THE WREN INSURANCE ASSOCIATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
Year ended 30 June 2014

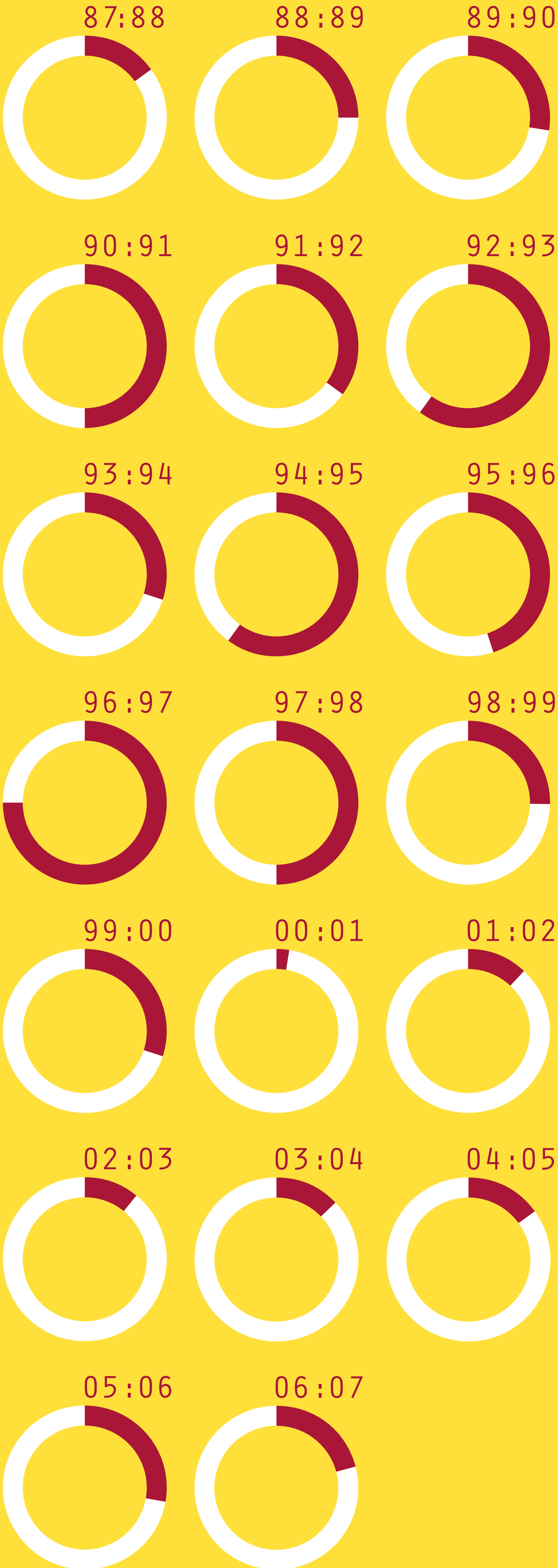
2014

The Wren

CONTENTS

2014

Return of call as a proportion of advance call (closed years)



Finance and Underwriting

The Association's financial statements for the year ended 30 June 2014 show a surplus after tax of £0.3 million, which is slightly lower than the previous year. This has been driven by a weaker investment performance rather than by any deterioration in the underwriting position, which generated a surplus on the technical account of £0.7 million. The Association's free reserves have grown by £0.3 million to £29.2 million and they remain comfortably within the benchmark range set by the Association's economic capital strategy.

The renewal at 1 July saw no change in general rates. A combination of lower fees across the membership and some rate adjustments to reflect lower risk work resulted in a fall in premiums. Calls and premiums were therefore lower by £0.6 million compared to last year.

However, with the Association in a strong financial position, in March 2014 the Board was able to approve returns of call of £1.0 million from the 2005/06 policy year and £1.4 million from the 2006/07 policy year. The total returns of £2.4 million were therefore significantly higher than the £1.4 million returned last year.

Reinsurance costs were £0.3 million lower than last year, reflecting the lower premium income (of which reinsurance costs are a proportion) and a small reduction in the rate payable. The premium paid to the Association's aggregate excess reinsurer was also lower by £150,000. Operating costs were 3% higher than in 2013, at £3.8 million.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was higher than last year at £1.9 million, reflecting less conservative assumptions on future rates. However, the actual return achieved for the year was marginally below this longer-term rate and lower by some £0.5 million than the actual rate achieved last year. The main reasons for this weaker performance are expanded on in the investments section below. The actual return results in a transfer from the investment reserve of £44,000.

