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Specialist

Syndicate 260 Annual Report & Accounts

31 December 2015

Contents

Syndicate 260

Directors and Professional Advisors

MANAGING AGENT:

Managing Agent	Canopius Managing Agents Limited ("CMA")
Directors	I B Owen *Independent Non-Executive Chairman* J D Birney *Independent Non-Executive Director* D Broome *Independent Non-Executive Director (appointed 1 January 2016)* P D Cooper *Finance Director* S R Davies *Chief Executive Officer (appointed 20 August 2015)* M P Duffy *Chief Underwriting Officer & Active Underwriter, Syndicates 4444 and 958* S J Gargrave *CEO, Global Specialty* P F Hazell *Independent Non-Executive Director* S T Manning *Chief Operating Officer* G E Moss *Chief Risk Officer* T P Rolfe *CEO, UK Specialty (resigned 27 January 2016)* M C Watson *Non-Executive Director*
(Interim) Company Secretary	M O'Connell
Managing Agent's Registered Office	Gallery 9, One Lime Street, London EC3M 7HA
Managing Agent's Registered Number	1514453

SYNDICATE:

Active Underwriter	N Manvell
Investment Managers	Schroder Investment Management ("Schroders") 31, Gresham Street, London, EC2V 7QA SYZ & Co Asset Management LLP ("SYZ & Co") Buchanan House, 3 St James's Square, London, SW1Y 4JU
Independent Auditors	PricewaterhouseCoopers LLP ("PwC") 7 More London, Riverside, London, SE1 2RT

Report of the Directors of the Managing Agent

The directors of CMA, the managing agent for Syndicate 260, present the annual report and audited financial statements for the syndicate for the year ended 31 December 2015.

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (“FRS102”), Financial Reporting Standard 103, “Insurance Contracts” and The Companies Act 2006. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Strategic Report

The directors present their strategic report on Syndicate 260 for the year ended 31 December 2015.

Review of the business

Syndicate 260 is a syndicate at Lloyd’s managed by CMA. Its principal activity is the underwriting of UK motor insurance and reinsurance business at Lloyd’s. Syndicate 260 underwrites motor insurance products in niche markets including private car, modern and classic motorcycles, specialist vehicles and classic cars, commercial vehicles, fleet policies and public and private hire vehicles.

Syndicate 260 last underwrote for the 2014 year of account.

Results and performance

The results of the syndicate for the year are set out on pages 9 and 10. In 2015, Syndicate 260 recorded a profit of £13.9m (2014: loss of £9.1m) with a combined ratio of 46.3% (2014: 117.6%). These results reflect a significant improvement on 2014. The main drivers of the syndicate’s performance are:

- reduction in gross premiums written;
- decreases in gross and net claims ratios; and
- reduction in operating costs.

Syndicate 260 operated at a loss for several years before the decision was taken in 2014 to cease underwriting. With no new business written in 2015, gross written premiums dropped to £0.6m (2014: £59.9m) with net premiums earned in 2015 of £25.4m (2014: £61.5m). Its improved performance in 2015 has been driven by better than expected development of claims reserves.

Syndicate 260’s net investment return fell by £1.6m to £0.2m, (2014:£1.8m) due to the continued low interest rate environment. With the syndicate in run-off, net operating expenses decreased.

The 2013 year of account of Syndicate 260 closed with a reported profit of £3.9m. The 2014 year of account is forecast to make a loss in the range (11.1%) to (16.1%) of managed capacity.

Business environment

The Lloyd’s insurance market is highly competitive. A surfeit of capacity, a protracted period of low catastrophe incidents and a continued supply of reserve releases have combined to impact negatively already depressed market conditions. Protracted soft market conditions were a factor in CMA’s decision that Syndicate 260 should cease underwriting at the end of 2014.

Strategy

The strategy remains unchanged, namely, to manage the run-off of the claims in the most cost effective manner.

Key performance indicators (‘KPIs’)

The CMA Board monitors the progress of the syndicate by reference to the following KPIs:

Report of the Directors of the Managing Agent

	2015 £000	2014 £000
Gross premiums written	636	59,895
Earned premiums, net of reinsurance	25,419	61,545
Investment return	202	1,772
Profit/(loss) for the year	13,857	(9,052)
Gross claims ratio	22.7%	78.2%
Net claims ratio	16.7%	83.9%
Expenses ratio	29.6%	33.7%
Combined operating ratio	46.3%	117.6%
Investment return, on average invested balances	0.6%	2.6%

Transition to FRS 102

This is the first year that Syndicate 260 has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

CMA’s governance structure ensures a clear definition of responsibility for the management and oversight of the many risks faced by the business. CMA has established an enterprise risk management process that is designed to identify, assess, measure and mitigate risk.

A description of the principal risks and uncertainties facing the syndicate is set out in note 5 to the financial statements (management of risk).

Future developments

The 2014 year of account of Syndicate 260 is its final underwriting year and it is anticipated that it will be reinsured to close as at 31 December 2016.

