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Capita Managing Agency Limited

Syndicate 2255

Syndicate Annual Accounts

Year ended 31 December 2014

Contents

Directors, Secretary and Administration

MANAGING AGENT:

Managing Agent
Capita Managing Agency Limited (CMA) is the managing agent of Syndicate 2255. CMA is a wholly owned subsidiary (indirectly held) of Capita plc and operates within the Group's Insurance and Benefits Services division.

Directors
I J Bremner - Chief Executive Officer
D E Hope - Non-executive Director
J B King - Chief Operations Officer
T Marsh - Compliance Director
W Scott - Finance Director
E S Stobart - Chairman, Non-executive Director
S M Wilton - Non-executive Director

Company secretary
Capita Group Secretary Limited

Managing agent's registered office:
The Registry
34 Beckenham Road
Beckenham
Kent
United Kingdom
BR3 4TU

Managing agent's registered number
3935227

SYNDICATE:

Syndicate Run-off Manager
D F McElhiney

Bankers
Barclays Bank plc - London
Citibank NA - London and New York
RBC Dexia - Toronto

Statutory auditor
Deloitte LLP

Statement of actuarial opinion
Deloitte LLP

Investment Managers
General Re-New England Asset Management (GR-NEAM)

Report of the Directors of the Managing Agent

The directors of Capita Managing Agency Limited (CMA), the managing agent, present their report for Syndicate 2255 for the year ended 31 December 2014.

Basis of preparation

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

Results

Total recognised gains for the calendar year 2014 amount to £8.777m (2013: £21.866m), of which £8.548m (2013: £23.38m) was derived from the underwriting result. We calculate the underwriting result based on earned premiums, net of reinsurance, less claims incurred net of reinsurance but before the deduction of acquisition costs, operating and administrative costs, member's personal expenses and the impact of investment return. The balance of £0.229m (2013: £(1.514m)) comprises net non-underwriting movements including investment return, net operating expenses which incorporate realised losses arising on foreign exchange, and also unrealised movements on foreign exchange on retranslation.

The underwriting result was due to claims improvements on Syndicate 1861, across most classes of business. The claims improvements on Syndicate 1861 saw a corresponding reduction in reinsurance claims recoveries which resulted in a significant reduction in the provision carried for bad and doubtful debts. Reserves for Syndicate 340 continue to be assessed and carried in a manner consistent with that applied in previous years.

The movement in exchange rates during 2014 has resulted in an exchange gain of £0.163m, (2013: (loss) £(1.574)m), of which £(0.083)m (2013: £(0.078)m) is included in the profit and loss account and £0.246m (2013: £(1.496)m) is included within the Statement of Total Recognised Gains and Losses (STRGL).

Principal activities

The principal activity of the business is the transaction of reinsurance business in the United Kingdom. The syndicate commenced underwriting with effect from 1 January 2011, and was set up to underwrite the Reinsurance to Close (RITC) of Lloyd's syndicates. No RITC contracts of Lloyd's syndicates were underwritten during 2014. CMA entered into an outsource agreement with CCIS for the provision of run-off manager and accounting services for Syndicate 2255 with effect from 23 February 2011.

Review of the business

Syndicate 2255 commenced underwriting RITC business with effect from 1 January 2011. CMA is Syndicate 2255's appointed Lloyd's managing agency. Syndicate 2255's underwriting capital is supplied 100% by Tonicstar Limited (Tonicstar), a wholly-owned indirect subsidiary of Berkshire Hathaway Inc. (Berkshire). The majority of Syndicate 2255's operations, excluding accounting and regulatory reporting, are outsourced by CMA to Resolute Management Limited (Resolute) also a wholly owned and indirect subsidiary of Berkshire; the accounting and regulatory reporting is outsourced to Capita Commercial Insurance Services Limited (CCIS).

Syndicate 2255 underwrote in 2011:

1. The RITC of Syndicate 1861 2008 and prior years of account. This was achieved by way of a transfer of assets.

2. The RITC of the 1998 to 2001 years of Syndicate 340 was achieved by way of a conventional third party RITC and has been accounted for in the underwriting account accordingly.

