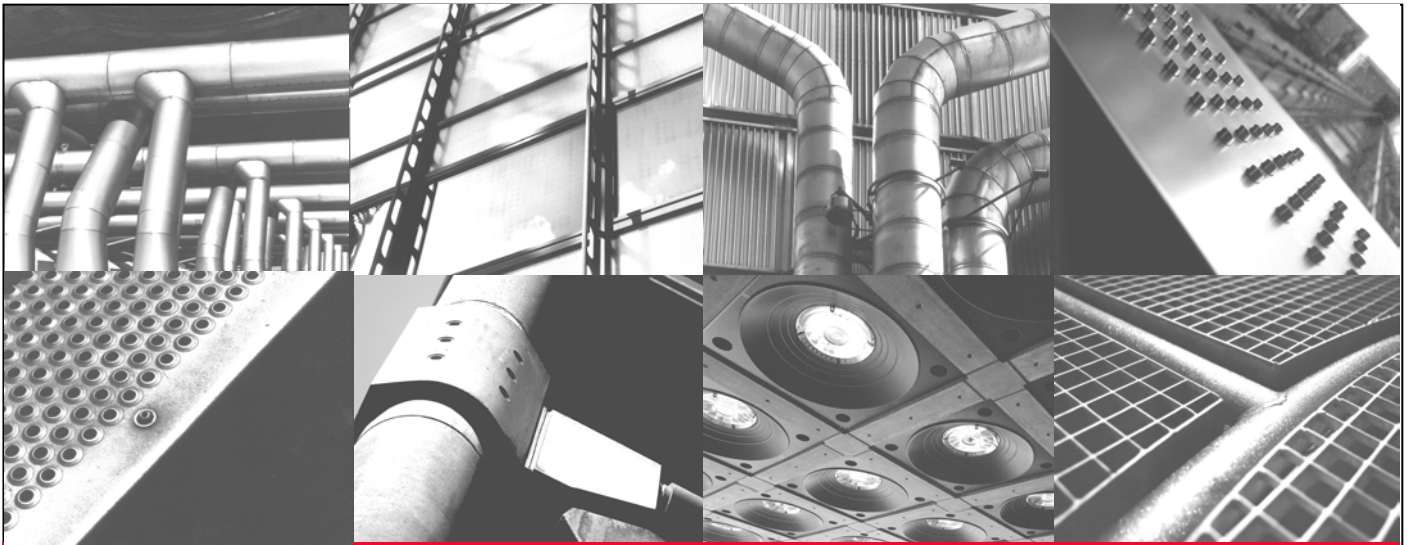


Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

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Syndicate 260 – Annual Report & Accounts
31 December 2014

Canopus Managing Agents Limited
Gallery 9
One Lime Street
London EC3M 7HA
www.canopus.com



CANOPIUS

Contents

Syndicate 260

	Page
Directors and Professional Advisors	3
Report of the Directors of the Managing Agent	4
Independent Auditors' Report	8
Profit and Loss Account	10
Balance Sheet	12
Cash Flow Statement	14
Notes to the Financial Statements	15

Directors and Professional Advisors

MANAGING AGENT:

Managing Agent Canopus Managing Agents Limited ("CMA")

Directors

I B Owen *Independent Non-Executive Chairman*
I K Beale *(resigned 10 January 2014)*
J D Birney *Independent Non-Executive Director*
R Bradley *(resigned 25 February 2014)*
P D Cooper *Finance Director*
M P Duffy *Joint Active Underwriter, Syndicates 4444, 958 and 6115*
S J Gargrave *Joint Active Underwriter, Syndicates 4444, 958 and 6115*
P F Hazell *Independent Non-Executive Director (appointed 19 November 2014)*
S T Manning *Chief Operating Officer*
G E Moss *Actuarial and Risk Director*
T P Rolfe *CEO, UK Specialty (appointed 27 June 2014)*
M C Watson *Chief Executive Officer (appointed 26 April 2014)*

Company Secretary J W Greenfield

**Managing Agent's
Registered Office** Gallery 9, One Lime Street, London EC3M 7HA

**Managing Agent's
Registered Number** 1514453

SYNDICATE:

Active Underwriter N Manvell

Investment Managers Schroder Investment Management ("Schroders")
31 Gresham Street, London, EC2V 7QA

SYZ & Co Asset Management LLP ("SYZ & Co")
Buchanan House, 3 St James's Square, London, SW1Y 4JU

Independent Auditor PricewaterhouseCoopers LLP ("PwC")
7 More London, Riverside, London, SE1 2RT

Report of the Directors of the Managing Agent

The directors of CMA, the managing agent for Syndicate 260, present the annual report and audited financial statements for the syndicate for the year ended 31 December 2014.

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and applicable accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP").

Strategic Report

The directors of CMA present their strategic report for the syndicate for the year ended 31 December 2014.

Principal Activities

The principal activity of Syndicate 260 is the underwriting of UK motor insurance and reinsurance business at Lloyd's.

The deal to acquire Canopius Group Limited ("CGL") by Sompo Japan Nipponkoa Insurance Inc. ("SJNK"), a wholly-owned direct subsidiary of Sompo Japan Nipponkoa Holdings, Inc. ("SJNK Holdings") was completed on 1 May 2014. SJNK is one of the largest insurance groups in Japan. SJNK Holdings is listed on the Tokyo Stock Exchange. SJNK acquired CGL as a platform for the growth of its international specialty business.

Review of the business

Syndicate 260 ceased underwriting business with effect from 31 December 2014 and, therefore, the results reported in these financial statements have been derived from discontinued operations.

The key performance indicators are shown in the table below.

	2014	2013
	£000	£000
Gross premiums written	59,895	67,068
Earned premiums, net of reinsurance	61,545	50,562
Net operating expenses	(20,755)	(16,572)
Investment return	1,772	1,178
Loss for the year	(9,052)	(1,786)
Gross claims ratio	78.2%	69.8%
Net claims ratio	83.9%	73.1%
Combined operating ratio	117.6%	105.9%
Investment return, on average invested balances	2.6%	1.9%

2014 has been another challenging year for Syndicate 260. The syndicate has reported a loss of £9.1m as a result of a combined ratio of 117.6%. This compares to a loss of £1.8m and a combined ratio of 105.9% in 2013.

