Registered in Switzerland No. CHE-270.372.844

# SOMPO CANOPIUS AG
(formerly known as Canopius Holdings Limited)

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2015

## Contents

| **Key Statistics**[1] | **2015** £m | **2014** £m |
|---|---|---|
| Total shareholders' interests | 534.9 | 489.7 |
| Financial resources[2] | 964.9 | 891.9 |
| Gross premiums written | 896.8 | 880.9 |
| Net premiums earned | 670.5 | 599.3 |
| Total profit/(loss) after taxation | 42.5 | 86.1 |
| Net loss ratio | 52% | 53% |
| Combined ratio | 90% | 91% |

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

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

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

1 Amounts presented are determined from the financial statements except as noted below.
2 Financial resources represent total shareholders' interests plus drawn unsecured letter of credit facilities.

## Introduction

Sompo Canopius 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 £965 million at year end (2014: £892 million).

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

Strength

As part of the Sompo Holdings group of companies, Sompo Canopius is backed by a parent with in-depth understanding and experience of the insurance industry as well as total assets of circa $85 billion. This gives the Sompo Canopius Group substantial financial strength and durability.

Balance

With an expertly balanced portfolio and a highly regarded claims team who are currently ranked in the top three at Lloyd's, Sompo Canopius can rightly lay claim to being both a strong and self-assured protector.

Expertise

With an enhanced ability to lead in chosen product lines and a wealth of experience in people, Sompo Canopius have the power to deliver the products and services that clients need.

## Management Report

The directors of Sompo Canopius AG present their Management Report for the group for the year ended 31 December 2015.

### Group Restructure

During 2015 Sompo Japan Nipponkoa Holdings, Inc. ("Sompo Holdings"), the Sompo Canopius Group's ultimate parent, approved a restructuring plan for the Sompo Canopius Group resulting in a change to its top company. Canopius Group Limited ("CGL"), headquartered in Guernsey, was replaced as the top company by Canopius Holdings Limited ("CHL"), previously a directly-owned subsidiary of CGL. In September 2015, CHL was redomiciled to Switzerland and renamed "Canopius Group AG". In February 2016, Canopius Group AG was renamed "Sompo Canopius AG" ("SCAG").

The financial statements exclude the income statement and balance sheet for Canopius Group Limited ("CGL") for both 2015 and 2014 in accordance with IFRS 10 – Consolidated Financial Statements.

### Review of the business

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

The result for the year ending 31 December 2015 was a profit after tax to shareholders of £42.5 million (2014: £86.1 million). 2015 saw the general rating environment continue to remain challenging. Despite this, the group recorded another strong result due to the effects of top line premium growth, low incidences of catastrophe losses and positive reserve developments from prior periods. The group achieved a return on equity of 8% and a combined ratio of 90%.

Despite continued rate softening, the 2015 calendar year saw an increase of 2% in gross premiums written.

Loss experience has been at a similar level to 2014 with a net claims ratio of 52% in 2015 versus 53% in 2014. 2015 experienced a benign US windstorm season and global catastrophe experience was below expectations. The group has benefitted from positive reserve development relating to prior periods.

The Group's reported investment return is £5.6 million compared to £22.7 million in the prior year. This shortfall is a result of a tough investing environment in 2015, which has been caused by rising treasury yields, widening credit spreads, falling commodity prices and tumbling equity markets. While Sompo Canopius' decision to maintain a high quality portfolio and increase duration through the use of futures has constrained returns, Sompo Canopius believes that this will allow the portfolio to generate a more consistent income stream in a lower for longer environment than more aggressive peers.

### Economic and Operating Outlook

The UK economy slowed a little in 2015 but domestic growth remained relatively strong, helped by lower oil prices. The global outlook remains mixed with signs of a gradual pick-up in the US and the Eurozone, but a slowdown in China, recessions in Russia and Brazil, and increased volatility in emerging markets. The risks to UK economic growth remain significant and prospects in 2016 may be influenced by developments in the Eurozone.

Interest rates are predicted to remain low in the short to medium term; investment yields will remain close to historical lows in 2016. It is inevitable that there will be continuing downward pressure on insurance rates keeping the market highly competitive. The Group will continue to review its underwriting criteria rigorously and to manage component costs, pricing and profit profile in order that the Group remains competitive in the market.

## Management Report (continued)

**Risk assessment and management:**

In the normal course of business, the Group is exposed to many risks. Risk policies are in place for the major risk categories. Please refer to notes 2 and 3 of consolidated financial statements for more details.

**Risk and Opportunities:**

In order to help facilitate growth in challenging market conditions, SCAG continues to look to develop new products and to expand into attractive markets, while leveraging its position as part of the Sompo Holdings Group. SCAG is committed to recruiting underwriters who are talented leaders in their field and able to deliver on our ambitions. Expertise and experience are central to our growth and development.

The management report was approved by the Board on 23 May 2016 and signed on its behalf on 23 May 2016 by:

Michael Watson

Director

Stuart Davies

Director

## Directors and Professional Advisers

| | |
|---|---|
| **Directors** | Michael Watson (appointed 2 September 2015)<br>Shigeru Ehara (appointed 2 September 2015)<br>Nigel Frudd (appointed 2 September 2015)<br>Masato Fujikura (appointed 2 September 2015)<br>Hans Kunzle (appointed 20 November 2015)<br>Paul Meader (appointed 2 September 2015)<br>Ian Owen (appointed 2 September 2015)<br>Stuart Davies (appointed 2 September 2015)<br>Takashi Yoshino (appointed 2 September 2015) |
| **Company Secretary** | James Greenfield (resigned 10 March 2016)<br>Mariana O'Connell (appointed 17 March 2016) |
| **Registered Office** | 4th Floor,Freigustrasse 16<br>CH-8002, Zurich<br>Switzerland |
| **Company Number** | CHE-270.372.844 |
| **Independent Auditors** | PricewaterhouseCoopers AG<br><br>Brichstrasse 160<br>CH-8050 Zurich<br>Switzerland |

*Sompo Canopius AG*
*Zurich*

***Report of the statutory auditor***
***to the General Meeting***
***on the consolidated financial statements 2015***

Report of the statutory auditor
to the General Meeting of
Sompo Canopius AG
Zurich

**Report of the statutory auditor on the consolidated financial statements**

As statutory auditor, we have audited the accompanying consolidated financial statements of Sompo Canopius AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and notes, for the year ended 31 December 2015.

*Board of Directors' responsibility*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

*PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland*
*Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch*

## Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

| | |
|---|---|
| Philip Kirkpatrick | Valentin Franke |
| Audit expert<br>Auditor in charge | Audit expert |

Zürich, 23 May 2016

Enclosure:

- Consolidated financial statements (consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and notes)

## Consolidated Income Statement

For the year ended 31 December 2015

| | Note | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|---|
| Gross premiums written | | 896,811 | 880,871 |
| Reinsurance to close premiums receivable | | 22,077 | 22,340 |
| Reinsurance premiums ceded | | (207,689) | (288,768) |
| **Net premiums written** | | 711,199 | 614,443 |
| Change in the provision for gross unearned premiums | | (20,742) | (23,573) |
| Change in the provision for unearned premiums - reinsurers' share | | (19,928) | 8,439 |
| **Net change in the provision for unearned premiums** | | (40,670) | (15,134) |
| **Earned premiums revenue, net of reinsurance** | | 670,529 | 599,309 |
| Investment return | 4 | 5,563 | 22,656 |
| Other income | 5 | 13,578 | 22,037 |
| **Total income** | | **689,670** | **644,002** |
| Insurance claims and claims settlement expenses | 6 | (429,626) | (403,260) |
| Insurance claims and claims settlement expenses relating to reinsurance to close premiums payable | | (22,077) | (22,340) |
| Insurance claims and claims settlement expenses recoverable from reinsurers | 6 | 104,635 | 106,888 |
| **Net insurance claims** | | **(347,068)** | **(318,712)** |
| Underwriting and administrative expenses | 7/8 | (255,007) | (197,190) |
| Other operating expenses (non-underwriting) | 8 | (36,691) | (31,957) |
| **Total expenses** | 8 | **(291,698)** | **(229,147)** |
| **Results of operating activities** | | 50,904 | 96,143 |
| Finance costs | 10 | (1,722) | (4,492) |
| **Profit before tax** | | 49,182 | 91,651 |
| Tax | 14 | (6,705) | (5,593) |
| **Profit for the year** | | **42,477** | **86,058** |
| **Attributable to:** | | | |
| - Equity holders of the parent company | | 42,477 | 85,824 |
| - Non-controlling interests | | - | 234 |
| | | 42,477 | 86,058 |

The notes on pages 16 to 65 form part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

| | Note | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|---|
| **Profit for the year** | | 42,477 | 86,058 |
| **Other comprehensive income** | | | |
| Currency translation differences | 26 | 3,180 | 1,326 |
| **Total comprehensive income recognised for the year** | | 45,657 | 87,384 |
| **Attributable to:** | | | |
| - Equity holders of the parent company | | 45,657 | 87,150 |
| - Non-controlling interests | | - | 234 |
| | | 45,657 | 87,384 |

All the above amounts are derived from continuing operations.

The notes on pages 16 to 65 form part of these consolidated financial statements.

