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Specialist

Syndicate 260 Underwriting Year Accounts for the 2013 Year of Account Closed as at 31 December 2015

Contents

Syndicate 260

Directors and Professional Advisors

To the members of Syndicate 260 – 2013 Closed Year of Account

MANAGING AGENT:

Managing Agent	Canopius Managing Agents Limited ("CMA")
Directors	I B Owen *Independent Non-Executive Chairman* I K Beale *(resigned 10 January 2014)* J D Birney *Independent Non-Executive Director* R Bradley *(resigned 25 February 2014)* D Broome *Independent Non-Executive Director (appointed 1 January 2016)* P D Cooper *Finance Director (appointed 8 April 2013)* 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* J A Giordano *Non-Executive Director (resigned 31 October 2013)* P F Hazell *Independent Non-Executive Director (appointed 19 November 2014)* S T Manning *Chief Operating Officer* G E Moss *Chief Risk Officer* T P Rolfe *CEO, UK Specialty (appointed 27 June 2014, resigned 27 January 2016)* M C Watson *Non-Executive Director (appointed 26 April 2014)*
(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

To the members of Syndicate 260 – 2013 Year of Account

The directors of CMA, the managing agent for Syndicate 260, present their report at 31 December 2015 for the 2013 closed year of account.

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

Principal Activities

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

Review of the business for the closed 2013 year of account

The syndicate capacity for 2013 was £69.9m. The 2013 year has closed with a profit of £3.9m (5.6% of capacity). The make-up of the result is a combination of the pure year experience which generated a loss of £3.8m and an improvement of £7.7m from the 2012 and prior years. The surplus on the old years is due to better than expected claims experience in the 2015 calendar year.

The key performance indicators for the 2013 and prior years are shown in the table below.

	£000
Gross premiums written	67,360
Earned premiums, net of reinsurance	61,746
Net operating expenses (including members' personal expenses)	20,603
Investment return	1,018
Profit for the year	3,890
Gross claims ratio	63.6%
Net claims ratio	62.0%
Expenses ratio	33.3%
Combined operating ratio	95.3%

For the 2013 year of account, gross written premiums totalled £67.4m. The 2013 year of account was impacted significantly by the competitive trading environment and continued pressure on pricing.

Review of the open years of account

The 2014 year of account of Syndicate 260 is forecast to make a loss in the range (11.1%) to (16.1%) of stamp capacity. Syndicate 260 did not trade for the 2015 year of account.

Investment Performance for the closed 2013 year of account

The investment portfolio has achieved a return of £1.0m which reflects the focus on high-quality fixed income securities during a protracted period of historically low interest rates and challenging investment conditions. The sterling portfolio was managed by Schroders. The syndicate also invested in the Oyster absolute return fund managed by SYZ & Co.

Risk Management

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

Report of the Directors of the Managing Agent

To the members of Syndicate 260 – 2013 Year of Account

Directors
The directors of the managing agent who served from 1 January 2013 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 the 2013 year 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.

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.

The Report of the directors of the managing agent was approved by the Board of directors of CMA on 18 March 2016 and signed on its behalf by:

Gaynore Moss
Chief Risk Officer
London
22 March 2016

Independent Auditors’ Report

To the members of Syndicate 260 – 2013 Closed Year of Account

Report on the syndicate underwriting year accounts

Our Opinion

In our opinion, Syndicate 260’s underwriting year accounts for the 2013 year of account for the three years ended 31 December 2015 (the “syndicate underwriting year accounts”):

- give a true and fair view of the state of the syndicate’s profit for the 2013 closed year of account; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The syndicate underwriting year accounts, included within the Underwriting Year Accounts (the “Annual Report”), comprise:

- the Balance Sheet as at 31 December 2015;
- the Statement of Total Comprehensive Income for the three years then ended;
- the statement of cash flows for the three years then ended; and
- the notes to the syndicate underwriting year 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 underwriting year accounts is applicable law and United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS102”) as modified by the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005).

