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The Channel Managing Agency

Channel Syndicate 2015

**Annual Report and Accounts
31 December 2015**

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Directors and Administration

MANAGING AGENT:

Managing Agent

The Channel Managing Agency (TCMA)

Directors

B J G Hilton (Chairman)*

P A Chubb

T R C Corfield

B Gentsch*

T J Hayday*

D J Hindley*

V V V Mistry

V Y Peignet*

D M Reed

Non Executive Directors*

Managing Agent's Registered Office

10 Lime Street

London

EC3M 7AA

Managing Agent's Registered Number

8614385

SYNDICATE:

Active Underwriter

T R C Corfield

Bankers

Lloyds Bank plc

Citibank NA

RBC Dexia

Auditors

Mazars LLP

London

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report in respect of Syndicate 2015 for the year ended 31 December 2015.

This annual report is prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Results

The result for calendar year 2015 is a loss of £8,532,000 (2014: loss of £5,042,000).

Principal Activity and Review of the Business

The Syndicate's principal activity is the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate underwrites a range of insurance business including Accident and Health, Property, Marine, Financial Institutions and Professional Liability.

Gross written premium income by class of business for the calendar year was as follows:

	2015	2014
	£'000	£'000
Accident and Health	18,582	13,885
Property	89,891	78,588
Marine	43,738	39,835
Financial Institutions	11,950	10,061
Professional Liability	30,019	19,298
	194,180	161,667

Key Performance Indicators

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

	2015	2014
	£'000	£'000
Gross Written Premiums	194,180	161,667
Loss for the financial year	(8,532)	(5,042)
Claims ratio	60%	59%
Expense ratio	45%	45%
Combined ratio	105%	104%

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of net operating expenses to earned premiums net of reinsurance.

Most lines of business are performing at or better than plan however there are two areas where we have experienced adverse development. The marine account has suffered from a number of larger losses and in particular the cargo account has suffered from losses arising from business written in 2014. This account has been restructured and the business written in 2015 is performing better than plan. The second area is our professional liability book where due to the immature nature of this account we are building our data set supported by additional market development data. We have supplemented the development data with a detailed review, using both internal and external resources, of material contracts and claims notified. This has led to a strengthening of the reserves held during 2015.

Report of the Directors of the Managing Agent (continued)**Operating Expenses**

Net operating expenses for the year are set out below:

	2015	2014
	£'000	£'000
Acquisition Costs	64,783	49,533
Change in Deferred Acquisition Costs	(7,183)	(6,460)
Administration Expenses	7,480	7,829
Reinsurance Commissions	(536)	(389)
Managing Agency Fee	1,256	1,738
Other Personal Expenses	1,419	1,134
Net Operating Expenses	<u>67,219</u>	<u>53,385</u>

Total Net Operating Expenses have increased this year in line with expectations reflecting the growth of the business during 2016.

Investment Return

The return on Syndicate funds by currency is shown below:

	Currency	2015	2014
		'000	'000
Average Syndicate funds available	Combined Sterling	94,252	70,964
	Sterling	13,521	12,707
	Euro	17,998	14,487
	US dollars	88,807	65,482
	Canadian dollars	14,524	9,141
Investment return for the year	Combined Sterling	406	417
	Sterling	210	336
	Euro	(9)	16
	US dollars	234	23
	Canadian dollars	98	97
Calendar year investment return %	Combined Sterling	0.43%	0.59%
	Sterling	1.55%	2.64%
	Euro	(0.05)%	0.11%
	US dollars	0.26%	0.03%
	Canadian dollars	0.67%	1.06%

US dollar surplus funds are on a daily sweep to the Western Asset Management Cash Mutual. During the fourth quarter of 2015 the syndicate commenced investing in fixed income securities for the Syndicate's US Dollar Situs and Euro trust funds.

Investment returns for 2015 were 0.43% (2014: 0.59%). The Syndicate investment strategy is to preserve capital and have a prudent approach to managing investment risk.

Report of the Directors of the Managing Agent (continued)**Financial Investments**

The Syndicate's investment guidelines do not allow the holding of equities or stock lending transactions. At 31 December 2015 the portfolio composition was as follows;

	2015	2014
	£'000	£'000
Liquid funds	27,672	48,934
Fixed income securities	62,582	15,030
	90,254	63,964

Principal Risks and Uncertainties

The TCMA Board, ('the Board') sets risk appetite annually as part of the Syndicate's business planning process. The Board has established a Risk and Capital Committee which meets quarterly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators and portfolio monitoring. The principal risks and uncertainties facing the Syndicate are outlined below, where appropriate further detail is included in note 17.

Insurance Risk

Insurance risk includes the risk that underwriting results vary from their expected amounts, including the risk that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient. The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the business plan throughout the year. The Syndicate uses catastrophe modelling software to model potential losses from catastrophe-exposed business. Reserve adequacy is monitored through quarterly review by the actuarial team and approved by the Reserving Committee. It is also reviewed annually by an independent firm of external actuaries.

Credit Risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Board's policy is that the Syndicate will usually only use reinsurers rated in the A range or higher of recognised third-party rating agencies. The Agency has established a Reinsurance and Intermediaries Security Committee which is required to assess and approve all new reinsurers before business is placed with them.

Market Risk

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is where appropriate to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Currency matching is reviewed quarterly by the Board.