Directors

The directors of the managing agent who served from 1 January 2015 to the date of this report are shown on page 3. None of the directors had an allocated premium limit on the syndicate, on either an unlimited or limited liability basis, for either of the 2013 or 2014 years of account.

Statement of disclosure of information to auditors

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

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

Post Balance Sheet Events

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

Report of the Directors of the Managing Agent

Statement of Managing Agent's Responsibilities

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

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

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

Independent Auditors

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

Annual general meeting

The managing agent proposes not to hold in 2016 an annual general meeting of the members of the syndicate, provided that no objection is received from any member of the syndicate within 21 days of the date of issue of these syndicate reports and accounts.

By order of the Board of the managing agent

Paul Cooper
Finance Director
London
15 March 2016

Independent Auditors' Report

To the members of Syndicate 260

Report on the syndicate annual accounts

Our Opinion
In our opinion, Syndicate 260's annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited
The syndicate annual accounts for the year ended 31 December 2015, included within the Syndicate 260 Annual Report and Accounts (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2015;
- the statement of income and retained earnings for the year then ended;
- the statement of cash flows; and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008
In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

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

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

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

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

Our responsibilities and those of the Managing Agent (continued)

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

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Moore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

15 March 2016

Statement of Income and Retained Earnings: Technical Account – General Business

for the year ended 31 December 2015

		2015		2014	
	Notes	**£000**	**£000**	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	7	636		59,895	
Outward reinsurance premiums		(117)		(5,642)	
Net premiums written			519		54,253
Change in the provision for unearned premiums:					
Gross amount		27,476		7,622	
Reinsurers' share		(2,576)		(330)	
Change in the net provision for unearned premiums			24,900		7,292
Earned premiums, net of reinsurance			25,419		61,545
Allocated investment return transferred from the non-technical account	13		202		1,772
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(37,638)		(43,785)	
Reinsurers' share		2,344		414	
Net claims paid		(35,294)		(43,371)	
Change in the provision for claims					
Gross amount		31,268		(8,989)	
Reinsurers' share		(204)		746	
Change in the net provisions for claims		31,064		(8,243)	
Claims incurred, net of reinsurance			(4,230)		(51,614)
Net operating expenses	9, 10		(7,534)		(20,755)
Balance on the technical account for general business			13,857		(9,052)

All of the above amounts are derived from continuing operations.

Statement of Income and Retained Earnings: Non-technical Account

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Balance on the general business technical account		13,857	(9,052)
Investment income	13	392	1,067
Net unrealised (losses)/profits on investments	13	(379)	767
Realised gains on investments	13	309	-
Investment expenses and charges	13	(120)	(62)
Allocated investment return transferred to the general business technical account		(202)	(1,772)
Total comprehensive income		13,857	(9,052)
Members' balances at 1 January	19	(17,252)	(12,469)
Total comprehensive income for financial year		13,857	(9,052)
Payments of (profits) to/collection of losses from members' personal reserve funds		(2,694)	4,316
Payments of members' agents' fees		-	(47)
Members' balances at 31 December		(6,089)	(17,252)

All of the above amounts are derived from continuing operations.

Statement of Financial Position – Assets

at 31 December 2015

	Notes	2015 £000	2015 £000	2014 £000	2014 £000
Investments					
Other financial investments	14		8,096		14,917
Reinsurers' share of technical provisions					
Provision for unearned premiums	24	-		2,576	
Claims outstanding	24	23,392		23,596	
			23,392		26,172
Debtors					
Debtors arising out of direct insurance operations	15	568		4,294	
Debtors arising out of reinsurance operations	16	159		-	
Other debtors	17	23,490		52,673	
			24,217		56,967
Other assets					
Cash at bank and in hand			1,830		1,915
Prepayments and accrued income					
Accrued interest		-		1	
Deferred acquisition costs	23	-		6,632	
Other prepayments and accrued income		65		760	
			65		7,393
Total assets			57,600		107,364

Statement of Financial Position – Liabilities

at 31 December 2015

		2015		2014	
	Notes	**£000**	**£000**	£000	£000
Capital and reserves					
Members' balances	2, 19		(6,089)		(17,252)
Technical provisions					
Provision for unearned premiums	24	-		27,476	
Claims outstanding	24	63,076		94,344	
			63,076		121,820
Creditors					
Creditors arising out of direct insurance operations	20	249		319	
Creditors arising out of reinsurance operations	21	60		529	
Other creditors	22	269		1,045	
			578		1,893
Accruals and deferred income			35		903
Total liabilities			57,600		107,364

The financial statements on pages 9 to 34 were approved by the Board of CMA on 15 March 2016 and were signed on its behalf by:

