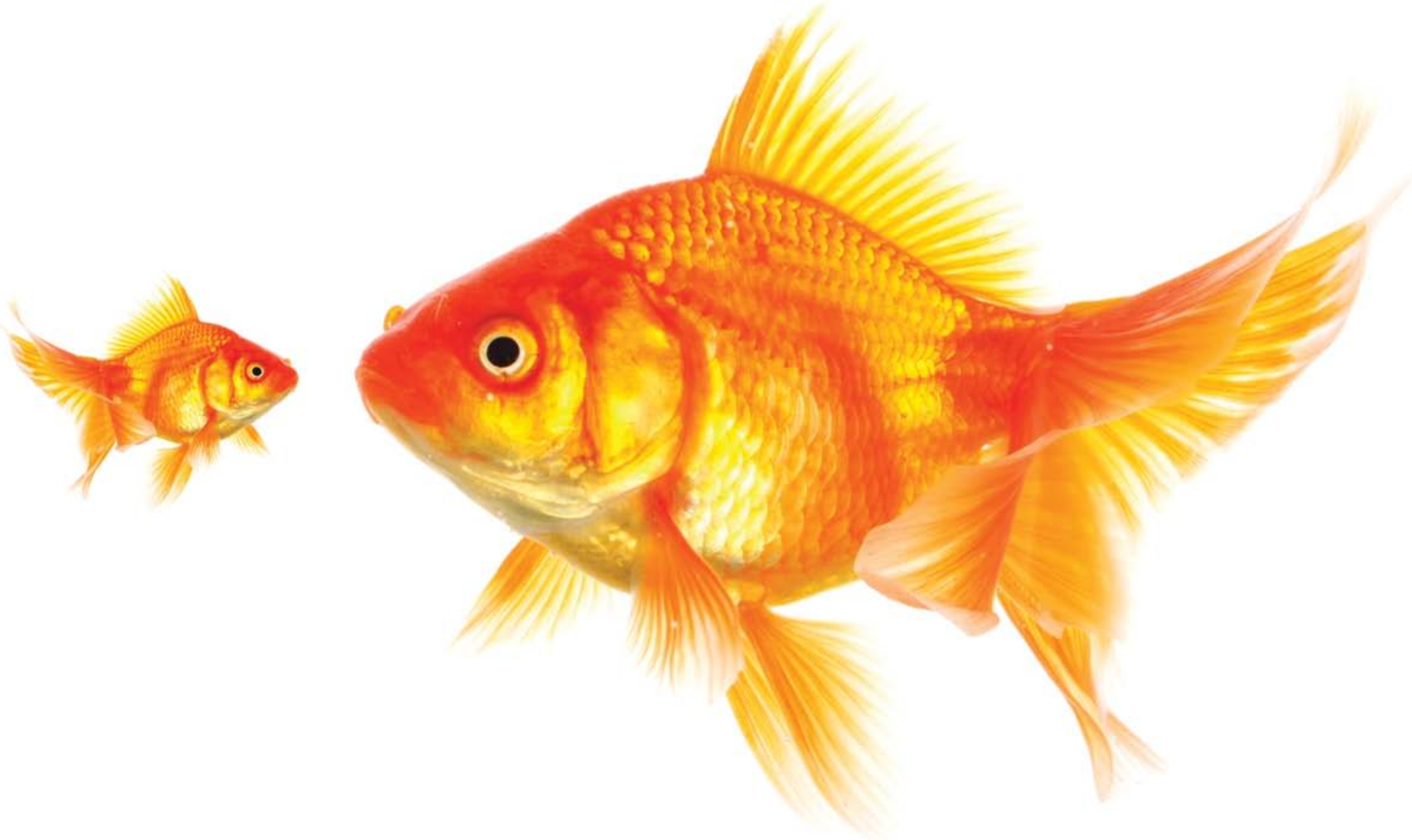
Building a Global Specialty Platform

2014 Financial Summary



CANOPIUS

A Landmark Change

2014 was a landmark year for Canopius with our acquisition by Sompo Japan Nipponkoa Holdings, Inc. completing on 1 May. This brought to an end our ten years as an independent, private equity and management owned, (re)insurance business and marked the beginning of a new chapter for Canopius as the global specialty (re)insurance platform of Sompo Holdings.

Strategy

Whilst the acquisition by Sompo Holdings marks the end of an era, it is far from the end of the story for Canopius. It is merely the end of the first chapter. As part of the Sompo Group, Canopius has unparalleled opportunities to develop its franchise, leveraging the substantial capital base, global licence network and client relationships of its new parent. Together, Canopius and Sompo are a compelling combination.

Our new ambition is clear: to build a world class global specialty insurance and reinsurance platform of appropriate breadth and scale for Sompo Holdings. Canopius will be distinguished by its global reach, meaningful scale, and obsessive focus on underwriting excellence and supported by colleagues who espouse our creed of “One Game, One Team”.

A Review of 2014

Our results for 2014 were very satisfactory with a profit before tax (excluding foreign exchange) of £69m and a return on equity of 14%. The profit was a pleasing increase over the equivalent of £65m in 2013. Gross premiums written increased by £15m or 2% to £881m. This apparently modest growth is masked by exchange rate movements and varying shares on different years of account of our managed syndicates. Underlying growth at syndicate level was 8%. The aggregate rate change was -1.4%, the fall moderated by the relatively large component of our portfolio written by the UK Specialty strategic business unit (SBU).

Our net loss ratio was 53%, compared with 51% in 2013. Our combined loss ratio was 91%, compared to 89% in the previous year. Whilst the overall result was very satisfactory, the reality is that Canopius was not fully firing on all three SBU cylinders last year. Global Property and Global Specialty excelled with a combined ratio of 84% and 79% respectively reflecting attritional loss experience, favourable reserve development and a generally benign catastrophe environment.

By contrast, UK Specialty struggled with a combination of the worst winter weather in 200 years, a continuing difficult market for motor business, and adverse development on its employers' liability book.

Our overall result was boosted by a 1.9% return on investments, a significant increase over the underlying return of 1.4% in 2013. This was a good result given the marked increase in economic uncertainty and periods of financial market instability during the year, as a withdrawal of quantitative easing in the US, a sharp decline in the price of oil and continued geopolitical tensions prompted a flight to quality bonds and a further appreciation in the US dollar.

Foundations for Future Growth

Growth remains firmly on the agenda for Canopius although we are mindful of the challenges posed by the current underwriting environment. Pricing continues to be under severe pressure as a result of the additional capital which has entered the industry following a sustained period of low interest rates and continued high levels of profitability, in part due to a relatively benign natural catastrophe environment. This has made the marketplace increasingly competitive. We are alive to these challenges and will continue to maintain underwriting discipline, whilst striving to achieve organic growth and exploiting the increased opportunities arising from our position within Sompo Holdings.

In pursuit of growth we recruited three new teams over the last twelve months - facultative property reinsurance in New York led by Jim McAloon, specialist consumer products in London led by Chris Biles, and renewable energy in Amsterdam led by Maarten Mulder. We also significantly increased our direct underwriting capabilities in Singapore with first class talent in casualty, construction and engineering, energy and political risks/trade credit and boosted our reinsurance team with the addition of an agricultural specialist. The team was rounded out with a China specialist.

We also increased our footprint in the US by more than doubling the capital of our excess & surplus lines company, Canopius US, with the acquisition and merger of Bracken Hill, Sompo's E&S company. This will enable us to offer stronger security and support to our MGA partners and their customers. Finally, in January we were joined by Brad Winfield in New York, to oversee the development of a US direct property account, complementing our existing team in London. All of this investment in underwriting talent and platforms was supported by further investment in our Finance, IT, Human Resource, and Risk Management capabilities.

Despite the abundance of growth initiatives underway and further possibilities to be explored throughout Sompo's global network, we are not persuaded that organic growth should be the sole route to increased scale and continued relevance for Canopius. Accordingly, M&A remains at the forefront of our mind, boosted by a 50% increase in our financial resources to more than £900m and access to the considerable financial resources of Sompo Holdings.

We enter 2015 with a sense of enthusiasm and confidence which far outweighs our trepidation at market conditions.

Michael Watson, Chairman

Expanding Platforms

New York: Facultative Property Reinsurance, US Direct Property

Singapore: Casualty, Construction & Engineering, Energy, Political Risks, Trade Credit and Agriculture

London: Specialist Consumer Products

Amsterdam: Renewable Energy

Key Statistics[1]

Financial resources[2] *(£m)*

2014	906.6
2013	605.2
2012	517.2
2011	367.0
2010	429.0

Total profit/(loss) after taxation *(£m)*

2014	64.2
2013	92.8
2012	46.6
2011	(59.6)
2010	42.9

Gross premiums written *(£m)*

2014	880.9
2013	865.6
2012	691.7
2011	615.6
2010	563.8

Net premiums earned[3] *(£m)*

2014	599.3
2013	568.8
2012	466.1
2011	461.9
2010	447.6

Net loss ratio[4] *(%)*

2014	53
2013	51
2012	60
2011	74
2010	59

Combined ratio[5] *(%)*

2014	91
2013	89
2012	94
2011	110
2010	97

2014 Managed Gross Premiums Written

Global Property – £479m *41%*

D&F Property – £70m *6%*

N American Facilities – £213m *18%*

Property Treaty – £196m *17%*

Global Specialty – £366m *31%*

Marine – £66m *6%*

Energy – £59m *5%*

Marine Treaty – £54m *4%*

Casualty – £77m *6%*

Casualty Treaty – £38m *3%*

Const & Engineering – £22m *2%*

Crisis & Political Risk / International A&H – £50m *5%*

UK Specialty – £335m *28%*

Household – £106m *9%*

Specialist Property – £27m *2%*

Comm Comb* – £75m *6%*

PA & Travel – £30m *2.5%*

Motor – £86m *7%*

Other – £11m *1.5%*

*Commercial Combined

1 Amounts presented are determined from the financial statements except as noted below.
2 Financial resources represent total shareholders' interests plus long term debt and drawn unsecured letter of credit facilities.
3 Net premiums earned represent 'net premiums written' (being premiums written gross of acquisition costs and exclusive of premium taxes; less reinsurance premiums payable; less any reinsurance to close premium receivable); and the change in gross and reinsurers' share of unearned premium.
4 The net loss ratio is calculated by dividing 'net claims incurred' (being net claims paid and the movement in net claim reserves; plus any reinsurance to close premium payable) by 'net premiums earned'.
5 The combined ratio is calculated by taking net claims plus underwriting expenses as a proportion of net earned premium plus reinsurance to close.

Consolidated Income Statement

For the year ended 31 December 2014

	Year ended 31 Dec 2014 £'000	Year ended 31 Dec 2013 £'000
Gross premiums written	880,871	865,639
Earned premiums revenue, net of reinsurance	599,309	568,753
Investment return	23,595	24,045
Other income	35,650	12,941
Total income	658,554	605,739
Net insurance claims	(318,712)	(289,924)
Total expenses	(260,462)	(216,256)
Result of operating activities	79,380	99,559
Finance costs	(9,593)	(5,820)
Profit before tax	69,787	93,739
Tax	(5,593)	(978)
Profit for the year	64,194	92,761

Consolidated Balance Sheet

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Total assets	2,376,531	2,291,757
Net assets	491,575	441,102
Equity		
Share capital	190,457	190,457
Other reserves	(19,482)	(20,808)
Retained earnings	320,600	256,809
Equity attributable to equity holders of the parent	491,575	426,458
Total equity	491,575	427,489
Total shareholders' interests	491,575	441,102

Canopius Group is a global specialty insurance and reinsurance group underwriting a diversified portfolio of business worldwide from its operations in the UK, Ireland, Netherlands, Switzerland, Bermuda, US and Singapore.

The Group has achieved significant success since its inception in late 2003 through a mixture of organic expansion and acquisition and had total financial resources of more than £900 million at year end 2014 (2013: £605m).

In May 2014, Canopius was acquired by Sompo Japan Nipponkoa Holdings ("Sompo Holdings") which is listed on the Tokyo Stock Exchange and has circa $85bn total assets. Canopius Group is directly owned by Sompo Japan Nipponkoa Insurance Inc., an A+ rated company and one of the top three Japanese P&C insurers.

Canopius now operates as the global specialty lines platform of Sompo Holdings and has ambitions for further profitable growth, combining Canopius's specialty underwriting expertise with the backing of Sompo Holdings' financial strength and global licences.

CANOPIUS

CANOPIUS GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

Contents

Key Statistics[1]	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Total shareholders' interests	491.6	441.1	366.3	243.8	306.2
Financial resources[2]	906.6	605.2	517.2	367.0	429.0
Gross premiums written	880.9	865.6	691.7	615.6	563.8
Net premiums earned	599.3	568.8	466.1	461.9	447.6
Total profit/(loss) after taxation	64.2	92.8	46.6	(59.6)	42.9
Net loss ratio	53%	51%	60%	74%	59%
Combined ratio[3]	91%	89%	94%	110%	97%

Net premiums earned represent 'net premiums written' (being premiums written gross of acquisition costs and exclusive of premium taxes; less reinsurance premiums payable; less any reinsurance to close premium receivable); and the change in gross and reinsurers' share of unearned premium.

The net loss ratio is calculated by dividing 'net claims incurred' (being net claims paid and the movement in net claims reserves; plus any reinsurance to close premium payable) by 'net premiums earned'.

The combined ratio is calculated by dividing 'net claims incurred' and expenses by 'net premiums earned'.

[1] Amounts presented are determined from the financial statements except as noted below.
[2] Financial resources represent total shareholders' interests plus long term debt and drawn unsecured letter of credit facilities.
[3] The combined ratio is calculated by taking net claims plus underwriting expenses as a proportion of net earned premium plus reinsurance to close.

Introduction

Canopius Group is a global specialty insurance and reinsurance group underwriting a diversified portfolio of business worldwide.

The Group has achieved significant success over the last decade through a mixture of organic expansion and acquisition, and had total financial resources of £907 million at year end (2013: £605 million).

The Group operates in the UK, US, Bermuda, Ireland, Switzerland, Singapore and Malaysia.

Canopius has a clear and distinctive personality and brand; we are ambitious, measured and colourful. These characteristics enable us to differentiate ourselves in our marketplace.

Chairman's Statement

2014 was a landmark year for Canopius with our acquisition by Sompo Holdings. This bought to an end our ten years as an independent, private equity and management owned, (re) insurance business. We are extremely grateful to Bregal Capital and Adam Barron for the support they provided over more than a decade, enabling Canopius to develop into a leading business at Lloyd's.

Whilst the acquisition by Sompo Holdings marks the end of an era, it is far from the end of the story for Canopius. It is merely the end of the first chapter. As part of the Sompo Group, Canopius has unparalleled opportunities to develop its franchise, leveraging the substantial capital base, global licence network and client relationships of its new parent. Together, Canopius and Sompo are a compelling combination.

Our new ambition is clear: to build a world class global specialty insurance and reinsurance platform of appropriate breadth and scale for Sompo Holdings. Canopius will be distinguished by its global reach, meaningful scale, and obsessive focus on underwriting excellence and supported by colleagues who espouse our creed of "One Game, One Team".

Our results for 2014 were very satisfactory with a profit before tax (excluding foreign exchange) of £69m and a return on equity of 14%. The profit was a pleasing increase over the equivalent of £65m in 2013. Gross premiums written increased by £15m or 2% to £881m. This apparently modest growth is masked by exchange rate movements and varying shares on different years of account of our managed syndicates. Underlying growth at syndicate level was 8%. The aggregate rate change was -1.4%, the fall moderated by the relatively large component of our portfolio written by the UK Specialty strategic business unit (SBU).

Our net loss ratio was 53%, compared with 51% in 2013. Whilst the total result was very satisfactory, the reality is that Canopius was not fully firing on all three SBU cylinders last year. Global Property and Global Specialty excelled with a combined ratio of 84% and 79% respectively. UK Specialty struggled with a combination of the worst winter weather in 200 years, a continuing difficult market for motor business, and adverse development on its employers' liability book. By contrast the Global businesses benefitted from favourable reserve development and a generally benign catastrophe environment. Our overall result was boosted by a 1.9% return on investments, a significant increase over the underlying return of 1.4% in 2013.

Growth remains firmly on the agenda for Canopius although we are mindful of the challenges posed by the current underwriting environment. In pursuit of growth we recruited three new teams over the last twelve months - Facultative Property Reinsurance in New York led by Jim McAloon, Specialist Consumer Products in London led by Chris Biles, and Renewable Energy in Amsterdam led by Maarten Mulder. We also significantly increased our direct underwriting capabilities in Singapore with first class talent in Casualty, Construction and Engineering, Energy and Political Risks/Trade Credit and boosted our reinsurance team with the addition of an agricultural specialist. The team was rounded out with a China specialist. We also increased our footprint in the US by more than doubling the surplus of our Excess & Surplus lines company, Canopius US, with the acquisition and merger of Bracken Hill, Sompo's E&S company. This will enable us to offer stronger security and support to our MGA partners and their customers. Finally, in January we were joined by Brad Winfield in New York, to oversee the development of a US Direct Property account, complementing our existing team in London. All of this investment in underwriting talent and platforms was supported by further investment in our Finance, IT, Human Resource, and Risk Management capabilities.

