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**Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited**

**Syndicate 3210**

**Report and Accounts**

**31 December 2014**

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## Directors and Administration

### Managing Agent

Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited

### Directors

John Maxwell Percy Taylor (Non-Executive Chairman)  
William Andrew McKee (Chief Executive Officer)  
David Alexander Casement  
Christopher David Forbes  
Kenichi Fukuhara  
Richard Emlyn Heppell  
Martin Peter Hudson (resigned 16 January 2015)  
Hiroyuki Iioka  
Shinichi Imayoshi  
Philip Richard Pearce  
John William Joseph Roome  
John Todd Young

### Company Secretary

David Alexander Casement

### Managing Agent's registered office

2<sup>nd</sup> Floor  
25 Fenchurch Avenue  
London EC3M 5AD  
<http://www.msilm.com>  
Tel: 020 7977 8321  
Fax: 020 7977 8300

### Managing Agent's registered number

5965101

Syndicate: 3210

### Active underwriter

Peter Richard McDermott (resigned 2 May 2014)  
Graeme Scott Rayner (appointed 1 January 2014)

### Registered Auditors

KPMG LLP  
15 Canada Square  
London  
E14 5GL

### Principal Bankers

Royal Bank of Scotland  
PO Box 39952  
2 ½ Devonshire Square  
London  
EC2M 4XJ

Citibank  
Citigroup Centre  
25 Canada Square  
London  
E14 5LB

Royal Bank of Canada  
155 Wellington Street West  
Toronto, ON  
Canada  
M5V 3L3

### Investment managers

Sumitomo Mitsui Asset Management  
(London) Limited  
Threadneedle Asset Management  
Limited  
Union Bancaire Privée, UBP S.A  
Henderson Global Investors Limited

### Principal securities custodians

Northern Trust  
Citibank N.A  
Royal Bank of Canada

## Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31 December 2014.

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

### Results

The results for the year are set out on pages 12 to 13. The retained profit for the year is £47,892k (2013: £33,823k).

The Managing Agent has waived its right to a profit commission for the calendar year and it will no longer charge the Syndicate a profit commission for the 2015 and subsequent years of account.

### Principal activities and business review

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business in the United Kingdom.

The Syndicate's key financial performance indicators during the year were as follows:

|                              | 2014<br>£'000 | 2013<br>£'000 | Change<br>% |
|------------------------------|---------------|---------------|-------------|
| Gross Written Premiums (GWP) | 350,801       | 343,251       | 2.2%        |
| Underwriting Result          | 39,373        | 26,658        | 47.7%       |
| General Insurance Result     | 47,892        | 33,823        | 41.6%       |
| Combined Ratio               | 86.5%         | 90.3%         | (3.8%)      |

*Note: the combined ratio is the ratio of the net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.*

The profit for the year is £47,892k (2013: £33,823k) with a combined ratio of 86.5% (2013: 90.3%). This is another strong result for the Syndicate following the performance in 2013 and reflects the continuation of the hard work and active management of the portfolio together with the investment in new specialties seen in the past 3 years.

The market has become more challenging during 2014 with increased capital inflows, combined with the continuing low catastrophe occurrence driving down rates and tightening terms of trade. This affected some classes more than others but as the year progressed the pace of competition increased across all classes. This is expected to continue in 2015 making the application of the Syndicate's disciplined underwriting approach and careful expense management even more important.

Gross premiums written were 2.2% higher in 2014 than 2013. The growth was adversely affected by the exchange rate of Sterling, particularly against US dollar in which the Syndicate writes 40% of its business. The Syndicate has taken steps to reduce its exposure to adverse exchange rate movements in 2015.

The Syndicate's underwriting profit of £39,373k (2013: £26,658k) was again broadly based in 2014 with good results in Marine, Property, Casualty and Professional despite challenging market conditions.

The claims ratio was a very creditable 49.9% (2013: 49.5%) in 2014. This is continuing reward for many years of effort and reflects not only the low catastrophe activity but also intelligent risk selection and favourable development of existing reserves. The Syndicate was not significantly impacted by any notable industry losses in 2014 except in Aviation. In addition, the Syndicate has maintained a strong reputation for claims management, as recognised by the receipt of the Claims Team of the Year Award at the Insurance Day Awards. This reflects the Syndicate's commitment, through proactive claims management, to settle legitimate claims expeditiously.

## Report of the Directors of the Managing Agent (continued)

The reduction in the expense ratio (including acquisition costs and exchange movements) from 40.8% in 2013 to 36.6% in 2014 is the result of continued focus on expense discipline. The Syndicate continues to monitor expenses closely as the business expands.

In 2015, the Syndicate will continue to focus on profitable growth in its existing lines of business and will develop its risk appetite to expand into related products. A service company, which went live in January 2015, will enable expansion in the UK and Ireland regional business that is part of the core plan.

The Syndicate's investment return for 2014 of £7,790k (2013: £6,845k), representing a return of 1.5% (2013: 1.2%), including investment management costs, was ahead of plan.

The principal driver of the excess return over plan was the substantial decline in the yields of government bonds. Despite the continued signs of recovery in the US and the UK, the persistent weakness of the Euro-zone caused expectations of rate rises to be steadily pushed out as the year progressed. The sharp decline in the oil price in the second half of the year exacerbated this effect. These factors, and the expectation of a substantial QE programme from the ECB, gave room for government bond yields to decline, with the UK 5 year gilt yield falling from 1.86% at the start of the year to close at 1.16%.

Credit spreads tightened modestly in the UK and Europe, but widened slightly in the US. The Syndicate's main alternative assets portfolio contributed well during 2014 with a return of 1.5% that is in excess of its benchmark. There were no equity investments made during 2014 as an attractive entry point proved elusive.

2015 is likely to be a challenging year for the investment portfolio. There is little room for government bond yields or credit spreads to decline substantially further and there remains the potential for interest rate rises to start in the UK and the US later in 2015. As a result, the Syndicate will continue to pursue a conservative investment strategy.

Business written is managed in six classes: Property, Casualty, Professional, Commercial, Marine and Aviation. The table below presents the results by these classes of business:

| <b>Year ended<br/>31 December 2014</b> | <b>Property</b> | <b>Casualty</b> | <b>Professional</b> | <b>Commercial</b> | <b>Marine</b> | <b>Aviation</b> | <b>Other</b>   | <b>Total</b>  |
|--|-----------------|-----------------|---------------------|-------------------|---------------|-----------------|----------------|---------------|
|  | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>        | <b>£'000</b>      | <b>£'000</b>  | <b>£'000</b>    | <b>£'000</b>   | <b>£'000</b>  |
| Gross written premiums                 | 116,029         | 60,206          | 24,581              | 29,874            | 83,457        | 36,624          | 30             | 350,801       |
| <b>Underwriting Result</b>             | <b>7,147</b>    | <b>13,140</b>   | <b>3,770</b>        | <b>(4,810)</b>    | <b>18,722</b> | <b>(7,360)</b>  | <b>8,764</b>   | <b>39,373</b> |
| Claims ratio                           | 54.1%           | 35.6%           | 28.9%               | 71.9%             | 37.9%         | 91.3%           | -              | 49.9%         |
| Expense ratio                          | 38.1%           | 34.3%           | 51.0%               | 46.1%             | 37.4%         | 33.4%           | -              | 36.6%         |
| <b>Combined ratio</b>                  | <b>92.2%</b>    | <b>69.9%</b>    | <b>79.9%</b>        | <b>118.0%</b>     | <b>75.3%</b>  | <b>124.7%</b>   | <b>-</b>       | <b>86.5%</b>  |
| <b>Year ended<br/>31 December 2013</b> | <b>Property</b> | <b>Casualty</b> | <b>Professional</b> | <b>Commercial</b> | <b>Marine</b> | <b>Aviation</b> | <b>Other</b>   | <b>Total</b>  |
|  | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>        | <b>£'000</b>      | <b>£'000</b>  | <b>£'000</b>    | <b>£'000</b>   | <b>£'000</b>  |
| Gross written premiums                 | 120,137         | 48,984          | 22,046              | 28,730            | 87,578        | 35,825          | (49)           | 343,251       |
| <b>Underwriting Result</b>             | <b>18,267</b>   | <b>6,997</b>    | <b>(3,174)</b>      | <b>(2,635)</b>    | <b>9,973</b>  | <b>5,806</b>    | <b>(8,576)</b> | <b>26,658</b> |
| Claims ratio                           | 43.7%           | 45.5%           | 68.7%               | 61.5%             | 51.4%         | 53.4%           | -              | 49.5%         |
| Expense ratio                          | 36.0%           | 35.4%           | 54.0%               | 50.3%             | 35.8%         | 29.2%           | -              | 40.8%         |
| <b>Combined ratio</b>                  | <b>79.7%</b>    | <b>80.9%</b>    | <b>122.7%</b>       | <b>111.8%</b>     | <b>87.2%</b>  | <b>82.6%</b>    | <b>-</b>       | <b>90.3%</b>  |

## **Report of the Directors of the Managing Agent (continued)**

### **Property**

Property recorded an underwriting profit of £7,147k in 2014 (2013: £18,267k).

