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Syndicate 4444 Annual Report & Accounts

As at 31 December 2017

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Syndicate 4444

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Directors and Professional Advisors

MANAGING AGENT:

Managing Agent	Canopus Managing Agents Limited ("CMA")
Directors	J D Birney <i>Independent Non-Executive Director (resigned 30 June 2017)</i> D Broome <i>Independent Non-Executive Director</i> P Ceurvorst <i>Independent Non-Executive Director</i> P D Cooper <i>Chief Financial & Operating Officer (appointed Chief Executive Officer 14 March 2017, resigned all posts 31 December 2017)</i> M P Duffy <i>Chief Underwriting Officer & Active Underwriter (appointed Chief Executive Officer 21 February 2018)</i> S J Gargrave <i>Non-Executive Director</i> R J Harden <i>Finance Director (appointed 12 May 2017)</i> P F Hazell <i>Independent Non-Executive Director</i> G E Moss <i>Chief Risk Officer</i> I B Owen <i>Independent Non-Executive Chairman</i> M C Watson <i>Executive Director</i>
Company Secretary	M Daoud-O'Connell
Managing Agent's Registered Office	Gallery 9, One Lime Street, London EC3M 7HA
Managing Agent's Registered Number	1514453

SYNDICATE:

Active Underwriter	M P Duffy
Investment Managers	Aviva Investors – No. 1 Poultry, London EC2R 8EJ BlackRock – 12 Throgmorton Avenue, London, EC2N 2DL Federated – Nuffield House, 41-46 Piccadilly, London, W1J 0DS Gresham – 257 Park Avenue South, New York, New York 10010 JP Morgan – 60 Victoria Embankment, London, EC4Y 0JP LGIM – One Coleman Street, London, EC2R 5AA Lloyd's – One Lime Street, London, EC3M 7HA Loomis Sayles – One Financial Center, Boston, MA 02111 Neam – 4 th Floor, DBP House, 63 Mark Lane, London, EC3R 7NQ Schroders – 31 Gresham Street, London, EC2V 7QA SYZ – Southwest House, 11a Regent Street, London, SW1Y 4LR Wellington – Cardinal Place, 80 Victoria Street, London, SW1E 5JL
Independent Auditors	Ernst & Young LLP ("EY") 25 Churchill Place, Canary Wharf, E14 5EY

Report of the Directors of the Managing Agent

The directors of CMA, the managing agent for Syndicate 4444, present the annual report and audited financial statements for the syndicate for the year ended 31 December 2017.

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

Strategic Report

The directors present their strategic report on Syndicate 4444 for the year ended 31 December 2017.

Review of the business

Syndicate 4444 is a syndicate at Lloyd's managed by CMA. Its principal activity is the underwriting of insurance and reinsurance business at Lloyd's, transacted both through direct channels and via delegated underwriting.

With effect from the 2016 year of account, CMA merged Syndicate 958's capacity into Syndicate 4444. The 2015 year of account for Syndicate 958 will be reinsured to close into Syndicate 4444, effective from 1 January 2018.

Results and performance

The results of the syndicate for the year are set out on pages 12 and 13. In 2017, Syndicate 4444 recorded a loss of £182.3m (2016: £3.0m profit) with a combined ratio of 120% (2016: 101%). The main drivers of the syndicate's performance were:

- Catastrophe event net losses of £200m from hurricanes Harvey, Irma and Maria, the Mexican earthquake and Californian wildfires;
- A strengthening of prior period reserves;
- A three percentage point improvement in the expense ratio, benefiting from the restructuring programme in the prior year;
- The partial recovery of the value of Sterling against the US Dollar.

These results are reflective of the challenging year faced by the market as a whole. 2017 is expected to be the third-most expensive year for insured losses in history and, despite these significant losses, rate pressures continued throughout the year.

Rate increases resulting from the exceptional loss activity have been smaller than initially expected. A continued excess of capacity has dampened the effect in the January 2018 renewal season. As such, 2018 is expected to be a challenging year. However, the organisational restructure is now yielding benefit, with a marked reduction in our expense ratio. This will help mitigate any continuation of a soft rating environment.

Gross written premiums increased by 7.0% to £1,138.1m (2016: £1,063.9m). This was driven by growth in several key business units. UK Specialty has seen a number of new opportunities where other carriers have exited the market. During 2016, a new initiative to expand our participation on Broker Facilities was also undertaken. As this market has matured in 2017 it has been another area of growth. With a well capitalised parent that was targeting growth in the group's global property cat exposure, we also expanded our reinsurance book. However, with the change of ownership in 2018, this catastrophe exposure within the reinsurance book will be re-adjusted.

Report of the Directors of the Managing Agent

Results and performance (continued)

Across the market, 2017 has seen severe losses from natural catastrophes. The 2017 result for Syndicate 4444 includes the following net catastrophe losses; Hurricane Harvey £67.0m; Hurricane Irma £71.4m; Hurricane Maria £18.7m; Mexico Earthquake £10.3m and California Wildfires £32.5m.

Syndicate 4444's investment portfolio achieved a return of £12.6m in 2017 (2016: £10.4m).

The 2015 year of account of Syndicate 4444 closed with a reported loss of £4.1m. The 2016 year of account is forecast to make a loss of 5.7% of managed capacity and the 2017 year of account a loss of 8.8% of managed capacity.

Reinsurance is purchased to reduce retention levels in accordance with CMA's risk appetite as well as to protect against potential catastrophe accumulations. Catastrophe reinsurances are generally purchased to protect capital whereas non-catastrophe reinsurances are purchased for a blend of capital protection and profit stability.

Business environment

The protracted soft market conditions that characterised Syndicate 4444's business environment in recent history have alleviated following the 2017 catastrophes. Although rate increases have been more moderate than initially expected, the ongoing market softening appears to have halted.

The global economy has enjoyed a period of sustained growth and investment markets are buoyant. However, with significant political and economic uncertainties, vulnerabilities to a shock still exist. Inflation spikes, increasing levels of protectionism and the return of volatility to equity and bond prices all pose significant risks to stability.

The risks to UK economic growth remain significant not least because of the UK's decision to leave the European Union ("*Brexit*"). EU membership and access to the single market has enabled underwriters at Lloyd's to underwrite insurance and reinsurance from all of the other member states on a cross-border basis. The underwriters operate under a "passport" system, which allows them to conduct business throughout the EU while being regulated and supervised by the Prudential Regulation Authority (PRA). Lloyd's remains committed to doing business with Europe and is in the process of establishing a subsidiary in Brussels to facilitate this. Syndicate 4444 plans to take full advantage of this arrangement in continuing to provide services to our European partners.

Strategy

Our strategy is to achieve significant profits with low volatility and to make Canopus one of the most profitable and admired insurers in our market. With our organisational restructure now complete, we are benefiting from a reduced cost base and more streamlined processes.

Looking forward, the business continues to focus on underwriting profitability. We are growing the core books where we can add most value for our business partners and are seeking to add new diversifying classes only where they are a good strategic fit with our existing business.