Report of the Directors of the Managing Agent (continued)

Liquidity Risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the Board reviews cash flow projections regularly.

Operational Risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory Risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the FCA, the PRA and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a Compliance Officer who is responsible for compliance and monitors regulatory developments and assesses the impact on agency policy.

Solvency II

The business now operates under the requirements of the Solvency II regime, as of 1 January 2016. In order to support Lloyd's own Internal Model application in 2015, all managing agents were expected to demonstrate full compliance with the Solvency II tests and standards by the end of 2014. As a newly established managing agency, TCMA is among a small group of managing agencies who are outside the Lloyd's Internal Model process with a slightly longer period to demonstrate full compliance with the Solvency II tests and standards. In TCMA's case the deadline is 1 April 2016. TCMA has made a considerable investment in systems and people over recent years, which has given the Syndicate a robust platform to manage Solvency II. TCMA continues to comply with the known Solvency II requirements, tests and standards, and expects to be able to demonstrate the necessary compliance for formal model authorisation by 1 April 2016.

Future Developments

In 2016 we will continue to transact business in the current classes of general insurance and reinsurance business. Whilst recognising that the current market conditions are challenging, we aim to continue to identify new opportunities to expand and develop our business. We have appointed a Head of Technical Liability and Data Indemnity to develop this account in 2016. The total syndicate capacity for the 2016 year of account is £181m. TCMA is firmly engaged in following a strategic plan to establish the Channel Syndicate as a recognised leading specialty syndicate.

Report of the Directors of the Managing Agent (continued)

Directors Serving in the Year

The Directors of the Managing Agency, TCMA, who served during the year ended 31 December 2015, were as follows:

B J G Hilton (Chairman)
R I Harris Resigned 3 April 2015
J J Byrne Resigned 3 April 2015
P A Chubb
T R C Corfield
B Gentsch
T J Hayday
D J Hindley
V V V Mistry Appointed 5 October 2015
V Y Peignet
D M Reed

Following regulatory approval, David Reed was appointed as CEO with effect from 3 April 2015 when he relinquished his non executive role.

Disclosure of Information to the Auditor

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

Auditors

The management intends to reappoint Mazars LLP as the Syndicate's auditor.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; the Managing Agent also intends to reappoint the auditors for a further 12 months. Should the Syndicate member object to either of these proposals, the Managing Agent should be advised before 25 April 2016.

On behalf of the Board

David Reed
Director
10 March 2016

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Managing Agent's Report and the annual accounts in accordance with applicable law and regulations.

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

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

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

The Managing Agent is responsible for keeping adequate accounting records that are sufficient to disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. 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.

The Managing Agent confirms that it has complied with the above requirements in preparing the Syndicate annual accounts.

Independent Auditor's Report to the Member of Syndicate 2015

We have audited the annual accounts of Syndicate 2015 for the year ended 31 December 2015 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Member's Balance, the Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective Responsibilities of the Managing Agent and the Auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8 the managing agent is responsible for the preparation of the 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 annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of Syndicate 2015 as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Independent Auditor's Report to the Member of Syndicate 2015 (continued)

Matters on which we are required to report by exception

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

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

Steve Liddell (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London E1W 1DD

10 March 2016

Profit and Loss Account: Technical Account – General Business

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Earned premiums, net of reinsurance			
Gross premiums written	5	194,180	161,667
Outward reinsurance premiums		(35,164)	(25,576)
Net premiums written		<u>159,016</u>	<u>136,091</u>
Change in the provision for unearned premiums			
Gross amount		(19,237)	(24,194)
Reinsurers' share		10,112	6,562
Change in the net provision for unearned premiums		<u>(9,125)</u>	<u>(17,632)</u>
Earned premiums, net of reinsurance		149,891	118,459
Allocated investment return transferred from the non-technical account		406	417
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(60,265)	(49,390)
Reinsurers' share		7,562	3,284
Net claims paid		<u>(52,703)</u>	<u>(46,106)</u>
Change in the provision for claims			
Gross amount		(48,148)	(36,026)
Reinsurers' share		10,549	12,286
Change in the net provision for claims		<u>(37,599)</u>	<u>(23,740)</u>
Claims incurred, net of reinsurance		(90,302)	(69,846)
Net operating expenses	6	(67,219)	(53,385)
Balance on the technical account for general business		<u>(7,224)</u>	<u>(4,355)</u>

All the amounts above are in respect of continuing operations.

Profit and Loss Account: Non-Technical Account

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Balance on the general business technical account		(7,224)	(4,355)
Investment income	9	769	443
Unrealised losses on investments		(326)	(21)
Investment expenses		(37)	(5)
Allocated investment return transferred to general business technical account		(406)	(417)
Loss on Foreign exchange		(1,308)	(687)
Loss for the financial year		<u>(8,532)</u>	<u>(5,042)</u>

Balance Sheet – Assets

At 31 December 2015

	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Investments					
Other financial investments	10		90,254		63,964
Reinsurers' share of technical provisions					
Provision for unearned premiums	19	24,475		13,342	
Claims outstanding		<u>30,667</u>		<u>19,473</u>	
			55,142		32,815
Debtors					
Debtors arising out of direct insurance operations	11	41,456		33,149	
Debtors arising out of reinsurance operations	12	18,735		21,436	
Other debtors		<u>318</u>		<u>705</u>	
			60,509		55,290
Other assets					
Cash and cash equivalents	20	10,468		5,424	
Overseas deposits	14	<u>15,853</u>		<u>10,249</u>	
			26,321		15,673
Prepayments and accrued income					
Deferred acquisition costs	13	35,400		27,311	
Accrued interest and rent		417		49	
Other prepayments and accrued income		<u>675</u>		<u>520</u>	
			36,492		27,880
Total assets			<u>268,718</u>		<u>195,622</u>