Report of the Directors of the Managing Agent
continued

Syndicate 1861 has a broad mixture of liabilities, including Excess of Loss, Liability, Marine and Aerospace. The Liability accounts include the following sub-classes: Homebuilders and Single Job Construction. In addition to the above there are a number of other Lloyd's syndicates which themselves had been previously closed into Syndicate 1861, namely Syndicates 62, 744, 892, 1242 and 1265.

Syndicate 340 has a narrower mixture of liabilities, which may be split between World Trade Center (WTC) and non-WTC, where non-WTC includes Aviation, Non-marine and Space.

Principal risks and uncertainties
The major risks and uncertainties that the syndicate faces are presented below.

Insurance risk
Insurance risk can be viewed as comprising three main elements: underwriting, claims and reserving. Each of these can be defined as:

Underwriting risk
Insurance risk includes the risk that an insurance policy might be written for too low premium and/or provide inappropriate cover.

Claims risk
Claims risk includes the risk that the frequency and/or severity of insured events might be higher than expected.

Reserving risk
Reserving risk includes the risk that the estimates of claims might subsequently prove to be insufficient. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that Syndicate 2255's reserves at any given time might prove to be inadequate.

Operational risk
This is the risk that errors caused by people, processes and/or systems might lead to financial losses to the syndicate. CMA seeks to manage this risk through the use of a comprehensive risk register and a regular review process with those operational heads who have authority and responsibility for identifying, assessing and controlling operational risks effectively.

CMA has developed and implemented a strong risk reporting and risk governance system to ensure that effective risk management of operational risk is carried out. Management receives regular operational risk updates and the Audit & Risk Committee reviews and monitors operational risk on a quarterly basis.

CMA has entered into a number of outsourcing arrangements, the performance of which are monitored by the Outsource Committee.

It is critical for the syndicate that the key resources required to support its claims management and other essential business activities continue to be available. A number of contingency plans are in place to mitigate any loss of key resources from disrupting the ongoing operations of the syndicate.

Market risk (including interest rate & currency)
This is the risk of financial loss which arises from any fluctuations in market factors, including:

1. The value of investment holdings themselves
2. Movements in interest rates
3. Movements in foreign exchange rates.

Report of the Directors of the Managing Agent

continued

As the syndicate matures so its exposure is likely to decrease in respect of each of the above. CMA, through its Investment Committee, seeks to mitigate any such exposure and therefore reduce any associated risk by reviewing, as and when appropriate, investment performance, and seeks to reduce as far as is practicable any currency mismatches within the assets & liabilities which might have arisen.

Credit risk

This is the risk of financial loss if another party fails to meet its financial obligations, including failing to meet them in a timely manner. Credit risk can arise from the failure to receive inwards premium and the failure to collect outwards reinsurance claims recoveries.

The syndicate benefits from those reinsurance protections entered into by the original underlying syndicates. If a reinsurer fails to pay a claim for any reason, the syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore regularly reviewed throughout the year.

Other areas of exposure to credit risk include:

1. Amounts due from insurance intermediaries; and
2. Counterparty risk with respect to investments and other deposits.

CMA seeks to actively manage and reduce the syndicate's exposure to this risk by introducing limits on its exposure to either a single counterparty, or groups of counterparties, and to geographical and industry segments wherever practicable or considered appropriate. Such limits will be subject to an annual or more frequent review as appropriate. This area of risk will continue to be monitored closely.

Liquidity risk

Liquidity risk arises where cash may not be available to enable the syndicate to pay its obligations as they fall due. The syndicate is exposed to daily cash calls on its available cash resources, including the settlement of claims and various operating expenses. These funds are monitored by management on a regular basis. The directors do not consider that there is a significant risk of a material loss arising from liquidity risk.

Regulatory and compliance risk

This is the risk of there being a financial loss owing to a breach of regulatory requirements and/or a failure to respond to a regulatory change. Management receives regular regulatory and compliance risk updates and the Audit & Risk Committee reviews and monitors these risks on a quarterly basis.

The syndicate is required to comply with the requirements of the Financial Conduct Authority, the Prudential Regulation Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business.

Group risk

Group risk refers to the loss which may arise, or the potential impact of risk events of any nature, arising in or from membership of a corporate group.