CMA remains committed to developing a first-class culture to attract, retain and develop good people. The restructuring of the business has demonstrated our commitment to being adaptable yet resilient in an increasingly competitive marketplace.

Report of the Directors of the Managing Agent

Key performance indicators ('KPIs')

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

	2017 £m	2016 £m
Gross premiums written	1,138.0	1,063.9
Earned premiums, net of reinsurance	979.5	820.3
Investment return	12.6	10.4
(Loss) / profit for the year	(182.3)	3.0
Gross claims ratio	87.5%	55.3%
Net claims ratio	77.6%	55.6%
Expenses ratio	42.2%	45.5%
Combined operating ratio	119.8%	101.1%
Investment return, on average invested balances	1.4%	1.2%

Principal risks and uncertainties

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

CMA's governance structure ensures a clear definition of responsibility for the management and oversight of the many risks faced by the business. CMA has established an Enterprise Risk Management (ERM) framework that is designed to identify, assess, measure, mitigate, monitor and report all material financial and non-financial risk.

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

Future developments

Syndicate 4444's allocated capacity for the 2018 year of account is increasing to £1,048m. At 31 December 2017, Syndicate 4444 accepted the reinsurance to close for the 2015 year of account of Syndicate 958, its final underwriting year.

Directors

The directors of the managing agent who served from 1 January 2017 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 any of the 2015 to 2017 years of account.

Report of the Directors of the Managing Agent

Statement of disclosure of information to auditors

In the case of each of the persons who are directors of the managing agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the syndicate's auditor in connection with the auditor's report, of which the auditor is unaware; and
- 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 ought to have taken as a director to become aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

Post Balance Sheet Events

For the entirety of 2017, Sompo Holdings, Inc. ("Sompo Holdings") was the ultimate parent undertaking and controlling party of CMA. On 9 March 2018, Sompo Holdings sold its interest in the Canopus group of companies, including CMA, to a private equity consortium led by Centerbridge Partners, L.P. ("Centerbridge"). With access to the financial resources and acumen of Centerbridge, Syndicate 4444 will continue to focus on underwriting excellence and building its presence and capabilities in support of our brokers and clients.

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

During the year the managing agent reappointed Ernst & Young LLP as the auditors for the Syndicate. In accordance with section 14(2) of Schedule 1 of the Lloyd's Regulations 2008, the auditors, Ernst & Young LLP, will be deemed to be reappointed and therefore continue in office.

Report of the Directors of the Managing Agent

Syndicate annual general meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the managing agent does not propose to hold a syndicate annual meeting this year. Members may object to this proposal, or the intention to reappoint the auditors for a further 12 months, within 21 days of this notice. Any objections must be made in writing to the managing agent.

By order of the Board of the managing agent

Robert Harden
Finance Director
London
15 March 2018

Independent Auditor's Report

for the year ended 31 December 2017

Opinion

We have audited the syndicate annual accounts of syndicate 4444 ('the syndicate') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 29, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- ▶ give a true and fair view of the syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

Independent Auditor's Report

for the year ended 31 December 2017

Other information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts, and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd'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;
- ▶ we have not received all the information and explanations we require for our audit; or
- ▶ certain disclosures of the managing agents' emoluments specified by law are not made.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

Independent Auditor's Report

for the year ended 31 December 2017

Auditor's responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Angus Millar (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

15 March 2018

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

for the year ended 31 December 2017

	Notes	2017		2016	
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	7		1,138,050		1,063,936
Outward reinsurance premiums			(160,795)		(152,691)
Net premiums written			977,255		911,245
Change in the provision for unearned premiums:					
Gross amount	24		14,354		(75,959)
Reinsurers' share			(12,084)		(14,985)
Change in the net provision for unearned premiums			2,270		(90,944)
Earned premiums, net of reinsurance			979,525		820,301
Allocated investment return transferred from the non-technical account	14		12,643		10,441
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(628,736)		(379,856)	
Reinsurers' share		74,246		46,617	
Net claims paid		(554,490)		(333,239)	
Change in the provision for claims					
Gross amount	24	(379,802)		(166,053)	
Reinsurers' share		173,713		43,519	
Change in the net provisions for claims		(206,089)		(122,534)	
Claims incurred, net of reinsurance			(760,579)		(455,773)
Net operating expenses	10, 11		(413,529)		(373,077)
Balance on the technical account for general business			(181,940)		1,892

All of the above amounts are derived from continuing operations.

Statement of Income and Retained Earnings: Non-technical Account

for the year ended 31 December 2017

	<i>Notes</i>	2017 £000	2016 £000
Balance on the general business technical account		(181,940)	1,892
Investment income	14	15,040	13,997
Realised gains / (losses) on investments	14	1,785	(6,870)
Net unrealised gains on investments	14	83	5,166
Investment expenses and charges	14	(4,265)	(1,852)
Allocated investment return transferred to the general business technical account		(12,643)	(10,441)
Other income/charges		-	-
(Loss) / profit on exchange	10	(387)	1,100
(Loss) / profit for the year		(182,327)	2,992
Other comprehensive income - Currency translation differences		7,463	5,208
Total comprehensive (loss) / income		(174,864)	8,200
Members' balances at 1 January		34,150	64,887
Total comprehensive (loss) / income for financial year		(174,864)	8,200
Payments of profits to members' personal reserve funds		(27,330)	(38,937)
Other movements in members' balances		(229)	-
Members' balances at 31 December		(168,273)	34,150

All of the above amounts are derived from continuing operations.

Statement of Financial Position – Assets

at 31 December 2017

		2017		2016	
	Notes	£000	£000	£000	£000
Investments					
Other financial investments	15		864,089		943,807
Deposits with ceding undertakings					
			549		532
Reinsurers' share of technical provisions					
Provision for unearned premiums		37,023		51,910	
Claims outstanding		468,511		321,877	
			505,534		373,787
Debtors					
Debtors arising out of direct insurance operations	16	378,310		399,236	
Debtors arising out of reinsurance operations	17	110,910		76,146	
Other debtors	18	30,822		13,810	
			520,042		489,192
Other assets					
Cash at bank and in hand			64,771		73,528
Overseas deposits	19		40,360		41,984
Prepayments and accrued income					
Deferred acquisition costs	23	144,334		152,264	
Other prepayments and accrued income		1,844		3,833	
			146,178		156,097
Total assets					
			2,141,523		2,078,927

Statement of Financial Position – Liabilities

at 31 December 2017

		2017		2016	
	Notes	£000	£000	£000	£000
Capital and reserves					
Members' balances	2		(168,273)		34,150
Technical provisions					
Provision for unearned premiums	24	456,246		493,809	
Claims outstanding	24	1,547,219		1,200,561	
			2,003,465		1,694,370
Creditors					
Creditors arising out of direct insurance operations	20	100,146		74,572	
Creditors arising out of reinsurance operations	21	124,992		152,289	
Other creditors	22	77,105		114,829	
			302,243		341,690
Accruals and deferred income					
			4,088		8,717
Total liabilities					
			2,141,523		2,078,927