## Consolidated Balance Sheet
As at 31 December 2015

| | Note | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 15 | 31,617 | 31,923 |
| Property and equipment | 18 | 5,957 | 2,573 |
| Reinsurance assets | 20 | 411,043 | 467,673 |
| Deferred acquisition costs | 21 | 127,953 | 104,219 |
| Loans and receivables, including insurance receivables | 22 | 281,452 | 277,455 |
| Financial assets - carried at fair value through income | 23 | 1,336,717 | 1,314,626 |
| Cash and cash equivalents | 24 | 185,825 | 133,610 |
| **Total assets** | | 2,380,564 | 2,332,079 |
| **Liabilities** | | | |
| Insurance contract liabilities | 28/29 | 1,735,487 | 1,768,927 |
| Trade and other payables, including insurance payables | 30 | 95,589 | 63,041 |
| Deferred tax liabilities | 19 | 14,569 | 10,456 |
| **Total liabilities** | | 1,845,645 | 1,842,424 |
| **Net assets** | | **534,919** | **489,655** |
| **Equity** | | | |
| Share capital | 26 | 68 | 160,556 |
| Other reserves | 26 | 335,636 | 142,917 |
| Retained earnings | 26 | 199,215 | 186,182 |
| **Equity attributable to equity holders of the parent** | 27 | 534,919 | 489,655 |
| Non-controlling interest | | - | - |
| **Total equity** | | **534,919** | **489,655** |

These financial statements were approved by the Board of Directors on 23 May 2016 and signed on their behalf on 23 May 2016 by:

Michael Watson
Director

Stuart Davies
Director

The notes on pages 16 to 65 form part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity
For the year ended 31 December 2015

| | Notes | Attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital £'000 | Other reserves[3] £'000 | Retained earnings £'000 | Total £'000 | Non-controlling interests £'000 | Total Equity £'000 |
| At 1 January 2014 | | 160,556 | 141,591 | 100,358 | 402,505 | 1,031 | 403,536 |
| Other comprehensive income | | - | 1,326 | 85,824 | 87,150 | 234 | 87,384 |
| Other movements | | - | - | - | - | (1,265) | (1,265) |
| **At 31 December 2014** | | **160,556** | **142,917** | **186,182** | **489,655** | - | **489,655** |
| **At 1 January 2015** | | **160,556** | **142,917** | **186,182** | **489,655** | - | **489,655** |
| Cancellation of shares | | (160,556) | - | - | (160,556) | - | (160,556) |
| Capital contribution | 26 | - | 190,802 | - | 190,802 | - | 190,802 |
| Dividend paid | 26 | - | (1,263) | (26,571) | (27,834) | - | (27,834) |
| Issue of shares | 26 | 68 | - | - | 68 | - | 68 |
| Acquisition surplus | 26 | - | - | (2,873) | (2,873) | - | (2,873) |
| Other comprehensive income | 26 | - | 3,180 | 42,477 | 45,657 | - | 45,657 |
| **At 31 December 2015** | | **68** | **335,636** | **199,215** | **534,919** | - | **534,919** |

The notes on pages 16 to 65 form part of these consolidated financial statements.

3 Other reserves include currency translation, revaluation, capital redemption reserves and other capital reserves (see note 26).

## Consolidated Statement of Cash Flows

For the year ended 31 December 2015

| | Note | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 32 | 42,490 | 49,282 |
| Income tax paid | | (30) | (32) |
| Interest paid | 10 | (1,722) | (28) |
| **Net cash generated from operating activities** | | 40,738 | 49,222 |
| **Cash flows from investing activities** | | | |
| Purchases less sales of financial assets | | (5,836) | (70,782) |
| Acquisition of subsidiaries, net of cash acquired | 17 | (1,525) | (22,071) |
| Proceeds from sale of subsidiary net of cash sold | | - | (727) |
| Purchases less sales of property and equipment and intangible assets | | (7,070) | (3,501) |
| Interest received | 4 | 23,119 | 18,974 |
| **Net cash generated/(used in) investing activities** | | 8,688 | (78,107) |
| **Cash flows from financing activities** | | | |
| Purchase and cancellation of shares | | (68) | (169) |
| **Net cash (used in)/generated from financing activities** | | (68) | (169) |
| Net increase/(decrease) in cash and cash equivalents | | 49,358 | (29,054) |
| Cash and cash equivalents at beginning of year | | 133,610 | 160,665 |
| Effect of exchange rate changes on cash and cash equivalents | | 2,857 | 1,999 |
| **Cash and cash equivalents at end of year** | 24 | **185,825** | **133,610** |

The notes on pages 16 to 65 form part of these consolidated financial statements.

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies

Sompo Canopius AG, incorporated in Switzerland, is the ultimate parent undertaking and controlling party of the Sompo 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

Sompo Canopius AG 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 Swiss law. 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 IFRS Interpretations Committee ("IFRS IC").

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.

#### (i) Going concern and liquidity considerations

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 key subsidiaries in the USA and Switzerland and its branch in 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 being unable to meet its financial obligations or being unable to operate as a going concern for the foreseeable future to be low.

The directors have considered whether there are material uncertainties related to events or conditions that may cast doubt on the entity's ability to continue as a going concern.

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 Management report on pages 5 to 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 11 to 15 and page 63. 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; and Note 34 (c) its available bank facilities.

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

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

**Segment reporting and Earnings per share**

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

**Amendments to standards and IFRS IC interpretations**

All applicable standards, amendments to standards and IFRS IC interpretations effective in 2015 have been adopted that are endorsed by the EU. In the year ended 31 December 2015, the Group did not early adopt any new accounting standards or amendments issued by the IASB or interpretations issued by the IFRS IC that have had a material impact on the consolidated financial statements.

The following new standards, amendments and interpretations, issued but not effective for the financial year beginning 1 January 2015, have not been early adopted:

- IFRS 15 'Revenue from contracts with customers': The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- IFRS 9 'Financial Instruments': This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current loss impairment model.
- Amendments to IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- Amendments to IFRS 7, 'Financial instruments: Disclosures' (with consequential amendments to IFRS 1) regarding servicing contracts.
- Amendments to IAS 19, 'Employee benefits' regarding discount rates.
- Amendments to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation: This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- Amendments to IAS 16, 'Property, plant and equipment': In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- Amendments to IAS 27, 'Separate financial statements', on the equity method: These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investment in associates and joint ventures': These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves assets that do not constitute a business; even if these assets are housed in a subsidiary.

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

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

- IFRS16, 'Leases', which brings most leases on-balance sheet for lessees under a single model, eliminating the difference between operating and finance leases. The standard is effective from 1 January 2019.

### (c) Basis of consolidation

**Subsidiaries**

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

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

The Group has adopted predecessor accounting, as permitted by IFRS 3, in relation to common control transactions. The Group has elected to incorporate the balance sheet prospectively from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements do not reflect the results of the acquired entity for the period before the transaction occurred. The corresponding amounts for the previous year are also not restated.

### (d) Basis of accounting for insurance contracts

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

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

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

### (d) Basis of accounting for insurance contracts (continued)

#### (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.

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

### (d) Basis of accounting for insurance contracts (continued)

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

In estimating the cost of notified but not paid claims, the Group has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims and catastrophe events impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Claims provisions are calculated gross of any reinsurance recoveries. Separate estimates are made of the amounts that will be recoverable from reinsurers and the potential cost of default, having regard to available data on the financial strength of each of the reinsurance companies.

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

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

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

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

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

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

#### (iii) Deferred acquisition costs

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

#### (iv) Reinsurance to close ("RITC")

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

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

#### (v) Outwards reinsurance contracts

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

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.

#### (vi) Receivables and payables related to insurance contracts

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

### (e) Administrative and other expenses

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)'.

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

#### (f) Pension contributions

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

Finance costs consist of interest charges and fees accruing on the Group's borrowings, bank facilities, costs of arrangements with the parent company and 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

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

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

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

#### (i) Foreign currency translation

***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.

Subsequent to year-end, the Group has elected to change its presentational currency to US dollars with effect from 1 January 2016.

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

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

### (i) Foreign currency translation (continued)

***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

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

Intangible assets comprise goodwill arising on acquisitions, fair values attributed to acquired insurance contracts ("insurance contract intangible assets"), 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 assets represent the difference between the fair value of claims provisions purchased from third parties usually as part of a company acquisition. These intangible assets are amortised on a basis consistent with the settlement of the claims. The time value of money, risk margin to unearned premium reserve and other related components of the insurance contract intangible asset run-off at different rates and are amortised according to their respective useful economic lives. The

## Notes to the Financial Statements

Year ended 31 December 2015

### 1. Accounting Policies (continued)

### (k) Intangible assets (continued)

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

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

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

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

The Group classifies its financial assets into the following categories: financial assets at fair value through income statement 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 is 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 statement*

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

Purchases and sales of investments are accounted for at their fair values (normally their cost of acquisition or proceeds of disposal) on the trade date, which is the date the Group commits to purchase or sell the assets. The fair value of quoted investments is based on quoted bid prices.

Unquoted investments are initially carried at cost as the best estimate of fair value, which is adjusted using appropriate valuation techniques and having regard to subsequent events or changes in circumstances.

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

### (l) Financial assets (continued)

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

***(ii) Loans and receivables***

Loans and receivables include debtors and are non-derivative financial assets with fixed or determinable settlement amounts that are not quoted in an active market, 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

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

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.

## Notes to the Financial Statements
Year ended 31 December 2015

### 1. Accounting Policies (continued)

#### (n) Taxation (continued)

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

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

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

#### (q) Leases

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

During 2014, Sompo Japan Nipponkoa Insurance Inc. purchased all employee owned shares. There is no liability for employee owned shares deemed as cash settled.

#### (s) Impairment of assets

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

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.

# Notes to the Financial Statements
Year ended 31 December 2015

## 1. Accounting Policies (continued)

### (u) Shares in Group undertakings

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

## 2. Management of insurance and financial risk

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

The risk management processes and their enabling governance structures are designed to provide comprehensive control over and on-going 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 Sompo 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 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 that 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, which routinely engage with individual business units and report to the Boards and their subcommittees. Functional risk reporting is escalated through the Sompo 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 Group Underwriting Committee. The Active Underwriters report aggregate information to the Board of Sompo Canopius Managing Agents Limited.

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

### Risk appetite

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

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

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

**Risk appetite (continued)**

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 Sompo 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; |

## Notes to the Financial Statements
Year ended 31 December 2015

**2. Management of insurance and financial risk (continued)**

**Risk categories (continued)**

| | |
|---|---|
| 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. |

**Risk policies**

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

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

**Risk assessment**

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

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

**Reporting**

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

## 2. Management of insurance and financial risk (continued)

### Reporting (continued)

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.