CMA is part of Capita plc, and considers this risk as part of its regular risk review.

Capital management

Up to and including the 2012 pure underwriting year of account, the underwriting capital required for established syndicates was determined by each syndicate's own Individual Capital Assessment (ICA) process. Since 2013 Lloyd's has determined underwriting capital requirements by reference to each syndicate's, including Syndicate 2255, own Solvency II internal capital model.

Report of the Directors of the Managing Agent

continued

Lloyd's is responsible for setting both member and central capital to achieve a level of capital that is robust and allows members the potential to earn high returns. Three levels of security were established for the Lloyd's syndicates comprising: Premium Trust Funds (PTF); Funds at Lloyd's (FAL) and The New Central Fund (NCF):

1. Liquid resources held in PTF are the first resource for paying policyholder claims.

2. Capital provided by members to support its underwriting at Lloyd's is held in trust, known as FAL, and is primarily intended to cover circumstances where the syndicate assets prove insufficient to meet participating members' underwriting liabilities. Since FAL is not under the control of the managing agent, no amount has been shown in these financial statements for such capital resources. However, the managing agent is able to make calls on the members' FAL to meet liquidity requirements or to settle losses.

3. The NCF comprises central assets funded by members' annual contributions and subordinated debt. Lloyd's regularly reviews and determines the optimum level of central assets, seeking to balance the need for robust financial security against the members' desire for cost-effective mutuality of capital.

Key performance indicators (KPIs)

Current KPIs monitored are:

	2014	2013
	£'000	£'000
Gross claims outstanding – reported claims & IBNR, excl ULAE	**248,779**	258,822
Reinsurers' share of claims outstanding (net of bad debt)	**151,919**	155,745
Reinsurance accruals (net of bad debt)	**1,511**	1,263

Future developments

Syndicate 2255 continues to run-off its portfolio of liabilities and with the agreement of Lloyd's and for administrative purposes only the 2011 year of account was reinsured to close into the 2013 year of account with effect from 1 January 2014.

Syndicate 2255 will continue to search for and evaluate suitable new business propositions.

Directors

The directors set out in the table below have held office for the whole period from 1 January 2014 to the date of this report.

I J Bremner
D E Hope
J B King
T Marsh
W Scott
E S Stobart
S M Wilton

Report of the Directors of the Managing Agent
continued

Investment report
CMA is responsible for investment policy and the setting of benchmarks. A proportion of the syndicate's funds are managed by GR-NEAM.

The investment objective is to achieve a superior performance compared to the agreed benchmark while seeking always to preserve the capital value. The benchmark is reviewed periodically. Given the continuing challenging current economic climate, the investment policy applied throughout the period was one of seeking to maintain the capital value of a highly rated and liquid portfolio while recognising that the risk associated with such a policy might be at the cost of achieving additional investment return.

The gross investment return for the period 1 January 2014 to 31 December 2014 on those funds managed by GR-NEAM during the period is:

Sterling 1.31% (2013: 0.23%) compared to Bank of America's Merrill Lynch 1-3 year UK Gilt benchmark 1.76% (2013: 0.0%)

US dollars 0.90% (2013: 0.63%) compared to Bank of America's Merrill Lynch 1-3 year US Treasuries benchmark 0.62% (2013: 0.36%). The outperformance of the benchmark was due mainly to the performance of the corporate and structured sectors.

Performance results are reported gross of investment manager fees. The securities comprising the benchmarks are not identical to those in Syndicate 2255's portfolios. The outperformance of the benchmark was due mainly to the portfolio being kept shorter than the benchmark's duration.

Working capital
CMA liaises closely with the syndicate's capital provider concerning working capital requirements. CMA will provide advance notice whenever there might be a need to make a cash call in order to improve the syndicate's working capital position.

Syndicate Annual General Meeting
It is proposed not to hold an Annual General Meeting this year and the syndicate's sole participating underwriting member has been notified to this effect.

Disclosure of information to the auditor
The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

Auditor
The managing agent proposes the re-appointment of Deloitte LLP as the syndicate auditor.

By order of the Board

I J Bremner
Director
16 March 2015

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing the syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare syndicate annual accounts for each financial year. Under that law the managing agent has 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 managing agent 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 syndicate and of the profit or loss of the syndicate for that period.

