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Syndicate 4444 – Annual Report & Accounts
31 December 2014

Canopius Managing Agents Limited
Gallery 9
One Lime Street
London EC3M 7HA
www.canopius.com

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Contents

Syndicate 4444

Directors and Professional Advisors

MANAGING AGENT:	
Managing Agent	Canopius Managing Agents Limited ("CMA")
Directors	I B Owen *Independent Non-Executive Chairman* I K Beale *(resigned 10 January 2014)* J D Birney *Independent Non-Executive Director* R Bradley *(resigned 25 February 2014)* P D Cooper *Finance Director* M P Duffy *Joint Active Underwriter, Syndicates 4444, 958 and 6115* S J Gargrave *Joint Active Underwriter, Syndicates 4444, 958 and 6115* P F Hazell *Independent Non-Executive Director (appointed 19 November 2014)* S T Manning *Chief Operating Officer* G E Moss *Actuarial and Risk Director* T P Rolfe *CEO, UK Specialty (appointed 27 June 2014)* M C Watson *Chief Executive Officer (appointed 26 April 2014)*
Company Secretary	J W Greenfield
Managing Agent's Registered Office	Gallery 9, One Lime Street, London EC3M 7HA
Managing Agent's Registered Number	1514453
SYNDICATE:	
Active Underwriters	M P Duffy S J Gargrave
Investment Managers	Schroder Investment Management ("Schroders") 31, Gresham Street, London, EC2V 7QA SYZ & Co Asset Management LLP ("SYZ & Co") Buchanan House, 3 St James's Square, London, SW1Y 4JU
Independent Auditor	PricewaterhouseCoopers LLP ("PwC") 7 More London, Riverside, London, SE1 2RT

Report of the Directors of the Managing Agent

The directors of CMA, the managing agent for Syndicate 4444, present the annual report and audited financial statements for the syndicate for the year ended 31 December 2014.

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and applicable accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP").

Strategic Report

The directors of CMA present their strategic report for the syndicate for the year ended 31 December 2014.

Principal Activities

The principal activity of Syndicate 4444 is the underwriting of insurance and reinsurance business at Lloyd’s.

The deal to acquire CGL by Sompo Japan Nipponkoa Insurance Inc. (“SJNK”), a wholly-owned direct subsidiary of Sompo Japan Nipponkoa Holdings, Inc. (“SJNK Holdings”) was completed on 1 May 2014. SJNK is one of the largest insurance groups in Japan. SJNK Holdings is listed on the Tokyo Stock Exchange. SJNK acquired CGL as a platform for the growth of its international specialty business.

Review of the business

The key performance indicators are shown in the table below.

	2014 ***£000***	***2013*** ***£000***
Gross premiums written	726,791	704,396
Earned premiums, net of reinsurance	550,705	537,857
Net operating expenses	(229,876)	(231,859)
Investment return	16,398	12,593
Profit for the year	69,823	67,286
Gross claims ratio	43.1%	47.2%
Net claims ratio	48.6%	46.7%
Combined operating ratio	90.3%	89.8%
Investment return, on average invested balances	2.6%	1.6%

2014 has been a very good year for Syndicate 4444, resulting in a profit of £69.8m and a solid combined ratio of 90.3%. This compares to a profit of £67.3m in 2013 and a combined ratio of 89.8%.

In the 2014 calendar year, the 2014, 2013 and 2012 & prior years of account have all contributed profits (2014: £19.7m; 2013: £10.4m: 2012 & prior: £39.7m). The main drivers of the syndicate performance are:

- modest premium growth, despite challenging market conditions;
- low incidence of catastrophe losses;
- positive reserve development from prior periods; and
- moderate improvement in investment income despite challenging circumstances.

Each of these drivers is discussed further below.

Review of the business (continued)

Despite continued rate softening, the 2014 calendar year saw an increase of 7% (after adjusting for the effect of foreign exchange rates) in gross premiums written. The syndicate underwrites insurance and reinsurance business grouped under three business units: Global Property (41%); Global Specialty (35%) and UK Specialty (24%).

During 2014, loss experience has been favourable and the claims ratio has improved to 43.1%. 2014 experienced a benign US windstorm season and global catastrophe experience was below historical average. Nonetheless, Syndicate 4444 had moderate exposure to Hurricane Odile, the intense tropical cyclone which swept across the Baja California peninsula in September 2014 inflicting widespread damage. The net ultimate claims from this storm are forecast to be £5.3m

Syndicate 4444 has benefitted from positive reserve development relating to prior periods. An improvement in the old years' catastrophe events resulted in reserve releases across the Global Property and Global Specialty business units.

The syndicate has generated an improved investment return in 2014 of £16.4m (2013: £12.6m). There was a marked increase in economic uncertainty and further periods of financial market instability during the year, as a withdrawal of Quantitative Easing in the US, a sharp decline in the price of oil and continued geopolitical tensions prompted a flight to quality bonds and a further appreciation in the US dollar. Strong gains in hedge funds and modest performance of the core USD portfolio were offset by weakening in higher yield credit markets and European bonds. The investment environment is extremely difficult and is expected to remain challenging in 2015.

The 2012 year of account of Syndicate 4444 closed with a reported profit of £83.8m. The year has been materially impacted by international catastrophes and major losses including Superstorm Sandy and Costa Concordia, but benefitted from significant favourable reserve development.