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

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

#### *Underwriting*

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

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

The annual business plan for each underwriting team reflects the Group's underwriting strategy, and sets out the classes of business, the territories and the industry sectors in which the Group is prepared to accept exposures as well as the limits on both a per risk and per event basis. These plans are approved and monitored by the Board and Syndicate Management Committee of Canopius Managing

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

***Underwriting (continued)***

Agents Limited, and the Boards of Sompo Japan Canopius Reinsurance AG and Canopius US Insurance, Inc., as applicable.

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

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.

***Reinsurance***

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

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

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

***Reinsurance (continued)***

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

There are a number of areas of uncertainty over the reinsurance assumptions. The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which reduce the recoveries made. The impact on profit before tax of a 1% deterioration in the total reinsurance recoveries would be a £2.92 million loss (2014: £3.28 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 £8.8 million gain/loss (2014: £8.5 million)

***Claims development tables***

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. At 31 December 2015, of the Group's gross claims reserves, £781 million (60%) were attributable to Syndicate 4444, £58 million (5%) to Syndicate 260, £223 million (17%) to Syndicate 958, £80 million (6%) to Canopius US Insurance, Inc, £110 million (9%) to Sompo Japan Canopius Reinsurance AG and £33 million (3%) to Syndicate 6115. Corporate adjustments of (£110 million) are made to reduce the gross group share of the claims liabilities to £1,175 million.

The figures in the tables and footnotes below are presented at the exchange rates prevailing at 31 December 2015.

# Notes to the Financial Statements
Year ended 31 December 2015

## 2. Management of insurance and financial risk (continued)

### *Claims development tables (continued)*

| Syndicate 4444 - Underwriting year – Gross | 2006 and prior | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Estimate of ultimate claims costs: | | | | | | | | | | | |
| At end of period 1 | 212 | 299 | 348 | 320 | 340 | 338 | 384 | 381 | 403 | 492 | 3,517 |
| At end of year 2 | 210 | 317 | 353 | 356 | 481 | 354 | 352 | 364 | 374 | - | 3,161 |
| At end of year 3 | 204 | 322 | 354 | 342 | 484 | 339 | 354 | 349 | - | - | 2,748 |
| At end of year 4 | 199 | 321 | 358 | 337 | 498 | 343 | 345 | - | - | - | 2,401 |
| At end of year 5 | 198 | 319 | 355 | 324 | 491 | 337 | - | - | - | - | 2,024 |
| At end of year 6 | 195 | 317 | 361 | 319 | 483 | - | - | - | - | - | 1,675 |
| At end of year 7 | 192 | 315 | 357 | 315 | - | - | - | - | - | - | 1,179 |
| At end of year 8 | 190 | 310 | 363 | - | - | - | - | - | - | - | 883 |
| At end of year 9 | 188 | 308 | - | - | - | - | - | - | - | - | 496 |
| At end of year 10 | 193 | - | - | - | - | - | - | - | - | - | 193 |
| Current estimate of cumulative gross claims | 193 | 308 | 363 | 315 | 483 | 337 | 345 | 349 | 374 | 492 | 3,559 |
| Cumulative payments to date | (189) | (298) | (323) | (288) | (445) | (276) | (255) | (216) | (148) | (35) | (2,473) |
| Gross claims outstanding | 4 | 10 | 40 | 27 | 38 | 61 | 90 | 133 | 226 | 457 | 1,086 |
| Unearned balance | | | | | | | | | | | (300) |
| Liabilities in respect of Syndicates 1607 and 3786 (see (i) below) | | | | | | | | | | | 4 |
| Liabilities in respect of Syndicates 839's 2008 year of account | | | | | | | | | | | 89 |
| Liabilities in respect of Syndicate 6115 | | | | | | | | | | | 32 |
| Other liabilities (see (ii) below) | | | | | | | | | | | 19 |
| **Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses** | | | | | | | | | | | 930 |
| Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses | | | | | | | | | | | 781 |
| Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iii) below) | | | | | | | | | | | 58 |
| Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see development table below) | | | | | | | | | | | 223 |
| Group's share of Syndicate 6115's total liability, including unallocated loss adjustment expenses | | | | | | | | | | | 33 |
| Liabilities in respect of Canopius US Insurance Inc. and Sompo Japan Canopius Reinsurance AG third party reinsurance (see (iv) below) | | | | | | | | | | | 190 |
| Corporate and other adjustments (see (v) below) | | | | | | | | | | | (110) |
| **Total liability included in the balance sheet (note 29)** | | | | | | | | | | | 1,175 |

# Notes to the Financial Statements
Year ended 31 December 2015

## 2. Management of insurance and financial risk (continued)

### *Claims development tables (continued)*

| Syndicate 4444 - Underwriting year – Net | 2006 and prior £m | 2007 £m | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs: | | | | | | | | | | | |
| At end of period 1 | 205 | 263 | 299 | 293 | 287 | 295 | 321 | 338 | 361 | 425 | 3,087 |
| At end of year 2 | 190 | 279 | 297 | 304 | 364 | 310 | 295 | 341 | 339 | - | 2,719 |
| At end of year 3 | 185 | 289 | 300 | 291 | 359 | 296 | 299 | 331 | - | - | 2,350 |
| At end of year 4 | 182 | 289 | 298 | 279 | 364 | 297 | 285 | - | - | - | 1,994 |
| At end of year 5 | 182 | 286 | 291 | 267 | 359 | 292 | - | - | - | - | 1,677 |
| At end of year 6 | 178 | 281 | 288 | 263 | 353 | - | - | - | - | - | 1,363 |
| At end of year 7 | 176 | 277 | 284 | 260 | - | - | - | - | - | - | 997 |
| At end of year 8 | 174 | 276 | 290 | - | - | - | - | - | - | - | 740 |
| At end of year 9 | 172 | 274 | - | - | - | - | - | - | - | - | 446 |
| At end of year 10 | 176 | - | - | - | - | - | - | - | - | - | 176 |
| Current estimate of cumulative net claims | 176 | 274 | 290 | 260 | 353 | 292 | 285 | 331 | 339 | 425 | 3,025 |
| Cumulative payments to date | (172) | (264) | (271) | (245) | (323) | (241) | (212) | (211) | (140) | (34) | (2,113) |
| Net claims outstanding | 4 | 10 | 19 | 15 | 30 | 51 | 73 | 120 | 199 | 391 | 912 |

| | £m |
|---|---|
| Unearned balance | (252) |
| Liabilities in respect of Syndicates 1607 and 3786 (see (i) below) | 2 |
| Liabilities in respect of Syndicates 839's 2008 year of account | 9 |
| Liabilities in respect of Syndicate 6115 | 32 |
| Other liabilities (see (ii) below) | (32) |
| **Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses** | 671 |
| Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses | 561 |
| Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iii) below) | 37 |
| Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see development table below) | 174 |
| Group's share of Syndicate 6115's total liability, including unallocated loss adjustment expenses | 33 |
| Liabilities in respect of Canopius US Insurance Inc. and Sompo Japan Canopius Reinsurance AG third party reinsurance (see (iv) below) | 169 |
| Corporate and other adjustments (see (v) below) | (92) |
| **Total liability included in the balance sheet (note 29)** | 882 |

# Notes to the Financial Statements
Year ended 31 December 2015

## 2. Management of insurance and financial risk (continued)

### *Claims development tables (continued)*

| Syndicate 958 - Underwriting year – Gross | 2006 and prior £m | 2007 £m | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs: | | | | | | | | | | | |
| At end of period 1 | - | - | - | - | - | - | 169 | 82 | 101 | 123 | 475 |
| At end of year 2 | - | - | - | - | - | 195 | 157 | 81 | 93 | - | 526 |
| At end of year 3 | - | - | - | - | 256 | 194 | 159 | 82 | - | - | 691 |
| At end of year 4 | - | - | - | 190 | 268 | 194 | 154 | - | - | - | 806 |
| At end of year 5 | - | - | 279 | 200 | 262 | 190 | - | - | - | - | 931 |
| At end of year 6 | - | 173 | 302 | 194 | 260 | - | - | - | - | - | 929 |
| At end of year 7 | 125 | 181 | 296 | 192 | - | - | - | - | - | - | 794 |
| At end of year 8 | 134 | 180 | 291 | - | - | - | - | - | - | - | 605 |
| At end of year 9 | 132 | 180 | - | - | - | - | - | - | - | - | 312 |
| At end of year 10 | 1,125 | - | - | - | - | - | - | - | - | - | 1,125 |
| Current estimate of cumulative gross claims | 1,125 | 180 | 291 | 192 | 260 | 190 | 154 | 82 | 93 | 123 | 2,690 |
| Cumulative payments to date | (1,096) | (169) | (273) | (169) | (218) | (147) | (93) | (47) | (36) | (9) | (2,257) |
| Gross claims outstanding | 29 | 11 | 18 | 23 | 42 | 43 | 61 | 35 | 57 | 114 | 433 |
| Unearned balance | | | | | | | | | | | (75) |
| **Total liability included in Syndicate 958's balance sheet, excluding unallocated loss adjustment expenses** | | | | | | | | | | | 358 |
| Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses | | | | | | | | | | | 223 |

| Syndicate 958 - Underwriting year – Net | 2006 and prior £m | 2007 £m | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs: | | | | | | | | | | | |
| At end of period 1 | - | - | - | - | - | - | 132 | 61 | 72 | 96 | 361 |
| At end of year 2 | - | - | - | - | - | 126 | 125 | 63 | 68 | - | 382 |
| At end of year 3 | - | - | - | - | 168 | 125 | 127 | 63 | - | - | 483 |
| At end of year 4 | - | - | - | 142 | 175 | 127 | 123 | - | - | - | 567 |
| At end of year 5 | - | - | 169 | 148 | 168 | 124 | - | - | - | - | 609 |
| At end of year 6 | - | 114 | 181 | 143 | 167 | - | - | - | - | - | 605 |
| At end of year 7 | 107 | 119 | 176 | 142 | - | - | - | - | - | - | 544 |
| At end of year 8 | 115 | 118 | 173 | - | - | - | - | - | - | - | 406 |
| At end of year 9 | 113 | 118 | - | - | - | - | - | - | - | - | 231 |
| At end of year 10 | 641 | - | - | - | - | - | - | - | - | - | 641 |
| Current estimate of cumulative net claims | 641 | 118 | 173 | 142 | 167 | 124 | 123 | 63 | 68 | 96 | 1,715 |
| Cumulative payments to date | (618) | (110) | (160) | (124) | (133) | (90) | (74) | (37) | (28) | (8) | (1,382) |
| Net claims outstanding | 23 | 8 | 13 | 18 | 34 | 34 | 49 | 26 | 40 | 88 | 333 |
| Unearned balance | | | | | | | | | | | (56) |
| **Total liability included in Syndicate 958's balance sheet, excluding unallocated loss adjustment expenses** | | | | | | | | | | | 277 |
| Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses | | | | | | | | | | | 174 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

