

ADVENT UNDERWRITING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2014



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Directors	P W J Cresswell	Non-Executive Chairman (resigned 22 October 2014)
	T J Ambridge W E Beveridge H H Bohling J Cloutier	Non-Executive Director Non-Executive Chairman (appointed Chairman 22 October 2014)
	N P Fitzgerald P J Green ACA I M Hewitt FCII N H H Smith	Non-Executive Director (appointed 4 July 2014)
Company Secretary	N M Ewing ACII	
Registered Office	2nd Floor 2 Minster Court London United Kingdom EC3R 7BB	
	Tel: 020 7743 8200 Fax: 020 7743 8299 Email: head.office@adventgroup.co.uk	
	www.adventgroup.co.uk	
Bankers	Barclays Bank plc One Churchill Place London E14 5HP	
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT	
Solicitors	Clyde & Co LLP The St Botolph Building 138 Houndsditch London EC3A 7AR	
Company Registration Number	1227004	

The directors present their strategic report for the company for the year ended 31 December 2014.

Principal activities and review of the business

The principal activity of the Company is that of a registered Lloyd's Managing Agent. The Company has continued to manage Syndicate 780 throughout the year. The Company generates fee income from the Syndicate sufficient to cover its expense base. For 2014, the company is charged a single management charge by Advent Capital (Holdings) LTD (Advent). The specific element of non-executive fees are identified, but the specific costs of employees or directors are not. The key management emoluments, as disclosed in Advent's financial statements, relate to the Executive Directors.

Results and Dividends

The result for the year ended 31 December 2014, before taxation, amounted to a result of £Nil (31 December 2013: profit of £883,754).

No dividend was paid (2013:£2,000,000).

Key performance indicators ("KPIs")

The Directors of the Company, as a wholly owned subsidiary of Advent, adopt the same KPIs as ACH which are set out clearly in ACH's accounts. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The development, performance and position of the Advent Group, which includes the Company, is discussed in the Business Review section of Advent's annual report and financial statements, which does not form part of these financial statements.

Future Developments

Syndicate 780 continues to underwrite in 2015 with a capacity of £200 million.

Risk Management

Overview

The Board of Directors is responsible for the oversight of the Company's systems of internal control, for reviewing their effectiveness at least annually and for reporting on the effectiveness of controls in the Company's Annual Report and Accounts. Executive Management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

Every employee is responsible for internal control and is informed of their role through detailed job descriptions, policies, and procedures manuals and communications from Business Unit Leaders and the Board of Directors.

The Company's systems of internal control consist of a number of interrelated components as outlined below:

Control Environment

The control environment sets the tone of the business influencing the control consciousness of its Directors and employees, sometimes referred to as the "tone at the top". It provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board of Directors.

The control environment is communicated to employees through the following key policies approved by the Board:

- Corporate objectives and risk appetite
- Code of Business Conduct and Ethics
- Whistle Blowing
- Anti-Bribery and Corruption, Confidentiality and Trading Responsibilities regarding Fairfax
- Anti-money laundering and financial crime
- Documented policies and procedures for each operational business area

As a small organisation, the Company's culture is hands-on with extensive interaction between directors, Business Unit Leaders and employees and one which takes pride in maintaining strong underwriting disciplines throughout the insurance cycle while acknowledging the potential volatility in short term results arising from catastrophe events.

Risk Assessment

The Company faces a variety of risks from both internal and external sources that require identification, assessment and management. Risk management is the process that enables a business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess the risks against risk appetite;
- Where possible and commercially desirable, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured and assessed.

As the environment in which the Company is operating is constantly changing, the risk assessment process needs to be dynamic and updated on an on-going basis.

The key risks, as assessed by the Company, are set out below:

- o **Key Staff** – the risk that the Company's operations may be adversely affected by management and key underwriter turnover.
- o **Operational** – The Company is exposed to a range of operational risks, some of which could have a direct financial impact such as:
 - o inaccurate management information (e.g. through staff error, inadequate processes or loss of IT systems);
 - o loss of office facilities (though fire, flood, terrorism, etc.);
 - o outsourcing issues; and
 - o fraud.
- o **Regulatory** – The agency is regulated by the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's of London, and the Company is at risk of censure, fine or restriction of business if it fails to run the business in compliance with the applicable rules and regulations.

Ownership of risks and controls within the Company is clearly defined. The Risk Function coordinates an assessment of all risks through a quarterly risk review, carried out in line with policies and procedures, to ensure that risks remain relevant and up-to-date.

All risks have a risk appetite recommended by the Chief Risk Officer to the Board of Directors for their approval. When any risk falls outside the Company's risk appetite, action plans are agreed, implemented and monitored. Risk mitigation actions have clearly defined owners and implementation timescales.

Control Activities

Control activities are the policies and procedures that are set by the Executive Management to manage risk and support the delivery of the Company's objectives.