The forecast result for the 2013 year of account is in the range (0.8)% to 4.3% of managed capacity and the 2014 year of account is forecast to make a profit in the range of 10.2% to 15.2% 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.

The syndicate's reinsurance programme for 2014 was written in conjunction with Syndicate 958, shared in the ratio 80:20 as for all inwards premiums.

Future Developments

The syndicate's stamp capacity for the 2015 year of account has been increased by 5.7% to £740m. The syndicate will continue to underwrite on a split stamp basis with Syndicate 958.

Pricing continues to be under pressure from the additional capital which has entered the industry as a result of investors seeking to benefit from non-correlated investment in the insurance industry. In addition, the sustained period of low interest rates and continued high levels of profitability, in part due to a relatively benign natural catastrophe environment, is adding to this. This has had the inevitable consequence of making the marketplace increasingly competitive. CMA is alive to these challenges and will continue to maintain underwriting discipline, whilst carefully managing premium growth borne primarily from the synergies associated with CGL's positioning within the SJNK group.

Future Developments (continued)

In order to help facilitate growth in challenging market conditions, CGL continues to look to develop new products and to expand into attractive markets, while leveraging its position as part of the SJNK Group. CGL is committed to recruiting underwriters who are knowledgeable, experienced and innovative and able to deliver on our ambitions. Innovation, creativity and pragmatism are central to our growth and development. As part of this strategy, CGL has announced at the end of 2014 and start of 2015, a number of new senior appointments demonstrating its commitment to developing the underwriting teams and product offerings.

Syndicate 4444, in conjunction with Syndicate 958, will additionally write the motor insurance and reinsurance book of business previously underwritten by Syndicate 260.

2015 will be impacted by final preparations for Solvency II implementation. Solvency II is an important change for the insurance industry but CMA is well-prepared to meet the challenge and has already embedded many of the requirements into its business.

Risk Management

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

Directors

The directors of the managing agent who served from 1 January 2014 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 2012 to 2014 years of account.

Statement of disclosure of information to auditors

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

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

Post Balance Sheet Events

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

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;

Statement of Managing Agent's Responsibilities (continued)

- 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 Auditor

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

Annual general meeting; reappointment of auditor

The managing agent proposes (i) not to hold in 2015 an annual general meeting of the members of the syndicate and (ii) to reappoint the syndicate's auditor, PwC (which is also the auditor of the managing agent and all other Canopius group companies), as the auditor of the syndicate for the 2015 financial year, provided that in respect of each such proposal no objection is received from any member of the syndicate within 21 days of the date of issue of these syndicate reports and accounts.

By order of the Board of the managing agent

Paul Cooper
Finance Director
London
17 March 2015

Independent Auditors' Report

To the members of Syndicate 4444

Report on the syndicate annual accounts

Our Opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss account for the year then ended;
- the cash flow statement; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report

To the members of Syndicate 4444

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on pages 6 and 7, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

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

whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

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

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

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

Andrew Moore

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

17 March 2015

Profit and Loss Account: Technical Account – General Business

for the year ended 31 December 2014

		2014		2013	
	Notes	**£000**	**£000**	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	6		726,791		704,396
Outward reinsurance premiums			(148,066)		(168,086)
Net premiums written			578,725		536,310
Change in the provision for unearned premiums:					
Gross amount			(22,261)		(19,671)
Reinsurers' share			(5,759)		21,217
Change in the net provision for unearned premiums			(28,020)		1,546
Earned premiums, net of reinsurance			550,705		537,856
Allocated investment return transferred from the non-technical account	13		16,398		12,593
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(331,359)		(361,170)	
Reinsurers' share		94,862		68,387	
Net claims paid		(236,497)		(292,783)	
Change in the provision for claims					
Gross amount		27,653		37,875	
Reinsurers' share		(58,560)		3,604	
Change in the net provisions for claims		(30,907)		41,479	
Claims incurred, net of reinsurance			(267,404)		(251,304)
Net operating expenses	9, 10		(229,876)		(231,859)
Balance on the technical account for general business			69,823		67,286

All of the above amounts are derived from continuing operations.

Profit and Loss Account: Non-technical Account

for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Balance on the general business technical account		69,823	67,286
Investment income	13	32,024	36,774
Net unrealised profit/(losses) on investments	13	10,430	(4,753)
Realised losses on investments	13	(23,933)	(18,366)
Investment expenses and charges	13	(2,123)	(1,062)
Allocated investment return transferred to the general business technical account		(16,398)	(12,593)
Profit for the financial year		69,823	67,286

All of the above amounts are derived from continuing operations.

There are no recognised gains or losses apart from those included in the profit and loss account above. Accordingly no statement of total recognised gains and losses is presented.