**Claims development tables (continued)**

***Notes to the claims development tables***

(i) Liabilities in respect of the 1993 to 2006 years of account of Syndicates 1607 and 3786 (and their predecessor syndicates) were reinsured to close into the 2007 year of account of Syndicate 4444 as at 1 January 2009 at a reinsurance to close premium of £63 million gross and £50 million net of reinsurance recoverable. The related liability is running off satisfactorily within the reserves with claims outstanding at 31 December 2015 being £4 million (2014: £6 million) gross and £4 million (2014: £6 million) net of reinsurance recoverable.

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

(iii) The Group's share of Syndicate 260's liability is in respect of Flectat Limited ("Flectat"), a corporate member acquired by the Group on 30 June 2010. Flectat has 92.8% participation in Syndicate 260's 2014 year of account, 92.2% participation in its 2013 year of account, 89.6% participation in its 2012 year of account, 81.5% participation in its 2011 year of account and approximately 58.9% participation in 2010 and prior years of account. Up to the closure of the 2010 and prior years on 1 January 2013, the Group was not liable for liabilities relating to policies written on or prior to the date of acquisition. The ultimate expected claims liabilities with respect to post-acquisition policies on those years of account at 31 December 2015 amounted to £58 million (2014: £85 million) gross and £37 million (2014: £64 million) net.

(iv) This represents liabilities in respect of Canopius US Insurance, Inc. and the third party catastrophe reinsurance of Sompo Japan Canopius Reinsurance AG, formerly called Canopius Reinsurance Limited. It does not include intra-group reinsurances (for which Syndicate 958 cedes between 10 and 20% and Syndicate 4444 between 0 and 10% to Sompo Japan Canopius Reinsurance AG on different years of account).

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

(vi) Syndicate 958 came into the Group in 2012 on 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.

**Group risk**

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. Sompo Canopius is the global specialty lines platform of Sompo Japan Nipponkoa Holdings Inc., an A+ rated company with total assets of ¥10.3 trillion at financial year 2015 and one of the top three Japanese insurers.

# Notes to the Financial Statements

Year ended 31 December 2015

## 2. Management of insurance and financial risk (continued)

### 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 set 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 2015 using the fair value hierarchy required by IFRS 13 'Fair value measurement'. The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value, with Level 1 considered the most reliable. The levels within the fair value hierarchy are defined as follows:

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

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

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

## Notes to the Financial Statements
Year ended 31 December 2015

**2. Management of insurance and financial risk (continued)**

***(i) Valuation (continued)***

| At 31 December 2015 | Level 1 £'000 | Level 2* £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 176,136 | 9,689 | - | 185,825 |
| Debt securities & other fixed income securities | 426,273 | 404,414 | - | 830,687 |
| Holdings in collective investment schemes | 170,299 | 335,731 | - | 506,030 |
| Financial assets | 596,572 | 740,145 | - | 1,336,717 |

| At 31 December 2014 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 115,391 | 18,219 | - | 133,610 |
| Debt securities & other fixed income securities | 376,016 | 389,109 | 18,686 | 783,811 |
| Holdings in collective investment schemes | 433,010 | 97,805 | - | 530,815 |
| Financial assets | 809,026 | 486,914 | 18,686 | 1,314,626 |

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 2015, securities at a valuation of £nil (2014: £19 million) have been classified as Level 3 under IFRS.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2015:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Opening balance at 1 January | 18,686 | 23,480 |
| Realised gains and losses recognised in income statement | (125) | 246 |
| Sales during the year | (18,561) | (5,040) |
| Closing balance at 31 December | - | 18,686 |
| Total gains for the year included in income statement for assets held at the end of the year | - | - |

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

***(i) Valuation (continued)***

In 2015, the sensitivity of level 3 measurements to favourable and unfavourable changes is not considered as there are no level 3 investments.

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 2015 of £27.0 million (2014: £28.4 million) and price risk to hedge funds of £63.6 million (2014: £5.8 million).

The Group has additional exposure to price risk on a separate portfolio of hedge funds amounting to £20.7 million (2014: £79.2 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 2015 was £830.7 million (2014: £783.8 million) with an average duration of around 1.8 (2014: 1.5) 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 £10.9 million (2014: £9.5 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 did not hold debentures loans at 31 December 2015; the £12.8 million debenture liability at 31 December 2014 was settled on 5 January 2015.

***(iv) Credit spreads***

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

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

If credit spreads narrow then, other things being equal, the fair value rises and vice versa. The fair value of fixed income investments exposed to movements in credit spreads in the Group's balance sheet at 31 December 2015 was £830.7 million (2014: £783.8 million). If credit spreads were to change by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would change by £11.2 million (2014: £7.9 million). The relationship between changes in profit and changes in basis points of price is linear.

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

*(v) Exchange rates*

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

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").

For the years ended 31 December 2015 and 31 December 2014, the Group's consolidated financial statements have been presented in Sterling (the "presentational currency"). Accordingly, until 29 December 2015 the Group was engaged in actively managing its non-Sterling balance sheet exposures against the US Dollar, Euro and Canadian Dollar via forward contracts.

With effect from 1 January 2016, the Group elected to change its presentational currency to US Dollars. As a result of this impending change, the Group began unwinding its existing hedges on 30 December 2015 in order to replace them in early January 2016 with hedges designed to mitigate its non-US Dollar balance sheet exposures against Sterling, the Euro and Canadian Dollar. The decision to unwind the existing hedges beginning 30 December 2015 reflected the practicalities of changing the structure of the hedging program in sufficient time for the change to US Dollar reporting. Minimal 'gap risk' was created as the new hedges were successfully introduced in early January 2016.

The table below shows the 'at risk' income statement exposures for a sterling-reported balance sheet at 29 December 2015 and 31 December 2014, before the hedging changes were made to prepare for US Dollar reporting from 1 January 2016.

| | At 29 December 2015 | At 31 December 2014 |
|---|---|---|
| **Income Statement 'at risk' exposures:** | | |
| | $'000 | $'000 |
| USD $ | 398,850 | 610,321 |
| Hedging | (387,339) | (650,000) |
| Net exposure | 11,511 | (39,679) |
| | €'000 | €'000 |
| EUR € | 3,087 | 26,098 |
| Hedging | - | - |
| Net exposure | 3,087 | 26,098 |
| | $'000 | $'000 |
| CAD $ | 16,662 | 23,359 |
| Hedging | (11,764) | - |
| Net exposure | 4,898 | 23,359 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

*(v) Exchange rates (continued)*

As noted above, the Group has elected to change its presentational currency to US dollar with effect from January 2016. It is estimated that the effect of a 10% strengthening (or weakening) of exchange rates against US dollar would increase/(decrease) profit after tax and equity by approximately $9.1 million for Sterling and increase/(decrease) profit after tax by approximately $0.6 million for Euro.

**(b) Credit risk**

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

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

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

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security, prior to the purchase of reinsurance contracts. Guidelines are set and monitored that limit the purchase of reinsurance based on Standard & Poor's or appropriate alternative ratings for each reinsurer.

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

| At 31 December 2015 | AAA | AA | A | Other and/or not rated | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Reinsurance assets | - | 112,665 | 267,227 | 31,151 | 411,043 |
| Debt and fixed income securities | 405,117 | 104,368 | 203,905 | 117,297 | 830,687 |
| Holdings in collective investment schemes | 153,882 | 19,982 | 3,112 | 329,054 | 506,030 |
| Cash and cash equivalents | 25,267 | 6,077 | 66,824 | 87,657 | 185,825 |
| **Total** | **584,266** | **243,092** | **541,068** | **565,159** | **1,933,585** |

| At 31 December 2014 | AAA | AA | A | Other and/or not rated | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Reinsurance assets | - | 98,979 | 313,053 | 55,641 | 467,673 |
| Debt and fixed income securities | 390,816 | 102,314 | 187,079 | 103,602 | 783,811 |
| Holdings in collective investment schemes | 172,512 | 18,446 | 11,073 | 328,784 | 530,815 |
| Cash and cash equivalents | 29,018 | 6,547 | 96,469 | 1,576 | 133,610 |
| **Total** | **592,346** | **226,286** | **607,674** | **489,603** | **1,915,909** |

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

#### (b) Credit risk *(continued)*

The underlying investments in the 'other/not rated' holdings in collective investment schemes (that includes participation in investment pools) at 31 December 2015 comprised:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Equities | 4,493 | 4,767 |
| Portfolio of hedge funds | 84,495 | 84,990 |
| BBB and below securities | 132,107 | 124,919 |
| A UCIT's fund on a look through basis- | | |
| AAA securities | 15,909 | 22,532 |
| AA securities | 17,805 | 25,209 |
| A securities | 20,248 | 18,575 |
| BBB securities | 31,381 | 18,371 |
| Not rated securities | 59 | 5,807 |
| Fund equities | 22,557 | 23,614 |
| Total | 329,054 | 328,784 |