In preparing those syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Syndicate 2255

We have audited the syndicate annual financial statements for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an 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 syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual 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 Ethical Standards for Auditors.

Scope of the audit of the syndicate annual financial statements

An audit involves obtaining evidence about the amounts and disclosures in the annual financial statements sufficient to give reasonable assurance that the annual 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 syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual financial statements

In our opinion the annual financial statements:

- give a true and fair view of the syndicate'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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Independent Auditor's Report to the Member of Syndicate 2255
continued

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Report of the Directors of the Managing Agent for the financial year in which the annual financial statements are prepared is consistent with the annual 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 Insurance Accounts Directive (Lloyd's' Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Andrew Downes ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

16 March 2015

Profit and Loss Account - Technical Account - General Business
for the year ended 31 December 2014

	NOTES	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Earned premiums, net of reinsurance					
Gross premiums written	3	**474**		(2,406)	
Outward reinsurance premiums		**32**		954	
			506		(1,452)
Allocated investment return transferred from the non-technical account	7		**1,000**		814
			1,506		(638)
Claims incurred, net of reinsurance					
Claims paid - Gross amount		**(15,308)**		(11,879)	
- Reinsurers' share		**10,022**		6,198	
		(5,286)		(5,681)	
Change in provision for claims	4				
Gross amount		**26,174**		44,165	
Reinsurers' share		**(12,846)**		(13,652)	
		13,328		30,513	
			8,042		24,832
			9,548		24,194
Net operating expenses	5		**(1,018)**		(832)
Balance on the technical account – general business			**8,530**		23,362

All operations are continuing.

Profit and Loss Account: Non-Technical Account
for the year ended 31 December 2014

	NOTES	2014 £'000	2013 £'000
Balance on the technical account – general business		**8,530**	23,362
Investment income		**2,076**	2,610
Unrealised gains on investments		**63**	151
Investment expenses and charges		**(325)**	(850)
Unrealised losses on investments		**(814)**	(1,097)
	7	**1,000**	814
Allocated investment return transferred to general business technical account	7	**(1,000)**	(814)
Profit for the financial year		**8,530**	23,362

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2014

	2014 £'000	2013 £'000
Profit for the financial year	**8,530**	23,362
Foreign exchange on retranslation	**247**	(1,496)
Total recognised gains and losses	**8,777**	21,866

Balance Sheet - Assets
as at 31 December 2014

	NOTES	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Investments					
Other financial investments	8		**127,029**		149,482
Reinsurers' share of technical provisions					
Claims outstanding			**151,919**		155,745
Debtors					
Debtors arising out of direct insurance operations	9	**1,244**		1,387	
Debtors arising out of reinsurance operations	10	**14,493**		14,682	
Other debtors		**43**		737	
			15,780		16,806
Other assets					
Cash at bank and in hand		**1,731**		2,277	
Other	11	**2,673**		2,757	
			4,404		5,034
Prepayments and Accrued Income					
Accrued interest		**37**		37	
Other		**6**		5	
			43		42
Total assets			**299,175**		327,109

Balance Sheet – Liabilities
as at 31 December 2014

	NOTES	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Capital and reserves					
Member's balance	12		**8,777**		23,569
Technical provisions					
Claims outstanding			**254,547**		266,022
Creditors due within one year					
Creditors arising out of direct insurance operations	13	**3,718**		5,375	
Creditors arising out of reinsurance operations	14	**16,864**		17,415	
			20,582		22,790
Creditors due after one year					
Creditors arising out of reinsurance operations	15		**14,624**		14,051
Accruals and deferred income			**645**		677
Total liabilities			**299,175**		327,109

The syndicate financial statements on pages 11 to 25 were approved by the Board of Directors of Capita Managing Agency Limited on 4th March 2015 and were signed on its behalf by:

I J Bremner
Director
16 March 2015

Statement of Cash Flows
for the year ended 31 December 2014

	NOTES	2014 £'000	2013 £'000
Net cash outflow from operating activities	16	**(7,915)**	(3,064)
Transfer to Member in respect of underwriting participation		**(23,569)**	(24,096)
Other transfers in/(out)		**247**	(1,495)
Net cash (outflow)		**(31,237)**	(28,655)

