Insurance Operations

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Due from Intermediaries | **82,937** | 119,118 |

## 9. Reconciliation of Members' Balances

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Members' balances brought forward at 1 January | **53,206** | 24,930 |
| Profit for the financial year | **58,091** | 60,088 |
| Currency translation differences | **(3,976)** | (2,904) |
| Payments of profit to members' personal reserve funds | **(46,936)** | (28,908) |
| **Members' balances carried forward at 31 December** | **60,385** | 53,206 |

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.

## 10. Creditors Arising out of Direct Insurance Operations

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Due to Intermediaries | **17,036** | 47,302 |

### 11. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Operating profit on ordinary activities | **58,091** | 60,088 |
| Realised and unrealised investment losses | **14,820** | 15,912 |
| (Decrease)/increase in net technical provisions | **(304)** | 61,929 |
| Decrease/(increase) in debtors | **34,599** | (56,920) |
| (Decrease)/increase in creditors | **(26,572)** | 20,536 |
| Foreign exchange on balance due to members | **7** | 13 |
| Currency translation differences | **(3,976)** | (2,904) |
| **Net cash inflow from operating activities** | **76,665** | 98,654 |

### 12. Movement in Opening and Closing Portfolio Investments Net of Financing

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Net cash inflow/(outflow) for the year | **1,943** | (5,956) |
| Cash flow | | |
| Increase in deposits | **7,651** | 4,463 |
| Portfolio investments | **20,128** | 71,226 |
| Movement arising from cash flows | **29,722** | 69,733 |
| Changes in market value and exchange rates | **(14,820)** | (15,912) |
| Total movement in portfolio investments | **14,902** | 53,821 |
| Portfolio at 1 January | **429,210** | 375,389 |
| **Portfolio at 31 December** | **444,112** | 429,210 |

### Movement in Cash, Portfolio Investments and Financing

| | At 1 Jan 2013 £'000 | Cash flow £'000 | Changes to market value and currencies £'000 | At 31 Dec 2013 £'000 |
|---|---|---|---|---|
| **Cash at bank and in hand** | **21,323** | 1,943 | (142) | **23,124** |
| **Overseas deposits** | **14,165** | 7,651 | (717) | **21,099** |
| **Portfolio investments:** | | | | |
| Shares and other variable yield securities and units in unit trusts | **26,737** | 7,907 | (1,083) | **33,561** |
| Debt securities and other fixed income securities | **345,815** | 23,470 | (13,214) | **356,071** |
| Loans secured by mortgage | **20,861** | (11,644) | 355 | **9,572** |
| Deposits with ceding undertakings | **702** | 412 | (23) | **1,091** |
| Deposits received from reinsurers | **(393)** | (17) | 4 | **(406)** |
| **Total portfolio investments** | **393,722** | 20,128 | (13,961) | **399,889** |
| **Total cash, portfolio investments and financing** | **429,210** | 29,722 | (14,820) | **444,112** |

The changes to market values and currencies include £(7)m relating to currency revaluation of non-Sterling denominated investments and deposits.

### 13. Net Cash Outflow on Portfolio Investments

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Purchase of shares and other variable yield securities and units in unit trusts | **(7,907)** | 13,280 |
| Purchase of debt securities and other fixed income securities | **(133,285)** | (225,893) |
| Sale of loans secured by mortgage | **11,644** | 2,878 |
| Deposits with ceding undertakings | **(412)** | 135 |
| Sale of debt securities and other fixed income securities | **109,815** | 138,358 |
| Net cash outflow on portfolio investments | **(20,145)** | (71,242) |
| Deposits received from Reinsurers | **17** | 16 |
| **Net cash outflow on net portfolio investments** | **(20,128)** | (71,226) |

### 14. Disclosures of Interest

Arden Holdings Limited (AHL), a company incorporated under the laws of Bermuda, was the ultimate holding company of Atrium Underwriting Group Limited (AUGL) up until it sold the entire shareholding in the company to the Enstar Group Ltd ("Enstar") and affiliates of Stone Point Capital LLC ("Stone Point") on 25 November 2013 (as set out in the Report of the Directors). Following the transaction AUGL is a wholly owned subsidiary of Alopuc Ltd (a UK subsidiary established to facilitate the transaction) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. Northshore is owned 60% by an Enstar group subsidiary and 40% by Stone Point.