Gross written premiums decreased by 3.4% to £116,029k (2013: £120,137k). The market was increasingly challenging and margin compression, rate pressure and increased competition from local markets all affected the premium.

The claims environment was relatively benign for the third year in succession with no catastrophe losses affecting the Property class. The claims ratio increased to 54.1% (2013: 43.7%) due to an increased number of large risk losses but remains acceptable.

### **Casualty**

Gross written premiums grew by 22.9% in 2014 to £60,206k (2013: £48,984k) with positive new business performance in the International and Healthcare sectors that the Syndicate has invested in.

Casualty recorded an underwriting profit of £13,140k for 2014 (2013: £6,997k). The 87.8% increase in profit is due to new premium and low claims in the current year together with some favourable development of existing claims.

### **Professional**

This class comprises Professional Indemnity, D&O and Accident & Health. Gross written premium growth of 11.5% to £24,581k (2013: £22,046k) in the year has been driven by D&O, where the Company has invested in new underwriters, offset by declines in Professional Indemnity and Accident & Health.

Professional has made an underwriting profit of £3,770k in the year (2013: loss £3,174k). The 2013 plan to return a positive underwriting result for the class by 2015 was realised in 2014. The result and 2014 claims ratio of 28.9% (2013: 68.7%) has benefited from the favourable settlement of claims from prior years for Professional Indemnity. The current underwriting years are also performing well at this stage.

Growth in the D&O segment has been encouraging and it is the intention to continue to pursue carefully selected growth in this segment in future years.

### **Commercial**

The Commercial class has pursued a policy of controlled gross written premium growth in the UK regions and Ireland resulting in a 4.0% increase to £29,874k (2013: 28,730k).

Commercial recorded an underwriting loss of £4,810k (2013: loss £2,635k). The major contributing factor to the loss has been claims activity with a 2014 claims ratio of 71.9% (2013: 61.5%). The claims environment for Casualty business in Ireland has deteriorated and this affected the class, offsetting good performance in the UK, primarily in Property.

The 2014 expense ratio of 46.1% (2013: 50.3%) is expected to improve further in 2015 as the class grows and becomes more established. The Commercial initiatives for 2015 include the expansion of the UK regional branch network in order to improve access to business.

### **Marine**

The Marine class has been the Syndicate's most consistently profitable class and 2014 has been another good year. It recorded an underwriting profit of £18,722k (2013: £9,973k) and was the largest contributor to the overall Syndicate result.

The underwriting result was due to low 2014 claims, particularly in the Cargo and Specie segments and some favourable development of historic reserves.

Gross written premiums declined by 4.7% to £83,457k (2013: £87,578k) largely due to adverse exchange rate movements during 2014. The high proportion of US business written and strength of Sterling against the US dollar in the earlier part of 2014 was the major contributor.

## **Report of the Directors of the Managing Agent (continued)**

### **Aviation**

Aviation has been significantly impacted by the Malaysia Airlines and Air Asia losses. The class recorded an underwriting loss of £7,360k (2013: profit £5,806k). These extraordinary losses were the primary contributors to a claims ratio of 91.3% (2013: 53.4%).

Gross written premiums have increased by 2.2% in the year to £36,624k (2013: £35,825k). This is below the planned growth due partly to exchange rate movements and also the deliberate reduction of airline exposures due to the extremely challenging rating environment.

### **Other**

Other includes Motor that has been in run-off since the end of 2011, adjustments made in accordance with FRS23 for the foreign currency translation of certain non-monetary balance sheet items and adjustments to reflect the allocation of expenses retained in the holding company.

### **Principal risks and uncertainties**

The Board recognises that the effective management of risk is essential for the Syndicate to achieve its objectives and retains responsibility for the management of the business's risks. It approves the Risk Management Strategy and Risk Appetite on an annual basis. The acceptance and management of risk against the set Risk Appetite is addressed through a framework of policies, procedures and internal controls. Policies are subject to Board approval, while procedures and internal controls are subject to on-going review by management, Board committees, Risk Management and Compliance functions and Internal Audit.

A Risk Register is maintained that is subject to oversight and regular review by a number of the Board's committees with each having responsibility for sections of the Risk Register. Key risk issues and the overall risk profile are regularly reported to and reviewed by the Risk and Capital Committee and the Board through the ORSA (Own Risk and Solvency Assessment) process.

The principal risks and uncertainties facing the Syndicate are as follows:

#### ***Insurance risk***

The acceptance of insurance risk is the basis of the business undertaken by the Syndicate and is therefore the principal source of its assets and liabilities.

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events relative to expectations at the time of underwriting. This may be exacerbated by an incorrect understanding of the risks assumed, a failure to price the exposures properly, a failure to prudently manage the portfolio insurance risk and ineffective management of underwriting delegated to third parties. It also includes consideration of the frequency and severity of claim settlements (claims risk), and the sufficiency of claims estimates (reserving risk).

The Board, with support from the Underwriting Committee and the Risk and Capital Committee, manages insurance risk by setting the Risk Appetite and Strategy which form the framework for the annual business plan. Performance against the business plan is monitored throughout the year by:

- Measuring and reporting against defined limits
- Identifying and reporting insurance risk issues and losses
- Developing appropriate corrective action plans

Risk aggregations are monitored across the portfolio in order to avoid excessive accumulation of exposure to individual loss events or systemic loss generating issues.



## **Report of the Directors of the Managing Agent (continued)**

### ***Credit risk***

Credit risk refers to the risk of loss as a result of failure by another party to meet its contractual obligations or failure to perform them in a timely fashion. This risk arises where the Syndicate provides insurance and reinsurance on deferred terms, seeks to recover amounts under contracts of reinsurance, or invests or deposits surplus cash.

In the continuing uncertain market environment the inherent level of credit risk to all business counterparties is heightened and the monitoring of this has been increased accordingly.

All brokers with whom the Syndicate trades are assessed annually and a credit limit is assigned to them by the Broker and Reinsurance Security Committee (BRSC). All new broker trading partners are assessed and assigned a credit limit prior to accepting any business. The BRSC monitors outstanding debts against these credit limits.

The Syndicate reinsures only with reinsurers that have a minimum credit rating of A- from either S&P or AM Best (with the exception of captive insurance arrangements where security is taken over recoverable amounts). The BRSC assesses and approves all new reinsurers and reviews renewing reinsurers annually taking account of the latest information and assessments from independent advisers. It also monitors exposures against agreed limits.

Credit risk in respect of cash and invested assets is mitigated by the Syndicate's Investment Policy and by strict guidelines given to investment managers. These restrict the proportion of assets invested in or deposited with lower rated entities and prohibit investment in sub-investment grade entities. The restrictions also limit the counterparties with which the Syndicate can trade, ensuring that exposures are spread across a number of approved entities. In order to avoid compounding insurance-related credit risk, investment in insurance companies is prohibited. The credit profile of the investments and exposure to large counterparties is monitored and regularly reviewed by the Investment Committee.