Balance Sheet – Liabilities

At 31 December 2015

	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Capital and reserves					
Member's balance			(26,033)		(19,139)
Technical provisions					
Provision for unearned premiums	19	112,880		90,044	
Claims outstanding	18	<u>153,765</u>		<u>102,816</u>	
			266,645		192,860
Creditors					
Creditors arising out of direct insurance operations	15	2,310		2,190	
Creditors arising out of reinsurance operations	16	23,325		18,313	
Other creditors including taxation and social security		<u>577</u>		<u>-</u>	
			26,212		20,503
Accruals and deferred income					
			1,894		1,398
Total liabilities					
			<u>268,718</u>		<u>195,622</u>

The notes on pages 15 to 32 form an integral part of these annual accounts.

The annual accounts on pages 11 to 32 were approved by the Board of The Channel Managing Agency Limited on 10 March 2016 and were signed on its behalf by

Paul Chubb
Director
10 March 2016

Statement of Changes in Member's Balance

For the year ended 31 December 2015

	2015 £'000	2014 £'000
At 1 January	(19,139)	(16,265)
Distribution loss	1,638	2,168
Loss for the year	(8,532)	(5,042)
At 31 December	<u>(26,033)</u>	<u>(19,139)</u>

Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
Loss for the year		(8,532)	(5,043)
Increase in gross technical provisions		73,785	64,867
Increase in reinsurers' share of technical provisions		(22,326)	(19,871)
Increase in debtors		(13,830)	(24,277)
Increase in creditors		6,203	16,830
Movement in other assets/liabilities		15,982	(17,306)
Investment return		(406)	(417)
Net cash flows from operating activities		<u>50,876</u>	<u>14,783</u>
Cash flows from investing activities			
Purchase of debt instruments		(53,867)	(15,052)
Sale of debt instruments		6,905	-
Investment income received		444	87
Other		(38)	330
Cash flows from financing activities			
Distribution loss from member in respect of underwriting participation		1,638	2,168
Exchange differences		(914)	(712)
Net increase in cash and cash equivalents		<u>5,044</u>	<u>1,604</u>
Cash and cash equivalents at 1 January		5,424	3,820
Cash and cash equivalents at 31 December	20	<u>10,468</u>	<u>5,424</u>

Notes to the Accounts

At 31 December 2015

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and Financial Reporting Standard 102 ("FRS 102") as issued in September 2015 and the Financial Reporting Standard 103 ("FRS 103") as issued in March 2014.

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The financial statements are presented in sterling, which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand unless otherwise shown.

2. FRS102 and FRS103

This is the first set of financial statements prepared in accordance with FRS 102 and FRS 103 and the required changes to the accounting policies below. The date of transition was 1 January 2014. An explanation of the financial effect of the transition to FRS 102 and FRS 103 is shown in Note 23.

The figures from last year's report and accounts have been disclosed in this year's comparatives in accordance with FRS 102 and FRS103.

3. Use of judgment and estimates

In preparing these financial statements, the directors of TCMA have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. TCMA carry out reserving on a quarterly basis, and so all estimates and underlying assumptions are reviewed periodically throughout the year, with any revisions to estimates approved by the TCMA Board. An actual compared to expected analysis is carried out by the Reserving Actuary on a quarterly basis. Comparing emerging experience to expectation is an important part of the reserve setting process. Actual versus expected movements within the quarter as well as actual versus expected movements during the year to date are compared. These analyses inform the Reserving Committee and Board in their validation and challenge of the reserve review results.

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by TCMA's Reserving Actuary and peer reviewed by the TCMA Chief Actuary. The Reserving Actuary makes recommendations of reserves to the Reserving Committee. The Reserving Committee meets quarterly to consider these recommendations and in turn recommend suitable reserves to the TCMA Board. In addition, an external independent Actuary is engaged by TCMA to evaluate the Syndicate's solvency reserves and provide a Statement of Actuarial Opinion ("SAO") each year end. The main conclusions of the SAO Actuary and the SAO report are shared with the Reserving

Notes to the Accounts (continued)
At 31 December 2015

Committee and the Board at the time of setting year end reserves to provide a further point of consideration in respect of the recommended levels of IBNR.

The statistical techniques used to estimate IBNR are widely accepted actuarial techniques and generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced. However, due to the Syndicate's short history in writing some classes of business, it is not always possible to carry out actuarial projections of ultimate claims liabilities on actual Syndicate experience alone. Instead, development curves derived from LMA (Lloyd's Market Association) risk code level triangle data are combined to create benchmark curves for these classes of business. These derived benchmark development patterns are then used to project ultimate claims based on paid and incurred Bornhuetter-Ferguson and chain ladder methods. These benchmark patterns are reviewed at least annually. As the Syndicate matures, more weight will be put on the business' own experience instead of LMA data.

For the more recent underwriting years, regard is given to variations in business accepted and the underlying terms and conditions. For these years, in deriving ultimate claims liabilities, more reliance is placed on loss ratios from the Syndicate's current business plan (unless more current information to suggest deviating from the plan loss ratios is available).

