

## ALMReport & Accounts

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COMPANIES HOUSE

# 2014

ASSOCIATION OF LLOYD'S MEMBERS

### **Directors**

A C Lovell, DL (Chairman)  
Sir Adam Ridley (Deputy Chairman)  
P Kelly (Treasurer)  
D J L F Anderson  
Professor T G Congdon, CBE  
M E Deeny  
N J Hanbury  
M W Johnson  
J W Kininmonth  
D Monksfield  
P W L Morgan, MBE  
Sir Henry Studholme, Bt, DL

### **Officers**

Chief Executive: A K M Young

Company Secretary (until 9 December 2014): A K M Young  
Company Secretary (from 10 December 2014): A C Armitage

Senior Administrator: Linda Evans

Publications Editor: A B Leonard

Auditors: Nexia Smith & Williamson  
Imperial House  
18-21 Kings Park Road  
Southampton  
Hampshire SO15 2AT

Bankers: Coutts & Co  
440 Strand  
London WC2R 0QS

Solicitors: Macfarlanes LLP  
20 Cursitor Street  
London EC4A 1LT

Registered Office: 100 Fenchurch Street  
London EC3M 5LG

ALM Limited is a Company limited by Guarantee  
Registered in England No. 01698399

## **DIRECTORS' REPORT**

The directors present their report and the accounts for the year ended 31st December 2014.

### **FINANCIAL RESULT FOR 2014**

The loss for the year after tax was £41,179 before exceptional items but, after deducting net capital gains of £1,306 on the disposal of the Lloyds Bank Group bond, the overall loss for the year amounted to £39,873 (2013 - profit of £25,821), thereby reducing the ALM's capital and reserves to £975,524 (2013 - £1,015,397). The board continues to believe that it is prudent for substantial reserves to be maintained to deal with unexpected developments, or to fund any professional advice which might be needed to further Names' interests, or for their protection. (NB. The ALM defines Names as including NameCos, Limited Liability Partnerships and Scottish Limited Partnerships.)

The loss was suffered largely because of £23,500 spent on legal advice in the, ultimately unsuccessful, attempt to persuade Lloyd's that a simplified conversion process, involving Part VII transfers, should be introduced for Names wishing to transfer to limited liability underwriting, or to switch from one form of limited liability to another. Other one-off costs included £6,891 spent on a recruitment drive for more ALM members. The tight control over administration and operating expenses continues. Despite the one-off costs referred to above, these have been reduced by over 30% since the millennium, from £929,711 in 1999 to £630,128 in 2014, while at the same time improving the standard of our publications and conferences. In real terms, after allowing for the increase in the retail price index over that period, the reduction in expenses amounts to a reduction of over 50%.

## **PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS**

### ***Private Capital Initiative***

The ALM has continued to do all it can to support John Nelson's private capital initiative; and encouraged by the members agents, the ALM has decided to hold a further conference for high net worth advisers on membership of Lloyd's for individuals. It is important that Names seek at least to maintain their proportion of Lloyd's capacity. Both John Nelson and Tom Bolt have agreed to speak at the conference, which will be held at Lloyd's on 20th April 2015.

### ***Representation***

During 2014, the ALM remained fully engaged in liaising with Lloyd's, HM Treasury, the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and others.

There were two standout highlights in 2014, on issues which the ALM both initiated and pursued to a successful conclusion.

The first related to a threat to Names' bank guarantees arising from HMRC's wish to eliminate a loophole. This had enabled Names who had resigned from Lloyd's to have their Special Reserve Funds (SRF) released on the closure of their unlimited liability underwriting but to defer the tax payable on such releases by retaining inter-available funds in their Lloyd's deposits. Lloyd's wanted to end the inter-availability of funds within two years of closure of the last unlimited open year. This would have required Names with bank guarantees to seek to obtain new guarantees, which either might not have been available or only at far less advantageous rates. After a number of meetings with the ALM, Lloyd's eventually accepted that the guarantees could remain in place to support the limited liability underwriting, following conversion. While the banks which provided such guarantees would be informed of the change, Lloyd's agreed that the banks would

not have to give their consent, thus making it far less likely that they would be prompted to re-negotiate terms. Lloyd's also has indicated it would adopt the same approach to those Names with letters of credit. This issue was covered on page 9 of the October 2014 issue of ALM News.