Despite an abundance of growth initiatives underway and further possibilities to be explored throughout Sompo's global network, we are not persuaded that organic growth should be the sole route to increased scale and continued relevance for Canopius. Accordingly, M&A remains at the forefront of our mind, boosted by a substantial increase in our financial resources from £605m to more than £900m and with access to the considerable financial strength of Sompo Holdings.

Accordingly we enter 2015 with a sense of enthusiasm and confidence which far outweighs our trepidation at market conditions. I would like to thank all my colleagues at Canopius for their unstinting support in 2014.

Michael Watson
Chairman

Strategic Report

The directors of Canopius Group Limited present their Strategic Report for the group for the year ended 31 December 2014.

Review of the business

The key performance indicators are shown in the table on page 3.

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

The result for the year ending 31 December 2014 was a profit after tax to shareholders of £64.2 million (2013: £92.8 million). 2014 saw the general rating environment continue to remain challenging. Despite this, the group has recorded another strong result due to the effects of topline premium growth, low incidences of catastrophe losses, positive reserve developments from prior periods and the disposal of subsidiaries at a profit. The group achieved a return on equity of 14% and a combined ratio of 90.9%.

Exchange gains in the prior year were £29.2 million compared to a small exchange gain of £0.8 million in the current year. Ignoring the effect of foreign exchange gains and losses, the group's current year profit after tax was £65.0 million compared to £63.6 million in the prior year.

Despite continued rate softening, the 2014 calendar year saw an increase of 2% in gross premiums written.

Loss experience has been at a similar level to 2013 with a net claims ratio of 53% in 2014 versus 52% in 2013. 2014 experienced a benign US windstorm season and global catastrophe experience was below expectations. The group has benefitted from positive reserve development relating to prior periods. An improvement in the old years of account resulted in reserve releases across the Global Specialty and Global Property business units.

The group's reported investment return is £23.6 million compared to £24.0 million in the prior year. The prior year includes an £8.6 million one-off gain from the sale of a group company, Canopius Holdings Bermuda Limited. Underlying investment return is therefore significantly improved in the current year.

There was a marked increase in economic uncertainty and periods of financial market instability during the year, as a withdrawal of Quantitative Easing in the US, a sharp decline in the price of oil and continued geopolitical tensions prompted a flight to quality bonds and a further appreciation in the US Dollar. The investment environment remains extremely challenging in 2015.

On 17 April 2014, the Group disposed of its 81.5% holding in Arista Insurance Limited ("Arista") resulting in a profit of £8.4 million. The group also disposed of its holdings in Resource Underwriting Pacific Pty Limited ("RUPPL") and Canopius Capital Fifteen Limited ("CC15L") in November 2014, realising net profits of £0.5 million.

On 31 December 2014, the group acquired 100% of the share capital of Bracken Hill Limited ("BH") and merged it with Canopius Insurance Inc. ("CUSI"). The purpose of the acquisition was to create one excess and surplus lines entity in the US with a statutory surplus in excess of $100 million immediately afterwards.

Reinsurance is purchased to reduce retention levels in accordance with the group'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.

Future Developments

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

In order to help facilitate growth in challenging market conditions, CGL continues to look to develop new products and to expand into attractive markets, while leveraging its position as part of the SJNK Group. CGL is committed to recruiting underwriters who are talented leaders in their field and able to deliver on our ambitions. Expertise and experience are central to our growth and development. As part of this strategy, CGL announced during late 2014 and early 2015, a number of new senior appointments demonstrating its commitment to developing its underwriting and product offerings.

The strategic report was approved by the Board on 23 March 2015 and signed on its behalf on 1 April 2015 by:

Michael Watson	Paul Meader
Director	Director

Directors and Professional Advisers

Directors	Michael Watson (Chairman) Jan Carendi Shigeru Ehara Nigel Frudd Masato Fujikura Paul Meader Ian Owen
Company Secretary	Elian Corporate Services (Guernsey) Limited
Registered Office	Redwood House St Julian's Avenue St Peter Port Guernsey GY1 1WA Channel Islands
Company Number	41279
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London United Kingdom SE1 2RT

Directors' Report

The directors present their annual report and the audited financial statements of the Company and the consolidated and audited financial statements of the Group for the year ended 31 December 2014.

Principal activities

The Company is an insurance holding company incorporated in Guernsey, Channel Islands. The Group's principal business is insurance and reinsurance underwriting through Lloyd's syndicates managed by Canopius Managing Agents Limited ("CMA") and insurance and reinsurance through Canopius US Inc. ("CUS") and Canopius Reinsurance Limited ("CRL").

Review of business

A detailed review of the business for the year, the principal risks and a summary of future developments are included in the Strategic Report on pages 6 to 7.

Further to the agreement signed on 18 December 2013, on 1 May 2014 Sompo Japan Nipponkoa Insurance Inc., which is a wholly-owned direct subsidiary of Sompo Japan Nipponkoa Holdings, Inc., acquired 100 percent of the issued shares of Canopius Group Limited.

Going concern

The group's accounts have been prepared on a going concern basis. After making appropriate enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to meet their liabilities as they fall due and to continue in operational existence for the foreseeable future.

On 30 January 2015, SJNK Holdings announced that it had approved a restructuring plan for the Canopius Group, including the potential for a change of Group holding company. While this project has been approved, the timing and exact nature of the restructure is subject to further planning and approvals, and therefore these accounts are being prepared for CGL Group and CGL itself on a going concern basis. Any change is only intended to be at a holding company level and will have no operational or financial impact on the Group subsidiaries.

Results and dividends

The results of the Group for the year ended 31 December 2014 are set out on pages 15 to 17 and those of the Company on page 18.

The directors do not recommend the payment of a dividend on any of the Company's shares (2013: £nil).

Political donations

No political donations were made by the Group in either of the current or prior years.

Directors' Report

Directors and directors' interests

The present directors of the Company are listed on page 8, all of whom held office during the whole of the year ended 31 December 2014, except for:

Paul Meader (appointed 5 March 2014)

Jan Carendi (appointed 1 May 2014)

Shigeru Ehara (appointed 1 May 2014)

Nigel Frudd (appointed 1 May 2014)

Masato Fujikura (appointed 1 May 2014)

Robert Alford (resigned 1 May 2014)

Adam Barron (resigned 1 May 2014)

Steven Black (resigned 1 May 2014)

Roger Le Tissier (resigned 1 May 2014)

Marcus Leese (resigned 1 May 2014)

Directors' interests in the shares of the Company are as follows:

	At 31 December 2014			At 31 December 2013		
	B Ordinary shares of no par value	*C Ordinary shares of no par value*	*D shares of no par value*	*B Ordinary shares of no par value*	*C Ordinary shares of no par value*	*D shares of no par value*
Michael Watson	-	-	-	-	4,552,329	185,280
Ian Owen	-	-	-	100,724	-	-

Directors' Report

Directors' responsibilities for the financial statements

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and, for the Group financial statements, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and for the Company financial statements, in accordance with United Kingdom Generally Accepted Accounting Principles, of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing those financial statements, the directors are required to:
Group and Company

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

Company

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements of United Kingdom Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and performance.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information of which the Group's and Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Certain corporate and financial information relating to Canopius Group Limited is available on the website www.canopius.com, although there is no legal or regulatory requirement for the Group to disseminate such financial information. The directors of the Company are responsible for the integrity of such information; the work carried out by the auditors does not involve consideration of the maintenance and the integrity of the website and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in Guernsey governing the preparation of financial statements may differ from legislation in other jurisdictions.

Directors' Report

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution proposing their re-appointment will be proposed at the Annual General Meeting.

The report of the directors was approved by the Board on 23 March 2015 and signed on its behalf on 1 April 2015 by:

Michael Watson

Director

Paul Meader

Director

Independent Auditors' Report
to the members of Canopius Group Limited

We have audited group and parent company financial statements of Canopius Group Limited for the year ended 31 December 2014 which comprise the Consolidated Income statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's Statement, Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2014 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Independent Auditors' Report
to the members of Canopius Group Limited

Opinion on other matter

In our opinion the information given in the Directors' Report for the financial year for which financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
1 April 2015

Consolidated Income Statement

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Gross premiums written		880,871	865,639
Reinsurance to close premiums receivable		22,340	13,495
Reinsurance premiums ceded		(288,768)	(279,447)
Net premiums written		614,443	599,687
Change in the provision for gross unearned premiums		(23,573)	(37,652)
Change in the provision for unearned premiums - reinsurers' share		8,439	6,718
Net change in the provision for unearned premiums		(15,134)	(30,934)
Earned premiums revenue, net of reinsurance		599,309	568,753
Investment return	4	23,595	24,045
Other income	5	35,650	12,490
Total income		658,554	605,288
Insurance claims and claims settlement expenses	6	(403,260)	(402,691)
Insurance claims and claims settlement expenses relating to reinsurance to close premiums payable		(22,340)	(13,495)
Insurance claims and claims settlement expenses recoverable from reinsurers	6	106,888	126,262
Net insurance claims		(318,712)	(289,924)
Underwriting and administrative expenses	7	(225,186)	(185,329)
Other operating expenses (non-underwriting)	8	(35,276)	(30,927)
Total expenses	8	(260,462)	(216,256)
Results of operating activities		79,380	99,108
Finance costs	11	(9,593)	(5,820)
Share of operating profit in joint venture		-	451
Profit before tax		69,787	93,739
Tax	14	(5,593)	(978)
Profit for the year		64,194	92,761
Attributable to:			
- Equity holders of the parent company		63,960	92,728
- Non-controlling interests		234	33
		64,194	92,761

The notes on pages 21 to 78 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit for the year		64,194	92,761
Other comprehensive income			
Currency translation differences	28	1,326	(24,385)
Total comprehensive income recognised for the year		65,520	68,376
Attributable to:			
- Equity holders of the parent company		65,286	68,343
- Non-controlling interests		234	33
		65,520	68,376

All the above amounts are derived from continuing operations.

The notes on pages 21 to 78 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Intangible assets	15	31,923	30,785
Property and equipment	19	2,573	3,306
Reinsurance assets	21	467,673	520,920
Deferred acquisition costs	22	104,219	97,014
Loans and receivables, including insurance receivables	23	263,336	224,768
Financial assets - carried at fair value through income	24	1,318,030	1,204,306
Cash and cash equivalents	25	188,777	210,658
Total assets		2,376,531	2,291,757
Liabilities			
Insurance contract liabilities	29/30	1,768,927	1,734,380
Trade and other payables, including insurance payables	31	92,747	65,943
Deferred tax liabilities	20	10,456	4,863
Tax liabilities	20	-	-
Borrowings: debenture loans	32	12,826	45,469
Total liabilities before employee interest in shares		1,884,956	1,850,655
Net assets		491,575	441,102
Equity			
Share capital	27	190,457	190,457
Share premium	27	-	-
Other reserves	27	(19,482)	(20,808)
Retained earnings	27	320,600	256,809
Equity attributable to equity holders of the parent	28	491,575	426,458
Non-controlling interest		-	1,031
Total equity		491,575	427,489

Analysis of shareholders' interests			
Equity attributable to equity holders of the parent		491,575	426,458
Employee interest in shares deemed cash settled	10	-	13,613
Non-controlling interest		-	1,031
Total shareholders' interests		491,575	441,102

These financial statements were approved by the Board of Directors on 23 March 2015 and signed on their behalf on 1 April 2015 by:

Michael Watson
Director

Paul Meader
Director

The notes on pages 21 to 78 form part of these financial statements.

Company Balance Sheet
As at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Shares in Group undertakings	16	332,075	332,075
Financial assets	24	3,404	52,015
		335,479	384,090
Current assets			
Amounts due from Group undertakings		13,657	11,780
Cash at bank		55,167	22,226
Prepayments and accrued income		257	199
		69,081	34,205
Creditors - amounts falling due within one year			
Amounts owed to Group undertakings		28,032	2,692
Derivative financial instruments	31	27,996	-
Borrowings: debenture loans	32	12,826	-
Other creditors		1,711	493
		70,565	3,185
Net current (liabilities)/assets		(1,484)	31,020
Total assets less current liabilities		333,995	415,110
Creditors - amounts falling due after more than one year			
Borrowings: debenture loans	32	-	45,469
Net assets before employee interest in shares		333,995	369,641
Employee interest in shares			
Employee owned shares deemed cash settled	10	-	13,613
Net assets after employee interest in shares		333,995	356,028
Capital and reserves			
Share capital	27	190,457	190,457
Share premium	27	-	-
Other reserves	27	9,120	9,120
Retained earnings	27	134,418	156,451
Total Shareholders' Funds	28	333,995	356,028

Analysis of shareholders' funds			
Equity attributable to equity holders		333,995	356,028
Employee interest in shares deemed cash settled	10	-	13,613
Total shareholders' interests		333,995	369,641

These financial statements were approved by the Board of Directors on 23 March 2015 and signed on their behalf on 1 April 2015 by:

Michael Watson
Director

Paul Meader
Director

The notes on pages 21 to 78 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Notes	Share capital £'000	Other reserves[4] £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total Equity £'000
		Attributable to equity holders of the parent					
At 1 January 2013		187,890	3,619	166,270	357,779	942	358,721
Purchase and cancellation of shares		(215)	-	(2,197)	(2,412)	-	(2,412)
Issue of new no par value shares		2,782	-	-	2,782	-	2,782
Other movements		-	(42)	8	(34)	56	22
Total recognised comprehensive (loss)/income for the year		-	(24,385)	92,728	68,343	33	68,376
At 31 December 2013		190,457	(20,808)	256,809	426,458	1,031	427,489
Employee owned shares deemed cash settled	10						13,613
Total shareholders' interests at 31 December 2013							441,102
At 1 January 2014		190,457	(20,808)	256,809	426,458	1,031	427,489
Purchase and cancellation of shares		-	-	(169)	(169)	-	(169)
Issue of new no par value shares	27	-	-	-	-	-	-
Other movements.	27	-	-	-	-	(1,265)	(1,265)
Total recognised comprehensive income for the year	27	-	1,326	63,960	65,286	234	65,520
At 31 December 2014		190,457	(19,482)	320,600	491,575	-	491,575
Employee owned shares deemed cash settled	10						-
Total shareholders' interests at 31 December 2014							491,575

The notes on pages 21 to 78 form part of these financial statements.

[1] Other reserves include currency translation, revaluation, capital redemption reserves and other capital reserves (see note 27).

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Cash flows from operating activities			
Cash generated from operations	34	96,638	24,932
Income tax paid		(32)	(15)
Interest paid		(6,264)	(1,883)
Net cash generated from operating activities		90,342	23,034
Cash flows from investing activities			
Purchases less sales of financial assets		(74,186)	(66,749)
Acquisition of subsidiaries, net of cash acquired	17	(22,071)	6,333
Proceeds from sale of subsidiary net of cash sold		(727)	27,733
Purchases less sales of property and equipment and intangible assets		(3,501)	(2,657)
Interest received		19,748	23,339
Net cash used in investing activities		(80,737)	(12,001)
Cash flows from financing activities			
Proceeds from issue of shares, net of share issue costs	27	-	2,782
Purchase and cancellation of employee shares		(169)	(215)
Repayment of borrowings		(32,643)	-
Net cash (used in)/generated from financing activities		(32,812)	2,567
Net (decrease)/increase in cash and cash equivalents		(23,207)	13,600
Cash and cash equivalents at beginning of year		210,658	221,443
Effect of exchange rate changes on cash and cash equivalents		1,326	(24,385)
Cash and cash equivalents at end of year	25	188,777	210,658

The notes on pages 21 to 78 form part of these financial statements.

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies

Canopius Group Limited, incorporated in Guernsey, is the ultimate parent undertaking and controlling party of the Canopius group of companies. A summary of the principal accounting policies applied in the preparation of these consolidated financial statements is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of presentation and preparation

(i) Group

Canopius Group Limited has elected to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and with the provisions of The Companies (Guernsey) Law, 2008. Since 2002, the standards adopted by the International Accounting Standards Board ("IASB") have been referred to as IFRS. The standards from prior years continue to bear the title 'International Accounting Standards' ("IAS"). Insofar as a particular standard is not explicitly referred to, the two terms are used in these financial statements synonymously. Compliance with IFRS also includes the adoption of interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities which are valued at fair values.

The preparation of financial statements in conformity with IFRS requires the Group's Board to exercise its judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the consolidated financial statements, are explained below.

The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated.

(ii) Company

The financial statements of the Company have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and in accordance with applicable United Kingdom Accounting Standards and the provisions of The Companies (Guernsey) Law, 2008. Accounting policies stated below relate to the Group as well as to the Company unless stated otherwise.

(iii) Going concern and liquidity considerations – Group and Company

The Group underwrites a diversified portfolio of insurance and reinsurance risks from customers worldwide through its underwriting business operations at Lloyd's and through its subsidiaries in USA and Bermuda. The directors have maintained and monitored systems and processes for the management of risk in the business and, having regard to the Group's financial resources, the directors have assessed the likelihood of the Group and Company being unable to meet its financial obligations or being unable to operate as a going concern for the foreseeable future to be low.

