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Syndicate 4444 Annual Report & Accounts

As at 31 December 2018

canopius

Contents

Syndicate 4444

Directors and Professional Advisors

MANAGING AGENT:

Managing Agent	Canopius Managing Agents Limited ("CMA")
Directors	N J Betteridge *Chief Actuary (appointed 29 Mar 2018)* D Broome *Independent Non-Executive Director (resigned 4 September 2018)* P Ceurvorst *Independent Non-Executive Director* L Davison *Chief Operating Officer (appointed 21 May 2018)* M P Duffy *Chief Executive Officer* S J Gargrave *Non-Executive Director* R J Harden *Finance Director (resigned 31 May 2018)* P F Hazell *Senior Independent Non-Executive Director* N S Meyer *Chief Financial Officer (appointed 7 September 2018)* W R Monelle *Chief Risk Officer (appointed 21 September 2018)* G E Moss *Director* I B Owen *Independent Non-Executive Chairman* B Turner *Director (appointed 4 September 2018)* M C Watson *Non-Executive Director* S A Willmont *Chief Underwriting Officer (appointed 3 May 2018)*
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	S A Willmont *(w.e.f. 3 May 2018)*
Investment Managers	Aviva Investors – St Helen's, 1 Undershaft, London, EC3P 3DQ 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 H2O AM – 10 Old Burlington Street, London, W1S 3AG 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 – 4th Floor, DBP House, 63 Mark Lane, London, EC3R 7NQ Schroders – 1 London Wall Place, London, EC2Y 5AU 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, London, 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 2018.

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").

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 through direct channels and via delegated underwriting.

With effect from 9 March 2018, Sompo Holdings sold its interest in the Canopius AG group (“CAG”) of companies, including CMA, to a private equity consortium led by Centerbridge Partners, L.P. (“Centerbridge”).

Results and performance

The results of the syndicate for the year are set out on pages 11 and 12. In 2018, Syndicate 4444 recorded a loss of £74.1m (2017: £182.3m Loss) with a combined ratio of 108% (2017: 120%). The main drivers of the syndicate’s performance were:

- Catastrophe event net losses of £84.2m as a result of hurricane’s Florence and Michael and the Californian wildfires;
- Strengthening of prior period reserves;
- A continued focus on strict control of operating expenses;
- A 1.1 percentage point deterioration in investment return.

These results represent a significant improvement versus 2017 but do reflect another challenging year for the syndicate and the market generally. Underwriting discipline continues to be exercised and business has been declined where rate or profitability expectations have not been met. Nevertheless, overall gross written premiums increased by 9.8% to £1,249.3m (2017: £1,138.1m), primarily driven by targeted growth in Specialist Consumer Products, Credit and Political Crisis and North American Facilities.

Across the market, 2018 has once again seen material losses from natural catastrophes. The 2018 result for Syndicate 4444 includes the following net catastrophe losses; Hurricane Florence (£16.7m); Hurricane Michael (£39.4m) and California Wildfires (£28.1m).

Syndicate 4444’s investment portfolio achieved a return of £2.8m in 2018 (2017: £12.6m), the 2018 performance being heavily impacted by mark to market losses. This reflects the impact of a rising interest rate environment in the US and some uncertainty in the equity markets which had a broader effect on the valuation of risk assets.

The 2016 year of account of Syndicate 4444 closed with a reported loss of £67.7m. The 2017 year of account is forecast to make a loss of 14.2% of managed capacity and the 2018 year of account a loss of 0.4% 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.

Report of the Directors of the Managing Agent

Business environment

Following a protracted period of soft market conditions, the early part of 2019, including the January renewal season, has seen some limited positive rate momentum in selected classes but trading conditions will continue to be highly competitive and challenging in the near future.

Investment markets have been somewhat volatile through 2018 and this is expected to continue for some time with continuing uncertainty around interest rates, equity markets and the major economies.

Risks to UK economic growth remain, especially given the absence of a direction on 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. 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). To mitigate this risk, Lloyd's has established a subsidiary in Brussels and Syndicate 4444 is already using this arrangement in continuing to provide services to our European partners.

Strategy

Our strategy is to make Canopius one of the most profitable and admired insurers in our market.

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

Operational excellence remains a core objective, delivered through efficient use of capital, development of modern technology solutions and a scalable, streamlined business model.

CMA remains committed to developing a first-class culture to attract, retain and develop good people. We encourage an open and honest working environment, focused on results and with a strong team ethic.

