

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.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgement and agreement, by which they will also be bound.



Syndicate 260
Underwriting Year Accounts for the 2012 Year of Account
Closed at 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	7
Profit and Loss Account - 2012 Closed Year of Account	9
Balance Sheet	11
Cash Flow Statement	12
Notes to the Financial Statements	13
Seven Year Summary of Results	24

Directors and Professional Advisors

MANAGING AGENT:

Managing Agent Canopus Managing Agents Limited ("CMA")

Directors

I B Owen *Independent Non-Executive Chairman*
I K Beale (*appointed 11 May 2012, resigned 10 January 2014*)
J D Birney *Independent Non-Executive Director*
R Bradley (*resigned 25 February 2014*)
P D Cooper *Finance Director (appointed 8 April 2013)*
M P Duffy *Joint Active Underwriter, Syndicates 4444, 958 and 6115 (appointed 16 July 2012)*
S J Gargrave *Joint Active Underwriter, Syndicates 4444, 958 and 6115 (appointed 16 July 2012)*
J A Giordano *Non-Executive Director (resigned 31 October 2013)*
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

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

Report of the Directors of the Managing Agent

To the members of Syndicate 260 – 2012 Closed Year of Account

The directors of the managing agent present their report at 31 December 2014 for the 2012 closed year of account.

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations ("Lloyd's Regulations 2008").

Principal Activities

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

Review of the business for the closed 2012 year of account

The syndicate capacity for 2012 was £69.9m. The 2012 year has closed with a profit of £2.8m (4.0% of capacity). The make-up of the result is a combination of the pure year experience which generated a loss of £(2.5)m and an improvement of £5.3m from the 2011 and prior years.

The key performance indicators for the 2012 and prior years are shown in the table below.

	2012 Year of Account
	£000
Gross premiums written	47,317
Earned premiums, net of reinsurance	43,798
Net operating expenses	13,900
Investment return	1,467
Profit for the year	2,763
Gross claims ratio	57.9%
Net claims ratio	63.4%
Combined operating ratio	97.0%
Investment return, on average invested balances	2.3%

Review of the open years of account

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.

Investment Performance for the closed 2012 year of account

The investment portfolios have achieved a return of £1.5m which reflects the focus on high-quality fixed income securities during a protracted period of historically low interest rates and challenging investment conditions. Investment performance for the 2012 year of account produced a 2.3% net return on average funds held. The syndicate invested in an absolute return fund managed by SYZ & Co and in a fixed income mandate through an inter-syndicate loan arrangement with Syndicate 4444 managed by Schroders.

Future developments

In recent years, CMA has sought to return the syndicate to profitability by re-underwriting the account, focusing on niche business, re-engineering the claims function, improving management systems and applying a more prudent approach to reserving. Despite the progress made, the overall syndicate results continue to disappoint due in part to the syndicate's size, the expense burden of being a standalone entity and an inability to grow the top line in the current environment to improve the expense ratio.

Report of the Directors of the Managing Agent

To the members of Syndicate 260 – 2012 Closed Year of Account

Future developments (continued)

The Board concluded that Syndicate 260 is no longer viable as a standalone syndicate and it ceased with effect from 31 December 2014.

The renewal rights for the book of motor insurance and reinsurance will be underwritten for the 2015 year of account by Syndicate 4444 and Syndicate 958 which are also managed by CMA.

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).

Directors

None of the directors or their predecessors had an allocated premium limit on the syndicate, on either an unlimited or limited liability basis on the 2012 year of account.

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) Regulation 2008 (the "Regulations").

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.

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts at 31 December 2014 in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

Report of the Directors of the Managing Agent

To the members of Syndicate 260 – 2012 Closed Year of Account

Statement of Managing Agent's Responsibilities (continued)

- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

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 underwriting year accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005). It 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.

The Report of the directors of the managing agent was approved by the Board of directors of CMA on 13 March 2015 and signed on its behalf by:



Paul Cooper
Finance Director
London
24 March 2015

Independent Auditors' Report

To the members of Syndicate 260 – 2012 Closed Year of Account

Report on the syndicate underwriting year accounts

Our Opinion

In our opinion the syndicate underwriting year accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs for the 2012 closed year of account and of its profit 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 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The syndicate underwriting year accounts for the 2012 year of account of Syndicate 260 for the three years 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 underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate underwriting year 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.