The directors have considered whether there are material uncertainties related to events or conditions that may cast doubt on the entity's ability to continue as a going concern. On 30 January 2015, SJNK Holdings announced that it had approved a restructuring plan for the Canopius Group, including the potential for a change of Group holding company. While this project has been approved, the timing and exact nature of the restructure is subject to further planning and approvals, and therefore these accounts are being prepared for CGL Group and CGL itself on a going concern basis. Any change is only intended to be at a holding company level and will have no operational or financial impact on the Group subsidiaries.

Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements. Information relevant to the directors' assessment may be found in these financial statements, including the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows.

Notes to the Financial Statements

Year ended 31 December 2014

1. Accounting Policies (continued)

(iii) Going concern and liquidity considerations – Group and Company (continued)

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 6 to 7. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 15 to 18 and pages 72 and 74. In addition, note 2 to the financial statements includes information on the Group's insurance and financial risk management and exposures to valuation risk, credit risk and liquidity risk. Note 3 to the financial statements includes information on the Group's objectives, policies and processes for managing its capital. Note 32 details the Group's borrowings (debenture loans) and note 36(c) its available bank facilities.

At 31 December 2014, the Company had net current liabilities of £1,484,000 arising principally from liabilities to subsidiary companies. On 31 March 2015, a dividend of £1,500,000 was received from a subsidiary in order to eliminate the net current liability position.

(b) Application of standards and interpretations to the Group

Segment reporting and Earnings per share

IAS 33 - 'Earnings per share' applies to listed companies only and as such has not been adopted by the Group. Nor has the Group adopted IFRS 8 - 'Operating Segments', which only applies to entities whose equity or debt securities are publicly traded. There would have been no impact on the reported results or financial position had the Group adopted IAS 33 or IFRS 8 in these consolidated financial statements.

Amendments to standards and IFRIC interpretations

All applicable standards, amendments to standards and IFRIC interpretations effective in 2014 have been adopted.

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the group:

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. See note 43 for the impact on the financial statements.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material. The interpretation is not mandatory for the Group in the current period, however the Group has early adopted the interpretation.

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies (continued)

(b) Application of standards and interpretations to the Group (continued)

The directors' initial assessment is that the adoption in future years of other standards, amendments and IFRIC interpretations to existing standards that are not yet effective will have no material impact on the financial statements of the Group.

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS9 was issued in November 2009 and October 2010. It replaces the parts of IAS39 that relate to the classification and measurement of financial instruments. IFRS9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS9's full impact. The Group will also consider the impact of the remaining phases of IFRS9 when completed by the Board.

IFRIC21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

The directors' initial assessment is that the adoption in future years of other standards, amendments and IFRIC interpretations to existing standards that are not yet effective will have no material impact on the financial statements of the Group.

(c) Basis of consolidation – Group

Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results, on an annual accounting basis, of the Company and its subsidiaries including the Group's underwriting activities through its participation on Lloyd's syndicates. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting year-end as the parent company, with the exception of Canopius Reinsurance Limited, whose most recent financial statements were prepared for the period from April to December 2014. Consolidation adjustments are made to convert subsidiary financial statements prepared under UK or other local GAAP into IFRS to remove the effect of any different accounting policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date control ceases. All inter-company balances, profits and transactions are eliminated on consolidation.

A list of the subsidiaries included in the consolidated financial statements is contained in note 16.

The Group uses the 'acquisition method of accounting' under IFRS 3 (revised) – 'Business Combinations', to account for the acquisition of subsidiaries.

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies (continued)

(c) Basis of consolidation – Group (continued)

Under IFRS 3 (revised), the consideration to purchase a business (including contingent consideration) is recorded at fair value at the acquisition date, with contingent consideration included in creditors at directors' best estimate of the ultimate liability. These are re-estimated in subsequent financial statements (after the expiry of the measurement period for adjustment to the initial provisional fair value, which should not exceed one year from the date of acquisition) and any changes in estimates are taken to the Statement of Comprehensive Income. All acquisition-related expenses are charged to the income statement when incurred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets acquired net of liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement for the period.

The Group has adopted predecessor accounting, as permitted by IFRS3 in relation to common control transactions. The Group has elected to incorporate the balance sheet prospectively from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements do not reflect the results of the acquired entity for the period before the transaction occurred. The corresponding amounts for the previous year are also not restated.

(d) Basis of accounting for insurance contracts - Group

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 Group adopts an annual basis of accounting for insurance contracts whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Premiums

Gross premiums written, stated gross of acquisition costs and exclusive of premium taxes, relates to business incepted during the year and adjustments to premiums booked in prior years; and includes estimates, based on underwriters' estimates or past experience, of premiums due but not yet processed.

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 insurance risk over the period of cover.

Reinsurance premiums payable are accounted for with regard to the incidence of insurance risk of the direct or inwards reinsurance business to which they relate. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums written which is estimated to be earned in the following financial years.

(ii) Insurance claims and claims settlement expenses

Insurance claims and claims settlement expenses comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any other adjustments to claims from prior years.

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies (continued)

(ii) Insurance claims and claims settlement expenses (continued)

Provision is made at the period-end for the estimated cost of IBNR claims to the Group. The estimated cost of claims includes expenses to be incurred in settling claims less 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 IBNR claims is inherently more uncertain than estimating 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 Group adopts multiple techniques, often based on historical claims data, to estimate the required level of claims provisions. The estimates given by the various methodologies assist in setting the range of possible outcomes and 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 claims data 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 previous 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.

In estimating the cost of notified but not paid claims, the Group 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. Separate estimates are made of the amounts that will be recoverable from reinsurers and the potential cost of default, having regard to available data on the financial strength of each of the reinsurance companies.

Claims provisions are not explicitly discounted for the investment earnings that may be expected to arise in the future on funds to settle the claims. There may be an element of implicit discounting in relation to Periodical Payment Orders (PPO's) for Motor claims, which are advised to Canopius as the reinsurer. This is consistent with Lloyd's liability valuation rules.

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

1. Accounting Policies (continued)

(ii) Insurance claims and claims settlement expenses (continued)

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

Longer tail business
Casualty, liability (including motor liability) and marine claims are generally longer tail 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 expected loss ratios and actual claims experience, using a predetermined formula whereby increasing 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 available market data 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.

Reinsurance recoveries
Reinsurance recoveries in respect of IBNR claims are assumed to be consistent with the historical recoveries on paid and outstanding claims, adjusted to reflect changes in the nature and extent of the Group's reinsurance programmes.

(iii) Unexpired risks reserve - Group

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 related 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 risks 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 are included in "insurance contract liabilities" in the balance sheet.

(iv) Deferred acquisition costs - Group

Deferred acquisition costs, representing a proportion of commission and other acquisition costs that relate to policies in force at the period end, are amortised over the period in which the related premiums are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off if they are no longer considered to be recoverable.

(v) Reinsurance to close ("RITC") - Group

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

To the extent that the Group changes its participation on a managed syndicate from one underwriting year of account to the next, it is a net receiver or payer of premium to reinsure the earlier year of account into the latter. This RITC premium and the related net claims provision are recognised as income and expense in the financial year in which the RITC contract is effective. It is represented in the balance sheet by the change in share of assets and liabilities transferred between the two years of account of the syndicates.

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies (continued)

(vi) Outwards reinsurance contracts - Group

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

The benefits to which the Group is entitled under its outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of balances due from reinsurers and future receivables estimated based on claims payable and IBNR claims for each class of business, having regard to the terms of the relevant reinsurance contracts, net of estimated irrecoverable amounts after assessing the financial strength of the reinsurers. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

The Group 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 income statement.

(vii) Receivables and payables related to insurance contracts - Group

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 Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement.

(e) Administrative and other expenses - Group

Operating expenses associated with underwriting activities of subsidiaries are charged to the consolidated income statement as 'administrative expenses' and included as part of 'underwriting and administrative expenses'. Operating expenses which relate to other activities are charged to the consolidated income statement as 'other operating expenses (non-underwriting)'.

(f) Pension contributions - Group

The Group operates defined contribution pension plans and a defined benefit pension scheme for its employees. The defined benefit pension scheme was acquired in 2010 with the acquisition of a new business. The scheme is closed to new entrants and has ceased accruing new benefits for current members. Any liability recognised in the consolidated balance sheet in respect of the scheme ("scheme liability") is the present value of the defined benefit obligation less the fair value of the scheme's assets as at the balance sheet date. Scheme assets exclude any insurance contracts issued by the Group. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. To the extent that a surplus emerges on the scheme liability, it is only recognised as an asset in the balance sheet when it is probable that future economic benefits will be recovered by the scheme sponsor in the form of refunds or reduced contributions.

The cost of providing pension contributions for all staff is charged to the income statement in the period to which it relates.

(g) Finance costs - Group

Finance costs consist of interest charges and fees accruing on the Group's borrowings, bank facilities and costs of arrangements with third parties that secure or provide funds at Lloyd's for the Group's corporate members underwriting on Lloyd's syndicates. Arrangement fees in respect of financing arrangements are charged over the life of the related facilities.

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies (continued)

(h) Revenue recognition: other income – Group

Fees, including profit commissions, receivable by the Group's subsidiaries managing Lloyd's syndicates ("managing agents") are accounted for on the following bases:

i. managing agents' fees are usually collected at the beginning of each year and are earned over the period to which the fees relate, normally the three year accounting period of each syndicate's year of account.

ii. profit commission is accounted for in the years in which it is considered earned by the managing agent, where its measurement is reasonably certain.

(i) Foreign currency translation - Group and Company

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Sterling which is the Group's presentation currency. The functional currency of the Company is Sterling.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the average exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement for the period. Non-monetary assets and liabilities (principally unearned premium reserves and deferred acquisition costs) carried at historical cost are translated in the balance sheet at the exchange rate prevailing on the original transaction date except where there has been a change in the functional currency (refer to paragraph below).

Group companies
The results and financial position of all Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate on the balance sheet date;
- Income and expenses are translated at average exchange rates during the period; and
- All resulting exchange differences are recognised as a separate component of equity in the Balance Sheet and included in the Consolidated Statement of Comprehensive Income.

Where there is an unsettled transaction between group companies at the balance sheet date and the monetary asset/(liability) in one group entity is eliminated against the corresponding liability/(asset) in another group entity, the exchange difference reported in the group entity's own income statement continues to be recognised in consolidated profit or loss. When a foreign operation is sold, the cumulative amount of the exchange differences previously taken direct to equity is recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate on the balance sheet date.

Change in functional currency
Following a change in the settlement currency between Canopius Reinsurance Ltd ("CRL") and Syndicate 958 on 1 July 2014 from USD to GBP, the main currency influencing the sales prices of CRL changed to GBP. The directors have therefore concluded that the most appropriate functional currency of CRL is now sterling. The previous functional currency was US dollars.

On the date of the change of functional currency all assets, liabilities, issued capital and other components of equity and income statement items were translated into sterling at the exchange rate on that date. As a result the cumulative currency translation differences which had arisen in the equity of CRL were reallocated to the income statement. As a result of the change, CRL's functional currency is the same as the Group's presentational currency.

1. Accounting Policies (continued)

(j) Property and equipment – Group

Property and equipment are stated at historical cost less accumulated depreciation and provision for impairment where appropriate. Depreciation is calculated on a straight line method to write down the cost of assets in equal instalments over their estimated useful lives, at the following annual rates:

Fixtures and fittings	15% to 33.3% per annum
Computer equipment	10% to 33.3% per annum
Motor vehicles	20% to 33.3% per annum
Leasehold improvements	10% to 33.3% per annum

The residual values and useful lives of the assets are reviewed at each balance sheet date and adjusted if appropriate. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired in which event the cost of writing down the asset to a lower valuation is charged to the income statement.

Gains and losses on disposals of property and equipment are determined by reference to their carrying value and are taken to the income statement. Repairs and renewals are charged to the income statement when the expenditure is incurred.

(k) Intangible assets - Group

Intangible assets comprise goodwill arising on acquisitions, fair values attributed to acquired insurance contracts ("insurance contract intangible asset"), insurance policy renewal rights, syndicate participation rights, website and software development costs and computer software licences.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets net of liabilities and contingent liabilities of the acquired entity at the acquisition date. Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses.

Insurance contract intangible asset is the difference between the fair value of claims provisions purchased from third parties usually as part of a company acquisition. This intangible asset is amortised on a basis consistent with the settlement of the claims. The time value of money, risk margin to unearned premium reserve and other related components of the insurance contract intangible asset run-off at different rates and are amortised according to their respective useful economic lives. The useful economic life of the time value of money component is estimated as eight to twenty three years based on the expected run-off period of the claims arising from the portfolio of business when acquired. The useful economic life of risk margin to unearned premium reserve and other related components of the insurance contract intangible asset follow the settlement pattern of the related unearned premium reserve and charged/(credited) to underwriting and administrative expenses.

Insurance policy renewal rights intangible asset is the value attributed to future income streams on business acquired where reasonable estimates can be made of the longevity of annually renewable insurance contracts. Renewal rights are valued at fair value at acquisition and amortised on a basis consistent with the estimated retention rates of the business acquired.

Where rights to capacity on a syndicate are acquired from third parties, the cost of acquisition is adopted as the fair value of the associated syndicate participation rights. Where an intangible asset of syndicate participation rights is acquired on a business combination, it is fair valued at the date of acquisition. Syndicate participation rights intangible assets are not amortised but are tested annually for impairment and carried at cost less accumulated impairment losses.

Software development costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Website and software development costs capitalised, including those acquired, are amortised on a straight line basis over their useful economic lives.

1. Accounting Policies (continued)

(k) Intangible assets – Group (continued)

Computer software licences acquired, other than through a business combination, are capitalised at cost and amortised on a straight line basis over the shorter of the estimated useful economic life or the duration of the licence agreement.

(l) Financial assets - Group and Company

The Company states financial assets at fair value.

The Group classifies its financial assets into the following categories: financial assets at fair value through income and loans and receivables.

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 income
The Group classifies its investments at fair value through income to the extent that they are not reported as cash and cash equivalents. Financial assets classified into this category are acquired principally for the purpose of selling in the short term and they form a part of a portfolio of financial assets in which there is evidence of short term profit-taking.

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 Group commits to purchase or sell the assets. The fair value of quoted investments is based on quoted bid prices.

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 and fair value gains and losses arising from the changes in fair values are included in investment return in the income statement in the period in which they arise.

(ii) Loans and receivables
Loans and receivables include debtors and are non-derivative financial assets with fixed or determinable settlement amounts that are not quoted in an active market and are not intended to be sold in the short term and do not fall into the other categories of financial assets as described above and below. Loans and receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms. These are reversed if the amount is collected. 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
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are determined by reference to quoted market prices for similar instruments and using appropriate valuation techniques, including discounted cash flow and options pricing models. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, changes in the fair value are recognised immediately in the income statement. All derivatives are carried as assets if the fair value is positive and as liabilities if the fair value is negative.

Notes to the Financial Statements
Year ended 31 December 2014

1. Accounting Policies (continued)

(m) Cash and cash equivalents - Group and Company

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. These assets are readily convertible into known amounts of cash.

(n) Taxation - Group

The tax expense represents the sum of current and deferred tax.

Current tax is determined based on the taxable profit or loss for the year and adjustments to tax payable or recoverable on prior years' profits or losses. The taxable profit or loss differs from the profit or loss before tax as reported in the income statement because it excludes items of income or expense that may be taxable or deductible in other years or are expected never to be taxable or deductible. The Group's liability or asset for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on temporary differences, which are gains or losses that will be taxable in future periods and are not included in the current tax calculation. Deferred tax liabilities are generally recognised for all gains that are not currently taxable but will be taxable in the future. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which non-current taxable losses can be deducted.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted for changes in estimates of the taxable profits that will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is expected to settle or the asset is expected to be realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to other comprehensive income or directly to other reserves in equity, in which case the deferred tax is also dealt with in the Statement of Comprehensive Income or directly to other reserves in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are not discounted for the time value of money.

(o) Borrowings - Group and Company

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the 'effective interest method'.

(p) Share capital - Group and Company

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(q) Leases - Group

Leases in which significantly all the risks and rewards of ownership are transferred to the Group are classified as finance leases. All other leases are treated as operating leases.

At the commencement of the lease term, finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. The minimum lease payments are apportioned between finance charges and repayments of the outstanding liability, finance charges being charged to each period of the lease term so as to produce a constant rate of interest on the outstanding balance of the liability.

1. Accounting Policies (continued)

(q) Leases – Group (continued)

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the life of the lease.

(r) Transactions in employee owned shares - Group and Company

During the year, Sompo Japan Nipponkoa Insurance Inc. purchased all employee owned shares. There is no liability for employee owned shares deemed as cash settled and the liability that existed in 2013 has been credited to the income statement in 2014 (2013: charge of £6,008,000). Please refer to notes 10 and 27.

(s) Impairment of assets - Group and Company

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows. The amount of the loss is recognised in the income statement.

(t) Critical accounting estimates and judgements in applying accounting policies – Group and Company

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The most critical accounting estimate made by the Group is the estimate of the ultimate claims liability from insurance contracts underwritten. The estimation of the claims liability is described in (d) (ii) above.

(u) Shares in Group undertakings - Company

The Company's shares in Group undertakings are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate.