Paul Cooper
Finance Director
15 March 2016

Statement of Cash Flows

for the year ended 31 December 2015

	2015		2014	
	£000	£000	£000	£000
Cash flows from operating activities				
Total comprehensive income	13,857		(9,052)	
(Decrease)/increase in gross technical provisions	(58,744)		1,368	
Decrease/(increase)in reinsurers' share of gross technical provisions	2,780		(417)	
Decrease in debtors	33,140		4,242	
(Decrease) in creditors	(1,363)		(719)	
Movement in other assets/liabilities	6,460		1,717	
Investment return	(202)		(1,772)	
Net cash outflows from operating activities		(4,072)		(4,633)
Cash flows from investing activities				
Purchase of equity and debt instruments	-		(18,579)	
Sale of equity and debt instruments	6,490		18,458	
Investment income received	311		12	
Investment expenses	(120)		(62)	
Net cash flows from investing activities		6,681		(171)
Cash flows from financing activities				
Distribution of (profits)/collection of losses	(2,694)		4,316	
Payment of members' agents' fees	-		(47)	
Net cash flows from financing activities		(2,694)		4,269
Net (decrease) in cash and cash equivalents		(85)		(535)
Cash and cash equivalents at beginning of year		1,915		2,450
Cash and cash equivalents at end of year		1,830		1,915

Notes to the Financial Statements

for the year ended 31 December 2015

1. Basis of preparation

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (“FRS102”), Financial Reporting Standard 103, “Insurance Contracts” and The Companies Act 2006. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations"). The directors of the managing agent have prepared the financial statements on the basis that the syndicate will not write future business.

There are no financial effects of the transition to FRS102 as discussed in Note 18.

2. Members’ balances and Funds at Lloyd’s (“FAL”)

The members’ balances on the balance sheet shows a deficit of £6.1m (2014: deficit of £17.3m). The ability of the syndicate to meet its obligations as they fall due is underpinned by the members’ Funds at Lloyd’s and the support provided by the Lloyd’s chain of security for any members who are unable to meet their underwriting liabilities. FAL is further explained in Note 29.

3. Summary of significant accounting policies

a. Insurance contracts

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

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

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

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

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

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

The accounting policies for insurance claims and claims settlement expenses are considered in Note 4, Critical accounting judgements and estimation uncertainty.

Notes to the Financial Statements

for the year ended 31 December 2015

3. Summary of significant accounting policies (continued)

a. Insurance contracts (continued)

Short Tail Business

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

Longer tail business

Personal injury is generally longer tail and so a larger element of the claims provision relates to IBNR claims. Claims estimates for business in this category are derived from a combination of loss ratio based estimates and estimates based upon actual claims experience, using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimates of the claims provisions are based on the experience of previous years and benchmarks adjusted for factors such as premium rate changes and claims inflation. For liability claims, the assessment of claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability classes of business are also subject to the emergence of new types of latent claims.

Syndicate 260 has been notified of one Periodic Payment Order (PPO). A PPO is a structured settlement of regular payments spread over the remainder of a claimant's lifetime in lieu of a single lump sum settlement. They are used to settle severe bodily injury claims when it is considered to be in the best interests of the claimant. By their very nature, PPOs are substantial commitments. The regular payments transfer the mortality and investment risk from the claimant to the insurer.

b. Unexpired risk reserves

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

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

c. Deferred acquisition costs

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

d. Reinsurance to close ("RITC")

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

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

e. Outwards reinsurance contracts

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

3. Summary of significant accounting policies (continued)

e. Outwards reinsurance contracts (continued)

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

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

f. Receivables and payables related to insurance contracts

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

g. Financial assets

The syndicate states financial assets at fair value.

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

g. Financial assets (continued)

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

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

(ii) Loans and receivables

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

(iii) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

h. Taxation

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

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

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

4. Critical accounting judgements and estimation uncertainty

Insurance claims and claims settlement expenses

Insurance claims and claims settlement expenses comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for IBNR and related expenses, together with any other adjustments to claims from prior years.

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

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

Syndicate 260’s reserves for PPOs are assessed regularly. All open claims are categorised depending on the risk of settling as a PPO. The PPO reserve is determined by reference to the additional costs associated with a claim should it settle as a PPO. The probability and associated additional costs of a claim converting to a PPO determines the uplift to be applied to create the PPO reserve.

4. Critical accounting judgements and estimation uncertainty (continued)

Insurance claims and claims settlement expenses (continued)

Syndicate 260's PPO reserve has been discounted as permitted by Lloyd's Valuation of Liabilities Rules. The future payments, both gross and net of reinsurance, have been discounted back to the valuation date using a risk free yield curve.

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

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

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

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

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

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

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

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

Premium estimates

Gross written premiums include an estimate of the total premiums expected to be received under each insurance and reinsurance contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips, is estimated in full at the inception of such contracts and, therefore, this estimate is judgmental. Further adjustments to estimates from previous years are also included in the reported premiums for the relevant underwriting years.

4. Critical accounting judgements and estimation uncertainty (continued)

Premium estimates (continued)

Premium estimation uses expert judgement, the quality of the estimate being influenced by the nature and maturity of the portfolio, availability of timely data, relevant underwriting input to the estimating process and management review. Gross written premium estimates are reviewed regularly using underwriter estimates and actuarial projections.