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:

	2018 £m	2017 £m
Gross premiums written	1,249.3	1,138.1
Earned premiums, net of reinsurance	1,036.0	979.5
Investment return	2.8	12.6
(Loss) / profit for the year	(74.1)	(182.3)
Gross claims ratio	68.5%	87.5%
Net claims ratio	64.6%	77.6%
Expenses ratio	42.9%	42.2%
Combined operating ratio	107.5%	119.8%
Investment return, on average invested balances	0.3%	1.4%

The gross ratio is the ratio of gross claims incurred to gross premiums earned including acquisition costs
The combined ratio is the ratio of net claims incurred, acquisition costs and net operating expenses to net premiums earned

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 2019 year of account is unchanged from 2018 (£1,048m).

Directors

The directors of the managing agent who served from 1 January 2018 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 2016 to 2018 years of account.

External Audit

During 2018, the FRC's Audit Quality Review Team reviewed the external audit of our 2017 financial statements. The audit committee has discussed the findings with the external auditor. The review noted certain areas for improvement which have been addressed in the approach for the 2018 financial statement audit.

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.

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.

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.

N S Meyer
Chief Financial Officer
London
21 March 2019

Independent Auditor's Report

for the year ended 31 December 2018

Opinion

We have audited the syndicate annual accounts of syndicate 4444 ('the syndicate') for the year ended 31 December 2018 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 2018 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.

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.

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.

Opinions on other matters 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; or
- 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.

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.

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.

Michael Purrington (Senior statutory auditor)

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

London

21 March 2019

Income Statement: Technical Account – General Business

for the year ended 31 December 2018

		2018		2017	
	Notes	**£000**	**£000**	*£000*	*£000*
Earned premiums, net of reinsurance					
Gross premiums written	7	1,249,305		1,138,050	
Outward reinsurance premiums		(178,773)		(160,795)	
Net premiums written		1,070,532		977,255	
Change in the provision for unearned premiums:					
Gross amount	24	(56,851)		14,354	
Reinsurers' share		22,357		(12,084)	
Change in the net provision for unearned premiums		(34,494)		2,270	
Earned premiums, net of reinsurance			1,036,038		979,525
Allocated investment return transferred from the non-technical account	14		2,765		12,643
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(760,446)		(628,736)	
Reinsurers' share		196,930		74,246	
Net claims paid		(563,516)		(554,490)	
Change in the provision for claims					
Gross amount	24	(56,883)		(379,802)	
Reinsurers' share		(49,122)		173,713	
Change in the net provisions for claims		(106,005)		(206,089)	
Claims incurred, net of reinsurance			(669,521)		(760,579)
Net operating expenses	10, 11		(444,588)		(413,529)
Balance on the technical account for general business			(75,306)		(181,940)

All of the above amounts are derived from continuing operations.

Income Statement: Non-technical Account

for the year ended 31 December 2018

	Notes	***2018*** ***£000***	*2017* *£000*
Balance on the general business technical account		(75,306)	(181,940)
Investment income	14	16,880	15,040
Realised gains / (losses) on investments	14	677	1,785
Net unrealised (losses)/gains on investments	14	(13,031)	83
Investment expenses and charges	14	(1,761)	(4,265)
Allocated investment return transferred to the general business technical account		(2,765)	(12,643)
Other income/charges		-	-
Profit/(loss) on exchange	10	1,229	(387)
(Loss) / profit for the year		(74,077)	(182,327)
Other comprehensive income - Currency translation differences		(14,710)	7,463
Total comprehensive (loss) / income		**(88,787)**	**(174,864)**

All of the above amounts are derived from continuing operations.

Statement of Change in Members Balances

for the year ended 31 December 2018

	2018 ***£000***	*2017* *£000*
Members' balances at 1 January	(168,273)	34,150
Total comprehensive (loss) / income for financial year	(88,787)	(174,864)
Payments of profits to members' personal reserve funds	(1,657)	(27,330)
Other movements in members' balances	(499)	(229)
Members' balances at 31 December	**(259,216)**	**(168,273)**

Statement of Financial Position – Assets

at 31 December 2018

		2018		*2017*	
	Notes	***£000***	***£000***	*£000*	*£000*
Investments					
Other financial investments	15		989,738		864,089
Deposits with ceding undertakings			447		549
Reinsurers' share of technical provisions					
Provision for unearned premiums	24	62,622		37,023	
Claims outstanding	24	503,889		468,511	
			566,511		505,534
Debtors					
Debtors arising out of direct insurance operations	16	501,715		378,310	
Debtors arising out of reinsurance operations	17	76,824		110,910	
Other debtors	18	37,576		30,822	
			616,115		520,042
Other assets					
Cash at bank and in hand			82,767		64,771
Overseas deposits	19		48,461		40,360
Prepayments and accrued income					
Deferred acquisition costs	23	174,689		144,334	
Other prepayments and accrued income		3,825		1,844	
			178,514		146,178
Total assets			2,482,553		2,141,523