The second issue (covered on pages 7-8 of the October 2014 issue of ALM News) related to the ALM's initiative to seek a broadening of the Lloyd's definition of 'Individual External Member' (IEM). If the proportion of Lloyd's capacity held by the IEMs (essentially Names) is between 10% and 36% of the total (over a 4-year period), the IEM constituency has the right to elect two members of Council. The previous definition required members of a corporate vehicle to be 'connected', which excluded some vehicles which were in essence very similar to Names. These vehicles were instead classed as 'corporate', so there was a danger the proportion of capacity held by IEMs would drop below 10% in the very near future and they would thus lose one of their Council seats. The ALM worked with the Corporation to revise the definition, which was adopted in September. Consequently, the capacity held by IEMs is now likely to remain above 10% for longer.

The ALM also participated in formal consultations established by Lloyd's in relation to the amendments to Lloyd's Membership and Underwriting Requirements, and the later timing of the capacity auctions.

Our two Council members, Michael Deeny and Alan Lovell, and our Chief Executive, Anthony Young, continued to hold separate meetings with Lloyd's Chairman and other senior directors, as and when thought expedient. Inga Beale took up her role as Chief Executive of Lloyd's in January 2014 and the ALM has had several opportunities to impress upon her the importance of private capital and the ALM's role. In addition to the board's formal submissions to Lloyd's on policy matters, these meetings have provided opportunities to progress Names' interests face-to-face. This process was augmented both by having two ALM directors sitting on Council and by private dialogue with individual Working and Nominated Members of Council, who might otherwise not have been so conscious of Names' legitimate anxieties and expectations.

In discharging its duty to represent members' interests, the board has adopted a constructive approach and a readiness to recognise the inevitable process of change within Lloyd's, the London market and the global insurance industry. Likewise, ALM directors who have served and who now serve on Lloyd's Council have sought to safeguard the position of Names within the context of what is best for the Society as a whole.

In its dealings with HM Treasury, the ALM has been assisted by the good contacts maintained by Sir Adam Ridley, who spent many years working there in senior positions. In its dealings with the FCA and PRA, the ALM continues to benefit from Paul Kelly's diligence and expertise in monitoring regulatory developments. Regular contact is maintained with these organisations which have, we believe, gained a better understanding over the past few years of the need for appropriate and effective regulatory protection for Lloyd's independent capital providers.

**Governance** The board remains concerned about the effective representation of Names' interests throughout Lloyd's machinery of government. In this regard, the board has sought to ensure the election of the best qualified Names as external members of Council. It therefore welcomed Michael Deeny's re-election to Council unopposed in November 2014. Alan Lovell also serves on Lloyd's Council, as well as on its important Audit and Remuneration Committees and on its equally important Capacity Transfer Panel.

### ***Protecting Names' Interests***

***Trading Conditions*** Throughout 2014, the ALM drew attention in its publications and conferences to trading conditions and the negative impact upon catastrophe reinsurance premium rates of the excessive level of capital which was available for such business. In addition, it emphasized that many direct markets had been falling for eight years before the gentle upturn in the USA which started at the end of 2011 but which may now have come to an end. However, it did also stress that catastrophe reinsurance rates had started 2013 at a highly profitable level, at least in the USA, so that there was probably still a reasonable margin in some such business, albeit probably at lower levels than in the immediate past.

***Names' Capacity*** The ALM has continued to emphasize in ALM News how profitable Lloyd's has been in recent years, and how Names have continued to outperform Lloyd's average in almost every year. This, combined with occasional public relations initiatives, has helped members agents to create an environment where Names' capacity has ceased falling and has in fact risen from £2.4bn in 2009 to £2.8bn in 2014 - although down slightly to £2.7bn in 2015. In July 2013, ALM News carried a front page article entitled 'Average Name Turns £500,000 into £2.5m in Nine Years (Pre Tax)'. It is hoped that these positive factors will help members agents and members to attract new Names to Lloyd's when trading conditions improve, thus preserving the position of Names in the Lloyd's market.

