

IMPORTANT INFORMATION ABOUT THE SYNDICATE REPORT AND ACCOUNTS

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Capita Managing Agency Limited

Syndicate 2255

Syndicate Annual Accounts

Year ended 31 December 2015

Contents

	<i>Page</i>
Directors, Secretary and Administration	2
Report of the Directors of the Managing Agent	3
Statement of Managing Agent's Responsibilities	9
Independent Auditor's Report to the Member of Syndicate 2255	10
Income Statement: Technical Account – General Business	12
Income Statement: Non-Technical Account	13
Statement of Comprehensive income	13
Statement of financial position - Assets	14
Statement of financial position - Liabilities	15
Statement of Cash Flows	16
Notes to the financial statements	17

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
P Koslover – Chief Risk Officer
T Marsh - Compliance Director
M Petzold – Director of Underwriting
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 - 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 2015.

Basis of preparation

Lloyd's syndicates have transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in Note 19

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

Results

Total recognised gains for the calendar year 2015 amount to £13.806m (2014: £8.777m), of which £13.306m (2014: £8.548m) 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 £0.500m (2014: £0.229m) 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 2015 has resulted in an overall exchange gain of £0.662m, (2014: £0.163m), of which £(0.396)m (2014: £(0.315)m) is included in the profit and loss account and £1.058m (2014: £0.478m) is included within the Statement of Comprehensive Income.

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 2015. 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).

Report of the Directors of the Managing Agent

continued

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.

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.

Report of the Directors of the Managing Agent

continued

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.

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.

Report of the Directors of the Managing Agent

continued

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.

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:

	2015	2014
	£'000	£'000
Gross claims outstanding – reported claims & IBNR, excl ULAE	240,892	248,779
Reinsurers' share of claims outstanding (net of bad debt)	154,022	151,919
Reinsurance accruals (net of bad debt)	1,048	1,511

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 2013 year of account was reinsured to close into the 2015 year of account with effect from 1 January 2016. (This administrative closure is consistent in principle compared to how 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.

Report of the Directors of the Managing Agent*continued***Directors**

The directors set out in the table below have held office for the whole period from 1 January 2015 to the date of this report, unless denoted otherwise.

I J Bremner
D E Hope
J B King
P Koslover (*appointed 17 February 2016*)
T Marsh
M Petzold (*appointed 1 September 2015*)
W Scott
E S Stobart
S M Wilton

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 actual gross investment return for the period 1 January 2015 to 31 December 2015 on those US Dollar funds managed by GR-NEAM during the period is:

US dollars 0.73% (2014: 0.90%) compared to Bank of America's Merrill Lynch 1-3 year US Treasuries benchmark 0.54% (2014: 0.62%). The outperformance of the benchmark was due mainly to the performance of the corporate and quasi government sectors.

Due to there being only a small amount of sterling funds available for investment, the Investment committee after consulting with GR-NEAM decided to withdraw such amounts from GR-NEAM's management with effect from 31 July 2015.

The actual gross investment return for the seven months period 1 January 2015 to 31 July 2015 on those sterling funds managed by GR-NEAM during the period is:

Sterling 0.39% (1.1.2014 to 31.7.2014: 0.42%; calendar year 2014: 1.31%) compared to Bank of America's Merrill Lynch 1-3 year UK Gilt benchmark 0.16% (1.1.2014 to 31.7.2014: 0.24%; calendar year 2014: 1.76%)

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.