The financial statements on pages 12 to 44 were approved by the Board of CMA on 15 March 2018 and were signed on its behalf by:

Robert Harden
Finance Director
15 March 2018

Statement of Cash Flows

for the year ended 31 December 2017

	2017		2016	
	£000	£000	£000	£000
Cash flows from operating activities				
(Loss) / profit for the year	(182,327)		2,992	
Increase in gross technical provisions	389,761		258,796	
Increase in reinsurers' share of gross technical provisions	(152,902)		(13,838)	
Increase in debtors	(68,138)		(154,743)	
(Decrease) / Increase in creditors	(15,944)		45,628	
Movement in other assets/liabilities	(666)		(26,180)	
Investment return	(12,643)		(10,441)	
Foreign exchange	26,878		85,190	
<i>Net cash (out) / inflows from operating activities</i>		(15,981)		187,404
Cash flows from investing activities				
Purchase of equity and debt instruments	(2,358,461)		(4,303,248)	
Sale of equity and debt instruments	2,382,011		4,259,749	
Sale of derivatives	-		-	
Investment income received	12,559		5,276	
Foreign exchange	-		(97,365)	
<i>Net cash in / (outflows) from investing activities</i>		36,109		(135,588)
Cash flows from financing activities				
Distribution of profits	(27,330)		(38,937)	
Recovery of members' agents' fees	-		-	
<i>Net cash outflows from financing activities</i>		(27,330)		(38,937)
Foreign exchange on cash and cash equivalents		(1,555)		8,559
<i>Net (decrease) / increase in cash and cash equivalents</i>		(8,757)		21,438
Cash at bank and in hand	73,528		52,090	
<i>Cash and cash equivalents at beginning of year</i>		73,528		52,090
Cash at bank and in hand	64,771		73,528	
<i>Cash and cash equivalents at end of year</i>		64,771		73,528

Notes to the Financial Statements

for the year ended 31 December 2017

1. Basis of preparation

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102"), Financial Reporting Standard 103, "Insurance Contracts" and The Companies Act 2006. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations"). The directors of the managing agent have prepared the financial statements on the basis that the syndicate will continue to write future business.

The financial statements are presented in sterling and rounded to the nearest £'000.

2. Members' balances and Funds at Lloyd's ("FAL")

The members' balances on the balance sheet shows a deficit of £168.3m (2016: surplus £34.2m). The ability of the syndicate to meet its obligations as they fall due is underpinned by the members' Funds at Lloyd's and the support provided by the Lloyd's chain of security for any members who are unable to meet their underwriting liabilities. FAL is further explained in Note 29.

3. Summary of significant accounting policies

a. Insurance contracts

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

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

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

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

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

There are a number of different types of business written by the syndicate, including property, liability and marine business, broadly categorised as either "short tail" or "long tail" business. The syndicate also writes reinsurance business. The characteristics of this business mirror those of the underlying business ceded to the syndicate.

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

Notes to the Financial Statements

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

a. Insurance contracts (continued)

Short Tail Business

Property and accident and health 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 provisions for claims incurred but not reported (“IBNR”), is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time.

Longer tail business

Liability and marine claims are generally longer tail than for those of 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. For liability claims, the assessment of claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability classes of business are also subject to the emergence of new types of latent claims.

b. Unexpired risk reserves

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

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

c. Deferred acquisition costs

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

d. Reinsurance to close (“RITC”)

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

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

e. Outwards reinsurance contracts

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

Notes to the Financial Statements

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

e. Outwards reinsurance contracts (continued)

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

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

f. Receivables and payables related to insurance contracts

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

g. Financial assets

The syndicate states financial assets at fair value.

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

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

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

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

The syndicate classifies its investments at fair value through profit and loss.

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

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

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 Financial Statements

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

g. Financial assets (continued)

(ii) Loans and receivables

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

(iii) Derivative financial instruments

Syndicate 4444 enters into exchange traded derivatives and foreign currency forward contracts from time to time to manage its exposures to interest rate risk and foreign exchange rate volatility. These contracts are initially recorded at cost and revalued to their fair value at each period end by reference to the rates of exchange ruling at the balance sheet date. Any gains or losses on the contracts are included in the non-technical account.

(iv) Cash and cash equivalents

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

Lloyd's overseas deposits are not included within the balance of cash at bank and in hand on the Balance Sheet. These are recognised separately in their own category within other assets. Previously, overseas deposits were included in the Statement of Cashflows. However, to give a consistent presentation they have been excluded in 2017. The 2016 comparatives have also been prepared using this presentational basis.

h. Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the syndicate operates. The functional currency for Syndicate 4444 is the US Dollar, having changed from Sterling with effect from 1 January 2016 primarily due to the decision to move to US Dollar for the distribution of profits for 2016. The statutory report and accounts are presented in Sterling. Foreign exchange resulting from translating balances in functional currency into Sterling goes to Other Comprehensive Income. FRS 102 requires all foreign currency transactions to be translated into the functional currency at the transactional rate of exchange. Transactions in Sterling, Canadian dollars and Euros are translated to US Dollars at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

At the period end, the monetary foreign currency items are translated to US Dollars at the closing rate with any difference being recorded in the non-technical account. For the purposes of applying the requirements of Section 30 Foreign Currency Translation of FRS 102, all assets and liabilities arising from insurance contracts are treated as monetary items.

i. Taxation

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

No provision has been made for any United States federal income tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading "other debtors".

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

Notes to the Financial Statements

for the year ended 31 December 2017

4. Critical accounting judgements and estimation uncertainty

Insurance claims and claims settlement expenses

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2017

4. Critical accounting judgements and estimation uncertainty (continued)

Premium estimates

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

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

Financial investments

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

5. Management of risk

The syndicate has identified the principal risks and uncertainties arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below explain how the syndicate defines and manages each category of risk.

a. 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 4444'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 actuarial reviews 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.

The greatest likelihood of significant losses to Syndicate 4444 arises from natural catastrophe events such as windstorm, earthquake or flood. CMA quantifies all catastrophe risk exposures using proprietary modelling software in conjunction with the principal underwriting systems to assess and model catastrophe exposures. The modelling tools are used in conjunction with CMA's knowledge of the business, historical loss information and geographic accumulations to monitor aggregation and to simulate catastrophe losses. The range of scenarios considered includes natural catastrophe, property, marine, liability and terrorism events.

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

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

a. Insurance risk (continued)

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

As a guide to the level of concentration of exposure the Syndicate writes, the following table shows the Syndicate's 1:100 probabilistic modelled exposure to its three largest natural catastrophe perils during 2017:

<i>Peril</i>	Gross Loss £000	Final Net Loss £000
North Atlantic Hurricane	676,000	283,000
US Earthquake	359,000	122,000
European Windstorm	276,000	93,000

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

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

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

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

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

Insurance liabilities are assumed through individual risk acceptances, reinsurance treaties or binding authorities. Binding authorities delegate underwriting authority to other underwriters, or agents acting as coverholders, who use their judgement to write risks on Syndicate 4444'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.