AUGL is the holding company of the following wholly owned subsidiaries; Atrium Cockell Group Limited (ACGL), Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte. Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS), Atrium Risk Management Services (British Columbia) Ltd (ARMSBC) and Atrium 5 Ltd. AUL is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority and is the managing agent of Syndicates 570 and 609 (the 'managed syndicates'). AUHL is the holding company of ten non-continuing members of Lloyd's.

AUGL participates on the managed syndicates through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

| | 2011 Capacity £m | 2012 Capacity £m | 2013 Capacity £m | 2014 Capacity £m |
|---|---|---|---|---|
| Syndicate 570 | 35.9 | - | **-** | - |
| Syndicate 609 | 70.9 | 106.8 | **106.8** | 106.8 |

Atrium 5 Limited's participation on the managed syndicates as % of syndicate capacity:

| | Year of account | | | |
|---|---|---|---|---|
| | 2011 % | 2012 % | 2013 % | 2014 % |
| Syndicate 570 | 24.8 | - | **-** | - |
| Syndicate 609 | 25.8 | 25.4 | **25.4** | 25.4 |

On 28 April 2011, Atrium wrote to the Council of Lloyd's with a notice of the intention to merge Syndicate 570 and Syndicate 609 with effect from the commencement of the 2012 year of account. Consent to the merger was granted on 19 July 2011. Richard Harries was appointed Active Underwriter of Syndicate 570 with effect from 1 January 2012. In order to manage the run-off of Syndicate 570's business, certain Syndicate 609 underwriters have held authorities that enable them to service business on behalf of both managed syndicates. As previously reported the 2011 year of account of Syndicate 570 has now been reinsured to close into the 2012 year of account of Syndicate 609.

**14. Disclosures of Interest** continued

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads on a binding authority granted to AIAL to underwrite space business. The binding authority is led by Syndicate 609. Syndicate 570 participated on this binding authority up until 31 December 2011. Under the terms of the binding authority, fees and profit commission are payable to AIAL. Fee income of $866,000 (2012 - $505,000) is payable by the syndicate to AIAL in relation to premium earned in calendar year 2013. Profit commission of $1,984,000 has been incurred by the syndicate (2012 - $899,000) during the calendar year 2013.

AGSL is a group service company. All UK employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium Group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609 ASIA charges fees to the syndicate equal to its operating costs plus a small margin for transfer pricing reasons. Fees of S$2,987,000 were paid by Syndicate 609 to ASIA in calendar year 2013 (2012 - S$2,435,000).

ARMS is incorporated in Washington State USA and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the syndicates equal to its operating costs plus a small margin for transfer pricing reasons. No fees were paid by Syndicate 570 in the calendar year 2013 (2012 - US$177,000) and fees of US$1,200,000 were paid by Syndicate 609 in the calendar year 2013 (2012 - US$1,015,000).

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the syndicates equal to its operating costs plus a small margin for transfer pricing reasons. No fees were paid by Syndicate 570 to ARMSBC in the calendar year 2013 (2012 - C$123,000) and fees of C$740,000 were paid by Syndicate 609 to ARMSBC in the calendar year 2013 (2012 - C$850,000).

AUL managed four underwriting consortia. The Atrium Aviation Consortium was an internal consortium arrangement between Syndicate 570 & 609 on a 40%/60% split basis. Lloyd's approval was given on 21 July 2003 for this arrangement. An overrider is charged by Syndicate 609 to Syndicate 570. This consortium arrangement ceased for the 2012 year of account following the syndicate merger.