Cash and cash equivalents under 'other and/or not rated' include £32.5 million (2014: £1.6 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 2015 | Neither past due nor impaired | Past due but not impaired (during range of months) | | | | Impaired | Carrying value |
|---|---|---|---|---|---|---|---|
| | | 0-3 | 3-6 | 6-12 | Over 12 | | £'000 |
| Reinsurance assets | 92% | 7% | 0% | 1% | 0% | 0% | 411,043 |
| Loans and receivables, including insurance receivables | 100% | | | | | | 281,452 |
| Financial assets at fair value | 100% | | | | | | 1,336,717 |

| At 31 December 2014 | Neither past due nor impaired | Past due but not impaired (during range of months) | | | | Impaired | Carrying value |
|---|---|---|---|---|---|---|---|
| | | 0-3 | 3-6 | 6-12 | Over 12 | | £'000 |
| Reinsurance assets | 96% | 4% | 0% | 0% | 0% | 0% | 467,673 |
| Loans and receivables, including insurance receivables | 100% | | | | | | 277,455 |
| Financial assets at fair value | 100% | | | | | | 1,314,626 |

#### (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.

## Notes to the Financial Statements
Year ended 31 December 2015

### 2. Management of insurance and financial risk (continued)

#### (c) Liquidity risk (continued)

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

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

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

The contractual maturity profile 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 2015 was as follows:

| | Debt and other fixed income securities £'000 | Holdings in collective investment schemes £'000 | Cash and cash equivalents £'000 | 2015 Total £'000 | 2014 Total £'000 |
|---|---|---|---|---|---|
| Less than one year | 250,355 | 373,304 | 185,825 | 809,484 | 678,787 |
| Between one and two years | 214,950 | 7,604 | - | 222,554 | 218,081 |
| Between two and five years | 289,349 | 32,694 | - | 322,043 | 304,370 |
| Over five years | 76,033 | 35,760 | - | 111,793 | 72,305 |
| | 830,687 | 449,362 | 185,825 | 1,465,874 | 1,273,543 |
| Other non-dated instruments | - | 56,668 | - | 56,668 | 174,693 |
| | 830,687 | 506,030 | 185,825 | 1,522,542 | 1,448,236 |

The expected payment profile of gross insurance contract liabilities as at 31 December 2015 was as follows:

| | 2015 % | 2014 % |
|---|---|---|
| Less than one year | 31 | 31 |
| Between one and two years | 22 | 22 |
| Between two and five years | 32 | 32 |
| Over five years | 15 | 15 |
| | 100 | 100 |
| Average | 2.7 years | 2.7 years |

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

| | 2015 Years | 2014 Years |
|---|---|---|
| Pound sterling | 1.4 | 1.7 |
| US dollar | 1.8 | 1.4 |
| Euro | 1.4 | 1.7 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 3. Capital management policies and objectives

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

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

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

There are seven key elements to the Group 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' Individual Capital Assessment ("ICA")/SCRs/SST; 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 SCR represents the equivalent of minimum regulatory capital 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 SCR process produces a result that is uplifted by Lloyd's to the capital required to maintain its rating, currently 'A+ (strong)' by Standard & Poor's.

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 £965 million, comprising total shareholders' interests of £535 million and a £430 million letter of credit facility (2014: £892 million, comprising of total shareholders' interests of £490 million and a £402 million letter of credit facility). This is approximately £443 million (2014: £371 million) in excess of the aggregate regulatory capital requirement within the Group at the balance sheet date.

## Notes to the Financial Statements

Year ended 31 December 2015

### 3. Capital management policies and objectives (continued)

The Group's key subsidiaries have also complied with their individual capital requirements. For the Syndicates through which the Group writes business, the Prudential Regulation Authority ("PRA") and Lloyd's oversee a capital regime that requires companies to calculate their own capital requirements under Solvency II through a Solvency Capital Requirement ("SCR"). Syndicates 4444, 958, 260 and 6115 maintain models in accordance with this regime.

The Swiss regulators, FINMA, oversee capital adequacy for Sompo Japan Canopius Reinsurance AG ("SJC Re"). SJC Re must calculate and submit a yearly Swiss based capital requirement in accordance with FINMA, the Swiss Solvency Test ("SST") requirement.

For SJC Re, the Target Capital ("TC") under the Swiss Solvency Test ("SST") represents the capital requirement under Swiss regulations. In addition to the Swiss regulatory requirements, SJC Re is required to meet any branch regulatory capital and return requirements.

Canopius US Insurance, Inc. ("CUS") is domiciled in the state of Delaware and is required to maintain capital and surplus determined by the minimum under the Delaware Insurance Code of $500,000. In Delaware, CUS is eligible to write on an admitted basis and a surplus lines basis as it is licensed as a Domestic Surplus Lines Insurer. In addition to its Delaware licence, CUS is eligible to write business on a non-admitted or surplus lines basis in the other 49 states and the District of Columbia. These jurisdictions have varying minimum capital and surplus requirements to maintain eligibility. The states of California and New York have the largest minimum requirement at $45 million. On 1 January 2016, the New York requirement increased to $46 million. Further, CUS maintains capital required by A.M. Best to support its current Financial Strength Rating of 'A- (excellent)'.

In addition to its capital requirements, the Group has developed and implemented documentation, procedures and controls to ensure compliance with Solvency II and the Swiss Solvency Test where necessary. Solvency II is a fundamental overhaul of the capital adequacy regime for the European insurance industry.

Sompo Canopius implemented a programme of initiatives to proactively engage with the challenges and opportunities that arise from the preparation for Solvency II. Sompo Canopius has continued to enhance its risk management processes and its enabling governance structures to ensure that it is compliant with the Solvency II deadlines set by Lloyd's and the PRA. The Swiss based reinsurance company has developed policies, processes and controls in order to comply with the Swiss regulators, FINMA.

## Notes to the Financial Statements
Year ended 31 December 2015

### 4. Investment return

Investment return includes the following:

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| Investment income: | | |
| Interest income on financial assets | 21,487 | 18,907 |
| Interest income on cash and cash equivalents | 1,632 | 67 |
| | 23,119 | 18,974 |
| Realised gains/(losses) on financial assets at fair value through income: | | |
| Realised gains | 38 | 15,046 |
| Realised losses | (5,552) | (19,545) |
| Fair value gains/(losses) on financial assets at fair value through income: | | |
| Fair value gains on other financial assets | 17,872 | 22,142 |
| Fair value losses on other financial assets | (27,268) | (12,424) |
| Other fees | (2,646) | (1,537) |
| | 5,563 | 22,656 |

### 5. Other income

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| Lloyd's underwriting agencies: | | |
| Management fees | 2,767 | 3,849 |
| Profit commission | 7,051 | 3,000 |
| | 9,818 | 6,849 |
| Insurance services – commission and service fees | 3,402 | 5,883 |
| Other | 358 | 9,305 |
| | 13,578 | 22,037 |

### 6. Insurance claims and claims settlement expenses

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| **Gross** | | |
| Current year insurance claims and claims settlement expenses | 455,740 | 421,507 |
| Reduced cost for prior year insurance claims and claims settlement expenses | (26,114) | (18,247) |
| | 429,626 | 403,260 |
| **Reinsurance** | | |
| Current year insurance claims and claims settlement expenses recoverable from reinsurers | (117,317) | (103,454) |
| Increased/(reduced) prior year insurance claims and claims settlement expenses recoverable from reinsurers | 12,682 | (3,434) |
| | (104,635) | (106,888) |
| Total net insurance claims and claims settlement expenses | 324,991 | 296,372 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 7. Underwriting and administrative expenses

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| Direct commission | 196,868 | 170,340 |
| Other underwriting and administrative expenses | 78,003 | 63,919 |
| Changes in deferred expenses for the acquisition of insurance contracts | 532 | (8,241) |
| Exchange (gains) | (20,396) | (28,828) |
| | 255,007 | 197,190 |

### 8. Total expenses

Total expenses analysed by expense type were as follows:

| Year ended 31 December 2015 | Underwriting and administrative expenses | Other operating expenses (non-underwriting) | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Direct Commission | 196,868 | - | 196,868 |
| Employee benefit expenses | 59,329 | 29,296 | 88,625 |
| Depreciation of property and equipment | 1,080 | 315 | 1,395 |
| Amortisation of intangible assets | 7 | 2,962 | 2,969 |
| Operating lease rentals and property related costs | 4,585 | 1,856 | 6,441 |
| Other expenses | 13,534 | 4,572 | 18,106 |
| | 275,403 | 39,001 | 314,404 |
| Exchange (gains) | (20,396) | (2,310) | (22,706) |
| | 255,007 | 36,691 | 291,698 |

| Year ended 31 December 2014 | Underwriting and administrative expenses | Other operating expenses (non-underwriting) | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Direct Commission | 170,340 | - | 170,340 |
| Employee benefit expenses | 40,748 | 19,328 | 60,076 |
| Depreciation of property and equipment | 405 | 677 | 1,082 |
| Amortisation of intangible assets | 2,736 | 166 | 2,902 |
| Operating lease rentals and property related costs | 3,379 | 1,528 | 4,907 |
| Other expenses | 8,410 | 10,258 | 18,668 |
| | 226,018 | 31,957 | 257,975 |
| Exchange (gains) | (28,828) | - | (28,828) |
| | 197,190 | 31,957 | 229,147 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 9. Employee benefit expenses

Employee benefit expenses were as follows:

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| Salaries and wages | 73,601 | 48,063 |
| Social security costs | 8,430 | 6,070 |
| Pension costs – defined contribution plans | 4,878 | 4,321 |
| Other benefits | 1,716 | 1,622 |
| | 88,625 | 60,076 |

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| Number of full-time positions, averaged over the year | 704 | 658 |

### 10. Finance costs

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| Fees for letters of credit | 1,090 | 3,519 |
| Loan note interest | 15 | 28 |
| Other | 617 | 945 |
| | 1,722 | 4,492 |

### 11. Group profit before tax

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| **Group profit before tax is stated after charging the following items:** | | |
| Depreciation of property and equipment (note 18) | 1,395 | 1,082 |
| Amortisation of intangible assets (note 15) | 2,969 | 2,902 |
| Write down of intangible asset | - | 1,603 |
| Operating lease rentals | 6,441 | 4,907 |

# Notes to the Financial Statements
Year ended 31 December 2015

## 12. Auditors' remuneration

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| **Auditors' remuneration** | | |
| Audit and related services | 1,088 | 1,184 |
| Tax related services | 74 | 208 |
| Other services | 1,510 | 742 |
| | 2,672 | 2,134 |

## 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 Group companies in independently administered funds.

The level of contributions for the defined contribution plans generally varies between 5% and 26.32% of salaries. Contributions of £484,000 (2014: £637,000) 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 31.