2. Management of insurance and financial risk

Risk taking and risk management are an inherent part of the Group's business activities. The adoption of sound risk management practices is considered imperative by management and the Group's Board and fundamental to the ongoing success of the Group.

The risk management processes and their enabling governance structures are designed to provide comprehensive control over and ongoing management of the significant financial and non-financial risks facing the Group.

Risk governance

The cornerstone of the Group's risk management process is the development and embedding into 'business as usual practice' of a strong risk management and control culture supported by an enterprise wide set of policies and practices.

Risk management and oversight begins with Canopius's Boards of directors which are ultimately responsible for ensuring the effective management and control of risk from all sources.

The Group operates a "Three Lines of Defence" approach to risk governance and risk reporting.

The first line of defence involves all members of staff at every level within the business who are responsible for identifying, taking and managing risk in their area.

The second line of defence includes the Actuarial, Compliance and Risk functions who provide oversight and challenge to the risk taking business and the first line of defence.

Risk reporting is through the Actuarial, Compliance and Risk functions, who routinely engage with individual business units and report to the Boards and their subcommittees. Functional risk reporting is escalated through the Canopius structure to the Boards e.g. Syndicates 4444 and 958 divisional aggregate information is collated, analysed and reported by a central catastrophe management team to the Syndicate Management Committee. The Joint Active Underwriters report aggregate information to the Board of Canopius Managing Agents Limited.

The third line of defence principally involves the Group's independent Internal Audit function.

Risk appetite

Risk appetite reflects the amount of risk that the Group is prepared to accept given its financial and operational capacity while at the same time recognising the need to generate returns on capital that are in line with group requirements. The Group gives due consideration to its risk appetite, having regard to factors, which include:

- available capital;
- the rate at which the Group generates capital;
- ability to raise capital;
- the philosophy and attitude of the Boards and management teams and investors regarding risk taking; and
- the target for return on capital agreed with Canopius's investors.

Target levels of risk appetite have been established on a qualitative basis for all of the risks documented in risk registers. In addition, specific risk limits have been adopted and are in use on a qualitative and quantitative basis in the following areas:

- underwriting;
- aggregate exposures;
- reinsurance;
- investments;
- liquidity;
- credit; and
- market.

2. Management of insurance and financial risk (continued)

As part of the ongoing risk management programme, the Group has enhanced its approach to expressing risk appetite including more sophisticated methods of measuring exposure to catastrophe risk. This is an integral part of the development of the Group's Capital Capacity, Risk Appetite and Risk Limits ("CAL") Framework. The CAL framework has been implemented into the business planning process and directly addresses the risk preferences of the business.

The CAL framework enhances Canopius's risk and capital management by enabling it to:

- Compare different potential portfolio business mixes to determine which is optimal on a risk-adjusted basis (portfolio optimisation);
- Set volume and profitability targets for business units based on preferred business mix; and
- Calibrate pricing frameworks and models to support underwriters in delivering the desired business mix at the required price.

Risk control

The Group's approach to risk management is supported by risk controls, which include the development and communication of policies, establishment of formal risk assessment and approval processes, and the establishment of delegated authorities and limits. The implementation of robust risk controls is designed to enable the optimisation of risk and return on both a portfolio and a transactional basis.

Risk categories

In the normal course of business, the Group is exposed to many risks and differentiates between them using the following major risk categories:

Insurance Risk	Risk of loss arising from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities and premiums;
Operational Risk	Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;
Financial Risk	Risks relating to market, credit and liquidity as follows:
(a) Market Risk	Risk that arises from fluctuations in values of or income from assets, or interest or exchange rates;
(b) Credit Risk	Risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion;
(c) Liquidity Risk	Risk that insufficient liquid financial resources are maintained to meet liabilities as they fall due;
Capital Risk	Risk of loss arising from inappropriate levels or sources of capital;
Strategic Risk	Risk of loss inherent in the Group's market positions, strategic direction and commercial interests;
Regulatory Risk	Risk of loss arising from any instance of non-compliance with its regulatory obligations and dealings with both UK and overseas regulators:
Systemic Risk	Risk of loss from global or localised failures, including where the failure of one institution causes other institutions to fail; and
Group Risk	The potential impact of risk events, of any nature, arising in or from membership of a corporate group.

2. Management of insurance and financial risk (continued)

Risk policies

Risk policies are in place for the major risk categories. These risk policies are supported by a number of more detailed operational level risk policies, examples of which are as follows:

- delegated authority;
- reinsurance purchase;
- investments;
- outsourcing;
- treating customers fairly;
- whistle blowing;
- sanctions;
- IT and physical security;
- foreign exchange;
- human resources;
- asset-liability management;
- consumer product governance; and
- money laundering.

Risk assessment

Risk identification exercises help focus attention on the highest priority risks and help minimise the likelihood of any surprises. All risks identified have been assessed and reassessed on a "potential probability of occurrence and exposure impact" basis using both an inherent (before the application of controls) and residual (after the application of controls) basis approach. Each control has been assessed and reassessed on a design and performance basis.

Where enhancements to controls have been identified as desirable or steps need to be taken to meet the target residual risk level, a remedial action plan is implemented. A self-assessment process is undertaken on a regular basis and signed off by risk and control owners. Internal Audit also reviews and tests the adequacy and effectiveness of controls documented during the self-assessment process and reports to the Audit Committee.

Reporting

Risk monitoring and reporting is considered to be a critical component of the risk management process and supports the ability of senior management and the Boards to effectively perform their risk management and oversight responsibilities.

Regular internal reporting is provided in Top Risks Reports which cover a review of contemporary and emerging risks, updates of the risk registers and reporting on relevant risk issues to ensure senior management and the Boards receive timely and actionable forward-looking risk reporting on significant risk issues.

External reporting is provided as required by law and other relevant regulations. Regular reporting on risks is provided to stakeholders including regulators and external ratings agencies.

Insurance risk

There is a significant risk attached to ineffective management of insurance and related activities. The principal areas of risk arise from:

- inappropriate underwriting activities and cycle management;
- fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
- inadequate or insufficient reinsurance protection;
- inadequate catastrophe exposure management;
- ineffective controls over coverholders;
- inadequate reserves; and
- insurance risk appetite and tolerance.

Notes to the Financial Statements

Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

Insurance risk (continued)

The taking of controlled risk and the exploring of new underwriting opportunities is encouraged, provided that the resultant exposures are within the insurance risk appetite and tolerances set by the Group. The Group looks to maximise returns throughout the underwriting cycle, which may result in increasing exposures in certain lines of business, whilst reducing exposures in others.

Underwriting

The Group accepts insurance risk in a range of classes of business through its insurance underwriting entities: Syndicate 4444, Syndicate 958, Syndicate 6115, Syndicate 260, Canopius Reinsurance Limited and Canopius US Insurance, Inc. The Group owns a number of underwriting service companies and insurance intermediaries in Bermuda, Ireland, Singapore, Malaysia, Switzerland and the UK.

The Group's underwriting strategy is to seek a diverse and balanced portfolio in order to limit the variability of outcomes. This is achieved by accepting a spread of business, segmented into different classes.

The annual business plan for each underwriting team reflects the Group's underwriting strategy, and sets out the classes of business, the territories and the industry sectors in which the Group is prepared to accept exposures as well as the limits on both a per risk and per event basis. These plans are approved and monitored by the Board and Syndicate Management Committee of Canopius Managing Agents Limited, and the Boards of Canopius Reinsurance Limited and Canopius US Insurance, Inc., as applicable. From 1 January 2014, Syndicates 4444 and 958 are serviced by underwriters and split all business written between 4444 and 958 in the ratio 80:20 respectively. Prior to 2014 this split was based on class-specific percentages which were agreed at the beginning of each year.

In the underwriting of insurance and reinsurance business the Group's underwriters use a variety of techniques, including applying their skill, knowledge and, where relevant, data on past claims experience to estimate the likely claims cost and therefore premium which should be sufficient (across a portfolio of risks and over a period of years) to cover claims, expenses and produce an acceptable return on capital. However, due to the nature of insurance risk there is no guarantee that the premiums charged will be sufficient to cover the cost of claims.

The Group seeks to limit exposures and the quantum and likelihood of loss that it is prepared to accept using stochastic and other modelling techniques by reference to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. These are monitored through catastrophe modelling over a range of return periods and the regular calculation of realistic disaster scenarios. The aggregate of exposures is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations.

The Group has in place personal authority limits which are binding upon all staff authorised to underwrite and are specific to underwriters and classes of business. These authority limits are enforced through a sign-off process for underwriting transactions. Exception reports are also run regularly to monitor compliance.

A proportion of the Group's insurance is written by third parties under delegated authorities. The Group has in place a delegated authority policy and control framework. The policy covers all aspects of delegated underwriting and control of coverholders including initial due diligence, frequency and monitoring of bordereaux and requirements for both internal reviews and external audits. Compliance with the policy is regularly monitored.

Catastrophe modelling

The greatest likelihood of significant losses to the Group arises from natural catastrophe events, such as windstorm, earthquake or flood. The Group has licence agreements with two catastrophe modelling organisations. The Group uses these modelling tools, along with the Group'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.

2. Management of insurance and financial risk (continued)

Catastrophe modelling (continued)

The Group's capital setting methodology enables modelling to be performed in a sophisticated, but practical, manner particularly with respect to defining the strength of correlations between the Group's catastrophe exposed classes of business. The Group's stochastic models use underlying event tables which capture directly the different geographic distributions of risk in the different lines of business.

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.

A detailed analysis of catastrophe exposures is carried out monthly and measured against the Group's risk appetite.

Reinsurance

Reinsurance risk to the Group arises when reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated. Failure of a reinsurer to pay a valid claim is considered a credit risk.

The Group's reinsurance programmes are determined from the underwriting teams' business plans and seek to protect capital from adverse severity and/or frequency of claims on both a per risk and per event basis. Reinsurance is purchased to protect both current and discontinued lines of business.

The Group sets limits for reinsurance programmes regarding quality and quantity. Utilisation of the reinsurance protection is monitored on an ongoing basis.

There are a number of areas of uncertainty over the reinsurance assumptions. The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which reduce the recoveries made. The impact on profit before tax of a 1% deterioration in the total reinsurance recoveries would be a £3.28 million loss (2013: £3.68 million loss).

Claims management

Claims management risk may arise in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or claims leakage. The Group's claims teams seek to ensure that claims handling activities are performed with a consistent approach and that a standardised resolution and adjustment process is adopted wherever possible.

Reserving

Reserving risk occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debt provisions.

The Group's actuarial teams use a range of recognised actuarial techniques to project gross premiums written, monitor claims development patterns and to determine the claims provisions. The Group reviews at least quarterly, premium and claims experience by class of business and year of account and the earned and projected ultimate gross and net loss ratios. Claims provisions are reviewed annually by external consulting actuaries who provide independent opinions to the Group and relevant regulatory bodies.

The claims provisions established can be more or less than adequate to meet eventual claims arising. 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 before tax of a 1% improvement/deterioration in the total net claims reserves would be a £8.5 million gain/loss (2013: £8.3 million)

2. Management of insurance and financial risk (continued)

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. At 31 December 2014, of the Group's gross claims reserves, £816 million (70%) were attributable to Syndicate 4444, £85 million (8%) to Syndicate 260, £199 million (17%) to Syndicate 958, £150 million (13%) to Canopius US Insurance, Inc. and Canopius Reinsurance Limited and £37 million (4%) to Syndicate 6115. Corporate adjustments of (£65 million) are made to reduce the gross group share of the claims liabilities to £1,177 million.

The figures in the tables and footnotes below are presented at the exchange rates prevailing at 31 December 2014.

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

Claims development tables (continued)

Syndicate 4444 - Underwriting year – Gross	**2005 and prior**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate claims costs:											
At end of period 1	263	208	292	336	311	331	328	371	372	391	3,203
At end of year 2	246	204	309	343	347	469	344	341	357	-	2,960
At end of year 3	240	201	314	344	333	472	329	342	-	-	2,575
At end of year 4	239	196	313	348	328	485	332	-	-	-	2,241
At end of year 5	236	196	312	345	315	478	-	-	-	-	1,882
At end of year 6	237	191	309	351	311	-	-	-	-	-	1,399
At end of year 7	239	188	308	348	-	-	-	-	-	-	1,083
At end of year 8	237	187	303	-	-	-	-	-	-	-	727
At end of year 9	233	184	-	-	-	-	-	-	-	-	417
At end of year 10	232	-	-	-	-	-	-	-	-	-	232
Current estimate of cumulative gross claims	232	184	303	348	311	478	332	342	357	391	3,278
Cumulative payments to date	(223)	(182)	(288)	(305)	(254)	(400)	(247)	(203)	(136)	(31)	(2,269)
Gross claims outstanding	9	2	15	43	57	78	85	139	221	360	1,009
Unearned balance											(239)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)											6
Liabilities in respect of Syndicates 839's 2008 year of account											89
Liabilities in respect of Syndicate 6115											37
Other liabilities (see (ii) below)											12
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses											914
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses											831
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iii) below)											85
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see development table below)											199
Group's share of Syndicate 6115's total liability, including unallocated loss adjustment expenses											37
Liabilities in respect of Canopius US Insurance Inc. and Canopius Reinsurance Limited third party reinsurance (see (iv) below)											90
Corporate and other adjustments (see (v) below)											(65)
Total liability included in the balance sheet (note 30)											1,177

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

Claims development tables (continued)

Syndicate 4444 - Underwriting year – Net	**2005 and prior**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate claims costs:											
At end of period 1	187	202	258	290	285	280	287	311	330	350	2,780
At end of year 2	183	186	272	289	297	356	302	286	335	-	2,506
At end of year 3	176	183	282	292	284	350	287	290	-	-	2,144
At end of year 4	174	179	282	290	273	356	289	-	-	-	1,843
At end of year 5	172	179	279	284	261	351	-	-	-	-	1,526
At end of year 6	171	175	273	281	258	-	-	-	-	-	1,158
At end of year 7	174	172	270	277	-	-	-	-	-	-	893
At end of year 8	171	171	269	-	-	-	-	-	-	-	611
At end of year 9	167	169	-	-	-	-	-	-	-	-	336
At end of year 10	166	-	-	-	-	-	-	-	-	-	166
Current estimate of cumulative net claims	166	169	269	277	258	351	289	290	335	350	2,754
Cumulative payments to date	(158)	(167)	(255)	(258)	(230)	(300)	(217)	(173)	(134)	(30)	(1,922)
Net claims outstanding	8	2	14	19	28	51	72	117	201	320	832
Unearned balance											(209)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)											6
Liabilities in respect of Syndicates 839's 2008 year of account											10
Liabilities in respect of Syndicate 6115											36
Other liabilities (see (ii) below)											(25)
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses											650
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses											577
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iii) below)											64
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see development table below)											157
Group's share of Syndicate 6115's total liability, including unallocated loss adjustment expenses											37
Liabilities in respect of Canopius US Insurance Inc. and Canopius Reinsurance Limited third party reinsurance (see (iv) below)											143
Corporate and other adjustments (see (v) below)											(129)
Total liability included in the balance sheet (note 30)											849

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

Claims development tables (continued)

Syndicate 958 - Underwriting year – Gross	**2005 and prior** £m	**2006** £m	**2007** £m	**2008** £m	**2009** £m	**2010** £m	**2011** £m	**2012** £m	**2013** £m	**2014** £m	**Total** £m
Estimate of ultimate claims costs:											
At end of period 1	-	-	-	-	-	-	-	169	80	98	**347**
At end of year 2	-	-	-	-	-	-	195	152	79	-	**426**
At end of year 3	-	-	-	-	-	256	188	154	-	-	**598**
At end of year 4	-	-	-	-	190	262	187	-	-	-	**639**
At end of year 5	-	-	-	279	195	255	-	-	-	-	**729**
At end of year 6	-	-	173	290	188	-	-	-	-	-	**651**
At end of year 7	-	125	176	283	-	-	-	-	-	-	**584**
At end of year 8	350	131	174	-	-	-	-	-	-	-	**655**
At end of year 9	361	130	-	-	-	-	-	-	-	-	**491**
At end of year 10	359	-	-	-	-	-	-	-	-	-	**359**
Current estimate of cumulative gross claims	359	130	174	283	188	255	187	154	79	98	**1,907**
Cumulative payments to date	(352)	(113)	(161)	(257)	(159)	(201)	(133)	(76)	(29)	(8)	**(1,489)**
Gross claims outstanding	7	17	13	26	29	54	54	78	50	90	**418**
Unearned balance											**(59)**
Liabilities in respect of Syndicate 529											**6**
Total liability included in Syndicate 958's balance sheet, excluding unallocated loss adjustment expenses											**365**
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses											**199**

Syndicate 958 - Underwriting year – Net	**2005 and prior** £m	**2006** £m	**2007** £m	**2008** £m	**2009** £m	**2010** £m	**2011** £m	**2012** £m	**2013** £m	**2014** £m	**Total** £m
Estimate of ultimate claims costs:											
At end of period 1	-	-	-	-	-	-	-	132	60	70	**262**
At end of year 2	-	-	-	-	-	-	126	121	61	-	**328**
At end of year 3	-	-	-	-	-	168	124	123	-	-	**415**
At end of year 4	-	-	-	-	142	170	123	-	-	-	**435**
At end of year 5	-	-	-	169	145	165	-	-	-	-	**479**
At end of year 6	-	-	114	175	139	-	-	-	-	-	**428**
At end of year 7	-	107	116	169	-	-	-	-	-	-	**392**
At end of year 8	122	111	115	-	-	-	-	-	-	-	**348**
At end of year 9	123	110	-	-	-	-	-	-	-	-	**233**
At end of year 10	121	-	-	-	-	-	-	-	-	-	**121**
Current estimate of cumulative net claims	121	110	115	169	139	165	123	123	61	70	**1,196**
Cumulative payments to date	(114)	(96)	(106)	(150)	(116)	(122)	(80)	(60)	(23)	(6)	**(873)**
Net claims outstanding	7	14	9	19	23	43	43	63	38	64	**323**
Unearned balance											**(42)**
Liabilities in respect of Syndicate 529											**5**
Total liability included in Syndicate 958's balance sheet, excluding unallocated loss adjustment expenses											**286**
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses											**157**

2. Management of insurance and financial risk (continued)

Claims development tables (continued)

Notes to the claims development tables

(i) Liabilities in respect of the 1993 to 2006 years of account of Syndicates 1607 and 3786 (and their predecessor syndicates) were reinsured to close into the 2007 year of account of Syndicate 4444 as at 1 January 2009 at a reinsurance to close premium of £63 million gross and £50 million net of reinsurance recoverable. The related liability is running off satisfactorily within the reserves with claims outstanding at 31 December 2014 being £6 million (2013: £6 million) gross and £6 million (2013: £6 million) net of reinsurance recoverable.