***Limited Liability Partnerships (LLPs) and NameCos*** It was our Treasurer, Paul Kelly, who first pointed out the advantages which LLPs could provide for underwriting at Lloyd's, and our former Chairman, Michael Deeny, led a protracted and determined ALM campaign for their introduction. Although tax changes in recent years have made NameCos more attractive than LLPs for many Names, this, too, has helped to preserve the position of Names in the Lloyd's market.

While the ALM will continue to defend the right of Names to trade with unlimited liability, it will also continue to remind them that doing so does carry a serious risk.

***Capacity Transfer*** The ALM will continue to urge vigilance, particularly in two areas: the full disclosure of all price-sensitive information in advance of the auctions; and the procedures to protect third party capital when managing agents have conflicts of interest.

***Capital Requirements*** It is the board's firm opinion that each underwriting and previously underwriting member must be adequately capitalised to cover his prior year open liabilities and/or his current and future underwriting. At the same time, capital providers should not be required to provide excessive capital. Over the years, the ALM has been successful in persuading Lloyd's to create a material credit for diversification across a spread of syndicates, so that the average Name has a materially lower capital requirement than the average dedicated corporate member.

***Taxation*** The ALM continues to provide a forum for the resolution of tax issues affecting Names. The ALM Tax Advisers Group, comprising tax advisers to Names, continued to meet under our auspices to review and resolve the tax concerns of Names, working closely with Lloyd's Taxation Department and with HM Revenue & Customs. Matters discussed included the implications of Names domiciled overseas being required to become UK residents for tax purposes, the tax consequences of family members being brought into LLPs, issues arising from cessation of SRFs, and the tax treatment of acquisition costs for purchasers of LLPs.

*Other Issues* Other matters dealt with by the ALM during the past year have included continuing to explain the impact of annual accounting on Lloyd's published results; keeping abreast of changes in the market for estate protection plan and personal stop loss policies; publicising changes to Lloyd's Market Services charges; reporting on the views of the rating agencies on Lloyd's; and reporting on Lloyd's capacity auction season.

### ***Communication***

*Publications* The core publications schedule delivered six issues of ALM News, the annual Lloyd's Results Summary and Lloyd's Market Results & Prospects. In addition, in the event that any time critical issue emerges between publication dates, then a circular e-mail is sent to those members for whom an e-mail address is held, and an entry is made under 'Key Issues' on the ALM website. The publications continue to be the subject of complimentary comments to the ALM office.

*Conferences and Meetings* The ALM staged two major conferences for members during 2014. In addition, two informal lunches were held. We are grateful to the speakers and to those who provided sponsorship for these meetings.

*Liaison with Members Agents and Managing Agents* The ALM had meetings during the year both with members agents and with selected managing agents, inter-alia to discuss the future for Names, including the conversion of overseas Names to UK residence, Lloyd's private capital initiative and voting constituencies, the commencement of new Names' syndicates (including Syndicate 1884) and membership of key Lloyd's committees.

### ***Future Developments***

The ALM will pursue its objectives, as outlined at the end of this Directors' Report. In particular, recognising that Lloyd's has progressively become a more Name-friendly organisation in recent years, it will change its focus to concentrate in future more upon the long term growth of private capital at Lloyd's, subject to trading conditions, seeking thereby to match the expected growth in the overall Lloyd's market. It will continue to provide services and publish information to members to assist their understanding of the market and to augment those provided by members agents. As forewarned in the December 2014 issue of ALM News and clarified in the February 2015 issue, a change for 2015 is that the ALM intends to send out a shortened version of its annual Lloyd's Market Results and Prospects publication (LMRP), including the editorial section.

The board will take all necessary and reasonable steps to achieve the ALM's strategic objectives and to serve the best interests of past, current and future providers of private capital to Lloyd's. These endeavours will continue to demand close contact with Lloyd's executive, regular liaison with the Prudential Regulation Authority and/or Financial Conduct Authority, and the acquisition of professional advice and legal opinions, as and when necessary, on issues of fundamental concern to ALM members.