The Company maintains and updates policies and procedures addressing all key areas of the business.

Information, Communication and Key Performance Indicators

Appropriate information must be identified, captured and communicated in a form and timeframe that enables directors and employees to carry out their responsibilities. The Company has an established management information system for the production of operational, financial and compliance reports which allow the Executive Management and the Board to run and control the business.

The Company has established corporate objectives and risk appetite. The key performance data required for management and control purposes has been identified as combined ratio, adequacy of reserves, exposure to catastrophe losses on a gross and net basis and performance against the approved business plan. Management reports are produced monthly for Executive Management and reported to the Board quarterly. Decision making is made at the appropriate level, within pre-agreed parameters, and communicated throughout the Company as required.

The Company maintains pro-active channels of communication with all key stakeholders.

Monitoring

Internal control systems need to be monitored to assess the quality of the system over time. The Company achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of exception reports, together with a comprehensive risk based internal audit programme.

The audit programme is risk focussed with the majority of the activity centred upon those areas which are considered to generate the largest risks namely underwriting, reinsurance and claims.

The Company believes it has implemented an effective system of internal control.

Approved by the Board on 18 February 2015 and signed on its behalf:


N M Ewing
Company Secretary

The Directors present their report and audited financial statements for the year ended 31 December 2014.

Results and Dividends

The result for the year ended 31 December 2014 is discussed in the Strategic Report.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page two.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

Each of the persons who is a Director at the date of this report confirms that:

- 1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2014 of which the auditors are unaware; and
- 2) the Director has taken all steps that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 18 February 2015 and signed on its behalf:



N M Ewing
Company Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ADVENT UNDERWRITING LIMITED

Report on the financial statements

Our opinion

In our opinion, Advent Underwriting Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Advent Underwriting Limited's financial statements comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

ADVENT UNDERWRITING LIMITED

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements 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 misstatements or inconsistencies we consider the implications for our report.

A handwritten signature in black ink, appearing to read 'Mark Bolton', written in a cursive style.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 February 2015

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2014

	Note	2014 £	2013 £
Turnover	1	4,878,356	4,900,000
Administrative expenses		(4,878,356)	(4,016,275)
Operating result / profit		-	883,725
Other interest receivable and similar income		-	29
Result / profit on Ordinary Activities before taxation	2	-	883,754
Tax on Result / profit on Ordinary Activities	4	63	(198,412)
Profit for the Financial Year	9, 10	63	685,342

The result above is from continuing operations.

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.



The Accounting Policies and Notes on pages 9 to 12 form part of these financial statements.

ADVENT UNDERWRITING LIMITED

BALANCE SHEET
As at 31 December 2014

	Note	2014 £	2013 £
Current Assets			
Debtors	5	3,034,113	5,002,246
Current Liabilities			
Creditors – amounts falling due within one year	6	(833,299)	(2,845,875)
Net Current Assets		2,200,814	2,156,371
Creditors – amounts falling due after more than one year	7	(744,380)	(700,000)
Total Assets Less Liabilities		1,456,434	1,456,371
Called-up share capital	8	446,520	446,520
Share premium account	9	61,845	61,845
Profit and loss account	9	948,069	948,006
Total Shareholders' Funds	10	1,456,434	1,456,371

The financial statements on pages 7 to 12 were approved by the Board of Directors on 18 February 2015 and signed on its behalf by:


T J Ambridge)
)

P J Green) Directors

Company Registration Number: 1227004

The Accounting Policies and Notes on pages 9 to 12 form part of these financial statements.

Basis of Presentation

The Financial Statements are prepared on a going concern basis under the historical cost basis of accounting and in accordance with the Companies Act 2006 and comply with applicable accounting standards in the United Kingdom. The principal accounting policies are set out below and have been applied consistently throughout the year.

The company is a wholly owned subsidiary company of a group headed, in the United Kingdom, by Advent Capital (Holdings) LTD (Advent) and is included in the consolidated financial statements of that company, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

Managing Agency Fees

Managing agency fees are charged as a flat fee. They are recorded in revenue over the period in which they are considered to be earned. Fees relating to an underwriting year are deferred over four years.

Dividends

Dividends to the Company's shareholder are recognised as a liability in the period in which the dividends are approved by the members.

Deferred Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at future dates, at average rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pensions

The Advent Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The pension cost charge disclosed in note 3 represents the company's share of the Group's contributions payable to these funds. From 2014, the company's expenses are charged by Advent as a single management charge. Individual components of this, such as pensions, are not specifically identified.

1. Turnover

	2014 £	2013 £
Managing agency fees	4,878,356	4,900,000

Turnover is all derived within the United Kingdom.

2. Result / profit on Ordinary Activities before taxation

	2014 £	2013 £
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for the audit of the financial statements	-	10,593
The following amounts have been charged by the Company's auditor to the Company's managed syndicate :-		
- audit fees	-	137,498
- valuation and actuarial services	-	144,200

The Company's audit fee of £10,352 has been borne by Advent.