(ii) Other liabilities relate primarily to the 2002 and 2003 years of account of Syndicate 839, which were reinsured to close into the 2004 year of account of Syndicate 4444 as at 1 January 2006. Other liabilities also include reinsurance bad debt provisions.

(iii) The Group's share of Syndicate 260's liability is in respect of Flectat Limited ("Flectat"), a corporate member acquired by the Group on 30 June 2010. Flectat has 89.6% participation in Syndicate 260's 2012 year of account, 81.5% participation in its 2011 year of account and approximately 58.9% participation in 2010 and prior years of account. Up to the closure of the 2010 and prior years on 1 January 2013, the Group was not liable for liabilities relating to policies written on or prior to the date of acquisition. The ultimate expected claims liabilities with respect to post-acquisition policies on those years of account at 31 December 2014 amounted to £85 million (2013: £43 million) gross and £64 million (2013: £36 million) net.

(iv) This represents liabilities in respect of Canopius US Insurance, Inc. and the third party catastrophe reinsurance of Canopius Reinsurance Limited (excluding intra-group quota share reinsurances and the 20% quota share of Syndicate 958).

(v) Corporate and other adjustments relate mainly to corporate member level quota share reinsurances.

(vi) Syndicate 958 only came into the Group in 2012 on the acquisition of Omega. The claims development tables show only the development since purchase.

Notes to the Financial Statements

Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

Operational risk

Failure to manage operational risk can result in direct or indirect financial loss, reputational damage, regulatory censure or failure in the management of other risks such as credit or market risk.

The Group's operational risk process flows directly from the risk management process and sets out the principles and practices used to manage operational risk. Operational risk is managed through the Group's infrastructure, controls, systems and people supported by Compliance, Risk Management and Internal Audit functions.

Group Risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. Canopius Group is the global specialty lines platform of Sompo Japan Nipponkoa Holdings Inc., an A+ rated company with total assets of ¥9.5 trillion at financial year 2014 and one of the top three Japanese insurers.

Financial risk

The Group 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. The Group carries financial investments at fair value through income and actively monitors its investment portfolio and its valuation.

An asset-liability management framework sets out our approach to managing potential exposure to financial risk which could arise where the specific interdependencies between assets and liabilities are not recognised or mitigated, and where there is a correlation between the risks within different asset classes.

The Group's policies and procedures for managing its exposure to financial risk, being (a) market risk, including valuation, market price, interest rate, credit spreads and exchange rate risks; (b) credit risk; and (c) liquidity risk, are given below:

(a) Market risk

Market risk arises from fluctuations in values, including from movements in market prices, interest rates, credit spreads and exchange rates.

(i) Valuation

The Group has classified its financial instruments as at 31 December 2014 using the fair value hierarchy required by IFRS 13 'Fair value measurement'. The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value, with Level 1 considered the most reliable. The levels within the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 - Valuation techniques for which inputs are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date and are included in Level 1.

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more significant inputs are not based on observable market data, the instrument is included in Level 3. These assets are normally infrequently traded and fair values can only be calculated using estimates or risk-adjusted value ranges and there is a material use of judgement in deriving the price.

At 31 December 2014	**Level 1**	**Level 2***	**Level 3**	**Total**
	£'000	£'000	£'000	£'000
Cash and cash equivalents	170,558	18,219	-	188,777
Debt securities & other fixed income securities	376,016	389,109	18,686	783,811
Holdings in collective investment schemes	436,414	97,805	-	534,219
Derivative financial instruments	-	-	-	-
Financial assets	812,430	486,914	18,686	1,318,030

At 31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	£'000	£'000	£'000
Cash and cash equivalents	168,881	41,777	-	210,658
Debt securities & other fixed income securities	347,140	337,681	23,480	708,301
Holdings in collective investment schemes	397,981	82,962	-	480,943
Derivative financial instruments	968	14,094	-	15,062
Financial assets	746,089	434,737	23,480	1,204,306

[*The level 2 cash and cash equivalent figures represent overseas deposits held in trust by Lloyd's]

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. At 31 December 2014, securities at a valuation of £19 million (2013: £23 million) have been classified as Level 3 under IFRS. This amount comprised £15 million (2013: £19 million) in AAA rated UK mortgage-backed floating-rate securities and £4 million (2013: £4 million) held in AA rated UK mortgage-backed floating-rate securities.

The mortgage backed securities included in Level 3 are traded through a small number of broker dealers and are bought and sold by individual negotiation with a broker or through an auction process. Typically the market in these securities is relatively inactive – prices are quoted on request and are often open to negotiation. Pricing will be influenced by recent trades in other similar securities and prices will vary between brokers depending on their perception of value and the level of investor demand. Valuation prices are sourced from an independent company that carries out a survey of dealer prices in the market and no adjustments are made.

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

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

	2014 £'000	2013 £'000
Opening balance at 1 January	23,480	30,600
Exchange gains/(losses) on retranslation	-	87
Purchases during the year	-	25,764
Realised gains and losses recognised in income statement	246	2,089
Sales during the year	(5,040)	(35,259)
Fair value gains recognised in income statement	-	199
Closing balance at 31 December	18,686	23,480
Total gains for the year included in income statement for assets held at the end of the year	-	199

The sensitivity of level 3 measurements to favourable and unfavourable changes within a reasonable range of assumptions used to determine the fair value shows potential for changes of between £1.0 million (2013: £1.2 million) favourable to £1.4 million (2013: £1.6 million) unfavourable changes to profit for the year in the income statement. Any reclassification between categories is deemed to take place at the reporting year end.

(ii) Market price

The Group invests in a unitised absolute return fund as well as an equity fund which had exposure to price risk on investments in equities at 31 December 2014 of £28.4 million (2013: £22.2 million) and price risk to Hedge funds of £5.8 million (2013: £3.8 million).

The Group has additional exposure to price risk on a portfolio of Hedge funds amounting to £79.2 million (2013: £48.3 million), which is controlled by a fund manager, which ensures that the portfolio is well diversified across a range of strategies.

(iii) Interest rates

The vast majority of the Group's investments comprise cash, cash equivalents and fixed income securities. The fair value of these investments is inversely correlated to movements in interest rates.

The Group manages interest rate risk by investing in financial investments, cash, cash equivalents and exchange traded bond futures with an aggregate average duration of less than 3 years. The Investment Committee monitors the duration of these assets on a regular basis.

If interest rates fall, the fair value tends to rise and vice versa. The fair value of fixed income investments in the Group's balance sheet at 31 December 2014 was £783.8 million (2013: £708.3 million) with an average duration of around 1.5 (2013: 1.7) years. If interest rates were to rise or fall by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would decrease or increase by £9.5 million (2013: £9.1 million). The relationship between changes in profit and changes in basis points is linear.

Insurance contract liabilities are less sensitive to the level of interest rates, as they are undiscounted and contractually non-interest bearing.

The Group's borrowings (debenture loans) at 31 December 2014 totalled £12.8 million (2013: £45.5 million). Three of the four debenture loans were settled prior to 31 December 2014 and the final debenture loan of £12.8 million was settled on 9 January 2015. As a result, if interest rates were to rise or fall by 100 basis points for the year, it is estimated that the profit after tax and equity would increase or decrease by £nil (2013: £0.4 million). The relationship between changes in profit and changes in basis points is linear.

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

(iv) Credit spreads

Fixed interest securities issued by an entity other than a sovereign government generally trade at higher yields than a similar duration sovereign government bond issued in the same currency. The excess yield is referred to as the credit spread and its quantum reflects the risk to the investor that the issuer may not make timely payments of capital or interest, the liquidity of the security and the demand for corporate credit.

The Group manages the risk of changes in credit spreads by limiting the aggregate average duration of bonds exposed to such changes to no more than three years. The Investment Committee monitors the credit spread duration of these assets on a regular basis.

If credit spreads narrow then, other things being equal, the fair value rises and vice versa. The fair value of fixed income investments exposed to movements in credit spreads in the Group's balance sheet at 31 December 2014 was £553.7 million (2013: £549.8 million). If credit spreads were to change by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would change by £7.9 million (2013: £7.2 million). The relationship between changes in profit and changes in basis points is linear.

(v) Exchange rates

The Group operates internationally and has exposure to foreign exchange risk. The Group seeks to hold its net assets primarily in Sterling and US dollars. Where the risk of loss through mismatch of other currencies is deemed material, the Group will seek to mitigate the risk by buying or selling the relevant currency assets or entering into forward currency sale or purchase contracts. Mismatches arising from significant loss activity may be permitted where there is an expectation that future earnings will offset the mismatch; and where insurance contracts are not fully earned and are still exposed to risk of material loss.

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

At 31 December 2014	**Sterling and other**	**US dollar**	**Euro**	**Canadian dollar**	**Total**
	£'000	£'000	£'000	£'000	£'000
Intangible assets	31,905	18	-	-	31,923
Property and equipment	2,530	43	-	-	2,573
Reinsurance assets	298,806	157,521	8,824	2,522	467,673
Deferred acquisition costs	52,975	46,584	2,291	2,369	104,219
Loans and receivables, including insurance receivables	77,116	164,676	16,269	5,275	263,336
Financial assets - carried at fair value through income	376,602	836,322	75,554	29,552	1,318,030
Cash and cash equivalents	51,970	125,883	5,686	5,238	188,777
Total assets	**891,904**	**1,331,047**	**108,624**	**44,956**	**2,376,531**

At 31 December 2014	**Sterling and other**	**US dollar**	**Euro**	**Canadian dollar**	**Total**
	£'000	£'000	£'000	£'000	£'000
Insurance contract liabilities, excluding provision for unearned premiums	693,365	602,224	75,467	21,284	1,392,340
Provision for unearned premiums	145,964	208,105	13,297	9,221	376,587
Trade and other payables, including insurance payables	32,744	51,584	6,617	1,802	92,747
Tax liabilities, including deferred tax liabilities	10,456	-	-	-	10,456
Borrowings: debenture loans	-	12,826	-	-	12,826
Total liabilities before employee shares	**882,529**	**874,739**	**95,381**	**32,307**	**1,884,956**
Total Equity, including employee shares	**12,419**	**453,255**	**13,252**	**12,649**	**491,575**
	894,948	**1,327,994**	**108,633**	**44,956**	**2,376,531**

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

(v) Exchange rates (continued)

At 31 December 2013	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Intangible assets	30,758	27	-	-	30,785
Property and equipment	3,254	43	9	-	3,306
Reinsurance assets	248,172	265,306	4,830	2,612	520,920
Deferred acquisition costs	50,014	42,599	2,692	1,709	97,014
Loans and receivables, including insurance receivables	86,047	119,420	15,962	3,339	224,768
Financial assets - carried at fair value through income	412,058	682,033	84,586	25,629	1,204,306
Cash and cash equivalents	89,018	110,970	5,991	4,679	210,658
Total assets	**919,321**	**1,220,398**	**114,070**	**37,968**	**2,291,757**

At 31 December 2013	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Insurance contract liabilities, excluding provision for unearned premiums	599,161	667,749	86,200	18,282	1,371,392
Provision for unearned premiums	142,035	199,106	14,576	7,271	362,988
Trade and other payables, including insurance payables	51,549	9,429	3,837	1,128	65,943
Tax liabilities, including deferred tax liabilities	4,863	-	-	-	4,863
Borrowings: debenture loans	-	35,650	9,819	-	45,469
Total liabilities before employee shares	**797,608**	**911,934**	**114,432**	**26,681**	**1,850,655**
Total Equity, including employee shares	**121,713**	**308,464**	**(362)**	**11,287**	**441,102**
	919,321	**1,220,398**	**114,070**	**37,968**	**2,291,757**

The effect of a 10% strengthening or weakening of exchange rates against Sterling is estimated would decrease profit after tax and equity by approximately £3.1 million (2013: £38.7 million increase) for US dollar and increase profit after tax by approximately £0.1 million (2013: £1.0 million) for Euro.

(b) Credit risk

Credit risk arises where another party fails to perform its financial obligations or fails to perform them in a timely fashion. The primary sources of credit risk for the Group are:

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

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

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security, 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.

An analysis of the Group's major exposures to counterparty credit risk, which is based on Standard & Poor's or equivalent rating, is presented below:

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

(b) Credit risk *(continued)*

At 31 December 2014	AAA	AA	A	Other and/or not rated	Total
	£'000	£'000	£'000	£'000	£'000
Reinsurance assets	-	98,979	313,053	55,641	467,673
Debt and fixed income securities	390,816	102,314	187,079	103,602	783,811
Holdings in collective investment schemes	175,916	18,446	11,073	328,784	534,219
Derivative financial instruments	-	-	-	-	-
Cash and cash equivalents	29,017	6,547	151,637	1,576	188,777
Total	595,749	226,286	662,842	489,603	1,974,480

At 31 December 2013	AAA	AA	A	Other and/or not rated	Total
	£'000	£'000	£'000	£'000	£'000
Reinsurance assets	-	93,935	381,033	45,952	520,920
Debt and fixed income securities	360,292	93,510	155,126	99,373	708,301
Holdings in collective investment schemes	150,942	28,520	8,532	292,949	480,943
Derivative financial instruments	-	687	14,375	-	15,062
Cash and cash equivalents	39,772	7,868	161,820	1,198	210,658
Total	551,006	224,520	720,886	439,472	1,935,884

The underlying investments in the 'other/not rated' holdings in collective investment schemes (that includes participation in investment pools) at 31 December 2014 comprised:

	2014	2013
	£'000	£'000
Equities	4,767	2,875
A portfolio of hedge funds	79,225	48,331
BBB and below securities	124,919	138,573
Hedge Funds as part of an absolute return portfolio	5,765	3,766
A UCIT's fund on a look through basis-		
AAA securities	22,532	28,304
AA securities	25,209	17,306
A securities	18,575	20,418
BBB securities	18,371	9,773
Not rated securities	5,807	4,294
Fund equities	23,614	19,309
Total	328,784	292,949

Cash and cash equivalents under 'other and/or not rated' include £1.6 million (2013: £1.2 million) BBB rated securities in overseas deposits.

The carrying values represent the maximum exposure to credit risk at the balance sheet date in respect of the above assets. Insurance and reinsurance debtors are included in loans and receivables. The analysis above does not include insurance receivables from direct insurance operations as the majority of these assets are in respect of pipeline premiums for which the credit information is not readily available. The following table, which includes loans and receivables, including insurance receivables (debtors arising out of direct insurance operations), provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

(b) Credit risk *(continued)*

At 31 December 2014	Neither past due nor impaired	Past due but not impaired (during range of months) 0-3	3-6	6-12	Over 12	Impaired	Carrying value £'000
Reinsurance assets	96%	4%	0%	0%	0%	0%	467,673
Loans and receivables, including insurance receivables	100%						255,797
Financial assets at fair value	100%						1,318,030

At 31 December 2013	Neither past due nor impaired	Past due but not impaired) (during range of months) 0-3	3-6	6-12	Over 12	Impaired	Carrying value £'000
Reinsurance assets	92%	4%	0%	0%	1%	3%	520,920
Loans and receivables, including insurance receivables	100%						224,768
Financial assets at fair value	100%						1,204,306

(c) Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due. The Group is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities and the payment of expenses.

The Group'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 Group 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. These liquid funds are regularly monitored against cash flow forecasts.

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

The Group manages the maturity profile of its investments having regard to the expected payout pattern for the claims liabilities.