Financial investments

The syndicate uses prices provided by investment managers and counterparty banks in determining the fair value of financial assets. Depending on the methods and assumptions used, for example, in the fair valuation of Level 2 and Level 3 financial assets, the fair valuation can be subject to estimation uncertainty. These methods and assumptions are described in Note 5.

5. Management of risk

Insurance risk

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

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

The underwriters use their expertise and experience to determine the likely claims cost and, therefore, the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit in line with the agreed business plan.

Due to the nature of insurance risk, however, the premium charged may not be sufficient to cover the cost of claims. The shortfall may result from insufficient premium being calculated and charged or from an unexpected or unprecedented high level of claims.

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

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

The syndicate is also exposed to the risk of:

- inappropriate claims reserves;
- inappropriate payment of claims.

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

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

5. Management of risk (continued)

Concentrations of insurance risk

Insurance risk is defined as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Syndicate 260's exposure to insurance risk arises from underwriting/pricing, insurance concentrations, reserving and reinsurance. The Board of CMA seeks to mitigate insurance risk by analysing historical pricing and claims experience, setting a tolerance to concentration risk, monitoring performance, and conducting in-house and external actuarial review of claims provisions, independent of the underwriting teams.

The syndicate has formal controls in place to ensure that business is underwritten in a controlled environment by reference to both the annual business plan and in line with underwriting policy. Preventative controls include underwriting authority limits which are agreed and signed off by the Active Underwriter, divisional and Group underwriting guidelines and benchmark ratings for all underwriting divisions. Detection controls include exception reports where authority limits are exceeded, expert review procedures, peer reviews and internal audit reviews. The underwriting controls team monitors compliance with these controls and reports to senior management as necessary.

CMA's capital setting methodology enables modelling to be performed in a sophisticated, but practical, manner particularly in determining the correlations between catastrophe exposed classes of business. Stochastic models use event tables which capture directly the different geographic distributions of risk in the various lines of business.

Effective risk management in non core areas and from non modelled perils is ensured using a suite of exposure accumulation and aggregation monitoring techniques and proprietary deterministic models.

Development of claims

The claims provisions established can be more or less than adequate to meet eventual claims. The level of uncertainty varies from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be a £0.4m gain/loss (2014: £0.7m).

Claims development tables

The development of insurance liabilities provides a measure of the syndicate's ability to estimate the ultimate value of claims.

The tables below are presented at the exchange rates prevailing at 31 December 2015.

At 31 December 2015 **Gross of reinsurance**	***2010 & prior £'000***	***2011 £'000***	***2012 £'000***	***2013 £'000***	***2014 £'000***	***Total £'000***
Estimate of cumulative claims						
At end of underwriting year		16,695	22,017	25,369	30,608	
One year later		32,425	37,421	57,302	51,450	
Two years later		31,781	37,852	49,877		
Three years later		31,124	35,569			
Four years later		27,754				
Five years later	496,417					
	496,417	27,754	35,569	49,877	51,450	661,067
Cumulative payments	482,924	26,168	27,420	33,627	27,852	597,991
Estimated balance to pay	13,493	1,586	8,149	16,250	23,598	63,076

5. Management of risk (continued)

Claims development tables (continued)

At 31 December 2015 **Net of reinsurance**	*2010 & prior £'000*	*2011 £'000*	*2012 £'000*	*2013 £'000*	*2014 £'000*	*Total £'000*
Estimate of cumulative claims						
At end of underwriting year		14,667	19,268	22,924	27,796	
One year later		29,640	33,416	52,667	46,017	
Two years later		29,861	33,036	45,958		
Three years later		29,335	29,938			
Four years later		26,916				
Five years later	448,358					
	448,358	26,916	29,938	45,958	46,017	597,187
Cumulative payments	444,624	25,568	25,832	33,627	27,852	557,503
Estimated balance to pay	3,734	1,348	4,106	12,331	18,165	39,684

Market risk

Market risk arises from fluctuations in values of, or income from, assets or in interest rates and is derived primarily from the syndicate's investment of trust fund monies. The Board has agreed an investment strategy commensurate with the syndicate's risk appetite.

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

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

Sensitivity to Market Risk

Interest rate risk

CMA manages sensitivity to market conditions by reference to interest rate risk and equity price risk. Part of the syndicate's investments comprise cash and fixed income securities by virtue of the inter-syndicate loan arrangements with Syndicate 4444. The fair value of the portfolio is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the syndicate's fixed income securities tends to rise and vice versa. The fair value of fixed income investments in the syndicate's balance sheet at 31 December 2015 was £23.5m (2014: £52.7m) with an average duration of around 2.8 years (2014: 1.7 years). If interest rates were to rise/(fall) by 50 basis points at the balance sheet date, the fair value and therefore the profit for the financial year and members' balances would decrease/(increase) by approximately £0.3m (2014: 0.4m).