Claims incurred for the year were £1.8 million, considerably lower than the £3.2 million experienced in 2013. There were a number of significant claim settlements in the year, with a number of matters that had been reserved for some years finally coming to a resolution. This explains the much higher figure for claims paid compared to last year: £7.9 million against just £1.4 million in 2013. A substantial proportion of these settlements were reinsured and the Association made recoveries on its reinsurances of £4.9 million during the year.

The significant payments made to settle claims and the fact that there were improvements to the estimates for a number of other larger claims resulted in a fall in the gross provision for claims of £11.3 million, although £10.1 million of the improvement benefits reinsurers. These movements are reflected in the Association's balance sheet, which shows that the provision for gross outstanding claims fell from £39.7 million to £28.4 million, while the reinsurers' share of these gross provisions fell from £19.2 million to £9.1 million.

The value of Association's investments, despite returning close to £2.0 million, fell from £48.4 million to £44.4 million. This fall reflects withdrawals from the portfolio to fund the claim settlements noted above, but the investments will increase again once the proceeds of reinsurance recoveries are reinvested.

As part of its policy year review carried out in March 2014, the Board agreed to make transfers of £0.3 million and £0.7 million from the income and expenditure accounts in the 2005/06 and 2006/07 policy years respectively, to the general reserve. This reserve has therefore grown to stand at £11.75 million as at 30 June 2014. As noted above, the free reserves of the Association have grown from £28.9 million to £29.2 million over the course of the year to 30 June 2014 and therefore the Association's overall financial position is slightly better than it was 12 months ago.

The Board also agreed in March 2014 that there was no necessity for a general rate increase at 1 July 2014.

Investments

At the start of the financial year, the US once more held sway over financial markets worldwide. With trillions of dollars having been poured into markets by the US Federal Reserve on Quantitative Easing programmes, it was always going to be a delicate operation to wean investors off the stimulus of cheap money. However, that was the prospect facing bond markets in the second half of 2013. When the Chairman of the Federal Reserve hinted that it was contemplating reducing the amount of US treasuries and mortgage backed securities being bought (at that time injecting $85bn into the market every month), there was a 'taper tantrum' sending 10-year treasury yields up to 3.0%. UK gilts at that stage were tracking their US counterparts closely and duly followed. In the event the anticipation was slightly premature as QE tapering only started in January this year and will not be complete until the end of October.

At the start of 2014 investors were braced for still higher yields but were wrong-footed by a bout of low inflation and slower output growth. Although most major economies have an official target for inflation at or close to 2%, the first quarter this year saw 1.1% in the US, 0.5% in the Eurozone and 1.6% in the UK. With the US severely affected by a harsh winter and China's growth rate falling below target it became apparent that any rate hikes were some time away. Yields (particularly in longer maturities) drifted lower.

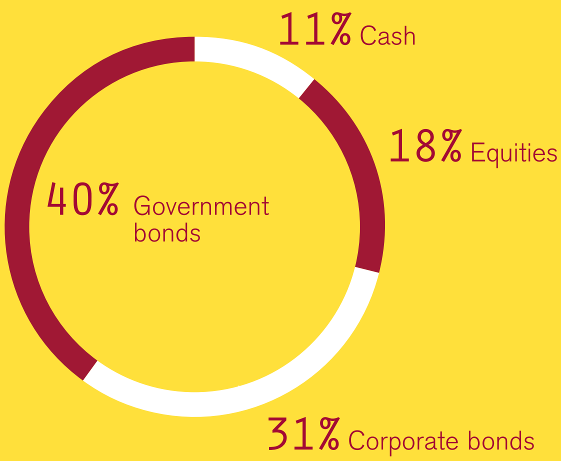
Downward revisions to unemployment and upward revisions to growth had contributed to an upbeat UK Autumn Statement. When this strength continued through the first half of 2014 it became likely that the Bank of England would probably be the first major central bank to raise interest rates and with that, UK yields started to edge above the US. At the end of June, UK 10-year gilts were at 2.7%. The growth outlook remains positive for the second half of the year. The latest International Monetary Fund forecasts indicate UK growth at 3.2% for 2014 and 2.7% for 2015.

Corporations continued to raise money at low yields while they could. The flood of new issuance took aggregate new debt to record levels. Nonetheless issues have been heavily oversubscribed in the unabated search for yield. The chief beneficiaries of these crowded trades have been lower-rated investment grade issuers and the better quality high yield companies. As a result corporate bonds have performed strongly throughout the period.