Reinsurance IBNR is made up of general IBNR on Treaty, Facultative and QS programmes, and specific reinsurance IBNR on known losses. Reinsurance IBNR calculations take into account the actual programmes that are purchased to cover each class of business and where appropriate the assumed reinsurance loss ratios are based on the Syndicate's latest internal capital model.

The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reserves are calculated on an undiscounted basis by class of business and year of account. The recommended reserves are on a best estimate basis with no margin for prudence or optimism. Further information about reserving risk is included in Note 17.

4. Significant Accounting Policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the Syndicate's financial statements.

Gross Premiums Written

Premiums written comprise premiums on contracts incepted during the financial year, as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Premiums include estimates for pipeline premiums, net of estimated future cancellations, representing amounts due to the Syndicate not yet notified.

Unearned Premiums

Written premiums are recognised as earned according to the risk profile of the policy. 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 on the basis of established earnings patterns or time apportionment as appropriate.

Reinsurance Premium Ceded

Outward reinsurance premiums written comprise premium for contracts incepting during the financial year together with adjustment to outward reinsurance ceded in previous years.

Claims Provisions and Related Recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs.

Notes to the Accounts (continued)
At 31 December 2015

The provision for claims outstanding is assessed on:

- 1) 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; and
- 2) The estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

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, as set out in note 3.

Unexpired Risk Provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together after taking into account any future investment return. No provision is necessary at the current year end (2014: £nil).

Deferred Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Foreign Currencies

Transactions in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for the year. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the balance sheet date. Unearned premium reserves and deferred acquisition costs are treated as monetary assets and liabilities. There are no non-monetary assets and liabilities.

Exchange differences are recorded in the non-technical account.

Investments

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at market value (bid value) and deposits with credit institutions and overseas deposits are stated at cost or market value as notified by Lloyd's.

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

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

Notes to the Accounts (continued)
At 31 December 2015

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.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings.

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

Pension Costs

TCMA operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses.

Notes to the Accounts (continued)
At 31 December 2015

5. Segmental Analysis

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

	Gross written premium £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
2015						
Direct insurance:						
Accident and health	13,321	12,312	(7,361)	(6,009)	(895)	(1,953)
Motor (Other Classes)	1	-	(4)	-	1	(3)
Marine	18,225	8,506	(9,017)	(5,470)	3,469	(2,512)
Aviation	1,819	2,557	(3,565)	(1,165)	2,117	(56)
Transport	7,268	7,671	(6,374)	(3,510)	(1,801)	(4,014)
Energy - Marine	13	8	(1)	46	(1)	52
Energy – Non Marine	(440)	361	(784)	(290)	720	7
Fire and other damage to property	57,964	54,269	(21,394)	(20,733)	(4,020)	8,122
Third party liability	40,541	36,303	(28,111)	(14,695)	(427)	(6,930)
Pecuniary Loss	10,559	7,352	(2,764)	(2,262)	(1,200)	1,126
	149,271	129,339	(79,375)	(54,088)	(2,037)	(6,161)
Reinsurance	44,909	45,604	(29,038)	(13,667)	(4,368)	(1,469)
	194,180	174,943	(108,413)	(67,755)	(6,405)	(7,630)
	Gross written premium £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
2014						
Direct insurance:						
Accident and health	10,273	9,194	(6,650)	(3,290)	(306)	(1,052)
Marine	8,523	8,001	(5,813)	(5,457)	(999)	(4,268)
Aviation	1,904	1,570	(11,241)	(542)	7,193	(3,020)
Transport	6,740	5,433	(6,507)	(3,277)	(601)	(4,952)
Energy - Marine	3	2		(1)	-	1
Energy – Non Marine	1,519	1,606	(1,299)	(162)	(237)	(92)
Fire and other damage to property	49,192	42,740	(17,138)	(15,243)	(3,860)	6,499
Third party liability	27,439	25,086	(16,138)	(11,897)	(225)	(3,174)
Pecuniary Loss	9,632	1,943	(683)	(713)	(291)	256
	115,225	95,575	(65,469)	(40,582)	674	(9,802)
Reinsurance	46,442	41,898	(19,947)	(14,119)	(4,118)	3,714
	161,667	137,473	(85,416)	(54,701)	(3,444)	(6,088)

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

All contracts were concluded in the UK, albeit that the business emanates from around the world.

Notes to the Accounts (continued)
At 31 December 2015

6. Net Operating Expenses

	2015	2014
	£'000	£'000
Acquisition costs	(64,783)	(49,533)
Change in deferred acquisition costs	7,183	6,460
Administrative expenses	(10,155)	(10,701)
Reinsurance commissions	536	389
	<u>(67,219)</u>	<u>(53,385)</u>

Commission for direct insurance business for the year was £40,334,000 (2014: £31,448,000).