Report of the Directors of the Managing Agent*continued***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
15 March 2016

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 31st December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, and the related notes 1 to 19. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 31st December 2015 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 Managing Agent's Report 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

15 March 2016

**Income Statement - Technical Account - General Business
for the year ended 31 December 2015**

	NOTES	2015		2014 As restated	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	2	(362)		474	
Outward reinsurance premiums		<u>26</u>		<u>32</u>	
			(335)		506
Other technical income, net of reinsurance			946		0
Allocated investment return transferred from the non-technical account	6		<u>695</u>		<u>1,000</u>
			1,306		1,506
Claims incurred, net of reinsurance					
Claims paid - Gross amount		(7,804)		(15,308)	
- Reinsurers' share		<u>3,912</u>		<u>10,022</u>	
		<u>(3,892)</u>		<u>(5,286)</u>	
Change in provision for claims					
Gross amount	3	23,307		26,174	
Reinsurers' share		<u>(6,720)</u>		<u>(12,846)</u>	
		<u>16,587</u>		<u>13,328</u>	
			12,695		8,042
			14,001		9,548
Net operating expenses	4		(857)		(934)
Balance on the technical account – general business			<u>13,144</u>		<u>8,614</u>

All operations are continuing.

**Income Statement: Non-Technical Account
for the year ended 31 December 2015**

	NOTES	2015 £'000	2014 As restated £'000
Balance on the technical account – general business		13,144	8,614
Investment income		1,478	2,076
Unrealised gains on investments		47	63
Investment expenses and charges		(121)	(325)
Unrealised losses on investments		(709)	(814)
	6	<u>695</u>	<u>1,000</u>
Allocated investment return transferred to general business technical account	6	(695)	(1,000)
Exchange (losses)		(396)	(315)
Profit for the financial year		<u><u>12,748</u></u>	<u><u>8,299</u></u>

**Statement of Comprehensive Income
for the year ended 31 December 2015**

	2015 £'000	2014 As restated £'000
Profit for the financial year	12,748	8,299
Currency translation differences	1,058	478
Total Comprehensive Income	<u><u>13,806</u></u>	<u><u>8,777</u></u>

**Statement of Financial Position - Assets
as at 31 December 2015**

		2015		2014	
	NOTES	£'000	£'000	£'000	£'000
Investments					
Other financial investments	7		120,427		127,029
Reinsurers' share of technical provisions					
Claims outstanding			154,022		151,919
Debtors					
Debtors arising out of direct insurance operations	8	1,577		1,244	
Debtors arising out of reinsurance operations	9	14,250		14,493	
Other debtors		<u>61</u>		<u>43</u>	
			15,888		15,780
Other assets					
Cash at bank and in hand		1,984		1,731	
Other	10	<u>2,318</u>		<u>2,673</u>	
			4,302		4,404
Prepayments and Accrued Income					
Accrued interest		4		37	
Other		<u>205</u>		<u>6</u>	
			209		43
Total assets			<u>294,848</u>		<u>299,175</u>

**Statement of Financial Position – Liabilities
as at 31 December 2015**

		2015		2014	
	NOTES	£'000	£'000	£'000	£'000
Capital and reserves					
Member's balance	11		13,269		8,777
Technical provisions					
Claims outstanding			245,286		254,547
Creditors due within one year					
Creditors arising out of direct insurance operations	12	3,428		3,718	
Creditors arising out of reinsurance operations	13	15,331		16,864	
Other creditors		<u>204</u>		<u>-</u>	
			18,963		20,582
Creditors due after one year					
Creditors arising out of reinsurance operations	14		16,787		14,624
Accruals and deferred income					
			543		645
Total liabilities			<u>294,848</u>		<u>299,175</u>

The syndicate financial statements on pages 12 to 41 were approved by the Board of Directors of Capita Managing Agency Limited on 11 March 2016 and were signed on its behalf by:

I J Bremner
Director
15 March 2016

**Statement of Cash Flows
for the year ended 31 December 2015**

	2015	2014
NOTES	£'000	£'000
Cash flow:		
Operating result	12,748	8,530
Cash flow from operating activities:		
(Decrease) in gross technical provisions	(9,261)	(11,475)
(Increase)/decrease in reinsurers share of gross technical provisions	(2,102)	3,826
(Increase)/decrease in debtors	(107)	1,026
Increase/(decrease) in creditors	442	(1,667)
Movement in other assets/liabilities	(166)	(1)
Investment return	(695)	(1,000)
<i>Net cash flow from operating activities</i>	<u>859</u>	<u>(761)</u>
Cash flow from investing activities		
Purchase of debt instruments	(44,596)	(72,161)
Sale of debt instruments	56,681	103,729
Investment income received	1,478	0
Other	373	130
<i>Net cash flow from investing activities</i>	<u>13,936</u>	<u>31,698</u>
Cash flow from financing activities		
Open year profit release	(9,315)	(23,569)
Other	(5,226)	(7,914)
<i>Net cash flow from investing activities</i>	<u>(14,541)</u>	<u>(31,483)</u>
Net increase/(decrease) in cash & cash equivalents	<u>254</u>	<u>(546)</u>
Cash & cash equivalents at beginning of year	1,730	2,276
Net increase/(decrease) in cash & cash equivalents	254	(546)
Cash & cash equivalents at end of year	<u>1,984</u>	<u>1,730</u>

Notes to the financial statements

1. Accounting Policies

Statement of compliance

Lloyd's syndicates have transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2015. Prior year amounts have been restated to reflect the adopting of FRS 102 and FRS 103. An explanation of how transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in Note 19

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

Basis of preparation

The financial statements for the year ended 31 December 2015 were approved by the Board of Directors on 11 March 2016.

The financial statements are prepared in sterling which is the presentational currency of the Syndicate and rounded to the nearest £'000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

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.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the Syndicate's key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and also for the expected ultimate cost of claims incurred, but not reported (IBNR), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder method.

The main assumption underlying these standard actuarial claims projection techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate

Notes to the financial statements*continued***1. Accounting Policies (continued)****Judgements and key sources of estimation uncertainty (continued)***Insurance contract technical provisions (continued)*

cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

A material exception to this approach relates 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 is to calculate a probability weighted average from a number of market loss scenarios and assumptions on the recoverability of the outwards reinsurance. 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.

Further details are given in Note 18.

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Fair value of financial assets and derivatives determined using valuation techniques

Syndicate 2255 does not have any financial assets or liabilities recorded on the statement of financial position whose fair values cannot be sourced from active markets. Syndicate 2255 has no need to use any valuation techniques to determine fair value.

Further details are given in Note 18.

Notes to the financial statements*continued***1. Accounting policies (continued)****Significant accounting policies*****Insurance contracts – Product classification***

Insurance contracts are those contracts when the Syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with IAS 39 unless the embedded derivative is itself an insurance contract (i.e., the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

Gross Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or when the risk covered cannot be assessed accurately at the commencement of cover. When written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. When written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the cover-holder.

Reinsurance Premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. When written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the policyholder.

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

Profit commission

The managing agent does not charge profit commission.

Notes to the financial statements*continued***1. Accounting policies (continued)*****Claims***

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical provisions

Technical provisions comprise claims outstanding and provisions for unearned premiums.

Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders

Notes to the financial statements*continued***1. Accounting policies (continued)*****Insurance receivables***

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Financial investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through the profit and loss at inception. All of the syndicate's financial assets are held for trading. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Derivative financial instruments

The Syndicate does not use derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

Notes to the financial statements*continued***1. Accounting policies (continued)*****Fair value of financial assets***

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

See Note 7 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the Syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The Syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment. If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income in members' balance to the income statement. Impairment losses recognised in the income statement in respect of an equity instrument are not subsequently reversed through the income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the income statement, if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

De-recognition of financial assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Notes to the financial statements

continued

1. Accounting policies (continued)

Investment return

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and members' balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Foreign currencies

The Syndicate's functional currency is US Dollars and the presentational currency sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences arising from retranslation into functional currency are recorded in the Income Statement, Non-Technical account. Exchange differences arising from translation from functional currency to presentational currency are shown in the Statement of Comprehensive Income.

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

		US\$	CAN\$	Euro
Closing rate of exchange	31 December 2015	1.47	2.05	1.36
Average rate of exchange	Calendar year 2015	1.53	1.95	1.38
		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

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate are included in the statement of financial position under the heading 'other debtors'.