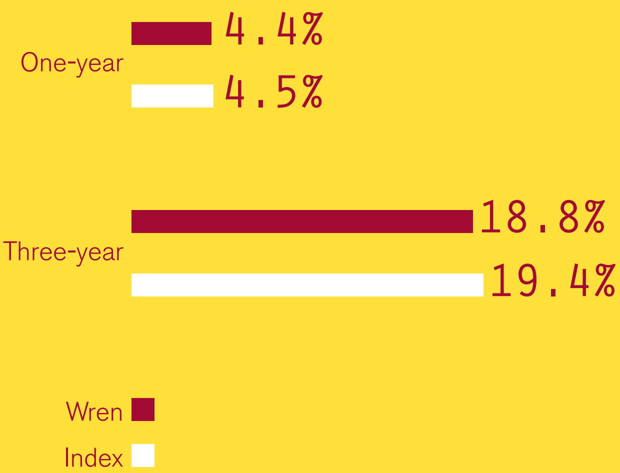
The equity market has oscillated between enthusiasm for the post-crisis recovery and doubts over the sustainability of earnings. After a strong 2013 this asset class has struggled to make much headway. Whilst most companies have met expectations for results, justifying the elevated price/earnings ratios, there has been no sympathy for those that did not. This tone is likely to persist until we have a clearer picture of the speed of global recovery.

The Association's portfolio has outperformed its benchmark in equities and in corporate bonds over the last 12 months, whilst being marginally behind in government bonds due to a cautious stance on interest rate prospects. However over a rolling 3 year period all bond categories have produced strong returns in relative and absolute terms. The high yield bond and global equity funds have been in the portfolio for a little under 18 months so have contributed to the record for only the latest period.

Investment holdings at 30 June 2014



Investment performance compared to benchmark



There is no doubt that financial markets face challenges and uncertainties over the next year or two. As central banks attempt to normalise policy, bond markets will need to contend with a move to higher yields. Equity markets will also be affected by higher interest rates but these should signal strengthening economies which in turn should reinforce confidence in prospects for the future.