		2014 £'000	2013 £'000
Cash flows were invested as follows:	17		
Increase/(Decrease) in cash holdings		**(539)**	586
(Decrease) in overseas deposits		**(129)**	(902)
(Decrease)/Increase in net portfolio investments:			
(Decrease)/Increase in shares and other variable yield securities		**(4,349)**	(3,192)
(Decrease) in debt and other fixed income securities		**(25,206)**	(24,850)
(Decrease) in deposits with credit institutions		**(1,014)**	(297)
		(31,237)	(28,655)
Net investment of cash flows		**(31,237)**	(28,655)

Notes to the Accounts

1. Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the Regulations) and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP) in December 2005 (as amended in 2006), as applicable.

Having taken into account the risks and uncertainties and the performance of the syndicate as disclosed in the Report of the directors and making inquiries, the managing agent has a reasonable expectation that the syndicate will continue to write business for the foreseeable future. Moreover, the managing agent expects that continued capital support will be in place in order to do so. Accordingly, the financial statements have been prepared on the going concern basis.

2. Accounting policies

The syndicate annual accounts have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year. Wherever significant, premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Due to the nature of the business the syndicate underwrites, all premiums are deemed to be earned in the period.

Reinsurance premium ceded

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

Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Costs comprise claims and settlement expenses (both internal and external) paid in the year and the movement for the provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred at the balance sheet date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and recoveries.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the syndicate's internal actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. A material exception to this approach related to the Syndicate 340 business closed into Syndicate 2255 and in particular its remaining exposure in respect of the terrorist attacks on the World Trade Center on 11 September 2001. The approach to reserving for this loss was to calculate a probability weighted average from a number of market loss scenarios and assumptions on the recoverability of the outwards reinsurance.

The provision for claims also includes amounts in respect of internal and external claims handling costs

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections of IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The syndicate uses a number of statistical techniques to assist in making these estimates.

Notes to the Accounts

continued

Accordingly, the most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the syndicate annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Foreign currencies

Income and expenditure in US dollars, Canadian dollars and euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Syndicate assets and liabilities are translated into sterling at the rates of exchange at the balance sheet dates unless the contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates have been used.

Differences arising on the translation of foreign currency amounts are included in the technical account. However, differences arising on re-translation of opening balances at the closing rate are dealt with in the Statement of Total Recognised Gains and Losses as are those on the re-translation of the result for the period between the average and closing rates of exchange.

The following rates of exchange have been used in producing this annual report:

		US$	**CAN$**	**Euro**
Closing rate of exchange	**31 December 2014**	**1.56**	**1.81**	**1.29**
Average rate of exchange	**Calendar year 2014**	**1.65**	**1.82**	**1.24**
		US$	CAN$	Euro
Closing rate of exchange	31 December 2013	1.66	1.76	1.20
Average rate of exchange	Calendar year 2013	1.56	1.61	1.18

Investments

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

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between the sale proceeds and the purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposal in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general account to reflect the investment return on funds supporting underwriting business.

Notes to the Accounts

continued

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

3. Segmental analysis

An analysis of the underwriting result before investment return is set out below:
All premium income analysed below is written in the UK. The remainder balance is the result of the actuarial reassessment of future gross premiums due in respect of Syndicate 1861.

2014	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	2014 Total £'000
DIRECT INSURANCE:						
Accident and health	**135**	**135**	**(31)**	**(3)**	**18**	**119**
Motor	**0**	**0**	**(35)**	**(3)**	**(4)**	**(42)**
Marine, aviation & transport	**(31)**	**(31)**	**2,756**	**(257)**	**(1,063)**	**1,405**
Energy – Marine & Non marine	**2**	**2**	**664**	**(51)**	**(197)**	**418**
Fire & other damage to property	**(7)**	**(7)**	**514**	**(66)**	**(566)**	**(125)**
Third party liability	**325**	**325**	**1,990**	**(137)**	**(200)**	**1,978**
Pecuniary loss	**0**	**0**	**66**	**(4)**	**(5)**	**57**
	424	**424**	**5,924**	**(521)**	**(2,017)**	**3,810**
Reinsurance acceptances	**50**	**50**	**4,942**	**(497)**	**(775)**	**3,720**
Total	**474**	**474**	**10,866**	**(1,018)**	**(2,792)**	**7,530**