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

Pension costs

Managing agency staff are eligible to participate in one of Capita plc's defined contribution pension schemes

Notes to the financial statements

continued

2. 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.

2015	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	2015 Total £'000
DIRECT INSURANCE:						
Accident and health	1	1	52	0	0	53
Motor	0	0	(7)	0	6	(1)
Marine, aviation & transport	25	25	2,927	16	(943)	2,024
Energy – Marine & Non marine	(2)	(2)	189	2	(344)	(155)
Fire & other damage to property	9	9	(545)	3	343	(190)
Third party liability	0	0	6,004	27	(1,248)	4,782
Pecuniary loss	0	0	24	0	7	31
	33	33	8,644	48	(2,179)	6,546
Reinsurance acceptances	(395)	(395)	6,859	41	(602)	5,903
Total	(362)	(362)	15,503	89	(2,781)	12,449
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)	(2)	(5)	(42)
Marine, aviation & transport	(31)	(31)	2,756	(236)	(1,062)	1,427
Energy – Marine & Non marine	2	2	664	(47)	(197)	422
Fire & other damage to property	(7)	(7)	514	(60)	(566)	(119)
Third party liability	325	325	1,990	(126)	(200)	1,989
Pecuniary loss	0	0	66	(4)	(5)	57
	424	424	5,924	(478)	(2,017)	3,853
Reinsurance acceptances	50	50	4,942	(456)	(775)	3,761
Total	474	474	10,866	(934)	(2,792)	7,614

Notes to the financial statements

continued

2. Segmental analysis (continued)

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

	2015	2014
	£'000	£'000
Risks located in UK	(362)	212
Risks located in other member states of the EU	0	181
Risks located in US	0	68
Risks located in other countries	0	13
Gross premiums written	(362)	474

3. Claims outstanding

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

	2015	2014
	£'000	£'000
Gross reported outstanding claims	14,308	24,511
Gross claims incurred but not reported	7,626	231
Provision for unallocated loss adjustment expenses	1,373	1,432
	23,307	26,174
Reinsurers' share	(6,720)	(12,846)
Total	16,587	13,328

The favourable movement in net claims incurred of £12,695 (2014: £8,042,000) primarily derives from benign claims development across most classes of Syndicate 1861's business including Primary Excess of Loss and Single Job Construction.

4. Net operating expenses

	2015	2014
	£'000	£'000
Administrative expenses	1,980	2,204
Transfer to claims settlement expenses	(1,123)	(1,270)
Total	857	934

	2015	2014
	£'000	£'000
Administrative expenses include:		
Member's standard personal expenses	400	400
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	103	103
	147	147

Other services pursuant to legislation include fees for the: (i) syndicate half year review, (ii) Solvency II Balance sheet half year review, (iii) Solvency II balance sheet year-end review, iv) statements of actuarial opinion.

Notes to the financial statements

continued

5. 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:

	2015	2014
Administration and finance	12	8
Underwriting	0	0
Total	<u>12</u>	<u>8</u>

CMA received a Managing Agent's fee of £400,000 (2014: £400,000) 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 £209,944 (2014: £270,000) for the financial year.

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

6. Investment return

	2015 £'000	2014 £'000
Income from financial investments	1,741	1,879
<i>Net (losses) on the realisation of investments</i>		
Fair value through profit or loss designated upon initial recognition	(264)	(1)
Net unrealised (losses) on investments	(661)	(751)
Investment management expenses, including interest	(121)	(127)
Total investment return	<u>695</u>	<u>1,000</u>

Average amount of funds available for investment during the year:

	2015 £'000	2014 £'000
Sterling	2,335	4,499
United States Dollars	120,236	126,214
Canadian Dollars	2,171	2,877
Euros	618	701
Total	<u>125,360</u>	<u>134,291</u>

Notes to the financial statements

continued

6. Investment return (continued)

Gross calendar year investment yield:

	2015	2014
	%	%
Sterling	1.32	1.70
United States Dollars	0.64	0.81
Canadian Dollars	0.69	0.99
Euros	0.10	0.10
Total	0.65	0.84

Average amount of funds available for investment during the year is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

7. Financial investments

	MARKET VALUE	COST	MARKET VALUE	COST
	2015	2015	2014	2014
	£'000	£'000	£'000	£'000
Shares and other variable securities and units in unit trusts:				
Designated at fair value through profit & loss	5,234	5,234	7,418	7,418
Debt securities and other fixed income securities:				
Designated at fair value through profit & loss	90,195	90,875	96,120	96,702
Deposits with credit institutions	24,998	24,998	23,491	23,491
Total	120,427	121,107	127,029	127,611

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Shares and other variable securities and units in unit trusts	5,234	0	0	5,234
Debt securities and other fixed income securities	17,758	72,437	0	90,195
Loans & deposits with credit institutions	26,113	1,203	0	27,316
Total	49,105	73,640	0	122,745

The difference between the total Market Value of £120,427,000 in the first table, and the total £122,745,000 in the second table is due to the inclusion of Overseas deposits amounting to £2,318,000.

Notes to the financial statements

continued

7. Financial investments (continued)

31 December 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable securities and units in unit trusts	7,418	0	0	7,418
Debt securities and other fixed income securities	24,209	71,912	0	96,121
Loans & deposits with credit institutions	25,432	731	0	26,163
Total	<u>57,059</u>	<u>72,643</u>	<u>0</u>	<u>129,702</u>

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

Level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The Syndicate did not hold any of these at year end 2015 or 2014.

8. Debtors arising out of direct insurance operations

	2015 £'000	2014 £'000
Amounts falling due within one year		
- Intermediaries	<u>1,577</u>	<u>1,244</u>

9. Debtors arising out of reinsurance operations

	2015 £'000	2014 £'000
Amounts falling due within one year		
- Intermediaries under reinsurance business	13,202	12,982
- Reinsurance recoveries on paid claims	<u>1,048</u>	<u>1,511</u>
	<u>14,250</u>	<u>14,493</u>

10. 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:

	2015 £'000	2014 £'000
Overseas deposits		
- Debt securities and other fixed income securities	<u>2,318</u>	<u>2,673</u>

Notes to the financial statements
continued

11. Reconciliation of member's balance

	2015	2014
	£'000	£'000
<i>Balance due to member brought forward at 1 January</i>	8,777	23,569
<i>Profit for the financial year</i>	12,748	8,299
<i>Other recognised gains and losses relating to the financial year</i>	1,058	478
<i>Payment of interim profit to members</i>	(9,314)	(23,569)
 <i>Balance due to member carried forward at 31 December</i>	13,269	8,777

12. Creditors arising out of direct insurance operations

	2015	2014
	£'000	£'000
Arising out of direct insurance operations		
Due to intermediaries – within one year	3,428	3,718

13. Creditors arising out of reinsurance operations

	2015	2014
	£'000	£'000
Arising out of reinsurance operations		
Due to intermediaries – within one year	15,331	16,864

14. Creditors arising out of reinsurance operations

	2015	2014
	£'000	£'000
Arising out of reinsurance operations		
Due to intermediaries – after one year	16,787	14,624

15. 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

Notes to the financial statements*continued***Interests of the Managing Agent**

CMA managed Syndicate 2255 throughout the whole of 2015. In 2016 CMA continues to manage Syndicate 2255.

CMA has charged a managing agency fee of £400,000 (2014: £400,000) to Syndicate 2255 during the year to 31 December 2015.

CMA has recharged various expenses which have been properly incurred on Syndicate 2255's behalf; these amounted to £209,944 (2014: £270,000) for the reporting period. Of these amounts, £200,000 was outstanding as at 31 December 2015 and £270,000 was outstanding as at 31 December 2014.

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 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 2015 £200,000 (2014: £200,000) 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.

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.

