Canopius Group Limited

Annual Report and Financial Statements

For the year ended 31 December 2019

Company No. 129591

Contents

Key Statistics[1]

	2019 $m	2018 $m
Total shareholders' interests	**750.2**	681.8
Tangible net asset value (TNAV)[2]	**702.8**	653.3
Tangible financial resources[3]	**1,046.3**	890.8
Gross premiums written	**1,537.8**	1,367.8
Net premiums earned	**991.3**	1,211.5
Profit/(loss) after taxation	**66.9**	(63.6)
Net loss ratio	**53.9%**	66.7%
Net loss ratio (excluding RITC)	**56.7%**	64.4%
Combined ratio	**99.3%**	103.8%
Combined ratio (excluding RITC)	**99.4%**	104.1%

Net premiums earned represent 'net premiums written' (being premiums written gross of acquisition costs and exclusive of premium taxes; less reinsurance premiums payable) 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) by 'net premiums earned'.

The combined ratio is calculated by dividing 'net claims incurred' and underwriting expenses (as defined in note 2.3b) by 'net premiums earned'.

1 Amounts presented are determined from the financial statements except as noted below.
2 The tangible net asset value (TNAV) represents total equity less intangible assets and deferred tax liabilities on intangibles.
3 Tangible financial resources represent tangible net asset value (TNAV) plus drawn unsecured letter of credit facilities as per Note 32(d).

Chairman and Chief Executive's Statement

Michael Watson
Chairman and CEO

2019 was a transformational year for the Canopius Group, with a major acquisition, the addition of two new shareholders, and a substantial increase in financial resources.

The effects are clearly demonstrated in a strong set of financial results which included a 12.4% increase in gross written premiums, a 10.0% increase in net assets, and profits of $67m. As a result, we entered 2020 with renewed confidence and a determined ambition to position Canopius over the next few years as a high-performing, forward-thinking insurance business, fit for the digital era.

"We believe that a strong and autonomous underwriting capability in markets outside of London, supported by the financial strength of Lloyd's and its global licence network, is both a powerful and essential engine of profitable growth."

A transformational year

In October, we completed the merger of Canopius and AmTrust at Lloyd's. The combination of syndicates 4444 and 1861 created a business with $2.1bn of capacity under management. This transaction added significant underwriting expertise, breadth of product offering, and scale to the Canopius portfolio, placing us amongst the five largest businesses at Lloyd's. New capabilities included cyber, a more significant presence in casualty classes, and additional underwriting talent and prominence in existing classes. A new, combined underwriting structure led by Mike Duffy, Group Chief Underwriting Officer, and Chris Jarvis and Sarah Willmont as Joint Active underwriters was implemented and ready for the start of the 2020 underwriting year.

In the following month, we were delighted to welcome Samsung Fire & Marine Insurance (SFMI) as a strategic investor in Canopius. SFMI's exceptional financial strength and complementary licence network bring significant advantages that will support our ambition to build a leading global specialty (re)insurance franchise. In particular, we envisage meaningful collaboration opportunities with SFMI in the United States and Asia-Pacific region, our two priority regions for growth outside of London.

At the same time as SFMI became a partner in Canopius, AmTrust Financial Services Inc. also made a cash investment to become a significant minority shareholder.

The growth and expansion of our product portfolio in 2019 has created a strong base from which to develop an insurance business that is sought after by our clients and distribution partners for our underwriting expertise, capacity and claims excellence, underpinned by strong financial security.

Continued focus on international growth

We believe that a strong and autonomous underwriting capability in markets outside of London, supported by the financial strength of Lloyd's and its global licence network, is both a powerful and essential engine of profitable growth. Over the last few years we have made significant investments in underwriting talent to support the growth of our businesses in the United States and the Asia-Pacific (APAC) region. This investment bore significant fruit in 2019.

Our APAC operations, headquartered in Singapore, delivered top-line growth of nearly 20%, and further growth of 33% is forecast for 2020. In Singapore, this growth was fuelled by new leadership for our reinsurance business, and the expansion of eight classes of specialty insurance. As these teams become more established, our APAC operations are well-positioned to make a meaningful contribution to the Group's premium base.

2019 was also notable for the opening of our new Australian office in Sydney which launched formally towards the end of October. Its initial focus is on accident & health business and a tech-enabled approach to property and casualty classes for local coverholders.

In the United States, we have similarly invested in talent and capability in recent years. Writing on both an Admitted and Surplus lines basis, gross premiums written in our insurance classes grew by nearly 50% in 2019, and a further 50% growth is targeted for 2020. It is worth emphasising that in all regions, including APAC and the United Sates, we are writing for bottom line profit, not simply top-line growth. Nevertheless, it is pleasing to note the strong growth which has been achieved.

"Our claims management is ultimately what our clients judge us by. To ensure we can deliver a responsive and quality service, we have undertaken significant recruitment over the past eighteen months to build an excellent team"

Embracing technology

The pace of technological advancement in the insurance industry is rapid. Canopius is engaging with these developments to aid underwriting decisions, enhance claims' capabilities, and streamline operational processes. I am especially excited by the development of our digital underwriting platform – "Vave" – which enables instantaneous quotes and policy issuance to our distribution partners via an API. The speed of service and automation of processes improves underwriting control, reduces the propensity for error, and lowers costs for our partners and clients alike.

Placing claims management front and centre

Our claims management is ultimately what our clients judge us by. To ensure we can deliver a responsive and quality service, we have undertaken significant recruitment over the past eighteen months to build an excellent team, led by Gabby Folliard, with market leading expertise for complex claims and are implementing more efficient processes for the smooth handling of less complex claims.

Expanding non risk-bearing revenue streams

Another key element of our strategy is to develop non risk-bearing revenue streams by marrying our underwriting expertise to appropriate pools of third party capital. During 2019, Canopius ILS more than doubled its assets under management. This is testament to our track record in property catastrophe underwriting and superior portfolio management capabilities.

More recently, in March 2020, Canopius acquired a majority stake in MultiStrat Holdings, a highly differentiated Casualty focused ILS business. MultiStrat operates in a much less developed space than property catastrophe ILS and we believe that the team has great potential to develop this sector.

Fostering our distinctive Canopius culture

As much as we are an underwriting business, we are also a people business. I firmly believe that it is our people and culture that set Canopius apart from other insurance companies. We consistently foster our distinctive and inclusive culture to enable our colleagues to flourish as individuals whilst realising greater achievements collectively. In 2020 and beyond, our leadership team will continue to role model our authentic culture and support our collaborative working practices.

Canopius will thrive by continuing to foster an entrepreneurial spirit that encourages risk taking through empowerment and trust, yet recognises that the occasional failure will occur. This approach extends to our working environment where the increased adoption of Activity-Based Working is a physical manifestation of our guiding principle of managing by outcomes, not presenteeism.

2020: an unprecedented year to-date

Canopius entered 2020 in its strongest position ever – with a clear sense of purpose, an experienced leadership team, a new and united underwriting force supported by dedicated claims professionals, and much improved operational capabilities. The enlarged business benefitted from continued improvements in underwriting conditions in the first quarter with rate change of 6.0%, following on from the 4.6% achieved in 2019. We anticipate this positive rating momentum will continue throughout the remainder of 2020 and beyond.

The global COVID-19 pandemic is a human tragedy that has resulted in hundreds of thousands of deaths and will be accompanied by a severe global economic downturn, the like of which has not been witnessed in our lifetime. As a consequence, families and businesses face unprecedented challenges from these events. The insurance industry will suffer significant losses arising out of COVID-19 which is likely to prove the biggest insured loss ever. Canopius is not immune to these events, nor are we alone.

We anticipate substantial losses, but they will not imperil the financial stability of our Group. We are fully operational despite the global lockdown and we are committed to paying all valid claims promptly and fairly. We maintain a defensively positioned, high quality and highly liquid investment portfolio. At the time of writing it is too early to assess the full impact of the pandemic on our business, but COVID-19 will undoubtedly have a significant adverse effect on our 2020 earnings. We will continue to monitor the situation carefully.

Notwithstanding these headwinds, Canopius remains well-placed to deliver on its ambition to create a leading global specialty insurance franchise throughout 2020 and beyond. I would like to thank the entire Canopius team, both new and old, for all of their exceptional hard work and positive contribution in laying the foundations of our future success throughout 2019. We look forward to the future with confidence.

Michael Watson
Chairman and CEO

CFO Statement

Nigel Meyer
CFO

"Our continuing commitment to effective cost control across the Group remains… and expect the positive impact of these savings on our run-rate costs to contribute to further improvement in the expense ratio in future years."

I'm very pleased to report that during 2019 Canopius delivered a substantially improved financial result returning to profit after a challenging period for the Group.

In common with many of our peers during 2018 and 2017, we suffered the impact of increased catastrophe and large loss experience largely due to natural weather events, together with historically low levels of investment return. In 2019, as a result of the continued commitment and expertise of our staff, we delivered a profit after tax of $67m, a year-on-year improvement of $131m.

Improvements in 2019

The improvement in the Group result has been helped by a significantly stronger contribution from our underwriting activities with a Combined Ratio of 99.4% (2018: 104.1%). This includes a 7.7pt improvement in the Net Loss Ratio (excluding RITC) to 56.7%, following a more benign period for catastrophe claims and positive development on older years including claims relating to the Harvey, Maria and Irma events.

The attritional loss component of our loss ratio was 55.5%, and improving this ratio remains a key focus for Canopius. As a result, over the course of 2019, we made further changes to the composition of the underwriting portfolio by shrinking our presence or exiting classes which do not meet our profitability criteria and driving positive rate across the remainder. During 2019 the rate increase achieved was 4.6% versus 4.5% in 2018.

Our continuing commitment to effective cost control across the Group remains. We continue to make very good progress toward achieving the expense efficiencies targeted following the acquisition this year of the AmTrust at Lloyd's business, and expect the positive impact of these savings on our run-rate costs to contribute to further improvement in the expense ratio in future years.

A robust investment return

Our investment result (including mark-to-market adjustments) was $88m, a return of 4%, which is a significant increase on the prior year. This was driven by a strong performance from our fixed income portfolio, which generated positive income and capital returns.

"Most investment markets performed strongly through 2019 as financial asset prices were supported by continued monetary stimulus from major central banks."

In response to market conditions, during 2019 the Group took active steps to realign the investment portfolio reducing our weighting to risk assets and shortening duration and taking actions to lock in gains at various points during the year, as a result of which returns benefited. The Group remains defensively positioned with 65% of invested assets comprising cash and fixed income securities. At 31 December 2019, the investment portfolio had an average duration of 1.0 year with 82% of the investment portfolio in investment grade assets.

The low yield environment and continuing market volatility present challenges for the insurance market generally, and we will continue to pursue a cautious strategy while seeking opportunities to drive improved returns where they can be found.

A strong balance sheet

Assisted by the improvement in our financial results, the balance sheet of the Group remains strong with tangible net assets increasing to $703m (2018: $653m). The strength of our balance sheet is supported by a continuing commitment to a well-developed and resourced reserving process and the maintenance of an appropriate management margin in excess of actuarial best estimate of $52m (2018: $48m).

The very gratifying improvement in our financial results during 2019 has been underpinned by a clear focus on underwriting discipline and a well-judged approach to the deployment of our invested assets. Nonetheless the insurance market continues to face some difficult challenges including the frequency and severity of loss events and further political and economic uncertainty.

I'm confident that Canopius is able to face those challenges benefitting from a clear strategy and commitment to strong control in the management of our finances.

Nigel Meyer
CFO

2019 Underwriting review

Mike Duffy
CUO

"despite a market-wide deterioration of the rating environment, we are pleased to observe a stable attritional and large loss ratio in the classes that we continue to write."

Merging two syndicates

In October 2019, we acquired the economic interest in the 2019 Underwriting Year of Account of Lloyd's syndicate 1861 creating a combined business with $2.1bn of capacity under management. For 2020, we will operate on a 'split stamp' basis, where all risks written on our Lloyd's platform will be allocated 65% to syndicate 4444 and 35% to syndicate 1861.

We were determined from the outset of this merger that underwriters on both sides of the business would not be forced to 'make the best of the situation'. Working hard through the summer of 2019 we prepared to merge underwriting teams as seamlessly as possible.

For us, a testament when looking back after only a few months is that few could identify to which firm a team member once belonged. This is an enormous achievement and is a credit to our Underwriters' hard work and resilience.

2019 in review

Overall gross written premiums increased by 12.4% to $1,538m (2018: $1,368m), primarily driven by growth in Credit and Political Risk and our Delegated Authority portfolios.

Over the last four years we have pursued a strategy focusing our efforts on existing and new classes having both scale and leadership positions. Over the same period, we have exited areas where we were largely providing subscription capacity. Recent examples of this leadership strategy include our Accident & Health team arriving from Tokio Marine Kiln, and new Offshore Energy leadership arriving from Beazley. Both represent core products where we offer a more meaningful and engaging proposition to our clients and brokers.

The implementation of this broader strategy has meant that our managed premiums since FY2015 (but before considering the AmTrust at Lloyd's transaction) have grown by only 6% as the new and growing lines compensated for the exited classes. However, despite a market-wide deterioration of the rating environment, we are pleased to observe a stable attritional and large loss ratio in the classes that we continue to write.

Growth in Asia-Pacific

Part of our ability to grow our core portfolio has come from our increased presence in the Asia-Pacific (APAC) region. We believe that regional GDP growth and an expanding middle class in coming years, combined with a growing regional underwriting talent pool will mean that much existing and new business will be underwritten in the region.

We have operated profitably over time in Singapore since opening on the Lloyd's Asia platform in 2008. Having doubled our premium volumes since 2017, we plan to do the same again by 2022, (market conditions allowing) with Insurance lines providing the larger part of this further growth. In support of this, we opened an Australia office in 2019 whilst continuing to grow our team in Singapore.

Loss Ratio

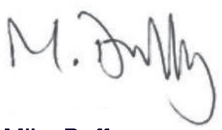
Our Net Claims ratio for FY2019 is 56.7% (2018: 64.4%). Catastrophe experience in FY2019 was more favourable than in 2018, contributing to the significant improvement in the net claims ratio. Nonetheless, the 2019 results do include catastrophe costs for Storm Dorian ($5.8m), Typhoon Faxai ($5.9m) and Typhoon Hagibis ($6.9m).

Despite a weak rate environment in recent years, we are pleased to observe a stable attritional and large loss ratio in the classes that we continue to write, with the majority of prior year reserve strengthening coming from exited lines of business offsetting a relatively benign year for catastrophe losses across the Group in 2019.

Looking forward to 2020

It appears that we are finally operating in an improving market. During 2019, rates increased at better than planned levels but it is clear much work is still required.

Our focus in 2020 will be consolidation on the hard work done thus far integrating the Canopius and former AmTrust at Lloyd's businesses. Having firmly set sail with our growth plans in APAC, we turn our attention to further development of our offering in the United States.



Mike Duffy
CUO

Canopius’ Claims Vision

Our customers have made it clear that claims are becoming an increasing priority for them, and we wish to continue to make our claims experience a differentiator for our clients when they most need us.

We don’t consider our customers only to be our insureds and reinsureds; our customers include brokers, coverholders and also stakeholders within the business - anyone we interact with on a claim is vital to our success.