Balance Sheet – Assets

at 31 December 2014

		2014		2013	
	Notes	**£000**	**£000**	£000	£000
Investments					
Other financial investments	14		807,365		726,385
Deposits with ceding undertakings			388		431
Reinsurers' share of technical provisions					
Provision for unearned premiums		46,799		52,607	
Claims outstanding		263,640		311,318	
			310,439		363,925
Debtors					
Debtors arising out of direct insurance operations	15	237,698		175,173	
Debtors arising out of reinsurance operations	16	34,714		38,967	
Other debtors	17	6,611		7,643	
			279,023		221,783
Other assets					
Cash at bank and in hand			24,445		26,588
Overseas deposits	18		37,908		50,145
Prepayments and accrued income					
Deferred acquisition costs		92,978		80,589	
Other prepayments and accrued income		3,109		1,833	
			96,087		82,422
Total assets			1,555,655		1,471,679

Balance sheet - Liabilities

at 31 December 2014

		2014		*2013*	
	Notes	***£000***	***£000***	*£000*	*£000*
Capital and reserves					
Members' balances	2, 19		101,174		69,892
Technical provisions					
Provision for unearned premiums		314,916		292,656	
Claims outstanding		898,970		900,631	
			1,213,886		1,193,287
Creditors					
Creditors arising out of direct insurance operations	20	25,030		9,153	
Creditors arising out of reinsurance operations	21	33,014		45,571	
Other creditors	22	179,905		152,598	
			237,949		207,322
Accruals and deferred income			2,646		1,178
Total liabilities			1,555,655		1,471,679

The financial statements on pages 10 to 38 were approved by the Board of CMA on 13 March 2015 and were signed on its behalf by:

Paul Cooper
Finance Director
17 March 2015

Cash Flow Statement

for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	23	71,141	60,662
Transfer (to) members in respect of underwriting participations		(38,541)	(1,207)
Net cash inflow	24	32,600	59,455
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	24	(2,529)	9,288
(Decrease) in deposits	24	(12,929)	(26,990)
		(15,458)	(17,702)
Increase/(decrease) in net portfolio investments:			
Debt and other fixed income securities	24	18,115	(14,360)
Holdings in collective investment schemes	24	27,474	88,104
Participation in investment pools	24	3,793	2,189
Deposits with ceding undertakings	24	(67)	(148)
Other investments	24	(1,257)	1,372
		48,058	77,157
Net investment of cash flows	24	32,600	59,455

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP"). The directors of the managing agent have prepared the financial statements on the basis that the syndicate will continue to write future business.

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

The members' balances on the balance sheet shows a surplus of £101.2m (2013: surplus £69.9m). 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. 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 as follows:

(i) Premiums

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.

(ii) 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 claims incurred but not reported ("IBNR") and related expenses, together with any other adjustments to claims from prior years.

3. Accounting policies (continued)

a. Insurance contracts (continued)

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.

3. Accounting policies (continued)

a. Insurance contracts (continued)

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.

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.

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 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 managing agent.

3. Accounting policies (continued)

d. Reinsurance to close ("RITC") (continued)

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.

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

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

f. Receivables and payables related to insurance contracts

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

g. Financial assets

The syndicate states financial assets at fair value.

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

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

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

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

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

3. Accounting policies (continued)

g. Financial assets (continued)

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

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.

(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 foreign currency forward contracts from time to time to manage its exposures to foreign exchange rate volatility. These contracts are initially recorded at cost and revalued 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 technical accounts.

h. Foreign currencies

The functional currency for Syndicate 4444 is Sterling. Transactions in US dollars, Canadian dollars and Euros are translated 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.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or, if appropriate, at the forward contract rate. Non-monetary assets and liabilities are translated at the rates ruling at the transaction dates. Unearned premium reserves and deferred acquisition costs are treated as non-monetary items. Exchange differences are included in the technical account.

3. Accounting policies (continued)

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.

4. Management of risk

Insurance Risk

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

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

The underwriters use their expertise and experience to determine the likely claims cost and, therefore, the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit in line with the agreed business plan. Due to the nature of insurance risk, however, the premium charged may not be sufficient to cover the cost of claims. The shortfall may result from insufficient premium being calculated and charged or from an unexpected or unprecedented high level of claims.

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

Insurance liabilities are assumed through individual risk acceptances, reinsurance treaties or binding authorities. Binding authorities delegate underwriting authority to other underwriters, or agents acting as coverholders, who use their judgement to write risks on Syndicate 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 incurred but not reported (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.

4. **Management of risk (continued)**

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.

Market Risk

Market risk is derived primarily from the syndicate's investment of trust fund monies but also from currency exposures. The Board has agreed an investment strategy commensurate with the syndicate's risk appetite.

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

Policyholders' assets are held in 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. This limits the underlying foreign exchange risk. Foreign exchange risk also arises when non-sterling profits are converted into Sterling. A significant proportion of the syndicate's business is transacted in US dollars. CMA has a policy to mitigate foreign exchange risk and this policy is managed by the Finance Committee.

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.

Regulatory Risk

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

Operational Risk

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

- regular meetings of the Board of directors at which key aspects of the managing agent's and syndicate's businesses are reviewed, including review of reports from various sub-committees of the Board
- underwriting guidelines and controls that cover, inter-alia, aggregate and individual limits on exposure by territory and risk, adequacy of premium for insured risks, and reinsurance programmes
- claims management policies and guidelines
- risk registers which are reviewed and signed off by the risk and control owners on a regular basis
- a suite of risk policies for major risk categories relating to the activities of the syndicate
- an internal audit function whose audit plan is aligned with CMA's risk register
- human resources policies and guidelines designed to ensure that the operations are adequately resourced by sufficiently skilled and trained people, who are appropriately remunerated

4. Management of risk (continued)

Operational Risk (continued)

- 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 the PRA's and Lloyd's guidance through the use of stochastic modelling and further challenged using a comprehensive validation process which includes the use of stress and scenario tests. This process assesses the capital required to meet a 1 in 200 level extreme outcome from the aggregation of all recognised sources of insurance, market, credit and operational risk.