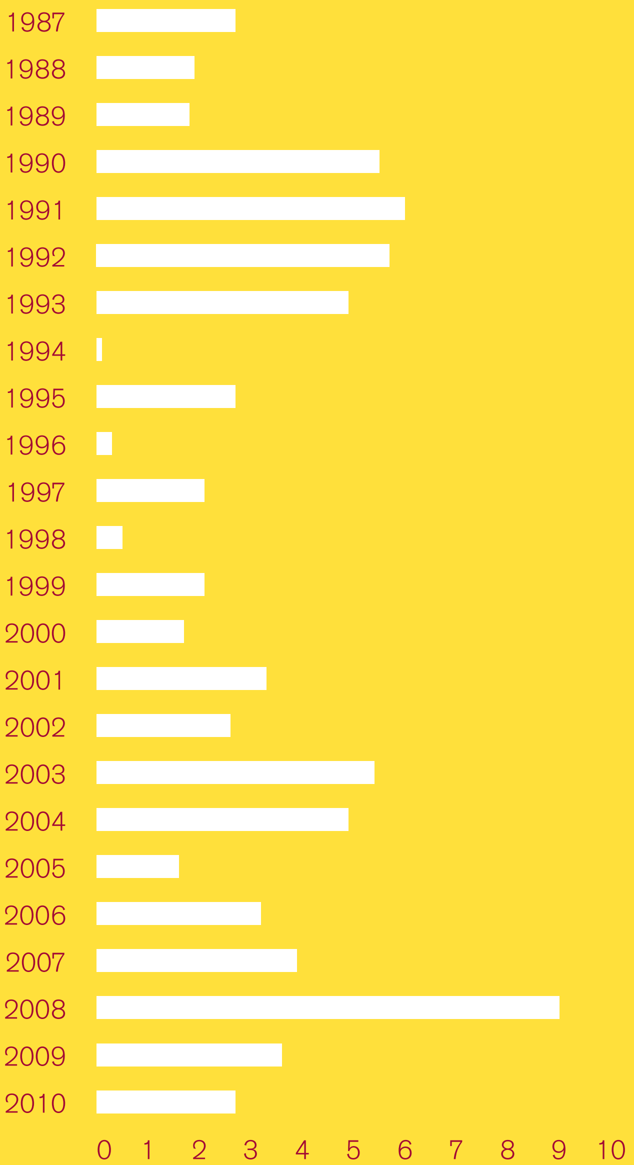
Contract review

Although the construction industry has continued to be adversely affected by the recession in the UK and Europe, during the last policy year there has been a welcome increase in the number of confirmed jobs being undertaken by the Members in the UK. Some of these are old projects that had been mothballed during the recession but many others are new instructions. This trend is no longer limited to London but is one that is benefitting Members to a greater or lesser degree throughout the country. A further benefit for Members is that, when negotiating terms with their clients, they have been able to make use of the standard terms that the Managers have negotiated with a number of major developers, contractors and consultants in recent years: something that not only cuts the length of contract negotiations but more importantly gives the parties to the contract, and their funders, the confidence that any claim that may arise in the future stands to be covered by the Association.

Claims

The number of issues notified to the Association has continued to rise slightly over the last policy year, notwithstanding the fall in the number of projects in which Members have been involved in recent years. This increase would once again in part appear to be due to clients in the UK continuing to bring speculative claims in the run up to the completion of a project in order to seek recovery of financial losses that they have suffered as a result of the recession, and building owners and tenants who are suffering maintenance problems continuing to bring claims immediately prior to the expiry of the limitation period. On the other hand, although many Members have sought to supplement their revenues by working abroad, the number of notifications arising out of overseas projects remains small. As far as existing claims are concerned, the 2013/14 financial year saw the settlement of a number of bona fide claims on good terms, including several longstanding notifications with large reserves. Once again, mediation played a role in this, partly due to the courts encouraging and endorsing this form of dispute resolution and partly because of the parties' concerns about the increasing legal costs, and risks, of protracted litigation through the courts.

Claims before reinsurance recoveries £m



(Data in 2011, 2012 and 2013 policy years is insufficient to make accurate projections)

Risk management

The most recent programme of Wren risk management reviews of Member offices in the UK and overseas commenced in October 2013 and is due to conclude towards the end of 2014. The Wren Risk Management Guidelines were completely revised and re-formatted during the Summer of 2013. Updates and additions to the Guidelines continue to be published on the Wren website to reflect the most recent developments in the construction industry, new or pending legislation and Members' claims experience.

Rules of the Association

A review of the Rules was carried out during the year with the intention of improving their layout and clarity and simplifying the way in which cover is expressed. As a result of this review, a number of 'housekeeping' and organisational changes were made, which neither broaden nor restrict the scope of cover provided. In addition a number of amendments were made to clarify the cover position in relation to Trade and Economic Sanctions (Rule 2(4)), Limits of Cover (Rule 9), Other Insurances (Rule 14), Dishonesty of a Member (Rule 15(13)), Change of Risk (Rule 19(5)), Adjudication (Rule 38(1)) and Notices (Rule 39(2)).

Wren scholarships

The Members of the Wren decided to mark the 25th anniversary of the Association by establishing a £25,000 annual scholarship fund, administered by the RIBA, to help talented young architects entering the final year of their Part 2 studies. The first five scholarships, of £5,000 each, were awarded in the summer of 2013 to Laura Cannon (University of Dundee), Piotr Garstecki (University of Westminster), Erl Johnston (Queen's University Belfast), Megan Passey (Oxford Brookes University) and James Pockson (Royal College of Art). In addition, the award winners were given the opportunity to be mentored individually by Members of the Association and were invited to attend a Members' Forum in April 2014.

The scholarships are increasing the awareness of the Wren to a generation of new architects entering the profession in a very positive way.

The directors have pleasure in presenting their report together with the audited financial statements for the year to 30 June 2014.

The principal activity of the Association is the insurance of the professional indemnity risks of architects and other building design professionals. The strategic report on the preceding pages provides a summary of the principal matters affecting the Association's business during the year.

The names of the directors are shown on page 16. Messrs L Edwards and A D Stanford and Ms S C Johnson retired by rotation at the annual general meeting on 9 April 2014 and were reappointed. Mr J E G Carr also retired by rotation but did not stand for re-election. Mr J P Rich was appointed to fill the vacancy resulting from Mr Carr's retirement. Mr C L A Edginton retired on 18 July 2014 and the Directors appointed Mrs S J Peat to fill the resultant vacancy on the Board. A resolution to reappoint Mrs Peat will be put to Members at the next Annual General Meeting.