3. Directors and Employees

The Company does not have any employees (2013: Nil). Up to 2013 the Company was recharged staff costs from those group companies which employ staff in accordance with the time allocations of staff and Directors.

For 2014, the company is charged a single management charge by Advent. The specific element of Non-Executive fees are identified, but the costs of employees or executive directors are not. The Executive Directors comprise the key management emoluments as disclosed in Advent's financial statements, including that of the highest paid director.

	2014 £	2013 £
Directors' emoluments		
Aggregate emoluments	96,633	157,200
Recharged from group companies	-	1,367,490
Borne by the Company	96,633	1,524,690

The emoluments of Directors disclosed above include the following amounts paid to the highest paid Director. :

Emoluments (including benefits in kind, borne by the Company)	12,500
Compensation for loss of office	537,500
Contributions to money purchase pension schemes (borne by the Company)	1,875
	551,875

Staff Costs

Staff costs, including Directors' remuneration:		
Directors fees	96,633	157,200
Recharged from group companies	-	3,188,671
Borne by the Company	96,633	3,345,871

4. Tax on Result / profit on Ordinary Activities

	2014 £	2013 £
Analysis of (credit) / charge in the year		
Current Tax:		
Group relief payment in 2014	(907)	-
UK Corporation Tax on profit of the year	-	193,921
Total current tax	<u>(907)</u>	<u>193,921</u>
Deferred Tax:		
Origination and reversal of timing difference	844	3,828
Impact of change in tax rate	-	663
Total deferred tax	<u>844</u>	<u>4,491</u>
Total tax on profit on ordinary activities	<u>(63)</u>	<u>198,412</u>
Movement on Deferred Taxation Account	2014 £	2013 £
Balance brought forward at 1 January	4,691	9,182
Origination and reversal of timing differences	(844)	(3,828)
Impact of change in tax rate	-	(663)
Balance carried forward at 31 December	<u>3,847</u>	<u>4,691</u>

The tax assessed for the year is lower (2013: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2014 of 21.5% (2013: 23.25%) The differences are explained below:

Factors affecting tax credit / (charge) for the year

Result / profit on ordinary activities before tax	-	883,754
Result / (profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%))	-	205,472
Effects of:		
Prior year adjustment	-	(7,731)
Reversal of expenses disallowed in prior year	-	(2,623)
Capital allowances in excess of depreciation	(907)	(1,197)
Current tax (credit) / charge for year	<u>(907)</u>	<u>193,921</u>

5. Debtors

	2014 £	2013 £
Amounts falling due within one year:		
Amounts owed by group undertakings	3,030,266	4,997,555
Deferred tax asset	3,847	4,691
	<u>3,034,113</u>	<u>5,002,246</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

6. Creditors – amounts falling due within one year

	2014 £	2013 £
Amounts owed to group undertakings	-	224,247
Group relief payable	136,094	1,961,628
Accruals and deferred income	697,205	660,000
	<hr/> 833,299 <hr/>	<hr/> 2,845,875 <hr/>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

7. Creditors – amounts falling due after more than one year

	2014 £	2013 £
Accruals and deferred income	744,380	700,000

8. Called-up Share Capital

	2014 £	2013 £
Allotted and fully paid: 446,520 (2013: 446,520) Ordinary shares of £1 each	446,520	446,520

9. Reserves

	Share Premium Account £	Profit & Loss Account £	Total £
At 1 January 2014	61,845	948,006	1,009,851
Profit on ordinary activities after taxation	-	63	63
	<hr/> 61,845 <hr/>	<hr/> 948,069 <hr/>	<hr/> 1,009,914 <hr/>
At 31 December 2014	61,845	948,069	1,009,914

10. Reconciliation of Movements in Shareholders' Funds

	2014 £	2013 £
Retained profit for the year	63	685,342
Dividend (proposed and paid)	-	(2,000,000)
Shareholders' funds at 1 January 2014	1,456,371	2,771,029
	<hr/> 1,456,434 <hr/>	<hr/> 1,456,371 <hr/>
Shareholders' funds at 31 December 2014	1,456,434	1,456,371

11. Related Party Transactions

The Company is a wholly owned subsidiary of Advent Capital (Holdings) LTD. The Company has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose transactions with entities that are part of the group.

Director H H Bohling is the principal of the law firm CityNet Law which received £3,350 (2013: £46,944) for services rendered to the Company and other Advent group entities.

12. Ultimate Parent Undertaking and Controlling Party

The immediate parent undertaking is Advent. The ultimate parent undertaking and controlling party is Fairfax Financial Holdings Limited (Fairfax), a company incorporated in Canada.

Fairfax is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2014. The consolidated financial statements of Fairfax available from 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7. Advent is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Advent can be obtained from 2nd Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB.