Statutory auditor's report

with consolidated financial statements as at 31 December 2016 of

Sompo Canopius AG, Zürich

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To the General Meeting of
Sompo Canopius AG, Zürich

Zürich, 25 April 2017

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sompo Canopius AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other matter

The financial statements of Sompo Canopius AG for the year ended 31 December 2015 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 23 May 2016.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
In accordance with article 728a para. 1 item 3 CO and the 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.

Ernst & Young Ltd

Christian Fleig
Licensed audit expert
(Auditor in charge)

Kerry Herholdt
CA (SA)

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Enclosure

- Consolidated financial statements

Consolidated statement of profit or loss

for the year ended 31 December 2016

$'000	Notes	2016	2015 (restated)
Gross premiums	4a	1,368,460	1,340,386
Premiums ceded to reinsurers	4b	(221,903)	(304,141)
Reinsurance to close	4c	5,762	(10,335)
Net premiums		**1,152,319**	**1,025,910**
Fees and commission income	5	9,613	9,714
Investment income	6	28,510	31,324
Net realised losses	7	(9,709)	(8,437)
Fair value gains/(losses)	8	12,068	(14,376)
Other operating income		1,662	4,056
Other revenue		**42,144**	**22,281**
Total revenue		**1,194,463**	**1,048,191**
Gross benefits and claims paid	9a	(615,849)	(703,171)
Claims ceded to reinsurers	9b	87,884	171,244
Gross change in contract liabilities	9a	(98,897)	45,843
Change in contract liabilities ceded to reinsurers	9b	12,219	(55,265)
Reinsurance to close	9c	(5,762)	10,335
Net benefits and claims		**(620,405)**	**(531,014)**
Finance costs	10	(2,970)	(2,635)
Other operating and administrative expenses	11	(512,819)	(439,294)
Other expenses		**(515,789)**	**(441,929)**
Total benefits, claims and other expenses		**(1,136,194)**	**(972,943)**
Profit before tax		58,269	75,248
Income tax expense	13(a)	(6,791)	(10,258)
Profit for the year		**51,478**	**64,990**

The notes on pages 15 to 67 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2016

$'000	2016	2015 (restated)
Profit for the year	51,478	64,990
Other comprehensive income		
Currency translation differences	(4,610)	(48,708)
Total comprehensive income recognised for the year	46,868	16,282

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

The notes on pages 15 to 67 form part of these consolidated financial statements.

Consolidated statement of financial position

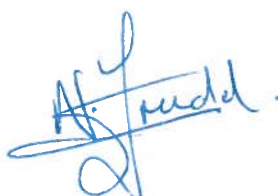
as at 31 December 2016

$'000	Notes	2016	2015 (restated)	1Jan15 (restated)
Assets				
Intangible assets	14	41,345	46,477	49,800
Property and equipment	15	6,545	8,757	4,014
Deferred acquisition costs	16	176,984	190,903	162,582
Reinsurance assets	17	501,129	538,134	657,308
Financial assets				
Financial assets at fair value through profit or loss	18	1,914,463	1,964,974	2,050,817
Derivative financial instruments	19	988	282	489
Income tax receivable	13(c)	-	4,885	-
Insurance receivables	21	609,941	456,920	491,924
Trade and other receivables	22	66,427	57,936	56,868
Cash and cash short term deposits	23	300,984	273,982	208,432
Total assets		3,618,806	3,543,250	3,682,234
Equity and liabilities				
Equity attributable to equity holders of parent				
Issued share capital	24	106	106	239,100
Capital reserves		582,956	582,956	296,961
Foreign currency translation reserve		(53,318)	(48,708)	-
Retained earnings		283,031	231,553	213,368
Total equity		812,775	765,907	749,429
Liabilities				
Insurance contract liabilities	25	2,294,897	2,321,652	2,423,671
Derivative financial instruments	19	2,721	5,847	2,030
Deferred tax liability	13(d)	7,911	21,416	16,311
Income tax payable	13(c)	6,677	-	-
Insurance payables	27	378,596	287,422	377,371
Trade and other payables	28	115,229	141,006	113,422
Total liabilities		2,806,031	2,777,343	2,932,805
Total equity and liabilities		3,618,806	3,543,250	3,682,234

These financial statements were approved by the Board of Directors on 25 April 2017 and signed on its behalf on 25 April 2017 by:

Michael Watson
Director

Nigel Frudd
Director



The notes on pages 15 to 67 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

		Attributable to equity holders of the parent				
$'000	Notes	Issued share capital	Contributed capital	Foreign currency translation reserve	Retained earnings	Total equity
At 1 January 2015	2.6	**239,100**	**296,961**	**-**	**213,368**	**749,429**
Profit for period		-	-	-	64,990	64,990
Other comprehensive income		-	-	(48,708)	-	(48,708)
Total comprehensive income				(48,708)	64,990	16,282
Dividend paid		-	-	-	(42,423)	(42,423)
Cancellation of shares		(239,100)	-	-	-	(239,100)
Capital contribution		-	285,995	-	-	285,995
Issue of share capital	24	106	-	-	-	106
Acquisition surplus		-	-	-	(4,382)	(4,382)
At 31 December 2015	2.6	**106**	**582,956**	**(48,708)**	**231,553**	**765,907**
Profit for period		-	-	-	51,478	51,478
Other comprehensive income		-	-	(4,610)	-	(4,610)
Total comprehensive income		-	-	(4,610)	51,478	46,868
At 31 December 2016		**106**	**582,956**	**(53,318)**	**283,031**	**812,775**

The figures for 2015 have been restated as described in Note 2.6.

The notes on pages 15 to 67 form part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2016

$'000	Notes	2016	2015 (restated)
Operating activities			
Profit before tax		58,269	75,248
Adjustment for:			
Change in operating assets	30	(125,213)	157,237
Change in operating liabilities	30	35,516	(167,111)
Financial income and expense		(15,831)	(20,252)
Non-cash items included in profit before tax:			
Fair value (losses)/gains	8	(12,068)	14,376
Amortisation of deferred acquisition costs		13,919	(28,321)
Amortisation of intangibles	11	6,001	4,543
Depreciation of property and equipment	11	1,182	2,134
Disposal of property and equipment		848	-
Income tax paid	13(c)	(7,540)	(10,242)
Effect of exchange rate changes		637	(45,381)
Net cash flows from operating activities		(44,280)	(17,769)
Investing activities			
Purchases of financial assets		(2,245,457)	(3,246,061)
Sales of financial assets		2,308,036	3,317,528
Investment income	6	28,510	31,324
Realised losses on investments	7	(9,709)	(8,437)
Acquisition of subsidiaries, net of cash acquired		-	(2,326)
Purchases of intangible assets	14	(1,540)	(3,915)
Purchases of property and equipment	15	(1,193)	(6,742)
Net cash flows generated from investing activities		78,647	81,371
Financing activities			
Issue of shares	24	-	106
Cancellation of shares		-	(239,100)
Capital contribution		-	285,995
Dividend paid		-	(42,423)
Finance costs	10	(2,970)	(2,635)
Net cash flows (used in)/from financing activities		(2,970)	1,943
Net increase in cash and cash equivalents		31,397	65,545
Cash and cash equivalents at beginning of year		273,982	208,432
Effect of exchange rate changes on cash and cash equivalents		(4,395)	5
Cash and cash equivalents at end of year	23	**300,984**	**273,982**

The notes on pages 15 to 67 form part of these consolidated financial statements.

Notes to the consolidated financial statements

Year ended 31 December 2016

1. Corporate information

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

2. Significant accounting policies, judgements and estimates

2.1 Basis of preparation and presentation

Sompo Canopius AG has elected to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") 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").

For all periods up to and including the year ended 31 December 2015, the Group prepared its financial statements in accordance with IFRS as adopted by the European Union and presented them in Sterling. These financial statements for the year ended 31 December 2016 are the first that the Group has prepared in accordance with full IFRS and presented in US dollars.

Note 2.4 describes the adjustments made representing the financial statements in US dollars. Note 2.5 provides information on how the Group adopted full IFRS.

From 1 January 2016, a number of subsidiaries changed their functional currency to US dollars to reflect the currency of the primary economic environment in which they operated and the Group changed its presentation currency to US dollars. Comparative information has been restated in US dollars in accordance with the guidance within IAS21. The 2015 full year primary statements and associated notes along with the third statement of financial position as presented have been retranslated from Sterling to US dollars using the procedures outlined below:

- Assets and liabilities were translated into US dollars at closing rates of exchange. Trading results were translated into US dollars at the rates of exchange prevailing at the dates of transaction or average rates where these are a suitable proxy. Differences resulting from the retranslation on the opening net assets and the results for the year have been taken to reserves; and
- The cumulative translation reserve was set to nil at 1 January 2015 (i.e. the transition date to full IFRS). Share capital and other reserves were translated at historic rates prevailing at the dates of transactions.

All exchange rates used were extracted from the Group's underlying financial records.

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 in Note 2.8 below.

Notes to the consolidated financial statements
Year ended 31 December 2016

2.2 Basis of consolidation

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

A list of the principal subsidiaries included in these financial statements is contained in Note 3.3.

Business combinations and goodwill

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.

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

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

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.

2.3 Summary of significant accounting policies

(a) Classification and accounting for insurance contracts

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

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

(i) Premiums

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

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated by reference to the expected incidence of insurance risk over the period of cover.

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

(ii) Insurance claims and claims settlement expenses

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

Provision is made at the period-end for the estimated cost of IBNR claims to the Group. The estimated cost of claims includes expenses to be incurred in settling claims less the expected value of salvage and other recoveries. There is inherent uncertainty in establishing claims provisions and it is likely that the final outcome will prove to be different from the original estimate of the liability. Adjustments to the amounts of claims provisions established in prior years are included in the financial statements in the period in which the adjustments are made. The claims provisions are reviewed regularly.

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.

2.3 Summary of significant accounting policies (continued)

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

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

Allowance is made for changes or uncertainties which may create distortions in the claims data or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the business environment or processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

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

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

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

Claims provisions are not explicitly discounted for the investment earnings that may be expected to arise in the future on funds to settle the claims. There may be an element of implicit discounting in relation to Periodical Payment Orders (PPO's) for Motor claims, which are advised to the Group 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 consolidated financial statements
Year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

(a) Basis of accounting for insurance contracts (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) Unexpired risks

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

(v) Reinsurance to close ("RITC")

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

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

(vi) Outwards reinsurance contracts

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

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

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

(vii) Receivables and payables related to insurance contracts

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.

Notes to the consolidated financial statements
Year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

(b) Other operating and administrative expenses

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

(c) Employee benefits

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.

(d) 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.

(e) 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.

2.3 Summary of significant accounting policies (continued)

(f) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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

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

(g) Intangible assets

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

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

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

Notes to the consolidated financial statements
Year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

Intangible assets with finite lives are amortised over:

Insurance contracts intangible assets	8	to	23	years
Insurance policy renewal rights	4	to	5	years
Webware and software development	3	to	5	years
Computer software licences	3	to	5	years

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

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

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

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

The useful economic life of risk margin to unearned premium reserve and other related components of the insurance contract intangible asset follow the settlement pattern of the related unearned premium reserve and charged/(credited) to underwriting and administrative expenses.

Insurance policy renewal rights intangible 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.

Notes to the consolidated financial statements
Year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

(h) Property and equipment

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

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

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

(i) 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.

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.

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.

Notes to the consolidated financial statements

Year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

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.

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.

Derecognition of financial assets

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

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

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

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

Impairment of financial 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

Notes to the consolidated financial statements

Year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

(j) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

i) Financial liabilities at FVPL

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

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

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

ii) Interest bearing loans and borrowings

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

Derecognition of financial liabilities

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

(k) Offsetting of financial instruments

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

2.3 Summary of significant accounting policies (continued)

(l) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

(m) Fair value measurement

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

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

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

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

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

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

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

(n) Cash and cash equivalents

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

2.3 Summary of significant accounting policies (continued)

(o) Taxation

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

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

Deferred tax is recognised on temporary differences, which are gains or losses that will be taxable in future periods and are not included in the current tax calculation. Deferred tax liabilities are generally recognised for all gains that are not currently taxable but will be taxable in the future. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which non-current taxable losses can be deducted. Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted for the time value of money.

(p) Share capital

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

(q) Leases

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.

Notes to the consolidated financial statements
Year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.4 Prior year restatement and change of presentation currency

The Group has restated its prior period results for the following items:

- In accordance with IAS8 the opening equity and net assets at 1 January 2015 were retrospectively adjusted by £9.2m ($14.4m) to correct the profit on disposal of two former subsidiaries prior to that date;
- Reclassified items within the balance sheet and revenue account to ensure the comparative information is presented in a consistent manner with the current year's disclosures;
- Restated all results into US dollars as a result of changing its presentation currency from Sterling to US dollars; the impact of this change is to reduce bought forward retained earnings and net assets by $6.8m.

Accordingly the primary statements and all the accompanying notes to these financial statements have been restated and presented in US dollars.

Proformas showing these adjustments and the impact of first time adoption of full IFRS may be found in Note 2.6.

2.5 First-time adoption of IFRS

These financial statements, for the year ended 31 December 2016, are the first that the Group has prepared in accordance with full IFRS. For periods up to and including the year ended 31 December 2015, the Group prepared its financial statements in accordance with IFRS as adopted by the European Union.

The only material change on restating the Group's EU IFRS financial statements to full IFRS was to reset the currency translation reserve to nil on 1 January 2015. Please see Note 2.6 for further details.

Accordingly, the Group has prepared these financial statements in compliance with IFRS applicable as at 31 December 2016, together with the comparative period data for the year ended 31 December 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2015, the Group's date of transition to full IFRS.

Notes to the consolidated financial statements
Year ended 31 December 2016

2.6 Restatement proforma

The financial proformas in this note outline the principal adjustments made to prior year comparatives.

Consolidated statement of profit or loss for the year ended 31 December 2015	**EU IFRS (reported)** £'000	**Prior yr Reclass** £'000	**EU IFRS (restated)** £'000	**EU IFRS (at $1.53)** $'000	**Present'n Adjs** $'000	**Full IFRS** $'000
Notes	1	3	4	5	8	9
Gross premiums written	896,811		896,811	1,372,121		1,372,121
Change in gross unearned premiums	(20,742)		(20,742)	(31,735)		(31,735)
Gross premiums	876,069	-	876,069	1,340,386	-	1,340,386
Reinsurance premiums ceded	(207,689)	28,832	(178,857)	(273,651)		(273,651)
Change in reinsurers' unearned premiums	(19,928)		(19,928)	(30,490)		(30,490)
Reinsurance to close	22,077	(28,832)	(6,755)	(10,335)		(10,335)
Premiums ceded to reinsurers	(205,540)	-	(205,540)	(314,476)	-	(314,476)
Net premiums	670,529	-	670,529	1,025,910	-	1,025,910
Fees and commission income	13,220	(6,871)	6,349	9,714		9,714
Investment income	20,473		20,473	31,324		31,324
Net realised losses	(5,514)		(5,514)	(8,437)		(8,437)
Fair value losses	(9,396)		(9,396)	(14,376)		(14,376)
Other operating income	358	2,293	2,651	4,056		4,056
Other revenue	19,141	(4,578)	14,563	22,281	-	22,281
Total revenue	689,670	(4,578)	685,092	1,048,191	-	1,048,191
Gross benefits and claims paid	(455,740)	(3,849)	(459,589)	(703,171)		(703,171)
Gross change in contract liabilities	26,114	3,849	29,963	45,843		45,843
Claims ceded to reinsurers	117,317	(5,393)	111,924	171,244		171,244
Change in contract liabilities ceded to reinsurers	(12,682)	(23,439)	(36,121)	(55,265)		(55,265)
Reinsurance to close	(22,077)	28,832	6,755	10,335		10,335
Net benefits and claims	(347,068)	-	(347,068)	(531,014)	-	(531,014)
Finance costs	(1,722)		(1,722)	(2,635)		(2,635)
Underwriting and administrative expenses	(255,007)	4,578	(250,429)	(383,157)		(383,157)
Other operating expenses (non-underwriting)	(36,691)		(36,691)	(56,137)		(56,137)
Other operating and administrative expenses	(291,698)	4,578	(287,120)	(439,294)	-	(439,294)
Other expenses	(293,420)	4,578	(288,842)	(441,929)	-	(441,929)
Total benefits, claims and other expenses	(640,488)	4,578	(635,910)	(972,943)	-	(972,943)
Profit before tax	49,182	-	49,182	75,248		75,248
Income tax expense	(6,705)		(6,705)	(10,258)		(10,258)
Profit for the year	42,477	-	42,477	64,990	-	64,990
Other comprehensive income						
Currency translation differences	3,180		3,180	(41,884)	(6,824)	(48,708)
Total comprehensive income for the year	45,657	-	45,657	23,106	(6,824)	16,282
Other changes in equity	(393)		(393)	196		196
Total equity at 1 January 2015	489,655	-	480,403	749,429	-	749,429
Total equity at 31 December 2015	534,919	-	525,667	772,731	(6,824)	765,907

Notes to the consolidated financial statements

Year ended 31 December 2016

2.6 Restatement proforma (continued)

Consolidated statement of financial position as at 1 January 2015	EU IFRS (reported) £'000	Prior yr reserves £'000	Prior yr reclass £'000	EU IFRS (restated) £'000	EU IFRS (at 1.56) $'000	Presentation adjustments $'000	EU IFRS Adj'd $'000	IFRS remeasured $'000	Full IFRS $'000
Notes	1	2	3	4	5	6	7	8	9
Assets									
Intangible assets	31,923			31,923	49,800		49,800		49,800
Property and equipment	2,573			2,573	4,014		4,014		4,014
Deferred acquisition costs	104,219			104,219	162,582		162,582		162,582
Reinsurance assets	467,673		(46,322)	421,351	657,308		657,308		657,308
Financial assets at fair value through profit or loss	1,314,626			1,314,626	2,050,817		2,050,817		2,050,817
Derivative financial instruments	-		313	313	489		489		489
Insurance receivables	243,169	9,229	62,938	315,336	491,924		491,924		491,924
Trade and other receivables	34,286	2,363	(195)	36,454	56,868		56,868		56,868
Cash and cash short term deposits	133,610			133,610	208,432		208,432		208,432
Total assets	2,332,079	11,592	16,734	2,360,405	3,682,234	-	3,682,234	-	3,682,234
Equity and liabilities									
Equity attributable to equity holders of parent									
Issued share capital	160,556			160,556	250,467	(11,367)	239,100		239,100
Capital contribution	171,519		27,000	198,519	309,690	(12,729)	296,961		296,961
Revaluation reserve	1,815		(1,815)	-	-		-		-
Currency translation reserve	(30,417)			(30,417)	(47,451)		(47,451)	47,451	-
Retained earnings	186,182	(9,252)	(25,185)	151,745	236,723	24,096	260,819	(47,451)	213,368
Total equity	489,655	(9,252)	-	480,403	749,429	-	749,429	-	749,429
Liabilities									
Insurance contract liabilities	1,768,927		(215,292)	1,553,635	2,423,671		2,423,671		2,423,671
Derivative financial instruments	-		1,301	1,301	2,030		2,030		2,030
Deferred tax liability	10,456			10,456	16,311		16,311		16,311
Insurance payables	5,768	20,844	215,292	241,904	377,371		377,371		377,371
Trade and other payables	57,273		15,433	72,706	113,422		113,422		113,422
Total liabilities	1,842,424	20,844	16,734	1,880,002	2,932,805	-	2,932,805	-	2,932,805
Total equity and liabilities	2,332,079	11,592	16,734	2,360,405	3,682,234	-	3,682,234	-	3,682,234

Notes to the consolidated financial statements

Year ended 31 December 2016

2.6 Restatement proforma (continued)

Consolidated statement of financial position as at 31 December 2015	Notes	**EU IFRS (original)** £'000	**Prior yr reserves** £'000	**Prior yr reclass** £'000	**EU IFRS (restated)** £'000	**EU IFRS (at $1.47)** $'000	**Presentation adjustments** $'000	**EU IFRS Adj'd** $'000	**IFRS remeasured** $'000	**Full IFRS** $'000
		1	2	3	4	5	6	7	8	9
Assets										
Intangible assets		31,617			31,617	46,477		46,477		46,477
Property and equipment		5,957			5,957	8,757		8,757		8,757
Deferred acquisition costs		127,953			127,953	188,091	2,812	190,903		190,903
Reinsurance assets		411,043		(46,674)	364,369	535,622	2,512	538,134		538,134
Financial assets at fair value through profit or loss		1,336,717			1,336,717	1,964,974		1,964,974		1,964,974
Derivative financial instruments		-		192	192	282		282		282
Income tax receivable		-		3,323	3,323	4,885		4,885		4,885
Insurance receivables		238,311	9,229	63,290	310,830	456,920		456,920		456,920
Trade and other receivables		43,141		(3,729)	39,412	57,936		57,936		57,936
Cash and cash short term deposits		185,825		557	186,382	273,982		273,982		273,982
Total assets		2,380,564	9,229	16,959	2,406,752	3,537,926	5,324	3,543,250	-	3,543,250
Equity and liabilities										
Equity attributable to equity holders of parent										
Issued share capital		68			68	100	6	106		106
Capital contribution		362,321		27,000	389,321	572,302	10,654	582,956		582,956
Revaluation reserve		1,815		(1,815)	-	-	-	-		-
Currency translation reserve		(28,500)			(28,500)	(41,895)	(6,824)	(48,719)	11	(48,708)
Retained earnings		199,215	(9,252)	(25,185)	164,778	242,224	(10,660)	231,564	(11)	231,553
Total equity		534,919	(9,252)	-	525,667	772,731	(6,824)	765,907	-	765,907
Liabilities										
Insurance contract liabilities		1,735,487		(164,396)	1,571,091	2,309,504	12,148	2,321,652		2,321,652
Derivative financial instruments		1,966		2,012	3,978	5,847		5,847		5,847
Deferred tax liability		14,569			14,569	21,416		21,416		21,416
Insurance payables		10,285	20,844	164,396	195,525	287,422		287,422		287,422
Trade and other payables		83,338	(2,363)	14,947	95,922	141,006		141,006		141,006
Total liabilities		1,845,645	18,481	16,959	1,881,085	2,765,195	12,148	2,777,343	-	2,777,343
Total equity and liabilities		2,380,564	9,229	16,959	2,406,752	3,537,926	5,324	3,543,250	-	3,543,250

2.6 Restatement proforma (continued)

Notes to restatement proforma

a) Explanation of proforma columns

1) EU IFRS £: shows the reported Sterling result as previously reported;
2) Prior year reserves: reflects the impact of the £9.2m adjustment for the sale of two subsidiaries;
3) Prior year reclass: reflects £ reclassifications which have no impact on net assets or net income;
4) EU IFRS £ restated: shows the cumulative impact of adjustments in £;
5) EU IFRS $ shows the reported Sterling statement of financial position translated to US dollars at the closing rates of exchange ($1.47 at 31 December 2015 and $1.56 at 1 January 2015) and the statement of profit and loss translated to US dollars at the average rate for the year ($1.53);
6) Presentational adjustments shows adjustments to the exchange rates applied in column 5, for example adjustments relating to the use of the historical rates of exchanges;
7) EU IFRS adjusted is a sub-total before remeasurement as a result of adopting full IFRS;
8) IFRS remeasurement: shows the adjustments made on moving to full IFRS;
9) Full IFRS: shows resulting position.

b) Equity at 1 January 2015

Opening retained earnings at 1 January 2015 have been adjusted for the following:

- In accordance with IAS8 the opening equity at 1 January 2015 was retrospectively adjusted by £9.2m ($14.4m) to correct the profit on disposal of two former subsidiaries prior to that date:
- The revaluation reserve, having been realised prior to 1 January 2015, was set to nil;
- The transfer of £27m to capital reserves;
- The currency translation reserve was set to nil on the adoption of full IFRS (Note 2.5);

c) Statement of profit or loss

Reinsurance to close has been updated to eliminate RITC between Group companies; the elimination does not change the profit for the year. A similar adjustment has been made for the elimination of intra-group commissions.

d) Equity at 31 December 2015

As the result of a change of presentational currency of a number of subsidiaries, deferred acquisition costs and unearned premiums were fair valued resulting in a $6.8m adjustment to the foreign currency translation reserve.

Notes to the consolidated financial statements
Year ended 31 December 2016

2.7 New and amended standards and interpretations

The following new standards, amendments and interpretations, issued but not effective for the financial year beginning 1 January 2016, have not been early adopted:

- Amendments to IFRS 2 'Share-based payment' regarding the classification and measurement of share-based payment transactions. The Group has no share based payment schemes.
- Amendments to IFRS 4 'Insurance contracts' providing the different approaches to applying IFRS 9 'Financial instruments' with IFRS 4. The amendment is effective from 1 January 2018
- 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. The standard is effective from 1 January 2018.
- 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. The standard is effective from 1 January 2018.
- IFRS 16, '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.

Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' became effective on 1st January 2016. The amendments prohibit the use of revenue based depreciation and amortisation methods except in very limited circumstances. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate or amortise its non-current assets.

2.8 Significant accounting judgements, estimates and assumptions

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

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The most critical accounting estimate made by the Group is the estimate of the ultimate claims liability from insurance contracts underwritten. The estimation of the claims liability is described in Note 2.3 (a).

Other disclosures relating to the Group's exposure to risks and uncertainties includes:
- Capital management Note 31
- Financial risk management and policies Notes 31 & 32
- Sensitivity analyses disclosures Note 32

Notes to the consolidated financial statements
Year ended 31 December 2016

3. Group information

3.1 Ultimate parent undertaking and controlling party

Sompo Canopius AG is the smallest group to produce consolidated financial statements. Sompo Japan Nipponkoa Holdings, Inc. ("Sompo Holdings") is the ultimate controlling party and is the largest group to consolidate these financial statements for the period since its acquisition of the Canopius Group. 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.

3.2 Group reorganisation

During 2015 Sompo Holdings approved a restructuring plan resulting in a change to the Group's 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."

3.3 Subsidiaries

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

Subsidiary	Country of incorporation	Principal activities	% equity interest 2016	2015
Canopius Holdings UK Limited	England and Wales	Holding company	100%	100%
Omega Underwriting Holdings Limited	England and Wales	Holding company	100%	100%
Canopius US Holdings, Inc.	USA (Delaware)	Holding company	100%	100%
Canopius Underwriting Agency Inc.	USA (Delaware)	Insurance company	100%	100%
Canopius US Insurance, Inc.	USA (Delaware)	Insurance company	100%	100%
Sompo Japan Canopius Reinsurance	Switzerland	Reinsurance company	100%	100%
Canopius Ireland Limited	Ireland	Reinsurance intermediary	100%	100%
Canopius UK Speciality Limited	England and Wales	Insurance intermediary	100%	100%
Canopius Services Limited	England and Wales	Service company	100%	100%
Canopius Managing Agents Limited	England and Wales	Managing agent at Lloyd's	100%	100%
Canopius Asia Pte. Ltd.	Singapore	Syndicate service company	100%	100%
Canopius Europe Limited	England and Wales	Syndicate service company	100%	100%
Canopius Labuan Pte Limited	Malaysia	Syndicate service company	100%	100%
Canopius Underwriting Bermuda Limited	Bermuda	Syndicate service company	100%	100%
Sompo Japan Canopius BV	Netherlands	Syndicate service company	100%	100%
Canopius Underwriting Limited	England and Wales	Syndicate service company	100%	100%
Canopius Capital Two Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Four Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Five Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Seven Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Nine Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Ten Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Eleven Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Twelve Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopius Capital Fourteen Limited	England and Wales	Lloyd's corporate member	100%	100%
Flectat Limited	England and Wales	Lloyd's corporate member	100%	100%

Notes to the consolidated financial statements
Year ended 31 December 2016

4. Net premiums

$'000	2016	2015
a) Gross premiums on insurance contracts		
Gross premiums written	1,342,172	1,372,121
Change in unearned premiums provision	26,288	(31,735)
Total gross premiums	1,368,460	1,340,386
b) Premiums ceded to reinsurers of insurance contracts		
Reinsurance premiums ceded	(204,043)	(273,651)
Change in unearned premiums provision	(17,860)	(30,490)
Total premiums ceded to reinsurers	(221,903)	(304,141)
c) Reinsurance to close	5,762	(10,335)
Net premiums	1,152,319	1,025,910

5. Fees and commission income

$'000	2016	2015
Lloyd's underwriting agencies:		
Management fees	1,453	2,422
Profit commission	2,770	2,986
	4,223	5,408
Insurance services – commission and service fees	5,390	4,306
	9,613	9,714

6. Investment income

$'000	2016	2015
Interest income on financial assets	20,186	25,874
Dividend income	1,075	7,001
Interest income on cash and cash equivalents	10,106	2,498
Gross investment income	31,367	35,373
Investment fees & expenses	(2,857)	(4,049)
Net investment income	28,510	31,324

7. Net realised gains and losses

$'000	2016	2015
Realised gains	263,595	365,974
Realised losses	(273,304)	(374,411)
	(9,709)	(8,437)

8. Fair value gains and losses

$'000	2016	2015
Fair value gains on other financial assets	40,801	27,344
Fair value losses on other financial assets	(28,733)	(41,720)
	12,068	(14,376)

Notes to the consolidated financial statements

Year ended 31 December 2016

9. Net benefits and claims

$'000	2016	2015
a) Gross benefits and claims		
Gross benefits and claims paid	(615,849)	(703,171)
Change in contract liabilities	(98,897)	45,843
	(714,746)	(657,328)
b) Reinsurance		
Claims ceded to reinsurers	87,884	171,244
Change in contract liabilities ceded to reinsurers	12,219	(55,265)
	100,103	115,979
c) Reinsurance to close	(5,762)	10,335
Net benefits and claims	(620,405)	(531,014)

10. Finance costs

$'000	2016	2015
Fees for letters of credit	(2,647)	(1,667)
Interest expense	(101)	(270)
Levies and charges	(222)	(698)
	(2,970)	(2,635)

11. Other operating and administrative expenses

$'000	Note	2016	2015
Direct commission		(318,668)	(294,204)
Employee benefit expenses	12	(124,298)	(135,596)
Amortisation of intangible assets	14	(6,001)	(4,543)
Depreciation of property and equipment	15	(1,182)	(2,134)
Operating lease rentals and property costs		(8,924)	(9,855)
Deferred acquisition costs		(314)	(814)
Auditors' remuneration - audit & related services		(1,013)	(1,665)
Auditors' remuneration - tax		-	(113)
Auditors' remuneration - other services		(501)	(2,310)
Other expenses		(52,331)	(22,800)
Expenses before exchange adjustments		(513,232)	(474,034)
Net foreign exchange adjustments		413	34,740
		(512,819)	(439,294)
Underwriting expenses		(468,538)	(383,157)
Non-underwriting expenses		(44,281)	(56,137)
		(512,819)	(439,294)

12. Employee benefit expenses

$'000	2016	2015
Salaries and wages	(101,817)	(112,610)
Social security costs	(9,808)	(12,898)
Pension costs – defined contribution plans	(5,792)	(7,463)
Other benefits	(6,881)	(2,625)
	(124,298)	(135,596)

Employee benefits include termination payments of $9.6 million (2015: $0.6 million).

Notes to the consolidated financial statements
Year ended 31 December 2016

13. Income tax

The Company is resident in Switzerland.

The subsidiary companies are 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.

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

a) Consolidated statement of profit or loss

$'000		2016	2015
UK tax:			
Current tax	- current year	(14,338)	(5,157)
	- prior year	2,382	-
Deferred tax	- origination and reversal of temporary differences	9,952	(7,933)
	- prior year	(3,196)	2,832
Overseas taxes		(1,563)	-
Foreign exchange and other adjustments		(28)	-
Total income tax expense		(6,791)	(10,258)

All tax is charged through the statement of comprehensive income.

b) Reconciliation of tax charge

$'000	2016	2015
Profit before tax	58,269	75,248
Tax at 20.00% (2015: tax rate 20.25%)	(11,654)	(15,237)
Income not subject to tax:		
Non-UK income not subject to tax	6,922	2,321
Overseas taxes	(1,563)	-
Prior year adjustments	2,382	2,832
Other, including effect of change in UK tax rate	(2,878)	(174)
	(6,791)	(10,258)

c) Income tax receivable (payable)

$'000	2016	2015
At 1 January	4,885	-
UK current tax recorded in the statement of profit or loss	(14,338)	(5,157)
Overseas taxes recorded in the statement of profit or loss	(1,563)	-
Payments made on-account during the year	7,540	10,242
Foreign exchange adjustments	(3,201)	(200)
At 31 December	(6,677)	4,885

Notes to the consolidated financial statements

Year ended 31 December 2016

13. Income tax (continued)

d) Deferred tax, net

$'000	2016	2015
Excess of book over tax depreciation	795	765
Tax on deferred underwriting profits	(6,391)	(20,858)
Tax on intangible asset	(2,315)	(2,315)
Deferred tax asset arising on deferred underwriting results	-	992
Total deferred tax liability	(7,911)	(21,416)

Deferred tax assets and liabilities arise through (a) temporary differences in the recognition of underwriting profits/losses for accounting and tax purposes; (b) temporary differences in the recognition of depreciation for accounting and tax purposes; and (c) tax losses which are available to offset future taxable profits

The Group has a deferred tax asset of approximately $16.1 million (2015: $17.1 million) in respect of trading losses that has not been recognised in these financial statements at 31 December 2016 as its recoverability is not certain.

$4.9 million (2015: $13.9 million) of the deferred tax liability is expected to reverse or be settled within 12 months.

e) Reconciliation of deferred tax liabilities, net

$'000	2016	2015
Balance at 1 January	(21,416)	(16,311)
Timing differences relating to recognition of underwriting results and depreciation:		
- arising during the year	938	(3,377)
- utilised during the year	12,261	(4,556)
Prior year adjustment	(3,196)	2,832
Foreign exchange and other adjustments	3,502	(4)
Balance at 31 December	(7,911)	(21,416)

Notes to the consolidated financial statements
Year ended 31 December 2016

14. Intangible assets

$'000	Goodwill	Syndicate participation rights	Insurance contract intangible asset	Insurance policy renewal rights	Website and software development costs	Computer software licences	Total
Cost							
At 1 January 2015	3,889	13,302	25,905	8,496	4,359	1,730	57,681
Additions	-	-	-	-	8	3,907	3,915
Exchange	(225)	(767)	-	(491)	(252)	(100)	(1,835)
At 31 December 2015	3,664	12,535	25,905	8,005	4,115	5,537	59,761
Additions	-	-	-	-	-	1,540	1,540
Disposals	-	-	-	(5,237)	(494)	(1,713)	(7,444)
Exchange	-	(286)	-	(131)	(83)	(244)	(744)
At 31 December 2016	3,664	12,249	25,905	2,637	3,538	5,120	53,113
Accumulated amortisation							
At 1 January 2015	-	-	(138)	4,243	2,434	1,342	7,881
Amortisation in the year	-	-	1,750	2,477	21	295	4,543
Exchange	-	-	1,432	(342)	(141)	(89)	860
At 31 December 2015	-	-	3,044	6,378	2,314	1,548	13,284
Amortisation in the year	-	-	1,866	1,496	38	2,601	6,001
Disposals	-	-	-	(5,237)	(494)	(1,713)	(7,444)
Exchange	-	-	-	-	(29)	(44)	(73)
At 31 December 2016	-	-	4,910	2,637	1,829	2,392	11,768
Carrying amount							
At 31 December 2015	3,664	12,535	22,861	1,627	1,801	3,989	46,477
At 31 December 2016	3,664	12,249	20,995	-	1,709	2,728	41,345

Intangible assets with an indefinite useful life

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. The impairment review uses 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 either asset category.

Intangible assets with a finite useful life

The insurance contract intangible, insurance policy renewal rights, website and software development costs and computer licences are amortised over their finite economic lives and the charge is included in other operating and administrative expenses in the consolidated statement of profit or loss.

The time value of money, risk margin to unearned premium reserve and other related components of the insurance contract intangible asset run-off at different rates and are amortised according to their respective useful economic lives. The useful economic life of the time value of money component is estimated as eight to twenty three years based on the expected run-off period of the claims arising from the portfolio of business when acquired.

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.

These assets with finite useful life were tested for impairment at the respective year ends and no impairment was deemed necessary.

Notes to the consolidated financial statements

Year ended 31 December 2016

15. Property and equipment

$'000	Note	Computer equipment	Motor vehicles	Fixtures, fittings and equipment	Leasehold improvements	Total
Cost						
At 1 January 2015		18,091	399	1,923	5,850	26,263
Additions		4,528	35	1,269	910	6,742
Acquired		99	229	239	-	567
Disposals		(115)	(60)	(315)	-	(490)
Exchange		(1,223)	(30)	(154)	(373)	(1,780)
At 31 December 2015		21,380	573	2,962	6,387	31,302
Additions		470	-	706	17	1,193
Disposals		(1,513)	(315)	(5)	(620)	(2,453)
Exchange		(1,156)	(19)	(54)	(146)	(1,375)
At 31 December 2016		19,181	239	3,609	5,638	28,667
Accumulated depreciation						
At 1 January 2015		15,278	42	1,923	5,006	22,249
Charge for the year	11	1,319	47	275	493	2,134
Disposals		(115)	(60)	(315)	-	(490)
Exchange		(929)	(2)	(109)	(308)	(1,348)
At 31 December 2015		15,553	27	1,774	5,191	22,545
Charge for the year	11	498	51	536	97	1,182
Disposals		(1,325)	-	(5)	(275)	(1,605)
Exchange		-	-	-	-	-
At 31 December 2016		14,726	78	2,305	5,013	22,122
Carrying amount						
At 31 December 2015		5,827	546	1,188	1,196	8,757
At 31 December 2016		4,455	161	1,304	625	6,545

16. Deferred acquisition costs

$'000	2016	2015
Insurance contract deferred acquisition costs at 1 January	190,903	153,202
Expenses deferred	142,437	160,284
Amortisation	(156,356)	(122,583)
Insurance contract deferred acquisition costs at 31 December	176,984	190,903

Notes to the consolidated financial statements
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17. Reinsurance assets

$'000	Note	2016	2015
Non-life:			
Reinsurers' share of outstanding claims provision	26 i	246,089	257,214
Reinsurers' share of incurred but not reported provision	26 ii	188,479	197,052
Reinsurers' share of claims outstanding		434,568	454,266
Reinsurers' share of unearned premiums	26 iii	66,561	83,868
		501,129	538,134

18. Financial assets

a) Financial assets at fair value through profit or loss

$'000	2016	2015
Fair value (designated as such upon initial recognition)		
Debt securities and other fixed income securities	1,243,973	1,221,110
Holdings in collective investment schemes	670,490	743,864
Total financial assets at fair value through profit or loss	1,914,463	1,964,974

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

b) Carrying value of financial instruments other than derivatives

$'000	2016	2015
Fair value (designated as such upon initial recognition)		
At 1 January	1,964,974	2,050,817
Purchases	2,245,457	3,246,061
Disposals	(2,308,036)	(3,317,528)
Fair value profits (losses) in the statement of profit or loss	12,068	(14,376)
At 31 December	1,914,463	1,964,974

c) Listed investments

$'000	2016	2015
Debt securities and other fixed income securities	1,243,973	1,221,110
Holdings in collective investment schemes	611,535	672,769
Total listed investments	1,855,508	1,893,879

19. Derivative financial instruments

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

The derivative financial instruments represent the fair value of exchange traded bond futures contracts used to hedge duration risk, and forward contracts used to hedge excess foreign currency exposures. The derivative financial instruments held by the Group have not been designated for hedge accounting during the current and previous financial years as permitted by IAS 39.

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

	2016			2015		
$'000	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives at FVPL:						
Interest rate futures	52	(17)	230,215	10	(1,297)	328,038
Forward exchange forward contracts	933	(2,704)	294,708	272	(4,550)	235,882
Options	3	-	11,187	-	-	-
	988	(2,721)	536,110	282	(5,847)	563,920

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

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20. Fair value measurement

i) Valuation

The Group has classified its financial instruments as at 31 December 2016 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.

ii) Fair value measurement of assets

$'000	Level 1	Level 2	Level 3	Total
Valuation at 31 December 2016				
Debt securities & other fixed income securities	1,045,211	198,762	-	1,243,973
Holdings in collective investment schemes	334,823	335,667	-	670,490
Financial assets	1,380,034	534,429	-	1,914,463
Cash and cash equivalents	264,874	36,110	-	300,984
Derivatives	35	(1,768)		(1,733)
	1,644,943	568,771	-	2,213,714

$'000	Level 1	Level 2	Level 3	Total
Valuation at 31 December 2015				
Debt securities & other fixed income securities	626,621	594,489	-	1,221,110
Holdings in collective investment schemes	250,340	493,524	-	743,864
Financial assets	876,961	1,088,013	-	1,964,974
Cash and cash equivalents	258,920	15,062	-	273,982
Derivatives	(1,287)	(4,278)		(5,565)
	1,134,594	1,098,797	-	2,233,391

Notes to the consolidated financial statements
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20. Fair value measurement (continued)

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 2016 and 31 December 2015 there were no securities classified as Level 3 under IFRS.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2016:

$'000	2016	2015
Opening balance at 1 January	-	29,150
Realised gains and losses recognised in income statement	-	(752)
Sales during the year	-	(28,398)
Closing balance at 31 December	-	-

In 2016, the sensitivity of level 3 measurements to favourable and unfavourable changes has not been considered as there were no level 3 investments.

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

21 Insurance receivables

$'000	2016	2015
Debtors arising out of insurance operations	509,136	363,884
Debtors arising out of reinsurance operations	100,805	93,036
	609,941	456,920
Amounts due within 1 year	607,839	452,471
Amounts due in over 1 year	2,102	4,449
	609,941	456,920

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

22. Trade and other receivables

$'000	2016	2015
Loan (due in more than one year)	13,500	-
Other debtors	28,638	41,340
Accrued income	24,289	16,596
	66,427	57,936
Amounts due within 1 year	52,927	52,939
Amounts due in over 1 year	13,500	4,997
	66,427	57,936

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

The loan principal $13.5m, which is repayable in five equal annual instalments of $2.7m commencing in 2019, and accrued interest thereon $0.2m was tested by management for impairment at 31 December 2016 and management concluded that no impairment is required.

23. Cash and cash equivalents

$'000	2016	2015
Cash at bank and in hand	225,663	216,499
Short-term bank deposits - Overseas deposits	75,321	57,483
	300,984	273,982

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 $169.6 million (2015: $138.3 million) that are held in Lloyd's Premium and other trust funds supporting insurance liabilities. These assets are subject to restrictions under the relevant trust deeds and bank facilities.

24. Share capital

Authorised, issued and fully paid:	**At 31 December 2015**	**Changes in Issued capital**	**At 31 December 2016**
	number	number	number
Ordinary shares of 1CHF par value	100,000	-	**100,000**
Ordinary shares total	100,000	-	**100,000**
Share capital	$105,719	-	**$105,719**

Share capital of 239,100,000 US $1 shares was cancelled in full upon SCAG's redomiciliation to Switzerland on 2 September 2015 as described in Note 3.2. The post-redomiciliation share capital is as shown above. The share cancellation and movements of other reserves upon redomiciliation are shown in the consolidated statement of changes in equity.

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25. Insurance contract liabilities

$'000	Note	2016	2015
Non-life:			
Outstanding claims provision	26 i	956,450	958,095
Incurred but not reported provision	26 ii	772,422	768,554
Claims outstanding		1,728,872	1,726,649
Provision for unearned premiums	26 iii	566,025	595,003
		2,294,897	2,321,652

26. Insurance contract liabilities and reinsurance assets

i. Outstanding claims provision

	2016			2015		
$'000	Insurance contract liabilities	Reinsurance of liabilities	Net	Insurance contract liabilities	Reinsurance of liabilities	Net
Non-life:						
At 1 January	958,095	(257,214)	701,881	1,063,026	(361,047)	701,979
Movement during the year	36,867	1,767	38,634	(107,225)	52,433	(54,792)
Exchange and other adjustments	(38,512)	9,358	(29,154)	2,294	51,400	53,694
At 31 December	956,450	(246,089)	710,361	958,095	(257,214)	700,881

ii. Incurred but not reported provision

	2016			2015		
$'000	Insurance contract liabilities	Reinsurance of liabilities	Net	Insurance contract liabilities	Reinsurance of liabilities	Net
Non-life:						
At 1 January	768,554	(197,052)	571,502	773,169	(176,077)	597,092
Movement during the year	62,030	(8,224)	53,806	61,382	(7,503)	53,879
Exchange and other adjustments	(58,162)	16,797	(41,365)	(65,997)	(13,472)	(79,469)
At 31 December	772,422	(188,479)	583,943	768,554	(197,052)	571,502

It is estimated, using historical settlement trends, that $501 million (2015: $537 million) of the gross claims outstanding and incurred but not reported provision and $164 million (2015: $409 million) of the corresponding amount recoverable from reinsurers included in the above analyses, will settle in the next 12 months.

iii. Provision for unearned premiums

	2016			2015		
$'000	Insurance contract liabilities	Reinsurance of liabilities	Net	Insurance contract liabilities	Reinsurance of liabilities	Net
Non-life:						
At 1 January	595,003	(83,868)	511,135	587,476	(120,184)	467,292
Movement during the year	(26,288)	17,860	8,428	31,735	30,490	62,225
Exchange and other adjustments	(2,690)	(553)	(3,243)	(24,208)	5,826	(18,382)
At 31 December	566,025	(66,561)	499,464	595,003	(83,868)	511,135

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Year ended 31 December 2016

27. Insurance payables

$'000	2016	2015
Creditors arising out of insurance operations	106,147	45,760
Creditors arising out of reinsurance operations	272,449	241,662
	378,596	287,422

Creditors arising out of reinsurance operations comprise principally premiums payable for reinsurance, including reinstatement premiums and corporate member level quota share reinsurance premiums payable.

28. Trade and other payables

$'000	2016	2015
Other creditors including taxation and social security	45,289	74,189
Accruals and deferred income	69,940	66,817
	115,229	141,006

Trade and other payables include $ nil (2015: $6.1 million), in accruals and deferred income, payable after more than one year.

29. Pension benefit obligations

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

i Defined benefit scheme

The defined benefit pension scheme ("the scheme") was closed with effect from 30 June 2010 and all active members were treated as having left pensionable service under the scheme with effect from that date. A valuation of the scheme was undertaken at 1 January 2017 by a qualified independent actuary.

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

	2016	2015
	% per annum	% per annum
Discount rate	2.6	3.8
Expected long-term rate of return of scheme assets	2.6	3.8
Increase in salaries	n/a	n/a
Inflation assumptions	3.20	3.05
LPI pension increases (capped at 5% per annum)	3.20	3.05

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.

The scheme is operated by Canopius Services Limited, a subsidiary of the Group and current sponsor of the scheme. At 31 December 2016 the present value of the scheme liabilities (in $'000) was $13,593 (2015: $13,855) and the market value of scheme assets was $14,720 (2015: $16,241), giving a surplus of $1,127 (2015: surplus of $2,386) calculated in accordance with the requirements of accounting standards.

Notes to the consolidated financial statements
Year ended 31 December 2016

29. Pension benefit obligations (continued)

i Defined benefit scheme (continued)

The surplus was calculated based on the above assumptions in compliance with the requirements of accounting standards. The surplus is not recognised in the accounts. The latest triennial valuation prepared by the scheme Actuary as at 1 January 2017 on behalf of the Trustees of the scheme concluded the scheme was adequately funded.

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 2016.

ii Defined contribution plans

The level of contributions for the defined contribution plans generally varies between 5% and 26.32% of salaries. Contributions (in $'000) of $466 (2015: $712) 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.

30. Cash generated from operating activities

$'000	2016	2015
Net change in operational assets		
Net change in reinsurance assets	37,005	119,174
Net change in insurance receivables	(153,021)	35,004
Net change in other assets	(9,197)	3,059
Total	(125,213)	157,237
Net change in operational liabilities		
Net change in non-life insurance contract liabilities	(26,755)	(102,019)
Net change in insurance payables	91,174	(96,493)
Net change in other liabilities	(28,903)	31,401
Total	35,516	(167,111)

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

Notes to the consolidated financial statements
Year ended 31 December 2016

31. Risk management framework

a. Governance framework

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

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

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

b. Capital management objectives, policies and approach

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

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

c. Regulatory framework

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

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

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.