Directors' indemnity insurance
The Association purchases directors' and officers' liability insurance in respect of all the Association's directors.

Audit
So far as each of the persons who are directors at the time of this report are aware, there is no relevant audit information of which the Association's auditors are unaware and the directors confirm that they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

Moore Stephens LLP have indicated their willingness to continue as the Association's auditors and, subject to no objections being received, will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006.

R J H Pullen Chairman
10 September 2014

2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report, statutory 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 Association and of the surplus or deficit of the Association 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 Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

To the Members of the Wren Insurance Association Limited

We have audited the financial statements of The Wren Insurance Association Limited for the year ended 30 June 2014 which are set out on pages 8 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 Association'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 Association's members those matters we are required to state to them in an auditor's 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 Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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 Auditing Practices Board's (APB'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 Financial Reporting Council's web-site at 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 Association's affairs as at 30 June 2014 and of its surplus 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.

Simon Gallagher
(Senior Statutory Auditor)
for and on behalf of
Moore Stephens LLP
Statutory Auditor
150 Aldersgate Street
London EC1A 4AB

17 September 2014

INCOME AND EXPENDITURE ACCOUNT

for the year ended 30 June 2014

Technical account – general business	Note		2014 £		2013 £
Earned premiums, net of reinsurance					
Calls and premiums	2	**9,297,415**		9,882,221	
Return calls	2	**(2,439,319)**		(1,438,087)	
			6,858,096		8,444,134
Reinsurance premiums			**(2,398,262)**		(2,710,784)
			4,459,834		5,733,350
Allocated investment return transferred from the non-technical account			**1,921,779**		1,680,242
			6,381,613		7,413,592
Claims paid					
Gross amount		**(7,903,110)**		(1,407,186)	
Reinsurers' share		**4,879,216**		177,957	
		(3,023,894)		(1,229,229)	
Change in the provision for claims	3				
Gross amount		**11,319,361**		1,367,333	
Reinsurers' share		**(10,131,841)**		(3,322,880)	
		1,187,520		(1,955,547)	
Claims incurred net of reinsurance			**(1,836,374)**		(3,184,776)
Net operating expenses	4		**(3,823,732)**		(3,710,853)
Balance on the technical account			**721,507**		517,963

Non-technical account	Note	2014 £	2013 £
Balance on the technical account		**721,507**	517,963
Investment income	5	**1,868,216**	2,360,379
Allocated investment return transferred to the general business technical account	6	**(1,921,779)**	(1,680,242)
Net surplus before taxation		**667,944**	1,198,100
Taxation	7	**(326,205)**	(404,059)
Net surplus after taxation		**341,739**	794,041
Surplus at 30 June 2013		**8,907,146**	9,410,323
Net transfer from/(to) investment reserve	6 & 10	**44,015**	(547,218)
Net transfer to general reserve	10	**(1,000,000)**	(750,000)
Surplus at 30 June 2014		**8,292,900**	8,907,146

There are no recognised gains and losses other than those included in the income and expenditure account. All amounts are derived from continuing operations.

The notes on pages 11 to 15 form part of these financial statements.

BALANCE SHEET
as at 30 June 2014

Assets	Note	2014 £	2013 £
Financial investments	8	**44,358,555**	48,438,076
Reinsurers' share of technical provisions			
Claims outstanding	9	**9,101,240**	19,233,081
Debtors			
Reinsurance operations		**4,562,587**	174,303
Direct insurance operations – Members		**3,826**	29,322
Prepayment		**25,000**	25,000
Cash at bank		**2,295,016**	2,512,088
Accrued income		**137,775**	143,621
		60,483,999	70,555,491

Liabilities	Note	2014 £	2013 £
Capital and reserves			
Investment reserve	10	**9,182,167**	9,226,182
General reserve	10	**11,750,000**	10,750,000
Income and expenditure account	10	**8,292,900**	8,907,146
		29,225,067	28,883,328
Technical provisions			
Gross outstanding claims		**28,405,254**	39,724,615
Creditors			
Direct insurance operations – Members		**2,466,549**	1,517,967
Reinsurance operations		**46,326**	140,440
Taxation		**165,398**	150,027
Other creditors		**175,405**	139,114
		31,258,932	41,672,163
		60,483,999	70,555,491

Approved by the Board on 10 September 2014

R J H Pullen Director
A D Stanford Director

J P Rodgers Wren Managers

The notes on pages 11 to 15 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 30 June 2014

