CANOPIUS GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2013

CANOPIUS

Total shareholders' interests – £m

Year	£m
09	265.8
10	306.2
11	243.8
12	366.3
13	**441.1**

Total profit/(loss) to shareholders after taxation – £m

Year	£m
09	50.5
10	42.9
11	(61.1)
12	48.5
13	**98.8**

Financial resources – £m

Year	£m
09	400.6
10	429.0
11	367.0
12	517.2
13	**605.2**

Total post tax return on average equity – %

Year	%
09	21
10	15
11	(22)
12	17
13	**25**

Gross premiums written – £m

Year	£m
09	591.9
10	563.8
11	615.6
12	691.7
13	**865.6**

Net loss ratio – %

Year	%
09	51
10	56
11	73
12	59
13	**52**

Net premiums earned – £m

Year	£m
09	435.2
10	465.0
11	462.0
12	467.7
13	**555.3**

Combined ratio – %

Year	%
09	88
10	92
11	111
12	95
13	**85**

Amounts presented are determined excluding reinsurance to close premiums receivable or payable, and balances and movements in 'employee interest in shares deemed cash settled'. Financial resources represent total shareholders' interests plus long term debt and unsecured letter of credit facilities.

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

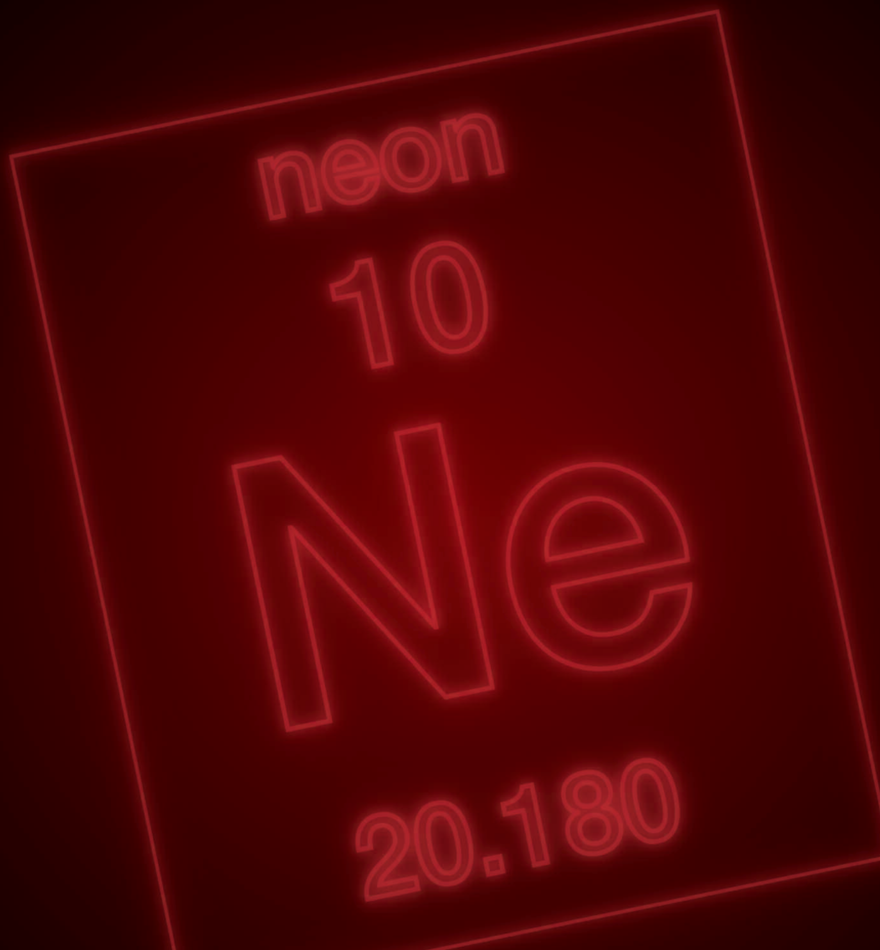
The Group has achieved significant success over the last decade through a mixture of organic expansion and acquisition, and had total financial resources of over £600 million at the year end.

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

On 18 December it was announced that Canopius is to be acquired 100% by Sompo Japan Insurance Inc, a subsidiary of NKSJ Holdings, an A+ rated company with $90bn of net assets and one of the top three Japanese insurers.

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

In 2014, Canopius is proud to be celebrating a decade of profitable growth. We adopt Neon, the noble gas responsible for thousands of lights and signs in cities all over the world, whose atomic number is ten, in this year's annual report to highlight our achievements over the last decade.



Chairman's Statement

What a way to end our first decade! A 25% increase in gross premiums, record post-tax profits to shareholders of £99 million, a return on equity of 25% and a combined ratio of 85%. A sparkling set of results and a landmark year for Canopius. In addition to celebrating the tenth anniversary of our founding and taking a moment to reflect upon the successes of the past, Canopius agreed to be acquired by NKSJ Holdings ("NKSJ") and took a very decisive step to consolidate its long-term future.

From modest beginnings we have built Canopius into a leading business at Lloyd's. We currently manage premiums in excess of £1 billion, which is testament to the quality and expertise of our underwriters and a positive result of their alignment into three distinct strategic business units – Global Property, Global Specialty and UK Specialty. Our financial position has never been stronger. Total financial resources increased to £605 million from £517 million in 2012. This provides a robust platform for our continued drive for profitable growth.

During 2013 we expanded the breadth of our underwriting portfolio and increased the depth of many of our existing teams. To facilitate the realisation of our future ambitions we also invested in a range of business functions. These included the establishment of a dedicated M&A resource (to enable a proactive and structured approach to growth opportunities through acquisition), a head of business development (to engage positively with our broker partners and encourage new business), the appointment of a Chief Investment Officer (to enhance our investment capabilities), the recruitment of a head of human resources (to lead our drive for superior talent), investment in underwriting support (to enable our talented underwriters to focus on underwriting not administration) and bolstering marketing and communications (to strengthen awareness of the Canopius brand).

To further support our growth ambitions we also embarked on a number of important development programmes including a substantial upgrade to our business information capabilities, our IT systems and our finance function.

2013 witnessed a profound 'changing of the guard' at Canopius. Paul Cooper, Chief Financial Officer, and Barbara Turner, Head of Human Resources, joined our executive team and made an immediate impact on the delivery of our strategic agenda. At the same time, Jim Giordano, for twelve years my right-hand man, relinquished his role as Group Chief Underwriting Officer and relocated to the United States to become Chairman of Canopius US Holdings and oversee the expansion of our US franchise. He leaves behind a strong and talented cadre of underwriting leaders in London and overseas. And then came Inga Beale's move! We were privileged to have Inga as our CEO for two years, driving a programme of increased professionalism and focus at Canopius. Her contribution was enormous and we wish her well in her new role as Chief Executive of Lloyd's. Inga leaves a substantial legacy and a vigour which we will take with us into 2014 and beyond.

Somewhat to my surprise I find myself once again not only Chairman, but also Chief Executive of Canopius. Fortunately, I am supported by a truly excellent Group Executive who continually demonstrate their cohesion, strength and team-work in driving our business forward. They are the engineers of our future success and I am privileged to be part of them.

On 9 December 2013 we marked the 10th anniversary of the founding of Canopius and a few days later we celebrated this milestone in appropriate style. Just when we thought life couldn't get any better, it did! On 18 December we announced the acquisition of Canopius by NKSJ. This was a wonderful outcome for shareholders, including management, and heralds the start of an exciting new chapter in the Canopius story.

This is perhaps my last opportunity to thank publicly Bregal Capital, and especially Adam Barron, for their role in Canopius's success. Adam's courage in financing the buy-out, making numerous follow-on investments, and his constant wisdom and challenge have been invaluable. We are deeply indebted to Bregal and Adam.

At Canopius we tend to look forwards rather than squint in the rear view mirror. Justifiably proud of what we have accomplished so far, we aspire to reach new heights. The imminent closing of the acquisition of Canopius by NKSJ, through its principal subsidiary Sompo Japan Insurance Inc, permits us to realise that ambition. As the global specialty platform for NKSJ, we aim to deliver an enhanced business proposition to our brokers and clients whilst suitably rewarding our new owners. We are thrilled by the new opportunities that NKSJ affords to Canopius and intend to take full advantage. Our tradition of profitable growth will continue, both organically and through M&A.

It remains for me to thank the Canopius team for their outstanding delivery and unwavering commitment which enabled us to achieve such an excellent result.

Michael Watson
Chairman and Chief Executive
7 April 2014

Results

The result for the year ending 31 December 2013 was a record profit to shareholders of £99 million, more than double that of last year (2012: £49 million). Gross written premiums increased 25% to £866 million (2012: £692 million). We achieved a return on equity (post tax) of 25% (2012:17%) and a combined ratio of 85% (2012: 95%). Funds under management grew to in excess of £1.4 billion (2012: £1.1 billion). The return on average invested funds was 1.4% (2012: 3.8%). Underwriting expenses as a percentage of net earned premiums reduced slightly to 35.1% (2012: 35.8%). Other operating expenses (non-underwriting) reduced to £21.3 million (2012: £35.8 million), principally due to foreign exchange movements.

Strategy

As an independent, private equity-owned business our goal has been to build an admired underwriting franchise, characterised by an obsessive focus on underwriting excellence and delivering consistently superior underwriting returns. Our principal measure of success is return on equity, which we augment through financial leverage. We seek to achieve optimal portfolio balance and are relentless in the pursuit of first class enterprise risk, financial and capital management.

Our three strategic business units – Global Property, Global Specialty and UK Specialty – are designed to mitigate the effect of market fluctuations. We underwrite a book of higher volatility global business balanced by the lower volatility, more consistent returns, of our UK Specialty business. Our underwriting teams are supported by a high performance culture and efficient and effective operational support. We remain an agile organisation able to respond to market needs and always aim to be best placed to deliver on our promise of excellence.

Canopius remains centred at Lloyd's but operates with underwriting hubs in select overseas markets. Over 12% of gross premiums are written by our international underwriting platforms. In addition to our London hub we have offices in the US, Bermuda, Switzerland and Singapore. We have focused more on Asia in 2013 and invested in our Singapore-based operations, increasing the scale and scope of our underwriting in this growing region. Singapore premiums increased by 31% in 2013. We have always followed the principle that it is important to be close to the market and, by having a local presence, we have additional insight into the region and its growth potential. Our international capabilities provide a foil for sometimes uncertain or fluctuating economic cycles and our diverse geographic portfolio gives us an element of security and balance which is a key driver for consistent growth and performance.

Underwriting

After being based in London for 12 years, Group Chief Underwriting Officer, Jim Giordano, relocated back to the United States at the end of 2013. In his new role as Chairman of Canopius US, Jim will develop business opportunities for the Group in the United States and provide support to Canopius Bermuda.

The Group's underwriting is conducted mainly through our managed syndicates at Lloyd's: Syndicates 4444 and 958 (composite) and Syndicate 260 (UK motor). We also underwrite regional binding authority business through Canopius US Insurance, Inc., our US surplus lines insurance company. The Group continues to write a small amount of structured reinsurance business through its Bermudian Class 3A reinsurance company.

Our underwriting has delivered profitable growth in 2013 and gross written premiums increased 25% to £866 million, notably in Global Property and UK Specialty. The year was thankfully free of major catastrophes which assisted our record underwriting results. Nevertheless, there were a number of claims incidents during the year that impacted our results. These events included the German hailstorms and central European floods, the Nairobi terrorist attack, typhoons Fitow and Haiyan, and the SK Hynix fire at a microchip factory in China. The end of the year also saw unprecedented levels of rainfall across the UK which adversely impacted our UK property portfolio. With global reach comes global exposure so a wide range of events is to be expected and caused us no surprises.

The 1 January renewal season was challenging with fierce competition for business and rates down in most classes. After a strong 2013, the industry is awash with capital and cedents are generally retaining more risk. These conditions strengthen our resolve to maintain our underwriting discipline whilst searching for profitable specialty business opportunities. Notwithstanding these conditions, in January the Group wrote more than 40% of its planned business for 2014 with an aggregate rate increase of 1.3%.

Global Property

This strategic business unit, headed up by Mike Duffy, is our largest, representing 44% of total premiums and comprises property business written throughout the world either as insurance or reinsurance.

GROWTH

Significant, controlled, profitable growth achieved

Development through considered organic growth, renewal rights transactions and strategic M&A

Achieved c.30% annual compound growth in GWP over its 10 year history

Retain growth ambitions and see opportunities for further growth

From modest beginnings to a successful top 10 Lloyd’s franchise

The portfolio has the majority of its exposure in the United States. Following the acquisition of Omega in August 2012, the business unit in London grew materially in 2013, increasing its volume in both Property Treaty and North American Facilities. With enhanced scale comes increased relevance – an issue which is becoming more pertinent in our industry with the influx of alternative reinsurance capacity – and it was pleasing to see more business opportunities being offered to us as a consequence of our increased market position. It was also important that this growth be achieved profitably and a combined ratio of 84% evidenced this.

In 2013, the business also grew internationally with a number of strategic hires, including David Gregori as Global Head of Agriculture (a new class of business for Canopius) based in Singapore. In aggregate, the business unit's gross written premiums were £380 million in 2013 (2012: £278 million), an increase of 37%.

Direct & Facultative Property

This division is led by Derek Hansen. Having repositioned the portfolio away from attritional exposures in 2012, 2013 was a banner year. The team are to be congratulated on another outstanding performance. They are exceptionally focused on the business they will and will not write. Gross written premiums increased to £56 million (2012: £53 million), no mean feat in a very competitive market. Further growth initiatives will be pursued in 2014.

Property Treaty

The majority of the book is written from London under the leadership of Jamie Wakeling. A highly disciplined approach to attritional losses combined with negligible catastrophe events, led to an excellent underwriting result. The Zurich office focuses on European reinsurance business which is traditionally not placed into the London Market. Unfortunately, the 2013 result was badly affected by flood and hail losses in Central Europe. Similarly, our growing portfolio in Asia was hit hard by typhoons and flooding in China and the Philippines and the SK Hynix loss, also in China.

Despite these events, we are very pleased with the overall performance of the division where effective control of aggregate exposure proved invaluable. With additional premiums flowing through from Syndicate 958, written premiums increased 26% to £167 million (2012: £133 million).

North American Facilities

This division, led by Steve Bird, comprises a carefully managed book of predominantly US binding authority business. The binder team conducted a thorough review and repositioning of its business through late 2011 and 2012. As a result, 2013 is showing a very marked improvement, encouraging us to increase our position in this area. Combined with the first full year of Syndicate 958 premium, the team increased premiums by 71% to £157 million, a significant increase over previous years (2012: £92 million). Hats off to the team for their patience, skill and diligence in managing the huge growth and driving increased profit for the division. Late in the year we were delighted to see the return of Neil McMillan who re-joined Canopius after five years elsewhere in the Lloyd's market. Neil will assist in our drive to develop broader expertise and further growth.

Catastrophe Management

Our Catastrophe Management team sits within the Global Property unit, working closely with all underwriting teams and providing an excellent service both in-house and to our clients and partners. Marek Shafer returned to Canopius in 2013 to head up this team and leads a strong cadre of highly skilled analysts drawn from across academia and industry. Their ability to build their own proprietary models, as well as employ and critique industry models, adds exceptional value and guidance to our risk management capabilities.

Pricing and Reinsurance

The Pricing and Reinsurance teams also sit within Global Property and are led by Will Forster. Our pricing experts have strong actuarial backgrounds and work closely with our underwriters across the Group as well as with the Catastrophe Management team. They continually look to enhance pricing tools and over the past twelve months have developed a proprietary model for the pricing of catastrophe risk specific to Canopius. The Reinsurance team, comprised of a number of highly experienced reinsurance experts, is responsible for delivering value-for-money reinsurance programmes to support the Canopius strategy and enable the Group to make best use of its capital. Now reporting to Will, excellent progress was achieved at 1 January 2014, aided by the Group's advanced modelling capabilities.

Global Specialty

Global Specialty is headed up by Stephen Gargrave and writes approximately 29% of the Group's premium. This strategic business unit comprises both insurance and reinsurance and is written in London, Bermuda, Zurich and Singapore. It comprises a diverse portfolio of risks with a global footprint. The unit writes marine & energy, engineering & construction, political risk & crisis management and casualty classes.