The contractual maturity profile of the Group's financial assets and cash and cash equivalents is calculated by reference to the period between the period end and the final maturity date of the security, which for mortgage-backed bonds will be the last mortgage redemption date in the underlying security. The contractual maturity profile at 31 December 2014 was as follows:

	Debt and other fixed income securities £'000	Holdings in collective investment schemes £'000	Cash and cash equivalents £'000	2014 Total £'000	2013 Total £'000
Less than one year	266,994	281,587	188,777	737,358	611,391
Between one and two years	213,251	4,830	-	218,081	160,018
Between two and five years	264,217	40,153	-	304,370	386,083
Over five years	39,349	32,956	-	72,305	102,697
	783,811	359,526	188,777	1,332,114	1,260,189
Other non-dated instruments	-	174,693	-	174,693	154,775
	783,811	534,219	188,777	1,506,807	1,414,964

Notes to the Financial Statements
Year ended 31 December 2014

2. Management of insurance and financial risk (continued)

(c) Liquidity risk (continued)

The expected payment profile of gross insurance contract liabilities as at 31 December 2014 was as follows:

	2014	2013
	%	%
Less than one year	31	32
Between one and two years	22	21
Between two and five years	32	31
Over five years	15	16
	100	100
Average	2.7 years	2.8 years

The expected average duration of fixed income investments by currency is shown below:

	2014	2013
	Years	Years
Pound sterling	1.7	2.3
US dollar	1.4	1.8
Euro	1.7	2.2

The payment profile of the Group's borrowings (debenture loans) involves amounts due at the rate of approximately £nil million (2013: £1.8 million) for each of the next five years and a total of approximately £nil million (2013: £74.6 million) after five years to maturity. Three of the four debenture loans were settled prior to 31 December 2014 and the final debenture loan of £12.8 million was settled on 9 January 2015.

3. Capital management policies and objectives

The Group uses equity, debt, unsecured letters of credit and reinsurance for its capital needs and seeks to optimise the mix in order to maximise profits for a level of gearing consistent with the Group's risk appetite and the regulatory and market requirements of its business.

The Group's other objectives in managing its capital are:

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

The Prudential Regulation Authority ("PRA") and Lloyd's oversee a capital regime that requires companies to calculate their own capital requirements through an Individual Capital Assessment ("ICA")/Solvency Capital Requirement ("SCR"). Syndicates 4444, 958, 260 and 6115 maintain models in accordance with this regime.

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

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

Notes to the Financial Statements
Year ended 31 December 2014

3. Capital management policies and objectives (continued)

The ICA/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 the Lloyd's ratings. The ICA/SCR process produces a result that is uplifted by Lloyd's to the capital required to maintain their rating, currently 'A+ (strong)' by Standard & Poor's.

Under the Bermuda Insurance Act 1978 and related regulations, the Group's Bermuda reinsurance subsidiary is required to maintain capital and surplus determined by the greater of a percentage of outstanding losses or net written premiums. It is also required to maintain a level of capital and surplus which is based on a statutory risk-based capital model. In addition, Canopius Reinsurance Ltd utilises its capital to collateralise a significant proportion of its policy limits.

Canopius US Insurance, Inc. ("CUS") is domiciled in the state of Delaware and is required to maintain capital and surplus determined by the minimum under the Delaware Insurance Code of $500,000. In Delaware, CUS is eligible to write on an admitted basis and a surplus lines basis as it is licensed as a Domestic Surplus Lines Insurer. In addition to its Delaware licence, CUS is eligible to write business on a non-admitted or surplus lines basis in the other 49 states and the District of Columbia. These jurisdictions have varying minimum capital and surplus requirements to maintain eligibility. The states of California and New York have the largest minimum requirement at $45 million. Further, CUS maintains capital required by A.M. Best to support its current Financial Strength Rating of 'A- (excellent)'.

To improve the risk management capability, and the assessment of capital requirements, the Group 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 parameterised quantitatively and where more subjective judgment is required (for example, operational risk) as well as to challenge the results from the stochastic model. Using its detailed measurement of risk exposures, the Group allocates capital to support the business activities according to the risk appetite and expected returns.

The Group has complied with all capital requirements during the year. At the year end, the Group's available financial resources were £907 million, comprising of total shareholders' interests of £492 million, senior debt of £13 million and a £402 million letter of credit facility (2013: £605 million, comprising of total shareholders' interests of £441 million, senior debt of £45 million and a £119 million letter of credit facility). This is approximately £369 million (2013: £199 million) in excess of the aggregate regulatory capital requirement within the Group at the balance sheet date.

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

Canopius implemented a programme of initiatives to proactively engage with the challenges and opportunities that arise from the preparation for Solvency II. Canopius has continued to enhance its risk management processes and its enabling governance structures to ensure that it demonstrated Solvency II compliance in line with the Solvency II deadlines set by Lloyd's and the PRA. The Group's Bermuda reinsurance company has developed policies, processes and controls in order to comply with the Bermuda Monetary Authority's Insurance Code of Conduct, as has Canopius US Insurance, Inc. to comply with the requirements of the Delaware Insurance Code.

4. Investment return

Investment return includes the following:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Investment income:		
Interest income on financial assets	18,907	22,680
Interest income on cash and cash equivalents	841	659
	19,748	23,339
Realised gains/(losses) on financial assets at fair value through income:		
Realised gains	15,181	24,864
Realised losses	(19,545)	(19,808)
Fair value gains/(losses) on financial assets at fair value through income:		
Fair value gains on other financial assets	22,329	28,136
Fair value losses on other financial assets	(12,430)	(32,486)
Other fees	(1,688)	-
	23,595	24,045

5. Other income

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Lloyd's underwriting agencies:		
Management fees	3,849	2,608
Profit commission	3,000	3,153
	6,849	5,761
Insurance services – commission and service fees	5,883	5,393
Other *	22,918	1,336
	35,650	12,490

*2014 includes share based payment credit of £13.6m (see note 10) and profit on sale of subsidiaries of £8.9m (see notes 16 and 18).

6. Insurance claims and claims settlement expenses

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Gross		
Current year insurance claims and claims settlement expenses	421,507	413,495
Reduced cost for prior year insurance claims and claims settlement expenses	(18,247)	(10,804)
	403,260	402,691
Reinsurance		
Current year insurance claims and claims settlement expenses recoverable from reinsurers	(103,454)	(123,018)
Increased/(reduced) prior year insurance claims and claims settlement expenses recoverable from reinsurers	(3,434)	(3,244)
	(106,888)	(126,262)
Total net insurance claims and claims settlement expenses	296,372	276,429

7. Underwriting and administrative expenses

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Direct commission	170,340	161,719
Other underwriting and administrative expenses	63,919	62,433
Changes in deferred expenses for the acquisition of insurance contracts	(8,241)	(9,630)
Exchange (gains)	(832)	(29,193)
	225,186	185,329

Exchange gains of £9,579,000 have been reclassified from other operating expenses (non-underwriting) to underwriting and administrative expenses for the year ended 31 December 2013, in order to offset hedging gains from contracts designed to hedge currency exposure in the group's insurance entities with the foreign exchange losses in those companies.

8. Total expenses

Total expenses analysed by expense type were as follows:

Year ended 31 December 2014	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	Total £'000
Employee benefit expenses, including Directors' emoluments	40,748	19,328	60,076
Depreciation of property and equipment	405	677	1,082
Amortisation of intangible assets	2,736	166	2,902
Operating lease rentals and property related costs	3,379	1,528	4,907
Exchange (gains)/losses	(832)	-	(832)
Other underwriting and administrative expenses	178,750	784	179,534
Other operating expenses	-	12,793	12,793
	225,186	35,276	260,462

Year ended 31 December 2013	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	Total £'000
Employee benefit expenses, including Directors' emoluments	40,505	15,051	55,556
Depreciation of property and equipment	905	775	1,680
Amortisation of intangible assets	188	1,443	1,631
Operating lease rentals and property related costs	2,922	1,281	4,203
Exchange gains	(29,193)	-	(29,193)
Other underwriting and administrative expenses	170,002	-	170,002
Other operating expenses	-	12,377	12,377
	185,329	30,927	216,256

Exchange gains of £9,579,000 have been reclassified from other operating expenses (non-underwriting) to underwriting and administrative expenses for the year ended 31 December 2013, in order to offset hedging gains from contracts designed to hedge currency exposure in the group's insurance entities with the foreign exchange losses in those companies.

Notes to the Financial Statements
Year ended 31 December 2014

9. Directors' emoluments and employee benefit expenses

The monthly average number of people employed, including directors, was:

	Year ended 31 December 2014	Year ended 31 December 2013
Underwriting	240	205
Other agency, accounting and administration	277	257
Insurance services	141	114
	658	576

Employee benefit expenses were as follows:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Salaries and wages	48,063	39,267
Social security costs	6,070	5,019
Pension costs – defined contribution plans	4,321	3,682
Other benefits	1,622	1,580
Charge for employee interest in shares deemed cash settled	-	6,008
	60,076	55,556

The directors of Canopius Group Limited received the following aggregate remuneration:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Aggregate emoluments	1,635	1,626
Sums paid to third parties for directors' services	-	73

Retirement benefits are accruing to 0 directors (2013: 0) under money purchase schemes.

Highest paid director

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Aggregate emoluments	1,364	1,476

Notes to the Financial Statements

Year ended 31 December 2014

10. Share-based payments

Employee share transactions

During the year, Sompo Japan Nipponkoa Insurance Inc. purchased all employee owned shares. There is no liability for employee owned shares deemed as cash settled (2013: £13,613,000). The liability of £13,613,000 that existed in 2013 has been credited to the income statement in 2014 (2013: charge of £6,008,000). Please refer to note 27.

During the year the Company issued no shares to employees. In 2013 the Company issued 1,342,868 nil par value C Ordinary shares for £1,316,061 and 621,164 (2012: 657,937) nil par value D Ordinary shares for £1,465,500 to employees. These shares were issued at the directors' assessment of the fair value.

During the year, the Company repurchased and cancelled no shares. In 2013, the Company repurchased and cancelled 1,684,270 par value C Ordinary shares and 89,175 nil par value D Ordinary shares for a total consideration of £2,584,507. These shares were previously included in the liability for cash settled shares.

Employee share transactions

The number of Employee owned shares deemed cash settled is shown below:

Shares of no par value	**C Shares**	**D Shares**
Employee shares deemed cash settled	**Number**	**Number**
At 1 January 2014	13,494,816	1,189,926
Issued in 2014	-	-
Purchased and cancelled	13,494,816	1,189,926
At 31 December 2014	-	-

11. Finance costs

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Interest expenses – debenture loans	1,712	1,883
Amortisation of issue costs of debenture loans	620	36
Fees for letters of credit in funds at Lloyd's	1,764	2,899
Loan note interest	4,552	-
Other	945	1,002
	9,593	5,820

The issue costs of 3 debentures which were settled in the year have been fully amortised.

12. Group profit before tax

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Group profit before tax is stated after charging the following items:		
Depreciation of property and equipment (note 19)	1,082	1,680
Amortisation of intangible assets (note 15)	2,902	1,632
Write down of intangible asset	1,603	-
Operating lease rentals	4,907	4,569

Notes to the Financial Statements
Year ended 31 December 2014

12. Group profit before tax (continued)

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Auditors' remuneration		
Audit services		
- audit fees payable to the Company's auditor for the audit of the parent company and the consolidated financial statements	241	120
Other services		
- audit fees payable for the audit of the Company's subsidiaries and managed syndicates	1,041	999
- services relating to tax	208	294
- other non-audit services	387	193
- services relating to Statement of Actuarial Opinion and other Actuarial services	355	214
- audit fees relating to internal audit	-	26
- audit fees relating to Canopius pension schemes	6	17
	2,238	1,863

13. Pension contributions

The Group operates defined contribution pension plans and a closed defined benefit pension scheme for its employees. The assets of the plans and the scheme are held separately from those of the Company and the Group in independently administered funds.

The level of contributions for the defined contribution plans generally varies between 5% and 20% of salaries. Contributions of £637,000 (2013: £316,000) in respect of the plans were outstanding at the year end and are included in other creditors including taxation and social security. These were settled in the month following the year end.

Pension entitlements of employees overseas are provided through state schemes, to which the Group contributes in accordance with local regulations.

Details of the retirement benefit obligations of the closed defined benefit scheme are given in note 33.

14. Tax expense/(credit)

The Company is resident in Guernsey and is taxed at the company standard rate of 0%. As the Company is wholly-owned by non-Guernsey resident shareholders, withholding tax on deemed and actual distributions will be at the company standard rate of 0%.

The subsidiary companies are registered for tax in various jurisdictions, including the United Kingdom, United States, Switzerland, Singapore, Malaysia, Ireland and Bermuda.

No income or other taxes are imposed under Bermuda Law on the Company's subsidiaries in Bermuda, which has received an undertaking from the Minister of Finance that in the event of any taxes being introduced in the future, the Bermuda subsidiaries will continue to be exempt from taxation in Bermuda until March 2035.

Taxes arising in the Group's subsidiaries in other jurisdictions are immaterial to these financial statements.

		Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
UK tax:			
Current tax	- current year	-	-
	- prior year	-	(31)
Deferred tax	- origination and reversal of temporary differences	2,189	3,229
	- prior year	2,183	(1,630)
Non-UK tax		-	1,289
Other		1,221	(1,879)
Tax charge		5,593	978
Factors affecting tax charge:			
Profit before tax		69,787	93,739
UK tax at 21.50% (2013: 23.25%)		15,004	21,794
Income not subject to tax:			
Non-UK income not subject to tax		(7,693)	(15,723)
Other income not subject to tax		(5,123)	-
Prior year adjustments		2,184	(1,661)
Foreign taxes charged to corporate members		-	1,288
Double tax relief		-	(4,031)
Other, including effect of change in UK tax rate		1,221	(689)
		5,593	978

A deferred tax liability of £10.5 million (2013: £4.9 million) has been recognised (see note 20).

Notes to the Financial Statements

Year ended 31 December 2014

15. Intangible assets – Group

	Goodwill	Insurance contract intangible asset	Insurance policy renewal rights	Syndicate participation rights	Website and software development costs	Computer software licences	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2013	3,029	13,049	8,751	8,357	1,577	772	35,535
Additions	-	-	385	-	17	591	993
Acquired	970	-	-	-	400	27	1,397
At 31 December 2013	3,999	13,049	9,136	8,357	1,994	1,390	37,925
At 1 January 2014	3,999	13,049	9,136	8,357	1,994	1,390	37,925
Additions	-	-	3,320	388	1,218	115	5,041
Acquired	-	1,603	-	-	-	-	1,603
Disposal	(52)	-	-	(218)	(399)	(415)	(1,084)
At 31 December 2014	**3,947**	**14,652**	**12,456**	**8,527**	**2,813**	**1,090**	**43,485**
Accumulated amortisation							
At 1 January 2013	-	(2,727)	7,341	-	239	655	5,508
Amortisation in the year	-	(311)	500	-	1,316	127	1,632
At 31 December 2013	-	(3,038)	7,841	-	1,555	782	7,140
At 1 January 2014	-	(3,038)	7,841	-	1,555	782	7,140
Amortisation in the year	-	847	1,889	-	12	154	2,902
Write down	-	1,603	-	-	-	-	1,603
Disposal	-	-	-	-	-	(83)	(83)
At 31 December 2014	-	**(588)**	**9,730**	-	**1,567**	**853**	**11,562**
Net book value							
At 31 December 2014	**3,947**	**15,240**	**2,726**	**8,527**	**1,246**	**237**	**31,923**
At 31 December 2013	3,999	16,087	1,295	8,357	439	608	30,785
Current	-	1,905	729	-	10	79	2,723
Non-current	3,947	13,335	1,997	8,527	1,236	158	29,200
	3,947	15,240	2,726	8,527	1,246	237	31,923

The time value of money, risk margin to unearned premium reserve and other related components of the insurance contract intangible asset run-off at different rates and are amortised according to their respective useful economic lives. The useful economic life of the time value of money component is estimated as eight to twenty three years based on the expected run-off period of the claims arising from the portfolio of business when acquired. The useful economic life of risk margin to unearned premium reserve and other related components of the insurance contract intangible asset follow the settlement pattern of the related unearned premium reserve and charged/(credited) to underwriting and administrative expenses. The useful economic life of the insurance policy renewal rights is estimated as four to five years based on estimates of retention rates of the businesses when acquired. The useful economic life of website costs and computer software licences is estimated to be between three and five years from the date the related website and software come into use. Intangible assets, other than risk margin to unearned premium reserves, goodwill and syndicate participation rights, are amortised over their useful economic lives and the charge is included in other operating expenses (non-underwriting) in the Income Statement.

The other intangible assets of goodwill and syndicate participation rights are deemed to have indefinite useful life as they are expected to have value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but annually tested for impairment in relation to the business units from where or for which they were acquired. Any impairment charge is included in other operating expenses (non-underwriting) in the Income Statement.

Goodwill and syndicate participation rights are tested for impairment using projected cash flows based on financial budgets approved by the directors and discounted at the rate of the Group's weighted average cost of capital. There were no impairments recognised in the current or prior year for goodwill or syndicate participation rights.

Notes to the Financial Statements
Year ended 31 December 2014

16. Investments in subsidiaries and other group companies - Group and Company

The Company's fixed asset investments represent investments in subsidiary undertakings stated at cost, unless their value is impaired in which case they are valued at their realisable value or value in use as appropriate.