Our expanded claims service is being built continually to push the boundaries of customer excellence through an empowered, collaborative and innovative approach to claims; to be the envy of the market. Every member of the claims team plays a central part in, and share responsibility for, achieving and delivering our vision:

Communication

We aim to communicate with honesty, clarity, warmth and respect. Strong and enduring business relationships are built and maintained by positive encounters with others and excellent communication is central to this.

Innovation

Doing things differently by challenging the way things are currently done to drive change and continuous improvement to add value for our customers.

Collaboration

A collaborative, supportive and proactive approach is essential to understanding and exceeding the needs of internal and external customers. We will work to set others up for success.

Honesty

Acting with honesty, integrity and fairness at all times.

Accountability

The talent and ideas of every single person within the team will be harnessed to unlock our full potential. This also means that we are always accountable for our actions; we deliver on our promises and commitments.

In January 2019 we appointed a new Head of Claims and, with the new Claims Leadership team, Canopius has restructured the London team into four divisions, aligned with the underwriting teams:

- Delegated Claims
- Specialty Claims
- Energy, Marine, Engineering
- Property Claims, and Reinsurance Claims

The Canopius Claims team has grown in size and strength as it continues to bring together the best claims talent in the industry and ultimately allows us to do more for brokers by offering a deeper bench of expertise.

2019 Corporate Social Responsibility

Canopius strives to be a place where employees can be as good as they can be – as people, colleagues and community members. As such, we want to offer a wide range of activities and opportunities to donate, participate and engage with people who need and deserve our support.

In addition, we will aim to take advantage of Lloyd's of London's community engagement programmes and activities that are available to members.

In 2019 Canopius employees voted the 'Sammy Jo Brandon Foundation', which supports children with cancer in the UK, as its charity of the year. Through various charitable activities, the business and employees managed to raise £25,000 for the charity. In addition, Canopius donated over £12,000 to 30 other charities chosen by employees.

Canopius London also took part in The Brokerage; a City of London based social mobility charity connecting young Londoners and employers. The mission of the programme is to work with disadvantaged young people to help develop their skills and provide them with access to financial and professional work experience.

In 2019, we hosted interns across our business within our underwriting, operations and finance divisions. We received great feedback from our interns who took part in the programme, stating that their experience working at the company helped them both academically and with new career opportunities.

Canopius London is part of the Primary Reading Partners scheme, which is run by Tower Hamlets Education Business Partnership. The scheme aims to improve the literacy of primary school students, while at the same time bringing them into contact with role models from the world of work. Our volunteers spent 30 minutes with children every week at Stepney Greencoat Primary School to take them through some reading exercises and develop their literary skills.

In 2019, the Canopius Asia Pacific team came together for the great Cambodian House Building Project, which involved building houses for families living in extreme poverty with inadequate shelter. They also took part in the Aon Bhutan Challenge, raising $12,500 for the Loden Foundation, which included three days of running, hiking and camping out in the Bhutanese mountains, reaching 4,100m at the peak.

The Canopius team in Chicago donated to the Habitat for Humanity of Northern Fox Valley, which helps provide low income homes for the less fortunate.

Looking ahead for 2020, Canopius continue to expand opportunities for all employees to donate, participate and engage with charities and community-building programmes in our global office's local communities. We will also be raising donations for the 2020 Charity of the Year, the Cure Parkinson's Trust.

"Through various charitable activities, the business and employees managed to raise £25,000 for the 'Sammy Jo Brandon Foundation', which supports children with cancer in the UK."

Stakeholder Engagement

In 2019, the Canopius board and management undertook a variety of activities to engage with stakeholders and bring their voices into the boardroom.

Shareholders:
Our shareholders contribute to the long-term strategy of the Canopius Group by providing financial security and support. Their support enables our business to grow, to continue its focus on underwriting excellence and to continue to enhance our capabilities in support of brokers and clients.

Canopius Group meets with our shareholders on a quarterly basis, engaging openly and collaboratively.

Canopians:
We firmly believe that having an open dialogue with all Canopians is core to who we are and to our future success as a company. By engaging employees, we believe our staff are more likely to be motivated and we will increase trust between management and employees. In addition, regular employee engagement at Canopius helps managers and supervisors arrive at sound decisions that employees will more readily accept.

Canopius management regularly engages employees through our Information and Consultation Forum (ICF). This provides every Canopian with a means to share thoughts and ideas on how Canopius can be a more profitable, efficient, effective operation and an even better place to work. Made up of people elected from different parts of the business, members seek out Canopians' views and lobby for their interests.

Canopius management has an ongoing commitment to invest in and grow its talent. It does this through annual talent reviews and succession plans. We offer comprehensive learning and development opportunities including professional qualifications and soft skills development. The business runs the Canopius Academy, which champions rising stars amongst our underwriters, and we also have our own mentoring scheme to develop relationships between senior and junior employees.

Policyholders:
Canopius recognises that policyholders are at the core of the business and the culture of a firm shapes its judgements, behaviours and focus in both its day-to-day activities and wider strategy.

Canopius Group Limited subsidiaries operate in Australia, Bermuda, Netherlands, Singapore, the UK & US. Canopius subsidiaries are committed to providing a good service and complying with local requirements in regard to the services provided to our policyholders. Where Canopius places business through partners such as brokers, coverholders etc we endeavour to work with those who also share a similar ethos as Canopius when dealing with policyholders.

Regulators:
Canopius Group Limited is domiciled in Jersey with all regulated business carried out by its group subsidiaries who ensure they comply with relevant local regulatory requirements.

Community:
Canopians take part in charitable activities and community engagement to reflect who we are as a business. Canopius strives to be a place where employees can be as good as they can be - as people, colleagues and community members. As such, we want to offer a wide range of activities and opportunities to donate, participate and engage with people who need and deserve our support.

Canopius has ensured that employees have the time and space to engage with their local community by entitling everybody to two community days leave per year. We have also enshrined a 'Global Community Day' into the calendars of all our global employees. This day, in conjunction with Lloyd's Community Programme, allows all our staff the opportunity to spend a day supporting local community efforts.

Canopius management has set aside a portion of its budget each year to not only donate to worthy causes, but also to facilitate employees' ability to donate, participate and engage with their local communities and local charities. In 2019, we supported employees in raising more than £25,000 for our 'charity of the year' and in addition we donated over £12,000 to more than 30 local community causes championed by our employees globally.

Directors' Report

The directors of Canopius Group Limited (formerly Canopus AG) present their Directors' Report for the Group for the year ended 31 December 2019.

Review of the business

The principal activity of Canopius Group Limited (the "Company") is as the parent holding company to Canopius Group Limited (the "Group"). The principal activity of the Group is the underwriting of insurance and reinsurance business transacted both through direct channels and via delegated underwriting.

With effect from 6th August 2019, the Company re-domiciled from Switzerland to Jersey and on the same date changed its name from Canopius AG to Canopius Group Limited ("CGL").

In October 2019 Fortuna Holdings Limited ("FHL") the immediate parent company of CGL acquired AmTrust Corporate Member Limited ("ACML") with Canopius Managing Agents Limited ("CMA"), a subsidiary of CGL, assuming the responsibility for managing the AmTrust at Lloyd's syndicates.

In January 2020 CGL acquired ACML (now renamed "Flectat 2") from FHL for $88.5m of additional shares in CGL. These financial statements consequently do not include the performance or financial position of the acquired business.

Results and Performance

The Group result for the year ending 31 December 2019 was a profit after tax to shareholders of $66.9m (2018: loss of $63.6m). The key performance indicators are shown in the table on page 3.

These results represent a significant improvement versus 2018 with a 7.7% reduction in the net claims ratio (excluding reinsurance to close) contributing to the lower combined operating ratio. Underwriting discipline continues to be exercised and business has been declined where rate or profitability expectations have not been met. Overall gross written premiums increased by 12.4% to $1,537.8m (2018: $1,367.8m), primarily driven by growth in Specialist Consumer Products, North American Facilities and Credit and Political Risk.

Catastrophe experience in the current period was considerably more favourable than in 2018, contributing to the significant improvement in the net claims ratio. The positive impact of the relatively benign catastrophe experience was, however, offset in part by some strengthening of reserves in non-catastrophe classes of business following adverse claims experience.

The investment portfolio achieved a return of $88.5m in 2019 (2018: $8.4m) as the Group's significant bond holdings benefitted from a fall in US government bond yields resulting in significant mark to market gains. This is in contrast to the prior year capital losses on investments of $27.6m arising from steep US interest rate rises and widening credit spreads.

Going Concern

The directors have considered the going concern basis of preparation of the Group's financial statements as at 31 December 2019. This included the factors likely to affect its future performance as well as the Group's principal risks and uncertainties, including the potential impact of COVID-19.

Considering the ongoing uncertainty regarding the impact of COVID-19, additional scenario testing was performed to assess the impact of reasonably foreseeable scenarios. These scenarios include, but are not limited to, an increase in loss ratios and a significant decrease in invested asset values.

The directors believe that the conclusion on the use of the going concern basis of preparation remains unchanged under these reasonably foreseeable, but unlikely, scenarios. Additionally the directors have also considered those circumstances which may cause the business to cease to function effectively as a going concern e.g. a breach of its surplus capital requirements and or liquidity positions.

"Considering the ongoing uncertainty regarding the impact of COVID-19, additional scenario testing was performed to assess the impact of reasonably foreseeable scenarios."

The directors have concluded that there are no material uncertainties that may cast significant doubt about the Group's financial ability to continue as a going concern and they have a reasonable expectation that the Group and the Parent Company have adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that therefore it is appropriate to adopt a going concern basis for the preparation of the financial statements.

Disclosure of information to auditors

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Appointment of Auditors

As the group redomiciled to Jersey in August 2019, Ernst & Young LLP were appointed to be the statutory auditor, replacing Ernst & Young Ltd., who were the auditor when the group was domiciled in Switzerland. Ernst & Young LLP have expressed their willingness to continue in office as auditor.

Business Environment

Clearly, the global COVID-19 pandemic has caused all businesses unprecedented challenges, and the Group will be impacted just as most firms will be next year. Operationally, there are no concerns as a result of a protracted global lockdown, staff and key outsource providers have moved to remote working practises with minimal disruption to services. We continue to benefit from strong liquidity, and we also retain a defensively positioned asset portfolio. At the time of writing it is too early to fully assess the impact of the pandemic on claims, but COVID-19 will undoubtedly have an adverse effect on 2020 earnings. We continue to monitor the situation carefully.

Most investment markets performed strongly through 2019 as financial asset prices were supported by continued monetary stimulus from major central banks. In particular US interest rates fell over the year helping to drive strong returns on government and corporate bonds. The early months of 2020 have proved to be highly volatile as the likelihood of a widespread global recession increases as the impact of COVID-19 is felt across many industries and geographies in spite of high levels of fiscal stimulus from central banks and governments.

Following a protracted period of soft market conditions, the previous two years have seen steady rate increases across the portfolio and the early part of 2020 has seen this positive momentum continue. Nevertheless, trading conditions will continue to be highly competitive and challenging in the near future as the market deals with the effects of COVID-19, social inflation, climate change and other socio-economic factors.

"While 2020 has thus far created many challenges for all global business, we still see key areas where Canopius will need to focus to ensure that we can continue to develop a business that is the envy of the market"

While 2020 has thus far created many challenges for all global business, we still see key areas where Canopius will need to focus to ensure that we can continue to develop a business that is the envy of the market, through 2020 and beyond and are striving to achieve these goals.

Risk assessment and management

In the normal course of business, the Group is exposed to many risks. Risk policies are in place for the major risk categories. Please refer to notes 32 and 33 of these consolidated financial statements for more details.

Strategy

Our ambition is to establish Canopius as a high performing, forward-thinking, global insurance business, which continues to be known for its underwriting expertise, claims excellence and strong financial security.

During 2019 the Group assumed the management of Lloyd's syndicates 1861, 5820, 1206 and 44 as a result of merging its Lloyd's business with the 'AmTrust at Lloyd's' division of AmTrust International. This is a major step toward realising our strategy of making Canopius one of the leading insurers in our market. The combination brings together two complementary businesses allowing us to leverage additional underwriting expertise and increase diversity through a broader product offering.

The 2020 year of account will operate on a split stamp basis between syndicate 4444 and syndicate 1861. This arrangement allows both syndicates to benefit from the increased scale of the combined platform, with $2.1bn of capacity under management, as well as the increased operational efficiency of underwriting both syndicates on a fully consistent basis. All other syndicates managed by Canopius Managing Agents Limited ("CMA") are now closed or in run off.

The combined business continues to focus hard on underwriting profitability. In 2019 the results have been adversely impacted in a small number of non-catastrophe related areas and management actions have already been taken with a view to swift remediation.

We are growing where we can add the most value and have added diversifying classes through the AmTrust at Lloyd’s merger where they are a good strategic fit with our existing business.

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

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

Future developments

On 7 January 2020, the Board of CGL’s immediate parent, Fortuna Holdings Limited, agreed to transfer 100% of its shares in Flectat 2 Limited to Canopius Group Limited (“CGL”) in exchange for $88.5m of additional shares in CGL. CGL subsequently passed down 100% of the Flectat 2 Limited shares to its subsidiary, Canopius Holdings UK Limited (“CHUKL”) for $88.5m of additional shares in CHUKL.

On 7 January 2020, following the re-domicilation of Canopius Group Limited from Switzerland to Jersey on 6 August 2019, a special resolution was passed for the issued and unissued share capital of CGL to be redenominated from Swiss Franc (CHF) to US dollars (US$) at a rate of exchange (CHF 1.00 to US$ 0.99999).

On 16 March 2020 the Group acquired a majority stake in Multi-Strat Holdings Ltd, a speciality reinsurance group headquartered in Bermuda. This acquisition is highly complementary to the Group’s existing ILS capabilities.

On the 15 May 2020 FHL subscribed to an additional $191.4m worth of shares in CGL which was settled through the payment of $171.4m of cash and transfer of $20.0m of assets to CGL. On this date CGL subscribed to $160.3m worth of shares in CHUKL which was settled through the payment of $140.3m of cash and transfer of $20.0m of assets to CHUKL.