At the beginning of 2013 we decided not to renew a significant element of the acquired Syndicate 958 specialty portfolio as it did not meet our profitability requirements or underwriting criteria. This was mainly in the excess of loss casualty treaty class plus some satellite business. Despite this, Global Specialty written premiums grew to £248 million (2012: £237 million) and delivered a combined ratio of 93%.

Our strategy is to grow the Global Specialty business to give balance to the inherent volatility of the Global Property portfolio. We see significant growth opportunities for specialty lines, assisted in part by two new lines of casualty business that were added during 2013, and a further 20% premium growth is planned for 2014.

Marine & Energy

The division is led by Joyce Webb and writes a broad spread of energy, cargo and specie, marine liability and hull business mainly from London. The division had another year of profitable growth assisted by the recruitment of additional underwriters in energy and specialty hull business. A relatively benign loss environment contributed to good underwriting results. The energy class in particular delivered excellent performance. Gross written premiums increased to £91 million (2012: £84 million).

Marine Treaty

The majority of this business is written in London led by our Head of Marine Treaty, Andrew Hedges. This portfolio comprises a book of both London market and foreign excess of loss business with a growing component of space business. Following the unprecedented marine losses in 2012 – Costa Concordia and Superstorm Sandy – we were disappointed with the market's response and, as a result, we reduced our exposure in certain areas. Gross written premiums reduced to £41 million (2012: £46 million). Notwithstanding the significant Costa Concordia loss deterioration during 2013 and the failure of the Intelsat 27 spacecraft launch it was otherwise an event free year, and despite lower premiums, the team achieved an excellent result.

Engineering and Construction

This division is one where we see significant growth opportunities from both traditional and niche engineering and construction business. The team is led by Simon Challinor. In 2013 Canopius participated in the formation of the Construction Consortium at Lloyd's, partnering with three other syndicates to offer lead capacity of up to US$166 million per risk, and also commenced underwriting operational power business.

Gross written premiums in 2013 were £10 million (2012: £11 million). Against a small premium base, 2013 unfortunately saw a number of losses which impacted the profitability of this account.

Political Risk and Crisis Management

This division is led by Simon Low. It is mainly a London book of business, but the hire of Jonathan Goh in Singapore has given us the ability to develop our offering in Asia.

The terrorism market is subject to severe over-capacity, leading to rate reductions which continue despite the Westgate shopping mall terrorist event in Kenya which impacted the profitability of this account. The political risk account was new for 2012 but gained traction and exceeded our expectations for 2013. Our product contamination team was strengthened by Richard Weare's relocation from our Bermuda office to London. This division also continues to offer accident & health, aviation, war and kidnap and ransom products. Gross written premiums increased to £35 million (2012: £31 million).

Casualty

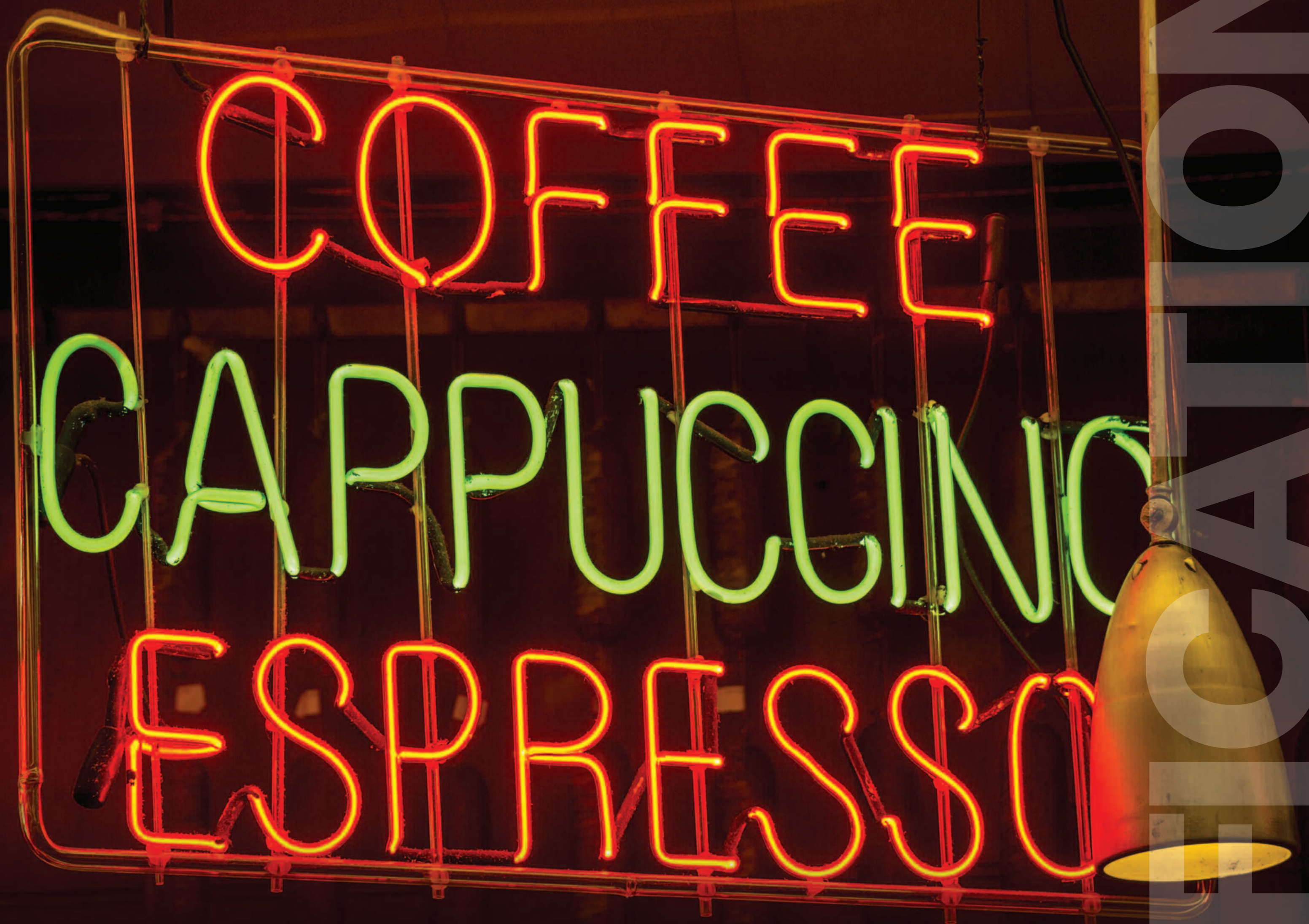
A majority of the business is written in London on both a direct and reinsurance basis under the leadership of Graeme Brydon. We also write casualty treaty lines from Zurich and Singapore, and excess casualty insurance from Bermuda.

During 2013 we launched a US casualty treaty account under Paul Sandi, and late in the year appointed Andrew Pooley to write an international general liability account. These hires add a new dimension and significant experience to our casualty growth ambitions. The excess casualty team deployed an enhanced line size to increase its profile in the Fortune 1000 market. The professional indemnity team also had a good year, increasing its portfolio of niche products. Offsetting these positive achievements were certain deteriorations on old claims in financial institutions and excess casualty. Gross premiums written for casualty direct were £47 million (2012: £40 million) and £24 million (2012: £25 million) for casualty treaty.

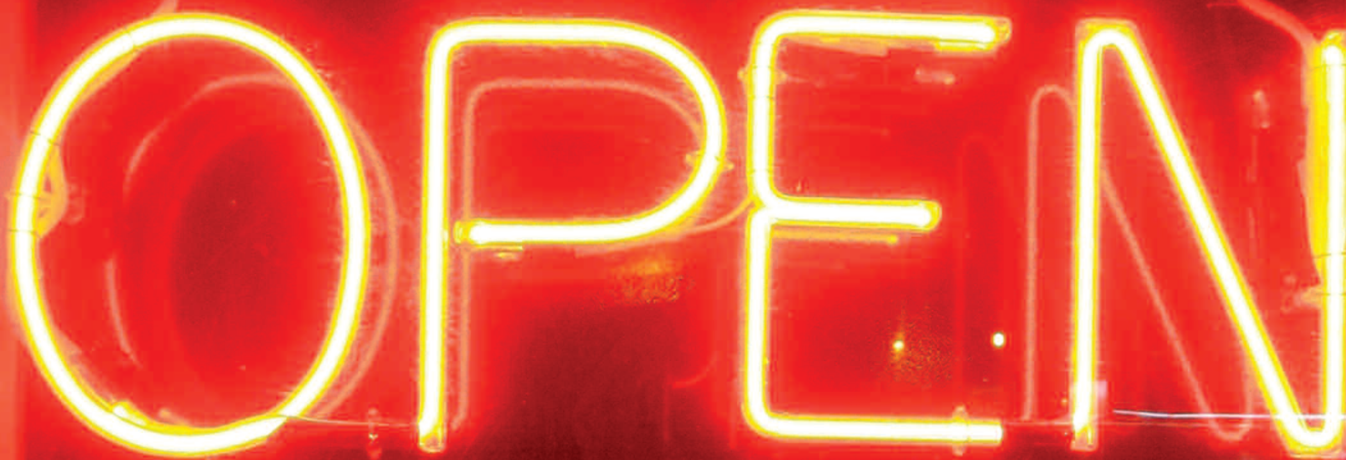
UK Specialty

Formally known as UK Retail, this business unit was recently re-branded UK Specialty to more clearly reflect our strategic thrust of providing the UK broker market and our own distribution with niche and specialist products. In 2014 all our broker-facing business will adopt the Canopius brand to ensure we have a clear identity and strong profile in this market place.

DIVERSIFICATION



- Highly diversified portfolio of specialty lines
- Skillful cycle and portfolio management
- Volatility balanced through mix of business lines
- Wide spread of broker distribution
- Underwriting business from over 100 countries



Extension of global footprint to develop presence in key specialty markets

Bermuda (2007) Singapore (2007) Ireland (2008) Switzerland (2011) US (2012)

EXPANSION

UK Specialty is led by Tim Rolfe with support from Paul Dilley, Head of UK Specialty Underwriting, Douglas Young, Head of Distribution and Richard Bradley, Chief Operating Officer. The business unit comprises homeowners and niche property insurance such as caravans, specialist motor insurance, commercial insurance for SMEs, personal accident, travel and professional indemnity business. UK Specialty also encompasses the K. Drewe business which is a distribution hub providing broker support as well as coverholder and retail distribution. We have a strong presence in the UK regional market and have been building our field force to provide excellent service across all our products for our brokers and clients.

Canopius expanded its UK Specialty franchise in 2013 through the acquisition of Equity Insurance Group's stake in Arista Insurance Limited and took over the provision of underwriting support for Arista's commercial motor book. We also acquired the renewal rights to a book of household and personal accident business previously underwritten by Equity. Together these portfolios comprise around £50 million of annualised gross written premiums, boosting our UK Specialty division by approximately 25% and providing a significant increase to our presence in these markets.

Golfplan, the specialist golf insurance provider, which was acquired in 2012, continues to be developed and is growing steadily. Golfplan is an official partner of the Professional Golfers' Association ("PGA") and in 2013 we agreed a three year sponsorship of The PGA Pro-Captain Challenge. This event is one of the PGA's most prestigious tournaments involving around 500 golf clubs across the UK, and, as title sponsor, this competition will increase awareness of the Canopius brand. UK Specialty represents 27% of the Group's total premium with written premiums of £238 million (2012: £177 million), an increase of 34.1%. With a combined ratio of 89%, the division has delivered both growth and profitability.

Property (UK)

The team, led by Stephen Snook, has, since his appointment in 2012, re-shaped and developed the account in line with our strategy to focus on niche and specialist business. The market remains competitive but we have successfully carved out a book which remains attractive. Written premiums were £103 million (2012: £89 million). Results were outstanding.

Motor

Neil Manvell heads our motor underwriting team and our written premiums grew to £62 million (2012: £42 million), boosted by the acquisition of Equity's motor fleet portfolio.

Rate reductions in the private car market have affected the entire sector but the specialist nature of our motor account has sheltered it from the worst of this pressure. Our niche focus and expertise has enabled us to grow further into the specialist motor market which, as well as classic cars, includes other vehicle types such as ex-military vehicles and fun fairs, and we also write products targeted at specific customer groups such as members of the Clergy.

Personal Accident, Travel & Professional Indemnity (UK)

This is an integral and growing component of our offering in UK Specialty. These lines produced written premiums of £14 million in 2013 (2012: £7 million), a significant increase. The personal accident and travel team is headed by Roger Perry and Colin Mansfield and professional indemnity by David Hunwick. We work with both Lloyd's and non-Lloyd's brokers and strive to be recognised as a preferred insurer for niche products.

Operations

The continued success of Canopius is critically dependent on a number of important support functions, the majority of which are overseen by Stephen Manning, our Chief Operating Officer. The effective and efficient management of our business practices is fundamental to ensuring control is maintained as we seek to achieve our growth ambitions. Stephen and his team of highly skilled professionals have worked diligently throughout 2013 to provide excellent support and guidance to the Group.

Our Claims team has recently been restructured to align claims handlers more clearly with the underwriting structure of our strategic business units. We have recruited specialist claims professionals to mirror the growth in our underwriting business. We also have a programme of continuous training and development within the Claims team in order to support our drive for claims excellence. Since launching our PACE (Partnership, Accessibility, Culture and Efficiency) claims principles, both brokers and clients have recognised our continuous improvement in delivery and service.

Our Actuarial and Capital Management team had a busy and productive 2013. Following the Omega acquisition, consistent and prudent reserving practices have been harmonised across the Group and the team has also provided effective support in assessing the risks faced by our business. In 2013 the team completed building a Group capital model, which enables us to assess capital requirements, calculate risk adjusted returns, and allocate capital accordingly. The team has worked exceptionally hard and their efforts have facilitated improved business planning and decision making.

We have invested considerably in a series of business projects, notably our Finance Transformation Programme ("FTP") and our IT infrastructure upgrade. The FTP is designed to speed up and ensure greater robustness in our financial reporting processes, and facilitate enhanced business insights. The FTP will continue throughout 2014. As part of our IT infrastructure project we have upgraded technology and working practices to enable us to compete long term and offer the best service to clients. We have successfully established dual data centres from which we can manage our data requirements more efficiently, including document back-up and recovery.

We are moving increasingly towards mobile technologies to support the business and are installing a global virtual desktop system which will allow all employees to access Canopius's IT systems remotely via a range of devices, including tablets. This will empower our people to decide how and where they work in order to deliver excellence. Many aspects of this project have already been rolled out across the business and the project will be fully realised in 2014. Finally, our Business Information Systems team has successfully developed and implemented a new data warehouse, which has greatly enhanced our management information and reporting capabilities.

The business has also received considerable support from our Legal, Company Secretarial and Risk & Compliance departments during 2013 as we pursued a variety of corporate transactions. Their expert counsel has been of vital importance to our overall success this year.

People and Culture

People are at the heart of everything Canopius does. We value the personal touch and it is integral to our future success that we employ engaged and highly motivated professionals. Success is not simply measured by profit. It is the combination of a number of critical factors, of which people is one of the most important. Strategically we are focusing on developing an 'A' grade performance culture and have been proactively recruiting 'A' grade talent. The investment we have made in our people, including our expert underwriters, has contributed to our growth.

We now employ more than 600 professionals worldwide and in 2013 we recruited more than 100 new people across the Group, making a number of senior hires. These included Barbara Turner who we welcomed as our Group Head of Human Resources. Barbara brings more than 25 years of HR management experience to Canopius, joining the Group at a significant time in our development.

Canopius employs smart people who are passionate about creating value. An important element of this is service. Across Canopius and at all levels we foster a commitment to excellence. This applies to the services provided internally as well as to our external partners and clients.

2013 saw Canopius increase significantly its Corporate Social Responsibility (CSR) activity. In June we held our first Global Community Day with employees from all our offices around the world taking part in a day-long exercise to help a range of community initiatives. In addition, we allocate funds for charitable donations, managed by a group of Canopius volunteers who run our Charity committee. We select causes with a direct link to employees and invite nominations from across the Group. In 2013, the Canopius Charity of the Year was Brain Tumour Research. We are proud that our employees enthusiastically enter into fund raising activities and during the year were involved in a number of often gruelling and even potentially dangerous activities including running marathons and sky diving.