15. Related parties**Interests and arrangements of any related companies (continued)**

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 2015 was US\$36.4m (2014: US\$36.3m).

Notes to the financial statements*continued***15. Related parties (continued)****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.

16. 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.

17. Off-balance sheet items

The Syndicate has not been party to any arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the Syndicate.

18. Risk management**(a) Governance framework**

The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Managing Agent has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate's objectives as described in the annual syndicate business plan (forecast), and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'. The syndicate undertakes regularly a process known as "Own Risk & Solvency Assessment" (ORSA) which is reviewed by the Audit & Risk Committee and finally approved by the board.

(b) Capital management objectives, policies and approach**Capital framework at Lloyd's**

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Notes to the financial statements*continued***18. Risk management (continued)****(b) Capital management objectives, policies and approach (continued)*****Capital framework at Lloyd's (continued)***

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirement of the syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 2255 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A Syndicate may comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied by Lloyd's in 2015 for the 2016 year of account was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position – liabilities on page 15, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Notes to the financial statements

continued

18. Risk management (continued)

(c) Insurance risk (continued)

Since commencing trading, effective 1 January 2011, the syndicate has not purchased any reinsurance to further cover the legacy business which itself is protected by an inherited mix of proportional and non-proportional reinsurance contracts. The syndicate may however consider purchasing reinsurance as part of its risks mitigation programme at some stage in the future. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess of loss reinsurance and is usually designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance will vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The key area of uncertainty for Syndicate 2255 relates to its material exposure to the terrorist attacks in the United States of America on 11 September 2001.

Strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

An indication as to the geographical location of claim provisions, net of reinsurance, and in respect of both reporting year ends 2015 and 2014 is as follows:

Geographical Location:	%
USA	94.49
Other EEA	1.93
Canada	1.72
UK	1.15
Other non-EEA	0.46
Australia	0.24
Japan	0.02
Total	100.00

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming; economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Notes to the financial statements

continued

18. Risk management (continued)

(c) Insurance risk (continued)

Sensitivities

It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' balances. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

The key area of uncertainty for Syndicate 2255 relates to its material exposure to the terrorist attacks in the United States of America on 11 September 2001. The ultimate value of claims arising from this exposure is dependent on the outcome of on-going litigation. Given considerable uncertainty surrounding the eventual outcome of this litigation this translates to uncertainty in the estimated future liabilities.

For illustrative purposes the following table indicates the impact of a 10% change to the booked reserves. This calculation has been carried out on a linear basis and without any actuarial adjustments or application of expert judgement.

Change in Assumption + / (-) %	Impact on Gross Liabilities £'000	Impact on Net Liabilities £'000	Impact on Profit £'000	Impact on Members' Balance £'000
10	24,529	9,126	(9,126)	(9,126)
(10)	(24,529)	(9,126)	9,126	9,126

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at the end of the underwriting year. The impact of exchange differences is shown at the bottom of the table.

The Syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016 – 2020.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

Notes to the financial statements

continued

18. Risk management (continued)

(c) Insurance risk (continued)

Claims development table (continued)

Insurance contract outstanding claims provision as at 31 December 2015:

Underwriting year	2011 GROSS £'000	2011 NET £'000
Estimate of cumulative claims incurred:		
At end of underwriting year, 31 December 2011	413,254	196,833
12 months later, 31 December 2012	396,398	190,056
24 months later, 31 December 2013	413,058	179,143
36 months later, 31 December 2014	347,848	152,523
48 months later, 31 December 2015	330,725	138,294
Current estimate of cumulative claims incurred	330,725	138,294
Cumulative claims paid		
At end of underwriting year, 31 December 2011	33,574	23,640
12 months later, 31 December 2012	53,023	35,432
24 months later, 31 December 2013	62,894	39,780
36 months later, 31 December 2014	78,512	44,177
48 months later, 31 December 2015	85,434	47,030
Cumulative payments to date	85,434	47,030
Outstanding claims provision at 31 December 2015 at original exchange rates	245,291	91,264
Foreign exchange adjustment	5	0
Total outstanding claims provision per the statement of financial position	245,286	91,264
% Surplus of initial reserve	20%	29.7%