	2014	**2013**
	£'000	£'000
Balance at 31 December - Company	332,075	332,075

Notes to the Financial Statements
Year ended 31 December 2014

16. Investments in subsidiaries and other group companies - Group and Company (continued)

The subsidiaries of the Company at 31 December 2014, which are consolidated in these financial statements, are listed below. The Company holds, directly or indirectly, all of the ordinary share capital and voting rights ("ownership interest") of these companies unless stated otherwise. The companies operate in their respective countries of incorporation unless stated otherwise.

Subsidiaries	Principal activities	Country of incorporation
Canopius Holdings UK Limited	Investment Holding Company	England and Wales
Canopius Holdings Limited	Investment Holding Company	Bermuda
Canopius Reinsurance Limited	Reinsurance Company	Bermuda
Canopius US Insurance, Inc.	Insurance Company	USA (Delaware)
Canopius Ireland Limited	Reinsurance Intermediary	Ireland
Canopius Managing Agents Limited	Managing Agent at Lloyd's	England and Wales
Omega Underwriting Agents Limited	Managing Agent at Lloyd's	England and Wales
KGM Underwriting Agencies Limited	Managing Agent at Lloyd's	England and Wales
Canopius Asia Pte. Ltd.	Syndicate Service Company	Singapore
Canopius Europe Limited with a Branch in Zurich, Switzerland*	Syndicate Service Company	England and Wales
Canopius Labuan Pte Limited	Syndicate Service Company	Malaysia
Canopius Underwriting Bermuda Limited	Syndicate Service Company	Bermuda
Canopius Underwriting Limited	Syndicate Service Company	England and Wales
K Drewe Insurance Brokers Limited	Insurance Intermediary	England and Wales
Trenwick Underwriting Limited	Insurance Intermediary	England and Wales
Canopius Services Limited	Group Service Company	England and Wales
Omega Administration Services Limited	Service Company	England and Wales
Canopius Capital Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Two Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Three Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Four Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Five Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Six Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Seven Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Eight Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Nine Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Ten Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Eleven Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Twelve Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Fourteen Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Sixteen Limited	Lloyd's Corporate Member	England and Wales
Flectat Limited	Lloyd's Corporate Member	England and Wales
Acorn Corporate Capital Limited	Lloyd's Corporate Member	England and Wales
Omega Dedicated Limited	Lloyd's Corporate Member	England and Wales
Omega Dedicated (No 2) Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated (2) Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated (3) Limited	Lloyd's Corporate Member	England and Wales
Packchance Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Two Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Three Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Four Limited	Lloyd's Corporate Member	England and Wales
Canopius US Holdings, Inc.	Holding Company	USA (Delaware)
Creechurch Holdings Limited	Holding Company	England and Wales
Pebbles 456 Limited	Holding Company	Bermuda
Trenwick UK Holdings Limited	Holding Company	England and Wales
Trenwick UK Limited	Holding Company	England and Wales
Omega Underwriting Holdings Limited	Holding Company	England and Wales
Look Insurance Services Limited	Dormant	England and Wales
KDIB Holdings Limited	Dormant	England and Wales
Archer Dedicated Limited	Dormant	England and Wales
Bowman Loss Adjusters Limited	Dormant	England and Wales
The KGM Motor Insurance Services Limited	Dormant	England and Wales
The KGM Motor Policies Limited	Dormant	England and Wales
Creechurch Underwriting Limited	Dormant	England and Wales
Impact Underwriting Limited	Dormant	England and Wales
Canopius Underwriting Agency Inc. (note a below)	Insurance Company	USA (Delaware)
Canopius Germany GmbH	In liquidation	Germany

[* Canopius Europe Limited, although incorporated in England and Wales, predominantly operates in mainland Europe.]

Notes to the Financial Statements
Year ended 31 December 2014

16. Investments in subsidiaries and other group companies - Group and Company (continued)

a. Canopius Underwriting Agency Inc. was renamed from Canopius US Underwriters Inc. on 20 June 2014.

b. On 17 April 2014 the Group disposed of its 81.5% holding in Arista Insurance Limited.

c. On 3 November 2014 the Group disposed of its 75% holding in Resource Underwriting Pacific Pty Limited.

d. On 17 November 2014 the Group disposed of its 100% holding in Canopius Capital Fifteen Limited for cash consideration of £40,000. A loss of £80,000 was realised on sale.

e. On 2 March 2015, K. Drewe Insurance Brokers Limited changed its name to Canopius UK Specialty Limited.

17. Acquisitions

On 31 December 2014 the Group acquired 100% of the share capital of Bracken Hill Limited ("BH"). The purpose of the acquisition was to merge BH with Canopius US Insurance Inc. ("CUSI") to create one excess and surplus lines entity in the US with a statutory surplus in excess of $100 million. Immediately after the acquisition and also effective on 31 December 2014, the US State of Delaware approved the merger of CUSI and BH. The merged entity retained the CUSI name and its existing directors and officers. At this date BH was liquidated and ceased to exist as an entity in its own right.

The book value at the date of acquisition of the assets and liabilities of BH at 31 December 2014 are shown below:

Assets and liabilities

	£'000
Assets	
Intangible assets	1,603
Investments	22,264
Cash and cash equivalents	7,396
Liabilities	
Trade and other payables, including insurance payables	(193)
	31,070
Write-off of intangible assets	(1,603)
	29,467

	£'000
Net assets acquired by the Group in the year	29,467
Goodwill acquired in the year	-
Cost of acquisition in the year	29,467
Cash flows from acquisitions	
Cost of acquisition – cash outflow	(29,467)
Cash and cash equivalents from acquired companies - cash inflow	7,396
	(22,071)

The licences acquired for £1,603,000 were immediately written off in the group income statement, as they were not required by the existing business, which was already licenced in all US states.
Directly attributable acquisition costs of £302,000 have been expensed and are included within other operating expenses (non-underwriting) in the consolidated income statement.

17. Acquisitions (continued)

The Group has adopted predecessor accounting, as permitted by IFRS3 in relation to common control transactions. The Group has elected to incorporate the balance sheet prospectively from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements do not reflect the results of the acquired entity for the period before the transaction occurred. The corresponding amounts for the previous year are also not restated.

Accounting standards require a pro-forma summary for the Group presenting certain information as if the business had been acquired on 1 January 2014. Had the business been acquired on 1 January 2014, the consolidated income statement on a pro-forma basis would have shown income of £565,000 and an increase in profit after tax for the year of £344,000. This summary does not include any possible synergies from the acquisition or any actions taken by management subsequent to the acquisition. The information is provided for illustrative purposes only and is not necessarily indicative of the future results of the combined companies.

18. Disposal of subsidiaries

(i) Arista Insurance Limited

On 17 April 2014 the Group disposed of its 81.5% holding in Arista Insurance Limited ("Arista") for total cash consideration of £16.0 million resulting in a profit on disposal of £8.4 million, calculated as follows:

	£'000
Cash consideration	15,990
Less: transaction costs	(82)
	15,908
Group share of Arista net assets at disposal	(7,466)
Profit on disposal	8,442

At the date of disposal, non-controlling interests held 1,187,813 of the C ordinary shares of 10p. This holding represented voting shares.

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18. Disposal of subsidiaries (continued)

(ii) Resource Underwriting Pacific Pty Limited

On 3 November 2014 the Group disposed of its 75% holding in Resource Underwriting Pacific Pty Limited ("RUPPL") for total cash consideration of £1.1 million resulting in a profit on disposal of £0.6 million, calculated as follows:

	£'000
Cash consideration	1,139
Less: transaction costs	-
	1,139
Group share of RUPPL net assets at disposal	(577)
Profit on disposal	562

At the date of disposal, non-controlling interests held 31,250 of the ordinary shares of 100p. This holding represented voting shares.

All transaction costs related to the disposal were borne by the purchaser.

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19. Property and equipment - Group

	Computer equipment £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Leasehold improvements £'000	Total £'000
Cost					
At 1 January 2013	9,388	491	1,240	3,953	15,072
Additions	1,567	108	58	-	1,733
Acquired	-	-	403	-	403
Disposals	(2)	(164)	(1)	(38)	(205)
At 31 December 2013	10,953	435	1,700	3,915	17,003
At 1 January 2014	10,953	435	1,700	3,915	17,003
Additions	-	-	864	1	865
Acquired	-	-	-	-	-
Disposals	-	(179)	(679)	(175)	(1,033)
At 31 December 2014	**10,953**	**256**	**1,885**	**3,741**	**16,835**
Accumulated depreciation					
At 1 January 2013	8,260	215	924	2,754	12,153
Charge for the year	1,015	32	321	312	1,680
Disposals	(2)	(128)	(6)	-	(136)
At 31 December 2013	9,273	119	1,239	3,066	13,697
At 1 January 2014	9,273	119	1,239	3,066	13,697
Charge for the year	520	24	240	298	1,082
Disposals	-	(116)	(246)	(155)	(517)
At 31 December 2014	**9,793**	**27**	**1,233**	**3,209**	**14,262**
Net book value At 31 December 2014	**1,160**	**229**	**652**	**532**	**2,573**
At 31 December 2013	1,680	316	461	849	3,306

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20. Tax assets and liabilities

Deferred tax assets and liabilities - Group

A deferred tax liability of £10,456,000 (2013: £4,863,000) has been recognised. Deferred tax assets and liabilities arise through (a) temporary differences in the recognition of underwriting profits/losses for accounting and tax purposes; (b) temporary differences in the recognition of depreciation for accounting and tax purposes; and (c) tax losses which are available to offset future taxable profits.

	2014 £'000	2013 £'000
Balance at 1 January	(4,863)	(4,483)
Timing differences relating to recognition of underwriting results and depreciation:		
- arising during the year	(826)	(82)
- utilised during the year	(1,363)	(3,148)
(Disposed)/acquired	(1,221)	1,220
Prior year adjustment	(2,183)	1,630
Balance at 31 December	(10,456)	(4,863)

The net deferred tax liability of £10,456,000 (2013: £4,863,000) comprises a deferred tax liability of £11,867,000 (2013: £7,764,000) less deferred tax assets of £1,411,800 (2013: £2,901,000). £10,496,000 (2013: £nil) of the deferred tax liability is expected to reverse or be settled within 12 months.

The Group has a potential deferred tax asset of approximately £5,681,000 (2013: £4,692,000) in respect of trading losses that has not been recognised in these financial statements at 31 December 2014 as its recoverability is not certain based on prudential projections.

The deferred tax balance is analysed below.
All items are charged through the statement of comprehensive income.

	2014 £'000	2013 £'000
Excess of book over tax depreciation	740	857
Unutilised tax losses	32,273	91,633
Other	273	67
Total gross deferred tax asset	33,286	92,557
Tax on deferred underwriting profits	(43,578)	(95,845)
Tax on intangible asset	(1,575)	(1,575)
Deferred tax liability	(11,867)	(4,863)
Deferred tax asset arising on deferred underwriting results	1,412	-

Tax liabilities – Group

Tax liabilities of £nil (2013: £ nil), of which £nil (2013: £nil) is overseas tax, are payable within 12 months.

Notes to the Financial Statements
Year ended 31 December 2014

21. Reinsurance assets - Group

	2014 £'000	2013 £'000
Reinsurers' share of claims outstanding (see note 30)	327,694	368,450
Reinsurers' share of unearned premiums (see note 30)	77,041	76,720
Debtors arising out of reinsurance operations (see note 30)	62,938	75,750
	467,673	520,920

Debtors arising out of reinsurance operations are due within one year.

22. Deferred acquisition costs - Group

	2014 £'000	2013 £'000
Balance at 1 January	97,014	96,415
Additions	89,122	91,306
Release	(81,917)	(90,707)
Balance at 31 December	104,219	97,014

23. Loans and receivables, including insurance receivables

	2014 £'000	2013 £'000
Insurance receivables - debtors arising out of direct insurance operations	243,169	199,367
Loans and receivables:		
Other debtors	7,539	16,503
Prepayments and accrued income	12,628	8,898
	20,167	25,401
Loans and receivables, including insurance receivables	263,336	224,768

The amounts expected to be recovered within and after one year are estimated as follows:

	2014 £'000	2013 £'000
Within one year	252,635	213,224
After one year	10,701	11,544
	263,336	224,768

The fair value of loans and receivables, including insurance receivables, approximate to their carrying amounts. These would be categorised under level 3 of the fair value hierarchy.

24. Financial assets – Group and Company

The Group's financial assets are summarised below:

	2014 £'000	2013 £'000
Financial assets at fair value through income	1,318,030	1,189,244
Derivative financial instruments	-	15,062
	1,318,030	1,204,306

Financial assets at fair value consist of:

	Valuation 2014 £'000	Valuation 2013 £'000	Cost 2014 £'000	Cost 2013 £'000
Debt securities and other fixed income securities	783,811	708,301	822,451	719,437
Holdings in collective investment schemes	530,701	480,943	478,255	473,530
Derivative financial instrument	-	15,062	-	1,798
Deposits with credit institutions	3,518	-	3,518	-
At 31 December	1,318,030	1,204,306	1,304,224	1,194,765

Derivative financial instruments represent the fair value of exchange traded bond futures contracts used to hedge duration risk and forward contracts used to hedge excess foreign currency exposures. A liability for derivative financial instruments of £27,996,000 is held at the year end (2013: £nil) and included in 'trade and other payables' in note 31. The derivative financial instruments held by the Group have not been designated for hedge accounting during the current and previous financial years as permitted by IAS 39.

Financial assets in the Company of £3,404,000 (2013: £52,015,000) consist of holdings in collective investment schemes at market value of £3,404,000 (2013: £7,287,000) and cost of £3,404,000 (2013: £7,287,000), debt securities and other fixed income securities at market value of £nil (2013: £30,934,000) and cost of £nil (2013: £30,971,000) and a derivative financial instrument at market value of £nil (2013: £13,794,000) and cost of £nil (2013: £nil)

Financial assets which are subject to restrictions are referred to in note 36(a).

25. Cash and cash equivalents - Group

	2014 £'000	2013 £'000
Cash at bank and in hand	145,683	153,074
Short-term bank deposits – Overseas deposits	43,094	57,584
	188,777	210,658

Overseas deposits represent the Group's share of deposits lodged by syndicates as a condition of conducting underwriting business in certain countries.

The cash and cash equivalents include £77,596,000 (2013: £85,136,000) that are held in Lloyd's Premium and other trust funds supporting insurance liabilities. These assets are subject to restrictions under the relevant trust deeds and bank facilities.

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Year ended 31 December 2014

26. Share capital

Authorised:	At 31 December 2013 number	Changes in Issued capital number	At 31 December 2014 number
Ordinary shares of no par value	-	297,266,028	297,266,028
31,766,961 A Ordinary shares of no par value	31,766,961	(31,766,961)	-
250,468,540 B Ordinary shares of no par value	250,468,540	(250,468,540)	-
13,836,218 C Ordinary shares of no par value	13,836,218	(13,836,218)	-
Ordinary share total	296,071,719	1,194,309	**297,266,028**
1,315,874 D shares of no par value	1,315,874	(1,315,874)	-
31,580,976 E shares of no par value	31,580,976	(31,580,976)	-
Other share total	32,896,850	(32,896,850)	-
	328,968,569	(31,702,541)	**297,266,028**

Allotted, issued and fully paid:	At 31 December 2013 number	Changes in Issued capital number	At 31 December 2014 number
Ordinary shares of no par value	-	296,920,243	296,920,243
31,766,961 A Ordinary shares of no par value	31,766,961	(31,766,961)	-
250,468,540 B Ordinary shares of no par value	250,468,540	(250,468,540)	-
13,494,816 C Ordinary shares of no par value	13,494,816	(13,494,816)	-
Ordinary share total	295,730,317	1,189,926	**296,920,243**
1,189,926 D shares of no par value	1,189,926	(1,189,926)	-
Other share total	1,189,926	(1,189,926)	-
	296,920,243	-	**296,920,243**
Share capital	£190,457,068	-	**£190,457,068**

26. Share capital (continued)

During the year, the Company issued shares as follows:

- nil (2013: 1,342,868) C Ordinary shares of nil par value for a total consideration of £nil (2013: £1,316,061);
- nil (2013: 621,164) D shares of nil par value for a total consideration of £nil (2013: £1,465,500).

During the same period, the Company repurchased the following shares for a total consideration of £nil (2013: £2,412,000):

- nil (2013: 1,684,270) C Ordinary shares of nil par value;
- nil (2013: 89,175) D shares of nil par value.

None (2013: £nil) of the consideration for the repurchase of the shares was outstanding at the balance sheet date and included in employee interest in shares liability.

On 1 May 2014, a Special Resolution was passed which allowed the re-classification by the Company of all classes of the authorised and issued shares of nil par value into a new class of Ordinary share of nil par value. This resulted in the re-classification of 31,766,961 issued A Ordinary shares of nil par value, 250,468,540 issued B Ordinary shares of nil par value, 13,494,816 issued and 341,402 unissued C Ordinary shares of nil par value and 1,189,926 issued and 4,383 D shares of nil par value into 296,920,243 issued and 345,785 unissued Ordinary shares of nil par value

The analysis below of total shareholders' funds between Ordinary and Other shares, reflects the amounts potentially payable on a return of assets under the above share rights as at 31 December 2014. None of the shares are redeemable.