Market Profile and Brand

In 2013 we increased our marketing and communications resources with the hire of professional managers in both functions to enhance our market profile and brand. We have established a reputation for our creative marketing campaigns and in 2013 Canopius showcased its 'Driven to Succeed' campaign in Monte Carlo with its very own sidecar. We built upon last year's 'Fizzing with Ambition' theme and used 2013's initiative to demonstrate our commitment to profitable growth and success in the market.

Canopius executives attend market events and conferences, participating in driving the debate around the issues facing our industry. We have contributed to a number of leading insurance publications and put forward the Canopius point of view on matters that are impacting the way our sector is doing business. Helped by this and our successful track record of profitable growth, Canopius is increasingly talked about in our market place.

Canopius is also committed to supporting Lloyd's in driving the success of the London insurance market. We have strong representation and participate actively on a number of working parties and Lloyd's and London market committees addressing key issues, particularly claims matters.

Committed and professional colleagues of highest calibre

United by shared values

Driven to succeed

Investing in ‘A’ grade talent to drive future success

PEOPLE

TRACK RECORD

Obsessive about underwriting excellence

First class risk management capabilities

Achieved ROE > 12% over ten year period

Future Developments

At the end of 2013 we announced the acquisition of Canopius by NKSJ Holdings, the largest Japanese property and casualty insurer by market share and the 11th largest insurer in the world. Through its subsidiary, Sompo Japan Insurance Inc, the acquisition of Canopius is due to complete by mid-2014. After a very successful decade under private equity ownership it was timely to secure our long term future with a strategic partner who could support our continued growth and success.

We have had a long-standing business relationship with the members of the NKSJ group and are very proud to become its global specialty insurance arm. We shall review our strategy and priorities to ensure that we can build a successful specialty platform of appropriate scale and breadth for this globally-minded and ambitious group.

The acquisition by NKSJ enables Canopius to benefit from access to NKSJ's financial strength and leverage its global distribution network. We will be able to embark more rapidly on our plans to expand our presence in mature specialty markets, especially the US, and extend our reach in emerging markets where there is increasing demand for specialty products.

Our track record of profitable growth through both organic means and M&A is set to continue. Our business strategies are highly complementary and we look forward to a prosperous future as part of NKSJ as we embark on the next chapter in the Canopius story.

Michael Watson
Chairman and Chief Executive
7 April 2014

Gross Written Premium by Line of Business for 2013

Global Property – £380m 44%
- Direct & Facultative – £56m 7%
- Property Treaty – £167m 19%
- North American Facilities – £157m 18%

Global Specialty – £248m 29%
- Marine & Energy Direct – £91m 11%
- Marine Treaty – £41m 5%
- Engineering & Construction – £10m 1%
- Political Risk & Crisis Managmnt – £35m 4%
- Casualty Direct – £47m 5%
- Casualty Treaty – £24m 3%

UK Specialty – £238m 27%
- Property – £103m 12%
- Motor – £62m 7%
- Personal Accident – £14m 1%
- Arista – £59m 7%

Group Investments 2013

- Cash & MMFs – £271m 19%
- Government bonds – £250m 18%
- Corporate bonds (govt guaranteed) – £117m 8%
- Corporate bonds (other) – £630m 45%
- Overseas deposits – £57m 4%
- Hedge funds – £53m 4%
- Equities – £22m 2%

Directors and Professional Advisers

Directors
Michael Watson (Chairman)
Robert Alford
Adam Barron
Steven Black
Marcus Leese
Roger Le Tissier
Paul Meader
Ian Owen

Company Secretary
Ogier Corporate Services (Guernsey) Limited

Registered Office
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St Peter Port
Guernsey GY1 1WA
Channel Islands

Company Number
41279

Independent Auditors
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PO Box 321
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1 Glategny Esplanade
St Peter Port
Guernsey GY1 4ND
Channel Islands

The directors present their annual report and the audited financial statements of the Company and the consolidated and audited financial statements of the Group for the year ended 31 December 2013.

Principal activities

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

Review of business

A detailed review of the business for the year and a summary of future developments are included in the Strategic Review on pages 3 to 13.

On 18 December 2013, Sompo Japan Insurance Inc., which is a wholly-owned direct subsidiary of NKSJ Holdings, Inc., signed an agreement with, amongst others, funds managed by Bregal Capital LLP to acquire 100 percent of the issued shares of Canopius Group Limited.

The transaction is expected to complete mid 2014, subject to the satisfaction of certain conditions.

Results and dividends

The results of the Group for the year ended 31 December 2013 are set out on pages 18 to 20 and those of the Company on page 21.

The directors do not recommend the payment of a dividend on any of the Company's shares (2012: £nil).

Political donations

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

Directors and directors' interests

The present directors of the Company are listed on page 14, all of whom held office during the whole of the year ended 31 December 2013, except Steven Black who was appointed on 6 March 2013, Michael Lee who resigned on 13 December 2013 and Paul Meader who was appointed on 5 March 2014.

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

			At 31 December 2013			At 31 December 2012
	B Ordinary shares of no par value	**C Ordinary shares of no par value**	**D shares of no par value**	B Ordinary shares of no par value	C Ordinary shares of no par value	D shares of no par value
Michael Watson	**–**	**4,552,329**	**185,280**	–	4,552,329	185,280
Ian Owen	**100,724**	**–**	**–**	100,724	–	–

Directors' responsibilities for the financial statements

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

Group and Company

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

Company

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

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

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

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

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

Independent auditors

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

The report of the directors was approved by the Board on 7 April 2014 and signed on its behalf on 7 April 2014 by:

Robert Alford
Director

Marcus Leese
Director

Report on the financial statements

We have audited the accompanying Group and Company financial statements (the "financial statements") of Canopius Group Limited which comprise the consolidated and Company balance sheet as of 31 December 2013 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of Group financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of applicable law, and for the preparation of Company financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards and with the requirements of Guernsey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these Group and Company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Group and Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Group and Company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group and Company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Group and Company financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2013, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and United Kingdom Accounting Standards respectively and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Report on other legal and regulatory requirements

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group and Company financial statements. The other information is as detailed in the Table of Contents.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

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

PricewaterhouseCoopers CI LLP
Chartered Accountants
Guernsey, Channel Islands
7 April 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	**Year ended 31 December 2013 £'000**	Year ended 31 December 2012 £'000
Gross premiums written		**865,639**	691,683
Reinsurance to close premiums receivable/(payable)		**13,495**	(1,658)
Reinsurance premiums ceded		**(279,447)**	(226,797)
Net premiums written		**599,687**	463,228
Change in the provision for gross unearned premiums		**(37,652)**	(13,733)
Change in the provision for unearned premiums – reinsurers' share		**6,718**	16,556
Net change in the provision for unearned premiums		**(30,934)**	2,823
Earned premiums revenue, net of reinsurance		**568,753**	466,051
Investment return	4	**24,045**	39,968
Other income	5	**12,490**	28,138
Total income		**605,288**	534,157
Insurance claims and claims settlement expenses	6	**(402,691)**	(412,726)
Insurance claims and claims settlement expenses relating to reinsurance to close premiums payable		**(13,495)**	1,658
Insurance claims and claims settlement expenses recoverable from reinsurers	6	**126,262**	131,689
Net insurance claims		**(289,924)**	(279,379)
Underwriting and administrative expenses	7	**(194,908)**	(165,786)
Other operating expenses (non-underwriting)	8	**(21,348)**	(35,772)
Total expenses	8	**(216,256)**	(201,558)
Results of operating activities		**99,108**	53,220
Finance costs	11	**(5,820)**	(5,405)
Share of operating profit in joint venture	17/18	**451**	680
Profit before tax		**93,739**	48,495
Tax	14	**(978)**	(1,876)
Profit for the year		**92,761**	46,619
Attributable to:			
– Equity holders of the parent company		**92,728**	46,617
– Non-controlling interests		**33**	2
		92,761	46,619
– Employee interest in shares deemed cash settled	9	**6,008**	1,899
Total profit to the shareholders		**98,769**	48,518

The notes on pages 24 to 71 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	**Year ended 31 December 2013 £'000**	Year ended 31 December 2012 £'000
Profit for the year		**92,761**	46,619
Other comprehensive income			
Currency translation differences	28	**(24,385)**	(7,406)
Total comprehensive income recognised for the year		**68,376**	39,213
Attributable to:			
– Equity holders of the parent company		**68,343**	39,211
– Non-controlling interests		**33**	2
		68,376	39,213
– Employee interest in shares deemed cash settled	9	**6,008**	1,899
Total comprehensive income recognised for the year to the shareholders		**74,384**	41,112

All the above amounts are derived from continuing operations.

The notes on pages 24 to 71 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2013

	Note	2013 £'000	2012 £'000
Assets			
Intangible assets	15	**30,785**	30,027
Property and equipment	19	**3,306**	2,919
Reinsurance assets	21	**520,920**	538,324
Deferred acquisition costs	22	**97,014**	96,415
Loans and receivables, including insurance receivables	23	**224,768**	198,440
Financial assets – carried at fair value through income	24	**1,204,306**	1,189,339
Cash and cash equivalents	25	**210,658**	221,443
Total assets		**2,291,757**	2,276,907
Liabilities			
Insurance contract liabilities	29/30	**1,734,380**	1,755,553
Trade and other payables, including insurance payables	31	**65,943**	104,604
Deferred tax liabilities	20	**4,863**	4,483
Tax liabilities	20	**–**	72
Borrowings: debenture loans	32	**45,469**	45,869
Total liabilities before employee interest in shares		**1,850,655**	1,910,581
Net assets before employee interest in shares		**441,102**	366,326
Employee interest in shares			
Employee owned shares deemed cash settled	10	**13,613**	7,605
Net assets after employee interest in shares		**427,489**	358,721
Equity			
Share capital	27	**190,457**	187,890
Share premium	27	**–**	–
Other reserves	27	**(20,808)**	3,619
Retained earnings	27	**256,809**	166,270
Equity attributable to equity holders of the parent	28	**426,458**	357,779
Non-controlling interest		**1,031**	942
Total equity		**427,489**	358,721
Analysis of shareholders' interests			
Equity attributable to equity holders of the parent		**426,458**	357,779
Employee interest in shares deemed cash settled	10	**13,613**	7,605
Non-controlling interest		**1,031**	942
Total shareholders' interests		**441,102**	366,326

These financial statements were approved by the Board of Directors on 7 April 2014 and signed on their behalf on 7 April 2014 by:

Robert Alford
Director

Marcus Leese
Director

The notes on pages 24 to 71 form part of these financial statements.

Company Balance Sheet

As at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Shares in Group undertakings	16	**332,075**	349,354
Financial assets	24	**52,015**	38,001
		384,090	387,355
Current assets			
Amounts due from Group undertakings		**11,780**	3,352
Cash at bank		**22,226**	10,176
Prepayments and accrued income		**199**	357
		34,205	13,885
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		**2,692**	82,897
Other creditors		**493**	770
		3,185	83,667
Net current assets/(liabilities)		**31,020**	(69,782)
Total assets less current liabilities		**415,110**	317,573
Creditors – amounts falling due after more than one year			
Borrowings: debenture loans	32	**45,469**	45,869
Net assets before employee interest in shares		**369,641**	271,704
Employee interest in shares			
Employee owned shares deemed cash settled	10	**13,613**	7,605
Net assets after employee interest in shares		**356,028**	264,099
Capital and reserves			
Share capital	27	**190,457**	187,890
Share premium	27	**–**	–
Other reserves	27	**9,120**	9,120
Retained earnings	27	**156,451**	67,089
Total shareholders' funds	28	**356,028**	264,099
Analysis of shareholders' funds			
Equity attributable to equity holders		**356,028**	264,099
Employee interest in shares deemed cash settled	10	**13,613**	7,605
Total shareholders' interests		**369,641**	271,704

These financial statements were approved by the Board of Directors on 7 April 2014 and signed on their behalf on 7 April 2014 by:

Robert Alford
Director

Marcus Leese
Director

The notes on pages 24 to 71 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Notes	Attributable to equity holders of the parent					
	Notes	Share capital £'000	Other reserves[1] £'000	Retained earnings[2] £'000	Total £'000	Non-controlling interests £'000	Total Equity £'000
At 1 January 2012		113,693	2,083	121,179	236,955	940	237,895
Issue of par value shares and share issue costs		680	–	(680)	–	–	–
Purchase and cancellation of employee shares deemed cash settled		(120)	–	120	–	–	–
Purchase and cancellation of shares		(6)	–	(966)	(972)	–	(972)
Issue of new no par value shares on 20 August 2012		73,650	–	–	73,650	–	73,650
Investment in capital reserve on 20 August 2012		–	8,935	–	8,935	–	8,935
Other movements		(7)	7	–	–	–	–
Total recognised comprehensive income/(loss) for the year		–	(7,406)	46,617	39,211	2	39,213
At 31 December 2012		187,890	3,619	166,270	357,779	942	358,721
Employee owned shares deemed cash settled	10						7,605
Total shareholders' interests at 31 December 2012							366,326
At 1 January 2013		187,890	3,619	166,270	357,779	942	358,721
Purchase and cancellation of shares		(215)	–	(2,197)	(2,412)	–	(2,412)
Issue of new no par value shares	27	2,782	–	–	2,782	–	2,782
Other movements	27	–	(42)	8	(34)	56	22
Total recognised comprehensive income/(loss) for the year	27	–	(24,385)	92,728	68,343	33	68,376
At 31 December 2013		**190,457**	**(20,808)**	**256,809**	**426,458**	**1,031**	**427,489**
Employee owned shares deemed cash settled	10						13,613
Total shareholders' interests at 31 December 2013							**441,102**

1 Other reserves include currency translation, revaluation, capital redemption reserves and other capital reserves (see note 27).
2 Retained earnings amount is after provision for the liability for employee owned share interest (see note 10).

The notes on pages 24 to 71 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	**Year ended 31 December 2013 £'000**	Year ended 31 December 2012 £'000
Cash flows from operating activities			
Cash generated from operations	34	**24,932**	(26,428)
Income tax (paid)/received		**(15)**	5,639
Interest paid		**(1,883)**	(1,973)
Net cash generated from/(used in) operating activities		**23,034**	(22,762)
Cash flows from investing activities			
Purchases less sales of financial assets		**(66,749)**	103,841
Acquisition of subsidiaries, net of cash acquired	17	**6,333**	(99,814)
Proceeds from sale of subsidiary net of cash sold		**27,733**	–
Purchases less sales of property and equipment and intangible assets		**(2,657)**	(2,679)
Interest received		**23,339**	22,879
Net cash (used in)/generated from investing activities		**(12,001)**	24,227
Cash flows from financing activities			
Proceeds from issue of shares, net of share issue costs	27	**2,782**	82,975
Purchase and cancellation of employee shares		**(215)**	(1,852)
Net cash realised generated from financing activities		**2,567**	81,123
Net increase in cash and cash equivalents		**13,600**	82,588
Cash and cash equivalents at beginning of year		**221,443**	145,702
Effect of exchange rate changes on cash and cash equivalents		**(24,385)**	(6,847)
Cash and cash equivalents at end of year	25	**210,658**	221,443

The notes on pages 24 to 71 form part of these financial statements.

1 Accounting Policies

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

(a) Basis of presentation and preparation

(i) Group

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

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

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

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

(ii) Company

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

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

The Group underwrites a diversified portfolio of insurance and reinsurance risks from customers worldwide through its underwriting business operations at Lloyd's and through its subsidiaries in the USA and Bermuda. The directors have maintained and monitored systems and processes for the management of risk in the business and, having regard to the Group's financial resources, the directors have assessed the likelihood of the Group and Company being unable to meet its financial obligations or being unable to operate as a going concern for the foreseeable future to be low. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements. Information relevant to the directors' assessment may be found in these financial statements, including the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report ("the report") on pages 15 to 16. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 20 to 23 and on pages 66 and 68. In addition, note 2 to the financial statements includes information on the Group's insurance and financial risk management and exposures to valuation risk, credit risk and liquidity risk. Note 3 to the financial statements includes information on the Group's objectives, policies and processes for managing its capital. Note 32 details the Group's borrowings (debenture loans) and note 36(c) its available bank facilities.

(b) Application of standards and interpretations to the Group

(i) Segment reporting and Earnings per share

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

(ii) Amendments to standards and IFRIC interpretations

All applicable standards, amendments to standards and IFRIC interpretations effective in 2013 have been adopted.