Statement of Financial Position – Liabilities

at 31 December 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Capital and reserves					
Members' balances	2		(259,216)		(168,273)
Technical provisions					
Provision for unearned premiums	24	532,608		456,246	
Claims outstanding	24	1,949,555		1,547,219	
			2,482,163		2,003,465
Creditors					
Creditors arising out of direct insurance operations	20	123,404		100,146	
Creditors arising out of reinsurance operations	21	101,653		124,992	
Other creditors	22	30,607		77,105	
			255,664		302,243
Accruals and deferred income			3,942		4,088
Total liabilities			2,482,553		2,141,523

The financial statements on pages 11 to 43 were approved by the Board of CMA on 21 March 2019 and were signed on its behalf by:

N S Meyer
Chief Financial Officer
21 March 2019

Statement of Cash Flows

for the year ended 31 December 2018

	2018		*2017*	
	£000	***£000***	*£000*	*£000*
Cash flows from operating activities				
Loss for the year	(74,077)		(182,327)	
Increase in gross technical provisions	111,234		389,761	
Decrease/(Increase) in reinsurers' share of gross technical provisions	26,656		(152,902)	
Decrease/(Increase) in debtors	28,900		(68,138)	
Decrease in creditors	(77,067)		(15,944)	
Movement in other assets/liabilities	(24,464)		(666)	
Investment return	(2,765)		(12,643)	
Foreign exchange	2,590		26,878	
Net cash (out) / inflows from operating activities		(8,993)		(15,981)
Cash flows from investing activities				
Purchase of equity and debt instruments	(422,718)		(2,358,461)	
Sale of equity and debt instruments	433,586		2,382,011	
Sale of derivatives	-		-	
Investment income received	15,795		12,559	
Foreign exchange	-		-	
Net cash in / (outflows) from investing activities		26,663		36,109
Cash flows from financing activities				
Distribution of profits	(1,657)		(27,330)	
Recovery of members' agents' fees	-		-	
Net cash outflows from financing activities		(1,657)		(27,330)
Foreign exchange on cash and cash equivalents		1,983		(1,555)
Net increase / (decrease) in cash and cash equivalents		17,996		(8,757)
Cash at bank and in hand	64,771		73,528	
Cash and cash equivalents at beginning of year		64,771		73,528
Cash at bank and in hand	82,767		64,771	
Cash and cash equivalents at end of year		82,767		64,771

Notes to the Financial Statements

for the year ended 31 December 2018

1. Statement of compliance & 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 in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. 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.

With effect from 1 January 2018 the 2015 year of account for Syndicate 958 has been reinsured to close (RITC’d) into Syndicate 4444. The financial statements include the RITC of syndicate 958, 2017 comparatives for syndicate 4444 are pre the RITC.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The financial statements are presented in sterling, the presentation currency, and rounded to the nearest £’000. The functional currency of the syndicate is US dollars.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

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

The members’ balances on the balance sheet shows a deficit of £259.2m (2017: deficit £168.3m). The ability of the syndicate to meet its obligations as they fall due is underpinned by the members’ Funds at Lloyd’s and the support provided by the Lloyd’s chain of security for any members who are unable to meet their underwriting liabilities. FAL is further explained in Note 29.

3. Summary of significant accounting policies

a. Insurance contracts

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

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

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

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.

‘Risks 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

3. Summary of significant accounting policies (continued)

a. Insurance contracts (continued)

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).

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.

At 31 December 2018 and 31 December 2017 the Syndicate did not have an unexpired risks provision.

c. Deferred acquisition costs

Acquisition costs comprise costs arising from the inception of insurance contracts. They include both direct costs, such as intermediary commissions and indirect costs, such as the administrative expenses associated with the issuing of policies

Deferred acquisition costs, representing a proportion of commission and other acquisition costs that relate to policies in force at the period-end, that cover subsequent reporting periods. These 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

3. Summary of significant accounting policies (continued)

liabilities for the closed year in return for a premium determined by the syndicate's managing agent.

The acceptance of third party RITC is not reported as income but recognised as a transfer of assets and liabilities.

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.

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. In order to improve presentation, purchases and sales of investments as reported in the cashflow for 2018 do not include transfers into and out of sweep accounts. 2017 comparative have not been amended.
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,

3. Summary of significant accounting policies (continued)

g. Financial assets (continued)

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 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.

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.

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 reserved as non-life annuities are discounted for investment earnings that may be expected to arise in the future on funds retained to meet the future liabilities. All other claims provisions are undiscounted.

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.

Reinstatement premiums are estimated in accordance with the contract terms and recorded based upon paid losses and case reserves.

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 third party suppliers, 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.