## Notes to the Financial Statements
Year ended 31 December 2015

### 14. Tax expense

The Group undertook a series of restructuring steps during the accounting period including the process that led on 2 September 2015 to the group's top holding company becoming Sompo Canopius Group AG, which is resident in Switzerland. Previously, the top holding company was resident in Guernsey.

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

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

| | | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|---|
| UK tax: | | | |
| Current tax | - current year | 3,371 | - |
| Deferred tax | - origination and reversal of temporary differences | 5,185 | 2,189 |
| | - prior year | (1,851) | 2,183 |
| Other | | - | 1,221 |
| Tax charge | | 6,705 | 5,593 |
| **Factors affecting tax charge:** | | | |
| Profit before tax | | 49,182 | 91,651 |
| Tax at 20.25% (2014: tax rate 21.50%) | | 9,959 | 19,705 |
| Income not subject to tax: | | | |
| Non-UK income not subject to tax | | (1,517) | (7,693) |
| Other income not subject to tax | | - | (5,123) |
| Prior year adjustments | | (1,851) | 2,184 |
| Other, including effect of change in UK tax rate | | 114 | (3,480) |
| | | 6,705 | 5,593 |

A deferred tax liability of £14.6 million (2014: £10.5 million) has been recognised (see note 19).

## Notes to the Financial Statements
Year ended 31 December 2015

### 15. Intangible assets

| | Goodwill | Insurance contract intangible asset | Insurance policy renewal rights | Syndicate participation rights | Website and software development costs | Computer software licences | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | | | |
| At 1 January 2014 | 3,999 | 13,049 | 9,136 | 8,357 | 1,994 | 1,390 | 37,925 |
| Additions | - | - | 3,320 | 388 | 1,218 | 115 | 5,041 |
| Disposal | (52) | - | - | (218) | (399) | (415) | (1,084) |
| Acquired | - | 1,603 | - | - | - | - | 1,603 |
| At 31 December 2014 | 3,947 | 14,652 | 12,456 | 8,527 | 2,813 | 1,090 | 43,485 |
| At 1 January 2015 | 3,947 | 14,652 | 12,456 | 8,527 | 2,813 | 1,090 | 43,485 |
| Reclassifications | - | - | - | - | (19) | 19 | - |
| Additions | - | - | - | - | 5 | 1,232 | 1,237 |
| Transfer from tangible assets | - | - | - | - | - | 1,426 | 1,426 |
| At 31 December 2015 | **3,947** | **14,652** | **12,456** | **8,527** | **2,799** | **3,767** | **46,148** |
| **Accumulated amortisation** | | | | | | | |
| At 1 January 2014 | - | (3,038) | 7,841 | - | 1,555 | 782 | 7,140 |
| Amortisation in the year | - | 847 | 1,889 | - | 12 | 154 | 2,902 |
| Write down | - | 1,603 | - | - | - | - | 1,603 |
| Disposal | - | - | - | - | - | (83) | (83) |
| At 31 December 2014 | - | (588) | 9,730 | - | 1,567 | 853 | 11,562 |
| At 1 January 2015 | - | (588) | 9,730 | - | 1,567 | 853 | 11,562 |
| Reclassifications | - | - | - | - | (7) | 7 | - |
| Amortisation in the year | - | 1,143 | 1,619 | - | 14 | 193 | 2,969 |
| At 31 December 2015 | - | **555** | **11,349** | - | **1,574** | **1,053** | **14,531** |
| **Net book value** | | | | | | | |
| At 31 December 2015 | **3,947** | **14,097** | **1,107** | **8,527** | **1,225** | **2,714** | **31,617** |
| At 31 December 2014 | 3,947 | 15,240 | 2,726 | 8,527 | 1,246 | 237 | 31,923 |

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

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

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

## Notes to the Financial Statements
Year ended 31 December 2015

### 16. Investments in subsidiaries and other group companies
The subsidiaries of the group at 31 December 2015, which are consolidated in these financial statements, are listed below. The Group 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 | Country of incorporation |
|---|---|
| Canopius Holdings UK Limited | England and Wales |
| Sompo Japan Canopius Reinsurance AG | Switzerland |
| Canopius US Insurance, Inc. | USA (Delaware) |
| Canopius Ireland Limited | Ireland |
| Canopius Managing Agents Limited | England and Wales |
| Omega Underwriting Agents Limited | England and Wales |
| KGM Underwriting Agencies Limited | England and Wales |
| Canopius Asia Pte. Ltd. | Singapore |
| Canopius Europe Limited | England and Wales |
| Canopius Labuan Pte Limited | Malaysia |
| Canopius Underwriting Bermuda Limited | Bermuda |
| Sompo Japan Nipponkoa Nederland B.V. | Netherlands |
| Canopius Underwriting Limited | England and Wales |
| Canopius UK Speciality Limited | England and Wales |
| Trenwick Underwriting Limited | England and Wales |
| Canopius Services Limited | England and Wales |
| Omega Administration Services Limited | England and Wales |
| Canopius Capital Limited | England and Wales |
| Canopius Capital Two Limited | England and Wales |
| Canopius Capital Three Limited | England and Wales |
| Canopius Capital Four Limited | England and Wales |
| Canopius Capital Five Limited | England and Wales |
| Canopius Capital Six Limited | England and Wales |
| Canopius Capital Seven Limited | England and Wales |
| Canopius Capital Eight Limited | England and Wales |
| Canopius Capital Nine Limited | England and Wales |
| Canopius Capital Ten Limited | England and Wales |
| Canopius Capital Eleven Limited | England and Wales |
| Canopius Capital Twelve Limited | England and Wales |
| Canopius Capital Fourteen Limited | England and Wales |
| Canopius Capital Sixteen Limited | England and Wales |
| Flectat Limited | England and Wales |
| Acorn Corporate Capital Limited | England and Wales |
| Omega Dedicated Limited | England and Wales |
| Omega Dedicated (No 2) Limited | England and Wales |
| Creechurch Dedicated Limited | England and Wales |
| Creechurch Dedicated (2) Limited | England and Wales |
| Creechurch Dedicated (3) Limited | England and Wales |
| Packchance Limited | England and Wales |
| Oak Dedicated Limited | England and Wales |
| Oak Dedicated Two Limited | England and Wales |
| Oak Dedicated Three Limited | England and Wales |
| Oak Dedicated Four Limited | England and Wales |
| Canopius US Holdings, Inc. | USA (Delaware) |
| Creechurch Holdings Limited | England and Wales |
| Pebbles 456 Limited | Bermuda |
| Trenwick UK Holdings Limited | England and Wales |
| Trenwick UK Limited | England and Wales |
| Omega Underwriting Holdings Limited | England and Wales |
| Look Insurance Services Limited | England and Wales |
| KDIB Holdings Limited | England and Wales |
| Archer Dedicated Limited | England and Wales |
| Bowman Loss Adjusters Limited | England and Wales |
| The KGM Motor Insurance Services Limited | England and Wales |
| The KGM Motor Policies Limited | England and Wales |
| Creechurch Underwriting Limited | England and Wales |
| Impact Underwriting Limited | England and Wales |
| Canopius Underwriting Agency Inc. | USA (Delaware) |
| Canopius Germany GmbH (in Liquidation) | Germany |

## Notes to the Financial Statements

Year ended 31 December 2015

### 17. Acquisitions

On 5 March 2015, the Group acquired a 100% holding in Sompo Japan Nipponkoa Nederland B.V. ("SJNKN") for consideration of £4,164,577 from Nipponkoa Insurance Company (Europe) AG, as part of a reorganisation of the parent entity group. The Group applies predecessor accounting for transactions under common control and the acquisition was recorded at book value. The book values at the date of acquisition of the assets and liabilities of SJNKN at 5 March 2015 are shown below:

| | |
|---|---|
| **Assets and liabilities** | |
| **Assets** | £'000 |
| Property and equipment | 372 |
| Loans and receivables, including insurance receivables | 2,570 |
| Cash and cash equivalents | 2,640 |
| **Liabilities** | |
| Trade and other payables, including insurance payables | (4,290) |
| | 1,292 |

| | |
|---|---|
| **Net assets** | £'000 |
| Net assets acquired by the Group in the year | 1,292 |
| Amount paid in excess of fair value of net assets on acquisitions | 2,873 |
| Cost of acquisition in the year | 4,165 |

| | |
|---|---|
| **Cash flows from acquisitions** | |
| Cost of acquisition – cash outflow | (4,165) |
| Cash and cash equivalents from acquired companies - cash inflow | 2,640 |
| | (1,525) |