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2013 and have an impact on the group.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Amendments to IAS 36, 'Impairment of assets,' relates to the disclosures of the recoverable amount for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

No reclassification of financial assets, as permitted by amendments to IAS 39 – 'Financial Instruments: Recognition and Measurement' and IFRS 7 – 'Financial Instruments: Disclosures', effective from 2008, has been made during the year or the previous years.

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

(c) Basis of consolidation – Group

(i) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results, on an annual accounting basis, of the Company and its subsidiaries including the Group's underwriting activities through its participation on Lloyd's syndicates. Subsidiaries are all entities over which the Group directly or indirectly has the power to govern the financial and operating policies so as to derive benefits from their activities. These are generally entities where the Group holds shares with more than 50% of the voting rights in those entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are prepared for the same reporting year-end as the parent company. Consolidation adjustments are made to convert subsidiary financial statements prepared under UK or other local GAAP into IFRS to remove the effect of any different accounting policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date control ceases. All inter-company balances, profits and transactions are eliminated on consolidation.

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

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

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

(ii) Joint ventures

The consolidated financial statements incorporate the Group's share of the results, assets and liabilities of jointly controlled entities ("joint ventures") using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture, less any provision for impairment. The results of joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

(d) Basis of accounting for insurance contracts – Group

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

Contracts that do not transfer significant insurance risk are accounted for as financial transactions.

1 Accounting Policies

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.

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.

1 Accounting Policies

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

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.

Longer tail business
Liability (including motor liability) and marine claims are generally longer tail and so a larger element of the claims provision relates to IBNR claims. Claims estimates for business in this category are derived from a combination of expected loss ratios and actual claims experience, using a predetermined formula whereby increasing weight is given to actual claims experience as time passes. The initial estimates of the claims provisions are based on the experience of previous years and available market data adjusted for factors such as premium rate changes and claims inflation. For liability claims, the assessment of claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability classes of business are also subject to the emergence of new types of latent claims.

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

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

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. Unexpired risk reserves are included in "insurance contract liabilities" in the balance sheet.

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

(v) Reinsurance to close ("RITC") – Group
Each syndicate's underwriting year of account is normally closed after the end of its third year by means of reinsurance into the following underwriting year of account, which reinsures all liabilities for the closing year in return for a premium determined by the syndicate's managing agent.

To the extent that the Group changes its participation on a managed syndicate from one underwriting year of account to the next, it is a net receiver or payer of premium to reinsure the earlier year of account into the latter. This RITC premium and the related net claims provision are recognised as income or 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 – Group
Outwards reinsurance contracts are contracts entered into by the Group with reinsurers whereby the Group may recover a proportion of losses on insurance contracts written by the Group. Reinsurance contracts that do not transfer significant insurance risk are accounted for as financial transactions.

1 Accounting Policies

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

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

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

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

(e) Administrative and other expenses – Group

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

(f) Pension contributions – Group

The Group operates defined contribution pension plans and a defined benefit pension scheme for its employees.

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

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

(g) Finance costs – Group

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

(h) Revenue recognition: other income – Group

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

- managing agents' fees are usually collected at the beginning of each year and are earned over the period to which the fees relate, normally the three year accounting period of each syndicate's year of account.
- profit commission is accounted for in the year in which it is considered earned by the managing agent, where its measurement is reasonably certain.

(i) Foreign currency translation – Group and Company

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement for the period. Non-monetary assets and liabilities (principally unearned premium reserves and deferred acquisition costs) carried at historical cost are translated in the balance sheet at the exchange rate prevailing on the original transaction date.

(iii) Group companies

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

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

Where there is an unsettled transaction between group companies at the balance sheet date and the monetary asset/(liability) in one group entity is eliminated against the corresponding liability/(asset) in another group entity, the exchange difference reported in the group entity's own income statement continues to be recognised in consolidated profit or loss.

When a foreign operation is sold, the cumulative amount of the exchange differences previously taken direct to equity is recognised in the income statement as part of the gain or loss on sale.

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

(j) Property and equipment – Group

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

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

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

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

(k) Intangible assets – Group

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

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

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

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

1 Accounting Policies

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.

(l) Financial assets – Group and Company

The Company states financial assets at fair value.

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

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(i) Financial assets at fair value through income

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

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

(ii) Loans and receivables

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

(iii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are determined by reference to quoted market prices for similar instruments and using appropriate valuation techniques, including discounted cash flow and options pricing models. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, changes in the fair value are recognised immediately in the income statement. All derivatives are carried as assets if the fair value is positive and as liabilities if the fair value is negative.

(m) Cash and cash equivalents – Group and Company

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

(n) Taxation – Group

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

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

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

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

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

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

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

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

(o) Borrowings – Group and Company

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

(p) Share capital – Group and Company

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

(q) Leases – Group

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

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

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

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

Expenses relating to the sale and issue of shares, or options granted to employees are determined based on the fair value of the shares or options as assessed by the directors. These expenses are charged over the relevant vesting period of the shares from the date of issue or grant of option. The credit for charges associated with equity settled employee share transactions is included in equity and the credit associated with cash settled employee share transactions is included as a liability in the balance sheet. In the case of cash settled employee share transactions, the liability is re-measured at each period end at fair value, with any changes in fair value recognised in the profit or loss for the period.

1 Accounting Policies

(s) Impairment of assets – Group and Company

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

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

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

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

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

(u) Shares in Group undertakings – Company

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

2 Management of insurance and financial risk

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

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

Risk governance

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

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

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

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

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

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

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

2 Management of insurance and financial risk

Risk appetite

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

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

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

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

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

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

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

Risk control

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

Risk categories

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

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

2 Management of insurance and financial risk

Risk policies

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

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

Risk assessment

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

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

Reporting

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

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

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

Insurance risk

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

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

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.

2 Management of insurance and financial risk

Underwriting

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

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

The annual business plan for each underwriting team reflects the Group's underwriting strategy, and sets out the classes of business, the territories and the industry sectors in which the Group is prepared to accept exposures as well as the limits on both a per risk and per event basis. These plans are approved and monitored by the Board and Syndicate Management Committee of Canopius Managing Agents Limited, and the Boards of Canopius Reinsurance Limited and Canopius US Insurance, Inc., as applicable. From 1 January 2013, Syndicates 4444 and 958 were serviced by underwriters that split certain classes of business written in accordance with predetermined proportions agreed at the start of the underwriting year. From 2014 this was extended to all classes of business written.

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

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

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

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

Catastrophe modelling

The greatest likelihood of significant losses to the Group arises from natural catastrophe events, such as windstorm, earthquake or flood. The Group has licence agreements with two catastrophe modelling organisations. The Group uses these modelling tools, along with the Group's knowledge of the business, historical loss information and geographic accumulations, to monitor aggregation and to simulate catastrophe losses. The range of scenarios considered includes natural catastrophe, property, marine, liability and terrorism events.

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

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

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

2 Management of insurance and financial risk

Reinsurance

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

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

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

There are a number of areas of uncertainty over the reinsurance assumptions. The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which reduce the recoveries made. The impact on profit before tax of a 1% deterioration in the total reinsurance recoveries would be a £3.68 million loss (2012: £3.89 million loss).

Claims management

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

Reserving

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

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

The claims provisions established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit before tax of a 1% improvement/deterioration in the total net claims reserves would be a £8.3 million gain/loss (2012: £8.7 million).

2 Management of insurance and financial risk

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 2013, of the Group's gross claims reserves, £828 million (65%) were attributable to Syndicate 4444, £73 million (6%) to Syndicate 260, £186 million (15%) to Syndicate 958, £159 million (12%) to Canopius US Insurance, Inc. and Canopius Reinsurance Limited and £21 million (2%) to Syndicate 6115.

The figures in the tables and footnotes below are presented at the exchange rates prevailing at 31 December 2013.

Syndicate 4444 – Underwriting year – Gross

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Estimate of ultimate claims costs:											
At end of period 1	186	255	203	285	325	303	322	318	359	363	**2,919**
At end of year 2	196	239	202	301	333	337	458	333	329	–	**2,728**
At end of year 3	190	233	197	305	334	324	460	318	–	–	**2,361**
At end of year 4	188	231	192	305	338	319	472	–	–	–	**2,045**
At end of year 5	178	229	191	304	335	307	–	–	–	–	**1,544**
At end of year 6	178	230	188	302	342	–	–	–	–	–	**1,240**
At end of year 7	178	232	185	300	–	–	–	–	–	–	**895**
At end of year 8	178	230	184	–	–	–	–	–	–	–	**592**
At end of year 9	177	226	–	–	–	–	–	–	–	–	**403**
At end of year 10	176	–	–	–	–	–	–	–	–	–	**176**
Current estimate of cumulative gross claims	176	226	184	300	342	307	472	318	329	363	**3,017**
Cumulative payments to date	(169)	(215)	(175)	(272)	(285)	(236)	(341)	(205)	(137)	(24)	**(2,059)**
Gross claims outstanding	7	11	9	28	57	71	131	113	192	339	**958**
Unearned balance											**(198)**
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)											**6**
Liabilities in respect of Syndicates 839's 2008 year of account											**91**
Liabilities in respect of Syndicate 6115											**21**
Other liabilities (see (ii) below)											**22**
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses											**900**
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses											**828**
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iii) below)											**73**
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see development table below)											**186**
Group's share of Syndicate 6115's total liability, including unallocated loss adjustment expenses											**21**
Liabilities in respect of Canopius US Insurance Inc. and Canopius Reinsurance Limited third party reinsurance (see (iv) below)											**159**
Corporate and other adjustments (see (v) below)											**(67)**
Total liability included in the balance sheet (note 30)											**1,200**

2 Management of insurance and financial risk

Syndicate 4444 – Underwriting year – Net

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Estimate of ultimate claims costs:											
At end of period 1	165	182	196	251	281	278	273	279	301	323	**2,529**
At end of year 2	165	179	182	266	282	291	347	293	277	–	**2,282**
At end of year 3	159	172	178	275	285	278	342	279	–	–	**1,968**
At end of year 4	152	170	175	275	282	268	348	–	–	–	**1,670**
At end of year 5	148	168	175	272	277	256	–	–	–	–	**1,296**
At end of year 6	148	167	172	267	273	–	–	–	–	–	**1,027**
At end of year 7	148	170	169	264	–	–	–	–	–	–	**751**
At end of year 8	148	167	168	–	–	–	–	–	–	–	**483**
At end of year 9	147	163	–	–	–	–	–	–	–	–	**310**
At end of year 10	145	–	–	–	–	–	–	–	–	–	**145**
Current estimate of cumulative net claims	145	163	168	264	273	256	348	279	277	323	**2,496**
Cumulative payments to date	(139)	(154)	(159)	(243)	(244)	(216)	(276)	(185)	(125)	(24)	**(1,765)**
Net claims outstanding	6	9	9	21	29	40	72	94	152	299	**731**

Unearned balance	**(170)**
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)	**6**
Liabilities in respect of Syndicates 839's 2008 year of account	**8**
Liabilities in respect of Syndicate 6115	**21**
Other liabilities (see (ii) below)	**(7)**
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses	**589**
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses	**541**
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iii) below)	**54**
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see development table below)	**149**
Group's share of Syndicate 6115's total liability, including unallocated loss adjustment expenses	**21**
Liabilities in respect of Canopius US Insurance Inc. and Canopius Reinsurance Limited third party reinsurance (see (iv) below)	**146**
Corporate and other adjustments (see (v) below)	**(79)**
Total liability included in the balance sheet (note 30)	**832**

2 Management of insurance and financial risk

Syndicate 958 – Underwriting year – Gross

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Estimate of ultimate claims costs:											
At end of period 1	–	–	–	–	–	–	–	–	168	77	**245**
At end of year 2	–	–	–	–	–	–	–	195	147	–	**342**
At end of year 3	–	–	–	–	–	–	256	181	–	–	**437**
At end of year 4	–	–	–	–	–	191	255	–	–	–	**446**
At end of year 5	–	–	–	–	279	189	–	–	–	–	**468**
At end of year 6	–	–	–	173	278	–	–	–	–	–	**451**
At end of year 7	–	–	125	171	–	–	–	–	–	–	**296**
At end of year 8	–	350	127	–	–	–	–	–	–	–	**477**
At end of year 9	198	343	–	–	–	–	–	–	–	–	**541**
At end of year 10	195	–	–	–	–	–	–	–	–	–	**195**
Current estimate of cumulative gross claims	195	343	127	171	278	189	255	181	147	77	**1,963**
Cumulative payments to date	(192)	(333)	(108)	(152)	(236)	(144)	(179)	(113)	(52)	(5)	**(1,514)**
Gross claims outstanding	3	10	19	19	42	45	76	68	95	72	**449**
Unearned balance											**(43)**
Liabilities in respect of Syndicate 529											**3**
Total liability included in Syndicate 958's balance sheet, excluding unallocated loss adjustment expenses											**409**
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses											**186**

Syndicate 958 – Underwriting year – Net

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Estimate of ultimate claims costs:											
At end of period 1	–	–	–	–	–	–	–	–	132	58	**190**
At end of year 2	–	–	–	–	–	–	–	126	117	–	**243**
At end of year 3	–	–	–	–	–	–	168	119	–	–	**287**
At end of year 4	–	–	–	–	–	142	166	–	–	–	**308**
At end of year 5	–	–	–	–	169	140	–	–	–	–	**309**
At end of year 6	–	–	–	114	169	–	–	–	–	–	**283**
At end of year 7	–	–	107	113	–	–	–	–	–	–	**220**
At end of year 8	–	122	108	–	–	–	–	–	–	–	**230**
At end of year 9	109	119	–	–	–	–	–	–	–	–	**228**
At end of year 10	107	–	–	–	–	–	–	–	–	–	**107**
Current estimate of cumulative net claims	107	119	108	113	169	140	166	119	117	58	**1,216**
Cumulative payments to date	(105)	(109)	(91)	(99)	(137)	(105)	(107)	(62)	(41)	(5)	**(861)**
Net claims outstanding	2	10	17	14	32	35	59	57	76	53	**355**
Unearned balance											**(31)**
Liabilities in respect of Syndicate 529											**5**
Total liability included in Syndicate 958's balance sheet, excluding unallocated loss adjustment expenses											**329**
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses											**149**

2 Management of insurance and financial risk

Notes to the claims development tables

(i) Liabilities in respect of the 1993 to 2006 years of account of Syndicates 1607 and 3786 (and their predecessor syndicates) were reinsured to close into the 2007 year of account of Syndicate 4444 as at 1 January 2009 at a reinsurance to close premium of £63 million gross and £50 million net of reinsurance recoverable. The related liability is running off satisfactorily within the reserves with claims outstanding at 31 December 2013 being £6 million (2012: £8 million) gross and £6 million (2012: £7 million) net of reinsurance recoverable.

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

(iii) The Group's share of Syndicate 260's liability is in respect of Flectat Limited ("Flectat"), a corporate member acquired by the Group on 30 June 2010. Flectat has approximately 90% participation in Syndicate 260's 2012 year of account, 80% participation in its 2011 year of account and approximately 60% participation in 2010 and prior years of account. Up to the closure of the 2010 and prior years on 1 January 2013, the Group was not liable for liabilities relating to policies written on or prior to the date of acquisition. The ultimate expected claims liabilities with respect to post-acquisition policies on those years of account at 31 December 2013 amounted to £43 million (2012: £34 million) gross and £36 million (2012: £28 million) net.

(iv) This represents liabilities in respect of Canopius US Insurance, Inc. and the third party catastrophe reinsurance of Canopius Reinsurance Limited (excluding intra-group quota share reinsurances and the 20% quota share of Syndicate 958). These two entities were acquired by the Group on 20 August 2012 as part of the acquisition of Omega.

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

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

Operational risk

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

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

Financial risk

The Group is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts. The Group carries financial investments at fair value through income and actively monitors its investment portfolio and its valuation.

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

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

(a) Market risk

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

(i) Valuation

The Group has classified its financial instruments as at 31 December 2013 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.