The Atrium Airline Hull War and Allied Perils Consortium and the two Atrium Aviation Reinsurance Consortia are led by Syndicate 609 and supported by various other Lloyd's syndicates, including Syndicate 570 up until the syndicate merger. Lloyd's approval was not required under the Multiple Syndicates Byelaw for these consortia. Fees and profit commission are payable by all consortium members (including Syndicate 570). AUL processes the fees and profit commission on behalf of Syndicate 609 but currently retains no remuneration in its role as manager of these consortia. Two Aviation Reinsurance Quota Share treaties are in place that replicate the Atrium Reinsurance Consortia. Profit commissions and overriders were payable by Syndicate 570 to Syndicate 609 under this arrangement. Syndicate 570's participation on all of these Consortia and Quota Share arrangements ceased for the 2012 year of account.

A Quota Share of Syndicate 609 by Syndicate 570 was entered into in relation to Aviation business underwritten on behalf of Syndicate 609 by ASIA. Under the terms of the Quota Share an overriding commission is payable by Syndicate 570 to Syndicate 609. The terms were set and agreed by the respective Active Underwriters at the time of the transaction. Lloyd's gave consent of a waiver under the Multiple Syndicates Byelaw on 9 November 2009. No overriding commission has been paid by Syndicate 570 in calendar year 2013. This arrangement ceased for the 2012 year of account following the syndicate merger.

The implementation of the syndicate merger from 1 January 2012 has resulted in the related party transactions between the two managed syndicates ceasing with effect from 2012. Now that Syndicate 570's 2011 year has closed into Syndicate 609's 2012 year, these historic transactions between the two syndicates will no longer be disclosed in future report and accounts.

During 2012 and 2013 certain shared reinsurances were purchased for the benefit of businesses both Syndicates 570 and 609. The Board determined that this was the most efficient process to protect both the ongoing and run-off businesses of the syndicates. There is the possibility that one or other syndicate exhausting the available coverage, in which case we would examine the need to purchase back-up coverage. Costs have been charged on an equitable basis determined by the Board.

## 14. Disclosures of Interest continued

The Directors' participations on Syndicates 570 & 609 via Nomina No. 207 LLP are as follows (this includes any Director of AUL that served during 2013 and was a partner in the staff LLP):

| | Syndicate 570 | Syndicate 609 | | | |
|---|---|---|---|---|---|
| | 2011 yoa | 2011 yoa | 2012 yoa | 2013 yoa | 2014 yoa |
| | £ | £ | £ | £ | £ |
| Andrew Baddeley | 7,534 | 14,289 | 28,793 | - | **-** |
| Steve Cook | 11,213 | 21,266 | 37,438 | 35,500 | **39,103** |
| James Cox | 10,382 | 19,961 | 33,940 | 37,884 | **48,071** |
| Toby Drysdale | 9,212 | 17,472 | 29,173 | 27,707 | **31,887** |
| Richard Harries | 52,242 | 99,079 | 199,973 | 250,000 | **300,000** |
| Nick Marsh | 37,671 | 71,444 | 109,115 | 109,069 | **150,000** |
| Samit Shah | 10,197 | 19,339 | 36,500 | 38,945 | **46,729** |

AUL has made no loans to Directors of the company during 2013.

Managing agency fees of £2,929,000 (2012 - £2,929,000) were paid by the syndicate to AUL. Profit commission of £13,880,000 (2012 - £15,769,000) is payable by the syndicate to AUL in relation to the 2013 calendar year result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No payment (2012 - £nil) was made in 2013. Included within creditors is £9,989,000 (2012 - £11,411,000) in respect of profit commission payable to AUL on the 2011 year of account. £8,234,000 (2012 - £4,358,000) is included in accruals and payable after 12 months.

Given the insurance related activities undertaken within the broader Enstar Group it is possible that further transactions may be entered into between the managed syndicate and Enstar group companies (including Shelbourne Syndicate Services Ltd and its managed syndicate 2008). Any such related party transactions will be entered into by the syndicate on a commercial basis and managed in accordance with Atrium's Conflicts of Interest Policy.

Enstar representatives serving as Directors of AUL may also hold Board positions at other Enstar group companies and these individuals will disclose and manage any potential conflicts of interest in line with Atrium's usual practice.

## 15. 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 regulatory 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 financial statements 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.

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