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 2018:

Peril	**Gross Loss £000**	**Final Net Loss £000**
North Atlantic Hurricane	640,945	222,835
US Earthquake	342,520	116,535
European Windstorm	278,740	96,850

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. 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 2018

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 £14.5m gain/loss (2017: £10.8m 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 2018 gross and net deteriorations occurred.

The tables below are presented at the exchange rates prevailing at 31 December 2018.

At 31 December 2018	*2010 & prior*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*Total*
Gross of reinsurance	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Estimate of cumulative claims										
At end of underwriting year		357,761	376,139	257,486	249,489	302,880	308,426	582,946	366,652	2,801,779
One year later		613,297	562,504	481,417	498,673	603,846	723,929	995,089		4,478,755
Two years later		606,529	585,619	488,813	543,728	709,876	802,855			3,737,420
Three years later		606,383	570,063	478,734	561,213	719,226				2,935,619
Four years later		595,247	563,908	498,320	566,647					2,224,122
Five years later		591,137	569,744	495,139						1,656,020
Six years later		586,573	567,391							1,153,964
Seven years later		586,980								586,980
Eight years later	2,740,657									
	2,740,657	586,980	567,391	495,139	566,647	719,226	802,855	995,089	366,652	7,840,636
Cumulative payments	(2,581,218)	(533,539)	(487,958)	(414,506)	(419,042)	(460,601)	(477,310)	(458,392)	(58,515)	(5,891,081)
Estimated balance to pay	159,439	53,441	79,433	80,633	147,605	258,625	325,545	536,697	308,137	1,949,555

At 31 December 2018	*2010 & prior*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*Total*
Net of reinsurance	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Estimate of cumulative claims										
At end of underwriting year		281,496	299,924	205,917	208,557	245,177	267,383	397,500	296,984	2,202,938
One year later		485,015	464,995	412,524	414,962	493,655	593,416	738,838		3,603,405
Two years later		483,221	489,399	431,933	450,102	554,062	657,875			3,066,592
Three years later		481,445	468,272	438,917	473,032	558,364				2,420,030
Four years later		470,064	463,273	455,001	479,485					1,867,823
Five years later		465,447	462,025	451,905						1,379,377
Six years later		461,480	459,793							921,273
Seven years later		461,951								461,951
Eight years later	2,154,415									
	2,154,415	461,951	459,793	451,905	479,485	558,364	657,875	738,838	296,984	6,259,610
Cumulative payments	(2,027,714)	(413,555)	(393,998)	(383,230)	(362,586)	(373,786)	(423,997)	(378,644)	(56,434)	(4,813,944)
Estimated balance to pay	126,701	48,396	65,795	68,675	116,899	184,578	233,878	360,194	240,550	1,445,666

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 2018 was £552m (2017: £504m) with an average duration of around 3.0 years (2017: 2.64 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 £9.4m (2017: £7.5m).

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 £42.0m (2017: £66.7m). 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 £1.9m (2017: £3.3m).

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.

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 credit management 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 Finance Group regularly reviews inwards premiums debtors and reinsurance debtors by reference to the age of the debt. The objective of the Finance Group is to ensure robust balance sheet management, financial accounting and regulatory reporting oversight and to maintain a strong governance and control framework.

Debts from insurance intermediaries fall due according to the terms of trade; debts from reinsurers crystallise in line with the reinsurance contract terms.

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

At 31 December 2018	***Neither past due nor impaired***	***Up to 3 months***	***3 – 6 months***	***6 – 12 months***	***More than 12 months***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Debtors arising out of direct insurance operations	487,859	7,874	2,661	1,694	1,627	501,715
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	28,898	-	-	-	1,207	30,105
Reinsurance recoverables on paid claims	-	21,838	13,221	4,188	7,472	46,719
Total	516,757	29,712	15,882	5,882	10,306	578,539

Reinsurance recoverables on paid claims is net of bad debt provision £437,000 (2017: £227,000)

5. Management of risk (continued)

(ii) Credit risk (continued)

At 31 December 2017	***Neither past due nor impaired***	***Up to 3 months***	***3 – 6 months***	***6 – 12 months***	***More than 12 months***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
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

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.

At 31 December 2018	***AAA***	***AA***	***A***	***BBB/ BB***	***Other/Not rated***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Reinsurers' share of claims outstanding	-	180,750	271,212	-	51,927	503,889
Debt and other fixed income securities	283,164	73,678	134,410	61,014	-	552,266
Holdings in collective investment schemes and participations in investment pools	76,367	52,387	57,794	45,964	203,667	436,179
Overseas deposits	24,942	5,233	11,320	6,966	-	48,461
Derivative assets	-	-	-	-	1,040	1,040
Deposits with credit institutions	-	-	253	-	-	253
Deposits with ceding undertakings	-	-	-	-	447	447
Cash	-	-	82,767	-	-	82,767
Total	384,473	312,048	557,756	113,944	257,081	1,625,302

5. Management of risk (continued)

(ii) Credit risk (continued)

At 31 December 2017	*AAA*	*AA*	*A*	*BBB/ BB*	*Other/Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
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
Deposits with credit institutions	-	-	-	-	-	-
Deposits with ceding undertakings	-	-	-	-	549	549
Cash	-	-	17,109	47,662	-	64,771
Total	341,382	238,965	435,379	198,539	224,015	1,438,280

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. These investments comprise of unlisted equities and managed funds which form part of the syndicates investment strategy and risk appetite.