2 Management of insurance and financial risk

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. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

At 31 December 2013

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

At 31 December 2012

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Cash and cash equivalents	148,702	72,741	–	221,443
Debt securities & other fixed income securities	477,929	314,976	30,600	823,505
Holdings in collective investment schemes	278,812	87,022	–	365,834
Financial assets	756,741	401,998	30,600	1,189,339

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

The level within the hierarchy that a financial instrument is placed is based on the lowest level of any input that is significant to its fair value measurement. At 31 December 2013, securities at a valuation of £23 million (2012: £31 million) have been classified as Level 3 under IFRS. This amount comprises £19 million (2012: £22 million) in AAA rated UK mortgage-backed floating-rate securities and £4 million (2012: £9 million) held in AA rated UK mortgage-backed floating-rate securities.

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

2 Management of insurance and financial risk

The following table presents the changes in Level 3 instruments for the year ended 31 December 2013:

	2013 £'000	2012 £'000
Opening balance at 1 January	**30,600**	22,964
Exchange gains/(losses) on retranslation	**87**	(95)
Purchases during the year	**25,764**	3,179
Realised gains and losses recognised in income statement	**2,089**	–
Sales during the year	**(35,259)**	(602)
Unrealised gains recognised in income statement	**199**	5,154
Closing balance at 31 December	**23,480**	30,600
Total gains for the year included in income statement for assets held at the end of the year	**199**	5,154

The sensitivity of level 3 measurements to favourable and unfavourable changes within a reasonable range of assumptions used to determine the fair value shows potential for changes of between £1.2 million (2012: £1.7 million) favourable to £1.6 million (2012: £2.3 million) unfavourable changes to profit for the year in the income statement. Any reclassification between categories is deemed to take place at the reporting year end.

(ii) Market price

The Group invests in a unitised absolute return fund as well as an equity fund which had exposure to price risk on investments in equities at 31 December 2013 of £22.2 million (2012: £24.4 million) and price risk to Hedge funds of £3.8 million (2012: £3.5 million).

The Group has additional exposure to price risk on a portfolio of Hedge funds amounting to £48.3 million (2012: £44.1 million), which is controlled by a fund manager, which ensures that the portfolio is well diversified across a range of strategies.

(iii) Interest rates

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

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

If interest rates fall, the fair value tends to rise and vice versa. The fair value of fixed income investments in the Group's balance sheet at 31 December 2013 was £708.3 million (2012: £823.5 million) with an average duration of around 1.7 (2012: 2.0) years. If interest rates were to rise or fall by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would decrease or increase by £9.1 million (2012: £11.0 million). The relationship between changes in profit and changes in basis points is linear.

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

The Group's borrowings (debenture loans) at 31 December 2013 totalled £45.5 million (2012: £45.9 million). The floating rate Euro and US dollar loan notes bear interest respectively at 3-month EURIBOR and 3-month US LIBOR plus fixed rate percentages. Variable rates expose the Group to cash flow interest rate risk. However, this exposure is to some extent mitigated as any changes in EURIBOR and US LIBOR could be expected to impact both the interest earned on the cash and investments held by the Group as well as on the loans themselves. If interest rates were to rise or fall by 100 basis points for the year, the profit after tax and equity is estimated would increase or decrease by £0.4 million (2012: £0.4 million). The relationship between changes in profit and changes in basis points is linear.

(iv) Credit spreads

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

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

2 Management of insurance and financial risk

If credit spreads narrow then, other things being equal, the fair value rises and vice versa. The fair value of fixed income investments exposed to movements in credit spreads in the Group's balance sheet at 31 December 2013 was £549.8 million (2012: £604.9 million). If credit spreads were to change by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would change by £7.2 million (2012: £6.9 million). The relationship between changes in profit and changes in basis points is linear.

(v) Exchange rates

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

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

At 31 December 2013

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

At 31 December 2013

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

At 31 December 2012

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Intangible assets	14,320	15,707	–	–	30,027
Property and equipment	2,622	244	53	–	2,919
Reinsurance assets	356,251	156,976	19,323	5,774	538,324
Deferred acquisition costs	49,318	42,719	2,518	1,860	96,415
Loans and receivables, including insurance receivables	95,408	80,180	15,824	7,028	198,440
Financial assets – carried at fair value through income	430,358	661,289	73,552	24,140	1,189,339
Cash and cash equivalents	126,016	86,940	4,391	4,096	221,443
Total assets	1,074,293	1,044,055	115,661	42,898	2,276,907

2 Management of insurance and financial risk

At 31 December 2012

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Insurance contract liabilities, excluding provision for unearned premiums	716,570	611,588	80,411	17,467	1,426,036
Provision for unearned premiums	130,413	178,333	12,724	8,047	329,517
Trade and other payables, including insurance payables	76,810	6,329	15,985	5,480	104,604
Tax liabilities, including deferred tax liabilities	2,764	1,791	–	–	4,555
Borrowings: debenture loans	–	36,309	9,560	–	45,869
Total liabilities before employee shares	926,557	834,350	118,680	30,994	1,910,581
Total Equity, including employee shares	147,736	209,705	(3,019)	11,904	366,326
	1,074,293	1,044,055	115,661	42,898	2,276,907

The effect of a 10% strengthening or weakening of exchange rates against Sterling is estimated would increase or decrease profit after tax and equity by approximately £38.7 million (2012: £27.8 million) for US dollar and approximately £1.0 million (2012: £0.4 million) for Euro. However, at 31 December 2013 a US dollar hedge of $420.0 million was in place which reduced the US dollar exposure to £24.9million.

(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 2013

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

At 31 December 2012

	AAA £'000	AA £'000	A £'000	Other and/or not rated £'000	Total £'000
Reinsurance assets	–	145,888	359,087	33,349	538,324
Debt and fixed income securities	588,737	62,717	145,796	26,255	823,505
Holdings in collective investment schemes	130,155	16,889	57,977	160,813	365,834
Cash and cash equivalents	83,311	20,162	116,274	1,696	221,443
Total	802,203	245,656	679,134	222,113	1,949,106

Reinsurance assets under 'other and/or not rated' include £28.8 million (2012: £10.0 million) due from BBB rated reinsurers and £17.1 million (2012: £15.1 million) held in collateralised deals. Holdings in debt and fixed income securities under 'other and/or not rated' of £99.4 million (2012: £26.3 million) are all BBB and below rated. The underlying investments in the 'other/not rated' holdings in collective investment schemes (that includes participation in investment pools) at 31 December 2013 comprised:

	2013 £'000	2012 £'000
Equities	**2,875**	10,608
Hedge fund portfolio	**48,331**	44,067
BBB and below securities	**138,573**	55,797
Hedge Funds as part of an absolute return portfolio	**3,766**	3,532
UCIT's fund on a look through basis:		
AAA securities	**28,304**	7,233
AA securities	**17,306**	4,620
A securities	**20,418**	3,561
BBB securities	**9,773**	9,308
Not rated securities	**4,294**	8,335
Fund equities	**19,309**	13,752
Total	**292,949**	160,813

Cash and cash equivalents under 'other and/or not rated' include £1.2 million (2012: £1.7 million) BBB rated securities in overseas deposits.

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

At 31 December 2013

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

At 31 December 2012

	Neither past due nor impaired	Past due but not impaired (during range of months) 0-3	3-6	6-12	Over 12	Impaired	Carrying value £'000
Reinsurance assets	92%	4%	0%	0%	1%	3%	538,324
Loans and receivables, including insurance receivables	100%						198,440
Financial assets at fair value	100%						1,189,339

2 Management of insurance and financial risk

(c) Liquidity risk

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

The Group's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the Group maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. These liquid funds are regularly monitored against cash flow forecasts.

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

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

The contractual maturity profile of the Group's financial assets and cash and cash equivalents is calculated by reference to the period between the period end and the final maturity date of the security, which for mortgage-backed bonds will be the last mortgage redemption date in the underlying security. The contractual maturity profile at 31 December 2013 was as follows:

	Debt and other fixed income securities £'000	Holdings in collective investment schemes £'000	Cash and cash equivalents £'000	Derivative financial instruments £'000	**2013 Total £'000**	2012 Total £'000
Less than one year	197,139	189,827	209,363	15,062	**611,391**	720,569
Between one and two years	130,969	29,049	–	–	**160,018**	235,074
Between two and five years	321,652	63,136	1,295	–	**386,083**	294,514
Over five years	58,541	44,156	–	–	**102,697**	88,666
	708,301	326,168	210,658	15,062	**1,260,189**	1,338,823
Other non-dated instruments	–	154,775	–	–	**154,775**	71,959
	708,301	480,943	210,658	15,062	**1,414,964**	1,410,782

The expected payment profile of gross insurance contract liabilities as at 31 December 2013 was as follows:

	2013 %	2012 %
Less than one year	**32**	33
Between one and two years	**21**	20
Between two and five years	**31**	31
Over five years	**16**	16
	100	100
Average	**2.8 years**	2.8 years

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

	2013 Years	2012 Years
Pound sterling	**2.3**	2.0
US dollar	**1.8**	2.8
Euro	**2.2**	1.8

The payment profile of the Group's borrowings (debenture loans) involves amounts due at the rate of approximately £1.8 million (2012: £1.9 million) for each of the next five years and a total of approximately £74.6 million (2012: £77.9 million) after five years to maturity.

3 Capital management policies and objectives

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

The Group's other objectives in managing its capital are:
- to satisfy the requirements of its policyholders and regulators;
- to maintain its credit rating;
- to allocate capital efficiently to support growth; and
- to manage exposure to movements in exchange rates.

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

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

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

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

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

To improve the risk management capability, and the assessment of capital requirements, the Group has developed a stochastic model to analyse the potential performance of its main underwriting operations. Stress and scenario analysis is also performed for those risks that cannot be easily parameterised quantitatively and where more subjective judgment is required (for example, operational risk) as well as to challenge the results from the stochastic model. Using its detailed measurement of risk exposures, the Group allocates capital to support the business activities according to the risk appetite and expected returns.

The Group has complied with all capital requirements during the year. At the year end, the Group's available financial resources were £605 million, comprising of total shareholders' interests of £441 million, senior debt of £45 million and a £119 million letter of credit facility (2012: £517 million, comprising of total shareholders' interests of £366 million, senior debt of £46 million and a £105 million letter of credit facility). This is approximately £199 million (2012: £167 million) in excess of the aggregate regulatory capital requirement within the Group at the balance sheet date.

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

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

4 Investment return

Investment return includes the following:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Investment income:		
Interest income on financial assets	**22,680**	22,070
Interest income on cash and cash equivalents	**659**	809
	23,339	22,879
Realised gains/(losses) on financial assets at fair value through income:		
Realised gains	**24,864**	9,132
Realised losses	**(19,808)**	(8,058)
Fair value gains/(losses) on financial assets at fair value through income:		
Fair value gains on other financial assets	**28,136**	26,986
Fair value losses on other financial assets	**(32,486)**	(10,971)
	24,045	39,968

5 Other income

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Lloyd's underwriting agencies:		
Management fees	**2,608**	1,088
Profit commission	**3,153**	1,305
	5,761	2,393
Insurance services – commission and service fees	**5,393**	6,813
Excess of Group's interest in the net fair value of assets acquired through business combinations	**–**	15,415
Other	**1,336**	3,517
	12,490	28,138

6 Insurance claims and claims settlement expenses

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Gross		
Current year insurance claims and claims settlement expenses	**413,495**	425,931
Reduced cost for prior year insurance claims and claims settlement expenses	**(10,804)**	(13,205)
	402,691	412,726
Reinsurance		
Current year insurance claims and claims settlement expenses recoverable from reinsurers	**(123,018)**	(113,941)
Increased prior year insurance claims and claims settlement expenses recoverable from reinsurers	**(3,244)**	(17,748)
	(126,262)	(131,689)
Total net insurance claims and claims settlement expenses	**276,429**	281,037

7 Underwriting and administrative expenses

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Direct commission	**161,719**	119,400
Other underwriting and administrative expenses	**62,433**	34,941
Changes in deferred expenses for the acquisition of insurance contracts	**(9,630)**	2,084
Exchange (gains)/losses	**(19,614)**	9,361
	194,908	165,786

8 Total expenses

Total expenses analysed by expense type were as follows:

Year ended 31 December 2013

	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	**Total £'000**
Employee benefit expenses, including Directors' emoluments	40,505	15,051	**55,556**
Depreciation of property and equipment	905	775	**1,680**
Amortisation of intangible assets	188	1,443	**1,631**
Operating lease rentals and property related costs	2,922	1,281	**4,203**
Exchange (gains)	(19,614)	(9,579)	**(29,193)**
Other underwriting and administrative expenses	170,002	–	**170,002**
Other operating expenses	–	12,377	**12,377**
	194,908	21,348	**216,256**

Year ended 31 December 2012

	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	Total £'000
Employee benefit expenses, including Directors' emoluments	29,115	14,172	43,287
Depreciation of property and equipment	1,261	1,359	2,620
Amortisation of intangible assets	(4,100)	979	(3,121)
Operating lease rentals and property related costs	2,735	1,673	4,408
Exchange losses	9,361	143	9,504
Other underwriting and administrative expenses	127,414	–	127,414
Other operating expenses	–	17,446	17,446
	165,786	35,772	201,558

9 Directors' emoluments and employee benefit expenses

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

	Year ended 31 December 2013	Year ended 31 December 2012
Underwriting	**205**	182
Other agency, accounting and administration	**257**	229
Insurance services	**114**	104
	576	515

Employee benefit expenses were as follows:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Salaries and wages	**39,267**	32,108
Social security costs	**5,019**	4,086
Pension costs – defined contribution plans	**3,682**	3,507
Other benefits	**1,580**	1,687
Charge for employee interest in shares deemed cash settled (note 10)	**6,008**	1,899
	55,556	43,287

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

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Aggregate emoluments	**1,626**	1,066
Group contributions paid to money purchase schemes in respect of qualifying services	**–**	25
Sums paid to third parties for directors' services	**73**	52

Retirement benefits are accruing to 0 directors (2012: 2) under money purchase schemes.

Highest paid director

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Aggregate emoluments	**1,476**	892
Group contributions paid to money purchase schemes in respect of qualifying services	**–**	15

10 Share-based payments

Employee share transactions

The Company, from time to time, allows certain employees to purchase shares in the Company for cash at fair value at the grant date.

Employee entitlement to receive fair value for C Ordinary shares of no par value, and D and E shares of no par value (2012: C Ordinary shares of no par value and D and E shares of no par value) normally vests over four years. There are no shares of no par value that would vest immediately (2012: none). There were no E shares of no par value in issue during or at the year end.

The Company has acquired shares from employee leavers, although this is not a contractual obligation of the Company. Under IFRS 2, this practice has been deemed to indicate that such shares should be re-classified from equity to cash settled.

As 'cash settled' the Group is obliged by IFRS 2 to recognise in the balance sheet a liability as if, at the balance sheet date, all relevant employees had left the Group's employment and as if, at the same date, the Company had agreed to acquire all the relevant employee owned shares. The liability is calculated by reference to the fair value and vesting periods of the shares at the balance sheet date.

10 Share-based payments

The Group uses the directors' assessment of the values of shares to calculate the fair value of the liability for 'Employee owned shares deemed cash settled'. The fair value of the Ordinary and Other shares of no par value is calculated in accordance with prescribed formulae (see note 26) for their valuation on an Exit event (defined as a sale, disposal, listing or winding up of the Company) and the liability for cash settled shares is determined by reference to the lower of the Group's tangible net assets value before deducting the liability for 'Employee owned shares deemed cash settled' and 'market value' based on a basket of comparable listed company market valuations.

The liability for Employee owned shares deemed cash settled is £13,613,000 (2012: £7,605,000), of which £13,613,000 (2012: £7,605,000) is expected to be settled within one year. The amount charged/credited to the income statement in respect of the Employee owned shares deemed cash settled during the year is a charge of £6,008,000 (2012: £1,899,000).

During the year, the Company issued shares to employees as follows:

- 1,342,868 (2012: nil) nil par value C Ordinary shares* for £1,316,061 (2012: £nil); and
- 621,164 (2012: 657,937) nil par value D Ordinary shares for £1,465,500 (2012: £nil).

The shares were issued at the directors' assessment of the fair value.

The Company also repurchased and cancelled the following shares, previously included in the liability for cash settled shares, for a total consideration of £2,584,507 (2012: £nil):

- 1,684,270 (2012: nil) nil par value C Ordinary shares*; and
- 89,175 (2012: nil) nil par value D Ordinary shares.