Administrative expenses include:

	2015	2014
	£'000	£'000
Auditor's remuneration		
Audit of the annual accounts	(52)	(51)
Other services:		
Other regulatory reporting	(55)	(56)
	<u>(107)</u>	<u>(107)</u>
Standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, Managing Agents fees)	<u>(2,675)</u>	<u>(2,872)</u>

7. Staff Numbers and Costs

	2015	2014
	£'000	£'000
Wages and salaries	11,058	-
Social security costs	1,424	-
Other pension costs	656	-
Total	<u>13,138</u>	<u>-</u>

The average numbers of employees of the Managing Agent but working during the year for the Syndicate were as follows:

	2015	2014
Administration	39	-
Underwriting and reinsurance	47	-
Claims	4	-
Total	<u>90</u>	<u>-</u>

The figures above are in respect of the period commencing 1 February 2015. Up until 31 January 2015 the emoluments the directors and staff were met by The Channel Syndicate LLP, with effect from 1 February 2015 all staff and directors were employed by TCMA.

Notes to the Accounts (continued)
At 31 December 2015

8. Emoluments of the Directors of The Channel Managing Agency Ltd

The directors of The Channel Managing Agency Limited and the active underwriter received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2015	2014
	£'000	£'000
Active underwriter	639	-
Other directors of The Channel Managing Agency Limited	1,269	-
Total	<u>1,908</u>	<u>-</u>

The figures above are in respect of the period commencing 1 February 2015. Up until 31 January 2015 the emoluments the directors and staff were met by The Channel Syndicate LLP, with effect from 1 February 2015 all staff and directors were employed by TCMA.

9. Investment Return

	2015	2014
	£'000	£'000
Interest and dividend income	760	443
Realised gains	9	-
Total investment income	<u>769</u>	<u>443</u>
Unrealised losses	(326)	(21)
Investment expenses	(37)	(5)
Total investment return	<u>406</u>	<u>417</u>

	2015		2014	
	Market value	Cost	Market value	Cost
	£'000	£'000	£'000	£'000
Shares and other variable securities and units in unit trusts	27,672	27,672	48,934	48,934
Debt securities and other fixed income securities	<u>62,582</u>	<u>62,920</u>	<u>15,030</u>	<u>15,052</u>
	<u>90,254</u>	<u>90,592</u>	<u>63,964</u>	<u>63,986</u>

10. Financial Investments

The Syndicate has not traded in derivatives.

All financial investments are designated as at fair value through profit or loss.

All "Shares and other variable yield securities and units in unit trusts" and "Debt Securities and other fixed income securities" are listed.

Notes to the Accounts (continued)
At 31 December 2015

The Syndicate classifies its financial investments as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
 Level 2 Prices based on recent transactions in identical assets (either unadjusted or adjusted)
 Level 3 Prices determined using a valuation technique

The table below shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

Fair Value Hierarchy

As at 31 December 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and unit trusts	27,672	-	-	27,672
Debt Securities and other fixed income securities	9,392	53,190	-	62,582
Total	37,064	53,190	-	90,254

As at 31 December 2014	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and unit trusts	48,935	-	-	48,935
Debt Securities and other fixed income securities	3,840	11,189	-	15,029
Total	52,775	11,189	-	63,964

11. Debtors arising out of Direct Insurance Operations

	2015	2014
	£'000	£'000
Due within one year – intermediaries	41,381	33,074
Due after one year – intermediaries	75	75
	41,456	33,149

12. Debtors arising out of Reinsurance Operations

	2015	2014
	£'000	£'000
Due within one year – intermediaries	18,720	21,429
Due after one year – intermediaries	15	7
	18,735	21,436

13. Deferred Acquisition Costs

	2015	2014
	£'000	£'000
At 1 January	27,311	20,141
Change in deferred acquisition costs	7,183	6,460
Foreign exchange	906	710
At 31 December	35,400	27,311

Notes to the Accounts (continued)
At 31 December 2015

14. Overseas Deposits

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The Syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories.

As these assets are managed by Lloyd's, without reference to TCMA, overseas deposits are disclosed as Other Assets on the Balance Sheet.

15. Creditors arising out of Direct Insurance Operations

	2015	2014
	£'000	£'000
Due within one year	2,284	2,178
Due after one year	26	12
	<u>2,310</u>	<u>2,190</u>

16. Creditors arising out of Reinsurance Operations

	2015	2014
	£'000	£'000
Due within one year	23,325	18,313
	<u>23,325</u>	<u>18,313</u>

17. Risk and Capital Management

Introduction & Overview

The principal objective of TCMA's risk and financial management framework is to protect the Syndicate's member from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. TCMA recognises the critical importance of having efficient and effective risk management systems in place.

TCMA has established a Risk Management function and governance structure for the business with clear terms of reference from the Board of Directors and its appointed Committees. Day to day management of the business is the responsibility of the Executive management team. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board.

The Risk Management function reports to the Board via the Chief Risk Officer, who owns and maintains the Risk Management Strategy. All executive directors and selected senior management also maintain responsibility for identified risks and risk policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements.

The Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. Significant emphasis is placed on the assessment of the articulation and approval of the i) TCMA Risk Appetite, monitoring against which is provided at least quarterly to the Board; ii) Own Risk and Solvency Assessment (ORSA) process and report; iii) regular assessment and documentation of risks and controls; and iv) adherence to Lloyd's Minimum Standards framework.

Notes to the Accounts (continued)
At 31 December 2015

Insurance Risk

Insurance risk includes the risk that underwriting results vary from their expected amounts, including the risk that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient.