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

a. Insurance risk (continued)

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.

(i) Development of claims

The claims provisions established can be more or less than adequate to meet eventual claims. The level of uncertainty varies from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be a £10.8m gain/loss (2016: £8.8m gain/loss).

(ii) Claims development tables

The development of insurance liabilities provides a measure of the syndicate's ability to estimate the ultimate value of claims. Historic development includes a mix of prior year releases and deteriorations, and in 2017 gross and net deteriorations occurred.

The tables below are presented at the exchange rates prevailing at 31 December 2017.

At 31 December 2017	2010 & prior	2011	2012	2013	2014	2015	2016	2017	Total
Gross of reinsurance	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative claims									
At end of underwriting year		196,970	231,788	208,312	191,952	186,454	296,537	553,292	1,865,305
One year later		370,564	369,868	379,373	384,779	467,615	696,895		2,669,094
Two years later		366,668	387,030	381,385	419,551	550,721			2,105,355
Three years later		371,882	377,008	374,738	436,548				1,560,176
Four years later		365,612	374,956	389,916					1,130,484
Five years later		361,604	383,618						745,222
Six years later		355,885							355,885
Seven years later	2,596,383								-
	2,596,383	355,885	383,618	389,916	436,548	550,721	696,895	553,292	5,963,258
Cumulative payments	(2,474,465)	(326,721)	(324,985)	(304,092)	(285,779)	(296,081)	(285,709)	(118,207)	(4,416,039)
Estimated balance to pay	121,918	29,164	58,633	85,824	150,769	254,640	411,186	435,085	1,547,219

At 31 December 2017	2010 & prior	2011	2012	2013	2014	2015	2016	2017	Total
Net of reinsurance	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative claims									
At end of underwriting year		171,467	187,895	168,159	163,860	142,157	257,270	378,499	1,469,307
One year later		325,994	310,024	331,046	330,339	382,840	572,233		2,252,476
Two years later		320,281	328,051	346,438	359,394	431,174			1,785,338
Three years later		322,717	313,252	355,432	382,816				1,374,217
Four years later		316,553	311,802	368,277					996,632
Five years later		312,241	313,074						625,315
Six years later		307,196							307,196
	2,035,560								-
	2,035,560	307,196	313,074	368,277	382,816	431,174	572,233	378,499	4,788,829
Cumulative payments	(1,956,539)	(284,393)	(269,946)	(293,827)	(266,088)	(255,545)	(271,374)	(112,409)	(3,710,121)
Estimated balance to pay	79,021	22,803	43,128	74,450	116,728	175,629	300,859	266,090	1,078,708

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

b. Financial risk

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

- (i) Market risk (including interest rate risk and equity price risk);
- (ii) Credit risk (including Fair Value Hierarchy);
- (iii) Currency risk; and
- (iv) Liquidity risk.

(i) Market risk

Market risk arises from fluctuations in values of, or income from, assets or in interest or exchange 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.

Interest rate risk

CMA manages sensitivity to market conditions by reference to interest rate risk and equity price risk. Since the majority of the syndicate's investments comprise cash, overseas deposits and fixed income securities, the fair value of the portfolio is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the syndicate's fixed income securities tends to rise and vice versa. The fair value of fixed income investments in the syndicate's balance sheet at 31 December 2017 was £532m (excluding investments held on behalf of Syndicate 958) (2016: £481m) with an average duration of around 2.64 years (2016: 2.41 years). If interest rates were to rise/(fall) by 50 basis points at the balance sheet date, the fair value and therefore the profit for the financial year and members' balances would decrease/(increase) by approximately £4.9m (2016: £4.6m).

The syndicate manages interest rate risk by investing in financial investments, cash and overseas deposits with an average duration of less than three years. The Investment Committee monitors the duration of these assets on a regular basis. The syndicate also uses interest rate futures for the purposes of efficient portfolio management and market risk management.

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

Equity price risk

At the balance sheet date the syndicate's exposure to equity price risk was limited to a maximum allocation of £66.7m (2016: £32.4m). If the FTSE 100/S&P 500 were to rise/(fall) by 5% at the balance sheet date, the profit for the financial year and members' balances would increase/(decrease) by approximately £3.3m (2016: £1.6m).

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

(ii) Credit risk

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

The primary sources of credit risk for the syndicate are:

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

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

(ii) Credit risk (continued)

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 support team and a dedicated binder management team.

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

The Group Finance Committee regularly reviews inwards premiums debtors and reinsurance debtors by reference to the age of the debt. Debts from insurance intermediaries fall due according to the terms of trade; debts from reinsurers crystallise in line with the reinsurance contract terms.

An analysis of amounts past due from insurance intermediaries and reinsurers by age is presented below.

<i>At 31 December 2017</i>	<i>Neither past due nor impaired</i>	<i>Up to 3 months</i>	<i>3 – 6 months</i>	<i>6 – 12 months</i>	<i>More than 12 months</i>	<i>Impaired financial assets</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Debtors arising out of direct insurance operations	320,259	35,003	16,688	3,385	2,976	-	378,311
Debtors arising out of reinsurance operations:							
Due from intermediaries under reinsurance business	37,588	7,374	1,654	1,528	444	-	48,588
Reinsurance recoverables on paid claims	-	53,217	3,270	1,305	4,530	-	62,322
Total	357,847	95,594	21,612	6,218	7,950	-	489,221

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

(ii) Credit risk (continued)

<i>At 31 December 2016</i>	<i>Neither past due nor impaired</i>	<i>Up to 3 months</i>	<i>3 – 6 months</i>	<i>6 – 12 months</i>	<i>More than 12 months</i>	<i>Impaired financial assets</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Debtors arising out of direct insurance operations	330,928	21,164	15,509	23,936	7,699	-	399,236
Debtors arising out of reinsurance operations:							
Due from intermediaries under reinsurance business	33,651	569	301	292	1,583	-	36,396
Reinsurance recoverables on paid claims	-	29,699	787	1,870	944	6,450	39,750
Total	364,579	51,432	16,597	26,098	10,226	6,450	475,382

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

An analysis of the syndicate's major exposure to counterparty credit risk and credit risk with the investment funds and cash, based on Standard & Poor's or equivalent rating, is presented below. These assets are neither overdue nor impaired.