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

Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent’s Responsibilities set out on page 5, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the financial reporting framework described above and for being satisfied that they give a true and fair view of the result for the 2013 closed year of account.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

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 part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

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

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

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

22 March 2016

Statement of Total Comprehensive Income: Technical Account – General Business

for the 2013 Closed Account for the three years ended 31 December 2015

	Note	Cumulative as at 31 December 2015 £000
Syndicate Allocated Capacity		69,854
Earned premiums, net of reinsurance		
Gross premiums written	4	67,360
Outward reinsurance premiums		(5,614)
Earned premiums, net of reinsurance		61,746
Reinsurance to close premium received, net of reinsurance	5	27,015
		88,761
Allocated investment return transferred from the non-technical account		1,018
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(46,111)
Reinsurers' share		2,344
Net claims paid		(43,767)
Reinsurance to close premium payable, net of reinsurance	6	(21,519)
		(65,286)
Standard personal expenses		(1,241)
Operating expenses	7	(19,362)
Balance on the technical account for general business		3,890

Statement of Total Comprehensive Income: Non-technical Account

for the 2013 Closed Account for the three years ended 31 December 2015

	Note	*Cumulative as at 31 December 2015*
		£000
Balance on the general business technical account		3,890
Investment income	8	1,054
Unrealised gains on investments	8	338
Unrealised (losses) on investments	8	(267)
Investment expenses and charges	8	(107)
Allocated investment return transferred to the general business technical account		(1,018)
Total comprehensive income – profit for the 2013 closed year of account		3,890

Statement of Financial Position

For the 2013 Closed Year of Account at 31 December 2015

Assets

	Note	£000	31 December 2015 £000
***Investments** - other financial investments*	10		6,070
Debtors			
Debtors arising out of direct insurance operations	11	241	
Debtors arising out of reinsurance operations	12	159	
Other debtors	13	17,591	
			17,991
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	6		17,959
Other Assets			
Cash at bank and in hand			1,372
Total assets			43,392

Liabilities

	Note	31 December 2015 £000
Amounts due to members	14	3,839
Reinsurance to close premium payable to close the account – gross amount	6	39,478
Creditors		
Creditors	15	75
Total liabilities		43,392

The financial statements on pages 8 to 22 were approved by the Board of CMA on 22 March 2016 and were signed on its behalf by:

Gaynore Moss
Chief Risk Officer
22 March 2016

Statement of Cash Flows

for the 2013 Closed Year of Account for the three years ended 31 December 2015

	Note	31 December 2015 £000
Net cash inflow from operating activities	16	816
Financing:		
Members' agents' fees paid on behalf of members		(51)
Net cash flows	17	765
Cash flows were invested as follows:		
Increase in cash holdings	17	556
Net portfolio investment	17	(607)
Cash consideration from net RITC received	17	816
Net investment of cash flows		765

Notes to the Financial Statements

for the 2013 Closed Year of Account at 31 December 2015

1. Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

These accounts relate to the 2013 year of account which has been closed by reinsurance to close as at 31 December 2015. Consequently the balance sheet represents the assets and liabilities of the 2013 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three-year period until closure. These accounts cover the three years from the date of inception of the 2013 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

2. Summary of significant accounting policies

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

Premiums written

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

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

Reinsurance premium ceded

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

Claims paid and related recoveries

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

Reinsurance to close premium payable

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

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

2. Summary of significant accounting policies (continued)

Reinsurance to close premium payable (continued)

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

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

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

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

Short Tail Business

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

Longer tail business

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

Investments

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

Investment return

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

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

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

2. Summary of significant accounting policies (continued)

Investment return (continued)

A formulaic allocation method ('Riesco') is used for attributing investment income to years of account. The formula considers the principal profit and loss drivers by year of account to determine an equitable allocation of the investment income.

Operating expenses

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

Loans and receivables

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

Taxation

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

Pension costs

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

Profit commission

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

3. 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.

3. Management of risk (continued)

Insurance risk (continued)

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

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.

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.

3. Management of risk (continued)

Credit risk (continued)

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.

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 and from currency exposures. The Board has agreed an investment strategy commensurate with the syndicate's risk appetite.

Credit risk within the investment portfolios is managed through research performed by the syndicate's investment managers whose activities are monitored by the Investment 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. Sterling is the syndicate's functional currency.

Liquidity risk

All valid claims must be paid as they fall due; 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 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.

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

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.

3. Management of risk (continued)

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.

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.

Notes to the Financial Statements

for the 2013 Closed Year of Account at 31 December 2015

4. Segmental analysis

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

	Gross written premiums (Note a) £000	Gross claims incurred (Note b) £000	Gross operating expenses £000	Reins. Balance (Note c) £000	Total £000
Direct Insurance:					
Motor (third party liability)	29,914	(25,565)	(8,721)	(1,105)	(5,477)
Motor (other classes)	27,564	(18,832)	(8,093)	-	639
	57,478	(44,397)	(16,814)	(1,105)	(4,838)
Reinsurance:	9,882	(5,481)	(3,789)	(589)	23
	67,360	(49,878)	(20,603)	(1,694)	(4,815)
RITC received	42,773	(35,711)	-	625	7,687
Total	110,133	(85,589)	(20,603)	(1,069)	2,872

a. Gross premiums earned are identical to gross premiums written.

b. Gross claims incurred include gross claims paid and gross reinsurance to close premium payable.

c. The reinsurance balance includes reinsurance premiums ceded and reinsurance recoveries anticipated on reinsurance to close receivable less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on reinsurance to close payable. Also included within this balance are reinsurers' commissions and profit participations.

d. All premiums were concluded in the UK.