Notes to the consolidated financial statements
Year ended 31 December 2016

31. Risk management framework (continued)

c. Regulatory framework (continued)

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 state of New York has the largest minimum requirement at $46 million. Further, CUS maintains capital required by A.M. Best to support its current Financial Strength Rating of 'A- (excellent)'.

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

d. Approach to capital management

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

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

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

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

The Group has made no significant changes, from previous years, to its policies and processes for its capital structure.

Available capital resources

$'000	2016	2015
Total equity	812,775	765,907
Unsecured letters of credit facilities	512,862	618,000
	1,325,637	1,383,907

Available resources are approximately $541 million (2015: $767 million) in excess of the aggregate regulatory capital requirement within the Group at the balance sheet date.

Notes to the consolidated financial statements

Year ended 31 December 2016

31. Risk management framework (continued)

e. Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Group faces, due to the nature of its investments and liabilities, is interest rate risk. The Group manages these positions within an ALM framework that has been developed to achieve long–term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Group's ALM is:

- Integrated with the management of the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance and investment liabilities
- As an integral part of the liquidity risk policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts

32. Management of insurance and financial risk

Risk governance

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

Risk management and oversight begins with the 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 sub-committees. Functional risk reporting is escalated through the group 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 Underwriter reports aggregate information to the Board of Canopius Managing Agents Limited.

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

32. Management of insurance and financial risk (continued)

Risk appetite

Risk appetite is the articulation of the amount of risk from all sources that the Group is prepared to accept to meet its strategic objectives. It is determined with consideration of its philosophy towards risk taking and its financial and operational capacity, while at the same time recognising the need to generate returns on capital that are in line with shareholder requirements.

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

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

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

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

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

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

Risk control

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

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;

32. Management of insurance and financial risk (continued)

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

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.

Notes to the consolidated financial statements

Year ended 31 December 2016

32. Management of insurance and financial risk (continued)

Reporting

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

Regular internal reporting is provided to senior management and the Boards including (but not limited to); risk appetite monitoring, key risk indicators, Top Risk reporting, risk and control assessments/ Internal Control Framework, stress and scenario testing, emerging risk reporting, Own Risk and Solvency Assessments.

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

Insurance risk

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

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

Insurance risk appetite and tolerance

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

The Board seeks to mitigate insurance risk by analysing historical pricing and claims experience, setting a tolerance to concentration risk, monitoring performance, and conducting in-house 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.

32. Management of insurance and financial risk (continued)

Underwriting

The Group accepts insurance risk in a range of classes of business through its insurance underwriting entities: Syndicate 4444, Syndicate 958, 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 Group Underwriting Committee of Canopius Managing 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 exposure by class of business is carried out monthly and a review against the Group's catastrophe risk tolerance is carried out on a quarterly basis and reported to the Risk Committee and the Board.

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32. Management of insurance and financial risk (continued)

Reinsurance

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

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

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

There are a number of areas of uncertainty over the reinsurance assumptions. The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which reduce the recoveries made. The impact on profit before tax of a 1% deterioration in the total reinsurance recoveries would be a $4.3 million loss (2015: $4.3 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 $13.0 million gain/loss (2015: $13.0 million)

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. At 31 December 2016, of the Group's gross claims reserves, $1,274 million (70%) were attributable to Syndicate 4444, $261 million (14%) to Syndicate 958, $42 million (2%) to Syndicate 260, $92 million (5%) to Canopius US Insurance, Inc and $168 million (9%) to Sompo Japan Canopius Reinsurance AG. Corporate adjustments of $108 million are made to reduce the gross group share of the claims liabilities to $1,729 million.

The figures in the tables below are presented at the exchange rates prevailing at 31 December 2016.

32. Management of insurance and financial risk (continued)

Claims development tables (continued)

Underwriting year – Gross $m	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:											
At end of period 1	560	767	666	719	657	697	639	710	797	740	6,952
At end of year 2	583	766	721	872	678	658	623	667	756		6,324
At end of year 3	588	765	701	879	659	661	597	679			5,529
At end of year 4	587	769	693	897	661	645	588				4,840
At end of year 5	584	763	673	880	648	639					4,187
At end of year 6	581	768	662	869	643						3,523
At end of year 7	578	758	654	865							2,855
At end of year 8	571	761	660								1,992
At end of year 9	569	755									1,324
At end of year 10	569										569
Older years	149										149
Current estimate of cumulative gross claims	718	755	660	865	643	639	588	679	756	740	7,043
Cumulative payments to date	(551)	(710)	(604)	(799)	(547)	(500)	(424)	(365)	(249)	(60)	(4,809)
Gross claims outstanding	167	45	56	66	96	139	164	314	507	680	2,234
Unearned balance											(426)
Unallocated loss adjustment expenses											29
Corporate and other adjustments											(108)
Total liability											1,729

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32. Management of insurance and financial risk (continued)

Claims development tables (continued)

Underwriting year – Net $m	2007 and prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:											
At end of period 1	403	522	512	500	463	506	477	534	638	618	5,173
At end of year 2	419	512	524	566	479	480	486	507	601		4,574
At end of year 3	429	513	507	562	465	484	470	495			3,925
At end of year 4	428	510	495	568	466	465	463				3,395
At end of year 5	425	504	482	553	456	460					2,880
At end of year 6	419	501	474	545	451						2,390
At end of year 7	416	492	470	543							1,921
At end of year 8	414	496	471								1,381
At end of year 9	412	494									906
At end of year 10	412										412
Older years	42										42
Current estimate of cumulative net claims	454	494	471	543	451	460	463	495	601	618	5,050
Cumulative payments to date	(397)	(467)	(441)	(494)	(379)	(363)	(342)	(287)	(220)	(57)	(3,447)
Net claims outstanding	57	27	30	49	72	97	121	208	381	561	1,603
Unearned balance											(338)
Unallocated loss adjustment expenses											29
Corporate and other adjustments											-
Total liability											1,294

32. Management of insurance and financial risk (continued)

Operational risk

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

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

Group risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. The Group 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.

Financial risk

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

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

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

(a) Market risk

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

(i) Valuation

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

(ii) Market price

The Group invests in a unitised absolute return fund as well as an equity fund which had exposure to price risk on investments in equities at 31 December 2016 of $38.5 million (2015: $39.8 million) and price risk to hedge funds of $109.8 million (2015: $115.8 million).

The Group has additional exposure to price risk on a separate portfolio of hedge funds amounting to $6.5 million (2015: $8.4 million), which is controlled by a fund manager, which ensures that the portfolio is well diversified across a range of strategies.

32. Management of insurance and financial risk (continued)

Financial risk – market risk (continued)

(iii) Interest rates

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

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

By way of example, the value of fixed income investments in the Group's balance sheet at 31 December 2016 was $1,244.0 million (2015: $1,221.1 million) with an average duration of around 2.1 (2015: 1.8) years. If interest rates were to rise or fall by 100 basis points at the balance sheet date, the market value of the fixed income securities and therefore the profit after tax and equity would be expected to decrease or increase by roughly $21.6 million (2015: $16.0 million).

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

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

The Group neither held debentures loans at 31 December 2016 nor 31 December 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 (over a government bond of similar duration and currency) is referred to as the credit spread. While this spread may be influenced by the level of liquidity and demand for the corporate, it is typically taken to reflect the credit risk to the investor that the issuer may not make timely payments of capital or interest.

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

If credit spreads were to rise or fall by 100 basis points at the balance sheet date, the fair value of the non-government fixed income securities and therefore the profit after tax and equity would decrease or increase by roughly $13.5 million (2015: $16.5 million).

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

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Year ended 31 December 2016

32. Management of insurance and financial risk (continued)

(v) Exchange rates

The Group operates internationally and has exposure to foreign exchange risk. The Group seeks to hold its net assets primarily in US dollars (2015 in Sterling). 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"). The Group's consolidated financial statements are presented in US Dollars (the "presentation currency"). Accordingly, the Group has actively managed its non US dollar balance sheet exposures, which are predominantly against the Euro, Canadian Dollar and Sterling.