<i>At 31 December 2017</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB/BB</i>	<i>Other/Not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Reinsurance recoverables on paid claims (neither past due nor impaired)	-	-	-	-	-	-
Reinsurers' share of claims outstanding	-	164,867	266,783	-	36,861	468,511
Debt and other fixed income securities	223,176	54,103	115,371	75,955	35,597	504,202
Holdings in collective investment schemes and participations in investment pools	96,662	15,172	31,234	64,068	151,008	358,144
Overseas deposits	21,544	4,823	4,882	9,111	-	40,360
Derivative assets	-	-	-	1,743	-	1,743
Cash	-	-	17,109	47,662	-	64,771
Total	341,382	238,965	435,379	198,539	223,466	1,437,731

<i>At 31 December 2016</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB/BB</i>	<i>Other/Not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Reinsurance recoverables on paid claims (neither past due nor impaired)	-	-	-	-	-	-
Reinsurers' share of claims outstanding	-	119,692	192,269	-	9,916	321,877
Debt and other fixed income securities	310,299	41,030	134,538	78,103	-	563,970
Holdings in collective investment schemes and participations in investment pools	189,669	20,408	27,479	27,335	114,933	379,824
Overseas deposits	24,068	5,444	5,285	7,187	-	41,984
Derivative assets	-	-	13	-	-	13
Cash	-	-	34,569	38,959	-	73,528
Total	524,036	186,574	394,153	151,584	124,849	1,381,196

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for the year ended 31 December 2017

5. Management of risk (continued)

(ii) Credit risk (continued)

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

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

<i>Underlying investments in 'other/not rated'</i>	2017 £000	2016 £000
Holdings in Collective investment schemes and participation in investment pools:		
Equities	66,749	32,372
Hedge funds	65,791	76,425
Funds of hedge funds	7,334	6,136
Commodities	11,134	-
Total	151,008	114,933

Fair Value Hierarchy

The syndicate has classified its financial instruments in accordance with the requirements of paragraph 16 to the March 2016 amendment to FRS102 and has adopted an approach consistent with IFRS13, Fair Value Measurement. The fair value hierarchy classifies financial instruments into Level 1 to 3 based on the significance of the inputs used in measuring their fair value.

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

- Level 1 - Based on unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement.
- Level 2 - Based on inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 - Where inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

<i>At 31 December 2017</i>	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	47,649	242,033	-	289,682
Debt and other fixed income securities	475,277	28,924	-	504,201
Derivative assets	-	1,743	-	1,743
Participations in investment pools	34,652	33,811	-	68,463
Other financial investments	557,578	306,511	-	864,089
Loans and deposits with credit institutions	10,384	29,976	-	40,360
Derivative liabilities	-	-	-	-
Total	567,962	336,487	-	904,449

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

Fair Value Hierarchy (continued)

At 31 December 2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities	138,483	173,592	-	312,075
Debt and other fixed income securities	524,605	39,365	-	563,970
Derivative assets	23	-	-	23
Participations in investment pools	31,927	35,822	-	67,749
Other financial investments	695,038	248,779	-	943,817
Loans and deposits with credit institutions	13,762	28,222	-	41,984
Derivative liabilities	-	(2,058)	-	(2,058)
Total	708,800	274,943	-	983,743

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

(iii) Currency risk

Policyholders' assets are held in the four principal Lloyd's settlement currencies (Sterling, Euros, US dollars and Canadian dollars) which represent the vast majority of the syndicate's liabilities by currency. A significant proportion of the syndicate's business is transacted in US dollars. Its presentation currency is Sterling and, therefore, foreign exchange risk also arises when non-Sterling profits are converted into Sterling.

CMA has a group policy to mitigate foreign exchange risk and this policy is managed by the Finance team and the Group Finance Committee.

The syndicate is exposed to foreign exchange risk primarily with respect to the Sterling, Euro and Canadian dollar. The syndicate mitigates this risk by endeavouring to match assets and liabilities in foreign currency. Moreover, Syndicate 4444 enters into conventional foreign currency forward contracts from time to time to manage its exposures to foreign exchange rate volatility.

In certain circumstances, the syndicate is exposed to a subsidiary foreign exchange risk where regulators demand that the syndicate hold US dollar and Canadian dollar currency assets to hedge liabilities measured on a regulatory basis, rather than best estimate.

However, the syndicate seeks to limit the risk of currency exchange fluctuations in non-standard settlement currencies by buying forward contracts when appropriate.

For the avoidance of doubt, the syndicate is not positioned to take speculative currency positions to make gains; the purpose of its foreign exchange risk policy is to protect against the downside.

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

(iii) Currency risk (continued)

The profile of the syndicate's assets and liabilities, categorised by currency, was as follows:

<i>At 31 December 2017</i>	<i>Sterling & Other</i>	<i>US dollar</i>	<i>Euro</i>	<i>CAD</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial investments	209,832	546,419	57,653	50,185	864,089
Overseas deposits	19,567	10,798	-	9,996	40,361
Reinsurers' share of technical provisions	100,084	373,701	29,605	2,144	505,534
Insurance and reinsurance receivables	101,325	328,664	12,877	1,653	444,519
Cash and cash equivalents	28,675	29,632	6,465	-	64,772
Other assets	75,477	85,586	13,705	2,780	177,548
Total assets	534,960	1,374,800	120,305	66,758	2,096,823
Technical provisions	574,002	1,227,673	153,000	48,790	2,003,465
Insurance and reinsurance payables	55,603	152,597	14,392	2,547	225,139
Other creditors	65,522	15,104	561	7	81,194
Total liabilities	695,127	1,395,374	167,953	51,344	2,309,798

<i>At 31 December 2016</i>	<i>Sterling & Other</i>	<i>US dollar</i>	<i>Euro</i>	<i>CAD</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial investments	215,236	645,430	33,995	49,147	943,808
Overseas deposits	18,488	13,901	-	9,595	41,984
Reinsurers' share of technical provisions	83,933	267,506	19,803	2,545	373,787
Insurance and reinsurance receivables	132,462	324,155	13,904	4,860	475,381
Cash and cash equivalents	33,428	25,452	14,648	-	73,528
Other assets	85,081	68,919	11,983	4,456	170,439
Total assets	568,628	1,345,363	94,333	70,603	2,078,927
Technical provisions	487,320	1,030,448	126,423	50,179	1,694,370
Insurance and reinsurance payables	64,512	148,375	10,542	3,432	226,861
Other creditors	104,747	18,443	374	(18)	123,546
Total liabilities	656,579	1,197,266	137,339	53,593	2,044,777

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for the year ended 31 December 2017

5. Management of risk (continued)

(iv) Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due.

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

The syndicate's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. The availability of liquidity in the event of a major disaster is regularly tested using internal cash flow forecasts and realistic disaster scenarios.

The majority of the syndicate's investments are in highly liquid assets which could be converted into cash in a prompt fashion and at minimal expense. The syndicate has some hedge fund assets which are not readily convertible. Cash and overseas deposits are generally bank deposits and money funds.

In addition, the duration of assets is maintained at a level to manage liability durations and in recognition of the syndicate's catastrophe exposures. 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.

The tables below show the maturity profile of the Syndicate's financial liabilities.