Other matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- the Managing Agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year 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 pages 5 and 6, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements 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.

Independent Auditors' Report

To the members of Syndicate 260 – 2012 Closed Year of Account

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) 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 underwriting year 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 underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year 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 underwriting year 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 disclosures in the syndicate underwriting year 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 underwriting year 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

24 March 2015

Profit and Loss Account: Technical Account – General Business

for the 2012 Closed Year of Account for the three years ended 31 December 2014

	Notes	<i>Cumulative as at 31 December £000</i>
Syndicate allocated capacity		<u>69,854</u>
Earned premiums, net of reinsurance		
Gross premiums written	4	47,317
Outward reinsurance premiums		<u>(3,519)</u>
Earned premiums, net of reinsurance		43,798
Reinsurance to close premium received, net of reinsurance	5	<u>31,715</u>
		75,513
Allocated investment return transferred from the non-technical account		1,467
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(32,860)
Reinsurers' share		<u>414</u>
		(32,446)
Reinsurance to close premium payable, net of reinsurance	6	<u>(27,015)</u>
		(59,461)
Standard personal expenses		(856)
Net operating expenses	7	<u>(13,900)</u>
Balance on the technical account – general business	9	<u>2,763</u>

Profit and Loss Account: Non-Technical Account

for the 2012 Closed Account for the three years ended 31 December 2014

	<i>Notes</i>	<i>Cumulative as at 31 December £000</i>
<i>Balance on the technical account - general business</i>		2,763
Investment income	8	862
Unrealised gains on investments	8	647
Investment expenses and charges	8	(42)
Allocated investment return transferred to general business technical account		(1,467)
<i>Profit for the 2012 closed year of account</i>		<hr/> <u>2,763</u>

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

For the 2012 Closed Year of Account at 31 December 2014

Assets

	Notes	£000	2012 £000
<i>Investments - other financial investments</i>	10		6,355
<i>Deposits with ceding undertakings</i>			
Debtors			
Debtors arising out of direct insurance operations	11	211	
Debtors arising out of reinsurance operations	12	6	
Other debtors	13	22,440	
			22,657
<i>Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account</i>	6		15,758
Other Assets			
Cash at bank and in hand			816
Total assets			<u>45,586</u>

Liabilities

	Notes	2012 £000
<i>Amounts due to members</i>	14	2,694
<i>Reinsurance to close premium payable to close the account – gross amount</i>	6	42,773
Creditors		
Creditors	15	119
Total liabilities		<u>45,586</u>

The financial statements on pages 9 to 23 were approved by the Board of CMA on 13 March 2015 and were signed on its behalf by:



Paul Cooper
Finance Director
24 March 2015

Cash Flow Statement

for the 2012 Closed Year of Account for the three years ended 31 December 2014

	<i>Notes</i>	<i>2012</i> <i>£000</i>
Net Cash inflow from operating activities	16	23,121
Financing:		
Members' agents' fees paid on behalf of members		(69)
Net cash flows	17	<u>23,052</u>
 Cash flows were invested as follows:		
(Decrease) in cash holdings	17	(217)
Net portfolio investment	17	(204)
Cash consideration from net RITC receivable	17	1,033
Inter-syndicate loan: transfer to Syndicate 4444		<u>22,440</u>
Net investment of cash flows		<u>23,052</u>

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

1. Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and in accordance with the Syndicate Accounting Byelaw 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").

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. There are no comparative figures shown in these accounts.

2. Accounting policies

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account. Where it is not deemed to be possible to determine the outstanding liabilities with sufficient accuracy, the year of account will not be closed by way of reinsurance to close.

Premiums written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premiums written are treated as fully earned. Commission and brokerage are charged to the year of account to which the relevant policy is allocated.

Reinsurance premium ceded

Initial reinsurance premiums paid to purchase policies that give excess of loss protection on a risks attaching basis are charged to the year of account in which the protection commences. Premiums for other reinsurances such as proportional treaty and excess of loss on a losses occurring basis are charged to the same year of account as the risks being protected.

Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Reinsurance to close premium payable

The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate 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 incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

2. Accounting policies (continued)

Reinsurance to close premium payable (continued)

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

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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

Short Tail Business

The majority of motor business 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 business is generally longer tail than the other classes of business described above 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.

Investments

Investments are stated at fair value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

2. Accounting policies (continued)

Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and purchase price.

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

Operating expenses

Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred by CSL are allocated to the managed syndicates and other companies within CGL on bases depending on the amount of work performed, resources used and the volume of business transacted. Operating expenses are allocated to the year of account for which they are incurred.

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.

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. It is the responsibility of members to agree and settle their individual tax liabilities.

Pension costs

CSL operates defined contribution pension schemes for the employees of CSL, including those working on the syndicate's affairs. The assets of the schemes are held separately from those of CSL in independently administered funds.

Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of profit subject to the operation of a deficit clause. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses.

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

3. 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.

The syndicate purchases specific reinsurances to protect against single risk losses. The syndicate also 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.

Credit Risk

Credit risk is the risk that the syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations. Credit risk could, therefore, impact upon the syndicate's ability to meet its claims as they fall due. Credit risk manifests itself through the syndicate's relationship with brokers, coverholders and reinsurers. The syndicate is also exposed to credit risk in its investment portfolio.

The credit risk in respect of reinsurers is primarily managed by Canopius' Reinsurance Support team. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The recovery of debt from reinsurers is administered by the Reinsurance Support team.

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

3. Management of risk (continued)

Credit Risk (continued)

Credit risk in respect of premium debt from brokers and coverholders is overseen by Canopius' Credit Management team.

Market Risk

Market risk is derived primarily from the syndicate's investment of trust fund monies but also from currency exposures. 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.

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.

Greater levels of cash and/or liquid assets may be held when determined by market conditions and is considered appropriate by the Treasury team.

Liquidity in the event of a major disaster is regularly tested using internal cash flow forecasts and realistic disaster scenarios.

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

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

3. Management of risk (continued)

Operational Risk (continued)

- 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 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.

4. Segmental analysis

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

	Gross written premiums (Note a) £000	Gross claims incurred (Note b) £000	Gross operating expenses £000	Reins. Balance (Note c) £000	Total £000
Direct Insurance:					
Motor (third party liability)	24,484	(25,288)	(7,612)	1,297	(7,119)
Motor (other classes)	22,833	(12,560)	(7,144)	-	3,129
	47,317	(37,848)	(14,756)	1,297	(3,990)
Reinsurance:					
	-	-	-	-	-
	47,317	(37,848)	(14,756)	1,297	(3,990)
RITC received	48,215	(37,785)	-	(5,144)	5,286
Total	95,532	(75,633)	(14,756)	(3,847)	1,296

- a. Gross premiums earned are identical to gross premiums written.
- b. Gross claims incurred include gross claims paid and gross reinsurance to close premium payable.
- c. The reinsurance balance includes reinsurance premiums ceded and reinsurance recoveries anticipated on reinsurance to close receivable less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on reinsurance to close payable.
- d. All premiums were concluded in the UK.

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

5. Reinsurance to close premium received from the 2011 year of account

	2012 £000
Gross reinsurance to close receivable	48,215
Reinsurance recoveries anticipated	(16,500)
Reinsurance to close premium receivable, net of reinsurance	31,715

6. Reinsurance to close premium payable

	£000	2012 £000
Gross notified outstanding claims	32,198	
Reinsurance recoveries anticipated	(10,494)	
Net notified outstanding claims		21,704
Provision for claims incurred but not reported	10,575	
Reinsurance recoveries anticipated	(5,264)	
		5,311
Reinsurance to close payable net of reinsurance		27,015

The reinsurance to close of the 2012 year of account is effected to the 2013 year of account of Syndicate 260.