* Following the share reorganisation on 20 April 2012, new nil par value C shares were created, distinct from the previously issued par value C shares. The comparatives above are based upon new nil par value C shares and do not include the old par value C shares.

Employee share transactions

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

Shares of no par value	C Shares Number	D Shares Number
Employee shares deemed cash settled		
At 1 January 2013	13,836,218	657,937
Issued in 2013	1,342,868	621,164
Purchased and cancelled	(1,684,270)	(89,175)
At 31 December 2013	**13,494,816**	**1,189,926**

11 Finance costs

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Interest expenses – debenture loans	**1,883**	1,973
Amortisation of issue costs of debenture loans	**36**	36
Fees for letters of credit in funds at Lloyd's	**2,899**	3,056
Other	**1,002**	340
	5,820	5,405

12 Group profit before tax

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Group profit before tax is stated after charging/(crediting) the following items:		
Depreciation of property and equipment (note 19)	**1,680**	2,620
Excess of Group's interest in the net fair value of assets acquired through business combinations (note 17)	**–**	(15,415)
Amortisation of intangible assets (note 15)	**1,632**	(3,121)
Operating lease rentals	**4,569**	3,126

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Auditors' remuneration		
Audit services		
– audit fees payable to the Company's auditor for the audit of the parent company and the consolidated financial statements	**120**	267
Other services		
– audit fees payable for the audit of the Company's subsidiaries and managed syndicates	**999**	1,069
– services relating to tax	**294**	208
– services relating to corporate finance and other transactions	**–**	648
– other non-audit services	**193**	–
– services relating to Statement of Actuarial Opinion	**214**	197
– audit fees relating to internal audit	**26**	124
– audit fees relating to Canopius pension schemes	**17**	13
	1,863	2,526

13 Pension contributions

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

The level of contributions for the defined contribution plans generally varies between 5% and 20% of salaries. Contributions of £316,000 (2012: £37,000) in respect of the plans were outstanding at the year end and are included in other creditors including taxation and social security. These were settled in the month following the year end.

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

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

14 Tax expense/(credit)

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

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

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

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

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
UK tax:		
Current tax – current year	**–**	(207)
– prior year	**(31)**	66
Deferred tax – origination and reversal of temporary differences	**3,229**	895
– prior year	**(1,630)**	–
Non-UK tax	**1,289**	1,122
Other	**(1,879)**	–
Tax charge	**978**	1,876
Factors affecting tax charge:		
Profit before tax	**93,739**	48,495
UK tax at 23.25% (2012: 24.5%)	**21,794**	11,881
Income not subject to tax:		
Non-UK income not subject to tax	**(15,723)**	(14,746)
Effect of Omega acquisition	**–**	3,537
Prior year adjustments	**(1,661)**	66
Foreign taxes charged to corporate members	**1,288**	1,122
Double tax relief	**(4,031)**	–
Other, including effect of change in UK tax rate	**(689)**	16
	978	1,876

A net deferred tax liability of £4.9 million (2012: £4.5 million) has been recognised (see note 20).

15 Intangible assets – Group

	Goodwill £'000	Insurance contract intangible asset £'000	Insurance policy renewal rights £'000	Syndicate participation rights £'000	Website and software development costs £'000	Computer software licences £'000	Total £'000
Cost							
At 1 January 2012	3,029	1,750	7,324	–	140	744	12,987
Additions	–	–	1,427	857	–	28	2,312
Acquired	–	11,500	–	7,500	1,489	–	20,489
Exchange difference at acquisition	–	(201)	–	–	(52)	–	(253)
At 31 December 2012	3,029	13,049	8,751	8,357	1,577	772	35,535
At 1 January 2013	3,029	13,049	8,751	8,357	1,577	772	35,535
Additions	–	–	385	–	17	591	993
Acquired	970	–	–	–	400	27	1,397
At 31 December 2013	**3,999**	**13,049**	**9,136**	**8,357**	**1,994**	**1,390**	**37,925**
Accumulated amortisation							
At 1 January 2012	–	1,095	7,010	–	44	480	8,629
Amortisation in the year	–	(3,822)	331	–	195	175	(3,121)
At 31 December 2012	–	(2,727)	7,341	–	239	655	5,508
At 1 January 2013	–	(2,727)	7,341	–	239	655	5,508
Amortisation in the year	–	(311)	500	–	1,316	127	1,632
At 31 December 2013	**–**	**(3,038)**	**7,841**	**–**	**1,555**	**782**	**7,140**
Net book value							
At 31 December 2013	**3,999**	**16,087**	**1,295**	**8,357**	**439**	**608**	**30,785**
At 31 December 2012	3,029	15,776	1,410	8,357	1,338	117	30,027
Current	–	2,011	259	–	8	336	2,614
Non-current	3,999	14,076	1,036	8,357	31	672	28,171
	3,999	16,087	1,295	8,357	39	1,008	30,785

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

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

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

16 Investments in subsidiaries and other group companies – Group and Company

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

	2013 £'000	2012 £'000
Balance at 31 December – Company	**332,075**	349,354

The subsidiaries of the Company at 31 December 2013, which are consolidated in these financial statements, are listed below. The Company holds, directly or indirectly, all of the ordinary share capital and voting rights ("ownership interest") of these companies unless stated otherwise. The companies operate in their respective countries of incorporation unless stated otherwise.

Subsidiaries	Principal activities	Country of incorporation
Canopius Holdings UK Limited	Investment Holding Company	England and Wales
Canopius Holdings Limited	Investment Holding Company	Bermuda
Canopius Reinsurance Limited (note a below)	Reinsurance Company	Bermuda
Canopius US Insurance, Inc. (note c below)	Insurance Company	USA (Delaware)
Canopius Ireland Limited	Reinsurance Intermediary	Ireland
Canopius Managing Agents Limited	Managing Agent at Lloyd's	England and Wales
Omega Underwriting Agents Limited	Managing Agent at Lloyd's	England and Wales
KGM Underwriting Agencies Limited	Managing Agent at Lloyd's	England and Wales
Canopius Asia Pte. Ltd.	Syndicate Service Company	Singapore
Canopius Europe Limited with a Branch in Zurich, Switzerland*	Syndicate Service Company	England and Wales
Canopius Germany GmbH	Syndicate Service Company	Germany
Canopius Labuan Pte Limited	Syndicate Service Company	Malaysia
Canopius Underwriting Bermuda Limited	Syndicate Service Company	Bermuda
Canopius Underwriting Limited	Syndicate Service Company	England and Wales
K Drewe Insurance Brokers Limited	Insurance Intermediary	England and Wales
Resource Underwriting Pacific Pty Limited (note b below)	Insurance Intermediary	Australia
Trenwick Underwriting Limited	Insurance Intermediary	England and Wales
Canopius Services Limited	Group Service Company	England and Wales
Omega Administration Services Limited	Service Company	England and Wales
Canopius Capital Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Two Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Three Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Four Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Five Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Six Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Seven Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Eight Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Nine Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Ten Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Eleven Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Twelve Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Fourteen Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Fifteen Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Sixteen Limited	Lloyd's Corporate Member	England and Wales
Flectat Limited	Lloyd's Corporate Member	England and Wales
Acorn Corporate Capital Limited	Lloyd's Corporate Member	England and Wales
Omega Dedicated Limited	Lloyd's Corporate Member	England and Wales
Omega Dedicated (No 2) Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated (2) Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated (3) Limited	Lloyd's Corporate Member	England and Wales
Packchance Limited	Lloyd's Corporate Member	England and Wales

16 Investments in subsidiaries and other group companies – Group and Company

Subsidiaries	Principal activities	Country of incorporation
Oak Dedicated Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Two Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Three Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Four Limited	Lloyd's Corporate Member	England and Wales
Canopius US Holdings, Inc.	Holding Company	USA (Delaware)
Creechurch Holdings Limited	Holding Company	England and Wales
Pebbles 456 Limited	Holding Company	Bermuda
Trenwick UK Holdings Limited	Holding Company	England and Wales
Trenwick UK Limited	Holding Company	England and Wales
Omega Underwriting Holdings Limited	Holding Company	England and Wales
Look Insurance Services Limited	Dormant	England and Wales
KDIB Holdings Limited	Dormant	England and Wales
Archer Dedicated Limited	Dormant	England and Wales
Bowman Loss Adjusters Limited	Dormant	England and Wales
The KGM Motor Insurance Services Limited	Dormant	England and Wales
The KGM Motor Policies Limited	Non-trading	England and Wales
Creechurch Underwriting Limited	Dormant	England and Wales
Impact Underwriting Limited	Dormant	England and Wales
Arista Insurance Limited	Underwriting Agency	England and Wales
Canopius US Underwriters Inc.	Insurance Company	USA (Delaware)

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

Canopius Employee Benefit Trust ("EBT"), a trust established by a Trust Deed in 2008 between Canopius Group Limited and Ogier Trustee (Guernsey) Limited, is consolidated in these financial statements as EBT is deemed to be controlled by the Group. EBT has not traded since 2011.

(a) Canopius Reinsurance Limited was renamed from Omega Specialty Insurance Company Limited on 18 March 2013.
(b) The Group owns 75% of the ordinary shares of Resource Underwriting Pacific Pty Limited.
(c) While the Group owns 100% of the non-voting ordinary shares of Canopius US Insurance, Inc. ("the entity"), all of its voting rights are owned by related parties (note 37). However, the Group is entitled to all the economic benefits of the entity and, in the opinion of the Board, the Group controls the entity for financial reporting purposes. The Group has therefore included the assets, liabilities and results of the entity in its consolidated financial statements from the date of acquisition, 20 August 2012.
(d) The Group holds 81.55% of the ordinary voting share capital in Arista Insurance Limited (Arista). The remaining share is held by management. In addition, the Group holds 100% of the preference share capital.

17 Acquisitions

As at 31 December 2012, Canopius Holdings UK Limited ("CHUKL") held 56% of the voting ordinary share capital and 68.75% of the preference share capital of Arista Insurance Limited ("Arista"), a joint venture underwriting Agency domiciled in the United Kingdom.

On 1 October 2013, CHUKL acquired a further 25.5% of the voting ordinary share capital and remainder of the preference share capital for a total cash consideration of £3 million. From this date CHUKL gained control over Arista with a holding of 81.5% of voting share capital. Arista ceased to be a joint venture at this date and became a subsidiary of CHUKL.

The primary reason for the acquisition is to enhance Group control over its distribution capabilities.

17 Acquisitions

The fair values of the assets and liabilities of Arista at 1 October 2013 are shown below:

Assets and liabilities

	Pre-acquisition carrying amount under IFRS £'000	Fair Value £'000
Assets		
Intangible assets		
– Licences	27	27
– Capitalised software development	400	400
Property and equipment	403	403
Deferred tax assets	1,256	1,256
Loans and receivables, including insurance receivables	11,764	11,797
Cash and cash equivalents	9,333	9,333
Liabilities		
Trade and other payables, including insurance payables	16,663	16,663
Net assets	6,520	6,553

	£'000
Net assets acquired by the Group in the year	2,030
Goodwill acquired in the year	970
Cost of acquisition in the year	3,000
Carrying value of net assets pre-acquisition	5,920
Fair value adjustment on acquisition (1)	(1,454)
Fair value of pre acquisition interest	4,466
Cash flows from acquisitions	
Cost of acquisition – cash outflow	(3,000)
Cash and cash equivalents from acquired companies – cash inflow	9,333
	6,333

(1) The pre acquisition equity interest in Arista has been remeasured to fair value at the date of the acquisition. The resulting loss of £1,454,000 has been recognised within investment return in the income statement.

From 1 October 2013, Arista ceased to be a joint venture of CHUKL and became a subsidiary. For the period to 1 October 2013, the interest in Arista has been treated as a joint venture using the equity method of accounting. For the remainder of the period, the entity has been consolidated. The Group's share of Arista's post-acquisition loss after tax of £319,548 is included in the consolidated income statement at 31 December 2013.

Directly attributable acquisition costs of £66,510 have been expensed and are included within other operating expenses (non-underwriting) in the consolidated income statement.

The goodwill of £970,000 arising out of the acquisition is attributable to expected synergies between Arista and the existing Canopius businesses. Canopius will also be able to exercise a greater degree of control over where Arista business is placed.

Accounting standards require a pro-forma summary for the Group presenting certain information as if the business had been acquired on 1 January 2013. Had the business been acquired on 1 January 2013, the consolidated income statement on a pro-forma basis would have shown an increase in profit after tax for the year of £209,143. This summary does not include any possible synergies from the acquisition or any actions taken by management subsequent to the acquisition. The information is provided for illustrative purposes only and is not necessarily indicative of the future results of the combined companies.

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

As reported in the financial statements as at 31 December 2012, on 20 August 2012, Canopius Group Limited acquired the entire issued and to be issued share capital of Omega Insurance Holdings ("Omega"). Assets and liabilities acquired in relation to this transaction were at provisional fair values as at 31 December 2012. These were further assessed during the measurement period to 20 August 2013 and no adjustments were necessary to be made to those fair values.

18 Interest in a joint venture

At 31 December 2012, Canopius Holdings UK Limited ("CHUKL") held 56% of the voting ordinary share capital, and 68.75% of the preference share capital of Arista Insurance Limited ("Arista"), a joint venture underwriting agency.

On 1 October, CHUKL acquired a further 25.5% of the voting ordinary share capital. At this date, Arista ceased to be a joint venture of CHUKL and became a subsiduary (see Note 17).

For the period to 1 October 2013, the interest in Arista has been treated as a joint venture using the equity method of accounting. The Group's share of the Arista profit after tax for this period is £625,000 (2012: £680,000).

19 Property and equipment – Group

	Computer equipment £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Leasehold improvements £'000	Total £'000
Cost					
At 1 January 2012	9,145	339	1,056	3,953	14,493
Additions	180	–	207	–	387
Acquired	63	200	4	–	267
Disposals	–	(48)	(27)	–	(75)
At 31 December 2012	9,388	491	1,240	3,953	15,072
At 1 January 2013	9,388	491	1,240	3,953	15,072
Additions	1,567	108	58	–	1,733
Acquired	–	–	403	–	403
Disposals	(2)	(164)	(1)	(38)	(205)
At 31 December 2013	**10,953**	**435**	**1,700**	**3,915**	**17,003**
Accumulated depreciation					
At 1 January 2012	6,271	192	798	2,327	9,588
Charge for the year	1,989	53	151	427	2,620
Disposals	–	(30)	(25)	–	(55)
At 31 December 2012	8,260	215	924	2,754	12,153
At 1 January 2013	8,260	215	924	2,754	12,153
Charge for the year	1,015	32	321	312	1,680
Disposals	(2)	(128)	(6)	–	(136)
At 31 December 2013	**9,273**	**119**	**1,239**	**3,066**	**13,697**
Net book value					
At 31 December 2013	**1,680**	**316**	**461**	**849**	**3,306**
At 31 December 2012	1,128	276	316	1,199	2,919

20 Tax assets and liabilities

Deferred tax assets and liabilities – Group

A deferred tax liability of £4,863,000 (2012: £4,483,000) has been recognised. Deferred tax assets and liabilities arise through (a) temporary differences in the recognition of underwriting profits/losses for accounting and tax purposes; (b) temporary differences in the recognition of depreciation for accounting and tax purposes; and (c) tax losses which are available to offset future taxable profits.

	2013 £'000	2012 £'000
Balance at 1 January	**(4,483)**	(2,013)
Timing differences relating to recognition of underwriting results and depreciation:		
– arising during the year	**(82)**	(6,650)
– utilised during the year	**(3,148)**	5,908
Acquired	**1,220**	(947)
Prior year adjustment	**1,630**	–
Other, including reduction in losses carried forward and reclassifications	**–**	(781)
Balance at 31 December	**(4,863)**	(4,483)

The net deferred tax liability of £4,863,000 (2012: £4,483,000) comprises deferred tax liability of £7,764,000 (2012: £14,940,000) less deferred tax assets of £2,901,000 (2012: £10,457,000). £nil (2012: £nil) of the deferred tax liability is expected to reverse or be settled within 12 months.

The Group has a potential deferred tax asset of approximately £4,692,000 (2012: £4,162,000) in respect of trading losses that has not been recognised in these financial statements at 31 December 2013 as its recoverability is not certain based on prudential projections.