<i>At 31 December 2017</i>	<i>No stated maturity</i>	<i>0-1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>>5 years</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Derivative liabilities	-	-	-	-	-	-
Creditors	-	301,956	289	-	-	302,245
Claims outstanding	-	569,390	608,526	189,249	180,055	1,547,220
Total	-	871,346	608,815	189,249	180,055	1,849,465

<i>At 31 December 2016</i>	<i>No stated maturity</i>	<i>0-1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>>5 years</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Derivative liabilities	-	2,048	-	-	-	2,048
Creditors	-	339,096	546	-	-	339,642
Claims outstanding	-	392,449	460,636	189,136	158,341	1,200,561
Total	-	733,593	461,182	189,136	158,341	1,542,251

c. Group risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. For the entirety of 2017, Canopus AG ("CAG") was the global specialty lines platform of Sompo Holdings Inc. ("Sompo Holdings") which had total assets of c.\$90 billion. CAG was 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.

Notes to the Financial Statements

for the year ended 31 December 2017

5. Management of risk (continued)

c. Group risk (continued)

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

Note 25 includes details of a post balance sheet change to the group to which CAG belongs.

d. Operational risk

Operational risk is the risk of inadequate or failed internal processes, people systems, or external events that have 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, manage, monitor and report 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 procedures guidelines
- 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 risk.

e. Regulatory risk

Regulatory risk is the risk that the syndicate fails to meet the regulatory requirements of the Prudential Regulatory 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.

6. Capital setting, capital management policies and objectives

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

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

Notes to the Financial Statements

for the year ended 31 December 2017

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

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

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 4444 is not disclosed in these financial statements.

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member, operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the economic capital assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR 'to ultimate'.

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 15, represent resources available to meet members' and Lloyd's capital requirements.

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2017

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

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

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

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

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

Solvency II was implemented on 1 January 2016.

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

7. Segmental analysis

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

2017	Gross written premiums	Gross premiums earned	Gross claims incurred	Gross operating expenses	*Reins. Balance	Total
	£000	£000	£000	£000	£000	£000
Direct Insurance:						
Accident and health	22,144	26,768	(15,063)	(14,128)	(942)	(3,365)
Motor (third party liability)	20,328	21,799	(17,286)	(3,017)	(537)	959
Motor (other classes)	101,073	103,903	(74,781)	(38,452)	9,006	(324)
Marine & Energy	85,240	86,269	(61,669)	(24,698)	(2,461)	(2,559)
Aviation	92,305	93,373	(25,831)	(34,742)	(65,591)	(32,791)
Fire & other damage to property	284,261	286,897	(334,355)	(112,054)	77,967	(81,545)
Third party liability	173,300	178,050	(179,347)	(78,351)	50,284	(29,364)
Pecuniary Loss	14,335	15,053	(13,360)	(5,387)	2,569	(1,125)
Other	-	-	(1,724)	-	-	(1,724)
	792,986	812,112	(723,416)	(310,829)	70,295	(151,838)
Reinsurance inwards	345,064	340,292	(285,122)	(103,198)	5,283	(42,745)
Total	1,138,050	1,152,404	(1,008,538)	(414,027)	75,578	(194,583)

* Reinsurance balance includes Reinsurance commissions and profit participations payable of £0.5m.

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for the year ended 31 December 2017

7. Segmental analysis (continued)

2016	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	*Reins. Balance £000	Total £000
Direct Insurance:						
Accident and health	29,010	25,818	(8,360)	(17,765)	(727)	(1,034)
Motor (third party liability)	36,200	40,717	(23,525)	(14,831)	(1,195)	1,166
Motor (other classes)	105,548	92,839	(64,038)	(35,582)	1,873	(4,908)
Marine & Energy	75,149	67,326	(42,770)	(24,776)	(5,244)	(5,464)
Aviation	76,236	67,851	(48,624)	(26,186)	1,400	(5,559)
Fire & other damage to property	260,963	249,756	(132,007)	(107,292)	(32,338)	(21,881)
Third party liability	174,973	168,442	(100,792)	(70,033)	(2,131)	(4,514)
Pecuniary Loss	23,877	17,855	(9,276)	(6,764)	(1,679)	136
Other	-	-	(5,705)	-	-	(5,705)
	781,956	730,604	(435,097)	(303,228)	(40,042)	(47,763)
Reinsurance inwards	281,980	257,373	(110,812)	(71,287)	(36,061)	39,213
Total	1,063,936	987,977	(545,909)	(374,515)	(76,102)	(8,550)

* Reinsurance balance includes Reinsurance commissions and profit participations payable of £1.4m.

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards. All premiums were concluded in the United Kingdom.

The geographical analysis of gross premiums written by destination is as follows:

	2017 £000	2016 £000
UK	138,171	141,491
Other EU countries	63,215	66,766
US	757,865	683,142
Other	178,799	172,537
Total	1,138,050	1,063,936

8. Currency rates of exchange

	31 Dec 17	Average for 2017	31 Dec 16	Average for 2016
US \$	1.35	1.29	1.24	1.35
Euro	1.13	1.14	1.17	1.22
Canadian \$	1.70	1.67	1.66	1.79

Notes to the Financial Statements

for the year ended 31 December 2017

9. Net claims outstanding

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

	2017 £000	2016 £000
Accident & health	(2,352)	1,927
Motor (third party liability)	1,078	2,166
Motor (other classes)	(9,220)	(535)
Marine & Energy	7,336	8,235
Aviation	224	3,436
Fire & other damage to property	(17,163)	2,790
Third party liability	(10,272)	(1,398)
Pecuniary loss	(986)	1,483
Other	9,339	(7,380)
	(22,016)	10,724
Reinsurance inwards	(2,813)	8,158
Total	(24,829)	18,882

10. Net operating expenses

	2017 £000	2016 £000
Commissions on direct business	225,163	213,369
Commissions on inwards reinsurance business	83,469	38,254
Other acquisition costs	53,087	69,140
Change in deferred acquisition costs	2,228	(19,777)
Reinsurance commissions and profit participations	498	1,438
Administrative expenses	37,482	54,584
Total expenses – technical account	401,927	357,008
Loss / (profit) on exchange – non technical account	387	(1,100)
Total expenses	402,314	355,908

Administrative expenses include:

	2017 £000	2016 £000
Auditors' remuneration:		
Audit of syndicate accounts	264	235
Audit related assurance	-	-
Other services pursuant to Regulations and Lloyd's Byelaws	125	111
Other assurance services	-	-
Other non-audit services	225	220
Total audit and non-audit fees	614	566

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11. Personal Expenses

	2017	2016
	£000	£000
Members' standard personal expenses	10,207	9,574
Managing Agent's fee	1,395	6,495
Total	11,602	16,069

12. Staff numbers and costs

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

	2017	2016
	£000	£000
Wages and salaries	30,682	57,704
Social security costs	4,231	6,583
Pension contributions to money purchase schemes	2,626	3,365
Total	37,539	67,652

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

	2017	2016
Underwriting	157	164
Insurance Services	91	161
Other	87	145
Total	335	470

13. Emoluments of the directors of Canopus Managing Agents Limited

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

	2017	2016
	£000	£000
Emoluments	2,530	7,494
Pension contributions to money purchase schemes	115	152
Total	2,645	7,646

Retirement benefits are accruing to 2 directors (2016: 2) under money purchase schemes.