The main drivers of the syndicate performance are:

- 11% reduction in gross premiums written;
- increases in gross and net claims ratios;
- increased costs; and
- moderate improvement in investment income despite challenging circumstances.

These drivers are discussed further below.

Report of the Directors of the Managing Agent

Review of the business (continued)

Gross premiums written in 2014 have reduced by 11% as a result of the motor book of business acquired from Equity Insurance Group and previously underwritten by Syndicate 260 now being written by Syndicate 4444 and Syndicate 958.

Despite the considerable efforts that have been put into maintaining market share, improving the technical profit and reducing claims ratios, Syndicate 260 has struggled in recent years with the majority of the UK motor insurance and reinsurance markets to make a profit. Retail motor is the largest insurance market in the UK and one of the most competitive in the world. Tough competition prevails against a backdrop of long-standing poor underwriting performance for the market.

The gross and net loss ratios for the 2013 and 2014 years of account have deteriorated. Relentless competition in the marketplace, year on year reductions in premiums written and an increase in claims have negatively impacted performance. The 2013 year of account suffered a deterioration of £2.1m in respect of two large incurred claims during the year and a generally higher than expected increase in attritional claims. This offset some improvements in 2012 and prior underwriting years.

Costs have increased by £4.2m from 2013. This has been driven by higher earned brokerage and commissions, the increase in niche business written by Syndicate 260 and the charge for the managing agent's fee (£0.7m). This accounts for £3.4m of the increase year on year. In addition, the syndicate has suffered a general increase in expenses of £0.8m.

Investment performance during 2014 produced a 2.6% net return on average funds held (2013: 1.9%). The syndicate has funds totalling £13.1m invested in an absolute return fund managed by SYZ & Co (2013: £12.4m) and £52.7m (2013: £49.1m) invested in a fixed income mandate through an inter-syndicate loan arrangement with Syndicate 4444 and managed by Schroders. The balance of investments is held in cash and money market funds.

The 2012 underwriting year closed with a profit after all expenses of 4.0% of capacity. The 2013 and 2014 years of account are projecting losses in the range of (10.8)% to (15.8)% and (10.7)% to (15.7)% of capacity respectively.

Future developments

The CMA Board has decided that the syndicate will not trade into 2015. After several years operating at a loss and despite several attempts to re-underwrite the book of business, in the light of a continued tough trading environment, the CMA Board made the decision not to trade into 2015.

CMA acquired the rights to manage Syndicate 260 from KGM Motor Policies at Lloyd's in July 2010. The renewal rights for the book of motor insurance and reinsurance have been assumed by Syndicate 4444 and Syndicate 958.

As Syndicate 260 is not underwriting the 2015 year of account, its strategy for the future is to manage the run-off of the claims in the most cost effective manner.

Risk Management

CMA's governance structure ensures a clear definition of responsibility for the management and oversight of the many risks faced by the business. CMA has established an Enterprise Risk Management process that is designed to identify, assess, measure and mitigate risk. A description of the principal risks and uncertainties facing the syndicate is set out in the notes to the financial statements (Management of risk).

Report of the Directors of the Managing Agent

Directors

The directors of the managing agent who served from 1 January 2014 to the date of this report are shown on page 3.

None of the directors had an allocated premium limit on the syndicate, on either an unlimited or limited liability basis, for any of the 2012 to 2014 years of account.

Statement of disclosure of information to auditors

Each director of the managing agent has confirmed at the date of this report that in fulfilling their duties as a director:

- they have taken all the necessary steps in order to make themselves aware of any information relevant to the audit and to establish that the auditors are aware of that information; and
- so far as they are aware, there is no relevant audit information of which the auditors have not been made aware.

Post Balance Sheet Events

There are no material post balance sheet events that require disclosure in the annual report and accounts.

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the directors of the managing agent to prepare syndicate annual accounts each year which give a true and fair view, in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing those financial statements, the managing agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate accounts; and
- Prepare the syndicate accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to do so.

The managing agent confirms that it has complied with the above requirements in preparing the syndicate accounts, recognising that the syndicate will not continue to write future business.

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

Independent Auditor

The syndicate's auditors are PwC. PwC continues as auditor of the syndicate in accordance with clause 14.(2) of Schedule 1 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Report of the Directors of the Managing Agent

Annual general meeting; reappointment of auditor

The managing agent proposes (i) not to hold in 2015 an annual general meeting of the members of the syndicate and (ii) to reappoint the syndicate's auditor, PwC (which is also the auditor of the managing agent and all other Canopus group companies), as the auditor of the syndicate for the 2015 financial year, provided that in respect of each such proposal no objection is received from any member of the syndicate within 21 days of the date of issue of these syndicate reports and accounts.

By order of the Board of the managing agent

A handwritten signature in black ink, appearing to be 'P. Cooper', written in a cursive style.

Paul Cooper
Finance Director
London
17 March 2015

Independent Auditors' Report

To the members of Syndicate 260

Report on the syndicate annual accounts

Our Opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its loss and cash flows 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.

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss account for the year then ended;
- the cash flow statement; and
- the notes to the syndicate annual accounts, which include other explanatory information.

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

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

Opinion on 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 for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report

To the members of Syndicate 260

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 6, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts 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 syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

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

In addition, we read all the financial and non-financial information in the Report of the Directors of the Managing Agent to identify material inconsistencies with the audited syndicate annual accounts 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.