### ***Financial market risk***

Financial market risk refers to the risks arising from adverse movements in the financial markets. Whilst this risk is predominantly a result of potential losses in the equity markets or changes in interest rates and credit spreads, financial market risk also includes potential losses arising from adverse foreign exchange movements.

The Syndicate regularly performs both qualitative and quantitative analysis to monitor financial market risk exposures, particularly their potential impact upon the investment balances. The Syndicate pursues a conservative investment strategy and the majority of its investments are in high quality, liquid, government and corporate bonds. These bonds will typically have relatively short duration so that changing interest rates will have a relatively low impact on investment balances. To diversify sources of market risk and return, the Syndicate has modest investments in alternative assets and also has the authority to make a small investment in equities.

The Syndicate seeks to minimise currency risk by matching assets and liabilities in the major currencies that it receives premium and in which any claims will fall due. The net position in each major currency is reported monthly and this report is used to inform decisions to buy and sell the relevant currencies to remain within the Syndicate's risk appetite.

Financial market risk is monitored and regularly reviewed by the Investment Committee and the Finance Committee and any actions necessary are implemented by the Investment team.

## **Report of the Directors of the Managing Agent (continued)**

### ***Liquidity risk***

Liquidity risk is the risk that the Syndicate does not have sufficient financial resources available to meet its obligations as they fall due, or is able to secure them only at excessive cost.

Liquidity risk is managed by the close monitoring and modelling of cash positions and working capital requirements. Assets are held primarily in cash and bonds with strong credit ratings and high liquidity. Any cash held in excess of floats and not allocated for investment is generally allocated to AAA-rated money market funds or term deposits.

The Syndicate will, if necessary, transact foreign currency trades to provide liquidity across different currencies on a short-term basis.

In addition, the Syndicate's policyholders benefit from a credit support guarantee in place with Mitsui Sumitomo Insurance Company Limited, the penultimate parent company. Liquidity risk is monitored and regularly reviewed by the Finance Committee.

### ***Operational risk***

Operational risk refers to the risk of loss to the business from inadequate or failed internal processes, people or systems, or from certain external events.

The Syndicate seeks to manage exposure to operational risks by the implementation of a robust set of systems and controls, including consideration of business continuity management.

Operational risk is monitored and regularly reviewed by the Operations Committee.

### ***Group risk***

Group risk refers to the potential impact of risks arising from being part of the MS&AD Insurance group.

The Directors and senior managers maintain a close working relationship with the Syndicate's parent group. There are formal regular meetings and a small team of head-office representatives permanently based in London who attend all relevant board, management and oversight committees.

Group risk is monitored and regularly reviewed by the Operations Committee, as relevant.

### ***Regulatory risk***

MSIUL, as the Managing Agent for Syndicate 3210, is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Compliance team monitors regulatory developments, assesses the impact on agency policy, and carries out a compliance monitoring programme.

Regulatory risk is monitored and regularly reviewed by the Operations Committee.

## **Report of the Directors of the Managing Agent (continued)**

### **Directors**

The current Directors, and those serving for part of the period, are shown on page 2.

None of the Directors participates on any year of account of the Syndicate.

### **Disclosure of information to the auditors**

So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the agency and the Syndicate's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### **Auditors**

The Managing Agent, after discussion with the corporate name, intend to reappoint KPMG LLP as the Syndicate's auditors.

By order of the Board  
Philip Richard Pearce  
Director  
17 February 2015

## **Statement of Managing Agent's Responsibilities**

The Managing Agent is responsible for preparing the Syndicate annual report and accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (United Kingdom Generally Accepted Accounting Practice). The annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- 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 annual accounts; and
- prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is 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 annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

## **Independent Auditor's Report to the Member of Syndicate 3210**

We have audited the Syndicate 3210 annual accounts for the year ended 31 December 2014, as set out on pages 12 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the member of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's member as a body for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Managing Agent and the auditor**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 10, the Managing Agent is responsible for the preparation of Syndicate annual accounts which 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). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the syndicate annual accounts**

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on syndicate annual accounts**

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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.

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

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

Robert Lewis (Senior Statutory Auditor)  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
17 February 2015

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**Profit and Loss: Technical Account – General Business**  
**For the year ended 31 December 2014**

|   | Notes | 2014<br>£'000   | 2014<br>£'000        | 2013<br>£'000        |
|---|-------|-----------------|----------------------|----------------------|
| <b>Earned premiums, net of reinsurance</b>                                    |       |                 |                      |                      |
| Net written premiums  |       |                 |                      |                      |
| Gross written premiums  | 3     | 350,801         |                      | 343,251              |
| Outward reinsurance premiums  |       | <u>(48,729)</u> |                      | <u>(48,758)</u>      |
|   |       |                 | 302,072              | 294,493              |
| Change in the provision for unearned premiums                                 |       |                 |                      |                      |
| Gross amount  |       | (10,693)        |                      | (21,817)             |
| Reinsurers' share   |       | <u>(134)</u>    |                      | <u>1,645</u>         |
|   |       |                 | (10,827)             | (20,172)             |
| Earned premiums, net of reinsurance   |       |                 | <u>291,245</u>       | <u>274,321</u>       |
| <b>Allocated investment return transferred from the non-technical account</b> |       |                 | 7,790                | 6,845                |
| <b>Claims incurred, net of reinsurance</b>                                    |       |                 |                      |                      |
| Claims paid   |       |                 |                      |                      |
| Gross amount  |       | (163,729)       |                      | (198,194)            |
| Reinsurers' share   |       | <u>15,069</u>   |                      | <u>15,820</u>        |
|   |       |                 | (148,660)            | (182,374)            |
| Change in the provision for claims  |       |                 |                      |                      |
| Gross amount  |       | (917)           |                      | 57,623               |
| Reinsurers' share   |       | <u>4,195</u>    |                      | <u>(11,120)</u>      |
|   |       |                 | 3,278                | 46,503               |
| Claims incurred, net of reinsurance   | 13    |                 | <u>(145,382)</u>     | <u>(135,871)</u>     |
| <b>Net operating expenses</b>   | 4     |                 | (106,490)            | (111,792)            |
| <b>Balance on the technical account – general business</b>                    |       |                 | <u><u>47,163</u></u> | <u><u>33,503</u></u> |

All the amounts above are in respect of continuing operations.

The notes on pages 17 to 32 form part of these financial statements

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

|   | <b>Notes</b> | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
|---|--------------|-----------------------|-----------------------|
| Balance on the technical account – general business                           |              | 47,163                | 33,503                |
| Investment return   | 7            | 8,156                 | 10,667                |
| Unrealised gains/(losses) on investments                                      |              | 338                   | (2,760)               |
| Investment expenses and charges   | 7            | (704)                 | (1,062)               |
| Allocated investment return transferred to general business technical account |              | (7,790)               | (6,845)               |
| Investment income on Funds in Syndicate                                       |              | 729                   | 320                   |
| <b>Retained profit for the year</b>   |              | <b><u>47,892</u></b>  | <b><u>33,823</u></b>  |

There were no other recognised gains and losses in the year other than those reported in the Profit and Loss account and hence no Statement of Total Recognised Gains and Losses has been presented.