## CONSTITUTION, DIRECTORS AND OBJECTIVES

**Constitution** The ALM trades under its Articles of Association as a company limited by guarantee, not having a share capital. The ALM is the only body to represent Lloyd's Names as a whole. Its membership encompasses all categories of individual Names continuing to underwrite, whether with unlimited liability or through Limited Liability Partnerships, Scottish Limited Partnerships or NameCos.

In addition, the company continues to represent the interests of members who are no longer underwriting. The company is also supported by a number of firms and individuals who have professional links with the Lloyd's market and who subscribe as associate members. Such associate members do not have the right to vote.

**Directors** By its constitution, the company is managed by a board of up to twelve directors who ordinarily comprise nine elected directors and up to three co-opted directors. Elected directors are required to stand for re-election, if they wish to continue, every three years. All of the elected directors must be members of the company.

At the AGM on 19th June 2014, Sir Adam Ridley, Michael Deeny and David Monksfield were re-elected as directors of the company. The board currently comprises twelve directors, all of whom are involved with underwriting in 2014, with a balance between unlimited and limited liability participation.

**Directors' Interests** The directors' other current Lloyd's related interests are as follows:

A C Lovell, DL (Chairman) (Director since 2006; re-elected 2012)	- a Name since 1985, latterly through a Limited Liability Partnership. Member of Lloyd's Council from 2007 to date. Member of Lloyd's Capacity Transfer Panel from 2007, Lloyd's Nominations, Appointments and Compensation Committee from 2009 to 2011, Lloyd's Remuneration Committee from 2012 and Lloyd's Audit Committee from 2014.
Sir Adam Ridley (Deputy Chairman) (Director since 1990; re-elected 2014)	- a Name since 1977, latterly through a Scottish Limited Partnership. Deputy Chairman of the Equitas Trustees and a director of Equitas group companies. Member of Lloyd's Council from 1997 to 1999.
D J L F Anderson (Co-opted 2013)	- a Name since 2010, having acquired a LLP during that year. His corporate finance business, EPL Advisory LLP, advised the members agents in connection with Lloyd's Private Capital Initiative during 2012.
Professor Tim Congdon, CBE (Director since 2003; re-elected 2012)	- a Name since 1991, latterly on an unlimited liability basis.
M E Deeny (Director since 1995; re-elected 2014)	- a Name since 1985, latterly through a Limited Liability Partnership. Member of Lloyd's Council from 1996 to 1997 and again from 2009 to date. Chairman of the Equitas Trustees, a director of Equitas group companies, and a non-executive Director of Randall & Quilter Underwriting Management Holdings Limited.

## ALM Limited

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N J Hanbury (Director since 1998; re-elected 2013)	- a Name since 1978, latterly both on an unlimited liability basis and through a Limited Liability Partnership and two NameCos. Member of Lloyd's Council from 1999 to 2001 and from 2005 to 2007. CEO and largest shareholder of Helios Underwriting PLC, an AIM-listed holding company of wholly-owned corporate members of Lloyd's. Director of HIPCC (Guernsey) Ltd, a protected cell company offering reinsurance products to investors at Lloyd's and Chairman of its holding company, which he jointly owns with Hampden Capital Plc.
M W Johnson (Director since 2000; re-elected 2013)	- a Name since 1983, latterly both on an unlimited liability basis and through two NameCos.
J W Kininmonth (Co-opted 2009)	- an unlimited liability Name since 1983. Trustee of Lloyd's Patriotic Fund.
P Kelly (Treasurer) (Director since 1997; re-elected 2013)	- a Name since 1986. Converted from a Scottish Limited Partnership to trade through a Limited Liability Partnership from 2007. Member of Lloyd's Council from 1998 to 2004.
D Monksfield (Director since 2009; re-elected 2014)	- a Name since 1982, latterly through a Limited Liability Partnership. Director of Argenta Private Capital Limited and related companies, Talisman Underwriting Plc and related companies and The Stop Loss Mutual Insurance Association Limited.
P W L Morgan, MBE (Director since 1997; re-elected 2012)	- a Name since 1987, latterly through a Scottish Limited Partnership. Member of Lloyd's Council from 2000 to 2009.
Sir Henry Studholme, Bt, DL (Co-opted 2009)	- a Name since 1986. Converted to a Limited Liability Partnership from 2009.