Andrew Moore (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

17 March 2015

Profit and Loss Account: Technical Account – General Business

for the year ended 31 December 2014

	Notes	2014		2013	
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	6		59,895		67,068
Outward reinsurance premiums			(5,642)		(5,587)
Net premiums written			54,253		61,481
Change in the provision for unearned premiums:					
Gross amount			7,622		(12,133)
Reinsurers' share			(330)		1,214
Change in the net provision for unearned premiums			7,292		(10,919)
Earned premiums, net of reinsurance					
Allocated investment return transferred from the non-technical account					
	12		1,772		1,178
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(43,785)		(40,634)	
Reinsurers' share		414		2,494	
Net claims paid		(43,371)		(38,140)	
Change in the provision for claims					
Gross amount		(8,989)		2,281	
Reinsurers' share		746		(1,095)	
Change in the net provisions for claims		(8,243)		1,186	
Claims incurred, net of reinsurance					
Net operating expenses					
	8, 9		(20,755)		(16,572)
Balance on the technical account for general business					
			(9,052)		(1,786)

All of the above amounts are derived from discontinued operations.

Profit and Loss Account: Non-technical Account

for the year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>£000</i>	<i>2013</i> <i>£000</i>
<i>Balance on the general business technical account</i>		(9,052)	(1,786)
Investment income	12	1,067	644
Net unrealised profits on investments	12	767	559
Investment expenses and charges	12	(62)	(25)
Allocated investment return transferred to the general business technical account		(1,772)	(1,178)
<i>(Loss) for the financial year</i>		(9,052)	(1,786)

All of the above amounts are derived from discontinued operations.

There are no recognised gains or losses apart from those included in the profit and loss account above.

Accordingly no statement of total recognised gains and losses is presented.

Balance Sheet - Assets

at 31 December 2014

		2014		2013	
	Notes	£000	£000	£000	£000
Investments					
Other financial investments	13		14,917		14,029
Reinsurers' share of technical provisions					
Provision for unearned premiums		2,576		2,906	
Claims outstanding		23,596		22,849	
			26,172		25,755
Debtors					
Debtors arising out of direct insurance operations	14	4,294		5,414	
Debtors arising out of reinsurance operations	15	-		5,623	
Other debtors	16	52,673		49,118	
			56,967		60,155
Other assets					
Cash at bank and in hand			1,915		2,450
Prepayments and accrued income					
Accrued interest		1		-	
Deferred acquisition costs		6,632		8,737	
Other prepayments and accrued income		760		823	
			7,393		9,560
Total assets			107,364		111,949

Balance sheet - Liabilities

at 31 December 2014

		2014		2013	
	Notes	£000	£000	£000	£000
Capital and reserves					
Members' balances	2, 17		(17,252)		(12,469)
Technical provisions					
Provision for unearned premiums		27,476		35,098	
Claims outstanding		94,344		85,354	
			121,820		120,452
Creditors					
Creditors arising out of direct insurance operations	18	319		398	
Creditors arising out of reinsurance operations	19	529		968	
Other creditors	20	1,045		1,245	
			1,893		2,611
Accruals and deferred income					
			903		1,355
Total liabilities					
			107,364		111,949

The financial statements on pages 10 to 32 were approved by the Board of CMA on 13 March 2015 and were signed on its behalf by:



Paul Cooper
Finance Director
17 March 2015

Cash Flow Statement

for the year ended 31 December 2014

		2014	2013
	Notes	£000	£000
Net cash (outflow) from operating activities	21	(4,683)	(9,385)
Transfer from members in respect of underwriting participations		4,316	9,544
Financing:			
Members' agents' fees paid on behalf of members		(47)	(51)
Net cash (out)/inflow	22	(414)	108
Cash flows were invested as follows:			
(Decrease) in cash holdings	22	(535)	(842)
		(535)	(842)
Increase in net portfolio investments:			
Shares and other variable yield securities and units in unit trusts	22	121	950
		121	950
Net investment of cash flows	22	(414)	108

Notes to the Financial Statements

for the year ended 31 December 2014

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP"). Syndicate 260 ceased to underwrite insurance business with effect from 31 December 2014. The directors of the managing agent have prepared the financial statements on the basis that the syndicate will not write future business.

2. Members' balances and Funds at Lloyd's ("FAL")

The members' balances on the balance sheet shows a deficit of £17.3m (2013: deficit £12.5m). The ability of the syndicate to meet its obligations as they fall due is underpinned by the members' Funds at Lloyd's and the support provided by the Lloyd's chain of security for any members who are unable to meet their underwriting liabilities. FAL is further explained in note 28.

3. Accounting policies

a. Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those that transfer significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits above the premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Contracts that do not transfer significant insurance risk are accounted for as financial transactions. The syndicate adopts an annual basis of accounting for insurance contracts whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Premiums

Gross premiums written, stated gross of acquisition costs and exclusive of premium taxes, relates to business incepted during the year and adjustments to premiums booked in prior years and includes estimates, based on underwriting estimates or past experience, of premiums due but not yet receivable or notified to the syndicate by intermediaries.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated by reference to the expected incidence of risk over the period of cover.

'Risk attaching' outwards reinsurance premiums (net of reinsurance commission costs) are accounted for with regard to the incidence of risk of the premiums for the direct or inwards reinsurance business to which they relate. Reinsurance contracts that operate on a 'losses occurring' basis are accounted for in full over the period of coverage. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums written which is estimated to be earned in the following financial years.

Notes to the Financial Statements

for the year ended 31 December 2014

3. Accounting policies (continued)

a. Insurance contracts (continued)

(ii) Insurance claims and claims settlement expenses

Insurance claims and claims settlement expenses comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any other adjustments to claims from prior years.

Provision is made at the period-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. There is inherent uncertainty in establishing claims provisions and it is likely that the final outcome will prove to be different from the original estimate of the liability. Adjustments to the amounts of claims provisions established in prior years are included in the financial statements in the period in which the adjustments are made. The claims provisions are reviewed regularly.

Estimating claims IBNR is inherently more uncertain than the cost of claims notified, for which more information about the claim event is generally available.

Classes of business where the IBNR proportion of the total claims provisions is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility in the claims provisions.

Where possible the syndicate adopts multiple techniques to estimate the required level of claims provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each underwriting year of account.

Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the business environment or processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from prior periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims and catastrophe events impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Notes to the Financial Statements

for the year ended 31 December 2014

3. Accounting policies (continued)

a. Insurance contracts (continued)

Claims provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers. An assessment is also made of the recoverability of reinsurance recoveries having regard to available data on the financial strength of each of the reinsurance companies.

Claims provisions are not discounted for the investment earnings that may be expected to arise in the future on funds retained to meet the future liabilities.

The direct motor book of business written by the syndicate is broadly categorised as either “short tail” or “long tail” business. The syndicate also writes reinsurance motor business. The characteristics of this business mirror those of the underlying business ceded to the syndicate.

Short Tail Business

Physical damage is generally “short tail”, whereby there is not a significant delay between the occurrence of the claim and the claim being reported. The costs of claims notified at the balance sheet date are estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims, including IBNR, is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time.

Longer tail business

Personal injury is generally longer tail and so a larger element of the claims provision relates to IBNR claims. Claims estimates for business in this category are derived from a combination of loss ratio based estimates and estimates based upon actual claims experience, using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimates of the claims provisions are based on the experience of previous years and benchmarks adjusted for factors such as premium rate changes and claims inflation.

b. Unexpired risk reserves

At each balance sheet date tests are performed to ensure the adequacy of the unearned premium reserve, net of associated deferred acquisition costs, to cover future claims liabilities. In performing these tests, estimates of future premiums and claims cash flows, claims handling expenses and investment income from the assets backing such liabilities are considered and compared to the balances in the unearned premium reserve and deferred acquisition costs. Provision is made for any deficiencies by establishing an unexpired risk reserve.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. Unexpired risk reserves, where relevant, are included within “claims outstanding” in the balance sheet.

c. Deferred acquisition costs

Deferred acquisition costs, representing a proportion of commission and other acquisition costs that relate to policies in force at the period-end, are amortised over the period in which the related premiums are earned.

Notes to the Financial Statements

for the year ended 31 December 2014

3. Accounting policies (continued)

d. Reinsurance to close (“RITC”)

Each syndicate’s underwriting year of account is normally closed after the end of the third year by means of reinsurance into the following underwriting year of account, which reinsures all liabilities for the closed year in return for a premium determined by the syndicate managing agent.

Where the syndicate accepts an RITC from another syndicate, it is a net recipient of premium which is recognised as income in the financial year that the RITC contract is signed, together with related claims liabilities. RITCs are represented in the balance sheet by the related share of assets and liabilities transferred from the ceding syndicates.

e. Outwards reinsurance contracts

Outwards reinsurance contracts are contracts entered into by the syndicate with reinsurers whereby the syndicate may recover a proportion of losses on contracts written by the syndicate. Contracts that do not transfer significant insurance risk are accounted for as financial transactions.

The benefits to which the syndicate is entitled under its outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related insurance contracts. These balances are based on calculated amounts of outstanding claims and projections for IBNR, having regard to the reinsurance programme in place for the class of business and the claims experience for the period, net of estimated irrecoverable amounts after assessing the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

The syndicate assesses its reinsurance assets for impairment. If there is evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the profit and loss account.

f. Receivables and payables related to insurance contracts

Receivables and payables include amounts due to and from agents, brokers and insurance contract holders. If there is evidence that the insurance receivable is impaired, the syndicate reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account.

g. Financial assets

The syndicate states financial assets at fair value.

The syndicate classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables and derivative financial instruments. There are no assets classified as available for sale.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements

for the year ended 31 December 2014

3. Accounting policies (continued)

g. Financial assets (continued)

(i) Financial assets at fair value through profit and loss

The syndicate classifies its investments at fair value through profit and loss. Financial assets classified into this category form a portfolio of financial assets which may be sold to meet the cash flow requirements of the syndicate or as investment conditions change.

Purchases and sales of investments are accounted for at their fair values (normally their cost of acquisition or proceeds of disposal) on the trade date, which is the date the syndicate commits to purchase or sell the assets. The fair value of quoted investments is based on quoted bid prices. Realised and unrealised gains and losses arising from the changes in fair values are included in investment return in the profit and loss account in the period in which they arise. Unquoted investments are initially carried at cost as the best estimate of fair value, which is adjusted using appropriate valuation techniques and having regard to subsequent events or changes in circumstances.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are not intended to be sold in the short term and do not fall into the other categories of financial assets as described above. Loans and receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the syndicate will not be able to collect all amounts due according to their original terms. These are reversed if the payment is received. Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

h. 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 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 during the year have been included in the balance sheet under the heading "other debtors".

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

Notes to the Financial Statements

for the year ended 31 December 2014

4. Management of risk

Insurance Risk

The managing agent manages the following insurance risks on behalf of the syndicate:

- inappropriate underwriting activities and cycle management;
- inadequate or insufficient reinsurance protection.

The underwriters use their expertise and experience to determine the likely claims cost and, therefore, the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit in line with the agreed business plan. Due to the nature of insurance risk, however, the premium charged may not be sufficient to cover the cost of claims. The shortfall may result from insufficient premium being calculated and charged or from an unexpected or unprecedented high level of claims.

A number of controls are employed to limit insurance exposures. Each year a business plan is prepared and agreed by the Board which sets the premium income targets and exposures to be written in total and for each class of business. Progress against this plan is monitored by the Board during the year.

Insurance liabilities are assumed through individual risk acceptances, reinsurance treaties or binding authorities. Binding authorities delegate underwriting authority to other underwriters, or agents acting as coverholders, who use their judgement to write risks on Syndicate 260's behalf under clear authority levels. In such situations, the coverholders' activities are closely monitored and reviewed, and periodic on-site audits are carried out to ensure that the terms of the delegated authorities are being adhered to.

The syndicate is also exposed to the risk of:

- inappropriate claims reserves;
- inappropriate payment of claims.