Factors considered for insurance risk include, but are not limited to:

- Our financial condition and operating results may be adversely affected by the occurrence of natural catastrophic events;
- The models we use to assess our exposure to losses from future natural catastrophes contain inherent uncertainties and our actual losses may therefore differ significantly from expectations
- Our operating results may be adversely affected by an unexpected accumulation of attritional losses
- The effects of emerging claim and coverage issues on our business are uncertain
- Our financial condition and operating results may be adversely affected if actual claims exceed our loss reserves

The TCMA Board has implemented a robust governance framework to enable suitable oversight and challenge of the business to enable it to oversee insurance risk.

The Underwriting Committee and Underwriting Guidelines provide the framework to manage and monitor underwriting risk. The Syndicate makes use of both proportional and non-proportional reinsurance to mitigate the risk of incurring significant losses linked to one or more events. Where an individual exposure is deemed to exceed the Syndicate's appetite additional facultative reinsurance is also purchased.

The Reserving Committee oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

Large and catastrophe risk are managed via an Exposure Management team and working group, who also leverage specialist knowledge and expertise from the SCOR group.

Concentration of Insurance Risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of its written premium by geographical segment. Where a policy provides worldwide coverage the geographical segment is determined by the location of the (re)insured.

	2015	2014
United States	41%	35%
Europe (excluding United Kingdom)	18%	20%
United Kingdom	10%	11%
Australia & New Zealand	8%	7%
Asia	6%	5%
Canada	5%	5%
Caribbean & Central America	4%	5%
South America	3%	4%
Africa	3%	5%
Middle East	2%	3%
	100%	100%

Notes to the Accounts (continued)
At 31 December 2015

Sensitivity to Insurance Risk

The table below shows the impact of a ten percent increase or decrease in the cost of net claims reserves.

	2015		2014	
	£'000		£'000	
	10 per cent		10 per cent	
	increase	decrease	increase	decrease
Accident and Health	(803)	803	(663)	663
Property	(4,444)	4,444	(3,229)	3,229
Marine	(2,493)	2,493	(1,805)	1,805
Financial Institutions	(1,501)	1,501	(958)	958
Professional Liability	(2,767)	2,767	(1,469)	1,469
Total	(12,008)	12,008	(8,124)	8,124

Credit Risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

TCMA is exposed to credit risk in respect of the following:

- financial investments;
- reinsurers' share of insurance liabilities;
- amounts due from intermediaries (Re/insurance brokers);
- amounts due from reinsurers in respect of settled claims;
- cash and cash equivalents; and
- other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of Credit Risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies.

The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored by the Reinsurance and Intermediaries Security Committee.

All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed, modelled, and managed accordingly.

Exposure to Credit Risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

Notes to the Accounts (continued)
At 31 December 2015

As at 31 December 2015

	AAA £'000	AA £'000	A £'000	BBB £'000	Total £'000
Shares & other variable yield securities & unit trusts	-	-	27,672	-	27,672
Debt securities	15,808	19,907	25,641	1,226	62,582
Reinsurers' share of claims outstanding	-	9,527	21,140	-	30,667
Reinsurance recoverable on paid claims	-	12	1,199	-	1,211
Cash at bank & in hand	-	-	10,468	-	10,468
Total credit risk	15,808	29,446	86,120	1,226	132,600

As at 31 December 2014

	AAA £'000	AA £'000	A £'000	BBB £'000	Total £'000
Shares & other variable yield securities & unit trusts	-	-	48,934	-	48,934
Debt securities	4,991	6,375	3,664	-	15,030
Reinsurers' share of claims outstanding	-	10,548	8,912	13	19,473
Reinsurance recoverable on paid claims	-	1,727	498	-	2,225
Cash at bank & in hand	-	-	5,424	-	5,424
Total credit risk	4,991	18,650	67,432	13	91,086

Credit Risk – Ageing and Impairment

As at 31 December 2015

	Neither past due or impaired £'000	Past due but not impaired			Total £'000
		Up to three months £'000	Three to six months £'000	Greater than six months £'000	
Shares & other variable yield securities & unit trusts	27,672	-	-	-	27,672
Debt securities	62,582	-	-	-	62,582
Overseas deposits	15,853	-	-	-	15,853
Reinsurers' share of claims outstanding	30,667	-	-	-	30,667
Reinsurance recoverable on paid claims	1,211	536	36	10	1,793
Cash at bank & in hand	10,468	-	-	-	10,468
Insurance debtors	39,733	879	620	224	41,456
Other debtors	318	-	-	-	318
Total credit risk	188,504	1,415	656	234	190,809

Notes to the Accounts (continued)
At 31 December 2015

As at 31 December 2014

	Neither past due or impaired £'000	Past due but not impaired			Total £'000
		Up to three months £'000	Three to six months £'000	Greater than six months £'000	
Shares & other variable yield securities & unit trusts	48,934	-	-	-	48,934
Debt securities	15,030	-	-	-	15,030
Overseas deposits	10,249	-	-	-	10,249
Reinsurers' share of claims outstanding	19,473	-	-	-	19,473
Reinsurance recoverable on paid claims	2,225	-	-	-	2,225
Cash at bank & in hand	5,424	-	-	-	5,424
Insurance debtors	31,346	972	538	293	33,149
Other debtors	705	-	-	-	705
Total credit risk	133,386	972	538	293	135,189

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial investment or insurance contract will fluctuate. Market risk comprises three types of risk: interest rate risk, currency risk, and equity price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

For each of the major components of market risk policies and procedures are in place which detail the appetite for and how each risk should be managed and monitored. The management of each of these major components of market risk and the exposure to the Syndicate at the reporting date to each major component are addressed below.