Underlying investments in 'other/not rated'	***2018 £000***	*2017 £000*
Holdings in Collective investment schemes and participation in investment pools:		
Equities	41,966	66,749
Hedge funds	75,185	65,791
Funds of hedge funds	5,336	7,334
Commodities	1,725	11,134
Absolute Return Funds	43,748	-
Money Market Funds	35,707	-
Total	203,667	151,008

5. Management of risk (continued)

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.

At 31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
	£000	***£000***	***£000***	***£000***
Shares and other variable yield securities	75,180	283,512	-	358,692
Debt and other fixed income securities	269,416	282,850	-	552,266
Derivative assets	226	814	-	1,040
Participations in investment pools	36,236	41,251	-	77,487
Deposits with credit institutions	253	-	-	253
Other financial investments	381,311	608,427	-	989,738
Overseas Deposits	14,718	33,743	-	48,461
Derivative liabilities	(383)	-	-	(383)
Total	395,646	642,170	-	1,037,816

At 31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
	£000	***£000***	***£000***	***£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
Deposits with credit institutions	-	-	-	-
Other financial investments	557,578	306,511	-	864,089
Overseas Deposits	10,384	29,976	-	40,360
Derivative liabilities	-	-	-	-
Total	567,962	336,487	-	904,449

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. In the current year corporate bonds of £262m have been classified as level 2, which were classified as level 1 in the prior year. Quoted prices for corporate bonds are based on a limited number of transactions for those securities and as such are considered to meet the definition of level 2 assets.

5. Management of risk (continued)

(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 Finance Group.

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.

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

At 31 December 2018	***Sterling & Other***	***US dollar***	***Euro***	***CAD***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***
Financial investments	178,383	676,065	80,052	55,238	989,738
Overseas deposits	24,159	13,752	-	10,550	48,461
Reinsurers' share of technical provisions	94,449	428,142	42,931	989	566,511
Insurance and reinsurance receivables	123,192	426,116	29,864	(633)	578,539
Cash and cash equivalents	20,431	54,876	7,447	13	82,767
Other assets	84,460	108,454	21,856	1,767	216,537
Total assets	525,074	1,707,405	182,150	67,924	2,482,553
Technical provisions	721,167	1,461,799	252,055	47,142	2,482,163
Insurance and reinsurance payables	32,284	179,200	12,905	668	225,057
Other creditors	32,025	1,327	1,191	6	34,549
Total liabilities	785,476	1,642,326	266,151	47,816	2,741,769

5. Management of risk (continued)

(iii) Currency risk

At 31 December 2017	***Sterling & Other***	***US dollar***	***Euro***	***CAD***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***
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

(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.

5. Management of risk (continued)

(iv) Liquidity risk (continued)

At 31 December 2018	*No stated maturity*	*0-1 year*	*1-3 years*	*3-5 years*	*>5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Derivative liabilities	-	383	-	-	-	383
Creditors	-	255,201	80	-	-	255,281
Claims outstanding	-	752,082	688,867	280,998	243,878	1,965,825
Total	-	1,007,666	688,947	280,998	243,878	2,221,489

Claims outstanding is reported gross of discounting credit on non-life annuities liability business of £16.3m (2017 £2.4m)

At 31 December 2017	*No stated maturity*	*0-1 year*	*1-3 years*	*3-5 years*	*>5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Derivative liabilities	-	-	-	-	-	-
Creditors	-	301,956	289	-	-	302,245
Claims outstanding	-	570,290	609,488	189,548	180,340	1,549,665
Total	-	872,246	609,777	189,548	180,340	1,851,910

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. CMA is part of the Canopius AG Group, a global underwriter of insurance and reinsurance business transacted both through direct channels and via delegated underwriting. CAG has established a risk management framework to protect the Group's stakeholders, including Syndicate members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place.

A clear organisational structure is in place with delegated authorities and clear responsibilities. A Group policy framework is in place which sets out the risk management, internal control and business conduct standards for the Group's operations. Group risk management policies set out the identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Each policy has a member of senior management charged with overseeing compliance throughout the Group and the CAG Board meet regularly to approve any commercial, regulatory and organisational requirements of such policies.