(d) Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. A credit risk policy is in place to mitigate the exposure to credit risk, by setting out the assessment and determination of what constitutes credit risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the relevant committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Notes to the financial statements

continued

18. Risk management (continued)

(d) Financial risk (continued)

(1) Credit risk (continued)

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
31 December 2015				
Shares & other variable yield securities & unit trusts	5,234	-	-	5,234
Other financial investments - Debt securities	90,195	-	-	90,195
Deposits with credit institutions	24,998	-	-	24,998
Overseas deposits as investments	2,318	-	-	2,318
Reinsurer' share of claims outstanding	154,006	-	16	154,022
Reinsurance debtors	(406)	1,302	152	1,048
Cash at bank and in hand	1,984	-	-	1,984
Insurance debtors	-	1,577	-	1,577
Other debtors	61	-	-	61
Total credit risk	278,390	2,879	168	281,437
31 December 2014				
Shares & other variable yield securities & unit trusts	7,418	-	-	7,418
Other financial investments - Debt securities	96,120	-	-	96,120
Deposits with credit institutions	23,491	-	-	23,491
Overseas deposits as investments	2,673	-	-	2,673
Reinsurer' share of claims outstanding	151,907	-	12	151,919
Reinsurance debtors	(109)	1,498	122	1,511
Cash at bank and in hand	1,730	-	-	1,730
Insurance debtors	-	1,244	-	1,244
Other debtors	43	-	-	43
Total credit risk	283,274	2,742	134	286,150

The negative amounts shown under Reinsurance debtors relate to claim refunds which are able to be offset against overall balances. Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date.

Notes to the financial statements

continued

18. Risk management (continued)

(d) Financial risk (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2015 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

The analyses below are in respect of those financial assets which are neither past due nor impaired, but excluding other debtors as these are not rated.

	AAA	AA	A	BBB	Less than BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2015							
Shares & other variable yield securities & unit trusts	1,418	308	3,473	-	-	35	5,234
Other financial investments - Debt securities	43,215	4,814	41,932	-	234	-	90,195
Deposits with credit institutions	-	-	24,998	-	-	-	24,998
Overseas deposits as investments	975	580	149	612	-	2	2,318
Reinsurer' share of claims outstanding	-	59,878	64,048	1,146	-	28,934	154,006
Reinsurance debtors	-	(30)	(235)	(5)	-	(136)	(406)
Cash at bank and in hand	-	-	1,984	-	-	-	1,984
Total credit risk	45,608	65,550	136,349	1,753	234	28,835	278,329
31 December 2014							
Shares & other variable yield securities & unit trusts	1,730	336	5,310	-	-	42	7,418
Other financial investments - Debt securities	45,033	9,668	41,155	-	264	-	96,120
Deposits with credit institutions	-	-	23,491	-	-	-	23,491
Overseas deposits as investments	1,801	321	172	376	-	2	2,673
Reinsurer' share of claims outstanding	-	60,919	61,635	1,122	105	28,126	151,907
Reinsurance debtors	-	158	(148)	4	-	(124)	(109)
Cash at bank and in hand	-	-	1,730	-	-	-	1,730
Total credit risk	48,564	71,402	133,345	1,502	369	28,046	283,230

Notes to the financial statements

continued

18. Risk management (continued)

(d) Financial risk (continued)

(1) Credit risk (continued)

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

The Investment committee works closely with the appointed investment manager to agree the most effective means of correcting or mitigating any credit exposure limits which might be exceeded.

The Syndicate actively manages its investment mix to ensure that concentration of credit risk is within the limits agreed and set by the managing agency.

(2) Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the Investment committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

Maturity profiles

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

	2015	2014
	Up to a year	Up to a year
	£'000	£'000
Creditors, being US Federal Excise Tax	205	-

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

- a. Currency risk; and
- b. Interest rate risk

The syndicate is not exposed directly to any equity price risk.