Group Risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. CGL is the global specialty lines platform of SJNK, an A+ rated company with US$80bn total assets and one of the top three largest Japanese insurers.

Whilst SJNK has applied its Global Business Governance Structure to CGL, the autonomy of the CGL management team and its governance system remains in place.

Financial risk

The syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts.

An analysis of the syndicate's exposure to the significant components of financial risk is given below.

Credit risk

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

The primary sources of credit risk for the syndicate are:

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

4. Management of risk (continued)

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 Canopius' Reinsurance Support team. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The recovery of debt from reinsurers is administered by the Reinsurance Support team.

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

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

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

At 31 December 2014	***AAA***	***AA***	***A***	***Other/not rated***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***
Reinsurance debtors and reinsurers' share of claims outstanding	-	100,953	233,413	10,787	345,153
Debt and other fixed income securities	223,885	37,966	127,702	79,226	468,779
Holdings in collective investment schemes and participations in investment pools	116,809	16,050	2,484	203,243	338,586
Cash and overseas deposits	24,916	6,516	29,349	1,572	62,353
Total	365,610	161,485	392,948	294,828	1,214,871

At 31 December 2013	***AAA***	***AA***	***A***	***Other/not rated***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***
Reinsurance debtors and reinsurers' share of claims outstanding	-	95,341	289,529	18,022	402,892
Debt and other fixed income securities	225,359	32,885	92,973	82,766	433,983
Holdings in collective investment schemes and participations in investment pools	123,219	28,193	933	140,057	292,402
Cash and overseas deposits	35,221	7,747	32,646	1,119	76,733
Total	383,799	164,166	416,081	241,964	1,206,010

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.

4. Management of risk (continued)

Credit risk (continued)

The underlying investments in 'Other/not rated' debt and other fixed income securities and holdings in collective investments are shown below.

Underlying investments in 'Other/not rated'	***2014*** ***£000***	*2013* *£000*
Debt and other fixed income securities:		
Debt and other fixed income securities: BBB or below	79,226	82,766
Holdings in Collective investment schemes and participation in investment pools:		
Collective investment schemes: BBB or below	101,017	74,035
Equities	20,183	14,606
Hedge funds	6,518	4,131
Funds of hedge funds	75,525	47,285
Total	282,469	222,823

Valuation Hierarchy

The syndicate has classified its financial instruments using the fair value hierarchy required by the Amendments to FRS 29: Financial Instruments Disclosures. The fair value hierarchy classifies financial instruments into Level 1 to Level 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 - Quoted prices (unadjusted) in active markets for the identical instruments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Valuation techniques for which any significant input is not based on observable market data.

	Level 1 ***£000***	**Level 2** ***£000***	**Level 3** ***£000***	**Total** ***£000***
Cash and overseas deposits at 31 December 2014	45,561	16,792	-	62,353
Debt and other fixed income securities	383,265	64,387	21,127	468,779
Holdings in collective Investment schemes and participations in investment pools	244,359	94,227	-	338,586
Total	627,624	158,614	21,127	807,365

	Level 1 ***£000***	***Level 2*** ***£000***	***Level 3*** ***£000***	***Total*** ***£000***
Cash and overseas deposits at 31 December 2013	37,535	39,198	-	76,733
Debt and other fixed income securities	319,686	88,584	25,713	433,983
Holdings in collective Investment schemes and participations in investment pools	216,504	74,525	-	291,029
Derivative financial instruments	1,043	330	-	1,373
Total	537,233	163,439	25,713	726,385

4. Management of risk (continued)

Valuation Hierarchy (continued)

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

The following table presents the changes in Level 3 instruments for the year ended 31 December 2014.

	£000
Balance at 1 January 2014	25,713
Sales	(4,821)
Gains taken to Profit and Loss account	235
Balance at 31 December 2014	21,127

Interest rate risk

The majority of the syndicate's investments comprise cash, overseas deposits and fixed income securities. The fair value of the syndicate’s investments 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 2014 was £468.8m (2013: £434m) with an average duration of around 1.58 years (2013: 1.70 years). If interest rates were to rise/(fall) by 100 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 £7.4m (2013: £5.7m).

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.

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 £20.2m within the SYZ & Co managed funds (2013: £14.6m).

Currency risk

The syndicate operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US dollar, Euro, Canadian Dollar and Australian Dollar. The syndicate mitigates this risk by endeavouring to match assets and liabilities in foreign currency. 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.

