

CANOPIUS GROUP LIMITED

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2021**

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Key Statistics¹

	2021 \$m	2020 \$m
Total shareholders' interests	1,248.3	1,139.1
Tangible net asset value (TNAV) ²	1,092.7	973.1
Tangible financial resources ³	1,593.1	1,373.1
Gross premiums written	2,220.0	1,949.4
Net premiums earned	1,661.6	1,544.4
Profit/(loss) after taxation	44.9	(242.3)
Net loss ratio ⁴	57.4%	77.8%
Combined ratio ⁴	96.7%	119.3%

Net premiums earned represent 'net premiums written' (being premiums written gross of acquisition costs and exclusive of premium taxes; less reinsurance premiums payable) and the change in gross and reinsurers' share of unearned premium before the loss portfolio transfer of \$470m.

The net loss ratio is calculated by dividing 'net claims incurred' (being net claims paid and the movement in net claims reserves) by 'net premiums earned'.

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

¹ Amounts presented are determined from the financial statements except as noted below.

² The tangible net asset value (TNAV) represents total equity attributable to equity holders of the parent less intangible assets and deferred tax liabilities on intangibles.

³ Tangible financial resources represent tangible net asset value (TNAV) plus drawn unsecured letter of credit facilities, as per note 35(c).

⁴ Net loss ratio and combined ratio exclude the impact of reinsurance to close ("RITC") of \$41m (2020: \$18m) on both net claims incurred and the net earned premium and the impact of the Loss Portfolio Transfer ("LPT") agreement Canopius Group Limited entered into in 2021 of \$470m on net claims incurred and net earned premiums.

Chairman's Statement

Results

2021 witnessed a welcome return to profitability for Canopus after the challenges presented by Covid-19 claims in 2020. This was despite 2021 being the fourth worst ever catastrophe year for the industry, which included Winter storm Uri in February, record European floods in July, Major Hurricane Ida in August, and exceptional tornadoes, principally in Kentucky, in December. There were also other notable large risk losses such as the riots in South Africa. Against this backdrop, Canopus was still able to report an underwriting profit thanks to very positive underlying attritional loss ratio performance. Significant thanks are due to Mike Duffy and his disciplined underwriting teams for all of their portfolio remediation work over the past few years. It was also very pleasing to see the strong growth and profitability achieved in our expanding United States & Bermuda and Asia-Pacific operations and the rapid development of our digital distribution platform, Vave, which commenced trading as an MGA in July 2021.

Culture

The impact of Covid-19 remained with us throughout 2021 – although mercifully it did not adversely impact the company financially. Our Covid reserves remained stable. Against this backdrop our colleagues persevered and prospered. In all parts of our organisation around the globe, Canopians demonstrated their resilience and ability to adapt. Flexible working is now second nature at Canopus.

The challenges of the protracted pandemic brought out the best in our colleagues. Core to our distinctive and positive culture is being kind, caring, open and honest. Time and again I witnessed these values being lived proudly, not least by those who worked tirelessly to support our colleagues' mental health. Thanks to our Mental Health First Aiders and our expanded benefits, we can truly say that psychological wellbeing is an important part of the Canopus culture.

Our Inclusion & Diversity Network also blossomed in 2021. Created as an employee-led initiative in 2020, our Network now includes colleagues from all of our locations around the globe and supports a wide programme of education and engagement. The Network spearheaded many positive changes to how we approach business including changes to our recruitment process, the launch of an apprenticeship programme, and benchmarking to help us track our progress in making Canopus a more inclusive and diverse business.

I am also proud to see a comprehensive assessment of where Canopus stands in regard to ESG in this report; our ability to develop a robust ESG strategy will be core in our efforts to attract and retain talent, business and capital in the years ahead. As well as our ongoing work to build a more diverse and representative workforce, we have outlined how we are supporting our clients in their ongoing and demonstrable transition plans to reduce their greenhouse gas (GHG) emissions. We also detail how Canopus continues to adhere to fair, transparent and robust governance processes.