2013	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	2013 Total £'000
DIRECT INSURANCE:						
Accident and health	8	8	60	(2)	16	82
Motor	-	-	(5)	(1)	37	31
Marine, aviation & transport	(891)	(891)	18,209	(368)	(3,178)	13,772
Energy – Marine & Non marine	-	-	2,675	(66)	(557)	2,052
Fire & other damage to property	6	6	312	(11)	346	653
Third party liability	-	-	5,603	(134)	(2,274)	3,195
Pecuniary loss	6	6	24	(1)	(7)	22
	(871)	(871)	26,878	(583)	(5,617)	19,807
Reinsurance acceptances	(1,535)	(1,535)	5,408	(249)	(883)	2,741
	(2,406)	(2,406)	32,286	(832)	(6,500)	22,548

Notes to the Accounts
continued

3. Segmental analysis (continued)

An analysis of gross premiums written by reference to the destination of the risk is provided below:

	2014	2013
	£'000	£'000
Risks located in UK	**212**	(1,169)
Risks located in other member states of the EU	**181**	(91)
Risks located in US	**68**	(1,107)
Risks located in other countries	**13**	(39)
Gross premiums written	**474**	(2,406)

4. Claims outstanding

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

	2014	2013
	£'000	£'000
Gross reported outstanding claims	**24,511**	19,196
Gross claims incurred but not reported	**231**	23,869
Provision for unallocated loss adjustment expenses	**1,432**	1,100
	26,174	44,165
Reinsurers' share	**(12,846)**	(13,652)
Total	**13,328**	30,513

The favourable movement in net claims incurred of £8,042,000 (2013: £24,832,000) primarily derives from benign claims development across most classes of Syndicate 1861's business including Primary Excess of Loss and Single Job Construction on both 2014 and 2013.

5. Net operating expenses

	2014	2013
	£'000	£'000
Administrative expenses	**2,205**	2,254
Transfer to claims settlement expenses	**(1,270)**	(1,500)
	935	754
Acquisition costs	**-**	-
Loss on exchange	**83**	78
Total	**1,018**	832

Administrative expenses include:	2014	2013
	£'000	£'000
Member's standard personal expenses	**400**	320
Audit Fees:		
- Fees payable to the syndicate's auditor for the audit of these financial statements	**44**	44
Non audit Fees:		
- Other services pursuant to legislation	**45**	45
- Statements of actuarial opinion	**58**	58
	147	147

Other services pursuant to legislation include fees for the: (i) syndicate half year review, (ii) Solvency II Balance sheet half year review and (iii) Solvency II balance sheet year end review.

Notes to the Accounts

continued

6. Staff numbers and costs

The number of employees employed at the year end by CMA and who worked either in part or whole for the syndicate during the year was as follows:

	2014	2013
Administration and finance	8	9
Underwriting	0	1
Total	8	10

CMA received a Managing Agent's fee of £400,000 (2013: £320,000) which was charged to the syndicate. This amount includes estimated amounts for directors and staff related costs. No emoluments of the directors of CMA were directly charged to the syndicate and consequently no meaningful disclosure can be made.

CMA has also recharged various expenses which have been properly incurred on Syndicate 2255's behalf; these amounted to £270,000 (2013: £160,000) for the financial year.

The run-off manager is paid by CCIS and his remuneration is included in the fee charged by CCIS.