The Directors’ report was approved by the Board on 15 May 2020 and signed on its behalf on 4 June 2020 by:

Michael Watson
Director

Nigel Meyer
Director

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Jersey Company law requires the directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors and Professional Advisers

Directors	Paul Ceurvorst Michael Duffy Peter Hazell Hans Künzle (resigned 6 August 2019) Paul Meader Nigel Meyer (appointed 6 August 2019) Ian Owen Michael Watson
Company Secretary	Mourant Secretaries (Jersey) Limited 22 Greville Street, St Helier, Jersey, JE4 8PX
Registered Office	22 Greville Street, St Helier, Jersey, JE4 8PX
Company Number	129591
Independent Auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

Independent Auditor's Report

Building a better working world

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

To the members of Canopius Group Limited

Opinion

We have audited the financial statements of Canopius Group Limited (the "company") and its subsidiaries (the "group") for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 37 to the consolidated financial statements, and the Statement of Profit or Loss and Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 22 to the company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

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 2019 and of the group's and the company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

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

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

Emphasis of matter – Effects of COVID-19

We draw attention to the disclosures in Notes 2.1 and 37 of the consolidated financial statements and Notes 2.1, 2.4 and 22 of the company financial statements, which describe the economic and operational consequences the company is facing as a result of COVID-19 which is impacting financial markets, potential underwriting losses and personnel available for work. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 20 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Purrington
for and on behalf of Ernst & Young LLP
London
4 June 2020

Notes:

1. The maintenance and integrity of the group's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters 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 web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Canopius Group Limited

Financial Statements

Company No. 129591

Consolidated statement of profit or loss

for the year ending 31 December 2019

$'000	Notes	2019	2018
Gross premiums	4a	1,277,488	1,312,435
Premiums ceded to reinsurers	4b	(222,762)	(177,748)
Reinsurance to close	4c	(63,401)	76,836
Net premiums		**991,325**	**1,211,523**
Fees and commission income	5	6,389	9,191
Investment income	6	39,978	35,971
Net realised gains/(losses)	7	10,339	(9,759)
Fair value gains/(losses)	8	38,150	(17,830)
Other operating income		12,339	4,490
Other revenue		**107,195**	**22,063**
Total revenue		**1,098,520**	**1,233,586**
Gross benefits and claims paid	9a	(901,532)	(916,770)
Claims ceded to reinsurers	9b	169,707	170,755
Gross change in insurance contract liabilities	9a	238,768	14,069
Change in insurance contract liabilities ceded to reinsurers	9b	(105,066)	1,224
Reinsurance to close	9c	63,401	(76,836)
Net benefits and claims		**(534,722)**	**(807,558)**
Finance costs	10	(5,190)	(3,807)
Other operating and administrative expenses	11	(494,728)	(497,486)
Other expenses		**(499,918)**	**(501,293)**
Total benefits, claims and other expenses		**(1,034,640)**	**(1,308,851)**
Profit/(loss) before tax		**63,880**	**(75,265)**
Income tax credit	13(a)	2,992	11,629
Profit/(loss) for the year		**66,872**	**(63,636)**

The notes on pages 31 to 80 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ending 31 December 2019

$'000	2019	2018
Profit/(loss) for the year	66,872	(63,636)
Other comprehensive income (OCI):		
OCI that may be reclassified to profit or loss in subsequent period: (net of tax):		
Currency translation differences	1,501	(2,465)
Total comprehensive gain/(loss) recognised for the year	**68,373**	**(66,101)**

All the above amounts are derived from continuing operations and attributable to equity holders.

The notes on pages 31 to 80 form part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2019

$'000	Notes	2019	2018
Assets			
Intangible assets	14	50,275	31,698
Property and equipment	15	3,750	736
Right-of-use assets	34	5,052	-
Deferred acquisition costs	16	268,301	184,962
Reinsurance assets	17	515,015	611,633
Financial assets			
Financial assets at fair value through profit or loss	18	1,783,036	1,989,790
Derivative financial instruments	19	18,076	1,484
Deferred tax asset	13(d)	8,060	3,516
Income tax receivable	13(c)	111	12,850
Insurance receivables	21	690,728	618,512
Trade and other receivables	22	54,785	42,642
Other assets	23	52,911	50,801
Cash and cash equivalents	24	375,939	165,563
Total assets		3,826,039	3,714,187
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued share capital	25	106	106
Capital reserves		759,956	759,956
Foreign currency translation reserve		(51,629)	(53,130)
Retained earnings		41,737	(25,135)
Total equity		750,170	681,797
Liabilities			
Insurance contract liabilities	26	2,651,819	2,710,302
Derivative financial instruments	19	1,298	989
Lease liabilities	34	5,174	-
Insurance payables	28	308,306	264,768
Trade and other payables	29	109,272	56,331
Total liabilities		3,075,869	3,032,390
Total equity and liabilities		3,826,039	3,714,187

These financial statements were approved by the Board of Directors on 15 May 2020 and signed on its behalf on 4 June 2020 by

Michael Watson
Director

Nigel Meyer
Director

The notes on pages 31 to 80 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Attributable to equity holders of the parent				
$'000	Issued share capital Note 25	Capital reserves	Foreign currency translation reserves	Retained earnings	Total equity
At 1 January 2018	**106**	**582,956**	**(50,665)**	**38,501**	**570,898**
Loss for period	–	–	–	(63,636)	(63,636)
Other comprehensive loss	–	–	(2,465)	–	(2,465)
Total comprehensive loss	–	–	(2,465)	(63,636)	(66,101)
Capital contribution	–	177,000	–	–	177,000
At 31 December 2018	**106**	**759,956**	**(53,130)**	**(25,135)**	**681,797**
At 1 January 2019	**106**	**759,956**	**(53,130)**	**(25,135)**	**681,797**
Profit for period	–	–	–	66,872	66,872
Other comprehensive income	–	–	1,501	–	1,501
Total comprehensive income	–	–	1,501	66,872	68,373
At 31 December 2019	**106**	**759,956**	**(51,629)**	**41,737**	**750,170**

The notes on pages 31 to 80 form part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2019

$'000	Notes	2019	2018
Operating activities			
Profit/(loss) before tax		63,880	(75,265)
Adjustment for:			
Change in operating assets	31	(25,671)	32,531
Change in operating liabilities	31	37,850	(72,107)
Financial income and expense		(45,127)	(22,392)
Non-cash items included in profit before tax:			
Fair value (gains)/losses	8	(38,150)	17,830
Movement in deferred acquisition costs		(83,339)	(26,011)
Amortisation of intangibles	11	3,145	7,088
Depreciation of property and equipment	11	538	961
Depreciation of right-of-use assets	34	4,383	–
Income tax paid	13(c)	(525)	(13,642)
Income tax received	13(c)	11,739	–
Net cash flows used in operating activities		(71,277)	(151,007)
Investing activities			
Purchases of financial assets		(1,192,751)	(1,367,177)
Disposal of financial assets		1,447,195	1,243,983
Investment income		39,328	34,725
Purchases of intangible assets		(1,238)	(8,338)
Purchases of property and equipment	15	(3,520)	(115)
Net cash flows from/(used in) investing activities		289,014	(96,922)
Financing activities			
Capital contribution		–	177,000
Finance costs		(4,085)	(3,807)
Payment of principal portion of lease liabilities	34	(4,262)	–
Net cash flows (used in)/from financing activities		(8,347)	173,193
Net increase/(decrease) in cash and cash equivalents		209,390	(74,736)
Cash and cash equivalents at beginning of year		165,563	245,384
Net foreign exchange difference		986	(5,085)
Cash and cash equivalents at end of year	24	**375,939**	**165,563**

The notes on pages 31 to 80 form part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ending 31 December 2019

1. Corporate information

Canopius Group Limited, incorporated and domiciled in Jersey, is the parent undertaking and controlling party of the Canopius group of companies (the "Group"). 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.

2. Significant accounting policies, judgements and estimates

2.1 Basis of preparation and presentation

Following the re-domiciliation from Switzerland to Jersey on 6 August 2019, Canopius Group Limited ("the Group") has elected to prepare its consolidated 2019 year end financial statements in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Companies (Jersey) Law 1991, previously Swiss law.

These financial statements are prepared in accordance with IFRS issued by the IASB and presented in US dollars. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities which are measured at fair value.

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 in Note 2.5 below.

Having assessed the principal risks, including the impact of COVID-19, the directors considered it appropriate to adopt the going concern basis of accounting in preparing these financial statements, and accordingly these financial statements have been prepared on a going concern basis. These considerations, which include the additional downward scenario testing as well as considerations around capital and liquidity, are explained in detail in the section on Going Concern within the Directors' Report on page 17 above.

2.2 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results, on an annual accounting basis, of the Group 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 Group. 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. All inter-company balances, profits and transactions are eliminated on consolidation.

Profit or loss and other comprehensive income are attributed to the equity holders of the parent of the Group. A list of the principal subsidiaries included in these financial statements is contained in Note 3.2.

Business combinations and goodwill

The Group uses the 'acquisition method of accounting' under IFRS 3 – 'Business Combinations', to account for the acquisition of companies. Under IFRS 3, the consideration to purchase a business is recorded at fair value at the acquisition date. 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. Adjustments to fair value can only be made during the measurement period if they relate to conditions that existed before acquisition and any changes due to events after the acquisition will go to the statement of profit or loss.

2.2 Basis of consolidation (continued)

Business combinations and goodwill (continued)

All acquisition-related expenses are charged to the statement of profit or loss when incurred, within other operating and administrative expenses. 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 consolidated statement of profit or loss for the period.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to an appropriate cash generating unit (CGU) that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.3 Summary of significant accounting policies

(a) Classification and accounting for insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those that transfer significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits above the premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts that do not transfer significant insurance risk are accounted for as financial transactions.

The 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. 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.

2.3 Summary of significant accounting policies (continued)

(a) Classification and accounting for insurance contracts (continued)

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

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

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.

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.

2.3 Summary of significant accounting policies (continued)

(a) Classification and accounting for insurance contracts (continued)

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) Deferred acquisition costs

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

(iv) Unexpired risks

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency. At 31 December 2019 and 31 December 2018 the Group did not have an unexpired risk provision.

(v) Reinsurance to close ("RITC")

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.

(vi) Outwards reinsurance contracts

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.

2.3 Summary of significant accounting policies (continued)

(a) Classification and accounting for insurance contracts (continued)

(vi) Outwards reinsurance contracts (continued)

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 statement of profit or loss.

(vii) Receivables and payables related to insurance contracts

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

(b) Other operating and administrative expenses

Other operating and administrative expenses include exchange gains and losses, underwriting expenses, such as brokerage and commissions, and non-underwriting expenses of the Group after the elimination of intra-group charges.

All costs incurred by active underwriting entities are considered underwriting expenses.

(c) Employee benefits

The Group operates defined contribution pension plans and a closed 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 statement of profit or loss in the period to which it relates.

(d) Finance costs

Finance costs consist of trustee fees and bank charges, interest on lease liabilities, fees accruing on the Group’s borrowings and costs of arrangements with the parent company and third parties that secure or provide Funds at Lloyd’s (“FAL”) 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.

2.3 Summary of significant accounting policies (continued)

(e) Revenue recognition:

Fee and Commission Income

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 relate to managing and operating the Lloyd's syndicate, and are therefore provided continuously throughout the year. These services are considered a single performance obligation. The price is fixed with no variable element and is matched against the single performance obligation. The passing of time is used to measure the amount of fees to be recognised.

ii. Profit commission becomes payable once the year of account is profitable. Profit commission is recognised to the extent that it is highly probable it will not be subject to significant reversal.

iii. Insurance services – commission and service fees are recognised at the point in time that the performance obligations are satisfied.

Other operating income

Other operating income, including one off items, is recognised in the period to which it relates.

Other operating income includes an unwind of deferred income received to cover the costs and managing the syndicates transferred from AmTrust Syndicates Limited. The income is recognised at the point at which the service obligations have been performed.

(f) Foreign currency translation

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 US dollars which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using average, rather than spot, exchange rates as these rates do not fluctuate significantly. 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 statement of profit or loss 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.

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 statement of profit or loss continues to be recognised in consolidated statement of profit or loss.

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.

2.3 Summary of significant accounting policies (continued)

(g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in statement of profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss (other operating and administrative expenses).

Intangible assets with finite lives are amortised over:

Insurance contracts intangible assets	8	to	23	years
Webware and software development	3	to	5	years
Computer software licences	3	to	5	years
Managing agency contract	10	to	15	years
Acquired business assets	10	to	15	years

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

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 assets represent the difference between the fair value of claims provisions purchased from third parties usually as part of a company acquisition. These intangible assets are 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.

2.3 Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

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.

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.

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.

Acquired business assets and managing agency contract are carried at cost less accumulated amortisation and impairment losses. These assets are amortised on a straight line basis over their useful life.

(h) Property and equipment

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 statement of profit or loss.

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

(i) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through the statement of profit or loss 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.

2.3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

Financial assets at fair value through the statement of profit or loss

The Group classifies its investments at fair value through the statement of profit or loss to the extent that they are not reported as cash and cash equivalents.

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 statement of profit or loss in the period in which they arise.

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, 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 initially measured at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss 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.

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 statement of profit or loss. All derivatives are carried as assets if the fair value is positive and as liabilities if the fair value is negative.

Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(j) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss ("FVPL"), loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and derivative financial instruments.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification, as follows:

i) Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities are designated as at FVPL at the initial date of recognition, and only if the criteria in IAS 39 are satisfied.

Gains or losses on designated or held for trading liabilities are recognised in fair value gains and losses in the statement of profit or loss.

ii) Interest bearing loans and borrowings

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 statement of profit or loss over the period of the borrowings using the 'effective interest method'.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

(k) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.3 Summary of significant accounting policies (continued)

(l) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

All derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to profit or loss.

(m) Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets, liabilities and equity items for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described in Note 20.

(n) Cash and cash equivalents

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.

Lloyd's overseas deposits are not included within the balance of cash at bank and in hand on the balance sheet as the amounts represent capital requirements for underwriting in certain overseas territories. These are recognised separately in their own category within other assets as the capital is restricted. See Note 23.

Cash at bank and in hand relate to amounts which are held at a bank in the form of on demand deposits such as current accounts and savings accounts. Short term deposits with a maturity of three months or less are considered cash equivalents.

2.3 Summary of significant accounting policies (continued)

(o) Taxation

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 statement of profit or loss 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 statement of profit or loss, 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.

(p) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. There is no scheme for employee owned shares.

(q) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

2.3 Summary of significant accounting policies (continued)

(q) Leases (continued)

ii) Lease liabilities

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the assets. The right-of-use assets are subject to impairment.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of any purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the unwind of discounting and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies IFRS 16 recognition exemptions in relation to the following types of leases:

- Short-term leases: Leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.
- Leases of low-value assets: Leases where the underlying asset has a low value.

No right-of-use assets or lease liabilities are recognised in relation to these leases. Lease payments are recognised as an expense on a straight-line basis over the lease term.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.4 New and amended standards and interpretations

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2019. The new effective requirements are:

- IFRS 16: Leases (Effective date: 1 January 2019).

The standard replaces IAS 17 and sets out principles for the recognition, measurement, presentation and disclosure of leases. The key change is that lessees are required to account for operating leases in a similar manner to how finance leases were previously accounted for, with lease assets (right-of-use assets) and liabilities on the consolidated statement of financial position. In addition, the current rental charge in the consolidated statement of profit or loss is replaced with a depreciation charge for right-of-use assets and an interest expense in relation to lease liabilities. The Group's lessee accounting policy has been updated to reflect this – see note 2.3(q).

The Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method the standard is applied retrospectively, with the cumulative effect of initially applying the standard recognised as an adjustment to retained earnings at the date of initial application. Comparatives are not restated.

The Group has taken advantage of practical expedients available under IFRS 16 on transition, including:

- Recognition exemption for lease contracts with a remaining lease term of 12 months or less at the transition date;
- Measurement the right-of-use asset relating to each lease at the date of initial application at an amount equal to the lease liability recognised at that date, with initial direct costs excluded from this measurement;
- Placing reliance on its IAS 37 assessment of whether its leases were onerous immediately before the date of initial application.

In addition, on transition right-of-use assets were recognised at an amount equal to the corresponding lease liabilities, adjusted for any previously recognised prepaid or accrued lease payments

The effect of adopting IFRS 16 on the consolidated statement of financial position is as follows (increase/(decrease)):

$'000	31 December 2019	1 January 2019
Assets		
Right-of-use assets	5,052	8,080
Total assets	5,052	8,080
Total adjustment on equity:		
Retained earnings	(121)	–
Currency translation reserve	(1)	–
Total equity	(122)	–
Liabilities		
Lease liabilities	5,174	8,080
Total liabilities	5,174	8,080

In note 33 of the Group's 2018 year end financial statements, future aggregate minimum lease payments under non-cancellable operating leases of $11,927k were disclosed.