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

4. Management of risk (continued)

Currency risk (continued)

At 31 December 2014	***Sterling & Other £000***	***US dollar £000***	***Euro £000***	***CAD £000***	***Total £000***
Reinsurance debtors and reinsurers' share of technical provisions	95,227	237,955	9,408	2,563	345,153
Deferred acquisitions costs	53,018	36,000	1,969	1,991	92,978
Debtors, deposits with ceding undertakings, prepayments and accrued income	80,202	152,853	11,153	3,598	247,806
Investments	278,236	449,109	58,412	21,608	807,365
Cash and overseas deposits	42,404	13,725	2,163	4,061	62,353
Total assets	549,087	889,642	83,105	33,821	1,555,655
Reinsurance creditors and claims outstanding	307,525	543,583	63,514	17,362	931,984
Provision for unearned premiums	118,227	176,900	11,797	7,992	314,916
Creditors, accruals and deferred income	135,701	62,986	6,877	2,017	207,581
Total liabilities	561,453	783,469	82,188	27,371	1,454,481

At 31 December 2013	***Sterling & Other £000***	***US dollar £000***	***Euro £000***	***CAD £000***	***Total £000***
Reinsurance debtors and reinsurers' share of technical provisions	117,867	274,490	8,890	1,645	402,892
Deferred acquisitions costs	48,395	28,751	2,437	1,006	80,589
Debtors, deposits with ceding undertakings, prepayments and accrued income	70,191	101,725	12,315	849	185,080
Investments	287,388	364,913	55,724	18,360	726,385
Cash and overseas deposits	50,735	19,477	2,873	3,648	76,733
Total assets	574,576	789,356	82,239	25,508	1,471,679
Reinsurance creditors and claims outstanding	331,269	535,241	67,021	12,670	946,201
Provision for unearned premiums	118,101	155,634	13,969	4,952	292,656
Creditors, accruals and deferred income	123,697	37,074	2,092	65	162,928
Total liabilities	573,067	727,949	83,082	17,687	1,401,785

Liquidity risk

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

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

4. Management of risk (continued)

Liquidity risk (continued)

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

In addition, the duration of assets is maintained at a level to match 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.

5. Capital management policies and objectives

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

- satisfy the requirements of its policyholders and regulators;
- allocate capital efficiently to support growth; and
- manage exposure to movements in exchange rates.

The PRA and Lloyd's oversee a capital regime that requires syndicates to calculate their own capital requirements through an Individual Capital Assessment ("ICA+")/Solvency Capital Requirement ("SCR"). 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. the Lloyd's Integrated Capital Platform; prior years' ICA/SCRs; Syndicate Quantitative Impact Study ("QIS") results, the PRA published calculations based on industry ICA/SCR submissions and market surveys/studies; and
- Board review and challenge.

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

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

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

5. Capital management policies and objectives (continued)

CMA has developed and implemented documentation, procedures and controls to ensure compliance with Solvency II, which is a fundamental overhaul of the capital adequacy regime for the European insurance industry.

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.

6. Segmental analysis

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

2014	***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	25,982	25,618	(12,650)	(14,296)	(996)	(2,324)
Motor (third party liability)	32,065	22,656	(18,343)	(7,985)	3	(3,669)
Motor (other classes)	26,396	23,289	(13,423)	(9,123)	(671)	72
Marine & Energy	103,593	106,556	(49,706)	(31,847)	(11,418)	13,585
Aviation	1,827	1,819	(3,144)	(1,120)	(3,146)	(5,591)
Fire & other damage to property	222,537	230,898	(88,406)	(84,190)	(42,276)	16,026
Third party liability	111,583	99,887	(49,930)	(35,162)	(17,554)	(2,759)
Pecuniary Loss	10,905	10,839	(5,798)	(2,894)	(1,693)	454
Other	-	-	(5,013)	-	(345)	(5,358)
	534,888	521,562	(246,413)	(186,617)	(78,096)	10,436
Reinsurance inwards	191,903	182,968	(57,293)	(43,259)	(39,427)	42,989
Total	726,791	704,530	(303,706)	(229,876)	(117,523)	53,425

* Reinsurance balance includes Reinsurance commissions and profit participations of £1.1m.

2013	***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	21,098	15,905	(7,038)	(9,005)	(538)	(676)
Motor (third party liability)	15,093	15,277	(11,584)	(5,545)	(23)	(1,875)
Motor (other classes)	20,648	24,220	(14,729)	(9,380)	(1,176)	(1,065)
Marine, aviation and transport	100,003	98,940	(52,564)	(34,632)	(9,165)	2,579
Aviation	48	48	984	(12)	(807)	213
Fire & other damage to property	276,983	263,262	(62,797)	(100,034)	(51,850)	48,581
Third party liability	90,344	83,190	(78,811)	(31,676)	13,276	(14,021)
	524,217	500,842	(226,539)	(190,284)	(50,283)	33,736
Reinsurance inwards	180,179	183,883	(96,756)	(41,574)	(24,596)	20,957
Total	704,396	684,725	(323,295)	(231,858)	(74,879)	54,693

6. Segmental analysis (continued)

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:

	2014	***2013***
	£000	***£000***
UK	207,778	188,626
Other EU countries	40,381	46,035
US	302,655	285,163
Other	175,977	184,572
Total	726,791	704,396

7. Currency rates of exchange

	31 Dec 14	***Average for 2014***	***31 Dec 13***	***Average for 2013***
US $	1.56	1.65	1.66	1.56
Euro	1.29	1.24	1.20	1.18
Canadian $	1.81	1.82	1.76	1.61

Non-monetary items, comprising unearned premium, unearned reinsurance premium, and deferred acquisition costs were translated at historic average rates as follows:

	YOA 2014	***YOA 2013***	***YOA 2012***
US $	1.65	1.56	1.59
Euro	1.24	1.18	1.23
Canadian $	1.82	1.61	1.58