7. Net operating expenses

	2012 £000
Acquisition costs	10,601
Other administrative expenses	3,299
	13,900

Other administrative expenses include the following amounts paid to the syndicate auditor:

	2012 £000
Audit of the syndicate annual accounts	104
Other services pursuant to Regulations and Lloyd's Byelaws	27
	131

8. Investment return

	2012 £000
Investment income	
Income from investments	862
Unrealised profits on investments	647
Investment expenses and charges	
Investment management expenses	(42)
Investment return	1,467

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

9. Balance on Technical account

<i>Balance excluding investment return and operating expenses other than acquisition costs</i>	<i>2011 & prior years of account £000</i>	<i>2012 pure year of account £000</i>	<i>Total 2012 £000</i>
Technical account balance before allocated investment return and net operating expenses	5,286	10,766	16,052
Brokerage and commissions on gross premiums	-	(10,601)	(10,601)
	<u>5,286</u>	<u>165</u>	<u>5,451</u>

10. Investments

	<i>2012 after three years</i>	
	<i>Market Value £000</i>	<i>Cost £000</i>
Holdings in collective investment schemes	6,355	6,026
	<u>6,355</u>	<u>6,026</u>

11. Debtors arising out of direct insurance operations

	<i>2012 £000</i>
<i>Due within one year</i>	
Due from intermediaries	211
	<u>211</u>

12. Debtors arising out of reinsurance operations

	<i>2012 £000</i>
<i>Due within one year</i>	
Ceding undertakings	6
	<u>6</u>

13. Other debtors

	<i>2012 £000</i>
Inter-syndicate loan with Syndicate 4444	22,440
	<u>22,440</u>

Syndicate 260 held an inter-syndicate loan balance at 31 December 2014 of £22.4m due from Syndicate 4444. The loan is wholly unsecured and repayable on demand. These funds are invested on Syndicate 260's behalf by Schroders in high quality short dated bonds with performance monitored against short term government indices.

14. Amounts due to members

	<i>2012 £000</i>
Profit for the 2012 closed year of account	2,763
Members' agents' fee advances	(69)
<i>Amounts due to members at 31 December 2014</i>	<u>2,694</u>

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

15. Creditors

	2012 £000
Arising out of reinsurance operations	119
	<u>119</u>

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

	2012 £000
Profit for the year of account	2,763
Unrealised investment gains	(647)
Decrease in debtors, prepayments and accrued interest	25,111
(Decrease) in creditors	(439)
Non-cash consideration for net RITC receivable	(30,682)
Net reinsurance to close premium payable	27,015
Net cash inflow from operating activities	<u>23,121</u>

Consideration for net RITC receivable comprised:

Non-cash consideration:	
Portfolio investments	5,912
Debtors	25,328
Creditors	(558)
Cash	1,033
	<u>31,715</u>

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

i) Cash flows on portfolio investments

	Cumulative as at 31 December £000
Net cash outflow from the three years	(217)
Cash flow	
Net portfolio investment	(204)
Inter-syndicate loan: transfer to Syndicate 4444	22,440
Movement arising from cash flows	<u>22,236</u>
Received as consideration for net RITC receivable	
Portfolio investments	5,912
Cash	1,033
Changes in market value and exchange rates	647
Total movement in portfolio investments	<u>29,611</u>
Portfolio at 1 January 2012	-
Portfolio at 31 December 2014	<u>29,611</u>

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

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

ii) Cash flows on portfolio investments

	<i>At 1 January 2012 £000</i>	<i>Cash Flow £000</i>	<i>Received as consideration for net RITC receivable £000</i>	<i>Changes to market value and currencies £000</i>	<i>At 31 December 2014 £000</i>
Cash at bank and in hand	-	(217)	1,033		816
Inter-syndicate loan: transfer to Syndicate 4444	-	22,440			22,440
Portfolio investments					
Shares and other variable yield securities	-	(204)	5,912	647	6,355
Total portfolio investments	-	(204)	5,912	647	6,355
Total cash, portfolio investments and financing	-	22,019	6,945	647	29,611

18. Net cash inflow on portfolio investments

	<i>Cumulative as at 31 December £000</i>
Sale of shares and other variable yield securities	12,812
(Purchase) of debt securities and other fixed income securities	(12,608)
Net cash inflow on portfolio investments	204

19. Related parties

No profit commission is payable by the syndicate to CMA in respect of the 2012 closed year of account.

Managing agency fees for the 2012 year of account of £558,000 were paid to CMA.

Employment of staff, provision of accommodation and related services are provided by CSL, which is owned by Canopus Holdings UK Limited ("CHUKL"). Expenses of £9,005,000 have been recharged to the 2012 year of account of Syndicate 260. At 31 December 2014, Syndicate 260's 2012 year of account owed CSL £nil.