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

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

Equity price risk

At the balance sheet date the syndicate's exposure to equity price risk was limited to a maximum allocation of £1.6m within the SYZ & Co managed funds (2014: £3.3m). If the FTSE 100/S&P 500 were to rise/(fall) by 5% at the balance sheet date, the profit for the financial year and members' balances would increase/(decrease) by approximately £0.1m (2014: £0.1m).

Equity price risk is managed through a well diversified portfolio which is complemented by non-correlated assets.

5. Management of risk (continued)

Regulatory risk

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

Regulatory risk is managed by the risk and compliance teams to ensure legislative and regulatory changes are understood and observed.

Operational risk

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

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

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

Group risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. SCAG is the global specialty lines platform of Sompo Japan Nipponkoa Holdings Inc. ("Sompo Holdings") which has total assets of c.$90 billion. SCAG is wholly owned by the principal subsidiary of Sompo Holdings, Sompo Japan Nipponkoa Insurance Inc. ("SJNK"), an A+ rated company and one of the top three Japanese property and casualty insurers.

5. Management of risk (continued)

Group risk (continued)

Sompo Holdings engages in strategic risk management (SRM) with the aim of maximising Group corporate value. It is used to identify significant risks from a variety of sources throughout the group, which has established an integrated risk control system to analyse, assess, and control risks while maintaining the ability to accurately respond to risks when they occur.

Financial risk

The syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts. An analysis of the syndicate's exposure to the significant components of financial risk is given below.

Credit risk

Credit risk is the risk that the syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations. Credit risk could, therefore, impact upon the syndicate's ability to meet its claims as they fall due. The syndicate has in place policies and procedures designed to manage its credit risk exposures.

The primary sources of credit risk for the syndicate are:

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

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security by CMA's reinsurance security committee, prior to the purchase of reinsurance contracts. Guidelines are set and monitored, that limit the purchase of reinsurance based on Standard & Poor's or appropriate alternative ratings for each reinsurer. The credit risk in respect of reinsurers is primarily managed by CMA's reinsurance support team. Provisions are made against the amounts due from certain reinsurers, depending on the current rating assigned to the reinsurer. Some reinsurers provide collateral, usually in the form of letters of credit, to protect the syndicate in the event of non-payment of debt. As this collateral effectively guarantees the debt, these reinsurers are zero-rated for bad debt provisions. The recovery of debt from reinsurers is administered by the reinsurance support team.

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

The finance committee regularly reviews inwards premiums debtors and reinsurance debtors by reference to the age of the debt. Debts from insurance intermediaries fall due according to the terms of trade; debts from reinsurers crystallise in line with the reinsurance contract terms. An analysis of amounts past due from insurance intermediaries and reinsurers by age is presented below.

At 31 December 2015	***Neither past due nor impaired***	***Up to 3 months***	***3 – 6 months***	***6 – 12 months***	***More than 12 months***	***Impaired financial assets***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Debtors arising out of direct insurance operations	552	3	5	8	-	-	568
Debtors arising out of reinsurance operations	159	-	-	-	-	-	159
Total	711	3	5	8	-	-	727

5. Management of risk (continued)

Credit risk (continued)

At 31 December 2014	*Neither past due nor impaired*	*Up to 3 months*	*3 – 6 months*	*6 – 12 months*	*More than 12 months*	*Impaired financial assets*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Debtors arising out of direct insurance operations	3,694	596	4	-	-	-	4,294
Debtors arising out of reinsurance operations	-	-	-	-	-	-	-
Total	3,694	596	4	-	-	-	4,294

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

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

At 31 December 2015	*AAA*	*AA*	*A*	*BBB or lower*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Reinsurance debtors and reinsurers' share of claims outstanding	-	6,558	16,993	-	-	23,551
Holdings in collective investment schemes and participations in investment pools	1,271	1,370	1,515	2,345	1,595	8,096
Cash and overseas deposits	-	-	5	1,825	-	1,830
Total	1,271	7,928	18,513	4,170	1,595	33,477

At 31 December 2014	*AAA*	*AA*	*A*	*BBB or lower*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Reinsurance debtors and reinsurers' share of claims outstanding	-	5,518	18,078	-	-	23,596
Holdings in collective investment schemes and participations in investment pools	4,654	2,989	1,977	2,020	3,277	14,917
Cash and overseas deposits	-	-	1,915	-	-	1,915
Total	4,654	8,507	21,970	2,020	3,277	40,428

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

The underlying investments in 'not rated' holdings in collective investments are shown below.

Underlying investments in 'not rated'	*2015*	*2014*
	£000	*£000*
Equities	1,595	3,277
Total	1,595	3,277

5. Management of risk (continued)

Fair Value Hierarchy

The syndicate has classified its financial instruments in accordance with the requirements of Section 11.27 of FRS102. The fair value hierarchy classifies financial instruments into Level 1 to 3 based on the significance of the inputs used in measuring their fair value.

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

Level 1 - Based on a quoted price for an identical asset in an active market. The quoted price should be readily and regularly available and it is usually the bid price.