The notes on pages 17 to 32 form part of these financial statements

**Balance Sheet – Assets**  
**As at 31 December 2014**

|  | Notes | 2014<br>£'000         | 2013<br>£'000         |
|--|-------|-----------------------|-----------------------|
| <b>ASSETS</b>                                    |       |                       |                       |
| <b>Investments</b>                               |       |                       |                       |
| Financial investments                            | 8     | 495,606               | 475,098               |
| <b>Reinsurers' share of technical provisions</b> |       |                       |                       |
| Provision for unearned premiums                  |       | 10,670                | 10,804                |
| Claims outstanding                               |       | 85,366                | 78,646                |
|  |       | <u>96,036</u>         | <u>89,450</u>         |
| <b>Debtors</b>                                   |       |                       |                       |
| Arising out of direct insurance operations       | 9     | 101,009               | 85,560                |
| Arising out of reinsurance operations            | 9     | 39,539                | 39,314                |
| Other debtors                                    | 10    | 4,189                 | 2,651                 |
|  |       | <u>144,737</u>        | <u>127,525</u>        |
| <b>Other assets</b>                              |       |                       |                       |
| Cash at bank and in hand                         |       | 31,556                | 23,354                |
| Other  | 11    | 42,697                | 53,316                |
|  |       | <u>74,253</u>         | <u>76,670</u>         |
| <b>Prepayments and accrued income</b>            |       |                       |                       |
| Deferred acquisition costs                       |       | 54,382                | 49,003                |
| Other prepayments and accrued income             |       | 157                   | 149                   |
|  |       | <u>54,539</u>         | <u>49,152</u>         |
| <b>Total assets</b>                              |       | <u><b>865,171</b></u> | <u><b>817,895</b></u> |

The notes on pages 17 to 32 form part of these financial statements



**Balance Sheet – Liabilities  
As at 31 December 2014**

|  | Notes | 2014<br>£'000         | 2013<br>£'000         |
|--|-------|-----------------------|-----------------------|
| <b>LIABILITIES</b>                                     |       |                       |                       |
| <b>Capital and reserves</b>                            |       |                       |                       |
| Member's balance                                       | 12    | 74,806                | 36,914                |
| <b>Technical provisions</b>                            |       |                       |                       |
| Provision for unearned premiums                        |       | 209,828               | 199,135               |
| Claims outstanding                                     |       | 553,885               | 546,743               |
|  |       | <u>763,713</u>        | <u>745,878</u>        |
| <b>Creditors</b>                                       |       |                       |                       |
| Arising out of direct insurance operations             | 9     | 1,792                 | 1,322                 |
| Arising out of reinsurance operations                  | 9     | 19,103                | 15,896                |
| Other creditors including taxation and social security |       | 2,438                 | 1,902                 |
| Accruals and deferred income                           |       | 3,319                 | 15,983                |
|  |       | <u>26,652</u>         | <u>35,103</u>         |
| <b>Total liabilities</b>                               |       | <u><u>865,171</u></u> | <u><u>817,895</u></u> |

These financial statements were approved by the Board of Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited on the 17 February 2015 and were signed on its behalf by:

Richard Emlyn Heppell  
Finance Director

The notes on pages 17 to 32 form part of these financial statements.

**Statement of Cash Flows**  
**For the year ended 31 December 2014**

|  | Notes | 2014<br>£'000        | 2013<br>£'000       |
|--|-------|----------------------|---------------------|
| <b>Net cash inflow from operating activities</b>                     | 14    | 28,088               | 2,023               |
| <b>Transfer to member in respect of underwriting participations:</b> |       |                      |                     |
| Distribution of profits  | 12    | (10,000)             | -                   |
|  |       | <u><b>18,088</b></u> | <u><b>2,023</b></u> |
| <b>Cash flows were invested as follows:</b>                          |       |                      |                     |
| Increase/(decrease) in cash holdings                                 | 15    | 6,714                | (2,516)             |
| (Decrease)/increase in overseas deposits                             | 15    | (9,501)              | 7,634               |
| Increase/(decrease) in portfolio investment                          | 17    | 20,875               | (3,095)             |
| <b>Net investment of cash flows</b>                                  | 15    | <u><b>18,088</b></u> | <u><b>2,023</b></u> |

The notes on pages 17 to 32 form part of these Financial Statements.

## Notes to the Financial Statements

### 1. Accounting policies

#### Basis of preparation

The Syndicate's 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 and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers.

The result for the year is determined on the annual basis of accounting in accordance with UK Generally Accepted Accounting Practice.

The financial statements of the Syndicate have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified by the revaluation of investments.

In accordance with the amendment to Financial Reporting Standard 3 Reporting Financial Performance, the inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting. Accordingly a separate note on historical cost profit and loss is not given.

Under Financial Reporting Standard 8 Related Party Disclosures, the Syndicate is exempt from the requirement to disclose related party transactions with the MS&AD Insurance Group and its associated undertakings on the grounds that it is a wholly owned subsidiary of MS&AD Insurance Group Holdings, Inc. which prepares consolidated financial statements.

#### Basis of accounting

##### Gross Written Premiums

Gross written premiums comprise contracts commencing in the financial year, together with any differences between booked premiums for the prior years and those previously accrued, and estimates of premiums due but not yet receivable or notified to the Syndicate. All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

##### Outward reinsurance premiums

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

##### Unearned premiums

The provision for unearned premiums comprises the amounts representing that part of gross premiums written and reinsurance premiums ceded that relate to unexpired terms of policies in force at the balance sheet date. The provision is calculated using a time apportionment method.

##### Deferred acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written that are unearned as at the balance sheet date.

##### Claims

Claims incurred 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 and related expenses, together with any adjustments to claims from prior years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding represents the ultimate cost of settling all claims (including direct and indirect claims settlement expenses) arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

## Notes to the Financial Statements (continued)

### Claims (continued)

The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement. Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to recoverability.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Adjustments to the amounts of provision 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.

### Unexpired risks provision

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums and claims, net of deferred acquisition costs and premiums receivable. The assessment of whether a provision is necessary is made by considering the business as a whole accounted for on the annual basis of accounting on the basis of information available as at the balance sheet date, after offsetting surpluses and deficits arising on products that are managed together. Investment income is taken into account in calculating the provision.

### Foreign currency translation

Revenue transactions in Lloyd's settlement currencies (US Dollars, Euros, Australian Dollars and Canadian Dollars) are translated to Sterling at average rates during the year. Revenue transactions in all other currencies are translated to Sterling at the rate on the date of the transaction.

Monetary assets and liabilities are translated to Sterling at rates ruling at the balance sheet date. Non-monetary assets and liabilities are translated to Sterling at the average historic rate. The average historic rate of exchange has been calculated based on the weighted average of month end rates of exchange over the preceding 12 months.

All gains and losses from the retranslation of foreign currency balances are reported in the profit and loss account.

### Investments, investment income, expenses and charges

All investments are classified as fair value through the profit and loss account.

Investments consist of bonds, deposits with credit institutions and pooled investments in hedge funds and are stated at current values at the year end. Bonds are included in the balance sheet at bid price. Deposits with credit institutions are included at cost plus accrued income.

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. Interest and related expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment returns are initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the return on investments supporting the technical provisions.

## Notes to the Financial Statements (continued)

### 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 the member 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 are included in the balance sheet under the heading 'other debtors'.

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

### Profit Commission

Profit commission is payable to the Managing Agent at a rate of 15% of the profit on a year of account basis. The Managing Agent has waived its right to receive this for 2012, 2013 and 2014 years of account. Profit commission is not payable for the 2015 and subsequent years of account.

### Changes in accounting policies

The accounting policies are consistent with those of the previous year.

## 2. Risk Management

Details of the Syndicate's risk management framework are given on pages 7 to 9 in the Report of the Directors.

### (a) Insurance Risk

The insurance risk faced by the Syndicate is based on fortuity by its very nature and is therefore unpredictable.

The principal causes of insurance risk to the Syndicate are the under-pricing of premiums, under-reserving and the exposure to catastrophe claims.