All claims arising are reserved upon notification. The entire portfolio of business is subject to a quarterly reserving process whereby levels of paid and outstanding claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. The quarterly review process is overseen by the Reserving Committee. The position is reviewed at the year end by the syndicate's external actuary. Whilst a detailed and disciplined reserving exercise is carried out, known claims can develop beyond the level of reserves held. Furthermore, there is increased uncertainty around the provision for IBNR claims. Consequently, there is a possibility that claims may arise which in aggregate exceed the reserve provision established. In the event that claims do not develop in line with expectations, the Reserving Committee will seek to release any redundant reserves.

The syndicate purchases general excess of loss reinsurance to protect from severe losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover.

Market Risk

Market risk is derived primarily from the syndicate's investment of trust fund monies. The Board has agreed an investment strategy commensurate with the syndicate's risk appetite.

Credit risk within the investment portfolios is managed through research performed by the syndicate's investment managers whose activities are monitored by the Investment Committee. The Investment Committee establishes the investment guidelines. The investment guidelines are designed to mitigate risk by ensuring appropriate diversification of holdings.

Policyholders' assets are held in Sterling. All of the syndicate's business is transacted in Sterling.

Notes to the Financial Statements

for the year ended 31 December 2014

4. Management of risk (continued)

Regulatory Risk

Regulatory risk is the risk that the syndicate fails to meet the regulatory requirements of the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”), Lloyd’s and those of overseas regulators in jurisdictions where Lloyd’s syndicates are licensed to trade.

Operational Risk

Operational risk is the risk that the failure of people, systems or processes has an adverse impact on the business. The syndicate manages these risks through internal compliance monitoring and a framework of robust systems and controls. CMA’s objective for operational risk management is to identify, assess and manage risks and to reduce any failures or inadequacies in systems and controls. To this end, CMA has established key policies and controls that include:

- regular meetings of the Board of directors at which key aspects of the managing agent’s and syndicate’s businesses are reviewed, including review of reports from various sub-committees of the Board
- underwriting guidelines and controls that cover, inter-alia, aggregate and individual limits on exposure by territory and risk, adequacy of premium for insured risks, and reinsurance programmes
- claims management policies and guidelines
- risk registers which are reviewed and signed off by the risk and control owners on a regular basis
- a suite of risk policies for major risk categories relating to the activities of the syndicate
- an internal audit function whose audit plan is aligned with CMA’s risk register
- human resources policies and guidelines designed to ensure that the operations are adequately resourced by sufficiently skilled and trained people, who are appropriately remunerated
- financial policies and controls that cover:
 - maintaining segregated funds for the syndicate’s assets
 - investment of funds
 - expense management
 - establishing adequate provisions for unpaid claims
 - credit risk, including debt collection and managing counter-party exposures
 - cash flow and other financial projections
 - regular review and reconciliation of the entity’s financial records.

In addition, the managing agent has an established and integrated capital and planning cycle. This provides an assessment of the significant financial and non-financial risks, as identified by the managing agent’s risk management framework. The capital requirement is assessed in accordance with the PRA’s and Lloyd’s guidance through the use of stochastic modelling and further challenged using a comprehensive validation process which includes the use of stress and scenario tests. This process assesses the capital required to meet a 1 in 200 level extreme outcome from the aggregation of all recognised sources of insurance, market, credit and operational risk.

Group Risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. CGL is the global specialty lines platform of SJNK, an A+ rated company with US\$80bn total assets and one of the top three largest Japanese insurers.

Whilst SJNK has applied its Global Business Governance Structure to CGL, the autonomy of the CGL management team and its governance system remains in place.

Notes to the Financial Statements

for the year ended 31 December 2014

4. Management of risk (continued)

Financial risk

The syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts.

An analysis of the syndicate's exposure to the significant components of financial risk is given below.

Credit risk

Credit risk arises where another party fails to perform its financial obligations or fails to perform them in a timely fashion. The primary sources of credit risk for the syndicate are:

- amounts due from reinsurers,
- amounts due from insurance intermediaries, and
- counterparty risk with respect to investments including cash and cash equivalents.

The syndicate has in place policies and procedures designed to manage its credit risk exposures.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security by CMA's Reinsurance Security Committee, prior to the purchase of reinsurance contracts. Guidelines are set, and monitored, that limit the purchase of reinsurance based on Standard & Poor's or appropriate alternative ratings for each reinsurer.

The credit risk in respect of insurance intermediaries is managed by the credit management function with the aid of the underwriting department and a dedicated binder management team. To transact business with the syndicate the insurance intermediary must first comply with internal guidelines that include approval (where relevant) by both the PRA and Lloyd's, to have a satisfactory credit rating and to have in place a Terms of Business Agreement or a Binding Authority Agreement with the syndicate. The position is then monitored through ongoing review of the amount of debt outstanding to terms, and by regular cover-holder audits.

Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. Fixed income investments are invested in government and corporate bonds.

An analysis of the syndicate's major exposure to counterparty credit risk and credit risk with the investment funds and cash, is based on Standard & Poor's or equivalent rating, is presented below:

<i>At 31 December 2014</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>Other/not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Reinsurance debtors and reinsurers' share of claims outstanding	-	6,601	19,571	-	26,172
Holdings in collective investment schemes and participations in investment pools	4,654	2,989	1,977	5,297	14,917
Other debtors (including inter-syndicate loan)	-	-	52,673	-	52,673
Cash	-	-	1,915	-	1,915
Total	4,654	9,590	76,136	5,297	95,677

Notes to the Financial Statements

for the year ended 31 December 2014

4. Management of risk (continued)

Financial risk (continued)

Credit risk (continued)

<i>At 31 December 2013</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>Other/not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Reinsurance debtors and reinsurers' share of claims outstanding	-	5,742	25,636	-	31,378
Holdings in collective investment schemes and participations in investment pools	5,283	2,264	2,607	3,875	14,029
Other debtors (including inter-syndicate loan)	-	-	49,118	-	49,118
Cash	-	-	2,450	-	2,450
Total	5,283	8,006	79,811	3,875	96,975

The carrying values represent the maximum exposure to credit risk at the balance sheet date in respect of the above assets. The analysis above does not include insurance debtors from direct insurance operations as the majority of these assets are in respect of premiums for which the information is not readily available.