As members of the company, the directors have each undertaken to contribute to the assets of the company a maximum of £1 in the event of winding up.

During the year the company purchased and maintained liability insurance for its directors and officers, permitted by section 236 of the Companies Act 2006.

*Company Secretary* Andrew Armitage joined the ALM as a Consultant on 1st July 2014 to take over from Edward Vale who retired on 11th July. Andrew was appointed as Company Secretary on 10th December 2014, in place of Anthony Young (who remains as Chief Executive). Edward worked for the ALM for 18 years and an acknowledgement of his contribution to the work of the ALM appeared in the February 2014 issue of ALM News.

*Office* The lease of 100 Fenchurch Street, where the ALM has been based since 2000, expires on 25 June 2015. Since the proposed rent for renewal of the lease is approximately double the current rent payable, the company is now negotiating to move to smaller premises in Bevis Marks.



**Risk Management** The company gives appropriate consideration to risk management objectives and policies. Cash flow and liquidity are not at issue, since virtually all income is received in advance. In addition, the company maintains capital and reserves which are more than sufficient to satisfy its obligations in the event that it were to cease trading. Most expenditure is either the subject of contracts negotiated before the start of each year or is with long term suppliers or employees. To the extent that this is not the case, pricing risk is mitigated by a diverse supplier portfolio.

**Objectives** The board's firm belief is that the unique strengths of the Lloyd's market will only endure if it maintains its diversity, mutuality and regenerative capacity; and it can only do that if underwriting opportunities remain sufficiently accessible to private venture capital and its operations are not completely dominated by large corporate entities which may progressively inhibit Lloyd's traditional entrepreneurship.

The board's main objectives are:-

- To preserve and enhance the position of private capital as a substantial provider of capital to Lloyd's
- To work for the long term success of the Chairman's Private Capital Initiative and the realisation of the important role for private capital envisaged by Vision 2025
- To represent private capital, including members no longer underwriting, in working with Lloyd's, managing and members agents, regulatory and government bodies
- To improve our members' knowledge and understanding of Lloyd's and its marketplace and to help them to work proactively with their members' agents to achieve an optimal risk/reward ratio for their own circumstances.

#### **AUDITORS**

At the Annual General Meeting on 19th June 2014, Nexia Smith & Williamson was reappointed as auditor to the Company.

#### **Statement of Disclosure to Auditor**

Each director of the company has confirmed that in fulfilling his duties as a director:

- (a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) each director has taken all the steps that he ought to have taken 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.

By order of the board.



ANDREW ARMITAGE  
Secretary

Company No. 01698399

15th April 2015

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

The directors are responsible for preparing the 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 elected to prepare 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 judgments and accounting estimates that are reasonable and prudent; and
- 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALM LIMITED**

We have audited the financial statements of ALM Limited for the year ended 31 December 2014 which comprises the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 12. 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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' Responsibilities Statement set out above, 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). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

#### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **OPINION ON FINANCIAL STATEMENTS**

In our opinion 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

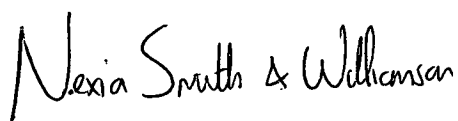
#### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

#### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Edmonds  
Senior Statutory Auditor, for and on behalf of  
Nexia Smith & Williamson  
Statutory Auditor  
Chartered Accountants

Imperial House  
18 - 21 Kings Park Road  
Southampton  
SO15 2AT

17th April 2015

# **PROFIT AND LOSS ACCOUNT** **for the year ended 31 December 2014**

	Notes	2014 £	2013 £
<b>Turnover</b>	2	550,560	593,191
Administration and operating expenses	3	(630,128)	(631,864)
Interest receivable and similar income		47,212	49,481
Gains on disposal of corporate bond fund	4	1,633	31,052
<b>(Loss)/Profit on Ordinary Activities before Taxation</b>		<u>(30,723)</u>	<u>41,860</u>
Tax on interest receivable and similar income and gains	5	(9,150)	(16,039)
<b>Retained (Loss)/Profit for the Year</b>		<u><u>(39,873)</u></u>	<u><u>25,821</u></u>

The retained loss for the 2014 year comprised a loss after tax of £41,179 before exceptional items, less a net capital gain on disposal of investments of £1,306, being £1,633 gross capital gain less £327 corporation tax thereon.