The tables below detail the Syndicate's risk exposures by geographical region and class of business.

| <b>2014</b>        | <b>Gross Written<br/>Premiums<br/>£'000</b> | <b>Outward RI<br/>Premiums<br/>£'000</b> | <b>Net Written<br/>Premiums<br/>£'000</b> |
|--------------------|---|--|---|
| United Kingdom     | 59,459                                      | (8,259)                                  | 51,200                                    |
| Other EU countries | 29,387                                      | (4,082)                                  | 25,305                                    |
| USA                | 3,943                                       | (548)                                    | 3,395                                     |
| Other              | 258,012                                     | (35,840)                                 | 222,172                                   |
| <b>Total</b>       | <b>350,801</b>                              | <b>(48,729)</b>                          | <b>302,072</b>                            |

  

| <b>2013</b>        | <b>Gross Written<br/>Premiums<br/>£'000</b> | <b>Outward RI<br/>Premiums<br/>£'000</b> | <b>Net Written<br/>Premiums<br/>£'000</b> |
|--------------------|---|--|---|
| United Kingdom     | 59,159                                      | (8,403)                                  | 50,756                                    |
| Other EU countries | 32,042                                      | (4,552)                                  | 27,490                                    |
| USA                | 5,698                                       | (809)                                    | 4,889                                     |
| Other              | 246,352                                     | (34,994)                                 | 211,358                                   |
| <b>Total</b>       | <b>343,251</b>                              | <b>(48,758)</b>                          | <b>294,493</b>                            |

**Notes to the Financial Statements (continued)**
**2.(a) Insurance Risk (continued)**

| 2014                              | Gross Written  | Outward RI      | Net Written    | Net Technical    |
|-----------------------------------|----------------|-----------------|----------------|------------------|
|                                   | Premiums       | Premiums        | Premiums       | Provisions       |
|                                   | £'000          | £'000           | £'000          | £'000            |
| Fire and other damage to property | 78,755         | (14,303)        | 64,452         | (91,036)         |
| Third party liability             | 90,151         | (9,031)         | 81,120         | (242,289)        |
| Motor - other                     | (64)           | 38              | (26)           | (11,907)         |
| Marine, aviation and transport    | 85,593         | (9,767)         | 75,826         | (130,066)        |
| Reinsurance accepted              | 96,366         | (15,666)        | 80,700         | (192,379)        |
| <b>Total</b>                      | <b>350,801</b> | <b>(48,729)</b> | <b>302,072</b> | <b>(667,677)</b> |

  

| 2013                              | Gross Written  | Outward RI      | Net Written    | Net Technical    |
|-----------------------------------|----------------|-----------------|----------------|------------------|
|                                   | Premiums       | Premiums        | Premiums       | Provisions       |
|                                   | £'000          | £'000           | £'000          | £'000            |
| Fire and other damage to property | 77,697         | (16,581)        | 61,116         | (112,098)        |
| Third party liability             | 72,439         | (7,892)         | 64,547         | (238,420)        |
| Motor - other                     | 42             | 53              | 95             | (17,176)         |
| Marine, aviation and transport    | 83,286         | (6,764)         | 76,522         | (123,528)        |
| Reinsurance accepted              | 109,787        | (17,574)        | 92,213         | (165,206)        |
| <b>Total</b>                      | <b>343,251</b> | <b>(48,758)</b> | <b>294,493</b> | <b>(656,428)</b> |

**2.(b) Financial Risk**

The Syndicate is exposed to a range of financial risk through its financial assets and financial liabilities. The key financial risk is that the proceeds from financial assets will not be sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due.

The main components of financial risk are credit risk, liquidity risk and market risk. These risks arise from the Syndicate's investment and reinsurance assets and its insurance liabilities.

**Credit Risk**

Credit risk arising from insurance and reinsurance assets is managed and monitored by the Broker and Reinsurance Security Committee and those arising from investment assets by the Investment Committee.

The table below details the Syndicate's exposure to credit risk by asset type, with reference to the credit rating of the counterparties. For financial investments this also represents the Syndicate's maximum credit risk exposure.

| 2014   | AAA            | AA             | A              | <A            | Not rated     | Total          |
|--|----------------|----------------|----------------|---------------|---------------|----------------|
|  | £'000          | £'000          | £'000          | £'000         | £'000         | £'000          |
| Reinsurers' share of outstanding claims including IBNR | -              | 23,886         | 54,656         | 2,207         | 4,617         | <b>85,366</b>  |
| Financial investments:                                 |                |                |                |               |               |                |
| Debt securities and other fixed income                 | 133,894        | 105,892        | 118,080        | 39,525        | -             | <b>397,391</b> |
| Deposits with credit institutions                      | -              | 659            | 31,694         | -             | -             | <b>32,353</b>  |
| Other financial investments                            | -              | -              | -              | -             | 65,862        | <b>65,862</b>  |
| Cash at bank and in hand                               | 25,757         | 302            | 5,497          | -             | -             | <b>31,556</b>  |
|  | <b>159,651</b> | <b>130,739</b> | <b>209,927</b> | <b>41,732</b> | <b>70,479</b> | <b>612,528</b> |

**Notes to the Financial Statements (continued)**
**2.(b) Financial Risk (continued)**
**Credit Risk (continued)**

| <b>2013</b>  | <b>AAA<br/>£'000</b> | <b>AA<br/>£'000</b> | <b>A<br/>£'000</b> | <b>&lt;A<br/>£'000</b> | <b>Not rated<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|----------------------|---------------------|--------------------|------------------------|----------------------------|------------------------|
| Reinsurers' share of outstanding claims including IBNR | -                    | 23,750              | 46,698             | 3,085                  | 5,113                      | <b>78,646</b>          |
| Financial investments:                                 |                      |                     |                    |                        |                            |                        |
| Debt securities and other fixed income                 | 109,930              | 99,932              | 134,222            | 44,304                 | -                          | <b>388,388</b>         |
| Deposits with credit institutions                      | -                    | 855                 | 28,532             | -                      | -                          | <b>29,387</b>          |
| Other financial investments                            | -                    | -                   | -                  | -                      | 57,323                     | <b>57,323</b>          |
| Cash at bank and in hand                               | 15,833               | 2,967               | 4,554              | -                      | -                          | <b>23,354</b>          |
|  | <b>125,763</b>       | <b>127,504</b>      | <b>214,006</b>     | <b>47,389</b>          | <b>62,436</b>              | <b>577,098</b>         |

Concentrations of financial investments are monitored by industry sector and geographic location of the counterparty as well as by individual counterparties. There are no significant geographical, or industry concentrations at 31 December 2014.

An aged analysis of financial assets is shown below.

| <b>2014</b>                            | <b>Fully performing<br/>£'000</b> | <b>Past due but not impaired<br/>£'000</b> | <b>Past due and impaired<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|-----------------------------------|--|--|------------------------|
| Financial investments:                 |                                   |  |  |                        |
| Debt securities and other fixed income | 397,391                           | -  | -                                      | <b>397,391</b>         |
| Deposits with credit institutions      | 32,353                            | -  | -                                      | <b>32,353</b>          |
| Other financial investments            | 65,862                            | -  | -                                      | <b>65,862</b>          |
| Reinsurance claims outstanding         | 85,366                            | -  | -                                      | <b>85,366</b>          |
| Insurance and reinsurance receivables  | 120,200                           | 20,348                                     | 3,985                                  | <b>140,548</b>         |
| Cash at bank and in hand               | 31,556                            | -  | -                                      | <b>31,556</b>          |
|  | <b>732,728</b>                    | <b>20,348</b>                              | <b>3,985</b>                           | <b>753,076</b>         |
| <b>2013</b>                            | <b>Fully performing<br/>£'000</b> | <b>Past due but not impaired<br/>£'000</b> | <b>Past due and impaired<br/>£'000</b> | <b>Total<br/>£'000</b> |
| Financial investments:                 |                                   |  |  |                        |
| Debt securities and other fixed income | 388,388                           | -  | -                                      | <b>388,388</b>         |
| Deposits with credit institutions      | 29,387                            | -  | -                                      | <b>29,387</b>          |
| Other financial investments            | 57,323                            | -  | -                                      | <b>57,323</b>          |
| Reinsurance claims outstanding         | 78,646                            | -  | -                                      | <b>78,646</b>          |
| Insurance and reinsurance receivables  | 110,933                           | 13,941                                     | 3,989                                  | <b>124,874</b>         |
| Cash at bank and in hand               | 23,354                            | -  | -                                      | <b>23,354</b>          |
|  | <b>688,031</b>                    | <b>13,941</b>                              | <b>3,989</b>                           | <b>701,972</b>         |

Past due and impaired for insurance and reinsurance receivables has been fully provided for and does not form part of the total.