The other debtors represent an inter-syndicate loan with Syndicate 4444. The credit risk for the loan of funds to Syndicate 4444 for investment purposes was considered and documented at the CMA Board on the date that the loan was approved. In the event that Syndicate 4444 experienced significant cash outflows, the CMA Board would ensure that all intra-syndicate loans are repaid as the loans are repayable on demand. Furthermore, in the event that Syndicate 4444 became insolvent and exhausted all funds, then Syndicate 260 would be a creditor and ultimately have recourse to Lloyd's New Central Fund.

The underlying investments in 'Other/not rated' debt and other fixed income securities and holdings in collective investments are shown below.

<i>Underlying investments in 'Other/not rated'</i>	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Holdings in Collective investment schemes and participation in investment pools:		
Collective investment schemes: BBB or below	2,853	1,646
Equities	2,444	2,229
Total	5,297	3,875

Valuation Hierarchy

The syndicate has classified its financial instruments using the fair value hierarchy required by the Amendments to FRS 29: Financial Instruments Disclosures. The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value.

The levels within the fair value hierarchy are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for the identical instruments.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - Valuation techniques for which any significant input is not based on observable market data.

Notes to the Financial Statements

for the year ended 31 December 2014

4. Management of risk (continued)

Valuation Hierarchy (continued)

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Cash at 31 December 2014	1,915	-	-	1,915
Holdings in collective Investment schemes and participations in investment pools	14,917	-	-	14,917
Total	14,917	-	-	14,917

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Cash at 31 December 2013	2,450	-	-	2,450
Holdings in collective Investment schemes and participations in investment pools	14,029	-	-	14,029
Total	14,029	-	-	14,029

The level within the hierarchy that a financial instrument is placed is based on the lowest level of any input that is significant to its fair value measurement.

The fair value of the other debtors represents the fair value of the underlying investments held in Syndicate 4444.

Interest rate risk

Part of the syndicate's investments comprise cash and fixed income securities by virtue of the inter-syndicate loan arrangements with Syndicate 4444. The fair value of the syndicate's investments is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the syndicate's fixed income securities tends to rise and vice versa. The fair value of fixed income investments in the syndicate's balance sheet at 31 December 2014 was £52.7m (2013: £49.1m) with an average duration of around 1.7 years (2013: 1.5 years). If interest rates were to rise/(fall) by 100 basis points at the balance sheet date, the fair value and therefore the profit for the financial year and members' balances would decrease/(increase) by approximately £0.7m (2013: £0.8m).

The syndicate manages interest rate risk by investing in financial investments and cash with an average duration of less than three years. The Investment Committee monitors the duration of these assets on a regular basis.

Outstanding claims provisions are not sensitive to the level of interest rates as they are undiscounted and contractually non-interest bearing.

Equity price risk

At the balance sheet date the syndicate's exposure to equity price risk was limited to a maximum allocation of £2.4m within a unitised absolute return fund (2013: £2.2m).

Currency risk

The syndicate writes business solely in pounds sterling and has no exposure to exchange rate risk.

Liquidity risk

All valid claims must be paid as they fall due and, therefore, it is essential that the syndicate maintains an appropriate level of liquidity at all times. As a consequence, cash is managed closely by the Treasury team. The syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities.

Notes to the Financial Statements

for the year ended 31 December 2014

4. Management of risk (continued)

Liquidity risk (continued)

The syndicate's policy is to manage its liquidity position so that it can reasonably meet losses as they fall due. This means that the syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. These liquid funds are regularly monitored against cash flow forecasts.

The majority of the syndicate's investments are in highly liquid assets which could be converted into cash in a prompt fashion and at minimal expense. Cash is held in bank deposits and money funds.

5. Capital management policies and objectives

The syndicate's objectives in managing its capital are to:

- satisfy the requirements of its policyholders and regulators; and
- allocate capital efficiently to support growth.

The PRA and Lloyd's oversee a capital regime that requires syndicates to calculate their own capital requirements through an Individual Capital Assessment ("ICA+")/Solvency Capital Requirement ("SCR"). The syndicate maintains models in accordance with this regime, and also prepares an annual Own Risk & Solvency Assessment ("ORSA") report.

There are seven key elements to CMA's capital methodology namely:

- risk identification;
- the articulation of risk bearing capacity and establishment of risk appetite;
- identification of capital requirement for all significant risks;
- sensitivity analysis and 'reasonableness checks';
- aggregation and correlation of risks;
- comparison with other benchmarks e.g. the Lloyd's Integrated Capital Platform; prior years' ICA/SCRs; Syndicate Quantitative Impact Study ("QIS") results, the PRA published calculations based on industry ICA/SCR submissions and market surveys/studies; and
- Board review and challenge.

The ICA+/SCR represents the equivalent of minimum regulatory capital, as is required by the PRA, and does not represent the amount of economic capital required to support and maintain Lloyd's ratings. The ICA+/SCR process produces a result that is uplifted by Lloyd's to the capital required to maintain their rating, currently 'A+ (strong)' by Standard & Poor's.

To improve the risk management capability, and the assessment of capital requirements, CMA has developed a stochastic model to analyse the potential performance of its main underwriting operations. Stress and scenario analysis is also performed for those risks that cannot be easily modelled quantitatively and where more subjective judgement is required (for example, operational risk) as well as to challenge the output of the stochastic model. Using its detailed measurement of risk exposures, the syndicate allocates capital to support the business according to the risk appetite and expected returns. The syndicate has complied with all capital requirements during the year. CMA has developed and implemented documentation, procedures and controls to ensure compliance with Solvency II, which is a fundamental overhaul of the capital adequacy regime for the European insurance industry.