A market risk policy exists and sets out the assessment and determination of what constitutes market risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the appropriate committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

Notes to the financial statements

continued

18. Risk management (continued)

(d) Financial risk (continued)

(3) Market risk (continued)

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is US Dollars and its exposure to foreign exchange risk arises primarily with respect to transactions in sterling, Euro, US and Canadian dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Forward currency contracts are in place to eliminate the currency exposure on individual foreign transactions.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

Converted £'000 31 December 2015	UK £stg	US\$	Eur	Can\$	Total £'000
Total assets	5,496	286,759	841	1,752	294,848
Total liabilities	958	(280,124)	(925)	(1,488)	(281,579)
Net assets	6,454	6,635	(84)	264	13,269

Converted £'000 31 December 2014	UK £stg	US\$	Eur	Can\$	Total £'000
Total assets	7,393	288,194	942	2,646	299,175
Total liabilities	(3,674)	(283,745)	(968)	(2,011)	(290,398)
Net assets	3,719	4,449	(26)	635	8,777

The non-Sterling denominated net assets of the Syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should Sterling strengthen against these currencies. Conversely, reported gains may arise should Sterling weaken.

The Syndicate matches its currency position wherever practicable, and so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currency investments.

Impact on profit and member's balances:	2015 £'000	2014 £'000
Sterling strengthens against other currencies by:		
5%	(329)	(241)
10%	(628)	(450)
20%	(1,150)	(843)
Sterling weakens against other currencies by:		
(5)%	364	266
(10)%	767	562
(20)%	1,726	1,264

Notes to the financial statements

continued

18. Risk management (continued)

(d) Financial risk (continued)

(3) Market risk (continued)

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

As at 31 December 2015, Syndicate 2255's investment portfolio average duration was 1.59 years. Such a relatively short average duration reduces the risk from any increase in interest rates. An immediate rise of 50 basis points move in the yield curve would have a negative impact on the valuation of the investment portfolio of about (0.79)%. Similarly an increase of 100 basis points would be expected to reduce the market value by (1.58)%. This risk will reduce as the bonds in the portfolio move towards maturity and any cash is reinvested in a higher yield environment.

The analysis below illustrates possible movements in interest rates with all other variables held constant, showing the impact on the result and members' balance of the effects of changes in interest rates on the syndicate's managed portfolio, which includes fixed rate financial assets:

Interest rate risk	2015 £'000	2014 £'000
Impact of 50 basis points:		
Increase on result	717	843
Decrease on result	(720)	(528)
Increase on net assets	717	843
Decrease on net assets	(720)	(528)

Notes to the financial statements

continued

19. Transition to FRS 102 and FRS 103

The Syndicate transitioned to FRS 102 and FRS 103 from previously extant UK GAAP as at 1 January 2015. The impact from the transition to FRS 102 and FRS 103 on the profit and loss account is a restatement of the foreign exchange differences arising from the re-translation of monetary and non-monetary items. The impact of the re-translation on the profit & loss account is shown below:

	2014 Restated £'000	2014 £'000
Profit for the financial year	8,299	8,530
Statement of Total Recognised Gains & Losses-foreign exchange on retranslation	0	247
Statement of Comprehensive Income –currency translation differences retranslation	478	0
Total Comprehensive Income / Total recognised gains & losses	8,777	8,777

The impact of the re-translation on the Member's balance is shown below:

	2014 Restated £'000	2014 £'000
Member balance at 1 January 2014	23,569	23,569
Profit for the financial year	8,299	8,530
Other recognised gains & (losses) relating to financial year	478	247
(Payment) of interim profit to member	(23,569)	(23,569)
Member balance at 31 December 2014	8,777	8,777

Further, the presentation of the Statement of Cash Flows has changed to be in line with FRS 102 in the current year. This change includes the treatment to change the definition of cash to cash and cash equivalents.