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

	2017	2016
	£000	£000
Emoluments	588	1,282
Total	588	1,282

Notes to the Financial Statements

for the year ended 31 December 2017

13. Emoluments of the directors of Canopus Managing Agents Limited (continued)

No pension contributions on behalf of the active underwriter were charged to Syndicate 4444 in 2017 (2016: nil).

14. Net investment income recognised in profit or loss

	2017	2016
	£000	£000
Interest and similar income		
From financial instruments designated at fair value through profit or loss	12,581	12,559
Interest on cash at bank	2,459	1,438
Investment expenses	(4,265)	(1,852)
Total interest and similar income	10,775	12,145
Other income from investments designated at fair value through profit or loss		
Realised gains / (losses) on investments	1,785	(6,870)
Unrealised gains on investments	83	5,166
Total other gain / (loss)	1,868	(1,704)
Net investment return	12,643	10,441
	2017	2016
	£000	£000
Average amount of syndicate funds available for investment during the year	1,014,270	970,834
Gross aggregate investment return for the calendar year in Sterling	16,908	12,293
Gross calendar year investment yield	1.7%	1.3%

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

15. Other financial investments

	Fair value		Cost		Listed	
	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000
Holdings in collective investment schemes	289,681	312,077	270,529	299,978	214,986	268,087
Debt and other fixed income securities	504,202	563,968	510,547	560,291	504,202	563,968
Participation in investment pools	68,463	67,749	68,463	67,749	68,463	67,749
Derivative assets	1,743	13	1,743	13	1,753	13
Total	864,089	943,807	851,282	928,031	789,404	899,817

The syndicate uses exchange traded derivatives and forward foreign exchange derivatives in order to hedge its exposure to interest rate and foreign currency risk.

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for the year ended 31 December 2017

15. Other financial investments (continued)

The following derivative assets and liabilities were held at December 2017.

	Notional amount		Fair value	
	2017 £000	2016 £000	2017 £000	2016 £000
Interest rate future contracts	17,536	(19)	(39)	21
Equity options	-	7,871	-	2
Foreign exchange contract for difference	205,224	228,808	1,912	(2,058)
Other	90,150	-	124	-
Total	312,910	236,660	1,997	(2,035)

16. Debtors arising out of direct insurance operations

	2017 £000	2016 £000
Due within one year		
Intermediaries	377,978	398,336
	377,978	398,336
Due after more than one year and within five years		
Intermediaries	332	900
Total	378,310	399,236

17. Debtors arising out of reinsurance operations

	2017 £000	2016 £000
Due within one year		
Ceding insurers and intermediaries under reinsurance business	48,382	35,863
Reinsurance recoverable on paid claims net of bad debt provision	62,322	39,750
	110,704	75,613
Due after more than one year and within five years		
Ceding insurers and intermediaries under reinsurance business	206	533
Total	110,910	76,146

18. Other debtors

	2017 £000	2016 £000
Due within one year		
Amounts due from group undertakings	27,871	12,282
Other	2,951	1,528
	30,822	13,810
Due after more than one year and within five years		
Other	-	-
Total	30,822	13,810

Notes to the Financial Statements

for the year ended 31 December 2017

19. Overseas deposits

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

20. Creditors arising out of direct insurance operations

	2017 £000	2016 £000
Due within one year		
Intermediaries	100,125	74,298
	100,125	74,298
Due after one year		
Intermediaries	21	274
Total	100,146	74,572

21. Creditors arising out of reinsurance operations

	2017 £000	2016 £000
Due within one year		
Reinsurance ceded	124,769	152,017
	124,769	152,017
Due after one year		
Reinsurance ceded	223	272
Total	124,992	152,289

22. Other creditors

	2017 £000	2016 £000
Due within one year		
Amounts due to group undertakings	23,830	22,958
Derivative liabilities	4	2,058
Inter-syndicate loan with Syndicate 260	-	16,872
Inter-syndicate loan with Syndicate 958	48,911	65,894
Amounts payable under Quota Share reinsurance arrangements with Syndicate 6115	-	3,000
Other	4,316	4,047
	77,061	114,829
Due after more than one year and within five years		
Amounts due to group undertakings	44	-
Total	77,105	114,829

The inter-syndicate loan from syndicate 958 is a wholly unsecured loan for the purpose of pooling investment funds for efficient portfolio management. Syndicate 958's funds are invested in Schroders' high quality short dated bonds with performance monitored against short term government indices.

Notes to the Financial Statements

for the year ended 31 December 2017

23. Deferred acquisition costs

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

	2017 £000	2016 £000
At 1 January	152,264	120,049
Change in deferred acquisition costs	(2,228)	19,777
Foreign exchange	(5,702)	12,438
At 31 December	144,334	152,264

24. Reconciliation of insurance balances

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

	Gross		Reinsurers' share	
	2017 £000	2016 £000	2017 £000	2016 £000
At 1 January	493,809	369,118	51,910	60,727
Increase in provision	(14,354)	75,959	(12,084)	(14,985)
Foreign exchange	(23,209)	48,523	(2,803)	6,139
Other	-	209	-	29
At 31 December	456,246	493,809	37,023	51,910

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

	Gross		Reinsurers' share	
	2017 £000	2016 £000	2017 £000	2016 £000
At 1 January	1,200,561	912,779	321,877	257,690
Increase/ (decrease) in provision	379,802	166,053	173,713	43,519
Foreign exchange	(70,340)	121,533	12,708	20,668
Other	37,196	196	-	-
At 31 December	1,547,219	1,200,561	508,298	321,877

25. Post balance sheet events

On 9 March 2018, Sompo Holdings sold its interest in the Canopius group of companies to a private equity consortium led by Centerbridge Partners, L.P. ("Centerbridge").

The immediate parent of CMA remains Canopius Holdings UK Limited ("CHUKL"). Copies of the accounts of CHUKL can be obtained from Companies House.

The new ultimate controlling parties of CMA are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman GP Limited (acting in concert) along with Gallatin Point (GP) LLC.

Notes to the Financial Statements

for the year ended 31 December 2017

26. Pensions

CSL operates defined contribution pension schemes for the employees of CSL, including those working on the syndicate's affairs during the year. The assets of the schemes are held separately from those of CSL in independently administered funds. The amounts recharged to the syndicate from CSL in respect of pensions are disclosed in Note 12.

27. Related parties

Transactions between the Managing Agent/Service Company and the Syndicate

CMA is the managing agent of Syndicate 4444. Managing agency fees of £1,395,000 were paid by the syndicate to CMA during 2017 (2016: £6,495,000).

An accrual of profit commission payable to CMA of £493,000 has been released in the 2017 calendar year (2016: £683,000 accrued).

Employment of staff, provision of accommodation and related services are provided at cost by CSL, which is owned by Canopus Holdings UK Ltd ("CHUKL"). Expenses during 2017 totalling £71,193,000 (2016: £104,943,000) were recharged to the syndicate by CSL. The syndicate owed CSL £12,620,000 as at 31 December 2017 (2016: £16,773,000).