# Notes to the Financial Statements
Year ended 31 December 2015

## 18. Property and equipment

| | Computer equipment £'000 | Motor vehicles £'000 | Fixtures, fittings and equipment £'000 | Leasehold improvements £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | 10,953 | 435 | 1,700 | 3,915 | 17,003 |
| Additions | - | - | 864 | 1 | 865 |
| Disposals | - | (179) | (679) | (175) | (1,033) |
| At 31 December 2014 | 10,953 | 256 | 1,885 | 3,741 | 16,835 |
| At 1 January 2015 | 10,953 | 256 | 1,885 | 3,741 | 16,835 |
| Reclassifications | 728 | - | (737) | 9 | - |
| Transfer to intangible assets | (1,426) | - | - | - | (1,426) |
| Additions | 4,299 | 23 | 916 | 595 | 5,833 |
| Acquired | 65 | 150 | 157 | - | 372 |
| Disposals | (75) | (39) | (206) | - | (320) |
| At 31 December 2015 | 14,544 | 390 | 2,015 | 4,345 | 21,294 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2014 | 9,273 | 119 | 1,239 | 3,066 | 13,697 |
| Charge for the year | 520 | 24 | 240 | 298 | 1,082 |
| Disposals | - | (116) | (246) | (155) | (517) |
| At 31 December 2014 | 9,793 | 27 | 1,233 | 3,209 | 14,262 |
| At 1 January 2015 | 9,793 | 27 | 1,233 | 3,209 | 14,262 |
| Reclassifications | 3 | - | (3) | - | - |
| Charge for the year | 859 | 31 | 183 | 322 | 1,395 |
| Disposals | (75) | (39) | (206) | - | (320) |
| At 31 December 2015 | 10,580 | 19 | 1,207 | 3,531 | 15,337 |
| **Net book value** | | | | | |
| At 31 December 2015 | 3,964 | 371 | 808 | 814 | 5,957 |
| At 31 December 2014 | 1,160 | 229 | 652 | 532 | 2,573 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 19. Tax assets and liabilities

#### Deferred tax assets and liabilities

A deferred tax liability of £14,569,000 (2014: £10,456,000) 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.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Balance at 1 January | (10,456) | (4,863) |
| Timing differences relating to recognition of underwriting results and depreciation: | | |
| - arising during the year | (2,207) | (826) |
| - utilised during the year | (2,978) | (1,363) |
| (Disposed)/acquired | - | (1,221) |
| Prior year adjustment | 1,851 | (2,183) |
| Other | (779) | - |
| Balance at 31 December | (14,569) | (10,456) |

The net deferred tax liability of £14,569,000 (2014: £10,456,000) comprises a deferred tax liability of £15,244,000 (2014: £11,867,000) less deferred tax assets (included in other debtors of note 22) of £675,000 (2014: £1,411,000). £9,449,000 (2014: £10,496,000) 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 £11,623,000 (2014: £5,681,000) in respect of trading losses that has not been recognised in these financial statements at 31 December 2015 as its recoverability is not certain based on prudential projections.

The deferred tax balance is analysed below.

All items are charged through the statement of comprehensive income.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Excess of book over tax depreciation | 520 | 740 |
| Unutilised tax losses | - | 32,273 |
| Other | - | 273 |
| Total gross deferred tax asset | 520 | 33,286 |
| Tax on deferred underwriting profits | (14,189) | (43,578) |
| Tax on intangible asset | (1,575) | (1,575) |
| Deferred tax liability | (15,244) | (11,867) |
| Deferred tax asset arising on deferred underwriting results | 675 | 1,411 |
| Total Deferred tax | (14,569) | (10,456) |

## Notes to the Financial Statements
Year ended 31 December 2015

### 20. Reinsurance assets

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Reinsurers' share of claims outstanding (note 29) | 292,409 | 327,694 |
| Reinsurers' share of unearned premiums (note 29) | 55,344 | 77,041 |
| Debtors arising out of reinsurance operations (note 29) | 63,290 | 62,938 |
| | 411,043 | 467,673 |

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

### 21. Deferred acquisition costs

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Balance at 1 January | 104,219 | 97,014 |
| Additions | 107,124 | 89,122 |
| Release | (83,390) | (81,917) |
| Balance at 31 December | 127,953 | 104,219 |

### 22. Loans and receivables, including insurance receivables

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Insurance receivables - debtors arising out of direct insurance operations | 238,311 | 243,169 |
| Loans and receivables: | | |
| Other debtors | 31,851 | 21,657 |
| Prepayments and accrued income | 11,290 | 12,629 |
| | 43,141 | 34,286 |
| Loans and receivables, including insurance receivables | 281,452 | 277,455 |

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Within one year | 254,682 | 266,753 |
| After one year | 26,770 | 10,701 |
| | 281,452 | 277,454 |

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.

## Notes to the Financial Statements
Year ended 31 December 2015

### 23. Financial assets

The Group's financial assets are designated as fair value through profit or loss upon initial recognition and are summarised below:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Financial assets at fair value through income | 1,336,717 | 1,314,626 |

Financial assets at fair value consist of:

| | Valuation 2015 £'000 | Valuation 2014 £'000 | Cost 2015 £'000 | Cost 2014 £'000 |
|---|---|---|---|---|
| Debt securities and other fixed income securities | 830,687 | 783,811 | 868,162 | 822,451 |
| Holdings in collective investment schemes | 504,977 | 527,297 | 446,621 | 474,851 |
| Deposits with credit institutions | 1,053 | 3,518 | 1,053 | 3,518 |
| At 31 December | 1,336,717 | 1,314,626 | 1,315,836 | 1,300,820 |

Financial assets which are subject to restrictions are referred to in note 34(a).

### 24. Cash and cash equivalents

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Cash at bank and in hand | 146,721 | 90,516 |
| Short-term bank deposits – Overseas deposits | 39,104 | 43,094 |
| | 185,825 | 133,610 |

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

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 £94,092,000 (2014: £77,596,000) that are held in Lloyd's Premium and other trust funds supporting insurance liabilities. These assets are subject to restrictions under the relevant trust deeds and bank facilities.

## Notes to the Financial Statements
Year ended 31 December 2015

### 25. Share capital

| Authorised: | At 31 December 2014 | Changes in Issued capital | At 31 December 2015 |
|---|---|---|---|
| | number | number | number |
| Ordinary shares of 1 US$ par value | - | - | - |
| **Ordinary share total** | - | - | - |
| Ordinary shares of 1CHF par value | - | 100,000 | **100,000** |
| **Ordinary shares total** | - | 100,000 | **100,000** |

| Allotted, issued and fully paid | At 31 December 2014 | Changes in Issued capital | At 31 December 2015 |
|---|---|---|---|
| | number | number | number |
| Ordinary shares of 1 US$ par value | 239,100,000 | (239,100,000) | - |
| **Ordinary share total** | 239,100,000 | (239,100,000) | - |
| **Share Capital** | £160,556,000 | (£160,556,000) | - |
| 100,000 shares of 1 CHF par value | - | 100,000 | 100,000 |
| **Other share total** | - | 100,000 | **100,000** |
| | - | 100,000 | **100,000** |
| **Share capital** | - | £68,075 | **£68,075** |

The movement in share capital above is due to SJNK Holdings, the ultimate parent of the Sompo Canopius Group, approving a restructuring plan in 2015 for the Sompo Canopius Group. This resulted in a change to the top company. Canopius Group Limited ("CGL") was replaced as the top company by Canopius Holdings Limited ("CHL"). In September 2015, CHL was redomiciled to Switzerland and renamed "Canopius Group AG".

CGAG's share capital, which comprised 239,100,000 US 1$ shares was issued in March 2013, this USD share capital was cancelled as part of the restructuring in September 2015 (as noted above) and was replaced with share capital of CHF100,000.

## Notes to the Financial Statements
Year ended 31 December 2015

### 26. Share capital, share premium and other reserves

| | Share capital £'000 | Other reserves £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|
| **At 1 January 2015** | **160,556** | **142,917** | **186,182** | **489,655** |
| Cancellation of shares | (160,556) | - | - | **(160,556)** |
| Capital contribution | - | 190,802 | - | **190,802** |
| Dividend paid | - | (1,263) | (26,571) | **(27,834)** |
| New shares issued | 68 | - | - | **68** |
| Retained profit for the year | - | - | 42,477 | **42,477** |
| Other comprehensive income | - | 3,180 | - | **3,180** |
| Surplus paid on Acquisition | - | - | (2,873) | **(2,873)** |
| **At 31 December 2015** | **68** | **335,636** | **199,215** | **534,919** |

Other reserves include revaluation reserve of £1,815,000, a currency translation reserve of (£28,500,000) (2014: (£30,417,000)) and a capital contribution of a £362,321,000 (2014: £171,519,000).

### 27. Reconciliation of movements in shareholders' funds

| | Group 2015 £'000 | Group 2014 £'000 |
|---|---|---|
| Balance at 1 January (CGL) | 491,575 | 426,458 |
| Elimination of CGL | (1,920) | (23,953) |
| Cancellation of shares | (160,556) | - |
| Capital contribution | 190,802 | - |
| Dividend paid | (27,834) | - |
| Issue of new shares | 68 | - |
| Retained profit | 42,477 | 85,824 |
| Increase in Other Comprehensive Income | 3,180 | 1,326 |
| Surplus paid on Acquisition | (2,873) | - |
| Balance at 31 December | **534,919** | 489,655 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 28. Insurance contract liabilities

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Claims outstanding (see note 29) | 1,174,591 | 1,177,048 |
| Provision for unearned premiums (see note 29) | 396,500 | 376,587 |
| Creditors arising out of reinsurance operations (see note 29) | 164,396 | 215,292 |
| | 1,735,487 | 1,768,927 |

### 29. 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 2014 | 1,198,649 | 362,988 | 172,743 | 1,734,380 |
| Movement in the year | (13,108) | 13,086 | 42,331 | 42,309 |
| Exchange and other adjustments | (8,493) | 513 | 218 | (7,762) |
| **At 31 December 2014** | **1,177,048** | **376,587** | **215,292** | **1,768,927** |
| Movement in the year | (20,042) | 18,615 | (50,931) | (52,358) |
| Exchange and other adjustments | 17,585 | 1,298 | 35 | 18,918 |
| **At 31 December 2015** | **1,174,591** | **396,500** | **164,396** | **1,735,487** |
| **Reinsurance assets** | | | | |
| At 1 January 2014 | 368,450 | 76,720 | 75,750 | 520,920 |
| Movement in the year | (41,828) | (223) | (15,482) | (57,533) |
| Exchange and other adjustments | 1,072 | 544 | 2,670 | 4,286 |
| **At 31 December 2014** | **327,694** | **77,041** | **62,938** | **467,673** |
| Movement in the year | (35,502) | (22,140) | 313 | (57,329) |
| Exchange and other adjustments | 217 | 443 | 39 | 699 |
| **At 31 December 2015** | **292,409** | **55,344** | **63,290** | **411,043** |

Creditors arising out of reinsurance operations of £164,396,000 (2014: £215,292,000) 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 £63,290,000 (2014: £62,938,000) comprise principally amounts receivable from reinsurers in respect of paid claims and brokers' balances receivable on inwards reinsurance business.