Tax liabilities – Group

Tax liabilities of £nil (2012: £72,000), of which £nil (2012: £nil) is overseas tax, are payable within 12 months.

21 Reinsurance assets – Group

	2013 £'000	2012 £'000
Reinsurers' share of claims outstanding (see note 30)	**368,450**	388,787
Reinsurers' share of unearned premiums (see note 30)	**76,720**	79,642
Debtors arising out of reinsurance operations (see note 30)	**75,750**	69,895
	520,920	538,324

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

22 Deferred acquisition costs – Group

	2013 £'000	2012 £'000
Balance at 1 January	**96,415**	70,733
Additions	**91,306**	95,516
Release	**(90,707)**	(69,834)
Balance at 31 December	**97,014**	96,415

23 Loans and receivables, including insurance receivables

	2013 £'000	2012 £'000
Insurance receivables – debtors arising out of direct insurance operations	**199,367**	178,164
Loans and receivables:		
Other debtors	**16,503**	9,384
Prepayments and accrued income	**8,898**	5,597
Carrying value of investment in preference shares in joint venture (see note 18)	**–**	5,295
	25,401	20,276
Loans and receivables, including insurance receivables	**224,768**	198,440

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

	2013 £'000	2012 £'000
Within one year	**213,224**	188,918
After one year	**11,544**	9,522
	224,768	198,440

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

24 Financial assets – Group and Company

The Group's financial assets are summarised below:

	2013 £'000	2012 £'000
Financial assets at fair value through income	**1,189,244**	1,189,339
Derivative financial instruments	**15,062**	–
	1,204,306	1,189,339

Financial assets at fair value consist of:

	Valuation 2013 £'000	Valuation 2012 £'000	Cost 2013 £'000	Cost 2012 £'000
Debt securities and other fixed income securities	**708,301**	823,505	**719,437**	813,994
Holdings in collective investment schemes	**480,943**	365,834	**473,530**	355,358
Derivative financial instrument	**15,062**	–	**1,798**	–
At 31 December	**1,204,306**	1,189,339	**1,194,765**	1,169,352

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. Liability for derivative financial instruments of £nil is held at the year end (2012: £406,000) and included in 'trade and other payables' in note 31. The derivative financial instruments held by the Group have not been designated for hedge accounting during the current and previous financial years as permitted by IAS 39.

Financial assets in the Company of £52,015,000 (2012: £38,001,000) consist of holdings in collective investment schemes at market value of £7,287,000 (2012: £17,789,000) and cost of £7,287,000 (2012: £17,695,000), debt securities and other fixed income securities at market value of £30,934,000 (2012: £20,212,000) and cost of £30,971,000 (2012: £20,613,000) and a derivative financial instrument at market value of £13,794,000 (2012: £nil) and cost of £530,395 (2012: £nil).

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

25 Cash and cash equivalents – Group

	2013 £'000	2012 £'000
Cash at bank and in hand	**153,074**	127,040
Short-term bank deposits – Overseas deposits	**57,584**	94,403
	210,658	221,443

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

The cash and cash equivalents include £85,136,000 (2012: £124,525,000) that is held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit (see note 36 (a)). These assets are subject to restrictions under the relevant trust deeds and bank facilities.

26 Share capital

Authorised:

	At 31 December 2012 number	At 31 December 2013 number
31,766,961 A Ordinary shares of no par value	31,766,961	**31,766,961**
250,468,540 B Ordinary shares of no par value	250,468,540	**250,468,540**
13,836,218 C Ordinary shares of no par value	13,836,218	**13,836,218**
Ordinary share total	296,071,719	**296,071,719**
1,315,874 D shares of no par value	1,315,874	**1,315,874**
31,580,976 E shares of no par value	31,580,976	**31,580,976**
Other share total	32,896,850	**32,896,850**
	328,968,569	**328,968,569**

Allotted, issued and fully paid:

	At 31 December 2012 number	Changes in Issued capital number	At 31 December 2013 number
31,766,961 A Ordinary shares of no par value	31,766,961		**31,766,961**
250,468,540 B Ordinary shares of no par value	250,468,540		**250,468,540**
13,494,816 C Ordinary shares of no par value	13,836,218	(341,402)	**13,494,816**
Ordinary share total	296,071,719	(341,402)	**295,730,317**
1,189,926 D shares of no par value	657,937	531,989	**1,189,926**
Other share total	657,937	531,989	**1,189,926**
	296,729,656	190,587	**296,920,243**
Share capital	£187,889,591	£2,567,477	**£190,457,068**

26 Share capital

During the year, the Company issued shares as follows:
- 1,342,868 (2012: nil) C Ordinary shares* of nil par value for a total consideration of £1,316,061 (2012: £nil);
- 621,164 (2012: 657,937) D shares of nil par value for a total consideration of £1,465,500 (2012: £nil).

During the same period, the Company repurchased the following shares for a total consideration of £2,412,000 (2012: £nil):
- 1,684,270 (2012: nil) C Ordinary shares* of nil par value;
- 89,175 (2012: nil) D shares of nil par value.

£nil (2012: £nil) of the consideration for the repurchase of the shares was outstanding at the balance sheet date and included in employee interest in shares liability.

Each of the A, B, C, D and E shares of no par value carries the same rights in relation to dividends and entitles their holders to dividends as and when the directors resolve to distribute profits. Only A, B and C shares entitle the holders to attend and vote at general meetings. A, B and C shares carry one vote each. On a return of assets upon a liquidation or reduction of capital, the surplus assets of the Company are apportioned between the shareholders in accordance with prescribed formulae.

In respect of a return of assets, the holders of the A, B, C and E shares receive a priority amount of £1 per share plus a capital amount calculated as 8% per annum (compounded annually) from the date of issue less any dividends paid (after applying 8% on the dividends since the date of payment of the dividend).

Thereafter, the holders of the D shares are entitled to up to 10% of any remaining surplus assets, with the remaining 90% or more being distributed to the holders of the A, B and C shares, pro-rata to the shares in issue, in accordance with a prescribed formula.

The A, B and C shares of no par value are classified as Ordinary, and D and E shares of no par value as Other shares. The analysis below of total shareholders' funds between Ordinary and Other shares, including 'Employee owned shares deemed cash settled', reflects the amounts potentially payable on a return of assets under the above share rights as at 31 December 2013. None of the shares are redeemable.

	Group 2013 £'000	Group 2012 £'000
Ordinary shareholders' funds	**397,407**	328,606
Other shareholders' funds	**11,878**	6,751
Total shareholders' funds, including shares deemed cash settled	**409,285**	335,357

* Following the share reorganisation on 20 April 2012, new nil par value C shares were created, distinct from the previously issued par value C shares. The comparatives above are based upon new nil par value C shares and do not include the old par value C shares.

27 Share capital, share premium and other reserves

Group

	Share capital £'000	Share premium £'000	Employee owned shares £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2013	187,890	–	(7,605)	3,619	166,270
Issue of par value shares and share issue costs	–	–	–	–	–
Purchase and cancellation of equity settled no par value employee shares	(215)	–	–	–	(2,197)
Issue of new no par value shares (note 26)	2,782	–	–	–	–
Capital reserve	–	–	–	(42)	8
Revaluation losses	–	–	–	(24,385)	–
Transfer share premium to no par value share capital account and other reserves	–	–	–	–	–
Retained profit for the year	–	–	(6,008)	–	92,728
At 31 December 2013	**190,457**	**–**	**(13,613)**	**(20,808)**	**256,809**

27 Share capital, share premium and other reserves

Other reserves include Revaluation reserve of £1,815,000 and Capital Redemption reserve of £178,000 at both 31 December 2013 and 2012, a Currency Translation reserve of (£31,701,000) (2012: (£7,316,000)) and a capital reserve consisting of a £8,900,000 of investment from Tower on 20 August 2012, which was a consideration for the right to effect certain future transactions. This investment is not repayable if any subsequent failure to effect the transactions is caused by factors outside the control of the Company. As this contingent settlement event is within the control of the Company such that actions can be taken to avoid the event occurring, it has been classified as a capital reserve.

Company

	Share capital £'000	Share premium £'000	Employee owned shares £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2013	187,890	–	–	9,120	67,089
Issue of par value shares and share issue costs	–	–	–	–	–
Purchase and cancellation of equity settled no par value employee shares	(215)	–	–	–	(2,197)
Issue of new no par value shares (note 26)	2,782	–	–	–	–
Capital reserve	–	–	–	–	–
Revaluation losses	–	–	–	–	–
Transfer share premium to no par value share capital account and other reserves	–	–	–	–	–
Retained profit for the year	–	–	–	–	91,559
At 31 December 2013	**190,457**	**–**	**–**	**9,120**	**156,451**

28 Reconciliation of movements in shareholders' funds

	Group 2013 £'000	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Balance at 1 January	**357,779**	236,955	**264,099**	186,078
Issue of par value shares, including share premium	**–**	680	**–**	680
Purchase and cancellation of employee shares deemed cash settled	**–**	(120)	**–**	(120)
Reclassification to liability – included in employee interest in shares	**(2,197)**	(560)	**(2,197)**	(560)
Purchase and cancellation of equity settled employee shares	**(215)**	(972)	**(215)**	(972)
Issue of new no par value (note 26)	**2,782**	73,650	**2,782**	73,650
Increase in capital reserve	**–**	8,935	**–**	8,935
(Decrease)/increase in currency translation reserve	**(24,385)**	(7,406)	**–**	–
Other	**(34)**	–	**–**	–
Retained profit/(loss)	**92,728**	46,617	**91,559**	(3,592)
Balance at 31 December	**426,458**	357,779	**356,028**	264,099

29 Insurance contract liabilities

	2013 £'000	2012 £'000
Claims outstanding (see note 30)	**1,198,649**	1,260,446
Provision for unearned premiums (see note 30)	**362,988**	329,517
Creditors arising out of reinsurance operations (see note 30)	**172,743**	165,590
	1,734,380	1,755,553

Insurance payables (creditors arising out of direct insurance operations) are included in 'trade and other payables, including insurance payables' in note 31.

30 Insurance contract liabilities and reinsurance assets

	Claims outstanding £'000	Provision for unearned premiums £'000	Creditors and debtors arising out of reinsurance operations £'000	Total £'000
Insurance contract liabilities				
At 1 January 2012	1,001,512	238,689	130,681	1,370,882
Acquired	323,542	79,779	18,547	421,868
Movement in the year	(54,451)	13,183	11,588	(29,680)
Exchange and other adjustments	(10,157)	(2,134)	4,774	(7,517)
At 31 December 2012	1,260,446	329,517	165,590	1,755,553
Movement in the year	(57,239)	34,498	7,152	(15,589)
Exchange and other adjustments	(4,558)	(1,027)	1	(5,584)
At 31 December 2013	**1,198,649**	**362,988**	**172,743**	**1,734,380**
Reinsurance assets				
At 1 January 2012	369,536	49,486	38,940	457,962
Movement in the year	47,553	7,421	16,400	71,374
Acquired	(27,122)	22,920	14,865	10,663
Exchange and other adjustments	(1,180)	(185)	(310)	(1,675)
At 31 December 2012	388,787	79,642	69,895	538,324
Movement in the year	(20,098)	(2,841)	8,284	(14,655)
Exchange and other adjustments	(239)	(81)	(2,429)	(2,749)
At 31 December 2013	**368,450**	**76,720**	**75,750**	**520,920**

Creditors arising out of reinsurance operations of £181,644,000 (2012: £165,590,000) comprise principally premiums payable for reinsurance, including reinstatement premiums and corporate member level quota share reinsurance premiums payable. Debtors arising out of reinsurance operations of £75,750,000 (2012: £69,895,000) comprise principally amounts receivable from reinsurers in respect of paid claims and brokers' balances receivable on inwards reinsurance business.

30 Insurance contract liabilities and reinsurance assets

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

	2013 £'000	2012 £'000
Gross		
Notified claims outstanding and loss adjustment expenses	**728,171**	925,203
Claims incurred but not reported	**470,478**	335,243
	1,198,649	1,260,446
Recoverable from reinsurers		
Notified claims outstanding and loss adjustment expenses	**247,095**	301,095
Claims incurred but not reported	**121,355**	87,692
	368,450	388,787
Net		
Notified claims outstanding and loss adjustment expenses	**481,076**	624,108
Claims incurred but not reported	**349,123**	247,551
	830,199	871,659

It is estimated using historical settlement trends that £386 million (2012: £411 million) of the gross claims outstanding and £288 million (2012: £304 million) of the amount recoverable from reinsurers included in the above analysis, will settle in the next 12 months.

31 Trade and other payables, including insurance payables

	2013 £'000	2012 £'000
Insurance payables – creditors arising out of direct insurance operations	**14,723**	16,470
Trade and other payables:		
Other creditors including taxation and social security	**6,077**	55,588
Accruals and deferred income	**45,143**	32,140
Derivative financial instruments	**–**	406
	51,220	88,134
Trade and other payables, including insurance payables	**65,943**	104,604

Trade and other payables include £4,733,000 (2012: £4,123,000), in accruals and deferred income, payable after more than one year. The fair value of trade and other payables approximate to their carrying amounts. Derivative financial instruments, representing the fair value of exchange traded bond futures contracts used to hedge duration risk, amounted to £nil (2012: £406,000).

32 Borrowings: debenture loans – Group and Company

	2013 £'000	2012 £'000
Due in more than five years		
Floating rate Euro loan notes	**9,819**	9,560
Floating rate US Dollar loan notes	**35,650**	36,309
	45,469	45,869

The floating rate Euro loan stock of €12 million bears interest at 3-month EURIBOR plus 4%, and is redeemable at par between December 2009 and December 2034. There are three floating rate US Dollar loans of $20 million each. One bears interest at 3-month US LIBOR plus 3.3%, and is redeemable at par between June 2010 and June 2035, one bears interest at 3-month US LIBOR plus 3.6%, and is redeemable at par between July 2010 and July 2035, and one bears interest at 3-month US LIBOR plus 3.4% and is redeemable at par between June 2011 and June 2036. Redemption of any or all of the loan notes earlier than the latest redemption date is at the Group's option.

33 Retirement benefit obligations – Group

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

A valuation of the scheme was undertaken at 1 January 2010 and updated to 31 December 2013 by a qualified independent actuary. The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2013 % per annum	2012 % per annum
Discount rate	**4.5**	4.5
Expected long-term rate of return of scheme assets	**4.5**	3.1
Increase in salaries	**n/a**	n/a
Inflation assumptions	**3.25**	2.9
LPI pension increases (capped at 5% per annum)	**3.25**	2.9

The underlying mortality assumption is based upon the standard table known as S1LPA CMI 2013, 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 2013, the present value of the scheme liabilities was £8,731,000 (2012: £8,479,000) and the market value of scheme assets was £9,281,000 (2012: £9,207,000), giving a surplus of £550,000 (2012: surplus of £728,000) calculated in accordance with the requirements of accounting standards. The surplus was calculated based on the above assumptions in compliance with the requirements of accounting standards. The surplus is not recognised in the accounts. The latest triennial valuation prepared by the scheme Actuary as at 1 January 2010 on behalf of the Trustees of the scheme concluded there was a funding requirement amounting to £1,117,000. This was paid into the scheme's trust funds in early 2011. The next valuation, as at 1 January 2013, is in progress and due to be completed by 31 March 2014.

As the scheme is considered not material in the context of the Group, reduced disclosure is given in this note. Further details are provided in Canopius Services Limited's financial statements for the year ended 31 December 2013.

34 Reconciliation of profit before tax to cash generated from operations

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Profit before tax	**93,739**	48,495
Interest received	**(23,339)**	(22,879)
Interest paid	**1,883**	1,973
Net fair value losses on investments, including currency translation differences	**13,871**	6,988
Charge for cash-settled share-based payments	**6,008**	1,899
(Increase) in debtors, prepayments and accrued income	**(22,836)**	(648)
(Decrease)/increase in creditors	**(55,129)**	2,332
Increase/(decrease) in net claims and unearned premium reserves	**13,957**	(47,992)
Depreciation of property and equipment	**1,680**	2,620
Amortisation of intangible assets	**1,631**	(3,121)
Excess of Group's interest in the net fair value of assets acquired through business combinations	**–**	(15,415)
Gain on disposal of assets sold	**(6,082)**	–
Share of profits from joint venture	**(451)**	(680)
Cash generated from/(used in) operations	**24,932**	(26,428)

35 Operating lease commitments – Group

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

	Group 2013		Group 2012	
	Land and buildings £'000	**Equipment £'000**	Land and buildings £'000	Equipment £'000
Not later than one year	**4,275**	**294**	3,410	228
Later than one year but not later than five years	**6,967**	**766**	9,623	215
Later than five years	**–**	**–**	–	4
	11,242	**1,060**	13,033	447

36 Guarantees and contingencies

(a) Assets securing insurance and other liabilities

Of the total of financial assets and cash and cash equivalents disclosed on the Group's balance sheet, £1,095,204,000 (2012: £1,112,645,000) are held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit. These assets are subject to restrictions under the relevant trust deeds and bank facilities, of which £953,554,000 (2012: £982,453,000) are financial assets and the balance is cash and cash equivalents.