## **Statement of Retained Profits**

Balance at 31 December 2013	1,015,397	989,576
Retained (loss)/profit for the year	<u>(39,873)</u>	<u>25,821</u>
Balance at 31 December 2014	<u><u>975,524</u></u>	<u><u>1,015,397</u></u>
All the company's activities are continuing.		

The company has no recognised gains or losses other than those included in profits above. Therefore no separate statement of recognised gains and losses has been presented.

**BALANCE SHEET**  
at 31 December 2014

	Notes	2014 £	2013 £
<b>Current Assets</b>			
Investments	4	971,475	973,767
Debtors	6	48,050	46,565
Cash at bank and in hand	7	19,955	76,427
		<u>1,039,480</u>	<u>1,096,759</u>
<b>Creditors: amounts falling due within one year</b>	8	<u>(63,956)</u>	<u>(81,362)</u>
<b>Net Current Assets</b>		<u>975,524</u>	<u>1,015,397</u>
<b>Capital and Reserves</b>			
Profit and loss account		<u>975,524</u>	<u>1,015,397</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



ALAN LOVELL  
Chairman

16th April 2015

## NOTES TO THE ACCOUNTS at 31 December 2014

### 1. ACCOUNTING POLICIES

a) Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Depreciation of tangible fixed assets

The cost of tangible fixed assets is not material. Therefore, since 1st January 2005, fixed assets have been written off in full in the year of acquisition.

c) Leasing and hire purchase commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term. Rent free periods are spread evenly over the lease term in accordance with UITF 28.

d) Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates of exchange applicable when recorded in the books.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

e) Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

### 2. TURNOVER

Turnover, which represents the invoice value of goods and services provided by the company, exclusive of VAT, is analysed as follows:

	2014 £	2013 £
Subscriptions - general services	234,780	254,810
Subscriptions - publications	247,227	249,596
Meetings - United Kingdom	55,553	72,485
Publications - advertising/sales	–	1,900
Contributions to premises costs	13,000	14,400
	<u>550,560</u>	<u>593,191</u>

In agreement with H M Revenue & Customs, a proportion of each member's subscription is allocated to the cost of providing publications and is zero rated for VAT. The publications allocation for 2014 was as follows: Category A - £280; Category B - £115.

Meetings income for 2013 included £7,549 for an extra conference, for high net worth advisers. Meetings income is offset by the meetings expenditure figures shown in Note 3. Contributions to premises costs reflects contributions from parties who used desks in the company's offices on a part time basis.

## NOTES TO THE ACCOUNTS

at 31 December 2014

### 3. ADMINISTRATION AND OPERATING EXPENSES

	2014	2013
	£	£
Salaries and temporary wages	241,159	244,028
Social security - employers' NI	28,666	29,241
Consultancy fees	43,500	67,000
Premises costs	45,853	41,985
Postage, telephone and couriers	7,027	6,956
Printing and stationery	4,226	4,149
Professional fees	27,479	8,325
Indemnity insurance	5,104	5,645
Auditors' remuneration	4,800	4,700
Travelling and related expenses	7,672	5,495
Publications inc Editor's fees	129,534	128,335
Meetings - United Kingdom	49,440	57,270
Computer Equipment	875	4,265
Recruitment Publicity	6,891	–
Miscellaneous	22,428	22,727
Exchange differences	(49)	(244)
Irrecoverable VAT	5,523	1,987
	<u>630,128</u>	<u>631,864</u>

The remuneration of the directors was as follows. Alan Lovell, Chairman, received fees of £36,000 for 2013 and £36,000 for 2014. Dr. Paul Kelly received fees of £31,000 for 2013 and £12,000 for 2014, principally in relation to regulatory analysis and advice. No other emoluments were paid to any director.

Meetings expenditure for 2013 included £6,963 for an extra conference, for high net worth advisers.