2.4 New and amended standards and interpretations (continued)

The following table reconciles this amount to the $8,080k of lease liabilities included in the statement of financial position at 1 January 2019:

$'000	1 January 2019
Operating lease commitments disclosed at 31 December 2018	11,927
Discounting (a weighted average discount rate of 4.52% applied)	(511)
Short term leases with a remaining lease term of 12 months or less at transition	(513)
Leases relating to assets of low value	(405)
Other	(2,418)
At 1 January 2019	8,080

The effect of adopting IFRS 16 on the consolidated statement of profit or loss in the period ending 31 December 2019 is as follows (increase/(decrease)):

$'000	1 January 2019
Other operating and administrative expenses	184
Finance costs	(305)
Profit/(loss) for the period	(121)
Attributable to:	
Equity holders of the parent	(121)
Non-controlling interests	–

The effect of adopting IFRS 16 on the consolidated statement of cash flows in the period ending 31 December 2019 is as follows (increase/(decrease)):

$'000	1 January 2019
Profit/(loss) before tax	(121)
Adjustments for:	
Financial income and expense	305
Depreciation of right-of-use assets	4,383
Net cash flows used in operating activities	**4,567**
Finance costs	305
Payment of principal portion of lease liabilities	4,262
Net cash flows used in financing activities	**4,567**

2.4 New and amended standards and interpretations (continued)

- IFRS 4: Amendment: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date: 1 January 2018).

The amendments to IFRS 4 issued in 2016 address the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17. The amendments include an optional temporary exemption from applying IFRS 9 that is available to companies whose predominant activity is to issue insurance contracts until the earlier of the effective date of IFRS 17 or 2021. The group qualifies for this exemption as at 31 December 2015 $2,609m or 94% (i.e. over 90%) of its total liabilities were connected with insurance. There has been no change in the group's activities since 31 December 2015, therefore the exemption still remains. The group has also disclosed information in relation to specific types of financial instruments to ensure the comparability with the entities applying IFRS 9. As such, fair values are disclosed separately for the group's financial assets which are managed and evaluated on a fair value basis and those which meet the "solely payments of principal and interest" (SPPI) test under IFRS 9.

Below is a table outlining the fair value of assets which are managed and evaluated on a fair value basis and those which meet the SPPI test under IFRS 9. The information on credit exposures for debt securities and other fixed income securities and holdings in collective investment schemes can be found in note 33(b) of the financial statements. Certain equity shares, derivative financial instruments and trade and other receivables which are not rated, are considered by the company not to have a low credit risk. For these assets the company value is equal to fair value.

$'000	2019	2018
Financial assets managed and evaluated on a fair value basis		
Debt securities and other fixed income securities	1,066,983	1,123,747
Holdings in collective investment schemes	601,045	802,378
Equity shares	115,008	63,665
Derivative financial instruments	18,076	1,484
Total financial assets managed and evaluated on a fair value basis	**1,801,112**	**1,991,274**
Financial assets meeting the SPPI test		
Trade and other receivables	54,785	42,642
Total financial assets meeting the SPPI test	**54,785**	**42,642**

The following new standards, amendments and interpretations, issued but not effective for the financial year beginning 1 January 2019, have not been early adopted:

- IFRS 9: Financial Instruments.

This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current loss impairment model, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach. The Group is still assessing the impact of IFRS 9. The temporary exemption has been used.

2.4 New and amended standards and interpretations (continued)

- IFRS 17: Insurance Contracts.

IFRS 17, which will replace IFRS 4, sets out requirements relating to the measurement, presentation and disclosure of insurance contracts. It prescribes a general measurement model (or building block approach) based on the discounted current estimates of future cash flows including an explicit risk adjustment and a contractual service margin which represents the unearned profit of the contracts. Application of a simplified premium allocation approach, which is similar to the current unearned premium approach, is permitted if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. IFRS 17 requires any expected losses arising from loss-making contracts to be accounted for in the statement of profit or loss when the entity determines that losses are expected. In March 2020, the IASB decided to defer the effective date of IFRS 17 to 1 January 2023 and to extend the fixed expiry date of the temporary exemption from applying IFRS 9 for qualifying insurers (as contained in IFRS 4) to the same date. The Group is evaluating the impact to the financial statements.

2.5 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

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 Note 2.3(a).

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

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

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

The level of premium earned is made by reference to the exposure length of the type of business written and the pattern of insurance services provided by the contract.

A large proportion of the business written by the Group has a duration of one year, with business attaching to a specific year of account covering a 36 month duration. Where classes have a much longer exposure period, the earnings pattern reflects the exposure, in some cases up to 10 years. Judgement is required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

The Group uses prices provided by third party suppliers, investment managers and counterparty banks in determining the fair value of financial assets. Depending on the methods and assumptions used, for example, in the fair valuation of Level 2 and Level 3 financial assets, the fair valuation can be subject to estimation uncertainty. These methods and assumptions are described in Note 20.

2.6 Change in accounting estimates

A review of exposure lengths for Consumer Product and Structural Defect Warranty and Mortgage Indemnity Products, conducted in 2019, has resulted in a lengthening of earnings patterns for these classes. The impact in 2019 was to reduce profit by $31m for the year, with an increase in total assets and total liabilities of $67m, and $98m, respectively. Consequently, there was a reduction in equity of $31m.

3. Group information

3.1 Ultimate parent undertaking and controlling party

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman GP Limited (acting in concert) along with Centerbridge Associates III, L.P.

The immediate parent company of Canopius Group Limited (the "Group") is Fortuna Holdings Limited.

3.2 Subsidiaries

The principal subsidiaries of Canopius Group Limited, which are consolidated in these financial statements, are listed below. The Group holds no investments in joint ventures or associates and there is no non-controlling interest.

Subsidiary	Country of incorporation	Principal activities	% equity interest 2019	2018
Canopius Holdings UK Limited	England and Wales	Holding company	100%	100%
Canopius US Holdings, Inc.	USA (Delaware)	Holding company	100%	100%
Canopius Underwriting Agency Inc.	USA (Delaware)	Insurance company	100%	100%
Canopius US Insurance, Inc.	USA (Delaware)	Insurance company	100%	100%
Canopius Reinsurance Limited ("CRL") (formerly Canopius Reinsurance AG)	Bermuda (formerly Switzerland)	Reinsurance company	100%	100%
Canopius Services Limited	England and Wales	Service company	100%	100%
Canopius Managing Agents Limited	England and Wales	Managing agent at Lloyd's	100%	100%
Canopius Asia Pte. Ltd.	Singapore	Syndicate service company	100%	100%
Canopius Europe Limited	England and Wales	Syndicate service company	100%	100%
Canopius Underwriting Bermuda Limited	Bermuda	Syndicate service company	100%	100%
Canopius ILS Limited	Bermuda	Reinsurance company	100%	100%
Canopius BV	Netherlands	Syndicate service company	100%	100%
Canopius Underwriting Limited	England and Wales	Syndicate service company	100%	100%
Canopius Capital Four Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Seven Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Nine Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Ten Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Twelve Limited	England and Wales	Lloyd's corporate member	100%	100%
Flectat Limited	England and Wales	Lloyd's corporate member	100%	100%

4. Net premiums

$'000	2019	2018
a) Gross premiums on insurance contracts		
Gross premiums written	1,537,766	1,367,777
Change in unearned premiums provision	(260,278)	(55,342)
Total gross premiums	1,277,488	1,312,435
b) Premiums ceded to reinsurers of insurance contracts		
Reinsurance premiums ceded	(270,470)	(199,642)
Change in unearned premiums provision	47,708	21,894
Total premiums ceded to reinsurers	(222,762)	(177,748)
c) Reinsurance to close	(63,401)	76,836
Net premiums	991,325	1,211,523

5. Fees and commission income

$'000	2019	2018
Lloyd's underwriting agencies:		
Management fees	2,182	3,147
	2,182	3,147
Insurance services – commission and service fees	4,207	6,044
	6,389	9,191

6. Investment income

$'000	2019	2018
Interest income on financial assets	19,978	21,132
Dividend income	5,661	2,281
Interest income on cash and cash equivalents	16,468	14,317
Gross investment income	42,107	37,730
Investment fees & expenses	(2,129)	(1,759)
Net investment income	39,978	35,971

7. Net realised gains and losses

$'000	2019	2018
Realised gains	32,437	13,662
Realised losses	(22,098)	(23,421)
	10,339	(9,759)

8. Fair value gains and losses

$'000	2019	2018
Fair value gains on other financial assets	62,812	32,054
Fair value losses on other financial assets	(24,662)	(49,884)
	38,150	(17,830)

9. Net benefits and claims

$'000	2019	2018
a) Gross benefits and claims		
Gross benefits and claims paid	(901,532)	(916,770)
Change in contract liabilities	238,768	14,069
	(662,764)	(902,701)
b) Reinsurance		
Claims ceded to reinsurers	169,707	170,755
Change in contract liabilities ceded to reinsurers	(105,066)	1,224
	64,641	171,979
c) Reinsurance to close	63,401	(76,836)
Net benefits and claims	(534,722)	(807,558)

10. Finance costs

$'000	2019	2018
Fees for letters of credit	(4,702)	(3,727)
Interest on lease liabilities	(305)	–
Interest expense	(24)	(2)
Trustee fees and bank charges	(159)	(78)
	(5,190)	(3,807)

Finance costs of $4,085k (2018: $3,807k) have been paid during the year.

11. Other operating and administrative expenses

$'000	Note	2019	2018
Direct commission		(330,238)	(341,027)
Employee benefit expenses	12	(95,482)	(72,056)
Amortisation of intangible assets	14	(3,145)	(7,088)
Depreciation of property and equipment	15	(538)	(961)
Depreciation of right-to-use assets	34	(4,383)	–
Operating lease rentals and property costs		(3,497)	(7,431)
Auditor's remuneration - audit & related services		(1,193)	(1,190)
Auditor's remuneration - other services		(289)	(267)
Other expenses		(51,910)	(53,378)
Expenses before exchange adjustments		(490,675)	(483,398)
Net foreign exchange adjustments		(4,053)	(14,088)
		(494,728)	(497,486)
Underwriting expenses		(449,827)	(450,490)
Non-underwriting expenses		(44,901)	(46,996)
		(494,728)	(497,486)

Other expenses include professional and advisory fees, IT costs and irrecoverable VAT expenses.

12. Employee benefit expenses

$'000	2019	2018
Salaries and wages	(79,229)	(58,256)
Social security costs	(8,584)	(6,050)
Pension costs – defined contribution plans	(4,587)	(4,585)
Other benefits	(3,082)	(3,165)
	(95,482)	(72,056)

Employee benefits include termination payments of $3.2m (2018:$1.4m).

13. Income tax

The Company is incorporated in Jersey and registered for tax in the United Kingdom.

The subsidiary companies are registered for tax in various jurisdictions, including the United Kingdom, United States, Switzerland, Singapore, Malaysia, Ireland, the Netherlands and Bermuda. The subsidiary companies in the UK are the main operating and tax-paying companies in the Group. Therefore, as in prior years, it is appropriate to reconcile the Group tax charge to the UK Statutory rate.

Overseas tax primarily relates to recognition of deferred tax assets on prior year losses incurred by the Group's US subsidiary.

The major components of income tax credits for the years ended 31 December 2019 and 2018 are:

a) Consolidated statement of profit or loss

$'000		2019	2018
UK tax:			
Current tax	- current year	–	2,024
	- prior year	(109)	1,796
Deferred tax	- origination and reversal of temporary differences	233	(1,273)
	- prior year	–	629
Overseas taxes		2,872	8,504
Foreign exchange and other adjustments		(4)	(51)
Total income tax credit		2,992	11,629

b) Reconciliation of tax charge

$'000	2019	2018
Profit/(loss) before tax	63,880	(75,265)
Tax at 19%	(12,137)	14,300
Profits/(losses) not subject to tax:		
Profits/(losses) not subject to UK tax	12,304	(4,895)
Overseas taxes	2,872	8,504
Prior year adjustments	(109)	2,425
Effect of losses not recognised	(1,353)	(8,654)
Other, including effect of change in UK tax rate	1,415	(51)
	2,992	11,629

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under International Financial Reporting Standards.

However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of temporary / timing differences will occur at this rate and that the maximum impact on the quantum of the net deferred tax asset recognised will be $290k.

c) Income tax receivable

$'000	2019	2018
At 1 January	12,850	(11,730)
UK current tax recorded in the statement of profit or loss	(109)	3,820
Overseas taxes recorded in the statement of profit or loss	(1,425)	7,204
Payments made on-account during the year	525	13,642
Tax received	(11,739)	–
Foreign exchange adjustments	11	(189)
Other	(2)	103
At 31 December	111	12,850

d) Deferred tax, net

$'000	2019	2018
Excess of book over tax depreciation	354	508
Tax on deferred underwriting losses	10,599	6,190
Tax on intangible asset	(2,893)	(3,182)
Total deferred tax asset	8,060	3,516

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

The recoverability of deferred tax assets in relation to underwriting losses will depend on the availability of future taxable profits. Business forecasts indicate it is probable that sufficient profits will accrue within the next five underwriting years

The Group has gross temporary differences of approximately $144m (2018: $256m) in respect of untaxed underwriting losses in the corporate members and other tax losses in UK entities which have no expiry date and have not been recognised for deferred tax purposes.

e) Reconciliation of deferred tax assets, net

$'000	2019	2018
Balance at 1 January	3,516	3,536
Differences relating to recognition of underwriting results and depreciation:		
- arising during the year	4,127	173
- utilised during the year	402	740
Prior year adjustment	-	(25)
Double tax relief in respect of overseas taxes	-	(886)
Foreign exchange and other adjustments	15	(22)
Balance at 31 December	8,060	3,516

14. Intangible assets

$'000	Syndicate participation rights	Insurance contract intangible asset	Managing agency contract	IT Software and licences	Total
Cost					
At 1 January 2018	14,312	25,905	-	9,988	50,205
Additions	8,338	-	-	-	8,338
Disposals	-	-	-	(1,047)	(1,047)
Exchange	-	-	-	(243)	(243)
At 31 December 2018	22,650	25,905	-	8,698	57,253
Additions	-	-	10,000	11,238	21,238
Disposals	-	-	-	(3,103)	(3,103)
Exchange	48	-	233	394	675
At 31 December 2019	22,698	25,905	10,233	17,227	76,063
Accumulated amortisation					
At 1 January 2018	-	13,225	-	6,420	19,645
Amortisation in the year	-	4,324	-	2,764	7,088
Disposals	-	-	-	(1,047)	(1,047)
Exchange	-	-	-	(131)	(131)
At 31 December 2018	-	17,549	-	8,006	25,555
Amortisation in the year	-	2,364	250	531	3,145
Disposals	-	-	-	(3,103)	(3,103)
Exchange	-	-	6	185	191
At 31 December 2019	-	19,913	256	5,619	25,788
Carrying amount					
At 31 December 2018	22,650	8,356	-	692	31,698
At 31 December 2019	22,698	5,992	9,977	11,608	50,275

Intangible assets with an indefinite useful life

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. The impairment review uses projected cash flows, expected profitability and an internal assessment of business retention based on 8 year financial projections and a longer term assumed growth rate of 2%. This has been discounted at a risk adjusted discount rate of 15.3% representing a risk-free rate and an additional prudent margin.