Leadership transition

At the end of 2021 I relinquished my role as CEO and handed over my executive responsibilities to Neil Robertson whom we welcomed to Canopus in May 2021. Neil is a well-seasoned operator in the world of specialty insurance and reinsurance and brings more than 30 years' experience to Canopus. I am confident he will contribute fresh energy and ideas to the Group whilst building on our existing talent and distinctive culture. In the short period that Neil has been with Canopus he has conducted a thorough review of our strategic direction and operating model. He has also installed a new and talented Leadership Team which includes both existing members of Canopus along with several high calibre new recruits including Gavin Phillips as Group CFO, Kate Roy as Group COO, and Lindsay Astor as Group Chief of Staff and Head of Strategic Development.

Our new target operating model was implemented on April 1st of this year, organised around four global product groupings and three regional business units – the UK, United States & Bermuda, and Asia-Pacific - led by Sarah Willmont, Lisa Davis and Mark Newman respectively. Collectively they will strive to deliver profitable growth with reduced volatility for Canopus. Neil's Chief Executive's report sets out these changes in more detail, along with key near-term priorities for the Group.

Chairman's Statement (continued)

Outlook

At the time of writing, the unfolding events in Ukraine are giving rise to unspeakable humanitarian conditions the like of which the world has not witnessed for decades. Our thoughts and prayers are with the innocent victims of this appalling conflict. The wider fall-out is resulting in significant economic volatility and political uncertainty. Whilst the eventual outcome of these events is very unclear at present, it will undoubtedly have some adverse impact on our industry, including Canopus. Despite these uncertainties, Canopus is well-positioned to grow and prosper in 2022. Market conditions remain generally supportive of growth through both rate and exposure, although against this favourable background, we remain wary of the challenges posed by rising inflation. We are also reducing our catastrophe exposures with a view to generating more stable earnings.

Under the new Leadership Team that Neil has established, Canopus is entering an exciting next stage in its evolution. The vision Neil has set out puts us firmly on the path to becoming a truly international specialty (re)insurer that will deliver more sustainable and consistently profitable returns for our shareholders. As we bring about these changes, the Board recognises the importance of sound governance and effective risk management and will continue to ensure that the organisation is executing on its global growth strategy, successfully implementing our agreed target operating model, maintaining our obsessive focus on portfolio optimisation, engaging the best talent and promoting a positive and distinctive culture.

I thank our colleagues for all their hard work and dedication throughout the past year. I look forward to continuing to support them and Canopus more broadly in my continuing capacity as Chairman. Although proud of what we have built together at Canopus over the past 20 years, I am even more excited about what lies ahead!



Michael Watson
Group Chairman

Chief Executive's Statement

Dear Shareholders,

I am delighted and honoured to be presenting the Canopus Group 2021 results as the new Group Chief Executive Officer of Canopus.

While I did not oversee the business in 2021, having joined as Deputy CEO in May 2021, I did spend time getting to know the business and our employees over the calendar year. I was initially struck by the professionalism, energy and above all the passion for the success of Canopus that I found. I continue to learn a lot from my new colleagues.

I would also like to recognise the enormous amount of hard work that the entire team put into the calendar year past. A sincere thank you to each and every one of my colleagues for their contributions.

Results

In 2021, the Canopus Group made a profit after tax (PAT) of \$45m. This resulted in a return on equity of 3.7%.

Canopus' catastrophe losses amounted to \$202m in the calendar year, in what was the fourth worst ever catastrophe year for the industry.

Overall, it is a result I am disappointed by. Part of this disappointment is borne out of frustration that it camouflages a positive story of sound progress towards our becoming a better business in which I take great heart.

Our attritional loss ratio was 44.3%, a significant improvement on the 50.9% achieved in 2020. This is testament to our strong underwriting fundamentals of pricing and risk-selection. The remedial work that our underwriters have undertaken these past couple of years has created a strong foundation for future profitable growth. In fact, when stripping out lines of business we have exited, we have grown nearly 25% in the areas in which we seek to deepen our penetration.