8. Net claims outstanding

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

	2014	***2013***
	£000	***£000***
Accident & health	(985)	(534)
Motor (third party liability)	(1,026)	(1,478)
Motor (other classes)	3,158	(841)
Marine & Energy	5,906	2,035
Aviation	288	168
Fire & other damage to property	(2,324)	38,265
Third party liability	(578)	(11,065)
Pecuniary loss	(406)	-
Other	(5,358)	-
	(1,325)	26,550
Reinsurance inwards	23,258	16,539
Total	21,933	43,089

9. Net operating expenses

	2014 *£000*	*2013* *£000*
Commissions on direct business	159,218	147,123
Commissions on inwards reinsurance business	27,408	24,340
Other acquisition costs	38,023	27,119
Change in deferred acquisition costs	(13,054)	(7,371)
Administrative expenses	19,112	27,012
(Profit)/loss on exchange	(10,488)	3,707
Total	220,219	221,930

Administrative expenses include:

	2014 *£000*	*2013* *£000*
Auditors' remuneration:		
Audit of syndicate accounts	200	199
Audit related assurance	66	66
Other assurance services	7	7
Total audit and assurance	273	272
Other non-audit services	302	205
Total audit and non-audit fees	575	477

10. Personal Expenses

	2014 *£000*	*2013* *£000*
Members' standard personal expenses	4,883	6,365
Managing Agent's fee	4,774	3,564
Total	9,657	9,929

11. Staff numbers and costs

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

	2014 *£000*	*2013* *£000*
Wages and salaries	33,828	28,475
Social security costs	3,965	3,294
Other pension costs	2,668	2,548
Total	40,461	34,317

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

	2014 *£000*	*2013* *£000*
Underwriting	143	115
Insurance Services	80	54
Other	109	95
Total	332	264

12. Emoluments of the directors of Canopius Managing Agents Limited

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

	2014 ***£000***	***2013*** ***£000***
Emoluments	1,669	1,459
Pension contributions to money purchase schemes	57	92
Total	1,726	1,551

Retirement benefits are accruing to 7 directors (2013: 7) under money purchase schemes.

The active underwriters received the following remuneration charged as a syndicate expense:

	2014 ***£000***	***2013*** ***£000***
Emoluments	1,166	754
Pension contributions to money purchase schemes	12	68
Total	1,178	822

Retirement benefits are accruing to 2 joint active underwriters (2013: 2) under money purchase schemes.

13. Investment return

	2014 ***£000***	***2013*** ***£000***
Investment income		
Income from investments	14,070	15,634
Gains on the realisation of investments	17,954	21,140
Investment income	32,024	36,774
Unrealised gains on investments	21,435	32,167
Unrealised losses on investments	(11,005)	(36,920)
Net unrealised gains/(losses) on investments	10,430	(4,753)
Losses on the realisation of investments	(23,933)	(18,366)
Investment management expenses, including interest	(2,123)	(1,062)
Investment expenses and charges	(26,056)	(19,428)
Allocated investment return transferred to the general business technical account	16,398	12,593

	2014 ***£000***	***2013*** ***£000***
Average amount of Syndicate funds available for investment during the year	719,741	714,813
Gross aggregate investment return for the calendar year in sterling	18,521	13,655
Gross calendar year investment yield	2.6%	1.9%

14. Other financial investments

	Market value		Cost	
	2014	*2013*	***2014***	*2013*
	£000	*£000*	***£000***	*£000*
Holdings in collective investment schemes	305,942	262,548	295,702	256,144
Debt and other fixed income securities	468,779	433,983	465,421	443,569
Participation in investment pools	32,644	28,482	32,644	28,481
Derivative financial instruments	-	1,372	-	-
Total	807,365	726,385	793,767	728,194

	2014	*2013*
	£000	*£000*
Derivative financial instruments	(1,336)	(186)

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

15. Debtors arising out of direct insurance operations

	2014	***2013***
	£000	***£000***
Due within one year		
Intermediaries	237,047	174,900
	237,047	174,900
Due after more than one year and within five years		
Intermediaries	651	273
Total	237,698	175,173

16. Debtors arising out of reinsurance operations

	2014	***2013***
	£000	***£000***
Due within one year		
Ceding insurers and intermediaries under reinsurance business	22,284	18,175
Reinsurance recoverable on paid claims net of bad debt provision	12,279	20,664
	34,563	38,839
Due after more than one year and within five years		
Ceding insurers and intermediaries under reinsurance business	151	128
Total	34,714	38,967

17. Other debtors

	2014 *£000*	*2013* *£000*
Due within one year		
Amounts due from group undertakings	5,659	5,829
Other	941	386
	6,600	6,215
Due after more than one year and within five years		
Other	11	1,428
Total	***6,611***	***7,643***

18. Overseas deposits

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

19. Reconciliation of members' balances

	2014 *£000*	*2013* *£000*
Members' balances at 1 January	69,892	3,813
Profit for the financial year	69,823	67,286
Payments of (profits) to members' personal reserve funds	(38,541)	(1,207)
Total	101,174	69,892

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

20. Creditors arising out of direct insurance operations

	2014 *£000*	*2013* *£000*
Due within one year		
Intermediaries	24,968	9,134
	24,968	9,134
Due after one year		
Intermediaries	62	19
Total	25,030	9,153