Notes to the Financial Statements

for the year ended 31 December 2014

5. Capital management policies and objectives (continued)

CMA implemented a programme of initiatives to engage proactively with the challenges and opportunities that arise from the preparation for Solvency II. CMA has continued to enhance its risk management processes and their enabling governance structures to ensure that CMA can demonstrate compliance in line with the Solvency II deadlines set by Lloyd's and the PRA.

6. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

2014	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reins. Balance £000	Total £000
Direct Insurance:						
Motor (third party liability)	27,755	29,653	(22,332)	(8,969)	(4,561)	(6,209)
Motor (other classes)	31,743	30,506	(24,869)	(9,517)	-	(3,880)
	59,498	60,159	(47,201)	(18,486)	(4,561)	(10,089)
Reinsurance inwards	397	7,358	(5,573)	(2,269)	(250)	(734)
Total	59,895	67,517	(52,774)	(20,755)	(4,811)	(10,823)
2013 (restated)						
2013 (restated)	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reins. Balance £000	Total £000
Direct Insurance:						
Motor (third party liability)	29,951	27,136	(18,340)	(7,848)	(2,919)	(1,971)
Motor (other classes)	27,624	25,268	(18,342)	(7,289)	-	(363)
	57,575	52,404	(36,682)	(15,137)	(2,919)	(2,334)
Reinsurance inwards	9,493	2,532	(1,672)	(1,435)	(55)	(630)
Total	67,068	54,936	(38,354)	(16,572)	(2,974)	(2,964)

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards.

All premiums were written and concluded in the United Kingdom.

7. Net claims outstanding

Included within the claims outstanding at 31 December 2014 is an Unexpired Risk Reserve of £2.1m (31 December 2013: £0.3m). A favourable/(adverse) run-off deviation was experienced during the year in respect of the following classes of business:

	2014 £000	2013 £000 (Restated)
Motor (third party liability)	6,177	3,179
Motor (other classes)	(4,856)	(2,315)
	1,321	864
Reinsurance inwards	(47)	-
Total	1,274	864

The classes of business have been brought into line with Solvency II definitions and this has necessitated a restatement of the 2013 comparatives.

Notes to the Financial Statements

for the year ended 31 December 2014

8. Net operating expenses

	2014	2013
	£000	£000
Commissions on direct business	10,633	12,822
Other acquisition costs	3,251	3,185
Change in deferred acquisition costs	2,105	(3,241)
Administrative expenses	3,649	3,268
Total	19,638	16,034

Administrative expenses include:

	2014	2013
	£000	£000
Auditors' remuneration:		
Audit of syndicate accounts	57	60
Audit related assurance	19	20
Other assurance services	6	7
Total audit and assurance	82	87
Other non-audit services	10	6
Total audit and non-audit fees	92	93

9. Personal Expenses

	2014	2013
	£000	£000
Members' standard personal expenses	418	538
Managing Agent's fee	699	-
Total	1,117	538

No fee was charged by the managing agent in 2013 by virtue of the losses incurred in line with the agreement made with members in 2013.

10. Staff numbers and costs

All staff are employed by a service company, Canopius Services Limited ("CSL"). The following amounts were recharged to the syndicate in respect of salary costs:

	2014	2013
	£000	£000
Wages and salaries	4,477	4,069
Social security costs	516	465
Other pension costs	950	662
Total	5,943	5,196

The full time equivalent number of employees employed by CSL working on the syndicate's affairs during the year was as follows:

	2014	2013
	£000	£000
Underwriting	30	33
Insurance Services	18	20
Other	26	29
Total	74	82

Notes to the Financial Statements

for the year ended 31 December 2014

11. Emoluments of the directors of Canopius Managing Agents Limited

The directors of CMA, excluding the active underwriter, received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2014	2013
	£000	£000
Emoluments	280	311
Pension contributions to money purchase schemes	9	20
Total	289	331

Retirement benefits are accruing to 7 directors (2013: 7) under money purchase schemes.

The active underwriter received the following remuneration charged as a syndicate expense:

	2014	2013
	£000	£000
Emoluments	141	161
Pension contributions to money purchase scheme	21	23
Total	162	184

Retirement benefits are accruing to the active underwriter under a money purchase scheme.

12. Investment return

	2014	2013
	£000	£000
Investment income		
Income from investments	1,067	644
Investment income	1,067	644
Unrealised gains on investments	767	559
Net unrealised gains/(losses) on investments	767	559
Investment management expenses, including interest	(62)	(25)
Investment expenses and charges	(62)	(25)
Allocated investment return transferred to the general business technical account	1,772	1,178
	2014	2013
	£000	£000
Average amount of Syndicate funds available for investment during the year	68,084	61,745
Gross aggregate investment return for the calendar year in sterling	1,834	1,203
Gross calendar year investment yield	2.69%	1.95%

13. Other financial investments

	Market value		Cost	
	2014	2013	2014	2013
	£000	£000	£000	£000
Holdings in collective investment schemes	14,917	14,029	14,144	13,470
Total	14,917	14,029	14,144	13,470

Notes to the Financial Statements

for the year ended 31 December 2014

14. Debtors arising out of direct insurance operations

	2014	2013
	£000	£000
Due within one year		
Intermediaries	4,294	5,414
Total	4,294	5,414

15. Debtors arising out of reinsurance operations

	2014	2013
	£000	£000
Due within one year		
Ceding insurers and intermediaries under reinsurance business	-	5,623
Total	-	5,623

16. Other debtors

	2014	2013
	£000	£000
Due within one year		
Inter syndicate loan with Syndicate 4444	52,671	49,116
Amounts due from group undertakings	-	2
Other debtors	2	-
Total	52,673	49,118

17. Reconciliation of members' balances

	2014	2013
	£000	£000
Members' balances at 1 January	(12,469)	(20,176)
(Loss) for the financial year	(9,052)	(1,786)
Members' agents' fees paid on behalf of members	(47)	(51)
Collection of losses from members' personal reserve funds	4,316	9,544
Total	(17,252)	(12,469)