	Group 2014 £'000	**Group 2013** £'000
Ordinary shareholders' funds	460,849	397,407
Other shareholders' funds	-	11,878
Total shareholders' funds, including shares deemed cash settled	460,849	409,285

27. Share capital, share premium and other reserves

Group	Share capital £'000	Share premium £'000	Employee owned shares £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2014	190,457	-	(13,613)	(20,808)	256,809
Purchase and cancellation of equity settled no par value employee shares	-	-	-	-	(169)
Revaluation losses	-	-	-	1,326	-
Retained profit for the year	-	-	13,613	-	63,960
At 31 December 2014	**190,457**	**-**	**-**	**(19,482)**	**320,600**

Other reserves include Revaluation reserve of £1,815,000 and Capital Redemption reserve of £178,000 at both 31 December 2014 and 2013, a Currency Translation reserve of (£30,375,000) (2013: (£31,701,000)) and a capital reserve consisting of a £8,900,000 of investment from Tower on 20 August 2012, which was a consideration for the right to effect certain future transactions. This investment is not repayable if any subsequent failure to effect the transactions is caused by factors outside the control of the Company. As this contingent settlement event is within the control of the Company such that actions can be taken to avoid the event occurring, it has been classified as a capital reserve.

Company	Share capital £'000	Share premium £'000	Employee owned shares £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2014	190,457	-	-	9,120	156,451
Purchase and cancellation of equity settled no par value employee shares	-	-	-	-	13,613
Purchase and cancellation of shares	-	-	-	-	(176)
Retained profit for the year	-	-	-	-	(35,470)
At 31 December 2014	**190,457**	**-**	**-**	**9,120**	**134,418**

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Year ended 31 December 2014

28. Reconciliation of movements in shareholders' funds

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Balance at 1 January	**426,458**	357,779	**356,028**	264,099
Reclassification to liability - included in employee interest in shares	**(169)**	(2,197)	**13,613**	(2,197)
Purchase and cancellation of equity settled employee shares	**-**	(215)	**(176)**	(215)
Issue of new no par value (note 26)	**-**	2,782	**-**	2,782
Increase / (decrease) in currency translation reserve	**1,326**	(24,385)	**-**	-
Other	**-**	(34)	**-**	-
Retained profit	**63,960**	92,728	**(35,470)**	91,559
Balance at 31 December	**491,575**	426,458	**333,995**	356,028

29. Insurance contract liabilities

	2014 £'000	**2013** £'000
Claims outstanding (see note 30)	1,177,048	1,198,649
Provision for unearned premiums (see note 30)	376,587	362,988
Creditors arising out of reinsurance operations (see note 30)	215,292	172,743
	1,768,927	1,734,380

Notes to the Financial Statements
Year ended 31 December 2014

30. Insurance contract liabilities and reinsurance assets

	Claims outstanding £'000	Provision for unearned premiums £'000	Creditors and debtors arising out of reinsurance operations £'000	Total £'000
Insurance contract liabilities				
At 1 January 2013	1,260,446	329,517	165,590	1,755,553
Movement in the year	(57,239)	34,498	7,152	(15,589)
Exchange and other adjustments	(4,558)	(1,027)	1	(5,584)
At 31 December 2013	**1,198,649**	**362,988**	**172,743**	**1,734,380**
Movement in the year	(13,108)	13,086	42,331	42,309
Exchange and other adjustments	(8,493)	513	218	(7,762)
At 31 December 2014	**1,177,048**	**376,587**	**215,292**	**1,768,927**
Reinsurance assets				
At 1 January 2013	388,787	79,642	69,895	538,324
Movement in the year	(20,098)	(2,841)	8,284	(14,655)
Exchange and other adjustments	(239)	(81)	(2,429)	(2,749)
At 31 December 2013	**368,450**	**76,720**	**75,750**	**520,920**
Movement in the year	(41,828)	(223)	(15,482)	(57,533)
Exchange and other adjustments	1,072	544	2,670	4,286
At 31 December 2014	**327,694**	**77,041**	**62,938**	**467,673**

Creditors arising out of reinsurance operations of £215,292,000 (2013: £172,743,000) comprise principally premiums payable for reinsurance, including reinstatement premiums and corporate member level quota share reinsurance premiums payable. Debtors arising out of reinsurance operations of £62,938,000 (2013: £75,750,000) comprise principally amounts receivable from reinsurers in respect of paid claims and brokers' balances receivable on inwards reinsurance business.

The claims outstanding are further analysed between notified outstanding claims and incurred but not reported claims below:

	2014 £'000	2013 £'000
Gross		
Notified claims outstanding and loss adjustment expenses	681,427	728,171
Claims incurred but not reported	495,621	470,478
	1,177,048	1,198,649
Recoverable from reinsurers		
Notified claims outstanding and loss adjustment expenses	214,824	247,095
Claims incurred but not reported	112,870	121,355
	327,694	368,450
Net		
Notified claims outstanding and loss adjustment expenses	466,603	481,076
Claims incurred but not reported	382,751	349,123
	849,354	830,199

It is estimated, using historical settlement trends, that £366 million (2013: £386 million) of the gross claims outstanding and £268 million (2013: £288million) of the amount recoverable from reinsurers included in the above analysis, will settle in the next 12 months.

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Year ended 31 December 2014

31. Trade and other payables, including insurance payables

	2014 £'000	2013 £'000
Insurance payables - creditors arising out of direct insurance operations	5,768	14,723
Trade and other payables:		
Other creditors including taxation and social security	27,386	6,077
Accruals and deferred income	31,597	45,143
Derivative financial instruments	27,996	-
	92,747	51,220
Trade and other payables, including insurance payables	92,747	65,943

Trade and other payables include £4,871,000 (2013: £4,733,000), in accruals and deferred income, payable after more than one year. The fair value of trade and other payables approximate to their carrying amounts. Derivative financial instruments, representing the fair value of exchange traded bond futures contracts used to hedge duration risk, amounted to £27,996,000 (2013: £ nil).

32. Borrowings: debenture loans - Group and Company

	2014 £'000	2013 £'000
Due in less than 1 year		
Floating rate US Dollar loan notes	12,826	-
Due in more than five years		
Floating rate Euro loan notes	-	9,819
Floating rate US Dollar loan notes	-	35,650
	-	45,469

The floating rate Euro loan stock of €12 million was repurchased by the Company on 24 November 2014 and two of the three floating rate US Dollar loan stocks of $20 million each were repurchased by the Company on 15 December 2014. The remaining US Dollar loan stock bears interest at 3-month US LIBOR plus 3.4% and is redeemable at par between June 2011 and June 2036 and was repurchased by the Company on 9 January 2015. From these respective repurchase dates, interest ceased to accrue and the Company was released from all of its obligations to the respective noteholders.

33. Retirement benefit obligations - Group

The defined benefit pension scheme ("the scheme") was closed with effect from 30 June 2010 and all active members were treated as having left pensionable service under the scheme with effect from that date.

A valuation of the scheme was undertaken at 1 January 2013 and updated to 31 December 2014 by a qualified independent actuary. The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2014 % per annum	2013 % per annum
Discount rate	3.6	4.5
Expected long-term rate of return of scheme assets	3.6	4.5
Increase in salaries	n/a	n/a
Inflation assumptions	2.95	3.25
LPI pension increases (capped at 5% per annum)	2.95	3.25

The underlying mortality assumption is based upon the standard table known as S2LPA CMI 2014, subject to a minimum annual rate of future improvement of 1% per annum.

Notes to the Financial Statements
Year ended 31 December 2014

33. Retirement benefit obligations - Group (continued)

The scheme is operated by Canopius Services Limited, a subsidiary of the Group and current sponsor of the scheme. At 31 December 2014 the present value of the scheme liabilities was £9,759,000 (2013: £8,731,000) and the market value of scheme assets was £11,128,000 (2013: £9,281,000), giving a surplus of £1,369,000 (2013: surplus of £550,000) calculated in accordance with the requirements of accounting standards. The surplus was calculated based on the above assumptions in compliance with the requirements of accounting standards. The surplus is not recognised in the accounts. The latest triennial valuation prepared by the scheme Actuary as at 1 January 2013 on behalf of the Trustees of the scheme concluded there was a funding requirement amounting to £779,000.

As the scheme is considered not material in the context of the Group, reduced disclosure is given in this note. Further details are provided in Canopius Services Limited's financial statements for the year ended 31 December 2014.

34. Reconciliation of profit before tax to cash generated from operations

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit before tax	69,787	93,739
Interest received	(19,748)	(23,339)
Interest paid	6,884	1,883
Net fair value losses on investments, including currency translation differences	(34,279)	13,871
Charge for cash-settled share-based payments	(13,613)	6,008
(Increase) in debtors, prepayments and accrued income	(48,404)	(22,836)
Increase/(decrease) in creditors	109,217	(55,129)
Increase in net claims and unearned premium reserves	32,433	13,957
Depreciation of property and equipment	1,082	1,680
Amortisation of intangible assets	1,984	1,631
Gain on disposal of assets sold	(8,706)	(6,082)
Share of profits from joint venture	-	(451)
Cash generated from operations	96,638	24,932

The movement in debtors, prepayments, accrued income and creditors do not directly reconcile to the balance sheet due the effect of the purchase of a subsidiary and sale of 3 subsidiaries (as these do not directly relate to cash generating operations).

35. Operating lease commitments - Group

The Group has annual lease commitments for land, buildings and equipment. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group 2014		Group 2013	
	Land and buildings £'000	Equipment £'000	Land and buildings £'000	Equipment £'000
Not later than one year	3,943	854	4,275	294
Later than one year but not later than five years	3,296	1,903	6,967	766
Later than five years	-	-	-	-
	7,239	2,757	11,242	1,060

Notes to the Financial Statements
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36. Guarantees and contingencies

(a) Assets securing insurance and other liabilities

Of the total of financial assets and cash and cash equivalents disclosed on the Group's balance sheet, £987,234,000 (2013: £1,095,204,000) are held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit. These assets are subject to restrictions under the relevant trust deeds and bank facilities, of which £894,265,000 (2013: £953,554,000) are financial assets and the balance is cash and cash equivalents.

(b) Deeds of Indemnity

The Company has entered into one (2013: three) Deed of Undertaking and Guarantee with third party funds at Lloyd's ("FAL") providers on behalf of Canopius Capital Twelve Limited (2013: Canopius Capital Fourteen Limited, Canopius Capital Five Limited and Canopius Capital Twelve Limited), to cover the potential liabilities in the event that the third party FAL provider's FAL amounting to £7,509,040 (2013: US$50,000,000, £23,230,000 and £8,796,060) is drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement.

During 2014, the Company and its subsidiaries entered into two (2013: no) new Deeds of Indemnity with Lloyd's, bringing the total to fifteen (2013: thirteen). Five (2013: three) of the Deeds relate to reorganisations of the Group's corporate members, who are underwriting on Syndicates 260, 958, 4444 and 6115. The other ten (2013: ten) Deeds are to cover remote potential liabilities that may arise following the release by Lloyd's between 2006 and 2014 of various members' FAL.

(c) Bank facilities

As at 31 December 2014, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

- £402.2 million (2013: £118.6 million) unsecured, which is available to support underwriting on Syndicate 260's 2012, 2013 and 2014 years of account, Syndicate 958's 2012, 2013, 2014 and 2015 years of account, Syndicate 4444's 2012, 2013, 2014 and 2015 years of account and Syndicate 6115's 2013 and 2014 years of account.

In addition, Canopius Reinsurance Limited ("CRL") had the following facility:

- Letters of credit totalling US$4.0 million and CAD$0.1 million with various overseas cedants. Should CRL fail to meet its obligations under contracts with these cedants they would be able to drawdown on these letters of credit. The letters of credit facilities are all secured by a charge over certain of CRL's bank deposits totalling US$4.1 million.

Notes to the Financial Statements
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36. Guarantees and contingencies (continued)

(d) Other contingent liabilities

A subsidiary company, CHUKL, provided during 2011 an irrevocable undertaking to a third party in respect of its participation on the 2012 underwriting year of account of Syndicate 4444. CHUKL's maximum liability in respect of this undertaking is £258,936. The directors' current best estimate is that this will not be payable.

37. Related party transactions

In addition to transactions disclosed elsewhere in the financial statements, the following transactions were carried out with related parties.

Key management compensation

Key management personnel are those directors and senior managers responsible for the activities of the Group. During the year key management comprised seven (2013: nine) persons. One (2013: one) of the key management persons is a director of the Parent Company. Details of the remuneration of the Group's key management personnel, including the one (2013: one) director of the parent company, are shown below in aggregate for each of the categories specified by IAS 24 – 'Related party disclosures'.

	Year ended 31 December 2014 £'000	**Year ended 31 December 2013** £'000
Short-term employment benefits	4,184	6,294
Post-employment benefits	86	262

Loans to related parties

Non-interest bearing season ticket loans made to directors and members of key management during the year amounted to £11,769 (2013: £8,031) of which £7,499 (2013: £5,265) was outstanding as at 31 December 2014.

Other non-interest bearing loans made to directors and members of key management during the year in respect of PAYE due on capital gains on shares purchased amounted to £537,996 (2013: £690,612) of which £283,328 (2013: £690,612) was outstanding as at 31 December 2014.

Interest bearing loans made to directors and members of key management during the year in respect of Company shares purchased amounted to £nil (2013: £119,009) of which £nil (2013: £119,009) was outstanding as at 31 December 2014.

Directors' and key management personnel's interests in shares

The details of the directors' interests in shares of the Company are shown in the Directors' report in these financial statements. Following the acquisition of the Company by Sompo Japan Nipponkoa Insurance Inc. the directors and key management personnel have no interests in shares.

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37. Related party transactions (continued)

Transactions with Sompo Japan Nipponkoa Insurance Inc. group companies

On 30 July 2014, the Group entered into an agreement with Sompo Japan Insurance Inc. such that the latter company provide the following facilities to the Group for letters of credit which may be deposited in FAL. The amounts of the facilities are detailed in note 36 (c).

During the year a group company, Canopius Capital Five Limited, entered into three external 100% quota share reinsurance contracts (covering the 2014, 2013 and 2012 years of account and prior) with Sompo Japan Nipponkoa Insurance Inc., the group's parent company. Gross and net liabilities ceded to or transferred to Sompo Japan Nipponkoa Insurance Inc. amount to £48,348,000 and £3,303,000 respectively. The amount outstanding at the year end was £46,793,000.

Transactions with other related parties, including directors of the Company

Bregal Capital LLP, which managed the funds of the majority shareholders of the Company prior to the acquisition, received an annual monitoring fee of £16,667 (2013: £50,000). Mr Adam Barron, a director of the Company until 1 May 2014, is a partner of Bregal Capital LLP.

Guy Carpenter & Company Ltd performs insurance services for Canopius Group Companies and for third parties conducting business with Canopius Group Companies. The services are all provided on a commercial arms' length fee basis. The lead Guy Carpenter executive in respect of certain of these services, for which Canopius Group Companies paid Guy Carpenter fees amounting to £275,000 (2013: £275,000), is the partner of Mr Michael Watson, a director and shareholder of the Company. In addition, in 2014, the Company paid £3,653,000 to Guy Carpenter in respect of advisory fees relating to the sale of the Company to the Sompo Group.

Voting rights in Canopius US Insurance, Inc., an entity the Group controls, were owned 85.6% by Visby Limited, 9.9% by Tower and 4.6% by Sunny Magic Ltd. up until 30 April 2014. Visby Limited and Sunny Magic Ltd. are respectively owned 100% by Mr Adam Barron and Mr Michael Watson, both of whom are directors of the Company. During the year, £150 of penalty fees related to the late filing of statutory accounts for Sunny Magic Ltd. were paid by the Canopius Group.

Lime Street Limited is a company incorporated in Guernsey with the sole purpose of acquiring shares in the Company from certain individuals who are or were management shareholders the Company and to subsequently sell these shares to the Company or another third party. Certain members of the key management personnel are shareholders in Lime Street Limited. Professional fees of £23,374 (2013: £27,000) were paid by the Group on behalf of Lime Street Limited.

38. Ultimate parent undertaking and controlling party

On 1 May 2014 Sompo Japan Nipponkoa Insurance Inc acquired 100 percent of the issued shares of Canopius Group Limited and became the immediate parent undertaking of Canopius Group Limited, which is the smallest group to consolidate these financial statements for the period since the acquisition. Sompo Japan Nipponkoa Holdings, Inc is the ultimate controlling party and is the largest group to consolidate these financial statements for the period since the acquisition. Copies of the Sompo Japan Nipponkoa Holdings Inc and Sompo Japan Nipponkoa Insurance Inc consolidated financial statements are available from 26-1,Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338, Japan.

39. Subsequent events

On 5 March 2015, the Group acquired a 100% holding in Sompo Japan Nipponkoa Nederland B.V. for consideration of £4,165,000 from Nipponkoa Insurance Company (Europe) Limited, as part of a reorganisation of the parent entity group. The Group applies predecessor accounting for transactions under common control and therefore the acquisition was recorded at book value.