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:

5. Management of risk (continued)

- 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 strategic objectives..

The Society of Lloyd’s applies capital requirements at member level and in aggregate to ensure that Lloyd’s complies with all regulatory requirements such as 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)

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

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 2018 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 14, are included in resources available to meet members' and Lloyd's capital requirements.

The syndicate maintains models in accordance with this regime, and also operates an Own Risk & Solvency Assessment ("ORSA") process which it reports on at least annually.

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' internal SCRs; standard formula SCR results, the PRA published calculations based on industry SCR submissions and market surveys/studies; and
- Board review and challenge.

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

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

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

CMA regularly reviews and enhances its risk management processes and their enabling governance structures to ensure that CMA can demonstrate continuous compliance with regulatory and Lloyd's requirements.

Notes to the Financial Statements

for the year ended 31 December 2018

7. Segmental analysis

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

2018	***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	24,340	23,755	(11,001)	(11,684)	(469)	601
Motor (third party liability)	31,959	31,120	(21,655)	(11,834)	(1,176)	(3,545)
Motor (other classes)	133,289	116,553	(59,598)	(49,220)	(4,531)	3,204
Energy	89,220	92,420	(64,943)	(25,941)	(6,884)	(5,348)
Marine, Aviation & Transport	81,144	88,611	(57,231)	(31,776)	5,266	4,870
Fire & other damage to property	289,450	287,309	(192,015)	(113,394)	(28,737)	(46,837)
Third party liability	216,135	203,224	(130,296)	(98,584)	21,440	(4,216)
Pecuniary Loss	47,678	17,313	(12,879)	(8,010)	(928)	(4,504)
Other	-	-	4,500	-	-	4,500
	913,215	860,305	(545,118)	(350,443)	(16,019)	(51,275)
Reinsurance inwards	336,090	332,149	(272,211)	(94,176)	7,442	(26,796)
Total	1,249,305	1,192,454	(817,329)	(444,619)	(8,577)	(78,071)

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)
Energy	85,240	86,269	(61,669)	(24,698)	(2,461)	(2,559)
Marine, Aviation & Transport	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)

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.

7. Segmental analysis (continued)

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

	2018 £000	*2017 £000*
UK	142,902	138,171
Other EU countries	138,432	63,215
US	755,935	757,865
Other	212,036	178,799
Total	1,249,305	1,138,050

8. Currency rates of exchange

	31 Dec 18	**Average for 2018**	*31 Dec 17*	*Average for 2017*
US $	1.27	1.34	1.35	1.29
Euro	1.11	1.13	1.13	1.14
Canadian $	1.74	1.73	1.70	1.67

9. Net claims outstanding

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

	2018 £000	*2017 £000*
Accident & health	1,792	(2,352)
Motor (third party liability)	(2,112)	1,078
Motor (other classes)	5,290	(9,220)
Marine & Energy	(4,453)	7,336
Aviation	8,382	224
Fire & other damage to property	(11,676)	(17,163)
Third party liability	(4,798)	(10,272)
Pecuniary loss	(2,387)	(986)
Other	9,500	9,339
	(462)	(22,016)
Reinsurance inwards	(20,822)	(2,813)
Total	(21,284)	(24,829)

10. Net operating expenses

	2018 £000	*2017 £000*
Commissions on direct business	285,407	225,163
Commissions on inwards reinsurance business	62,373	83,469
Other acquisition costs	52,316	53,087
Change in deferred acquisition costs	(25,134)	2,228
Reinsurance commissions and profit participations	(31)	498
Administrative expenses	52,190	37,482
Personal expenses (see note 11)	17,467	11,602
Total expenses – technical account	444,588	413,529
Loss / (profit) on exchange – non technical account	(1,229)	387
Total expenses	443,359	413,916

Administrative expenses include:

	2018 £000	*2017 £000*
Auditors' remuneration:		
Audit of syndicate accounts	363	264
Other services pursuant to Regulations and Lloyd's Byelaws	141	125
Other non-audit services	195	225
Total audit and non-audit fees	699	614

11. Personal Expenses

	2018 £000	*2017 £000*
Members' standard personal expenses	8,481	10,207
Managing Agent's fee	8,986	1,395
Total	17,467	11,602

12. 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:

	2018 £000	*2017 £000*
Wages and salaries	35,126	30,682
Social security costs	4,113	4,231
Pension contributions to money purchase schemes	2,706	2,626
Total	41,945	37,539

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

	2018	*2017*
Underwriting	137	157
Insurance Services	86	91
Other	103	87
Total	326	335

13. Emoluments of the directors of Canopius Managing Agents Limited

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

	2018	*2017*
	£000	*£000*
Emoluments	3,706	2,530
Pension contributions to money purchase schemes	106	115
Total	3,812	2,645

Retirement benefits are accruing to 6 directors (2017: 2) under money purchase schemes.