**Notes to the Financial Statements (continued)**
**2.(b) Financial Risk (continued)**
**Liquidity risk**

The table below analyses the carrying value of the Syndicate's monetary assets and claims liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates. As at 31 December 2014 all financial assets can be realised at any time, but the table shows their maturity profile should they continue to be held.

| <b>2014</b>                           | <b>Up to 1<br/>year<br/>£'000</b> | <b>1 -3<br/>years<br/>£'000</b> | <b>3-5<br/>years<br/>£'000</b> | <b>Over 5<br/>years<br/>£'000</b> | <b>Total<br/>£'000</b> |
|---------------------------------------|-----------------------------------|---------------------------------|--------------------------------|-----------------------------------|------------------------|
| Financial investments                 | 275,225                           | 172,021                         | 32,056                         | 16,304                            | <b>495,606</b>         |
| Insurance and reinsurance receivables | 140,433                           | 115                             | -                              | -                                 | <b>140,548</b>         |
| Cash at bank and in hand              | 31,556                            | -                               | -                              | -                                 | <b>31,556</b>          |
| Net insurance claims outstanding (a)  | (147,295)                         | (164,745)                       | (78,485)                       | (77,994)                          | <b>(468,519)</b>       |
|                                       | <b>299,919</b>                    | <b>7,391</b>                    | <b>(46,429)</b>                | <b>(61,690)</b>                   | <b>199,191</b>         |
| <b>2013</b>                           | <b>Up to 1<br/>year<br/>£'000</b> | <b>1 -3<br/>years<br/>£'000</b> | <b>3-5<br/>years<br/>£'000</b> | <b>Over 5<br/>years<br/>£'000</b> | <b>Total<br/>£'000</b> |
| Financial investments                 | 209,478                           | 183,817                         | 69,957                         | 11,846                            | <b>475,098</b>         |
| Insurance and reinsurance receivables | 124,728                           | 146                             | -                              | -                                 | <b>124,874</b>         |
| Cash at bank and in hand              | 23,354                            | -                               | -                              | -                                 | <b>23,354</b>          |
| Net insurance claims outstanding (a)  | (147,163)                         | (164,597)                       | (78,414)                       | (77,923)                          | <b>(468,097)</b>       |
|                                       | <b>210,397</b>                    | <b>19,366</b>                   | <b>(8,457)</b>                 | <b>(66,077)</b>                   | <b>155,229</b>         |

(a) Based on expected settlement dates.



## Notes to the Financial Statements (continued)

### 2.(b) Financial Risk (continued)

#### Market Risk

##### Foreign currency market risk

The Syndicate holds its assets and liabilities predominantly in five currencies: being Sterling, Euros, US dollars, Canadian dollars and Australian dollars.

It is the Syndicate's policy to match assets and liabilities in the currencies it is exposed to on a monthly basis in order to minimise foreign currency risk. The table below details the Syndicate's assets and liabilities, in converted Sterling, by currency at 31 December 2014.

| 2014              | GBP<br>£'000  | EUR<br>£'000 | USD<br>£'000 | CAD<br>£'000 | AUD<br>£'000   | Other<br>£'000 | Total<br>£'000 |
|-------------------|---------------|--------------|--------------|--------------|----------------|----------------|----------------|
| Assets            | 387,409       | 84,031       | 304,326      | 23,520       | 61,796         | 4,089          | 865,171        |
| Liabilities       | (323,352)     | (81,900)     | (299,415)    | (22,722)     | (62,976)       | -              | (790,365)      |
| <b>Net assets</b> | <b>64,057</b> | <b>2,131</b> | <b>4,911</b> | <b>798</b>   | <b>(1,180)</b> | <b>4,089</b>   | <b>74,806</b>  |

| 2013              | GBP<br>£'000  | EUR<br>£'000 | USD<br>£'000   | CAD<br>£'000 | AUD<br>£'000   | Other<br>£'000 | Total<br>£'000 |
|-------------------|---------------|--------------|----------------|--------------|----------------|----------------|----------------|
| Assets            | 418,473       | 84,015       | 233,932        | 17,339       | 61,173         | 2,963          | 817,895        |
| Liabilities       | (381,431)     | (79,734)     | (237,343)      | (16,159)     | (66,308)       | (6)            | (780,981)      |
| <b>Net assets</b> | <b>37,042</b> | <b>4,281</b> | <b>(3,411)</b> | <b>1,180</b> | <b>(5,135)</b> | <b>2,957</b>   | <b>36,914</b>  |

The table below shows the impact on the Syndicate's net assets of a 5% appreciation or depreciation of each currency relative to Sterling, as at 31 December 2014:

| 2014            | GBP<br>£'000 | EUR<br>£'000 | USD<br>£'000 | CAD<br>£'000 | AUD<br>£'000 | Other<br>£'000 | Total<br>£'000 |
|-----------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|
| 5% appreciation | -            | 107          | 246          | 40           | (59)         | 204            | 538            |
| 5% depreciation | -            | (107)        | (246)        | (40)         | 59           | (204)          | (538)          |
| 2013            | GBP<br>£'000 | EUR<br>£'000 | USD<br>£'000 | CAD<br>£'000 | AUD<br>£'000 | Other<br>£'000 | Total<br>£'000 |
| 5% appreciation | -            | 214          | (171)        | 59           | (257)        | 148            | (7)            |
| 5% depreciation | -            | (214)        | 171          | (59)         | 257          | (148)          | 7              |

##### Interest rate market risk

The Syndicate holds investments in its balance sheet that are sensitive to movements in interest rates. The sensitivity of the Syndicate's investment portfolio to movements in interest rates is monitored by the Investment Committee.

The table below shows the estimated impact on the profit or loss for the year of a 1% increase in the UK, US, Euro, Canadian and Australian interest rates on the market value of the Syndicate's investments. The table below shows the impact on the Syndicate's profit and member's balance:

|  | 2014<br>£'000 | 2013<br>£'000 |
|--|---------------|---------------|
| 1% increase in UK interest rates         | 2,112         | 2,353         |
| 1% increase in US interest rates         | 1,675         | 1,718         |
| 1% increase in Euro interest rates       | 1,839         | 1,506         |
| 1% increase in Canadian interest rates   | 132           | 93            |
| 1% increase in Australian interest rates | 768           | 849           |

**Notes to the Financial Statements (continued)**
**2.(c) Fair value estimation**

Financial instruments that are classified as fair value through the profit and loss account are assigned a level using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

- Level 1 financial instruments comprise government bonds that are regularly traded. These have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government and agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- Level 3 financial instruments have a fair value derived from inputs that are not based on observable market data. The Syndicate does not currently hold any level 3 financial instruments.

| <b>Investments</b>     | <b>2014</b>    |                |                | <b>Total</b>   |
|------------------------|----------------|----------------|----------------|----------------|
|                        | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |                |
|                        | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   |
| Government securities  | 157,172        | -              | -              | 157,172        |
| Listed debt securities | -              | 262,200        | -              | 262,200        |
| Other investments      | 32,353         | 43,881         | -              | 76,234         |
|                        | <b>189,525</b> | <b>306,081</b> | <b>-</b>       | <b>495,606</b> |

| <b>Investments</b>     | <b>2013</b>    |                |                | <b>Total</b>   |
|------------------------|----------------|----------------|----------------|----------------|
|                        | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |                |
|                        | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   |
| Government securities  | 97,655         | -              | -              | 97,655         |
| Listed debt securities | -              | 308,631        | -              | 308,631        |
| Other investments      | 29,387         | 39,425         | -              | 68,812         |
|                        | <b>127,042</b> | <b>348,056</b> | <b>-</b>       | <b>475,098</b> |