21. Creditors arising out of reinsurance operations

	2014 *£000*	*2013* *£000*
Due within one year		
Reinsurance ceded	32,866	45,442
	32,866	45,442
Due after one year		
Reinsurance ceded	148	129
Total	33,014	45,571

22. Other creditors

	2014 *£000*	*2013* *£000*
Due within one year		
Amounts due to group undertakings	9,071	27,678
Inter-syndicate loan with Syndicate 260	52,671	49,117
Inter-syndicate loan with Syndicate 958	54,112	33,428
Amounts payable under Quota Share reinsurance arrangements with Syndicate 6115	63,984	42,343
Other	67	32
Total	179,905	152,598

The inter-syndicate loans from Syndicate 260 and Syndicate 958 are wholly unsecured loans for the purpose of pooling investment funds for efficient portfolio management. Syndicate 260's funds are invested in Schroders' Sterling bond portfolio and Syndicate 958's funds are invested in Schroders' high quality short dated bonds with performance monitored against short term government indices.

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

	2014 *£000*	*2013* *£000*
Operating profit for the financial year	69,823	67,286
Realised and unrealised investment (gains)/losses, including FX	(33,958)	15,151
(Increase) in debtors	(70,906)	(13,732)
Increase in creditors	32,096	36,714
Increase/(decrease) in net technical provisions	74,086	(44,757)
Net cash inflow from operating activities	71,141	60,662

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

	2014 *£000*	*2013* *£000*
Net cash (outflow)/inflow from the year	(2,529)	9,288
Cash flow		
(Decrease) in overseas deposits	(12,929)	(26,990)
Portfolio investments	48,058	77,157
Movement arising from cash flow	32,600	59,455
Changes in market value and exchange rates	33,957	(15,150)
Total movement in portfolio investments	66,557	44,304
Portfolio at 1 January	803,549	759,244
Portfolio at 31 December	870,106	803,549

24. Movement in opening and closing portfolio investments net of financing (continued)

Net cash inflow/(outflow) on portfolio investments

	2014 *£000*	*2013* *£000*
(Purchase) of shares and other variable income securities	(27,474)	(88,104)
(Purchase)/sale of debt and other fixed income securities	(18,115)	14,360
Purchase of participation in investment pools	(3,793)	(2,189)
Sale/(Purchase) of other investments	1,257	(1,372)
Sale of debt and other fixed income securities	67	148
Net cash outflow on portfolio investments	(48,058)	(77,157)

Movement in cash and portfolio investments

	At 1 Jan 2014 £000	*Cash Flow £000*	*Changes to market Value and currencies £000*	*At 31 Dec 2014 £000*
Cash at bank and in hand	26,588	(2,529)	386	24,445
Overseas deposits	50,145	(12,929)	692	37,908
Portfolio investments				
Debt and other fixed income securities	433,983	18,115	16,681	468,779
Holdings in collective investment schemes	262,548	27,474	15,920	305,942
Participation in investment pools	28,481	3,793	370	32,644
Deposits with ceding undertakings	431	(67)	24	388
Other investments	1,373	(1,257)	(116)	-
Total portfolio investments	726,816	48,058	32,879	807,753
Total cash, portfolio investments and financing	803,549	32,600	33,957	870,106

25. Post balance sheet events

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

26. Pensions

CSL operates defined contribution pension schemes for the employees of CSL, including those working on the syndicate's affairs during the year. The assets of the schemes are held separately from those of CSL in independently administered funds. The amounts recharged to the syndicate from CSL in respect of pensions are disclosed in note 11.

27. Related parties

Transactions between the Managing Agent/Service Company and the Syndicate

CMA is the managing agent of Syndicate 4444 and its immediate parent is Canopius Holdings UK Limited ("CHUKL"). Managing agency fees of £4,774,000 were paid by the syndicate to CMA during 2014 (2013: £3,564,000).

Profit commission payable to CMA of £602,000 has been accrued in respect of profits for the 2012 year of account in the 2014 calendar year (2013: £444,000).

27. Related parties (continued)

Transactions between the Managing Agent/Service Company and the Syndicate (continued)

Employment of staff, provision of accommodation and related services are provided at cost by CSL, which is owned by CHUKL. Expenses during 2014 totalling £60,900,000 (2013: £56,281,000) were recharged to the syndicate by CSL.

Canopius Underwriting Bermuda Limited ("CUBL")

Canopius Underwriting Bermuda Limited ("CUBL") is an insurance service company that underwrites Treaty Property and US Excess Casualty insurance primarily using the Bermuda policy form on behalf of the syndicate. Premiums written during 2014 totalled £18,868,000 (2013: £16,641,000).

Canopius Underwriting Limited ("CUL")

Canopius 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 2014 totalled £4,902,000 (2013: £4,178,000). At 31 December 2014, an amount of £303,000 was due from CUL to the syndicate (2013: £466,000).

K Drewe Insurance Brokers Limited ("KDIBL")

K Drewe Insurance Brokers Limited ("KDIBL") is an insurance broker that underwrites principally caravan business on behalf of the syndicate. Premiums written during 2014 totalled £9,742,000 (2013: £12,994,000). At 31 December 2014, an amount of £1,183,000 (2013: £1,493,000) was due from KDIBL to the syndicate.