Interest Rate Risk:

Interest rate risk arises primarily from the Syndicate's financial investments, cash, and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis.

Currency Risk:

The Syndicate maintains four settlement currencies being Sterling, Euro, Canadian dollar, and US dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to mitigate the currency risk inherent in these contracts.

Equity Price Risk:

The Syndicate holds no equities within its portfolio.

Notes to the Accounts (continued)
At 31 December 2015

Liquidity Risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year. The business has a low appetite for this risk category.

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and reviewed to predict future cash flows;
- The Syndicate sets limits for the average duration of investments;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts;

As at 31 December 2015

	Carrying amount £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Outstanding claims liabilities	153,765	32,646	34,351	52,163	34,605
Other creditors	26,212	26,186	26	-	-
Total	179,977	58,832	34,377	52,163	34,605

As at 31 December 2014

	Carrying amount £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Outstanding claims liabilities	102,816	26,388	18,388	23,443	34,597
Other creditors	20,503	20,491	12	-	-
Total	123,319	46,879	18,400	23,443	34,597

Currency Risk

As at 31 December 2015

	GBP £'000	USD £'000	EURO £'000	CAD £'000	Total £'000
Financial investments	-	71,043	12,074	7,137	90,254
Reinsurers' share of technical provisions	11,760	38,655	4,474	253	55,142
Insurance & reinsurance receivables	14,071	45,070	1,275	(225)	60,191
Cash & cash equivalents	4,169	862	5,437	-	10,468
Overseas deposits	13,086	1,224	-	1,543	15,853
Other assets	12,619	20,654	2,704	833	36,810
Total assets	55,705	177,508	25,964	9,541	268,718
Technical provisions	(73,483)	(156,595)	(30,733)	(5,834)	(266,645)
Insurance & reinsurance payables	(443)	(26,000)	712	96	(25,635)
Other creditors and accruals	(2,217)	(251)	(3)	-	(2,471)
Total liabilities	(76,143)	(182,846)	(30,024)	(5,738)	(294,751)
Net assets/(liabilities)	(20,438)	(5,338)	(4,060)	3,803	(26,033)

Notes to the Accounts (continued)
At 31 December 2015

As at 31 December 2014

	GBP	USD	EURO	CAD	Total
	£'000	£'000	£'000	£'000	£'000
Financial investments	-	45,083	12,146	6,735	63,964
Reinsurers' share of technical provisions	5,867	21,903	4,580	465	32,815
Insurance & reinsurance receivables	14,547	34,206	5,166	666	54,585
Cash & cash equivalents	3,624	953	847	-	5,424
Overseas deposits	8,623	489	-	1,137	10,249
Other assets	10,953	14,796	2,281	555	28,585
Total assets	43,614	117,430	25,020	9,558	195,622
Technical provisions	(52,885)	(109,321)	(25,886)	(4,768)	(192,860)
Insurance & reinsurance payables	(3,761)	(13,986)	(2,301)	(455)	(20,503)
Other creditors and accruals	(1,057)	(341)	-	-	(1,398)
Total liabilities	(57,703)	(123,648)	(28,187)	(5,223)	(214,761)
Net assets/(liabilities)	(14,089)	(6,218)	(3,167)	4,335	(19,139)

Sensitivity to Market Risks for Financial Investments

Sensitivity Analysis

An analysis of the syndicate's sensitivity to interest rate increase and decrease for its financial investments at the period end is shown in the table below.

The table shows the impact on the result and net assets.

Interest Rate Risk	2015	2014
	£'000	£'000
Impact of 50 basis point increase on result/net assets	(568)	(145)
Impact of 50 basis point decrease on result/net assets	394	90

Sensitivity to Foreign Exchange Rate Changes

Sensitivity Analysis

An analysis of the syndicate's sensitivity to GBP/USD and GBP/EUR exchange rate increase and decrease for its net asset and liabilities at the period end is shown in the table below.

Currency Risk	2015	2014
	£'000	£'000
Impact of 10 percent increase in GBP/USD	(534)	(622)
Impact of 10 percent decrease in GBP/USD	534	622
Impact of 10 percent increase in GBP/EUR	(406)	(317)
Impact of 10 percent decrease in GBP/EUR	406	317

Capital Management

TCMA operates under the Solvency II Directive requirements and the Society of Lloyd's capital framework.

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and operates in accordance with the Solvency II Framework with an approved internal model.

Notes to the Accounts (continued)
At 31 December 2015

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's meets with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Lloyd's capital setting processes use a capital requirement set at individual Syndicate level as a starting point. However, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level (SCOR Underwriting Limited) only respectively, not at syndicate level. TCMA is supported 100% by SCOR via the SCOR Underwriting Limited member. As such, the capital requirement in respect of TCMA is not disclosed in these financial statements.

Lloyd's capital setting process:

In order to meet Lloyd's and regulatory requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year, in line with the business plan that is proposed for approval. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate') and for a one year time horizon (1 year SCR). The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

For establishing Lloyd's minimum solvency requirements, Lloyd's uses the syndicate SCR to ultimate as a starting point. Over and above this, Lloyd's applies a market wide capital uplift currently 35% to the SCR, to derive 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.

Any material change in business plan will trigger the recalculation of the SCR to ultimate, and be advised to Lloyd's. TCMA must also confirm its solvency position quarterly to Lloyd's.