**Notes to the Financial Statements (continued)**
**3. Segmental reporting**

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

|                            | <b>Fire and<br/>other<br/>damage to<br/>property</b> | <b>Third<br/>party<br/>liability</b> | <b>Motor -<br/>other</b> | <b>Marine<br/>aviation<br/>&amp;<br/>transport</b> | <b>Re-<br/>insurance<br/>accepted</b> | <b>Total</b>     |
|----------------------------|--|--------------------------------------|--------------------------|--|---------------------------------------|------------------|
|                            | <b>£'000</b>   | <b>£'000</b>                         | <b>£'000</b>             | <b>£'000</b>                                       | <b>£'000</b>                          | <b>£'000</b>     |
| <b>2014</b>                |  |                                      |                          |  |                                       |                  |
| Gross premiums written     | 78,755   | 90,151                               | (64)                     | 85,593   | 96,366                                | <b>350,801</b>   |
| Gross premiums earned      | 79,014   | 80,671                               | (64)                     | 83,366   | 97,121                                | <b>340,108</b>   |
| Gross claims incurred      | (30,931)   | (28,413)                             | (1,806)                  | (38,762)   | (64,734)                              | <b>(164,646)</b> |
| Gross operating expenses   | (24,705)   | (26,673)                             | (8)                      | (27,312)   | (27,792)                              | <b>(106,490)</b> |
| Gross technical result     | 23,378   | 25,585                               | (1,878)                  | 17,292   | 4,595                                 | <b>68,972</b>    |
| Re-insurance balance       | (15,309)   | (10,755)                             | 1,913                    | (3,656)  | (1,792)                               | <b>(29,599)</b>  |
| <b>Underwriting result</b> | <b>8,069</b>   | <b>14,830</b>                        | <b>35</b>                | <b>13,636</b>                                      | <b>2,803</b>                          | <b>39,373</b>    |
| Net technical provisions   | (91,036)   | (242,289)                            | (11,907)                 | (130,066)  | (192,379)                             | <b>(667,677)</b> |
| <b>2013</b>                |  |                                      |                          |  |                                       |                  |
| Gross premiums written     | 77,697   | 72,439                               | 42                       | 83,286   | 109,787                               | <b>343,251</b>   |
| Gross premiums earned      | 72,953   | 58,889                               | 42                       | 82,869   | 106,681                               | <b>321,434</b>   |
| Gross claims incurred      | (30,937)   | (22,053)                             | 1,610                    | (42,844)   | (46,347)                              | <b>(140,571)</b> |
| Gross operating expenses   | (23,840)   | (24,862)                             | (60)                     | (29,149)   | (33,881)                              | <b>(111,792)</b> |
| Gross technical result     | 18,176   | 11,974                               | 1,592                    | 10,876   | 26,453                                | <b>69,071</b>    |
| Re-insurance balance       | (12,380)   | (12,408)                             | (1,298)                  | (661)  | (15,666)                              | <b>(42,413)</b>  |
| <b>Underwriting result</b> | <b>5,796</b>   | <b>(434)</b>                         | <b>294</b>               | <b>10,215</b>                                      | <b>10,787</b>                         | <b>26,658</b>    |
| Net technical provisions   | (112,098)  | (238,420)                            | (17,176)                 | (123,528)  | (165,206)                             | <b>(656,428)</b> |

All premiums are written in the UK.

The Syndicate considers the writing of general insurance to be one class of business for the purpose of SSAP 25 and therefore no further disclosure is given in respect of turnover, net assets and profit.

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**Notes to the Financial Statements (continued)**
**4. Net operating expenses**

|                              | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|------------------------------|-----------------------------|-----------------------------|
| Acquisition costs            | 87,731                      | 80,545                      |
| Change in deferred costs     | (5,381)                     | (8,886)                     |
| Administrative expenses      | 26,984                      | 36,943                      |
| (Gain)/loss on exchange      | (2,844)                     | 3,190                       |
| Total net operating expenses | <u><b>106,490</b></u>       | <u><b>111,792</b></u>       |

Net operating expenses include:

Auditors' remuneration excluding VAT:

|                               | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|-------------------------------|-----------------------------|-----------------------------|
| Audit of financial statements | 195                         | 205                         |
| Other taxation services       | -                           | 1                           |
| All other services            | 95                          | 100                         |
|                               | <u><b>290</b></u>           | <u><b>306</b></u>           |

|   | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|---|-----------------------------|-----------------------------|
| Commissions for direct business   | 53,014                      | 47,576                      |
| Commissions for reinsurance business  | 10,184                      | 17,125                      |
| Member's standard personal expenses (included within administrative expenses) | <u>2,832</u>                | <u>2,887</u>                |

**Notes to the Financial Statements (continued)**
**5. Staff numbers and costs**

All staff are employed by Mitsui Sumitomo Insurance (London Management) Limited (the immediate holding company of Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited and MSI Corporate Capital Limited, the sole Member of Syndicate 3210). The following amounts were recharged to the Syndicate in respect of salary costs:

|                       | <b>2014</b>          | <b>2013</b>          |
|-----------------------|----------------------|----------------------|
|                       | <b>£'000</b>         | <b>£'000</b>         |
| Wages and salaries    | 33,183               | 29,143               |
| Social security costs | 4,004                | 3,690                |
| Pension costs         | 2,542                | 2,218                |
| Other                 | 811                  | 2,386                |
|                       | <b><u>40,540</u></b> | <b><u>37,437</u></b> |

Mitsui Sumitomo Insurance (London Management) Limited operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Syndicate in an independently administered fund.

The average number of employees employed by Mitsui Sumitomo Insurance (London Management) Limited Group but working for the Syndicate during the year was as follows:

|                | <b>2014</b>       | <b>2013</b>       |
|----------------|-------------------|-------------------|
|                | <b>no.</b>        | <b>no.</b>        |
| Finance        | 25                | 17                |
| Administration | 68                | 55                |
| Claims         | 35                | 35                |
| Underwriting   | 151               | 144               |
|                | <b><u>279</u></b> | <b><u>251</u></b> |

**6. Remuneration of Directors**

|                       | <b>2014</b>         | <b>2013</b>         |
|-----------------------|---------------------|---------------------|
|                       | <b>£'000</b>        | <b>£'000</b>        |
| Directors' emoluments | <b><u>3,922</u></b> | <b><u>2,820</u></b> |

The aggregated emoluments of the highest paid Director were £1,044,224 (2013: £804,954).

The active underwriters who served during the year received £982,705 (2013: £436,938) in remuneration charged as a Syndicate expense.

No advances or credits granted by the Managing Agent to any of its Directors existed during the year.

## Notes to the Financial Statements (continued)

### 7. Investment return

|  | 2014<br>£'000 | 2013<br>£'000  |
|--|---------------|----------------|
| Income from investments                            | 11,252        | 12,811         |
| Gains on the realisation of investments            | 3,381         | 3,018          |
| Losses on the realisation of investments           | (6,477)       | (5,162)        |
|  | <u>8,156</u>  | <u>10,667</u>  |
| <b>Investment expenses:</b>                        |               |                |
| Investment management expenses, including interest | <u>(704)</u>  | <u>(1,062)</u> |

The average amount of Syndicate funds available for investment during 2014 and the investment return and yield for that calendar year were as follows:

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| Average funds   | 553,704       | 565,384       |
| Investment return, including unrealised gains             | 8,519         | 7,164         |
| Calendar year investment yield                            | 1.54%         | 1.27%         |
| <i>Average funds available for investment by fund</i>     |               |               |
| Sterling  | 262,114       | 282,139       |
| United States Dollars                                     | 157,567       | 143,458       |
| Euros   | 66,404        | 69,055        |
| Canadian Dollars  | 12,683        | 10,196        |
| Australian Dollars  | 50,426        | 57,947        |
| Other   | 4,510         | 2,589         |
| <i>Analysis of calendar year investment yield by fund</i> |               |               |
| Sterling  | 1.14%         | 0.52%         |
| United States Dollars                                     | 0.90%         | 2.04%         |
| Euros   | 2.33%         | 0.96%         |
| Canadian Dollars  | 1.43%         | 1.37%         |
| Australian Dollars  | 4.45%         | 3.21%         |
| Other   | 3.00%         | 4.07%         |

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

## Notes to the Financial Statements (continued)

### 8. Financial investments

|  | <b>Market<br/>Value<br/>2014<br/>£'000</b> | <b>Cost<br/>2014<br/>£'000</b> | <b>Market<br/>Value<br/>2013<br/>£'000</b> | <b>Cost<br/>2013<br/>£'000</b> |
|--|--|--------------------------------|--|--------------------------------|
| Debt securities and other fixed income   | 397,391                                    | 397,400                        | 388,388                                    | 389,014                        |
| Shares & other variable yield securities | 43,576                                     | 41,926                         | 39,039                                     | 36,887                         |
| Participation in investment pools        | 21,980                                     | 22,127                         | 17,898                                     | 17,898                         |
| Deposits with credit institutions        | 32,353                                     | 32,353                         | 29,387                                     | 29,387                         |
| Derivatives                              | 306  | -                              | 386  | -                              |
|  | <u><b>495,606</b></u>                      | <u><b>493,806</b></u>          | <u><b>475,098</b></u>                      | <u><b>473,186</b></u>          |

Debt securities and other fixed income consist of listed investments.