The valuation of the syndicate participation rights intangible is sensitive to the key assumptions of business growth, profitability and risk adjusted discount rate, which are judgmental and based on management's best estimate at the balance sheet date. Whilst reasonably alternative assumptions could potentially result in an impairment, the risk adjusted discount rate used in the impairment review, to which the calculation is most sensitive, could be increased to 17.5% without indication of impairment in the carrying value of the participation rights.

$101m of syndicate participation rights have been allocated to CGL.

14. Intangible assets (continued)

Intangible assets with a finite useful life

The Group acquired business assets with a cost of $10m as part of the AmTrust merger. It also acquired the managing agent contract with the AmTrust syndicates (1861, 5820, 1206 and 44) for a further $10m.

The insurance contract intangible, Managing agency contract, IT software and licences are amortised over their finite economic lives and the charge is included in other operating and administrative expenses in the consolidated statement of profit or loss.

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. There was no impairment indication in 2019 (2018: $0m).

Assets with a finite useful life were assessed for indicators of impairment at the respective year ends and no indicators of impairment have been identified. As such, no impairment has been performed.

15. Property and equipment

$'000	Note	Computer equipment	Motor vehicles	Fixtures, fittings and equipment	Leasehold improvements	Total
Cost						
At 1 January 2018		18,515	208	3,276	5,436	27,435
Additions		99	-	16	-	115
Disposals		(12,620)	(165)	(754)	(3,783)	(17,322)
Exchange		(1,140)	72	(111)	(277)	(1,456)
At 31 December 2018		4,854	115	2,427	1,376	8,772
Additions		2,915	-	605	-	3,520
Exchange		158	34	27	25	244
At 31 December 2019		7,927	149	3,059	1,401	12,536
Accumulated depreciation						
At 1 January 2018		17,817	26	2,520	5,290	25,653
Charge for the year	11	523	33	388	17	961
Disposals		(12,620)	(127)	(754)	(3,783)	(17,284)
Exchange		(1,016)	85	(97)	(266)	(1,294)
At 31 December 2018		4,704	17	2,057	1,258	8,036
Charge for the year	11	209	27	285	17	538
Exchange		149	9	31	23	212
At 31 December 2019		5,062	53	2,373	1,298	8,786
Carrying amount						
At 31 December 2018		150	98	370	118	736
At 31 December 2019		2,865	96	686	103	3,750

16. Deferred acquisition costs

$'000	2019	2018
Insurance contract deferred acquisition costs at 1 January	184,962	158,951
Movement in deferred acquisition costs	83,339	26,011
Insurance contract deferred acquisition costs at 31 December	268,301	184,962

17. Reinsurance assets

$'000	Note	2019	2018
Non-life:			
Reinsurers' share of outstanding claims provision	27 i	185,619	269,227
Reinsurers' share of incurred but not reported provision	27 ii	215,668	276,200
Reinsurers' share of claims outstanding		401,287	545,427
Reinsurers' share of unearned premiums	27 iii	113,728	66,206
		515,015	611,633

18. Financial assets

a) Financial assets at fair value through profit or loss

$'000	2019	2018
Fair value (designated as such upon initial recognition)		
Debt securities and other fixed income securities	1,066,983	1,123,747
Holdings in collective investment schemes	601,045	802,378
Equity shares	115,008	63,665
Total financial assets at fair value through profit or loss	1,783,036	1,989,790

Financial assets which are subject to restrictions are referred to in Note 35(a).

b) Carrying value of financial instruments other than derivatives

$'000	2019	2018
Fair value (designated as such upon initial recognition)		
At 1 January	1,989,790	1,889,310
Purchases	1,192,751	1,367,177
Disposals	(1,447,195)	(1,243,983)
Fair value gains/(losses)	37,351	(17,830)
Realised gains/(losses)	10,339	(4,884)
At 31 December	1,783,036	1,989,790

The comparative has been represented to split out realised gains/(losses) and disposals on a consistent basis with the current year.

19. Derivative financial instruments

The Group utilises derivative financial instruments as part of its asset/liability risk management practice.

The 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. 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.

The following table shows the fair value through profit or loss ("FVPL") of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

	2019			2018		
$'000	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives at FVPL:						
Interest rate futures	9	(24)	10,910	340	(105)	27,811
Forward exchange contracts	17,905	(1,274)	753,195	1,129	(195)	394,638
Interest rate options	162	-	474,849	15	(689)	122,018
	18,076	(1,298)	1,238,954	1,484	(989)	544,467

At their inception, derivatives often involve only a mutual exchange of promises, with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group. Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

20. Fair value measurement

i) Valuation

The Group has classified its financial instruments as at 31 December 2019 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.

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. The valuation techniques include broker dealer quotes, reported trades, issuer spreads and available bids. 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.

ii) Fair value measurement of assets

$'000	Level 1	Level 2	Level 3	Total
Valuation at 31 December 2019				
Debt securities & other fixed income securities	553,045	513,938	–	1,066,983
Holdings in collective investment schemes	377,931	223,114	–	601,045
Equity	110,851	–	4,157	115,008
Derivative assets	137	17,939	–	18,076
Financial assets	1,041,964	754,991	4,157	1,801,112
Other assets – overseas deposits	15,182	37,729	–	52,911
	1,057,146	792,720	4,157	1,854,023

$'000	Level 1	Level 2	Level 3	Total
Valuation at 31 December 2018				
Debt securities & other fixed income securities	538,227	585,520	–	1,123,747
Holdings in collective investment schemes	128,673	673,705	–	802,378
Equity	63,665	–	–	63,665
Derivative assets	340	1,144	–	1,484
Financial assets	730,905	1,260,369	–	1,991,274
Other assets – overseas deposits	16,175	34,626	–	50,801
	747,080	1,294,995	–	2,042,075

20. Fair value measurement (continued)

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

Values for assets which have no market value have been valued at cost and are considered level 3 assets. At 31 December 2019 these represent the Group's share of the syndicate loan to the Lloyd's central fund, no further level 3 disclosure is provided on the grounds of materiality.

Any reclassification between categories is deemed to take place at the reporting year end.

21. Insurance receivables

$'000	2019	2018
Debtors arising out of insurance operations	592,881	524,135
Debtors arising out of reinsurance operations	97,847	94,377
	690,728	618,512
Amounts due within 1 year	690,368	618,199
Amounts due in over 1 year	360	313
	690,728	618,512

Debtors arising out of insurance operations are receivable within one year and relate to business transacted with brokers and intermediaries. Debtors arising out of reinsurance operations comprise amounts receivable from reinsurers in respect of paid claims and brokers' balances receivable on inwards reinsurance business. All insurance receivables are designated as loans and receivables and their carrying values approximate fair value at the reporting date.

22. Trade and other receivables

$'000	2019	2018
Loan	10,800	13,500
Other debtors	12,625	16,449
Accrued income	9,228	12,693
Amounts due from parent affiliates	22,132	-
	54,785	42,642
Amounts due within 1 year	46,685	31,842
Amounts due in over 1 year	8,100	10,800
	54,785	42,642

The fair value of trade and other receivables approximate to their carrying value.

The loan principal of $10.8m, which is repayable in four equal annual instalments of $2.7m, and accrued interest thereon of $0.2m, was tested by management for impairment at 31 December 2019 and management concluded that no impairment is required.

Amounts due from parent affiliates of $22.1m mainly relate to CGL Group costs allocated to Flectat 2 Limited.

23. Other assets

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

24. Cash and cash equivalents

$'000	2019	2018
Cash at bank and in hand	67,300	120,212
Cash equivalents	308,639	45,351
	375,939	165,563

The presentation of cash at bank and in hand and cash equivalents has been amended for 2018 consistently with the accounting policy disclosed in note 2.3(n).

Cash and cash equivalents are held at carrying value as it is a reasonable approximation of their fair value.

The cash and cash equivalents include $320.0 million (2018: $109.2 million) 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.

25. Share capital

Authorised, issued and fully paid:	**At 1 January 2018**	**Changes in issued capital**	**At 31 December 2018**	**Changes in issued capital**	**At 31 December 2019**
	number	number	number	number	number
Ordinary shares					
Ordinary shares of 1CHF par value	100,000	–	100,000	–	**100,000**
Ordinary shares total	**100,000**	**–**	**100,000**	–	**100,000**
Share capital	**$105,719**	**–**	**$105,719**	–	**$105,719**

On 7 January 2020, following the re-domiciliation of Canopius Group Limited from Switzerland to Jersey on 6 August 2019, a special resolution was passed for the issued and unissued share capital of CGL to be redenominated from Swiss Franc (CHF) to US dollars (US$) at a rate of exchange (CHF 1.00 to US$ 0.99999).

26. Insurance contract liabilities

$'000	Note	2019	2018
Non-life:			
Outstanding claims provision	27 i	1,047,207	1,285,387
Incurred but not reported provision	27 ii	781,737	861,848
Claims outstanding		1,828,944	2,147,235
Provision for unearned premiums	27 iii	822,875	563,067
		2,651,819	2,710,302

27. Insurance contract liabilities and reinsurance assets

i. Outstanding claims provision

$'000	2019 Insurance contract liabilities	2019 Reinsurance of liabilities	2019 Net	2018 Insurance contract liabilities	2018 Reinsurance of liabilities	2018 Net
Non-life:						
At 1 January	1,285,387	(269,227)	1,016,160	1,175,949	(232,448)	943,501
Movement during the year	(182,593)	68,806	(113,787)	120,072	(62,875)	57,197
Exchange and other adjustments	(55,587)	14,802	(40,785)	(10,634)	26,096	15,462
At 31 December	1,047,207	(185,619)	861,588	1,285,387	(269,227)	1,016,160

ii. Incurred but not reported provision

$'000	2019 Insurance contract liabilities	2019 Reinsurance of liabilities	2019 Net	2018 Insurance contract liabilities	2018 Reinsurance of liabilities	2018 Net
Non-life:						
At 1 January	861,848	(276,200)	585,648	1,005,175	(334,374)	670,801
Movement during the year	(56,175)	36,260	(19,915)	(134,141)	61,651	(72,490)
Exchange and other adjustments	(23,936)	24,272	336	(9,186)	(3,477)	(12,663)
At 31 December	781,737	(215,668)	566,069	861,848	(276,200)	585,648

It is estimated, using historical settlement trends, that $617 million (2018: $751 million) of the gross claims outstanding and incurred but not reported provision and $136 million (2018: $201 million) of the corresponding amount recoverable from reinsurers included in the above analyses, will settle in the next 12 months.

iii. Provision for unearned premiums

$'000	2019 Insurance contract liabilities	2019 Reinsurance of liabilities	2019 Net	2018 Insurance contract liabilities	2018 Reinsurance of liabilities	2018 Net
Non-life:						
At 1 January	563,067	(66,206)	496,861	508,050	(44,162)	463,888
Movement during the year	260,278	(47,708)	212,570	55,342	(21,894)	33,448
Exchange and other adjustments	(470)	186	(284)	(325)	(150)	(475)
At 31 December	822,875	(113,728)	709,147	563,067	(66,206)	496,861

28. Insurance payables

$'000	2019	2018
Creditors arising out of insurance operations	141,197	140,325
Creditors arising out of reinsurance operations	167,109	124,443
	308,306	264,768

Creditors arising out of reinsurance operations comprise principally premiums payable for reinsurance, including reinstatement premiums in both the managed syndicates and other Group operations.

29. Trade and other payables

$'000	2019	2018
Other creditors including taxation and social security	25,792	21,963
Accruals and deferred income	79,314	34,368
Amounts due to parent affiliates	4,166	–
	109,272	56,331

30. Pension benefit obligations

The Group operates defined contribution pension plans for its employees in the United Kingdom as well as a closed defined benefit pension scheme for certain of its former employees. The assets of the plans and the scheme are held separately from those of the Group companies in independently administered funds. Pension entitlements of employees outside the United Kingdom are provided through state schemes, to which the Group contributes in accordance with local regulations.

i) Defined benefit scheme

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 31 December 2019 by a qualified independent actuary.

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2019	2018
	% per annum	% per annum
Discount rate	2.1	2.9
Expected long-term rate of return of scheme assets	2.2	2.5
Increase in salaries	n/a	n/a
Inflation assumptions	2.9	3.2
LPI pension increases (capped at 5% per annum)	2.9	3.2

The underlying mortality assumption is based upon the standard table known as S2LPA CMI 2018, subject to a minimum annual rate of future improvement of 1% per annum.

The scheme is operated by Canopius Services Limited, a subsidiary of the Group and current sponsor of the scheme. At 31 December 2019 the present value of the scheme liabilities (in $'000) was $13,966 (2018: $12,847) and the market value of scheme assets was $14,911 (2018: $13,604), giving a surplus of $945 (2018: surplus of $757) calculated in accordance with the requirements of accounting standards.

30. Pension benefit obligations (continued)

i) Defined benefit scheme (continued)

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 on the basis that it is not considered probable that it will be recovered by the scheme. The latest triennial valuation prepared by the scheme Actuary on behalf of the Trustees of the scheme was as at 1 January 2019, the next triennial valuation will be as at 1 January 2022. As the scheme is considered not material in the context of the Group, reduced disclosure is given in this note.

ii) Defined contribution plans

The level of contributions for the defined contribution plans generally varies between 10% to 20% of salaries. Contributions (in $'000) of $433 (2018: $360) 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.

31. Cash generated from operating activities

$'000	2019	2018
Net change in operational assets		
Net change in reinsurance assets	96,618	(649)
Net change in insurance receivables	(72,216)	18,173
Net change in other assets	(50,073)	15,007
Total	(25,671)	32,531
Net change in operational liabilities		
Net change in non-life insurance contract liabilities	(58,483)	(65,498)
Net change in insurance payables	43,538	20,927
Net change in other liabilities	52,795	(27,536)
Total	37,850	(72,107)

The Group classifies the cash flows from the acquisition and disposal of financial assets as investing cash flows, as the purchases are funded from the net cash flows associated with the origination of insurance and investment contracts and the payment of benefits and claims incurred for insurance and investment contracts, which are respectively treated under investing activities.

32. Risk management framework

(a) Governance framework

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

The Group has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management groups and senior managers. Lastly, a Group policy framework, which sets out the risk policies for the Group, risk management, control and business conduct standards for the Group's operations, are in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

The Board of directors approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Group's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

(b) Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- Maintaining the required level of stability of the Group thereby providing a degree of security to policyholders;
- Allocating capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders;
- Retaining financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- Aligning the profile of assets and liabilities taking account of risks inherent in the business;
- Maintaining financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders; and
- Maintaining strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

(c) Regulatory framework

The operations of the Group are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseeable liabilities as they arise. The Group's capital management policy for its insurance and non–insurance business is to hold sufficient capital to cover the statutory requirements, including any additional amounts required by the regulator.

For the syndicates, through which the Group writes business, the Prudential Regulation Authority ("PRA") and Lloyd's oversee a capital regime that requires companies to calculate their own capital requirements under Solvency II through a Solvency Capital Requirement ("SCR"). Capital models are maintained in accordance with this regime.

Canopius Reinsurance Limited ("CRL") is domiciled in Bermuda and regulated by the Bermuda Monetary Authority ("BMA"), who oversee the capital adequacy of CRL. CRL is required to demonstrate capital adequacy to the BMA through the annual submission of the Bermuda Solvency Capital Requirement ("BSCR") calculation, which models the risk profile of CRL and determines the amount of capital which is required to support it.