Level 2 - Where quoted prices are not available, the price of recent transactions for an identical asset may be used as the fair value. This is only used where there has not been a significant change in economic circumstances or a significant lapse of time since the last transaction took place. This price may be adjusted if the last transaction price is not a good estimate of fair value.

Level 3 - Where the above two approaches are not possible, a valuation technique may be applied to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

31 December 2015	***Level 1 £000***	***Level 2 £000***	***Level 3 £000***	***Total £000***
Holdings in collective investment schemes	-	8,096	-	8,096
Total	-	8,096	-	8,096

31 December 2014	***Level 1 £000***	***Level 2 £000***	***Level 3 £000***	***Total £000***
Holdings in collective investment schemes	14,917	-	-	14,917
Total	14,917	-	-	14,917

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

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

Currency risk

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the syndicate operates. The syndicate writes business solely in pounds sterling and has no exposure to exchange rate risk. The functional currency for Syndicate 260 is sterling.

Liquidity risk

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2015

5. Management of risk (continued)

Liquidity risk (continued)

The tables below show the contractual maturities for financial liabilities.

31 December 2015	*No stated maturity*	*0-1 year*	*1-3 years*	*3-5 years*	*>5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Creditors	-	269	-	-	-	269
Creditors arising out of direct and reinsurance operations	-	309	-	-	-	309
Claims outstanding	-	26,041	26,237	8,758	2,040	63,076
Total	-	26,619	26,237	8,758	2,040	63,654

31 December 2014	*No stated maturity*	*0-1 year*	*1-3 years*	*3-5 years*	*>5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Creditors	-	1,045	-	-	-	1,045
Creditors arising out of direct and reinsurance operations	-	848	-	-	-	848
Claims outstanding	-	41,867	35,587	12,621	4,269	94,344
Total	-	43,760	35,587	12,621	4,269	96,237

6. Capital setting, capital management policies and objectives

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

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

The Society of Lloyd’s applies capital requirements at member level and in aggregate to ensure that Lloyd’s complies with Solvency II, whilst meeting its own financial strength, licence and ratings objectives.

Although Lloyd’s capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd’s capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 260 is not disclosed in these financial statements.

The PRA and Lloyd’s oversee the capital setting regime that requires syndicates to calculate their own capital requirements through a Solvency Capital Requirement (“SCR”). The SCR must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR ‘to ultimate’). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd’s to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd’s and approval by the Lloyd’s capital and planning group.

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

6. Capital setting capital management policies and objectives (continued)

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 12, represent resources available to meet members' and Lloyd's capital requirements.

The syndicate maintains models in accordance with this regime, and also prepares an annual own risk & solvency assessment ("ORSA") report.

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

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

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

To improve the risk management capability, and the assessment of capital requirements, CMA has developed a stochastic model to analyse the potential performance of its main underwriting operations. Stress and scenario analysis is also performed for those risks that cannot be easily modelled quantitatively and where more subjective judgement is required (for example, operational risk) as well as to challenge the output of the stochastic model.

Using its detailed measurement of risk exposures, the syndicate allocates capital to support the business according to the risk appetite and expected returns. The syndicate has complied with all capital requirements during the year.

CMA has developed and implemented documentation, procedures and controls to ensure compliance with Solvency II, the fundamental overhaul of the capital adequacy regime for the European insurance industry. Solvency II introduces a new, harmonised EU-wide insurance regulatory regime to:

- Improve consumer protection by ensuring a uniform and enhanced level of policyholder protection across the European Union. A more robust system will give policyholders greater confidence in the products of insurers.
- Modernise supervision. The "Supervisory Review Process" will shift supervisors' focus from compliance monitoring and capital to evaluating insurers' risk profiles and the quality of their risk management and governance systems.
- Deepen EU market integration through the harmonisation of supervisory regimes.
- Increase international competitiveness of EU insurers.

Solvency II was implemented on 1 January 2016.

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

7. Segmental analysis

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

2015	***Gross written premiums***	***Gross premiums earned***	***Gross claims incurred***	***Gross operating expenses***	****Reins. Balance***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Direct Insurance:						
Motor (third party liability)	249	13,070	5,674	(3,428)	(269)	15,047
Motor (other classes)	395	15,050	(13,810)	(4,021)	-	(2,781)
	644	28,120	(8,136)	(7,449)	(269)	12,266
Reinsurance inwards	(8)	(8)	1,765	(85)	(283)	1,389
Total	636	28,112	(6,371)	(7,534)	(552)	13,655

2014	***Gross written premiums***	***Gross premiums earned***	***Gross claims incurred***	***Gross operating expenses***	****Reins. Balance***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Direct Insurance:						
Motor (third party liability)	27,755	29,653	(22,332)	(8,969)	(4,561)	(6,209)
Motor (other classes)	31,743	30,506	(24,869)	(9,517)	-	(3,880)
	59,498	60,159	(47,201)	(18,486)	(4,561)	(10,089)
Reinsurance inwards	397	7,358	(5,573)	(2,269)	(250)	(734)
Total	59,895	67,517	(52,774)	(20,755)	(4,811)	(10,823)

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

All premiums were written and concluded in the United Kingdom.