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

18. Creditors arising out of direct insurance operations

	2014	2013
	£000	£000
Due within one year		
Intermediaries	319	398
Total	319	398

19. Creditors arising out of reinsurance operations

	2014	2013
	£000	£000
Due within one year		
Reinsurance ceded	529	968
Total	529	968

Notes to the Financial Statements

for the year ended 31 December 2014

20. Other creditors

	2014 £000	2013 £000
Due within one year		
Other	1,045	1,245
Total	1,045	1,245

21. Reconciliation of profit to net cash inflow from operating activities

	2014 £000	2013 £000
Operating (loss) for the financial year	(9,052)	(1,786)
Realised and unrealised investment (gains)	(767)	(559)
Increase in net technical provisions	951	9,733
Decrease/(increase) in debtors	5,355	(18,298)
(Decrease)/increase in creditors	(1,170)	1,525
Net cash (outflow) from operating activities	(4,683)	(9,385)

22. Movement in opening and closing portfolio investments net of financing

	2014 £000	2013 £000
Net cash (outflow) for the year	(535)	(842)
Cash flow		
Portfolio investments	121	950
Movement arising from cash flow	(414)	108
Changes in market value and exchange rates	767	559
Total movement in portfolio investments	353	667
Portfolio at 1 January	16,479	15,812
Portfolio at 31 December	16,832	16,479

Net cash (outflow) on portfolio investments

	2014 £000	2013 £000
(Purchase) of shares and other variable yield securities	(18,579)	(17,450)
Sale of shares and other variable yield securities	18,458	16,500
Net cash (outflow) on portfolio investments	(121)	(950)

Notes to the Financial Statements

for the year ended 31 December 2014

22. Movement in opening and closing portfolio investments net of financing (continued)

Movement in cash and portfolio investments

	<i>At 1 Jan 2014 £000</i>	<i>Cash Flow £000</i>	<i>Changes to market value £000</i>	<i>At 31 Dec 2014 £000</i>
Cash at bank and in hand	2,450	(535)	-	1,915
Portfolio investments				
Shares and other variable yield securities and units in unit trusts	14,029	121	767	14,917
Total portfolio investments	14,029	121	767	14,917
Total cash and portfolio investments	16,479	(414)	767	16,832

23. Off balance sheet arrangements

The syndicate is not party to any off balance sheet arrangement.

24. Post balance sheet events

There are no material post balance sheet events that require disclosure in the annual report and accounts.

25. Pensions

CSL operates defined contribution pension schemes for the employees of CSL, including those working on the syndicate's affairs during the year. The assets of the schemes are held separately from those of CSL in independently administered funds. The amounts recharged to the syndicate from CSL in respect of pensions are disclosed in note 10. Some employees are members of a defined benefit scheme which closed to further contributions with effect from 1 July 2010.

26. Related parties

Transactions between the Managing Agent/Service Company and the Syndicate

CMA is the managing agent of Syndicate 260 and its immediate parent is Canopus Holdings UK Limited ("CHUKL"). Managing agency fees of £ 699,000 were paid by the syndicate to CMA during 2014 (2013: £nil).

Employment of staff, provision of accommodation and related services are provided at cost by CSL, which is owned by CHUKL. Expenses during 2014 totalling £10,242,000 (2013: £9,534,000) were recharged to the syndicate by CSL.

At 31 December 2014, Syndicate 260 owed CSL £382,000. (At 31 December 2013, the syndicate was owed £443,000 by CSL).

K Drewe Insurance Brokers Limited ("KDIBL")

K Drewe Insurance Brokers Limited ("KDIBL") is an insurance broker that underwrites multi-vehicle business on behalf of the syndicate. Premiums written during 2014 totalled £508,000 (2013: £381,000) and commission totalled £124,000. At 31 December 2014, an amount of £23,000 (2013: £10,000) was due from KDIBL to the syndicate.

In March 2015, KDIBL was renamed Canopus UK Specialty Limited.

Notes to the Financial Statements

for the year ended 31 December 2014

26. Related parties (continued)

Syndicate 4444

At 31 December 2014 there was an inter-syndicate balance of £52,671,000 (2013: £49,116,000) due from Syndicate 4444. These funds are invested on Syndicate 260's behalf with Schrodgers in high quality short dated bonds with performance monitored against short term government indices. Investment income of £1,054,000 is included within the accounts.

Syndicate 958

Syndicate 958 provided reinsurance security to Syndicate 260 in respect of its 2012 and earlier years of account. At 31 December 2014, Syndicate 260 owes £1,000 of reinsurance premiums to Syndicate 958 (2013: £6,000) and is owed £1,518,000 relating to outstanding claim recoveries excluding IBNR (2013: £1,425,000).

Other group companies

Flectat Limited, a wholly-owned subsidiary of CHUKL, provided capacity to the 2012 to 2014 underwriting years of Syndicate 260 as follows:

	2012		2013		2014	
	£000		£000		£000	
Flectat Limited	62,597	90%	64,361	92%	64,790	93%

27. Immediate and ultimate parent undertaking and controlling party

Syndicate 260 is managed by CMA and CMA's immediate UK parent is CHUKL, which is registered in England and Wales.

At 1 January 2014 and up until 30 April 2014, 95.1% of the Ordinary shares in issue in CGL at those respective dates were held by seven funds managed by Bregal Capital LLP. The funds, as investment vehicles, and Bregal Capital LLP, as manager of the funds, were not controlling parties or parent undertakings of CGL.

On 1 May 2014, SJNK, which is a wholly-owned direct subsidiary of SJNK Holdings, incorporated in Japan, signed an agreement with, amongst others, funds managed by Bregal Capital LLP to acquire 100 percent of the issued shares of CGL.

SJNK Holdings is the ultimate parent undertaking and controlling party of CMA.

28. Funds at Lloyd's

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

The level of FAL that a member is required to maintain is determined by CMA and Lloyd's based on compliance with PRA requirements. The determination of the FAL requirement has regard to a number of factors including the nature and amount of insurance contracts to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since the assets in FAL are not owned by the syndicate, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.