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 state of New York has the largest minimum requirement at $47 million.

The Group and regulated entities within it have met all of these requirements throughout the financial year.

(d) Approach to capital management

The Group seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics. An important aspect of the Group's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders.

The Group uses equity, 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.

32. Risk management framework (continued)

(d) Approach to capital management (continued)

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

In 2019, the Group has renewed its letter of credit facility with ING and increased it from $250m to $350m, of which $344m is being utilised.

Available capital resources

$'000	2019	2018
Total equity	750,170	681,797
Unsecured letters of credit facilities	343,522	237,542
Available capital resources	1,093,692	919,339
Less: Intangible assets	(50,275)	(31,698)
Add: Deferred tax on intangible assets	2,893	3,182
Tangible financial resources	1,046,310	890,823

(e) Asset liability management (ALM) framework

Financial risks associated with the balance sheet arise from mismatches in our interest rate, currency and equity exposures, all of which are exposed to fluctuations in market variables. The Group's key ALM strategic objectives supported by the ALM framework are to manage asset liability mis-matches to maximise returns on capital while ensuring that adequate levels of liquidity remain at all times especially in adverse market conditions.

The ALM framework ensures the right balance of assets to liabilities is maintained to ensure solvency across several currencies. Assets and liabilities are to be "broadly matched" and managed within the Group Board and entity Board approved tolerance thresholds. An integral part of the ALM framework is to ensure we hold assets that can be readily converted if required to deal with unexpected cash outflows or changes in expected cash flows to ensure financial resources are maintained to meet liabilities as they fall due.

33. Management of insurance and financial risk

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.

The Group operates a "Three Lines of Defence" risk governance model.

The first line of defence involves everyone involved in day-to-day risk taking and comprises all underwriting and operational areas. The first line has direct responsibility for the management and control of risk.

The second line of defence includes the Risk and Compliance functions that provide oversight and challenge to the first line of defence.

33. Management of insurance and financial risk (continued)

Risk governance (continued)

The Risk Function is responsible for developing and implementing policies, processes, methodologies, standards and tools to enable business areas to identify, assess, mitigate and report on the exposure status of significant risks and to provide assurance that the risk profile is aligned with the risk appetite.

The Risk function routinely engages with individual business units and reports to the Boards and their sub-committees. Functional risk reporting is escalated through the group structure to the Boards e.g. syndicates 4444 aggregate information is collated, analysed and reported by a central catastrophe management team to the Group Underwriting Committee. The Active Underwriter reports 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 is the articulation of the amount of risk from all sources that the Group is prepared to accept to meet its strategic objectives. It is determined with consideration of its philosophy towards risk taking and its financial and operational capacity, while at the same time recognising the need to generate returns on capital that are in line with shareholder requirements.

The Board has responsibility for ensuring the effective management and control of risk. Accordingly, the Board approves the Enterprise Risk Management Framework and risk appetite in line with the business plan.

When apportioning the overall risk appetite to different categories of risk the Group considers whether there is potential reward for the assumption of the risk and the ability to manage the quantum of the risk directly and the timeframe over which this can be achieved.

Risks are taken that are aligned to the Group's strategic objectives and it has the organisational capability to monitor and control. Risks are not taken that will expose the Group to an unacceptable level of operational risk or risk to the reputation and brand.

The Group's core business is the underwriting of (re)insurance and so the risk appetite is primarily focussed on insurance risk. However, returns on investments can also make a positive contribution to profit and so there is some appetite for market risk. Other risks are not expected to contribute to profit but are inherent in the business operations. There is therefore some limited appetite for credit, liquidity and operational risks – but for these risks the focus is primarily on risk mitigation through the control framework.

Where possible, the risk appetite has been articulated into clearly defined quantitative measures. Risks are then monitored and reported against these defined risk tolerances.

The Board receives quarterly reports highlighting where the risk profile sits relative to the risk tolerances. If at any stage a risk breaches the agreed tolerance, the Board will be informed and appropriate remedial action will be taken to bring the risk with agreed levels.

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.

33. Management of insurance and financial risk (continued)

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 of loss resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments;
(b) Credit Risk	Risk of loss arising as a result of another party failing to perform its financial obligations or failing 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;
Strategic Risk	Risk of making wrong business decisions, implementing decisions poorly, managing capital inadequately, or being unable to adapt to changes in the operating environment;

Risk assessment

Risk identification exercises help focus attention on the highest priority risks and help minimise the likelihood of any surprises. All risks identified are assessed and reassessed on a “potential probability of occurrence and exposure impact” basis. The controls in place to mitigate risk are regularly assessed to ensure they are operating effectively.

Where control performance issues or control enhancements are identified, 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 to senior management and the Boards including (but not limited to); risk appetite monitoring, key risk indicators, risk and control assessments/ Internal Control Framework, stress and scenario testing, emerging risk reporting, Own Risk and Solvency Assessments.

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.

33. Management of insurance and financial risk (continued)

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; and
- Inadequate reserves.

Insurance risk appetite and tolerance

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.

The Board seeks to mitigate insurance risk by analysing historical pricing and claims experience, setting a tolerance to concentration risk, monitoring performance, and conducting in-house actuarial review of claims provisions, independent of the underwriting teams.

The Group has formal controls in place to ensure that business is underwritten in a controlled environment by reference to both the annual business plan and in line with underwriting policy. Preventative controls include Underwriting Authority Limits which are agreed and signed off by the Active Underwriter, Divisional and Group Underwriting Guidelines and benchmark ratings for all underwriting divisions. Detection controls include exception reports where authority limits are exceeded, expert review procedures, peer reviews, monthly management meetings and reviews by internal audit.

Underwriting

The Group accepts insurance risk in a range of classes of business through its insurance underwriting entities: Syndicate 4444, Canopius Reinsurance Limited (“CRL”) (formerly Canopius Reinsurance AG) and Canopius US Insurance, Inc. The Group owns a number of underwriting service companies and insurance intermediaries in Bermuda, Ireland, Singapore, Malaysia, Ireland, Netherlands, UK and we have branches in Switzerland, Australia and Labuan.

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 Group Underwriting Committee of Canopius Managing Agents Limited, and the Boards of CRL and Canopius US Insurance, Inc., as applicable.

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.

33. Management of insurance and financial risk (continued)

Underwriting (continued)

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 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 licences leading industry modelling tools, and supplements these 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.

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 exposure by class of business is carried out monthly and a review against the Group's catastrophe risk tolerance is carried out on a quarterly basis and reported to the Board.

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 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 on-going 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 $0.6 million loss (2018: $1.7 million loss).

33. Management of insurance and financial risk (continued)

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

Reserve 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.

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 $14.3 million gain/loss (2018: $16.0 million).

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 2019, of the Group's gross claims reserves of $1,829 million, $1,734 million (95%) were attributable to Syndicate 4444, $44 million (2%) to Canopius US Insurance, Inc. and $51 million (3%) to Canopius Reinsurance Limited.

The figures in the tables below are presented at the exchange rates prevailing at 31 December 2019.

33. Management of insurance and financial risk (continued)

Claims development tables (continued)

Underwriting year – Gross	**2010 and prior**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
$m											
Estimate of ultimate claims costs:											
At end of period 1	700	376	490	583	625	713	709	1,031	759	673	6,659
At end of year 2	835	393	626	570	590	668	785	1,148	848		6,463
At end of year 3	831	591	631	549	596	719	827	1,154			5,898
At end of year 4	1,127	594	616	540	597	726	833				5,033
At end of year 5	1,109	584	607	545	599	732					4,176
At end of year 6	1,096	579	608	542	592						3,417
At end of year 7	1,093	575	605	529							2,802
At end of year 8	1,035	575	609								2,219
At end of year 9	1,027	575									1,602
At end of year 10	1,045										1,045
Older years	96										96
Current estimate of cumulative gross claims	1,141	575	609	529	592	732	833	1,154	848	673	7,686
Cumulative payments to date	(991)	(533)	(531)	(475)	(498)	(547)	(588)	(769)	(365)	(68)	(5,365)
Gross claims outstanding	150	42	78	54	94	185	245	385	483	605	2,321
Unearned balance											(523)
Unallocated loss adjustment expenses											31
Total liability											1,829

33. Management of insurance and financial risk (continued)

Claims development tables (continued)

Underwriting year – Net	**2010 and prior**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
$m											
Estimate of ultimate claims costs:											
At end of period 1	438	329	416	508	542	609	607	798	628	595	5,470
At end of year 2	508	345	524	520	517	592	654	889	722		5,271
At end of year 3	500	467	531	505	516	614	687	912			4,732
At end of year 4	758	470	511	497	510	616	693				4,055
At end of year 5	673	461	503	503	514	624					3,278
At end of year 6	663	456	500	499	512						2,630
At end of year 7	662	453	497	489							2,101
At end of year 8	666	452	499								1,617
At end of year 9	659	453									1,112
At end of year 10	669										669
Older years	64										64
Current estimate of cumulative net claims	733	453	499	489	512	624	693	912	722	595	6,232
Cumulative payments to date	(639)	(414)	(435)	(443)	(432)	(482)	(514)	(629)	(341)	(68)	(4,397)
Net claims outstanding	94	39	64	46	80	142	179	283	381	527	1,835
Unearned balance											(438)
Unallocated loss adjustment expenses											31
Total liability											1,428

33. 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.

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 and Internal Audit functions.

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

As explained in Note 20, the Group classifies its financial instruments using the fair value hierarchy required by IFRS 13 'Fair value measurement'.

ii) Market price

The Group invests in a diversified portfolio consisting mainly of core short duration fixed income securities, money market instruments and return seeking assets. The return seeking assets include absolute return, hedge fund exposures, Collateralised Loan Obligations (CLOs) and London listed investment companies.

The cash and core fixed income portfolio as at end of December 2019 represented 88% (2018:66%) of the Group's financial assets, while the diversifying and return seeking allocation was 12% (2018: 34%).

33. Management of insurance and financial risk (continued)

(a) Financial risk – market risk (continued)

iii) Interest rate sensitivity of the fixed income portfolio

The majority of the Group's investments are held in cash, cash equivalents and fixed income securities (bonds). Although these bond holdings help to meet claims and liabilities as they fall due, their market value is related to the level of interest and the average length of time until the cash flows from these securities are due to be paid back to the investor (duration).

If interest rates change, as a result of macro-economic developments and changes in monetary policy, the market price of these fixed income securities will also change. The aggregate duration of the fixed income portfolio can provide an estimate of the extent to which the market value of these securities will change for a given change (1% or 100 basis point) in bond yields.

By way of example, the value of fixed income investments in the Group's balance sheet at 31 December 2019 was $1,067 million (2018: $1,124 million) with an average duration of 2.3 years (2018: 2.8 years). If interest rates were to rise or fall by 100 basis points at the balance sheet date, the market value of the fixed income securities would be expected to decrease or increase by $23.1 million (2018: $26.3 million).

The Group manages interest rate risk by broadly matching the duration of its cash and fixed income portfolio to that of the liabilities and by ensuring that aggregate average duration is less than 3 years.

The Investment Committee monitors the duration of the assets on a regular basis and will often make a decision to lower the duration or interest rate sensitivity of the bond portfolio if it believes that we are entering a period where interest rates are likely to rise in order to limit the impact on the market value of the portfolio.

The Group did not hold debenture loans at 31 December 2019 or 31 December 2018.

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 (over a government bond of similar duration and currency) is referred to as the credit spread. While this spread may be influenced by the level of liquidity and demand for the corporate, it is typically taken to reflect the credit risk to the investor that the issuer may not make timely payments of capital or interest.

As with interest rate duration, there is a similar measure of credit duration that will show the relative performance of a corporate security for a given (1% or 100 basis point) change in the credit spread relative the equivalent government bond.

If credit spreads were to rise or fall by 100 basis points at the balance sheet date, the fair value of the non-government fixed income securities and therefore the profit after tax and equity would decrease or increase by $13.2 million (2018: $11.3 million).

The Investment Committee monitors the credit spread duration of the assets on a regular basis. It also sets and monitors limits on the amount and categories of non-government credit that our external investment managers can hold in the portfolio.

33. Management of insurance and financial risk (continued)

v) Exchange rates

The Group operates internationally and has exposure to foreign exchange risk. The Group seeks to hold its net assets primarily in 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.

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 Group's consolidated financial statements are presented in US Dollars (the "presentation currency"). Accordingly, the Group actively manages its non US dollar balance sheet exposures, which are predominantly against the Euro, Canadian Dollar and Sterling.

The net currency position at 31 December 2019 and 31 December 2018 was:

Statement of profit or loss 'at risk' exposures:

At 31 December 2019	**GBP** £'000	**EUR** €'000	**CAD** C$'000
Gross exposure	211,999	84,074	(22,682)
Hedging	(189,326)	(90,343)	24,236
Net exposure	22,673	(6,269)	1,554

At 31 December 2018	**GBP** £'000	**EUR** €'000	**CAD** C$'000
Gross exposure	140,413	79,099	(28,814)
Hedging	(164,532)	(45,643)	24,407
Net exposure	(24,119)	33,456	(4,407)

It is estimated that the effect of a 10% strengthening (or weakening) of exchange rates against US dollar would decrease/(increase) profit after tax and equity by approximately $1.7 million (2018: $1.9m) for Sterling and decrease/(increase) profit after tax by approximately $0.6 million (2018: $2.9m) for Euro.

33. Management of insurance and financial risk (continued)

(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:

At 31 December 2019 $'000	AAA	AA	A	Other and/or not rated	Total
Reinsurance assets	–	179,003	264,731	71,281	515,015
Reinsurance receivables	–	–	–	97,847	97,847
Debt and fixed income securities	739,920	112,505	173,063	41,495	1,066,983
Holdings in collective investment schemes	80,513	111,809	193,645	215,078	601,045
Other assets – overseas deposits	30,723	4,382	8,258	9,548	52,911
Cash and cash equivalents	–	–	375,939	–	375,939
Total	851,156	407,699	1,015,636	435,249	2,709,740

At 31 December 2018 $'000	AAA	AA	A	Other and/or not rated	Total
Reinsurance assets	–	218,597	322,729	70,307	611,633
Reinsurance receivables	–	–	–	94,377	94,377
Debt and fixed income securities	641,560	107,777	279,470	94,940	1,123,747
Holdings in collective investment schemes	78,624	53,571	59,110	611,073	802,378
Other assets – overseas deposits	26,407	5,370	11,876	7,148	50,801
Cash and cash equivalents	–	–	165,563	–	165,563
Total	746,591	385,315	838,748	877,845	2,848,499

33. Management of insurance and financial risk (continued)

(b) Credit risk (continued)

The underlying investments in the 'other/not rated' holdings in collective investment schemes (that includes participation in investment pools) at 31 December 2019 comprised:

$'000	2019	2018
Absolute return funds	78,880	297,658
Bond funds	38,674	77,362
Commodities	-	11,396
Equities	-	7,857
Funds of hedge funds	-	5,285
Hedge funds	97,517	74,471
Money market funds	-	35,368
BBB and below securities	7	46,945
Non rated	-	54,731
Total	**215,078**	**611,073**

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.