8. Net claims outstanding

A favourable/(adverse) run-off deviation was experienced during the year in respect of the following classes of business:

	2015	*2014*
	£000	*£000*
Motor (third party liability)	20,130	6,177
Motor (other classes)	(6,825)	(4,856)
	13,305	1,321
Reinsurance inwards	1,387	(47)
Total	14,692	1,274

9. Net operating expenses

	2015	*2014*
	£000	*£000*
Commissions on direct business	241	10,633
Other acquisition costs	-	3,251
Change in deferred acquisition costs	6,632	2,105
Administrative expenses	(18)	3,649
Total expenses	6,855	19,638

9. Net operating expenses (continued)

Administrative expenses include:

	2015 £000	*2014 £000*
Auditors' remuneration:		
Audit of syndicate accounts	62	57
Audit related assurance	20	19
Other assurance services	-	6
Total audit and assurance	82	82
Other non-audit services	5	10
Total audit and non-audit fees	87	92

10. Personal Expenses

	2015 £000	*2014 £000*
Members' standard personal expenses	(19)	418
Managing Agent's fee	699	699
Total	680	1,117

11. Staff numbers and costs

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

	2015 £000	*2014 £000*
Wages and salaries	1,657	4,477
Social security costs	188	516
Pension contributions to money purchase schemes	135	950
Total	1,980	5,943

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

	2015	*2014*
Underwriting	-	30
Insurance Services	14	18
Other	9	26
Total	23	74

12. Emoluments of the directors of Canopius Managing Agents Limited

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

	2015 £000	*2014 £000*
Emoluments	165	280
Pension contributions to money purchase schemes	2	9
Total	167	289

12. Emoluments of the directors of Canopius Managing Agents Limited (continued)

Retirement benefits are accruing to 3 directors (2014: 7) under money purchase schemes.

The Active Underwriter received the following remuneration charged as a syndicate expense:

	2015	*2014*
	£000	*£000*
Emoluments	-	141
Pension contributions to money purchase schemes	-	21
Total	-	162

13. Net investment income recognised in profit or loss

	2015 £000	*2014 £000*
Interest and similar income		
Interest on cash at bank	1	13
Investment expenses	(120)	(62)
Total interest and similar income	(119)	(49)
Other income from investments designated at fair value through profit or loss		
Realised gains and losses on investments	309	-
Unrealised gains and losses on investments	12	1,821
Total other income	321	1,821
Net investment return transferred to the general business technical account	202	1,772

	2015 £000	***2014 £000***
Average amount of syndicate funds available for investment during the year	51,792	68,084
Gross aggregate investment return for the calendar year in sterling	322	1,834
Gross calendar year investment yield	0.6%	2.7%

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

14. Other financial investments

	Market value		**Cost**	
	2015	*2014*	***2015***	*2014*
	£000	*£000*	***£000***	*£000*
Holdings in collective investment schemes	8,096	14,917	7,659	14,144
Total	8,096	14,917	7,659	14,144

Notes to the Financial Statements

for the year ended 31 December 2015

15. Debtors arising out of direct insurance operations

	2015	2014
	£000	£000
Due within one year		
Intermediaries	568	4,294
	568	4,294

16. Debtors arising out of reinsurance operations

	2015 £000	2014 £000
Due within one year		
Ceding insurers and intermediaries under reinsurance business	159	-
	159	-

17. Other debtors

	2015 £000	2014 £000
Due within one year		
Inter-syndicate loan with Syndicate 4444	23,462	52,671
Other	28	2
	23,490	52,673

18. Transition to FRS102

This is the first year that the syndicate has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014.

This has resulted in some presentational changes to these financial statements. It has not, however, required a restatement of the result for the prior period nor to members' balances brought forward.

19. Reconciliation of members' balances

	2015 £000	2014 £000
Members' balances at 1 January	(17,252)	(12,469)
Profit/(loss) for the financial year	13,857	(9,052)
Member's agents' fees paid on behalf of members	-	(47)
Payments of (profits) to / collection of losses from members' personal reserve funds	(2,694)	4,316
Total	(6,089)	(17,252)

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

Notes to the Financial Statements

for the year ended 31 December 2015

20. Creditors arising out of direct insurance operations

	2015 £000	*2014 £000*
Due within one year		
Intermediaries	249	319
Total	249	319

21. Creditors arising out of reinsurance operations

	2015 £000	*2014 £000*
Due within one year		
Reinsurance ceded	60	529
Total	60	529

22. Other creditors

	2015 £000	*2014 £000*
Due within one year		
Amounts due to group undertakings	60	382
Inter-syndicate loan with Syndicate 4444	167	-
Inter-syndicate loan with Syndicate 958	42	-
Other	-	663
Total	269	1,045