In March 2015, KDIBL was renamed Canopius UK Specialty Limited.

Canopius Asia Pte. Limited ("CAPL")

Canopius Asia Pte. Limited ("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 2014 totalled £27,768,000 (2013: £36,886,000). At 31 December 2014, an amount of £830,000 was due from the syndicate to CAPL (2013: £637,000).

Canopius Labuan Pte. Limited ("CLPL")

Canopius Labuan Pte. Limited ("CLPL") is an insurance service company that underwrites treaty reinsurance, predominantly excess of loss property business on behalf of the syndicate. Premiums written during 2014 totalled £612,000 (2013: £444,000). At 31 December 2014, an amount of £5,000 was due from the syndicate to CLPL (2013: £9,000).

Resource Underwriting Pacific Proprietary Limited ("RUPPL")

Resource Underwriting Pacific Proprietary Limited ("RUPPL") is an Australian based insurer that underwrites professional indemnity risks under a binding authority, on behalf of the syndicate. Premiums written during 2014 totalled A$7,300,000; £3,900,000 (2013: A$5,200,000; £3,200,000) in respect of this authority.

RUPPL was 75% owned by CHUKL until November 2014 when it was sold.

Syndicate 260

An inter-syndicate loan payable to Syndicate 260 was established in April 2011. The loan was invested as part of the syndicate's investment portfolio, with interest calculated at the rate earned by the syndicate's sterling invested assets each month. The amount owing by the syndicate to Syndicate 260 at 31 December 2014 totalled £52,671,000 (2013: £49,117,000).

27. Related parties (continued)

Syndicate 260 (continued)

Syndicate 260 is not trading in 2015. The renewal rights for its book of UK motor insurance and reinsurance business is being assumed by Syndicate 4444 in conjunction with Syndicate 958 who will share the business in the ratio 80:20.

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 sterling invested assets each month. The amount owing by the syndicate to Syndicate 958 comprising capital and accrued interest at 31 December 2014 totalled £54,112,000 (2013: £33,428,000).

In addition, there was an inter-syndicate creditor at 31 December 2014 of £1,793,000 (2013: £nil).

Syndicate 6115

At 31 December 2014, Syndicate 6115 was owed £63,984,000 by Syndicate 4444 representing the balance of underwriting transactions under the whole account quota share reinsurance treaty contract.

SJNK

SJNK has historically provided Syndicate 839 with excess of loss reinsurance protection in respect of its aviation business written in 2002 and prior. At 31 December 2014, Syndicate 4444 (having reinsured to close Syndicate 839) had accrued recoveries due from SJNK of £125,000 in respect of paid claims and £515,000 in respect of outstanding claims. These arrangements are fully collateralised.

Other group companies

The syndicate held balances with the following group companies as at 31 December 2014; CRL £nil (2013: £13,874,000); Canopius Europe Limited £2,379,000 (2013: £(374,000)); Canopius Ireland Limited £285,000 (2013: £281,000).

Canopius Capital Four Limited ("CC4L"), Canopius Capital Five Limited ("CC5L"), Canopius Capital Seven Limited ("CC7L"), Canopius Capital Nine Limited ("CC9L"), Canopius Capital Ten Limited ("CC10L"), Canopius Capital Eleven Limited ("CC11L"), Canopius Capital Twelve Limited ("CC12L"), Flectat Limited ("Flectat") and Canopius Capital Fifteen Limited ("CC15L"), also subsidiaries of CHUKL, provided capacity to the 2012 to 2015 underwriting years as follows:

	2012		***2013***		***2014***		***2015***	
	£m		£m		£m		£m	
CC4L	16.5	3.0%	16.5	3.0%	21.0	3.0%	14.8	2.0%
CC5L	21.3	4.0%	33.0	6.0%	46.0	6.6%	-	-
CC7L	21.8	4.0%	21.9	4.0%	24.5	3.5%	25.9	3.5%
CC9L	11.3	2.1%	11.3	2.1%	11.3	1.6%	11.3	1.5%
CC10L	10.0	1.8%	10.0	1.8%	12.5	1.8%	11.1	1.5%
CC11L	33.0	6.0%	-	-	-	-	-	-
CC12L	12.9	2.3%	12.9	2.3%	16.4	2.3%	-	-
Flectat	375.9	68.3%	361.7	65.8%	468.2	66.9%	584.0	78.9%
CC15L	-	-	27.5	5.0%	31.5	4.5%	-	-

CC15L was sold in November 2014.

28. Immediate and ultimate parent undertaking and controlling party

Syndicate 4444 is managed by CMA and CMA's immediate UK parent is CHUKL, which is registered in England and Wales.

At 1 January 2014 and up until 30 April 2014, 95.1% of the Ordinary shares in issue in CGL at those respective dates were held by seven funds managed by Bregal Capital LLP. The funds, as investment vehicles, and Bregal Capital LLP, as manager of the funds, were not controlling parties or parent undertakings of CGL.

On 1 May 2014, SJNK, which is a wholly-owned direct subsidiary of SJNK Holdings, incorporated in Japan, signed an agreement with, amongst others, funds managed by Bregal Capital LLP to acquire 100 percent of the issued shares of CGL.

SJNK Holdings is the ultimate parent undertaking and controlling party of CMA.

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.