At 31 December 2019	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	515,015	-	-	-	-	-	515,015
Debtors arising out of reinsurance operations	-	64,975	11,334	6,274	15,264	-	97,847
Debtors arising out of insurance operations	588,310	4,148	369	40	14	-	592,881
Financial assets at fair value	1,783,036	-	-	-	-	-	1,783,036

At 31 December 2018	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	611,633	-	-	-	-	-	611,633
Debtors arising out of reinsurance operations	-	44,115	26,707	8,460	15,095	-	94,377
Debtors arising out of insurance operations	509,660	8,226	2,780	1,769	1,700	-	524,135
Financial assets at fair value	1,989,790	-	-	-	-	-	1,989,790

32. Management of insurance and financial risk (continued)

(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 pay-out pattern for the claims liabilities.

The contractual maturity profile at 31 December 2019 was as follows:

$'000	Loan	Debt and other fixed income securities	Holdings in collective investment schemes	Overseas deposits	Cash and cash equivalents	**Total 2019**	**Total 2018**
Less than one year	2,700	75,839	–	52,911	375,939	507,389	306,834
Between one and two years	2,700	234,401	–	–	–	237,101	259,395
Between two and five years	5,400	611,176	–	–	–	616,576	545,153
Over five years	–	145,567	–	–	–	145,567	242,229
	10,800	1,066,983	–	52,911	375,939	1,506,633	1,353,611
Other non-dated instruments	–	–	601,045	–	–	601,045	802,378
	10,800	1,066,983	601,045	52,911	375,939	2,107,678	2,155,989

The expected payment profile of gross insurance contract liabilities, as at 31 December 2019 was as follows:

$'000	**Total 2019**	**Total 2018**
Less than one year	1,140,282	1,219,636
Between one and two years	822,064	840,194
Between two and five years	318,218	352,339
Over five years	371,255	298,133
	2,651,819	2,710,302

Claims outstanding is reported net of discounting credit on non-life annuities liability business of $5.4 million (2018 $17.2 million).

The expected payment profile of lease liabilities, based on undiscounted cash flows, as at 31 December 2019 was as follows:

	Lease Liabilities
Less than one year	4,274
Between one and two years	283
Between two and five years	599
Over five years	321
	5,477

33. Management of insurance and financial risk (continued)

(c) Liquidity risk (continued)

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

	2019 Years	**2018** Years
Sterling	–	1.9
US dollar	2.3	2.9
Euro	–	2.1
Canadian dollar	2.3	–

By taking into account the diversifying and return seeking assets within the portfolio (in addition to the fixed income investments), the average duration of the portfolio is around 1.0 years (2018:1.6 years).

34. Leases

The Group's lease accounting policy is included in note 2.3(q). This note provides additional information about the Group's lease arrangements in the reporting period.

Group as a lessee

The Group is a lessee in relation to office space (land and buildings) and various pieces of equipment used in its operations. Some of the Group's lease contracts include:

- Extension and termination options, which are considered further below; and/or
- Obligations to make variable lease payments, such as where the Group reimburses the lessor for related insurance costs that it incurs. These amounts are not material.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period (comparatives are not shown due to the Group's approach to transition to IFRS 16 – see note 2.4).

$'000	Land and buildings	Equipment	**Total**
At 1 January 2019	**7,318**	**762**	**8,080**
Additions	1,576	45	1,621
Cancelled lease derecognised	(369)	–	(369)
Depreciation expense	(3,923)	(460)	(4,383)
Foreign exchange	86	17	103
At 31 December 2019	**4,688**	**364**	**5,052**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

$'000	
At 1 January 2019	**8,080**
Additions	1,621
Cancelled lease derecognised	(369)
Unwind of discounting (interest on lease liabilities)	305
Lease payments	(4,567)
Foreign exchange	104
At 31 December 2019	**5,174**

34. Leases (continued)

The following are the amounts recognised in the consolidated statement of profit or loss in the period in relation to the Group's leases:

$'000	2019
Depreciation expense of right-of-use assets	4,383
Interest expense on lease liabilities	305
Expense relating to short-term leases*	902
Expense relating to leases of low-value assets*	282
Variable lease payments*	114
Total amount recognised in profit or loss	**5,986**

*These items are included in other operating and administrative expenses.

The Group had total cash outflows for leases of $5.6 million in 2019.

Some of the Group's leases include extension and termination options which provide the Group with flexibility to manage leased assets in line with changing business needs. In measuring lease liabilities and right-of-use assets management exercises judgment to determine whether these options are reasonably certain to be exercised.

As at 31 December 2019, undiscounted potential future lease payments of $1.4 million relating to periods following the exercise date of an extension option not expected to be exercised were not reflected in amounts recognised within the consolidated statement of financial position.

The Group has lease contracts that have not yet commenced but to which the Group is committed as at 31 December 2019. The undiscounted future lease payments for these non-cancellable lease contracts are $0.6 million within one year, $10.9 million within five years and $32.4 million thereafter.

The maturity analysis of lease liabilities is disclosed in Note 33(c).

35. Guarantees and contingencies

(a) Assets securing insurance and other liabilities

Of the total of financial assets, cash and cash equivalents and other assets disclosed on the Group's balance sheet, $1,540 million (2018: $1,197 million) 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.

(b) Deeds of Indemnity

During 2019, the Group did not enter into any new Deeds of Indemnity with Lloyd's. Five deeds relating to the reorganisation of the Group's corporate members on syndicates 958, 4444 and 6115 have expired. This leaves sixteen Deeds remaining to cover remote potential liabilities that may arise following the release by Lloyd's between 2006 and 2016 of various members' FAL.

(c) Bank facilities

As at 31 December 2019, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

- $350 million (2018: $250 million) unsecured, of which $343.5 million (2018: $237.5 million) has been utilised to support underwriting on syndicate 4444's 2018, 2019 and 2020 years of account.

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

Letters of credit totalling $14.4 million (2018: $20.9 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 $20.4 million (2018: $21.0 million).

36. Related party transactions

Details of the ultimate and immediate parent companies of CGL can be found in note 3.1.

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 of fourteen (2018: eighteen) persons. Eight (2018: ten) of the key management persons were directors of Canopius Group Limited. Details of the remuneration of the Group's key management personnel, including the directors, are shown below in aggregate for each of the categories specified by IAS 24 – 'Related party disclosures'.

$'000	2019	2018
Short-term employment benefits	7,894	7,393

Loans to related parties

Non-interest bearing season ticket loans made to directors and members of key management during the year amounted to $nil (2018: $nil) of which $nil (2018: $nil) was outstanding as at 31 December 2019. Loans in relation to share purchases in Fortuna Topco Limited amounted to $1.9m (2018: $1.1m).

Transactions with other related parties, including directors of the group companies

There are no other related party transactions to report.

37. Subsequent events

On 7 January 2020, the FHL Board approved the transfer of 100% of shares in Flectat 2 Limited to Canopius Group Limited ("CGL") in exchange for shares in CGL. CGL subsequently passed down 100% of the Flectat 2 Limited shares to its subsidiary, Canopius Holdings UK Limited ("CHUKL").

On 7 January 2020, following the re-domiciliation of Canopius Group Limited from Switzerland to Jersey on 6 August 2019, a special resolution was passed for the issued and unissued share capital of CGL to be redenominated from Swiss Franc (CHF) to US dollars (US$) at a rate of exchange (CHF 1.00 to US$ 0.99999).

On 16 March 2020 the Group acquired a majority stake in Multi-Strat Holdings Ltd, a speciality reinsurance group headquartered in Bermuda. This acquisition is complementary to the Group's existing ILS capabilities. The acquisition is immaterial to the Group.

On the 15 May 2020 FHL subscribed to an additional $191.4m worth of shares in CGL which was settled through the payment of $171.4m of cash and transfer of $20.0m of assets to CGL. On this date CGL subscribed to $160.3m worth of shares in CHUKL which was settled through the payment of $140.3m of cash and transfer of $20.0m of assets to CHUKL.

The coronavirus outbreak event, COVID-19, presents various operational, insurance, market and counterparty risks to the Group. The Group has taken steps to keep staff safe, by having them work from home and using all available technology to keep day-to-day operations going.

Additionally in response to the ongoing COVID-19 pandemic the Group has modelled a range of outcomes on its solvency and liquidity. Whilst the impact on profitability, net assets and solvency is anticipated to be material it is too early to fully assess the impact with a high degree of certainty. However, as at the date of approving these financial statements:

- In the aftermath of the announcement by various governments of COVID-19 related restrictions and for the period to 31 March 2020 the value of the value of the Group's investment portfolio fell by $19m. During the period up to the approval of these financial statements the Group's investment portfolio has seen a full recovery as a result of positive developments in investment markets. The portfolio has strong liquidity and is defensively positioned which has helped to mitigate the impact of the pandemic.
- The claims impact of COVID-19 could fall within a wide range of estimates which are continuously developing and therefore are subject to revisions resulting in considerable variability. The impact for the full year is subject to further assessment but management's current estimate is for additional claims of $120m – $160m.

The directors continue to monitor the fast developing situation closely and take all appropriate steps to manage the impact on policyholders, employees and other stakeholders.

Canopius Group Limited

Company Accounts

Statement of profit or loss and comprehensive income

for the year ending 31 December 2019

$'000	**Notes**	**2019**	**2018**
Investment income	4	6,659	4,163
Net realised gains/(losses)	5	1,958	(2,870)
Fair value gains/(losses)	6	7,021	(1,193)
Total revenue		**15,638**	**100**
Finance costs	7	(2,194)	(1,162)
Other operating and administrative expenses	8	(2,960)	(3,600)
Other expenses		**(5,154)**	**(4,762)**
Profit/(loss) before tax		10,484	(4,662)
Income tax (charge)/credit	9(a)	(146)	510
Profit/(loss) for the year		**10,338**	**(4,152)**

The company did not recognise any other comprehensive income during the period.

The notes on pages 86 to 98 form part of these financial statements.

Statement of financial position

as at 31 December 2019

$'000	Notes	2019	2018
Assets			
Investment in subsidiary undertakings	10	662,406	583,406
Financial assets			
Financial assets at fair value through profit or loss	11	147,385	261,343
Derivative financial instruments	12	162	15
Trade and other receivables	13	11,706	14,814
Cash and cash equivalents	14	147,392	25,485
Total assets		**969,051**	**885,063**
Equity and liabilities			
Equity attributable to equity holders of parent			
Issued share capital	15	106	106
Capital reserves		759,956	759,956
Retained earnings		83,249	72,911
Total equity		**843,311**	**832,973**
Liabilities			
Derivative financial instruments	12	-	689
Income tax payable	9(b)	146	-
Trade and other payables	18	125,594	51,401
Total liabilities		125,740	52,090
Total equity and liabilities		**969,051**	**885,063**

These financial statements were approved by the Board of Directors on 15 May 2020 and signed on its behalf on 4 June 2020 by:

Michael Watson
Director

Nigel Meyer
Director

The notes on pages 86 to 98 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2019

$’000	Issued share capital Note 15	Capital reserves	Retained earnings	Total equity
	Attributable to equity holders of the parent			
At 1 January 2018	**106**	**582,956**	**77,063**	**660,125**
Loss for period	–	–	(4,152)	(4,152)
Capital contribution	–	177,000	–	177,000
At 31 December 2018	**106**	**759,956**	**72,911**	**832,973**
At 1 January 2019	**106**	**759,956**	**72,911**	**832,973**
Profit for period	–	–	10,338	10,338
At 31 December 2019	**106**	**759,956**	**83,249**	**843,311**

The notes on pages 86 to 98 form part of these financial statements.

Statement of cash flows

for the year ended 31 December 2019

$'000	Notes	2019	2018
Operating activities			
Profit/(loss) before tax		10,484	(4,662)
Adjustment for:			
Change in operating assets	19	2,961	(17,395)
Change in operating liabilities	19	75,637	27,783
Financial income and expense		(6,423)	(131)
Fair value (gains)/losses		(7,021)	1,788
Net cash flows from operating activities		75,638	7,383
Investing activities			
Investment income		6,480	3,743
Investment in subsidiary undertakings	10	(79,000)	–
Purchase of financial investments		(35,228)	(261,511)
Disposal of financial assets		153,744	43,991
Net cash flows from/(used in) investing activities		45,996	(213,777)
Financing activities			
Capital contribution		–	177,000
Dividends received	16	273	–
Net cash flows from financing activities		273	177,000
Net increase/(decrease) in cash and cash equivalents		121,907	(29,394)
Cash and cash equivalents at beginning of year		25,485	54,879
Cash and cash equivalents at end of year	14	**147,392**	**25,485**

The notes on pages 86 to 98 form part of these financial statements.

Notes to the Company Accounts

for the year ended 31 December 2019

1. Corporate information

Canopius Group Limited (the "Company") is the parent undertaking and controlling party of the Canopius Group of companies ("CGL"). A summary of the principal accounting policies applied in the preparation of these financial statements is set out below.

The Company is a wholly-owned subsidiary of Fortuna Holdings Limited ("FHL") and is incorporated and domiciled in Jersey.

With effect from 6th August 2019, the Company re-domiciled from Switzerland to Jersey and on the same date changed its name from Canopius AG to Canopius Group Limited ("CGL").

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman GP Limited (acting in concert) along with Centerbridge Associates III, L.P.

2. Significant accounting policies, judgements and estimates

2.1 Basis of preparation and presentation

Following the re-domiciliation from Switzerland to Jersey on 6 August 2019, Canopius Group Limited ("the Company") has elected to prepare its 2019 year end financial statements in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Companies (Jersey) Law 1991, previously Swiss law. There are no valuation differences between the previously presented amounts under Swiss law and those under full IFRS, and therefore the disclosure requirements under IFRS 1, including a third statement of financial position, have not been presented.

These financial statements are prepared in accordance with IFRS issued by the IASB and presented in US dollars.

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

The preparation of financial statements in conformity with IFRS requires the Company's Board to exercise its judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are explained in Note 2.4 below.

Having assessed the principal risks, including the impact of COVID-19, the directors considered it appropriate to adopt the going concern basis of accounting in preparing these financial statements, and accordingly these financial statements have been prepared on a going concern basis. These considerations, which include the additional downward scenario testing as well as considerations around capital and liquidity, are explained in detail in the section on Going Concern within the Directors' Report on page 17 above.

2.2 Summary of significant accounting policies

(a) Operating and administrative expenses

Operating and administrative expenses are accounted for on an accruals basis.

(b) Finance costs

Finance costs reflect loan interest payable.

2. Significant accounting policies, judgements and estimates (continued)

2.2 Summary of significant accounting policies (continued)

(c) Current 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 statement of profit or loss 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 liability or asset for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

(d) Foreign currency translation

Functional and presentation currency

The financial statements are presented in US dollars which is also the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using average, rather than spot, exchange rates as these rates do not fluctuate significantly. 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 statement of profit or loss for the period.

(e) Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, including any contingent consideration payable less any provision for impairment.

(f) Financial instruments

Classification

On initial recognition, financial assets are measured at fair value. Subsequently, they can be measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification depends on two criteria:

I. the business model within which financial assets are managed; and

II. their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are not intended to be sold in the short term and do not fall into the other categories of financial assets as described above. On initial recognition loans and receivables are measured at fair value. Subsequently they are measured at amortised cost.

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 statement of profit or loss. All derivatives are carried as assets if the fair value is positive and as liabilities if the fair value is negative.

2. Significant accounting policies, judgements and estimates (continued)

2.2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(g) Trade and other receivables

Trade and other receivables are amounts due from associated group companies and external parties, measured at amortised cost using the effective interest method.

(h) Cash and cash equivalents

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.

Cash at bank and in hand relate to amounts which are held at a bank in the form of on demand deposits such as current accounts and savings accounts. Short term deposits with a maturity of three months or less are considered cash equivalents.