	2014 £	2013 £
Net calls received from Members	**7,806,678**	8,927,865
Reinsurance premiums paid	**(2,492,376)**	(2,691,266)
Claims paid	**(7,877,614)**	(1,436,508)
Reinsurance recoveries received	**490,932**	795,532
Net cash (outflow)/inflow from general insurance transactions	**(2,072,380)**	5,595,623
Dividends received	**273,386**	291,473
Other investment income received	**697,731**	837,063
Other operating cash payments	**(3,937,203)**	(3,904,690)
Net cash (outflow)/inflow from operating activities (see below)	**(5,038,466)**	2,819,469
Corporation Tax paid	**(310,834)**	(566,922)
Net (decrease)/increase in cash and investments	**(5,349,300)**	2,252,547
Cash flows were applied as follows:		
(Decrease)/increase in cash balances	**(217,072)**	279,925
Net (sale)/purchase in investments	**(5,132,228)**	1,972,622
	(5,349,300)	2,252,547

NOTES TO THE CASH FLOW STATEMENT

Reconciliation of net surplus before tax to net cash flow from operating activities

	2014 £	2013 £
Net surplus before taxation	**667,944**	1,198,100
Change in provisions for claims	**(1,187,520)**	1,955,547
(Increase)/decrease in insurance and other debtors	**(4,356,942)**	607,049
Increase in insurance and other creditors	**890,759**	497,739
Realised investment gains	**(638,002)**	(1,331,633)
Change in market value of investments	**(414,705)**	(107,333)
Net cash (outflow)/inflow from operating activities	**(5,038,466)**	2,819,469

Movement in opening and closing portfolio investments net of financing

		2014 £		2013 £
Net cash (outflow)/inflow for the period		**(217,072)**		279,925
Net (sale)/purchase in investments	**(5,132,228)**		1,972,622	
Realised investment gain	**638,002**		1,331,633	
Net portfolio investment		**(4,494,226)**		3,304,255
Change in market value of investments		**414,705**		107,333
Portfolio investments and cash 30 June 2013		**50,950,164**		47,258,651
Portfolio investments and cash 30 June 2014		**46,653,571**		50,950,164

The notes on pages 11 to 15 form part of these financial statements.

1 Accounting policies

i Basis of accounting

These Financial Statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Part 3 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) under the Companies Act 2006 and in accordance with applicable accounting standards in the UK. The Statutory 'Profit and Loss Account' is replaced by an 'Income and Expenditure Account' in these financial statements consistent with the mutual status of the Association. The financial statements comply with the Statement of Recommended Practice issued in December 2005 by the Association of British Insurers (as amended December 2006). The particular accounting policies adopted are described below.

ii Policy year accounting

The Association's business is accounted for on an annual basis. For the purposes of reporting to mutual Members, all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date on which the claim or the incident giving rise to the potential claim is notified to the Association. Other income and expenditure is allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the technical account – general business.

Members remain liable for their rateable proportions of any excess of claims and expenses over income for any open policy year and may, at the discretion of the Directors, have returned to them any balance not retained and applied for the purposes of the Association. Underwriting years are closed only when the Directors are satisfied that the information on claims payable is sufficiently reliable to enable the outcome of that year to be determined with reasonable accuracy.

The income and expenditure account presents the aggregate of changes during the financial year on all policy years, both open and closed.

iii Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to Members. Return calls are accounted for when approved by the Directors, but credited to the Member's account on renewal as at 1st July.

Outward reinsurance premiums are accounted for in the same period as calls and premiums for the related insurance.

iv Claims and reinsurance recoveries

Claims incurred include all claims and claims settlement expense payments made during the year and the movement in the provision for outstanding claims.

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claim amounts that have been charged to the income and expenditure account.

v Investment income

Investment income includes interest and dividends receivable for the year.

Net gains or losses on the disposal of investments (representing the difference between net proceeds and purchase cost) are credited or charged to the income and expenditure account as and when realised. Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or previous valuation.

The transfer to the investment reserve represents the difference (net of tax) between the actual investment income for the year and the investment return allocated to the technical account – general business.

1 Accounting policies (continued)

vi Allocation of investment return

An allocation is made from the non-technical account to the technical account – general business in respect of the longer-term investment return on the total investment portfolio, since these investments relate wholly to the technical provisions and Members' funds held for mutually insured risks.

vii Claims outstanding

The Association underwrites professional liability risks on a 'claims made' basis. Claims outstanding represent the Managers' assessment of the ultimate cost of claims reported at the balance sheet date.