7. Investment return

	2014 £'000	2013 £'000
Investment income		
Income from investments	**1,879**	2,517
Gains on the realisation of investments	**197**	93
	2,076	2,610
Unrealised gains on investments	**63**	151
Investment expenses		
Investment management expenses, including interest	**(127)**	(180)
Losses on the realisation of investments	**(198)**	(670)
	(325)	(850)
Unrealised losses on investments	**(814)**	(1,097)
Total investment return	**1,000**	814

8. Other financial investments

	MARKET VALUE 2014 £'000	COST 2014 £'000	MARKET VALUE 2013 £'000	COST 2013 £'000
Shares and other variable securities	**7,418**	**7,418**	11,339	11,339
Debt securities and other fixed income securities	**96,120**	**96,702**	115,115	115,046
Participation in investment pools	**-**	**-**	-	-
Deposits with credit institutions	**23,491**	**23,491**	23,028	23,028
Total	**127,029**	**127,611**	149,482	149,413

Notes to the Accounts
continued

9. Debtors arising out of direct insurance operations

	2014 £'000	2013 £'000
Amounts falling due within one year		
- Intermediaries	**1,244**	1,387

10. Debtors arising out of reinsurance operations

	2014 £'000	2013 £'000
Amounts falling due within one year		
- Intermediaries under reinsurance business	**12,982**	13,419
- Reinsurance recoveries on paid claims	**1,511**	1,263
	14,493	14,682

11. Other assets – other

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries. All these funds are invested in 'Participation in investment pools', the value of which are based on the market value of the underlying assets which are shown below:

	2014 £'000	2013 £'000
Overseas deposits		
- Debt securities and other fixed income securities	**2,217**	2,492
- Cash	**456**	265
	2,673	2,757

12. Reconciliation of member's balance

	2014 £'000	2013 £'000
Balance due to member brought forward at 1 January	**23,569**	25,799
Profit for the financial year	**8,530**	23,362
Other recognised gains and losses relating to the financial year	**247**	(1,496)
Payment of interim profit to members	**(23,569)**	(24,096)
Balance due to member carried forward at 31 December	**8,777**	23,569

13. Creditors arising out of direct insurance operations

	2014 £'000	2013 £'000
Arising out of direct insurance operations		
Due to intermediaries – within one year	**3,718**	5,375

Notes to the Accounts
continued

14. Creditors arising out of reinsurance operations

	2014 £'000	2013 £'000
Arising out of reinsurance operations		
Due to intermediaries – within one year	**16,864**	17,415

15. Creditors arising out of reinsurance operations

	2014 £'000	2013 £'000
Arising out of reinsurance operations		
Due to intermediaries – after one year	**14,624**	14,051

16. Reconciliation of operating profit to net cash (outflow) from operating activities

	2014 £'000	2013 £'000
Operating profit on ordinary activities	**8,530**	23,362
Changes in market values and currencies	**(8,153)**	4,845
Decrease in debtors	**1,025**	2,370
(Decrease) in technical provisions	**(7,649)**	(31,424)
(Decrease) in insurance creditors and accrued income	**(1,668)**	(2,217)
Net cash (outflow)/inflow from operating activities	**(7,915)**	(3,064)

Notes to the Accounts
continued

17. Movement in opening and closing portfolio investments, net of financing

	2014 £'000	2013 £'000
Net cash (outflow)/ inflow for the year	**(539)**	586
Cash flow		
- (Decrease) in overseas deposits	**(129)**	(902)
- (Decrease) in portfolio investments	**(30,569)**	(28,338)
Movement arising from cash flows	**(31,237)**	(28,654)
Changes in market values and currencies	**8,154**	(4,846)
Total movement in portfolio investments	**(23,083)**	(33,500)
Portfolio at 1 January	**154,516**	188,016
Portfolio at 31 December	**131,433**	154,516

Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000	Cash flow £'000	Changes to market value and currency revaluations £'000	At 31 December 2014 £'000
Cash at bank and in hand	2,277	(539)	(7)	1,731
Overseas deposits	2,757	(129)	45	2,673
Shares and other variable yield securities	11,339	(4,349)	428	7,418
Debt securities and other fixed income securities	115,115	(25,206)	6,212	96,121
Participation in investment pools	0	0	0	0
Deposits with credit institutions	23,028	(1,014)	1,476	23,490
Total portfolio investments	149,482	(30,569)	8,116	127,029
Total cash and portfolio investments	154,516	(31,237)	8,154	131,433

18. Net cash inflow on portfolio investments

	2014 £'000	2013 £'000
(Purchase) of shares and other variable yield securities	**(494)**	(1,650)
(Purchase) of debt securities and other fixed income securities	**(71,666)**	(63,231)
Sale of shares and other variable yield securities	**4,843**	4,841
Sale of debt securities and other fixed income securities	**96,872**	88,081
Sale of deposits with credit institutions	**1,014**	297
Net cash inflow on portfolio investments	**30,569**	28,338