18. Claims Development

The table below represents the estimated ultimate claims development by underwriting year in respect of the cumulative premiums earned at each relevant year end. Premiums written are allocated to an underwriting year based on the inception date of the policy or the inception date of the facility where the premium is written under a delegated authority agreement.

As such the earned premium for an underwriting year will continue to increase in years two and three leading to an underlying increase in estimated ultimate claims in years two and three below.

Gross					
Year U/W	At end of UW	One year	Two years	Three years	Four years
Pure	year	later	later	later	later
	£'000	£'000	£'000	£'000	£'000
2011	6,349	13,024	12,209	11,790	11,389
2012	23,513	51,611	51,887	55,410	
2013	35,803	84,366	89,736		
2014	41,506	104,901			
2015	39,021				

Net					
Year U/W	At end of UW	One year	Two years	Three years	Four years
Pure	year	later	later	later	later
	£'000	£'000	£'000	£'000	£'000
2011	6,106	12,579	11,707	11,284	10,946
2012	20,522	46,781	47,724	49,387	
2013	31,763	67,076	73,015		
2014	37,667	89,953			
2015	32,765				

Notes to the Accounts (continued)
At 31 December 2015

Underwriting Pure year	Gross estimated balance to pay £'000	Net estimated balance to pay £'000
2011	1,332	1,315
2012	16,771	12,554
2013	31,715	25,010
2014	70,161	56,429
2015	33,786	27,790
	<u>153,765</u>	<u>123,098</u>

The Syndicate has loss reserves for various events and for IBNR. Losses continue to develop, both positively and negatively on these open balances. Whilst the Syndicate has a reasonable degree of confidence as to the ultimate adequacy of its reserves for all events, volatility exists around the final settlement value. Overall on an aggregate basis, reserves strengthening of £4.4m net of reinsurance were made to prior year reserves during 2015. In 2014 there was a reserve release of £2.6m.

The reserve strengthening in 2015 was generated by the Professional Liability and Cargo accounts.

19. Technical Provisions

The table below shows changes in the insurance contract liabilities and assets from beginning of the period to the end of the period.

	Gross provisions £'000	Reinsurance assets £'000	Net £'000
Provision for Claims			
At 1 January 2015	102,816	(19,473)	83,343
Movement per technical account	48,148	(10,549)	37,599
Foreign Exchange	2,801	(645)	2,156
At 31 December 2015	<u>153,765</u>	<u>(30,667)</u>	<u>123,098</u>
Unearned Premiums			
At 1 January 2015	90,044	(13,342)	76,702
Movement per technical account	19,237	(10,112)	9,125
Foreign Exchange	3,599	(1,021)	2,578
At 31 December 2015	<u>112,880</u>	<u>(24,475)</u>	<u>88,405</u>
	Gross provisions £'000	Reinsurance assets £'000	Net £'000
Provision for Claims			
At 1 January 2014	64,958	(6,723)	58,235
Movement per technical account	36,026	(12,286)	23,740
Foreign Exchange	1,832	(464)	1,368
At 31 December 2014	<u>102,816</u>	<u>(19,473)</u>	<u>83,343</u>
Unearned Premiums			
At 1 January 2014	63,034	(6,222)	56,812
Movement per technical account	24,195	(6,562)	17,633
Foreign Exchange	2,815	(558)	2,257
At 31 December 2014	<u>90,044</u>	<u>(13,342)</u>	<u>76,702</u>

Notes to the Accounts (continued)
At 31 December 2015

20. Cash and cash equivalents

	2015	2014
	£'000	£'000
Cash at bank and in hand	10,468	5,424

21. Post Balance Sheet Events

There are no significant post Balance Sheet events.

22. Disclosure of Interests

Managing Agent's Interests

The Financial Statements of TCMA can be obtained by application to the Registered Office (see page 2).

Related Companies' Interests

Syndicate 2015's dedicated capital provider is SCOR Underwriting Limited. SCOR Underwriting Limited is a subsidiary of SCOR Global P&C SE and shares the same ultimate parent, SCOR SE.

TCMA, a subsidiary undertaking of SCOR SE, provides management services to the Syndicate. In 2015, the recharge to the syndicate was £15,129,000 (2014 £292,000). The balance outstanding at the year end was £577,000 owed by the Syndicate to TCMA. In 2014, TCMA owed the Syndicate £59,000.

The Channel Syndicate LLP, a subsidiary undertaking of SCOR SE, provided management services to the Syndicate until 31 January 2015. In 2015, the recharge to the syndicate was £796,000 (2014 £10,660,000). The balance outstanding at the year end was £nil due to the Syndicate from the LLP (2014: £333,000).

The amount of premium ceded by SCOR SE companies in the period was £nil (2014: £nil). The amount of reinsurance ceded to SCOR SE companies was £10,618,000 (2014: £6,649,000).

23. Transition to FRS 102 and FRS 103

The Syndicate transitioned to FRS 102 and FRS 103 from old UK GAAP as at 1 January 2014. The financial effect of restating the prior year amounts for the changes to FRS 102 and FRS 103 is as follows:

	£'000
Opening members' balances at 1 January 2014 effect	-
Result for the year ended 31 December 2014 increased	629
Statement of total recognised gains and losses 31 December 2014 decreased	(629)
Closing members' balance at 31 December 2014 effect	-