### 9. Debtors and creditors arising out of direct insurance and reinsurance operations

All amounts due to or receivable from the Syndicate in respect of direct insurance and reinsurance operations are in relation to intermediaries.

Of the debtors arising out of direct insurance and reinsurance operations, £115k (2013: £146k) are due after more than one year.

### 10. Other debtors

|                         | <b>2014<br/>£'000</b> | <b>2013<br/>£'000</b> |
|-------------------------|-----------------------|-----------------------|
| Claims funds            | 2,614                 | 2,170                 |
| Other debtors           | 1,527                 | 8                     |
| Salvage and subrogation | 48                    | 473                   |
|                         | <u><b>4,189</b></u>   | <u><b>2,651</b></u>   |

All balances are due within one year.

### 11. Other Assets

Other assets comprise of overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

**Notes to the Financial Statements (continued)**
**12. Reconciliation of Member's balance**

|  | <b>2014</b>          | <b>2013</b>          |
|--|----------------------|----------------------|
|  | <b>£'000</b>         | <b>£'000</b>         |
| Member's balance at 1 January                          | 36,914               | 3,091                |
| Total recognised gains and losses relating to the year | 47,892               | 33,823               |
| Payments of profit to member                           | (10,000)             | -                    |
| Member's balance carried forward at 31 December        | <u><b>74,806</b></u> | <u><b>36,914</b></u> |

The balance due to the Member is payable when the years of account close, usually after three years. The funds to pay the balance above are retained within the Syndicate.

**13. Claims incurred**

The 2014 claims incurred, net of reinsurance, in the technical account of £145,382k (2013: £135,871k) includes £34,490k (2013: £51,518k) of releases in respect of prior accident years.

**14. Reconciliation of operating profit to net cash inflow from operating activities**

|   | <b>2014</b>          | <b>2013</b>         |
|---|----------------------|---------------------|
|   | <b>£'000</b>         | <b>£'000</b>        |
| Operating profit on ordinary activities         | 47,892               | 33,823              |
| Changes in market value and exchange rates      | (3)                  | 16,144              |
| Increase/(decrease) in net technical provisions | 11,249               | (38,825)            |
| (Increase) in debtors and prepayments           | (22,599)             | (16,774)            |
| (Decrease)/increase in creditors and accruals   | (8,451)              | 7,655               |
| Net cash inflow from operating activities       | <u><b>28,088</b></u> | <u><b>2,023</b></u> |



**Notes to the Financial Statements (continued)**
**15. Movement in opening and closing portfolio investments net of financing**

|  | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Net cash inflow/(outflow) for the year       | 6,714                       | (2,516)                     |
| Cash flow:                                   |                             |                             |
| (Decrease)/increase in overseas deposits     | (9,501)                     | 7,634                       |
| Increase/(decrease) in portfolio investments | <u>20,875</u>               | <u>(3,095)</u>              |
| Movement arising from cash flows             | 18,088                      | 2,023                       |
| Changes in market value and exchange rates   | 3                           | (16,144)                    |
| Total movement in portfolio investments      | <u><b>18,091</b></u>        | <u><b>(14,121)</b></u>      |
| Portfolio at 1 January                       | <u>551,768</u>              | <u>565,889</u>              |
| Portfolio at 31 December                     | <u><u>569,859</u></u>       | <u><u>551,768</u></u>       |

**16. Movement in cash, portfolio investments and financing**

|   | <b>At 1</b><br><b>January</b><br><b>2014</b> | <b>Cash Flow</b>     | <b>Change in</b><br><b>market</b><br><b>value &amp;</b><br><b>exchange</b><br><b>rates</b> | <b>At 31</b><br><b>December</b><br><b>2014</b> |
|---|--|----------------------|--|--|
|   | <b>£'000</b>                                 | <b>£'000</b>         | <b>£'000</b>   | <b>£'000</b>                                   |
| Cash at bank and in hand                        | 23,354                                       | 6,714                | 1,488  | 31,556   |
| Overseas deposits                               | 53,316                                       | (9,501)              | (1,118)  | 42,697   |
| <b>Portfolio investments:</b>                   |  |                      |  |  |
| Shares & other variable yield securities        | 39,039                                       | 4,923                | (386)  | 43,576   |
| Participation in investment pools               | 17,898                                       | 3,964                | 118  | 21,980   |
| Debt securities & other fixed income securities | 388,388                                      | 8,929                | 74   | 397,391  |
| Deposits with credit institutions               | 29,387                                       | 3,059                | (93)   | 32,353   |
| Derivatives                                     | 386  | -                    | (80)   | 306  |
|   | <u><b>551,768</b></u>                        | <u><b>18,088</b></u> | <u><b>3</b></u>  | <u><b>569,859</b></u>                          |

## Notes to the Financial Statements (continued)

### 17. Net cash (outflow)/inflow on portfolio investments

|   | 2014<br>£'000          | 2013<br>£'000       |
|---|------------------------|---------------------|
| Purchase of debt securities and other fixed income securities | (415,208)              | (385,766)           |
| Sale of debt securities and other fixed income securities     | 406,279                | 402,504             |
| Net cash (outflow)/inflow on debt securities and others       | <u>(8,929)</u>         | <u>16,738</u>       |
| Purchase of investment pool participations                    | (24,294)               | (11,249)            |
| Sale of investment pool participations                        | 20,330                 | 3,039               |
| Purchase of shares and other variable yield securities        | (15,220)               | (48,999)            |
| Sale of shares and other variable yield securities            | 10,297                 | 43,793              |
| Purchase of deposits with credit institutions                 | (3,059)                | (227)               |
| Net cash (outflow)/inflow on portfolio investments            | <u><u>(20,875)</u></u> | <u><u>3,095</u></u> |

### 18. Ultimate parent company and parent undertaking of larger group of which Syndicate is a member

The smallest group of undertakings of which the Company is a member, and for which group Financial Statements are prepared, is headed by Mitsui Sumitomo Insurance (London Management) Limited, a company incorporated in the UK. The largest group of undertakings of which the Company is a member, and for which group Financial Statements are prepared, is headed by MS&AD Insurance Group Holdings, Inc. a company incorporated in Japan, which is the ultimate parent undertaking. Consolidated financial statements for the smallest and largest group undertakings are available from the Registered Office of the Company's immediate parent company, Mitsui Sumitomo Insurance (London Management) Limited at 25 Fenchurch Avenue, London, EC3M 5AD.

### 19. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulation Authority requirements and resource criteria. This has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, 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.

The funds provided by MSI Corporate Capital Ltd at 31 December 2014 consist of the following: cash deposits and investments included in these financial statements and held in the Syndicate Premium Trust Fund £79,775k (2013: £67,919k); letters of credit guaranteed by Mitsui Sumitomo Insurance Company, Ltd of £87,500k (2013: £95,000k); and Japanese bonds provided by Mitsui Sumitomo Insurance Company, Ltd with a market value of ¥24.0 billion (2013: ¥25.70 billion).

### 20. Off-balance sheet items

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