5. Reinsurance to close premium received from the 2012 year of account

	2013 £000
Gross reinsurance to close received	42,773
Reinsurance recoveries anticipated	(15,758)
Reinsurance to close premium received, net of reinsurance	27,015

6. Reinsurance to close premium payable

	£000	2013 £000
Gross notified outstanding claims	34,422	
Reinsurance recoveries anticipated	(13,173)	
Net notified outstanding claims		21,249
Provision for claims incurred but not reported	5,056	
Reinsurance recoveries anticipated	(4,786)	
		270
Reinsurance to close payable net of reinsurance		21,519

The reinsurance to close of the 2013 year of account is effected to the 2014 year of account of Syndicate 260.

7. Net operating expenses

	2013 ***£000***
Acquisition costs	16,285
Other administrative expenses	3,077
	19,362

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

	2013 ***£000***
Audit of the syndicate accounts	83
Other services pursuant to Regulations and Lloyd's Byelaws	11
	94

8. Investment return

	2013 ***£000***
Investment income	
Income from investments	838
Realised gains on investments	216
Unrealised gains on investments	338
Unrealised losses on investments	(267)
Investment expenses and charges	
Investment management expenses	(107)
Investment return	1,018

9. Balance on technical account

Balance excluding investment return and operating expenses other than acquisition costs	***2012 & prior years of account*** ***£000***	***2013 pure year of account*** ***£000***	***Total 2013*** ***£000***
Technical account balance before allocated investment return and net operating expenses	7,687	15,788	23,475
Brokerage and commissions on gross premiums	-	(13,100)	(13,100)
Other acquisition costs	-	(3,185)	(3,185)
	7,687	(497)	7,190

10. Investments

	2013 after three years	
	Market Value ***£000***	***Cost*** ***£000***
Holdings in collective investment schemes	6,070	5,743
	6,070	5,743

11. Debtors arising out of direct insurance operations

	2013 ***£000***
Due within one year	
Due from intermediaries	241
	241

Notes to the Financial Statements

for the 2013 Closed Year of Account at 31 December 2015

12. Debtors arising out of reinsurance operations

	2013 ***£000***
Due within one year	
Due from intermediaries	159
	159

13. Other debtors

	2013 ***£000***
Inter-syndicate loan with Syndicate 4444	17,591
	17,591

Syndicate 260 held an inter-syndicate loan balance at 31 December 2015 of £17.6m due from Syndicate 4444. The loan is wholly unsecured and repayable on demand. These funds are invested on Syndicate 260's behalf by Schroders in high quality corporate bonds with the investment return credited to Syndicate 260.

14. Amounts due to members

	2013 ***£000***
Profit for the 2013 closed year of account	3,890
Members' agents' fee advances	(51)
Amounts due to members at 31 December 2015	3,839

15. Creditors

	2013 ***£000***
Due within one year	
Arising out of direct insurance operations	75
	75

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

	2013 ***£000***
Profit for the year of account	3,890
Unrealised investment gains	(322)
Decrease in debtors, prepayments and accrued interest	4,666
(Decrease) in creditors	(2,738)
Non-cash consideration for net RITC receivable	(26,199)
Net RITC premium payable	21,519
Net cash inflow from operating activities	816

Consideration for net RITC receivable comprised:

Non-cash consideration:	
Portfolio investments	6,355
Debtors	22,657
Creditors	(2,813)
Cash	816
	27,015

Notes to the Financial Statements

for the 2013 Closed Year of Account at 31 December 2015

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

i) Cash flows on portfolio investments

	Cumulative as at 31 December
	£000
Net cash outflow from the three years	556
Cash flow	
Net portfolio investment	(607)
Movement arising from cash flows	(51)
Received as consideration for net RITC receivable	
Portfolio investments	6,355
Cash	816
Changes in market value and exchange rates	322
Total movement in portfolio investments	7,442
Portfolio at 1 January 2013	-
Portfolio at 31 December 2015	7,442

ii) Cash flows on portfolio investments

	At 1 January 2013 £000	***Cash Flow £000***	***Received as consideration for net RITC receivable £000***	***Changes to market value and currencies £000***	***At 31 December 2015 £000***
Cash at bank and in hand	-	556	816	-	1,372
Portfolio investments					
Shares and other variable yield securities	-	(607)	6,355	322	6,070
Total portfolio investments	-	(607)	6,355	322	6,070
Total cash, portfolio investments and financing	-	(51)	7,171	322	7,442

18. Net cash inflow on portfolio investments

	Cumulative as at 31 December
	£000
(Purchase) of shares and other variable yield securities	(9,286)
Sale of debt securities and other fixed income securities	9,893
Net cash inflow on portfolio investments	607

19. Related parties

No profit commission is payable by the syndicate to CMA in respect of the 2013 closed year of account.