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Gross** | | |
| Notified claims outstanding and loss adjustment expenses | 614,765 | 681,427 |
| Claims incurred but not reported | 559,826 | 495,621 |
| | 1,174,591 | 1,177,048 |
| **Recoverable from reinsurers** | | |
| Notified claims outstanding and loss adjustment expenses | 158,360 | 214,824 |
| Claims incurred but not reported | 134,049 | 112,870 |
| | 292,409 | 327,694 |
| **Net** | | |
| Notified claims outstanding and loss adjustment expenses | 456,405 | 466,603 |
| Claims incurred but not reported | 425,777 | 382,751 |
| | 882,182 | 849,354 |

## Notes to the Financial Statements
Year ended 31 December 2015

### 29. Insurance contract liabilities and reinsurance assets (continued)

It is estimated, using historical settlement trends, that £365 million (2014: £366 million) of the gross claims outstanding and £278 million (2014: £268 million) of the amount recoverable from reinsurers included in the above analysis, will settle in the next 12 months.

### 30. Trade and other payables, including insurance payables

| | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|
| Insurance payables - creditors arising out of direct insurance operations | 10,285 | 5,768 |
| **Trade and other payables:** | | |
| Other creditors including taxation and social security | 37,884 | 27,385 |
| Accruals and deferred income | 45,454 | 29,888 |
| Derivative financial instruments liability | 1,966 | - |
| | 85,304 | 57,273 |
| **Trade and other payables, including insurance payables** | 95,589 | 63,041 |

Trade and other payables include £4,146,000 (2014: £4,871,000), in accruals and deferred income, payable after more than one year.

Derivative financial instruments represent the fair value of exchange traded bond futures contracts used to hedge duration risk and forward contracts used to hedge excess foreign currency exposures. A liability for derivative financial instruments of £1,966,000 is held at the year end (2014: nil). 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.

### 31. Retirement benefit obligations

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 2014 and updated to 31 December 2015 by a qualified independent actuary.

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

| | 2015<br>% per annum | 2014<br>% per annum |
|---|---|---|
| Discount rate | 3.8 | 3.6 |
| Expected long-term rate of return of scheme assets | 3.8 | 3.6 |
| Increase in salaries | n/a | n/a |
| Inflation assumptions | 3.05 | 2.95 |
| LPI pension increases (capped at 5% per annum) | 3.05 | 2.95 |

The underlying mortality assumption is based upon the standard table known as S2LPA CMI 2015, subject to a minimum annual rate of future improvement of 1% per annum.

## Notes to the Financial Statements
Year ended 31 December 2015

### 31. Retirement benefit obligations (continued)

The scheme is operated by Canopius Services Limited, a subsidiary of the Group and current sponsor of the scheme. At 31 December 2015 the present value of the scheme liabilities was £9,425,000 (2014: £9,759,000) and the market value of scheme assets was £11,048,000 (2014: £11,128,000), giving a surplus of £1,623,000 (2014: surplus of £1,369,000) 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 2014 on behalf of the Trustees of the scheme concluded there was a funding requirement amounting to £779,000.

As the scheme is considered not material in the context of the Group, reduced disclosure is given in this note. Further details are provided in Canopius Services Limited's financial statements for the year ended 31 December 2015.

### 32. Reconciliation of profit before tax to cash generated from operations

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| Profit before tax | 49,182 | 91,651 |
| Interest received | (23,119) | (18,974) |
| Interest paid | 1,722 | 28 |
| Net fair value losses on investments, including currency translation differences | (16,256) | (34,279) |
| (Increase) in debtors, prepayments and accrued income | (28,076) | (70,280) |
| (Decrease)/increase in creditors | (22,638) | 59,055 |
| Increase in net claims and unearned premium reserves | 74,438 | 32,433 |
| Depreciation of property and equipment | 1,395 | 1,082 |
| Amortisation of intangible assets | 2,969 | 1,984 |
| Gain on disposal of subsidiaries sold | - | (8,706) |
| Acquisition surplus | 2,873 | - |
| Other operating expenses | - | (4,712) |
| **Cash generated from operations** | 42,490 | 49,282 |

### 33. Operating lease commitments

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 2015 | | Group 2014 | |
|---|---|---|---|---|
| | Land and buildings | Equipment | Land and buildings | Equipment |
| | £'000 | £'000 | £'000 | £'000 |
| Not later than one year | 3,107 | 1,006 | 3,943 | 854 |
| Later than one year but not later than five years | 3,392 | 833 | 3,296 | 1,903 |
| Later than five years | 798 | - | - | - |
| | 7,297 | 1,839 | 7,239 | 2,757 |

## Notes to the Financial Statements

Year ended 31 December 2015

### 34. 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, £917,007,000 (2014: £987,234,000) 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 £822,915,000 (2014: £894,265,000) are financial assets and the balance is cash and cash equivalents.

#### (b) Deeds of Indemnity

The Group has terminated one Deed of Undertaking and Guarantee with a third party funds at Lloyd's ("FAL") provider on behalf of Canopius Capital Fourteen Limited, which covered potential liabilities in the event that the third party FAL provider's FAL, amounting to $50,000,000, was drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement. There are two (2014: three) remaining Deeds of Undertaking and Guarantee with other third party FAL providers that cover a combined potential amount of £30,739,040 (2014: £30,739,040 and $50,000,000).

During 2015, the Group entered into one (2014: two) new Deed of Indemnity with Lloyd's, bringing the total to sixteen (2014: fifteen). Five (2014: five) of the Deeds relate to reorganisations of the Group's corporate members, who are underwriting on Syndicates 260, 958, 4444 and 6115. The other eleven (2014: ten) Deeds are to cover remote potential liabilities that may arise following the release by Lloyd's between 2006 and 2015 of various members' FAL.

#### (c) Bank facilities

As at 31 December 2015, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

- £420.1 million (2014: £402.2 million) unsecured, which is available to support underwriting on Syndicate 260's 2013 and 2014 years of account, Syndicate 958's 2013, 2014 and 2015 years of account, Syndicate 4444's 2013, 2014, 2015 and 2016 years of account and Syndicate 6115's 2013 and 2014 years of account.

In addition, Sompo Japan Canopius Reinsurance AG ("SJC Re") had the following facility:

- Letters of credit totalling US$ 3.2 million, GBP £8.0 million and CAD$ 0.1 million with various overseas cedants. Should SJC Re fail to meet its obligations under contracts with these cedants they would be able to drawdown on these letters of credit. The letters of credit facilities are all secured by a charge over certain of SJC Re's bank deposits totalling US$17.9 million.

## Notes to the Financial Statements

Year ended 31 December 2015

### 35. Related party transactions

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

#### Key management compensation

Key management personnel are those directors and senior managers responsible for the activities of the Group. During the year key management comprised of thirteen (2014: seven) persons. Two (2014: one) of the key management persons are directors. Details of the remuneration of the Group's key management personnel, including the directors, are shown below in aggregate for each of the categories specified by IAS 24 – 'Related party disclosures'.

| | Year ended 31 December 2015 £'000 | Year ended 31 December 2014 £'000 |
|---|---|---|
| Short-term employment benefits | 6,666 | 4,184 |
| Post-employment benefits | 26 | 86 |

#### Loans to related parties

Non-interest bearing season ticket loans made to directors and members of key management during the year amounted to £9,999 (2014: £11,769) of which £8,333 (2014: £7,499) was outstanding as at 31 December 2015.

#### Directors' and key management personnel's interests in shares

The directors and key management personnel have no interests in shares.

#### Transactions with Sompo Japan Nipponkoa Insurance Inc. group companies

On 30 July 2014, the Group entered into an agreement with Sompo Japan Insurance Inc. such that the latter company provide the following facilities to the Group for letters of credit which may be deposited in FAL. The amounts of the facilities are detailed in note 34 (c).

## Notes to the Financial Statements
Year ended 31 December 2015

### 35. Related party transactions (continued)

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

Guy Carpenter & Company Limited performs insurance services for Sompo Canopius Group Companies and for third parties conducting business with Sompo Canopius Group Companies. The lead Guy Carpenter executive in respect of certain of these services, for which Sompo Canopius Group Companies paid Guy Carpenter fees amounting to £125,000 (2014: £275,000), is the partner of Mr. Michael Watson, a director of the group.

Sompo Japan Nipponkoa Insurance Inc, the immediate parent of the Sompo Canopius Group, has reinsurance arrangements in place with Sompo Canopius Group Companies. The total ceded premium for these relationships at the end of 2015 was £2,404,033.

### 36. Ultimate parent undertaking and controlling party

On 1 May 2014 Sompo Japan Nipponkoa Insurance Inc acquired 100 percent of the issued shares of Canopius Group Limited and became its immediate parent undertaking. Following the reorganisation of the Canopius Group during 2015, Canopius Group AG became the immediate parent undertaking and is the smallest group to consolidate these financial statements for the period since the acquisition. Sompo Japan Nipponkoa Holdings, Inc. is the ultimate controlling party and is the largest group to consolidate these financial statements for the period since the acquisition. Copies of the Sompo Japan Nipponkoa Holdings Inc. and Sompo Japan Nipponkoa Insurance Inc. consolidated financial statements are available from 26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338, Japan

### 37. Subsequent events

On 1 February 2016, the Canopius Group announced that it has rebranded to "Sompo Canopius" (or Sompo Canopius Re). The Group also changed the name of its top holding company, Canopius Group AG, to Sompo Canopius AG.

Subsequent to year-end, the Group has elected to change its presentational currency to US dollars with effect from 1 January 2016.