23. Deferred acquisition costs

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2015 £000	*2014 Restated £000*
At 1 January 2015	6,632	8,737
Change in deferred acquisition costs	(6,632)	(2,105)
At 31 December 2015	-	6,632

24. Reconciliation of insurance balances

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		***Reinsurers' share***	
	2015 £000	*2014 Restated £000*	**2015 £000**	*2014 Restated £000*
At 1 January 2015	27,476	35,098	2,576	2,906
(Decrease) in provision	(27,476)	(7,622)	(2,576)	(330)
At 31 December 2015	-	27,476	-	2,576

24. Reconciliation of insurance balances (continued)

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2015 £000	*2014 Restated £000*	***2015 £000***	*2014 Restated £000*
At 1 January 2015	94,344	85,354	23,596	22,850
Increase/(decrease) in provision	(31,268)	8,990	(204)	746
At 31 December 2015	63,076	94,344	23,392	23,596

25. Post balance sheet events

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

26. Pensions

CSL operates defined contribution pension schemes for the employees of CSL, including those working on the syndicate's affairs during the year. The assets of the schemes are held separately from those of CSL in independently administered funds. The amounts recharged to the syndicate from CSL in respect of pensions are disclosed in Note 11. Some employees are members of a defined benefit scheme which closed to further contributions with effect from 1 July 2010.

27. Related parties

Transactions between the Managing Agent/Service Company and the Syndicate

CMA is the managing agent of Syndicate 260 and its immediate parent is Canopius Holdings UK Limited ("CHUKL"). Managing agency fees of £699,000 were paid by the syndicate to CMA during 2015 (2014: £699,000).

Employment of staff, provision of accommodation and related services are provided at cost by CSL, which is owned by CHUKL. Expenses during 2015 totalling £3,041,000 (2014: £10,242,000) were recharged to the syndicate by CSL.

At 31 December 2015, Syndicate 260 owed CSL £12,000 (2014: £382,000).

At 31 December 2015, Syndicate 260 owed SCAG £48,000 (2014: £nil) in respect of investment losses arising on derivative hedging and overlay positions shared by SCAG and its affiliated entities. Syndicate 260 shares in the profits and losses associated with these arrangements.

Canopius UK Specialty Limited ("CUKSL") formerly K Drewe Insurance Brokers Limited ("KDIBL")

Canopius UK Specialty Limited ("CUKSL") is an insurance broker that underwrites multi-vehicle business on behalf of the syndicate. Premiums written during 2015 totalled £5,000 (2014: £508,000) and commission totalled £1,000 (2014: £124,000). At 31 December 2015, £1,000 (2014: £23,000) was due from CUKSL to the syndicate.

Syndicate 4444

At 31 December 2015, Syndicate 260 held an inter-syndicate loan balance due from Syndicate 4444 £23,462,000 (2014: £52,671,000). These funds are invested on Syndicate 260's behalf with Schroders in high quality short dated bonds with performance monitored against short term government indices. Investment income of £391,000 (2014: £1,054,000) is included within the account.

Notes to the Financial Statements

for the year ended 31 December 2015

27. Related parties (continued)

Syndicate 4444 (continued)

Syndicate 260 acted as receiving and paying agent for Syndicate 4444 during 2015 in respect of the motor insurance and reinsurance books of business previously underwritten by Syndicate 260. Syndicate 260 collected premiums of £25,474,000 (2014: £nil) and paid claims of £5,876,000 (2014: £nil) on behalf of Syndicate 4444. At 31 December 2015, Syndicate 260 owed Syndicate 4444 £167,000 in respect of these arrangements (2014: £nil).

Syndicate 958

Syndicate 958 provided reinsurance security to Syndicate 260 in respect of its 2012 and earlier years of account. During the year, reinsurance recoveries were received of £335,000 (2014: £38,000). At 31 December 2015, no reinsurance premiums were due to Syndicate 958 (2014: £1,000) and Syndicate 260 was owed £1,638,000 (2014: £1,518,000) relating to outstanding claim recoveries.

Syndicate 260 also acted as receiving and paying agent for Syndicate 958 during 2015 in respect of the motor insurance and reinsurance books of business previously underwritten by Syndicate 260. Syndicate 260 collected premiums of £6,396,000 (2014: £nil) and paid claims of £1,469,000 (2014: £nil) on behalf of Syndicate 958.

Other group companies

Flectat Limited ("Flectat"), a wholly-owned subsidiary of CHUKL, provided capacity to Syndicate 260 as below:

	2013		***2014***	
	£m		£m	
Flectat	64.4	92%	64.8	93%

28. Immediate and ultimate parent undertaking and controlling party

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

SCAG is wholly-owned by SJNK which itself is a wholly-owned direct subsidiary of Sompo Holdings, incorporated in Japan.

Sompo Holdings is the ultimate parent undertaking and controlling party of CMA. Copies of the consolidated financial statements for Sompo Holdings are available from 26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338, Japan.

29. Funds at Lloyd's

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

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