The Association reserves individual claims notified on a 'worst likely outcome' basis. Estimates for the cost of claims are made by legally experienced claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome of a claim, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years. In addition, IBNER (incurred but not enough reserved) provisions are applied to aggregate outstanding estimates for each policy year using percentages that reflect the stage of development of the policy year.

In the case of policies incepting less than thirty-six months before the balance sheet date, the information available is frequently inadequate to form a reliable basis for case by case estimates. Accordingly, claims reserves are also calculated on the basis of standard actuarial claims projection techniques and stochastic modelling based on historical claims patterns, adjusted for inflation and other variables such as the volume of business transacted by the membership, to predict their potential ultimate cost. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims for more recent years.

Any surplus IBNER provisions will be automatically released once the policies to which they relate have been in existence for longer than thirty-six months. By contrast, in years where it appears to the Managers that the actual claims experience is likely to be worse than the original provisions established, those provisions are increased accordingly.

The provision for outstanding claims is based on information available at the balance sheet date. The majority of claims are settled only after extensive investigation and negotiation, which can take a number of years to complete. Accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being greater or less than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business in later years.

viii Investments

Investments are shown at market (bid) value.

2 Net calls and premiums

	2014 £	2013 £
Advance calls and premiums – current year	**9,297,415**	9,882,221
Returns of call – 2006/07	**(1,462,294)**	(325,973)
Returns of call – 2005/06	**(992,501)**	(1,112,114)
Returns of call – 2004/05	**15,476**	–
	(2,439,319)	(1,438,087)

All business is written in the UK and calls relate wholly to one class of business – professional indemnity insurance.

3 Movement in prior years' claims provisions

Included within the change in provision for claims is a credit of £3,009,226 (2013 – £1,647,223) relating to prior years made up as follows:

	2014 £	2013 £
Net provision at beginning of year	**20,491,534**	18,535,987
Net payments during the year in respect of these provisions	**(2,434,426)**	(623,047)
Net provision carried forward in respect of claims provided for at the end of the previous year	**(15,047,882)**	(16,265,717)
Overprovision in respect of prior years	**3,009,226**	1,647,223

4 Net operating expenses

	2014 £	2013 £
Acquisition costs	**530,250**	517,500
Administrative expenses	**3,293,482**	3,193,353
	3,823,732	3,710,853

Acquisition costs represent the management cost of underwriting, including the renewal of the entry of existing Members, negotiations with potential Members and the processing of entry documentation.

Included in administrative expenses are:

- Risk management fees of £640,000 (2013 – £625,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- Directors' remuneration of £92,164 (2013 – £87,453).
- Auditors' remuneration of £26,000 (2013 – £25,500). In addition to their audit fee, Moore Stephens LLP were paid £6,930 (2013 – £6,600) in respect of taxation services.

The Association has no employees. Management services are provided by Tindall Riley Limited (trading as Wren Managers).

5 Net investment income

	2014 £	2013 £
Income from fixed interest investments	**675,894**	787,170
Dividends receivable from equities	**270,847**	271,250
Bank and other interest	**18,530**	26,319
Profit on the realisation of investments	**638,002**	1,331,633
Change in unrealised gains on investments	**414,705**	107,333
Investment income	**2,017,978**	2,523,705
Investment management expenses	**(149,762)**	(163,326)
Net investment income	**1,868,216**	2,360,379

6 Investment return

	2014 £	2013 £
Allocated investment return	**1,921,779**	1,680,242

Investment income is allocated to the technical account – general business on the basis of longer-term rates of investment return. The longer-term return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying these rates to the investible assets held during the period on a monthly basis. The following rates have been used:

	2014	2013
Bonds	**4.1%**	3.1%
Equities	**7.5%**	7.0%

A transfer of £44,015 has been made from the investment reserve equivalent to the deficit of actual return over longer-term return for the year (net of tax).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

6 Investment return (continued)

10-year comparison of allocated return with actual returns	2014 £	2013 £
Net investment income since 1 July 2004 (2003)	**21,220,132**	20,445,171
Allocated return since 1 July 2004 (2003)	**16,120,305**	15,449,498
Surplus of actual return above allocated return	**5,099,827**	4,995,673

7 Taxation

By virtue of its mutual status the Association is not liable to tax on its insurance operations. It is liable to tax on its income and net gains from investments.