At 31 December 2017, Syndicate 4444 was owed £9,400,000 from CAG (2016: £204,000) in respect of margin funding for hedging and overlay positions shared by CAG and its affiliated entities. Syndicate 4444 shares in the profits and losses associated with these arrangements.

Canopus Underwriting Bermuda Limited ("CUBL")

Canopus Underwriting Bermuda Limited ("CUBL") is an insurance service company that underwrites US excess casualty insurance primarily using the Bermuda policy form on behalf of the syndicate. Premiums written during 2017 totalled £13,900,000 (2016: £28,605,000). At 31 December 2017, an amount of £244,000 was due from the syndicate to CUBL (2016: £nil).

Canopus Underwriting Limited ("CUL")

Canopus Underwriting Limited ("CUL") is an insurance service company that underwrites principally UK accident and health and professional indemnity business on behalf of the syndicate. Premiums written during 2017 totalled £8,050,000 (2016: £3,384,000). At 31 December 2017, an amount of £9,000 was due from CUL to the syndicate (2016: £374,000).

Canopus UK Specialty Limited ("CUKSL")

Canopus UK Specialty Limited ("CUKSL") is an insurance broker that underwrites principally caravan business on behalf of the syndicate. Premiums written during 2017 totalled £9,906,000 (2016: £12,660,000). At 31 December 2017, an amount of £15,000 was due from the syndicate to CUKSL (2016: £509,000 due to the syndicate from CUKSL).

Canopus Asia Pte. Ltd ("CAPL")

Canopus Asia Pte. Ltd ("CAPL") trades as part of the Lloyd's Asia platform. CAPL underwrites treaty reinsurance, predominantly excess of loss property business, on behalf of the syndicate. Premiums written during 2017 totalled £39,440,000 (2016: £46,387,000). At 31 December 2017, an amount of £478,000 was due from the syndicate to CAPL (2016: £1,171,000).

Canopus Underwriting Agency Inc. ("CUAI")

Canopus Underwriting Agency Inc. ("CUAI") is a New York based coverholder that underwrites North American Facilities and MGA business on behalf of the syndicate. Premiums written during 2017 totalled £116,480,000 (2016: £52,523,000). At 31 December 2017, an amount of £23,000 was due from CUIAI to the syndicate (2016: £25,000).

Notes to the Financial Statements

for the year ended 31 December 2017

27. Related parties (continued)

Sompo Japan Nipponkoa Nederland B.V. ("SJNKN")

Sompo Japan Nipponkoa Nederland B.V. ("SJNKN") is an insurance service company that underwrites a book of renewable energy business on behalf of both the syndicate and Sompo Japan Nipponkoa Insurance Company of Europe Limited. Premiums written on behalf of the syndicate during 2017 totalled £25,934,000 (2016: £17,573,000). At 31 December 2017, an amount of £295,000 was due from the syndicate to SJNKN (2016: £23,000 due from SJNKN to the syndicate).

Syndicate 958

An inter-syndicate loan repayable to Syndicate 958 was established in February 2013. The loan was invested as part of the syndicate's investment portfolio, with interest calculated at the rate earned by the syndicate's invested assets each month. The amount owed by Syndicate 4444 to Syndicate 958 comprising capital and accrued interest at 31 December 2017 totalled £48,911,000 (2016: £65,894,000).

In addition, there was an inter-syndicate debtor at 31 December 2017 of £1,440,000 (2016: £1,077,000).

CRe

CRe is a wholly-owned subsidiary of CAG, domiciled in Switzerland. Syndicate 4444 entered into a 10% whole account quota share contract with CRe for the 2015 year of account. This provided the syndicate with proportional reinsurance protection across its whole account. These arrangements were provided on a full "follow the fortunes" basis and as such had no event or occurrence limits. The syndicate benefits from an overriding commission of 5% and a 20% profit commission on these arrangements. The premiums are subject to a Funds Withheld arrangement.

During 2017, the syndicate ceded £3,131,000 of net earned premium (2016: £26,830,000) to CRe and accrued £5,350,000 in reinsurance recoveries (2016: £23,839,000). At 31 December 2017 Syndicate 4444 owed CRe a net balance of £1,626,000 under the quota share contract (2016: £11,298,000).

At 31 December 2017, CRe also owed Syndicate 4444 £124,000 (2016: £132,000).

Sompo Japan Nipponkoa Insurance, Inc ("SJNK")

Sompo Japan Nipponkoa Insurance, Inc ("SJNK") is a wholly owned subsidiary of Sompo Holdings and the intermediate parent company of CAG.

During 2017, Syndicate 4444 purchased various reinsurance protections from SJNK at arm's length. Reinsurance premiums totalling £3,779,000 (2016: £5,816,000) were paid to SJNK and recoveries of £1,682,000 (2015: £377,000) against incurred claims have been accrued in these accounts.

At 31 December 2017, the syndicate was owed a balance of £3,699,000 in respect of recoveries on paid and outstanding claims (2016: £2,110,000).

Other group companies

The syndicate held creditor balances with the following group companies as at 31 December 2017: Canopius Ireland Limited £193,000, (2016: £649,000); Canopius US Underwriting £360,000 (2016: £1,618,000); Trenwick Underwriting Ltd £nil (2016: £400,000); CSL £12,620,000 in respect of corporate allocations (2016: £16,804,000).

In addition, the syndicate held debtor balances with the following group companies as at 31 December 2017; Canopius Europe Limited of £7,279,000 (2016: £5,832,000); CHUKL £nil (2016: £206,000).

Notes to the Financial Statements

for the year ended 31 December 2017

27. Related parties (continued)

Canopus Capital Four Limited ("CC4L"), Canopus Capital Seven Limited ("CC7L"), Canopus Capital Nine Limited ("CC9L"), Canopus Capital Ten Limited ("CC10L"), and Flectat Limited ("Flectat"), also subsidiaries of CHUKL, provided capacity to the 2015 to 2018 underwriting years as follows:

	2015		2016		2017		2018	
	£m		£m		£m		£m	
CC4L	14.8	2.00%	11.5	1.20%	-	-	-	-
CC7L	25.9	3.50%	-	-	-	-	-	-
CC9L	11.3	1.50%	-	-	-	-	-	-
CC10L	11.1	1.50%	5.6	0.60%	5.6	0.60%	6.0	0.60%
Flectat	584	78.90%	793.8	81.40%	739.8	75.90%	811.5	77.40%

28. Immediate and ultimate parent undertaking and controlling party

As at 31 December 2017, Syndicate 4444 was managed by CMA and CMA's immediate UK parent is CHUKL, which is registered in England and Wales. CHUKL is part of CAG which is registered in Switzerland. CMA's registered office is Gallery 9, One Lime Street, London EC3M 7HA.

CAG was wholly-owned by Sompo Japan Nipponkoa Insurance, Inc. which itself is a wholly-owned direct subsidiary of Sompo Holdings, incorporated in Japan.

Sompo Holdings was 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.

Note 25 includes additional details regarding a post balance sheet change to CMA's ultimate parent.

29. Funds at Lloyd's

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

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