**NOTES TO THE ACCOUNTS**  
**at 31 December 2014**

**4. INVESTMENTS**

As reported in Note 4 to last year's accounts, following guidance from the board on 5th February 2013 that, in the continuing very low interest rate environment, the company's reserves should be regarded as an endowment, to be maximised, rather than a cash reserve to be kept entirely safe, so that the proportion of the company's reserves to be invested could be increased from 60% to 100%, the company's investment committee, comprising Michael Deeny, Marcus Johnson and Sir Adam Ridley, had made four investments by the end of 2013: £149,233 in Lloyds Banking Group 11.04% Enhanced Capital Notes with a redemption date of 19th March 2020, £303,400 in the C class income units of the Ruffer Total Return Fund, £88,475 in Royal Bank of Scotland 6.2% Medium Term Notes (MTNs) with a call date of 22nd March 2022, and a further £148,357 in the Society of Lloyd's 7.421% perpetual subordinated bond with a call date of 21st June 2017 (in addition to the £284,888 invested in the bond in 2012).

On 6th March 2014, following advice from the company's stockbrokers, Killik & Co, the entire investment in the Lloyd's Banking Group Enhanced Capital Notes was sold for £150,866, net of charges, compared with its book cost of £149,233, thus realising a gross capital gain of £1,633.

On 21st October 2014, £146,355 was invested in the Nationwide Building Society 6.875% perpetual subordinated bond with a call date of 20th June 2019. At the purchase price of 97.25p, this bond gives a running yield of just over 7%.

While the four remaining investments are held in the company's accounts at cost, the aggregate value at 31st December 2014 was £1,059,752, compared with a book cost of £971,475.

The board believes that these investments are likely to limit the subscription rates which will otherwise need to be charged to members of the company in future years.



**NOTES TO THE ACCOUNTS**  
**at 31 December 2014**
**5. TAX ON INTEREST RECEIVABLE AND SIMILAR INCOME**
**a) Analysis of charge in period**

	2014 £	2013 £
UK Corporation tax	9,150	16,039

**b) Factors affecting the tax charge for the period**

The tax assessed is higher than the 20% (2013: 20%) small companies' rate of corporation tax in the UK. The differences are explained below:

	2014 £	2013 £
(Loss)/profit on ordinary activities before tax	(30,723)	41,860
(Loss)/profit on ordinary activities multiplied by small companies' rate of corporation tax of 20% (2013: 20%)	(6,145)	8,372
Tax impact of non-allowable losses	15,295	7,667
	9,150	16,039

**c) Factors that may affect future tax charges**

The company's tax charge arises purely from interest receivable and similar income plus capital gains on the disposal of investments. Income derived from membership activities is not subject to tax. This is expected to continue to be the case in future.

**6. DEBTORS**

	2014 £	2013 £
Prepayments	13,139	12,780
Accrued income	24,946	27,669
Other debtors	9,965	6,116
	48,050	46,565

**7. CASH AT BANK AND IN HAND**

	2014 £	2013 £
Sterling accounts	19,072	74,500
US dollar accounts	883	1,927
	19,955	76,427

**NOTES TO THE ACCOUNTS**  
at 31 December 2014

**8. CREDITORS: amounts falling due within one year**

	2014	2013
	£	£
Corporation tax	8,532	15,845
Subscriptions in advance	2,515	6,512
Other creditors and accruals	52,909	59,005
	<u>63,956</u>	<u>81,362</u>

**9. EMPLOYEES**

The average number of employees in each week in the year was 3 (2013 - 3). All staff are employed in the administration of the company.

**10. GUARANTEE**

At 31 December 2014 the company was limited by the guarantee of 1,007 (2013 - 1,054) members who had each undertaken to contribute a maximum of £1 in the event of a winding up.

**11. FINANCIAL COMMITMENTS**

The annual commitment under operating leases, relating to a lease on buildings expiring on 25th June 2015, is £20,580 (2013 - £20,580). The commitment from 1st January to 25th June 2015 is therefore £9,924.

**12. CASH FLOW STATEMENT**

The company has adopted FRS 1 (revised) and taken advantage of the exemption, as a small company, not to present a statement of cash flows.