Managing agency fees for the 2013 year of account of £699,000 were paid to CMA.

Employment of staff, provision of accommodation and related services are provided by CSL, which is owned by Canopius Holdings UK Limited ("CHUKL"). Expenses of £9,164,000 have been recharged to the 2013 year of account of Syndicate 260.

19. Related parties (continued)

Syndicate 4444

Syndicate 260 held an inter-syndicate loan balance at 31 December 2015 of £17,591,000 due from Syndicate 4444.

Flectat Limited ("Flectat")

Flectat, which is a wholly-owned subsidiary of SCAG, is a Lloyd's corporate member supplying capacity to Syndicate 260. Flectat had a syndicate premium limit of £64,361,000 for the 2013 year of account.

20. Ultimate parent undertaking and controlling party

Syndicate 260 is managed by CMA and CMA's immediate UK parent is CHUKL, which is registered in England and Wales. CHUKL is part of SCAG which is registered in Switzerland. CMA's registered office is Gallery 9, One Lime Street, London EC3M 7HA.

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.

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

Seven Year Summary of Results of Closed Years at 31 December 2015

	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000
Syndicate allocated capacity	49,936	53,567	72,464	69,813	69,849	69,854	69,854
Number of underwriting members	263	295	325	292	136	86	72
Aggregate net premiums	38,909	47,947	62,020	41,376	31,343	36,017	48,646

Results for an Illustrative Share (£10,000)

	£	£	£	£	£	£	£
Gross premiums	8,557	9,781	9,292	6,353	4,854	5,660	7,768
Net premiums	7,792	8,951	8,559	5,927	4,487	5,156	6,964
Premiums for the reinsurance to close an earlier year of account	3,561	4,016	-	-	5,160	4,540	3,867
Net claims	(8,307)	(14,597)	(9,596)	(4,898)	(4,867)	(4,645)	(6,266)
Premium for the reinsurance to close the year of account	(4,308)	(1,564)	(1,857)	(2,034)	(4,540)	(3,867)	(3,080)
Syndicate operating expenses	(710)	(923)	(811)	(800)	(859)	(876)	(896)
Balance on technical account	(1,972)	(4,117)	(3,705)	(1,805)	(619)	308	589
Investment return	133	61	452	82	166	210	146
(Loss)/ profit before personal expenses	(1,839)	(4,056)	(3,253)	(1,723)	(453)	518	735
Illustrative profit commission	-	-	-	-	-	-	-
Illustrative managing agent's fee	(100)	(100)	(100)	(100)	(100)	(80)	(100)
Other illustrative personal expenses	(150)	(98)	(93)	(64)	(49)	(43)	(78)
Illustrative personal expenses	(250)	(198)	(193)	(164)	(149)	(123)	(178)
(Loss)/profit after illustrative profit commission and personal expenses	(2,089)	(4,254)	(3,446)	(1,887)	(602)	395	557
Aggregate annual fee, profit commission and syndicate expenses	(810)	(1,023)	(911)	(900)	(959)	(956)	(996)

Underwriting Ratios

	%	%	%	%	%	%	%
Gross premium as a percentage of allocated capacity	85.6	97.8	92.9	63.5	48.5	56.6	77.7
Net premium as a percentage of allocated capacity	77.9	89.5	85.6	59.3	44.9	51.6	69.6
Balance on technical account as a percentage of gross premiums	(23.0)	(42.1)	(39.9)	(28.4)	(12.8)	5.4	7.6

Notes to the Seven Year Summary

1. *The seven year summary has been prepared on the accounting basis used before the adoption of UK GAAP Accounting whereby syndicate results were reported on a three years basis. Each underwriting year of account was normally kept open for three years at the end of which the result was determined when the year of account was closed by reinsurance, normally to the syndicate's following year of account. Under the three year basis, premiums were recognised net of brokerage.*
2. *The illustrative profit commissions and personal expenses are estimates of amounts which are charged on an illustrative share of £10,000.*
3. *Under the standard agency agreement in force, an underwriting member who dies during the calendar year does not participate in that underwriting year of account.*
4. *All prior year figures are derived from previously audited reports.*