Analysis of charge in period	2014 £	2013 £
UK Corporation Tax	**333,051**	461,285
Over provision in previous year	**(6,846)**	(57,226)
Total tax charge	**326,205**	404,059

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of Corporation Tax in the UK, 23% (2013 – 23.75%). The differences are explained below:

	2014 £	2013 £
Net surplus before tax	**667,944**	1,198,100
Surplus on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 23%	**153,627**	284,548
Effects of:		
Non-taxable mutual insurance operations	**241,678**	241,112
UK dividends not taxable	**(62,254)**	(64,375)
Current tax charge (see above)	**333,051**	461,285

8 Investments

Investments comprise fixed interest investments (UK government securities and corporate bonds), equities and deposits with credit institutions. All fixed interest investments and equities are listed.

	Deposits with credit institutions £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	16,690,437	4,151,841	1,356,008	22,198,286
Sale of investments	(20,710,587)	(5,267,099)	(1,352,828)	(27,330,514)
Realised gains	–	189,949	448,053	638,002
Net portfolio investment	(4,020,150)	(925,309)	451,233	(4,494,226)
Unrealised gains	–	133,903	280,802	414,705
Change in value of portfolio	(4,020,150)	(791,406)	732,035	(4,079,521)
Market value at 1 July 2013	8,760,587	32,254,584	7,422,905	48,438,076
Market value at 30 June 2014	**4,740,437**	**31,463,178**	**8,154,940**	**44,358,555**
Cost at 1 July 2013	8,760,587	30,812,647	6,419,995	45,993,229
Cost at 30 June 2014	4,740,437	29,887,338	6,871,228	41,499,003

9 Reinsurers' share of technical provisions

The Association holds security in the form of letters of credit issued by AA or above (Standard & Poor's) rated banking institutions in respect of £7,808,716 of the amounts recoverable on claims paid and outstanding (2013 – £16,352,365).

10 Reserves

	Investment reserve £	General reserve £	Income and expenditure account £	Total £
Balance at 1 July 2012	8,678,964	10,000,000	9,410,323	28,089,287
Transfer to investment reserve	547,218	–	(547,218)	–
Transfer to general reserve	–	750,000	(750,000)	–
Surplus for the financial year	–	–	794,041	794,041
Balance at 30 June 2013	9,226,182	10,750,000	8,907,146	28,883,328
Transfer from investment reserve	(44,015)	–	44,015	–
Transfer to general reserve	–	1,000,000	(1,000,000)	–
Surplus for the financial year	–	–	341,739	341,739
Balance at 30 June 2014	**9,182,167**	**11,750,000**	**8,292,900**	**29,225,067**

The Association is incorporated as a company limited by guarantee and does not therefore have share capital.

The investment reserve comprises the cumulative net transfers from the income and expenditure account equivalent to the net unallocated return on the Association's investment portfolio.

The general reserve has been established in accordance with Rule 36(1) of the Association to provide for any unforeseen contingencies, claims, expenses, losses or other outgoings of the Association. Transfers to this reserve are considered upon closure of each policy year. To date, the 1987/88 to 2006/07 policy years have been closed.

11 Related parties transactions

The Board, comprising up to 13 representatives of the membership of the Association and two Manager nominees, is appointed to oversee the management of the Association on behalf of the Members. The directors of the Association are related parties as defined by FRS8 – Related Party Disclosures. Because of the mutual nature of the Association, all Members, being both insurer and insured, are in effect related parties.

The aggregate of transactions with Members is disclosed in the financial statements and, in the opinion of the directors, there are no individual transactions, or connected transactions, the disclosure of which is necessary for an understanding of the financial statements.

Tindall Riley Limited (trading as Wren Managers) manages the Association and received £4,175,000 (2013 – £4,075,000) in respect of management fees and risk management services.

DIRECTORS

The Wren Insurance Association Limited, Limited by Guarantee

Board of Directors

R J H Pullen (Chairman)
C Bennie
B J Cooke
D P Coyne
L Edwards
J J Hall
S C Johnson
A J Niven
S J Peat
H H Phillips
J P Rich
W J Ryan
A D Stanford
H O Wells
M Wright

Registered Office

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London EC4R 9AN

Managers

Tindall Riley Limited
Trading as:
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London EC4R 9AN

Auditors

Moore Stephens LLP
150 Aldersgate Street
London
EC1A 4AB

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2014