With effect from 1 January 2016, the Group changed its presentational currency from Sterling to US Dollars. As a result of this change, on 31 December 2015, the Group unwound all of its existing forward contracts in order to replace these in January 2016 with new hedges to manage its non US Dollar exposures. The net currency position at 31 December 2016 and immediately prior to unwinding the forward contracts at the end of 2015 was:

Income Statement 'at risk' exposures:

At 31 December 2016	GBP	EUR	CAD
	£'000	€'000	C$'000
Gross exposure	63,067	36,996	(30,134)
Hedging	(44,050)	(35,550)	30,474
Net exposure	19,017	1,446	340

At 29 December 2015	USD	EUR	CAD
	$'000	€'000	C$'000
Gross exposure	398,850	3,087	16,662
Hedging	(387,339)	-	(11,764)
Net exposure	11,511	3,087	4,898

As noted above, the Group changed its presentational currency from Sterling 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 decrease/(increase) profit after tax and equity by approximately $2.2 million for Sterling and decrease/(increase) profit after tax by approximately $0.2 million for Euro.

Notes to the consolidated financial statements

Year ended 31 December 2016

32. Management of insurance and financial risk (continued)

(b) Credit risk

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

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

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

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

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

At 31 December 2016 $'000	**AAA**	**AA**	**A**	**Other and/or not rated**	**Total**
Reinsurance assets	-	151,655	303,300	46,174	501,129
Reinsurance receivables	-	9,332	75,374	16,099	100,805
Debt and fixed income securities	712,337	104,365	292,693	134,578	1,243,973
Holdings in collective investment schemes	225,069	7,453	32,985	404,983	670,490
Cash and cash equivalents	32,766	8,147	46,717	213,354	300,984
Total	**970,172**	**280,952**	**751,069**	**815,188**	**2,817,381**

At 31 December 2015 $'000	**AAA**	**AA**	**A**	**Other and/or not rated**	**Total**
Reinsurance assets	-	161,263	374,800	2,071	538,134
Reinsurance receivables		4,355	18,024	70,657	93,036
Debt and fixed income securities	595,522	153,421	299,740	172,427	1,221,110
Holdings in collective investment schemes	226,207	29,374	4,575	483,708	743,864
Cash and cash equivalents	37,142	8,933	98,231	129,676	273,982
Total	**858,871**	**357,346**	**795,370**	**858,540**	**2,870,127**

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Year ended 31 December 2016

32. 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 2016 comprised:

$'000	2016	2015
Equities	10,858	6,605
Portfolio of hedge funds	21,177	124,208
BBB and below securities	88,202	194,197
A UCIT's fund on a look through basis:		
AAA securities	19,386	23,386
AA securities	71,897	26,173
A securities	40,119	29,765
BBB securities	37,401	46,130
Not rated securities	82,771	85
Fund equities	32,172	33,159
Total	404,983	483,708

Cash and cash equivalents under 'other and/or not rated' include $63.4 million (2015: $47.8 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 2016	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	47%	44%	2%	5%	2%	0%	501,129
Insurance receivables	100%						609,941
Financial assets at fair value	100%						1,111,070

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%	538,134
Insurance receivables	100%						456,920
Financial assets at fair value	100%						1,964,974

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32. Management of insurance and financial risk (continued)

(c) Liquidity risk

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

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

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

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

The contractual maturity profile of the Group's financial assets, cash and cash equivalents and long term receivable 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 2016 was as follows:

$'000	Loan	Debt and other fixed income securities	Holdings in collective investment schemes	Cash and cash equivalents	**2016** Total	**2015** Total
Less than one year	222	196,332	398,958	300,984	896,496	1,190,761
Between one and two years	-	250,338	13,101	-	263,439	327,154
Between two and five years	8,100	695,508	25,674	-	729,282	473,403
Over five years	5,400	50,505	39,317	-	95,222	164,336
	13,722	1,192,683	477,050	300,984	1,984,439	2,155,654
Other non-dated instruments	-	51,290	193,440	-	244,730	83,302
	13,722	1,243,973	670,490	300,984	2,229,169	2,238,956

The expected payment profile of gross insurance contract liabilities as at 31 December 2016 was as follows:

	2016	**2015**
	%	%
Less than one year	31	31
Between one and two years	26	22
Between two and five years	30	32
Over five years	13	15
	100	100
Average	2.6 years	2.7 years

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

	2016	**2015**
	Years	Years
Sterling	1.2	1.4
US dollar	2.3	1.8
Euro	1.2	1.4

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:

$'000	Group 2016		Group 2015	
	Land and buildings	Equipment	Land and buildings	Equipment
Not later than one year	4,297	752	4,567	752
Later than one year but not later than five years	11,080	472	4,986	472
Later than five years	-	-	1,173	-
	15,377	1,224	10,726	1,224

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, $1,335 million (2015: $1,348 million) are held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit. These assets are subject to restrictions under the relevant trust deeds and bank facilities, of which $1,176 million (2015: $1,210 million) are financial assets and the balance is cash and cash equivalents.

(b) Deeds of Indemnity

During 2016, the Group's potential liability under one Deed of Undertaking and Guarantee with a third party funds at Lloyd's ("FAL") provider on behalf of Canopius Capital Twelve Limited, which covered potential liabilities in the event that the third party FAL provider's FAL, amounting to $9.3 million was drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement, effectively expired during 2016 due to the release of all of the third party's FAL. There is one (2015: two) remaining Deed of Undertaking and Guarantee with another third party FAL provider that covers a potential amount of $28.8 million (2015: $45.2 million).

During 2016, the Group entered into two (2015: one) new Deeds of Indemnity with Lloyd's, bringing the total to eighteen (2015: sixteen). Five (2015: 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 thirteen (2015: eleven) Deeds are to cover remote potential liabilities that may arise following the release by Lloyd's between 2006 and 2016 of various members' FAL.

(c) Bank facilities

As at 31 December 2016, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

- $513 million (2015: $618 million) unsecured, which is available to support underwriting on Syndicate 958's 2015 year of account and Syndicate 4444's 2015, 2016 and 2017 years of account.

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

- Letters of credit totalling $6.3 million (2015: $15.1 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 $8.4 million (2015: $17.9 million).

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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 eleven (2015: thirteen) persons. Two (2015: two) of the key management persons were 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'.

$'000	2016	2015
Short-term employment benefits	6,416	10,199
Post-employment benefits	108	40

Loans to related parties

Non-interest bearing season ticket loans made to directors and members of key management during the year amounted to $nil (2015: $15,298) of which $nil (2015: $12,250) was outstanding as at 31 December 2016.

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).

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

Guy Carpenter & Company Limited performs insurance services for the Group and for third parties conducting business with the Group companies. The lead Guy Carpenter executive in respect of certain of these services, for which the Group companies paid Guy Carpenter fees amounting to $253,125 (2015: $191,250), is the partner of Mr. Michael Watson, a director of the Group.

On 11 February 2016, SJC Re invested $13.5m in a senior loan to Weston Insurance Holdings Corporation ("Weston") and Mr. Michael Watson was appointed to the Weston board.

Sompo Japan Nipponkoa Insurance Inc, the immediate parent of the Group, has reinsurance arrangements in place with the Group companies. The total ceded premium for these relationships at the end of 2016 was $5,442,909 (2015: $3,678,170).

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36. Subsequent events

Sompo Holdings, Inc ("Sompo Holdings") is the ultimate parent undertaking and controlling party of SCAG. In October 2016, Sompo Holdings announced that it is to acquire Bermuda-based Endurance Speciality Holdings, following its Japanese peers by making a sizeable acquisition to expand its exposure to the United States where growth prospects are stronger than in the Japanese market. The acquisition of Endurance closed on 28 March 2017 and Endurance has been rebranded Sompo International. Sompo Holdings continues to review a range of potential options for the future of Sompo Canopius, but a final decision has yet to be taken.

On 10 February 2017, the Group entered into an agreement in principle to sell substantially all the business assets of its UK motor, marine, leisure and household EDI insurance broker business for $4.7m. The transaction was completed on 31 March 2017.

On 27 February 2017, the UK's Lord Chancellor announced a reduction in the applicable discount rate for valuation of personal injury awards from 2.5% to negative 0.75%. This has an adverse impact on all UK lump sum payments that include loss of earnings. SCAG has assessed the impact of this change and for its UK operations the booked reserves at 31 December 2016 exceed that required for an external Statement of Actuarial Opinion. The estimated net cost to SCAG is $11.0m.