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

	2018	*2017*
	£000	*£000*
Emoluments	528	588
Total	528	588

Pension contributions amounting to £26,000 were charged to Syndicate 4444 on behalf of the active underwriter in 2018. (2017: nil).

14. Net investment income recognised in profit or loss

	2018	*2017*
	£000	*£000*
Interest and similar income		
From financial instruments designated at fair value through profit or loss	14,541	12,581
Interest on cash at bank	2,339	2,459
Investment expenses	(1,761)	(4,265)
Total interest and similar income	15,119	10,775
Other income from investments designated at fair value through profit or loss		
Realised gains / (losses) on investments	677	1,785
Unrealised gains on investments	(13,031)	83
Total other gain / (loss)	(12,354)	1,868
Net investment return	2,765	12,643

	2018	*2017*
	£000	*£000*
Average amount of syndicate funds available for investment during the year	1,044,967	1,014,270
Gross aggregate investment return for the calendar year in Sterling	4,526	16,908
Gross calendar year investment yield	0.4%	1.7%

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

15. Other financial investments

	Fair value		Cost		Listed	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
	£000	*£000*	***£000***	*£000*	***£000***	*£000*
Holdings in collective investment schemes	358,692	289,681	351,127	270,529	202,548	214,986
Debt and other fixed income securities	552,266	504,202	552,906	510,547	552,266	504,202
Participation in investment pools	77,487	68,463	76,918	68,463	77,487	68,463
Derivative assets	1,040	1,743	-	1,743	1,040	1,743
Deposits with credit institutions	253	-	253	-	-	-
Total	989,738	864,089	981,204	851,282	833,341	789,394

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

The following derivative assets and liabilities were held at December 2018.

	Notional amount		Fair value	
	2018	*2017*	***2018***	*2017*
	£000	*£000*	***£000***	*£000*
Foreign exchange forward contracts	380,478	205,224	814	1,912
Interest rate future contracts	34,053	17,536	226	(39)
Rights under derivative contracts	96,077	-	(383)	-
Other	-	90,150	-	124
Total	510,608	312,910	657	1,997

16. Debtors arising out of direct insurance operations

	2018	*2017*
	£000	*£000*
Due within one year		
Intermediaries	501,558	377,978
	501,558	377,978
Due after more than one year and within five years		
Intermediaries	157	332
Total	501,715	378,310

17. Debtors arising out of reinsurance operations

	2018 £000	2017 £000
Due within one year		
Ceding insurers and intermediaries under reinsurance business	29,955	48,382
Reinsurance recoverable on paid claims net of bad debt provision	46,719	62,322
	76,674	110,704
Due after more than one year and within five years		
Ceding insurers and intermediaries under reinsurance business	150	206
Total	76,824	110,910

18. Other debtors

	2018 £000	2017 £000
Due within one year		
Amounts due from group undertakings	29,103	27,871
Other	8,473	2,951
	37,576	30,822
Due after more than one year and within five years		
Other	-	-
Total	37,576	30,822

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

	2018 £000	2017 £000
Due within one year		
Intermediaries	123,400	100,125
	123,400	100,125
Due after one year		
Intermediaries	4	21
Total	123,404	100,146

21. Creditors arising out of reinsurance operations

	2018 ***£000***	*2017* *£000*
Due within one year		
Reinsurance ceded	101,577	124,769
	101,577	124,769
Due after one year		
Reinsurance ceded	76	223
Total	101,653	124,992

22. Other creditors

	2018 ***£000***	*2017* *£000*
Due within one year		
Amounts due to group undertakings	25,312	23,830
Derivative liabilities	383	4
Inter-syndicate loan with Syndicate 958	-	48,911
Other	4,912	4,316
	30,607	77,061
Due after more than one year and within five years		
Amounts due to group undertakings	-	44
Total	30,607	77,105

23. Deferred acquisition costs

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

	2018 ***£000***	*2017* *£000*
At 1 January	144,334	152,264
Change in deferred acquisition costs	25,134	(2,228)
Foreign exchange	5,094	(5,702)
RITC received	127	-
At 31 December	174,689	144,334

24. Reconciliation of insurance balances

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

	Gross		Reinsurers' share	
	2018 £000	*2017 £000*	**2018 £000**	*2017 £000*
At 1 January	456,246	493,809	37,023	51,910
Increase in provision	56,851	(14,354)	22,357	(12,084)
Foreign exchange	18,886	(23,209)	3,070	(2,803)
RITC received	625	-	172	-
At 31 December	532,608	456,246	62,622	37,023

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

	Gross		Reinsurers' share	
	2018 £000	*2017 £000*	**2018 £000**	*2017 £000*
At 1 January	1,547,219	1,200,561	468,511	321,877
Increase/ (decrease) in provision	56,883	379,802	(49,122)	173,713
Foreign exchange	68,124	(69,940)	23,119	(39,787)
RITC received	277,329	36,796	61,381	12,708
At 31 December	1,949,555	1,547,219	503,889	468,511

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 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 £8,986,000 were paid by the syndicate to CMA during 2018 (2017: £1,395,000).