Notes to the Accounts

continued

19. Related parties

The following entities are referred to by their abbreviation throughout this note:

	Entity's legal name	Abbreviation
	Capita Group and subsidiaries:	
1	Capita plc	Capita
2	Capita Insurance Services Limited	CIS
3	Capita Commercial Insurance Services Limited	CCIS
4	Capita Managing Agency Limited	CMA
	Berkshire Hathaway Inc. and subsidiaries:	
5	Berkshire Hathaway Inc.	Berkshire
6	Tonicstar Limited	Tonicstar
7	Resolute Management Limited	Resolute
8	General Re New England Asset Management Limited	GR-NEAM
	Other	
9	ANV Syndicates Limited *(formerly Flagstone Syndicate Management Limited)*	ANV *(formerly Flagstone)*
10	Travelers Syndicate Management Limited	Travelers

Interests of the Managing Agent

CMA managed Syndicate 2232 until 31 March 2014 at which point management was transferred to Allied World by way of novation and Syndicate 2255 throughout the whole of 2014. In 2015 CMA continues to manage Syndicate 2255.

CMA has charged a managing agency fee of £400,000 (2013: £320,000) to Syndicate 2255 during the year to 31 December 2014.

CMA has recharged various expenses which have been properly incurred on Syndicate 2255's behalf; these amounted to £270,000 (2013: £160,000) for the reporting period.

Interests and arrangements of any related companies

Disclosed below are those transactions or arrangements entered into on behalf of, or otherwise concerning the member of, the syndicate in which any related company of CMA has, directly or indirectly, a material interest:

CMA's immediate direct holding company is CIS. CMA and CIS are wholly-owned subsidiaries of Capita. CCIS is a wholly-owned of subsidiary of CIS.

CMA entered into an outsource agreement with CCIS for the provision of run-off manager and accounting services for Syndicate 2255 with effect from 23 February 2011. During the year to 31 December 2014 £200,000 (2013: £250,000) was charged to Syndicate 2255 in respect of services provided by CCIS.

CCIS provides insurance support services to insurance companies and Lloyd's syndicates. As a consequence CCIS is involved with the management of insurance companies and Lloyd's syndicates which have reinsured, or have been reinsured by, syndicates managed by CMA.

CMA entered into an agency amendment agreement with Tonicstar on 22 February 2011.

Tonicstar, CMA and ANV entered into a deed of novation of managing agent and amended agency agreement on 22 February 2011.

Notes to the Accounts
continued

19. Related parties (continued)

CMA and Resolute entered into an outsource agreement for the provision of various support services including: underwriting, claims, reinsurance and actuarial. Additional fees are charged direct to the syndicate according to the service provided, for any services which are properly provided by Resolute for the benefit of Syndicate 2255, but which fall outside the scope of the service agreement.

David McElhiney is Syndicate 2255's Run-off Manager and is engaged by way of an outsource agreement between CMA and CCIS.

CMA entered into an investment management agreement with GR-NEAM to manage Syndicate 2255's investments with effect from 30 March 2011.

Tonicstar, Resolute, and GR-NEAM are all subsidiaries of Berkshire.

Tonicstar is the sole capital provider to Syndicate 2255.

During December 2011, CMA entered into an arrangement on behalf of Syndicate 2255 to apply for a letter of credit in connection with certain overseas deposits which are required to be lodged as a condition for underwriting business in the USA. The amount held at 31 December 2014 was US$36.3m (2013: US$37.9m).

Interests of executives
There are no transactions or arrangements entered into on behalf of or otherwise concerning the members of the syndicate in which any executive of CMA have, directly or indirectly, a material interest during the period of their directorships.

20. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating underwriting members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. Generally, FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. For its first two years of trading, the syndicate's capital requirement has been determined by Lloyd's.

Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

21. Ultimate Parent Undertaking

The ultimate parent undertaking of CMA is Capita plc. Group accounts can be obtained from Capita plc at 71 Victoria Street, London, SW1H 0XA.