(i) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. There is no scheme for employee owned shares.

(j) Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised as paid when the directors make a solvency statement before payment.

(k) Trade and other payables

Trade and other payables are made up of amounts due to associated group companies, measured at amortised cost using the effective interest method, and third party creditors accounted for on an accruals basis at fair value.

2.3 New and amended standards and interpretations

In the current year, the company has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2019. The new effective requirements are:

- IFRS 9 'Financial Instruments' is the new reporting standard for financial instruments, and became effective on 1 January 2018. IFRS 9 has replaced previous financial instrument standards and interpretations covered by IAS 39 'Financial Instruments: Recognition and Measurement', bringing together all aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. In 2019 the company has applied IFRS 9 for the first time. The standard introduces new assessments for the classification and measurement of financial instruments, as detailed in note 2.2(f). The business model assessment was made as at the date of initial recognition. The `solely payments of principal and interest' (SPPI) test was performed based on facts and circumstances as at the initial recognition of the asset. There has been no change in classification and measurement of the company's financial assets as a result of the introduction of IFRS 9. Debtor balances including loans and receivables remain at amortised cost.

2. Significant accounting policies, judgements and estimates (continued)

2.3 New and amended standards and interpretations (continued)

Classification and measurement of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities.

Impairment

IFRS 9 introduces a new impairment model for financial assets not held at FVTPL. As a result, the company must now determine forward looking expected credit losses (ECL) for all its financial assets held at amortised cost. The company has applied the simplified approach to establishing an ECL in relation to debtors. Further details on credit risk are detailed in note 20(i).

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

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 Company's balance sheet includes significant investments in subsidiary companies, which are included at cost, including any contingent consideration payable, less any provision for impairment.

The recoverability of these balances is dependent on the financial position and future prospects of the subsidiary companies. The principal risks relating to these subsidiaries, including the potential impact of COVID-19, are outlined in their respective 31 December 2019 Annual report & financial statements.

3. Company information

3.1 Ultimate parent undertaking and controlling party

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman GP Limited (acting in concert) along with Centerbridge Associates III, L.P.

The immediate parent of Canopius Group Limited is Fortuna Holdings Limited.

3.2 Subsidiaries

The principal subsidiaries of Canopius Group Limited are listed in Note 3.2 of the Group accounts on page 48. The Company holds no investments in joint ventures or associates and there is no non-controlling interest.

4. Investment income

$'000	2019	2018
Interest income on financial assets	13	225
Dividend income	1,360	1,029
Interest income on cash and cash equivalents	5,406	3,170
Gross investment income	6,779	4,424
Investment fees & expenses	(120)	(261)
Net investment income	6,659	4,163

5. Net realised gains and losses

$'000	2019	2018
Realised gains	10,377	2,828
Realised losses	(8,419)	(5,698)
	1,958	(2,870)

6. Fair value gains and losses

$'000	2019	2018
Fair value gains on other financial assets	9,607	7,146
Fair value losses on other financial assets	(2,586)	(8,339)
	7,021	(1,193)

7. Finance Costs

$'000	2019	2018
Loan Interest expense	(2,193)	(1,153)
Trustee fees and bank charges	(1)	(9)
	(2,194)	(1,162)

8. Operating and administrative expenses

$'000	2019	2018
Professional and advisory fees	(3,488)	(1,505)
Other expenses	(417)	(778)
Expenses before exchange adjustments	(3,905)	(2,283)
Net foreign exchange adjustments	945	(1,317)
	(2,960)	(3,600)

Other expenses includes an allocation of management recharges from CHUKL.

9. Current Tax

The Company is tax resident in the UK. Consequently it is appropriate to report at the UK standard rate of tax.

(a) Reconciliation of tax charge

$'000	2019	2018
Profit/(loss) before tax	10,484	(4,662)
Tax at 19%	(1,992)	886
Profits/(losses) not subject to UK tax	1,992	(886)
Overseas taxes	(146)	–
Reclassification of capital tax	–	510
Income tax (charge)/credit	(146)	510

(b) Income tax receivable (payable)

$'000	2019	2018
At 1 January	–	(510)
Overseas taxes recorded in the statement of profit or loss	(146)	–
Reclassification of capital tax	–	510
At 31 December	(146)	–

Capital tax of $510K was reclassified from income tax to other operating and administrative expenses in 2018.

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020.

10. Investment in subsidiary undertakings

$'000	2019	2018
At 1 January	583,406	583,406
Capital contribution Flectat Limited	79,000	–
At 31 December	662,406	583,406

Canopius Group Limited made a capital contributions to its subsidiary Flectat Limited on 13 and 27 June 2019 for total consideration of $79m.

11. Financial assets

(a) Financial assets at fair value through profit or loss

$'000	2019	2018
Fair value (designated as such upon initial recognition)		
Debt securities and other fixed income securities	95,199	91,278
Holdings in collective investment schemes	27,859	153,943
Equity shares	24,327	16,122
Total financial assets at fair value through profit or loss	147,385	261,343

11. Financial assets (continued)

Financial assets which are subject to restrictions are referred to in Note 14.

(b) Carrying value of financial instruments other than derivatives

$'000	2019	2018
Fair value (designated as such upon initial recognition)		
At 1 January	261,343	50,106
Purchases	35,228	261,511
Disposals	(153,744)	(43,991)
Fair value gains/(losses)	7,856	(1,788)
Realised losses	(3,298)	(4,495)
At 31 December	147,385	261,343

The comparative has been represented to split out realised gains/(losses) and disposals on a consistent basis with the current year.

12. Derivative financial instruments

The Group utilises derivative financial instruments as part of its asset/liability risk management practice.

The 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. 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.

The following table shows the fair value through profit or loss ("FVPL") of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

	2019			2018		
$'000	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives at FVPL:						
Interest rate futures	162	–	474,849	15	(689)	122,018
	162	–	474,849	15	(689)	122,018

At their inception, derivatives often involve only a mutual exchange of promises, with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group. Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

13. Trade and other receivables

$'000	2019	2018
Loan	10,800	13,500
Accrued income	595	642
Amounts due from group undertakings	311	672
	11,706	14,814
Amounts due within 1 year	3,606	4,014
Amounts due in over 1 year	8,100	10,800
	11,706	14,814

The fair value of trade and other receivables approximate to their carrying value.

The loan principal of $10.8m, which is repayable in four equal annual instalments of $2.7m, and accrued interest thereon of $0.2m, was tested by management for impairment at 31 December 2019 and management concluded that no impairment is required.

14. Cash and cash equivalents

$'000	2019	2018
Cash at bank and in hand	537	2,275
Cash equivalents	146,855	23,210
	147,392	25,485

The presentation of cash at bank and in hand and cash equivalents has been amended for 2018 consistently with the accounting policy disclosed in note 2.2(h).

Cash and cash equivalents are held at carrying value as it is a reasonable approximation of their fair value. The cash and cash equivalents include $131.7 million (2018: $3.7 million) 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.

15. Share capital and premium

Authorised, issued and fully paid:	At 1 January 2018	Changes in issued capital	At 31 December 2018	Changes in issued capital	At 31 December 2019
	number	number	number	number	number
Ordinary shares					
Ordinary shares of 1CHF par value	100,000	–	100,000	–	**100,000**
Ordinary shares total	**100,000**	**–**	**100,000**	–	**100,000**
Share capital	**$105,719**	**–**	**$105,719**	–	**$105,719**

On 7 January 2020, following the re-domiciliation of Canopius Group Limited from Switzerland to Jersey on 6 August 2019, a special resolution was passed for the issued and unissued share capital of CGL to be redenominated from Swiss Franc (CHF) to US dollars (US$) at a rate of exchange (CHF 1.00 to US$ 0.99999).

16. Dividends Received

During the year, CGL received dividends from its subsidiary, Canopius Europe Limited, of $273K (2018: nil). No dividends were paid by CGL during the year (2018: nil).

17. Fair value measurement

i) Valuation

The Group has classified its financial instruments as at 31 December 2019 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.

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. The valuation techniques include broker dealer quotes, reported trades, issuer spreads and available bids. 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.

ii) Fair value measurement of assets

$'000	Level 1	Level 2	Level 3	Total
Valuation at 31 December 2019				
Debt securities & other fixed income securities	92,737	2,462	–	95,199
Holdings in collective investment schemes	2,884	24,975	–	27,859
Equity	24,327	–	–	24,327
Financial assets	119,948	27,437	–	147,385
Derivatives	162	–	–	162
	120,110	27,437	–	147,547

$'000	Level 1	Level 2	Level 3	Total
Valuation at 31 December 2018				
Debt securities & other fixed income securities	88,155	3,123	–	91,278
Holdings in collective investment schemes	12,447	141,496	–	153,943
Equity	16,122	-	–	16,122
Financial assets	116,724	144,619	–	261,343
Derivatives	15	-	–	15
	116,739	144,619	–	261,358

17. Fair value measurement (continued)

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

At 31 December 2019 and 31 December 2018 there were no securities classified as Level 3 under IFRS.

In 2018, the sensitivity of level 3 measurements to favourable and unfavourable changes has not been considered as there were no level 3 investments.

Any reclassification between categories is deemed to take place at the reporting year end.

18. Trade and other payables

$'000	2019	2018
Amounts owed to group undertakings	123,502	50,472
Accruals and deferred income	1,934	646
Other creditors	158	283
	125,594	**51,401**

Amounts owed to group undertakings include $106m of loans payable, $10m due to Syndicate 4444 and $4m due to Canopius Reinsurance Limited.

19. Cash generated from operating activities

$'000	2019	2018
Net change in operational assets		
Net change in other assets	2,961	(17,395)
Total	2,961	(17,395)
Net change in operational liabilities		
Net change in other liabilities	75,637	27,783
Total	75,637	27,783

The Group classifies the cash flows from the acquisition and disposal of financial assets as investing cash flows, as the purchases are funded from the net cash flows associated with the origination of insurance and investment contracts and the payment of benefits and claims incurred for insurance and investment contracts, which are respectively treated under investing activities.

20. Management of risk

The Company is exposed to risk through its investment in CGL. CGL has established a risk management function with clear terms of reference from its board of directors. A policy framework, which sets out the risk policies for the CGL Group, risk management, control and business conduct standards for the Group's operations, are in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

The Board of directors of CGL approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

In the normal course of business, the Company is exposed to the following major risk categories:

Credit Risk Risk of loss arising as a result of another party failing to perform its financial obligations or failing to perform them in a timely fashion.

Liquidity Risk Risk that insufficient liquid financial resources are maintained to meet liabilities as they fall due.

i) Credit risk

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

At 31 December 2019 $'000	AAA	AA	A	Other and/or not rated	Total
Debt securities and other fixed income	95,199	–	–	–	95,199
Holdings in collective investment schemes	–	–	–	27,859	27,859
Cash and cash equivalents	–	–	147,392	–	147,392
Total	95,199	–	147,392	27,859	270,450

At 31 December 2018 $'000	AAA	AA	A	Other and/or not rated	Total
Debt securities and other fixed income	91,278	–	–	–	91,278
Holdings in collective investment schemes	–	–	–	153,943	153,943
Cash and cash equivalents	–	–	25,485	–	25,485
Total	91,278	–	25,485	153,943	270,706

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company uses quantitative and qualitative information in order to reach a conclusion whether there has been any significant increase in credit risk from recognition.

Trade and other receivables includes amounts due from group companies measured at amortised cost using the effective interest method. It also includes prepayments and accrued income with various counterparties. The company assesses each counterparty including historic loss experiences and current market conditions.

Cash and cash equivalents are held with bank and financial institution counterparties. The company has assessed the risk and does not consider there to be any significant risk of default given the credit rating and no history of default.

The table below details the gross carrying amount and the net carrying amount post loss allowance.

$'000	Note	Gross Carrying Amount	Loss Allowance	Net Carrying Amount
Trade and other receivables	13	11,706	–	11,706
Cash and cash equivalents	14	147,392	–	147,392

20. Management of risk (continued)

(ii) Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due. The contractual maturity profile of the Company's cash and cash equivalents at 31 December 2019 was as follows:

At 31 December 2019	Less than one year	Between one and five years	Over five years	Other non dated instruments	Total
$'000					
Debt securities and other fixed income	5,792	28,672	60,735	–	95,199
Holdings in collective investment schemes	–	–	–	27,859	27,859
Cash and cash equivalents	147,392	–	–	–	147,392
Total	**153,184**	**28,672**	**60,735**	**27,859**	**270,450**

At 31 December 2018	Less than one year	Between one and five years	Over five years	Other non dated instruments	Total
$'000					
Debt securities and other fixed income	2,144	30,463	58,671	–	91,278
Holdings in collective investment schemes	–	–	–	153,943	153,943
Cash and cash equivalents	25,485	–	–	–	25,485
Total	**27,629**	**30,463**	**58,671**	**153,943**	**270,706**

21. Related party transactions

Details of the ultimate and immediate parent companies of Canopius Group Limited can be found in note 3.

22. Subsequent events

On 7 January 2020, the FHL Board approved the transfer of 100% of shares in Flectat 2 Limited to Canopius Group Limited ("CGL") in exchange for shares in CGL. CGL subsequently passed down 100% of the Flectat 2 Limited shares to its subsidiary, Canopius Holdings UK Limited ("CHUKL").

On 7 January 2020, following the re-domiciliation of Canopius Group Limited from Switzerland to Jersey on 6 August 2019, a special resolution was passed for the issued and unissued share capital of CGL to be redenominated from Swiss Franc (CHF) to US dollars (US$) at a rate of exchange (CHF 1.00 to US$ 0.99999).

On 16 March 2020 the Group acquired a majority stake in Multi-Strat Holdings Ltd, a speciality reinsurance group headquartered in Bermuda. This acquisition is highly complementary to the Group's existing ILS capabilities. The acquisition is immaterial to the Group.

On the 15 May 2020 FHL subscribed to an additional $191.4m worth of shares in CGL which was settled through the payment of $171.4m of cash and transfer of $20.0m of assets to CGL. On this date CGL subscribed to $160.3m worth of shares in CHUKL which was settled through the payment of $140.3m of cash and transfer of $20.0m of assets to CHUKL.

The coronavirus outbreak event, COVID-19, presents various operational, insurance, market and counterparty risks to the Group. The Group has taken steps to keep staff safe, by having them work from home and using all available technology to keep day-to-day operations going.

22. Subsequent events (continued)

Additionally in response to the ongoing COVID-19 pandemic the Group has modelled a range of outcomes on its solvency and liquidity. Whilst the impact on profitability, net assets and solvency is anticipated to be material it is too early to fully assess the impact with a high degree of certainty However, as at the date of approving these financial statements:

- In the aftermath of the announcement by various governments of COVID-19 related restrictions and for the period to 31 March 2020 the value of the value of the Group's investment portfolio fell by $19m. During the period up to the approval of these financial statements the Group's investment portfolio has seen a full recovery as a result of positive developments in investment markets. The portfolio has strong liquidity and is defensively positioned which has helped to mitigate the impact of the pandemic.
- The claims impact of COVID-19 could fall within a wide range of estimates which are continuously developing and therefore are subject to revisions resulting in considerable variability. The impact for the full year is subject to further assessment but management's current estimate is for additional claims of $120m – $160m.

The directors continue to monitor the fast developing situation closely and take all appropriate steps to manage the impact on policyholders, employees and other stakeholders.