Employment of staff, provision of accommodation and related services are provided at cost by CSL, which is owned by Canopius Holdings UK Ltd ("CHUKL"). Expenses during 2018 totalling £81,449,000 (2017: 71,193,000) were recharged to the syndicate by CSL. The syndicate owed CSL £13,925,000 as at 31 December 2018 (2017: £12,620,000).

At 31 December 2018, Syndicate 4444 was owed £11,208,087 from CAG (2017: £9,400,000) 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.

27. Related parties (continued)

Canopius Underwriting Bermuda Limited (“CUBL”)

Canopius Underwriting Bermuda Limited (“CUBL”) is an insurance service company that underwrites property reinsurance business on behalf of the syndicate. Premiums written during 2018 totalled £9,033,000 (2017: £13,900,000). At 31 December 2018, an amount of £350,000 was due from the syndicate to CUBL (2017: £244,000).

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 2018 totalled £2,448,000 (2017: £8,050,000). At 31 December 2018, an amount of £48,000 was due from CUL to the syndicate (2017: £9,000).

Canopius UK Specialty Limited (“CUKSL”)

Canopius UK Specialty Limited (“CUKSL”) is an insurance broker that underwrites principally caravan business on behalf of the syndicate. CUKSL ceased writing business and Premiums written during 2018 was £nil (2017: £9,906,000). At 31 December 2018, an amount of £81,000 was due from the syndicate to CUKSL (2017: £15,000).

Canopius Asia Pte. Ltd (“CAPL”)

Canopius Asia Pte. Ltd ("CAPL") trades as part of the Lloyd's Asia platform. CAPL underwrites Insurance lines, including and most notably, marine, energy and engineering and treaty reinsurance business, on behalf of the syndicate. Premiums written during 2018 totalled £67,568,000 (2017: £39,440,000). At 31 December 2018, an amount of £2,264,000 was due from the syndicate to CAPL (2017: £478,000).

Canopius Underwriting Agency Inc. ("CUAI")

Canopius Underwriting Agency Inc. ("CUAI") is a New York based coverholder that underwrites direct and facultative property, marine, financial and professional insurance. It also underwrites property treaty reinsurance business on behalf of the syndicate. Premiums written during 2018 totalled £102,641,000 (2017: £116,480,000). At 31 December 2018, an amount of £1,319,000 was due from syndicate to CUAI (2017: £23,000).

Canopius B.V. Nederland (“CBVN”)

Canopius Nederland B.V. is an insurance service company that underwrites energy and Dutch domestic property insurance business on behalf of the syndicate. Premiums written on behalf of the syndicate during 2018 totalled £29,663,000 (2017: £25,934,000). At 31 December 2018, an amount of £376,500 was due from the syndicate to CBVN (2017: £295,000).

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 benefited from an overriding commission of 5% and a 20% profit commission on these arrangements.

This quota share contract was commuted in 2018 with a net charge of £3,900,000 to the profit and loss. At 31 December 2018 no amounts were due under the quota share contract (2017: £1,626,000 was due from the syndicate to CRe)

At 31 December 2018, CRe also owed Syndicate 4444 £4,067,000 (2017: £124,000).

27. Related parties (continued)

Other group companies

The syndicate held creditor balances with the following group companies as at 31 December 2018: Canopius Ireland Limited £261,000 (2017: £193,000).

In addition, the syndicate held debtor balances with the following group companies as at 31 December 2018; Canopius Europe Limited of £7,044,000 (2017: £7,279,000).

Canopius Capital Four Limited ("CC4L"), Canopius Capital Ten Limited ("CC10L"), and Flectat Limited ("Flectat"), also subsidiaries of CHUKL, provided capacity to the 2016 to 2019 underwriting years as follows:

	2016		***2017***		***2018***		***2019***	
	£m		£m		£m		£m	
CC4L	11.5	1.20%	-	-	-	-	-	-
CC10L	5.6	0.60%	5.6	0.60%	6.0	0.60%	-	-
Flectat	793.8	81.40%	739.8	75.90%	811.5	77.40%	913.2	87.13%

28. Immediate and ultimate parent undertaking and controlling party

As at 31 December 2018, 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.

The ultimate controlling parties of CAG 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.

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.