(b) Deeds of Indemnity

The Company has entered into three (2012: two) Deeds of Undertaking and Guarantee with third party funds at Lloyd's ("FAL") providers on behalf of Canopius Capital Fourteen Limited, Canopius Capital Five Limited and Canopius Capital Twelve Limited (2012: Canopius Capital Five Limited and Canopius Capital Twelve Limited), to cover the potential liabilities in the event that the third party FAL providers' FAL amounting respectively to US$50,000,000, £23,230,000 and £8,796,060 (2012: £17,709,734 and £7,290,435) are drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement.

During 2013, the Company and its subsidiaries entered into no (2012: one) new Deeds of Indemnity with Lloyd's, leaving the total at thirteen (2012: thirteen). Three (2012: three) of the Deeds relate to reorganisations of the Group's corporate members, who are underwriting on Syndicates 260, 958 and 4444. The other ten (2012: ten) Deeds are to cover remote potential liabilities that may arise following the release by Lloyd's between 2006 and 2013 of various members' FAL.

(c) Bank facilities

As at 31 December 2013, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

- £120.0 million (2012: £105.0 million) unsecured, with £118.6 million (2012: 105.0 million) utilised, which is available to support underwriting on Syndicate 260's 2012, 2013 and 2014 years of account, Syndicate 958's 2013 and 2014 years of account, Syndicate 4444's 2012, 2013 and 2014 years of account and Syndicate 6115's 2014 year of account, £103.5 million of which is additionally available to support underwriting on Syndicate 4444's 2011 and prior years of account, with the remaining £15.1 million additionally available to support underwriting on Syndicate 958's 2012 and prior years of account, at a cost of between 2.00% and 2.20% (2012: between 2.00% and 2.20%) per annum on the utilised portion and 0.75% (2012: 0.75%) per annum on the unutilised portion.

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

- Letters of credit totalling US$10.6 million and Canadian$0.1 million respectively with various US cedants and a Canadian cedant. Should CRL fail to meet its obligations under contracts with these cedants, then the cedents would be able to drawdown on these letters of credit. The letters of credit facilities are all secured by a charge over certain of CRL's bank deposits totalling US$10.7 million.

(d) Other contingent liabilities

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

37 Related party transactions

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. Key management comprised nine (2012: eight) persons at 31 December 2013. One (2012: one) of the key management persons is a director of the Parent Company. Details of the remuneration of the Group's key management personnel, including the one (2012: one) director of the parent company, are shown below in aggregate for each of the categories specified by IAS 24 – 'Related party disclosures'.

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Short-term employment benefits	**6,294**	4,934
Post-employment benefits	**262**	256
Share-based payments	**–**	202

37 Related party transactions

Loans to related parties

Non-interest bearing season ticket loans made to directors and members of key management during the year amounted to £8,031 (2012: £4,999) of which £5,265 (2012: £3,749) was outstanding as at 31 December 2013.

Other non-interest bearing loans made to directors and members of key management during the year in respect of PAYE due on capital gains on shares purchased amounted to £690,612 (2012: £nil) of which £690,612 (2012: £nil) was outstanding as at 31 December 2013.

Interest bearing loans made to directors and members of key management during the year in respect of Company shares purchased amounted to £119,009 (2012: £nil) of which £119,009 (2012: £nil) was outstanding as at 31 December 2013.

Directors' and key management personnel's interests in shares

The details of the directors' interests in shares of the Company are shown in the Directors' report in these financial statements.

During the year, five members of the key management personnel subscribed for 300,483 C Ordinary shares of nil par value and 157,071 D shares of of nil par value for a total consideration of £631,255 and the partner of a member of key management personnel subscribed for 50,973 C Ordinary shares of nil par value and 17,368 D shares of of nil par value for a consideration of £100,000.

Transactions with the joint venture

During the year, Arista Insurance Limited ("Arista"), a joint venture of the Group until 1 October 2013 and thereafter a subsidiary, was paid commission of £7,338,000 (2012: £5,944,000) by Syndicate 4444 on gross premiums written for the syndicate. At 31 December 2013 commission of £nil (2012: £342,000) was payable to Arista. Profit commission paid by Syndicate 4444 to Arista amounted to £nil (2012: 861,000) during the year with an amount payable of £nil (2012: £75,000) at 31 December 2013. A non-interest bearing term loan facility until 31 March 2013, repayable by the Company to Arista, amounted to £600,000 (2012: £600,000) at 31 December 2013.

Transactions with Tower Group Inc.

As reported in the Group's 2012 financial statements, Tower Group Inc. ("Tower"), which owned 10.7% of the Ordinary shares in issue at 31 December 2012, invested US$14 million in the Company on 20 August 2012 for a merger option, for assisting Tower in the future to establish a greater presence at Lloyd's via a Special Purpose Syndicate and for the option to transfer ownership of the managing agency which is managing the SPS to Tower. Details of the agreements are set out in a Master Transaction Agreement between the Canopius Group and Tower. A copy of the Master Transaction Agreement is filed on Tower's website, twrgrpintl.com, under SEC filings dated 25 April 2012. Tower paid the Merger Exercise Price of US$1 million to the Company on 31 July 2012 on electing to effect the merger. The merger option and the SPS transactions were effected in 2013 as detailed below.

(i) Merger Option

On 13 March 2013, Canopius Holdings Bermuda Limited ("CHBL") and its subsidiaries, Canopius Bermuda Limited ("CBL"), Canopius Mergerco, Inc., Condor 1 Corporation and Condor 2 Corporation were sold to third party investors for consideration of US$216.7 million. CHBL was renamed Tower International Group Limited and CBL was renamed Tower Reinsurance, Ltd.

The transaction followed the exercise of the merger option agreement between the Company and Tower that was agreed and exercised by Tower in 2012 as noted above. In connection with this transaction and on the same day, CBL and CHBL declared and paid special dividends and made capital repayments to the Company amounting to £127.6 million. A second amount was paid on 14 May 2013 amounting to US$8.8 million, being an amount equal to the difference between the net asset value on 13 March 2013 of the businesses sold for US$205.9 million (net of expenses of US$10.8 million) and a pre-agreed net asset transaction value of US$198.0 million. On payment of this second amount, the Company recognised a gain on the sale and an increase in the total shareholders' interests in the Company of US$7.9 million. This gain is included within investment income in the consolidated income statement.

In addition and in connection with the above transactions, certain contracts of reinsurance written by CBL have been part reinsured or transferred to Canopius Reinsurance Limited ("CRL"). This restructuring of business between CBL and CRL included the reinsurance of quota share contracts in respect of Lloyd's syndicate business managed by Canopius Managing Agents Limited ("CMA") for aggregate premiums payable to CRL on a funds withheld basis amounting to £409.3 million and the novation of structured reinsurance business from CBL to CRL for consideration paid to CBL amounting to £3.7 million and for consideration paid by CBL to CRL of US$1.3 million. Gross and net liabilities ceded to or transferred to CRL amounted to £601.3 million and £359.5 million respectively. The Group made no gain or loss from this business restructuring.

37 Related party transactions

With effect from 1 January 2011 Flectat Limited ("Flectat"), a Group subsidiary, entered into quota share arrangements with CBL whereby CBL took an 85% interest in Flectat's participation on the 2011 underwriting year of account of Syndicate 4444. A similar quota share arrangement in respect of Flectat's participation on the 2012 underwriting year of account of Syndicate 4444 commenced on 1 January 2012. Following the sale of CBL to Tower these quota share arrangements remained in place but CBL entered into additional contracts of reinsurance whereby 68% of the 85% of Flectat's share of the Syndicate 4444 2010 and prior, 89.86% of the 85% of the 2011 pure and 89.67% of the 85% of the 2012 year of account was ceded by CBL to CRL.

On 30 September 2013 the quota share reinsurance contracts between Flectat and CBL were novated from CBL to CRL and the reinsurance contracts between CBL and CRL were commuted based on the results at 30 June 2013 which resulted in a net payment by CBL to CRL of £1,802,504. In addition, at the same time, CRL acquired certain Funds at Lloyd's from CBL for their market value at 30 September 2013 of £20,979,719.

Two of the Group's subsidiaries, Flectat and Canopius Capital Eleven Limited ("CC11L"), had quota share reinsurance arrangements in place with Tower when it became a related party to the Group on 20 August 2012.

In respect of Flectat, under the terms of quota share reinsurance arrangements, 8.62% of business earned from 1 July 2011 onwards on the 2011 underwriting year of account of Syndicate 4444 was ceded to Tower. The net result to Tower in respect of the contract as at 31 December 2012 was a profit of £892,445 which is the amount due to Tower as at that date. On 13 March 2013, the quota share arrangement was commuted by an agreement between Flectat and Tower. Under the agreement, Flectat has undertaken to pay Tower £892,445 following closure of the 2011 underwriting year of account.

For the 2012 underwriting year of account, 100% of CC11L's underwriting was ceded to Tower such that CC11L retained no underwriting risk. The net result to Tower in respect of the contract as at 31 December 2012 was a loss of £244,951 which was the amount due to CC11L as at that date. On 13 March 2013, the quota share arrangement was commuted by an agreement between CC11L and Tower such that CC11L retained 100% of the underwriting risk. Under the agreement, Tower has undertaken to pay CC11L £244,951 following the closure of the 2012 underwriting year of account.

(ii) Special Purpose Syndicate ("SPS")

As referred to above, a SPS, Lloyd's Syndicate 6115, was created as part of the Group's commitment to assist Tower in its establishment of a presence at Lloyd's. The capacity of Syndicate 6115 was 100% owned by a Group subsidiary, Canopius Capital Fourteen Limited ("CC14L"), which in turn entered into a quota share reinsurance arrangement with Tower on 30 November 2012 such that 100% of CC14L's underwriting on Lloyd's Syndicate 6115 for the 2013 underwriting year was ceded to Tower and, as a result, CC14L retained no underwriting risk. On 12 November 2013, this arrangement was novated from Tower to CRL and a novation payment of US$877,070 was paid by CRL to Tower.

At 31 December 2013 the outstanding balances were £892,445 due to Tower and £244,951 due from Tower.

Transactions with other related parties, including directors of the Company

Bregal Capital LLP, which manages the funds of the majority shareholders of the Company, receives an annual monitoring fee of £50,000 (2012: £50,000). Mr Adam Barron, a director of the Company, is a partner of Bregal Capital LLP.

Guy Carpenter performs insurance services for Canopius Group Companies and for third parties conducting business with Canopius Group Companies. The services are all provided on a commercial arms' length fee basis. The lead Guy Carpenter executive in respect of certain of these services, for which Canopius Group Companies paid Guy Carpenter fees amounting to £275,000 (2012: £245,000), is the partner of Mr Michael Watson, a director and shareholder of the Company.Voting rights in Canopius US insurance, Inc., an entity the Group controls, are owned 85.6% by Visby Limited, 9.9% by Tower and 4.6% by Sunny Magic Ltd. Visby Limited and Sunny Magic Ltd. are respectively owned 100% by Mr Adam Barron and Mr Michael Watson, both of whom are directors of the Company.

Lime Street Limited is a company incorporated in Guernsey with the sole purpose of acquiring shares in the Company from certain individuals who are or were management shareholders the Company and to subsequently sell these shares to the Company or another third party. Certain members of the key management personnel are shareholders in Lime Street Limited. Professional fees of £27,000 (2012: £13,000) were paid by the Group on behalf of Lime Street Limited.

38 Ultimate parent undertaking and controlling party

95.4% (2012: 84.6%) of the Ordinary shares in issue at 31 December 2013 in the Company were held by seven (2012: seven) funds managed by Bregal Capital LLP. The funds, as investment vehicles, and Bregal Capital LLP, as manager of the funds, are not controlling parties or parent undertakings of the Group.

Canopius Group Limited is the ultimate parent undertaking and controlling party of the Group.

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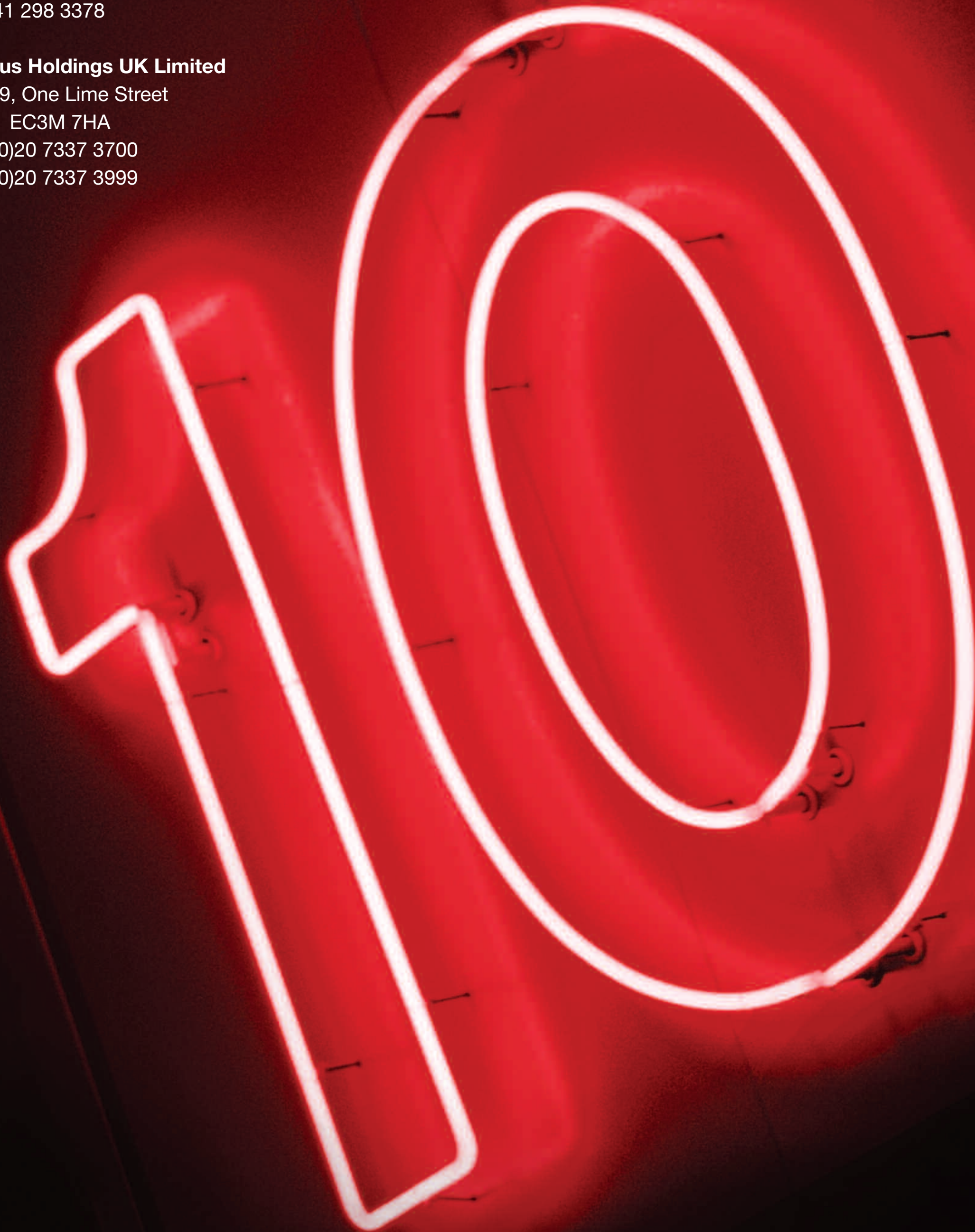

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