Flectat Limited

Flectat Limited is a wholly-owned subsidiary of CGL. The company is a Lloyd's corporate member supplying capacity to Syndicate 260. Flectat had a syndicate premium limit of £62,597,000 for the 2012 year of account.

Syndicate 4444

Syndicate 260 held an inter-syndicate loan balance at 31 December 2014 of £22.4m due from Syndicate 4444. These funds are invested on Syndicate 260's behalf with Schroders in high quality short dated bonds with performance monitored against short term government indices.

20. 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.

Notes to the financial statements

for the 2012 Closed Year of Account at 31 December 2014

20. Ultimate parent undertaking and controlling party (continued)

On 1 May 2014, SJNK, which is a wholly-owned direct subsidiary of Sompo Japan Nipponkoa Holdings Inc. ("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.

The following is provided by way of additional information and does not form part of these accounts. The Seven Year Summary is unaudited.

**Seven Year Summary of Results of Closed Years
at 31 December 2014**

	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000
Syndicate allocated capacity	42,970	49,936	53,567	72,464	69,813	69,849	69,854
Number of underwriting members	249	263	295	325	292	136	86
Aggregate net premiums	32,885	38,909	47,947	62,020	41,376	31,343	36,017

Results for an Illustrative Share (£10,000)

	£	£	£	£	£	£	£
Gross premiums	8,501	8,557	9,781	9,292	6,353	4,854	5,660
Net premiums	7,653	7,792	8,951	8,559	5,927	4,487	5,156
Premiums for the reinsurance to close an earlier year of account	3,722	3,561	4,016	-	-	5,160	4,540
Net claims	(6,555)	(8,307)	(14,597)	(9,596)	(4,898)	(4,867)	(4,645)
Premium for the reinsurance to close the year of account	(4,139)	(4,308)	(1,564)	(1,857)	(2,034)	(4,540)	(3,867)
Syndicate operating expenses	(711)	(710)	(923)	(811)	(800)	(859)	(876)
Balance on technical account	(30)	(1,972)	(4,117)	(3,705)	(1,805)	(619)	308
Investment return	371	133	61	452	82	166	210
(Loss)/profit before personal expenses	341	(1,839)	(4,056)	(3,253)	(1,723)	(453)	518
Illustrative profit commission	(16)	-	-	-	-	-	-
Illustrative managing agent's fee	(100)	(100)	(100)	(100)	(100)	(100)	(80)
Other illustrative personal expenses	(150)	(150)	(98)	(93)	(64)	(49)	(43)
Illustrative personal expenses	(250)	(250)	(198)	(193)	(164)	(149)	(123)
(Loss)/profit after illustrative profit commission and personal expenses	75	(2,089)	(4,254)	(3,446)	(1,887)	(602)	395
Aggregate annual fee, profit commission and syndicate expenses	(827)	(810)	(1,023)	(911)	(900)	(959)	(956)

Underwriting Ratios

	%	%	%	%	%	%	%
Gross premium as a percentage of allocated capacity	85.0	85.6	97.8	92.9	63.5	48.5	56.6
Net premium as a percentage of allocated capacity	76.5	77.9	89.5	85.6	59.3	44.9	51.6
Balance on technical account as a percentage of gross premiums	(0.4)	(23.0)	(42.1)	(39.9)	(28.4)	(12.8)	5.4

Notes to the Seven Year Summary

1. The seven year summary has been prepared on the accounting basis used before the adoption of UK GAAP Accounting. Prior to 1 January 2005, the syndicate accounts were prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 18 of 1994). Syndicate results were reported on the three year basis whereby each underwriting year of account was normally kept open for three years. The result was ascertained at the end of the third year when the year of account was closed by reinsurance, normally to the syndicate's following year of account. Under the three year basis, premiums were recognised net of brokerage.
2. The illustrative profit commissions and personal expenses are estimates of amounts which are charged on an illustrative share of £10,000.
3. Under the standard agency agreement in force, an underwriting member who dies during the calendar year does not participate in that underwriting year of account.
4. All prior year figures are derived from previously audited reports.