However, we are and remain, very exposed to natural catastrophe risk and the inherent volatility that creates. We must and will continue to take steps to mitigate that reality, whilst not diminishing our respected capabilities as a market of repute in that space.

Our finance teams' hard work was also borne out in these results. Expenses are in line with our expectations and through the sale of tax assets and utilising tax losses, we have delivered \$17m of tax benefits.

Strong progress was made on the balance sheet, with a \$583m portfolio transfer of legacy reserves completed on business that we have discontinued (at 100% syndicate level: \$664m). This transfer considerably enhances our capital flexibility and removes substantial risk of adverse deviation.

Ambition for the coming years

I will let my colleagues share more details about our 2021 financial and underwriting performance further into this report. As newly appointed Group CEO, my job is now to deliver on the promises we have made to our key stakeholders, and I would like to outline how I think we can achieve this in the coming calendar year.

My first project in my new role was to reassess and redesign Canopus' growth strategies, its target operating model and our cultural direction to ensure that we are set up to deliver our promises. We want to have a positive and winning culture at Canopus. If we want to be able to win, we must all be able to stand behind our ability to deliver.

Chief Executive's Statement (continued)

Ambition for the coming years (continued)

We have recently completed a comprehensive reassessment of the business and have drawn up a plan that will see Canopus evolve into a truly international Specialty and P&C (re)insurer driven by a global underwriting focus, with three empowered regional Business Units (BUs) in the UK, United States & Bermuda and in the Asia-Pacific region.

I want to ensure that we create a business that has effective decision-making forums, clear accountabilities for every employee, and greater operational resilience.

Furthermore, I want to ensure that we do not lose what makes Canopus a great place to work. I was drawn to this business in no small part due to its distinctive and positive culture. If we are to attract and retain the best talent in the market, we need to continue to embrace what makes us special.

This year we are asking all our colleagues to assume responsibility, own outcomes, and seize opportunities. We want them to be authentic to themselves, and to be kind, caring, open and honest – we want them to embrace their individuality and bring their whole selves to work. If we can do this, we will continue to create a flexible workplace, underpinned by our values and rooted in a positive, winning culture.

A new Target Operating Model for the Canopus Group

To achieve our ambition, we need to have a target operating model which enables our business to thrive. We need to create a structure that allows us to build the business we want to be; where employees have clear accountabilities, where duplication is minimised, and which puts *strategy* at the heart of financial and operational planning.

Guided by the findings of our assessment, we believe a “matrix model” is the optimal approach for Canopus to achieve this. This is an organisational model that creates a balance between our global product offering and our regional Business Units (BUs). A matrix model involves a degree of healthy tension - but when the balance is right the organisation becomes more agile, resilient, and effective.

In this model, global products will help drive underwriting excellence and consistency, and the regional BUs will drive our market-facing strategy and local execution.

We will not be making any immediate changes to our operating company boards or regulatory accountability in the short term. This is in part to make sure we get it right the first time, but also to ensure that we make any changes as part of the process to ensure good corporate governance is embedded in the organisation.

A renewed focus on goal setting

In the year ahead, there will be an increased focus on ensuring that all our colleagues are clear on what we are trying to accomplish and why. We will be offering a more explicit understanding of how each individual performance contributes to the company delivering on the promises we have made to our key stakeholders.

It's been my experience that clarity leads to a greater sense of empowerment and accountability – and ultimately to job satisfaction. There will be ever-changing dynamics to our world and our work environment and there will always be things which happen outside our control. But if we know exactly what we are aiming for, we can focus on our priorities and in so doing achieve both our quantitative and qualitative plans.

Ambitious plan to take advantage of huge potential

Our plans for Canopus are ambitious, but we must aim high if we are to create the business and the culture we want to be.

Chief Executive's Statement (continued)

Ambitious plan to take advantage of huge potential (continued)

We are aiming for a substantial increase in turnover in the next three years, across three international hubs. This profitable growth ambition is to increase our enterprise value – our work and investment into our new operating model is to assist us in reaching this ambition, in making us more operationally resilient and robust.

My ambition for Canopus is to be a strong, resilient and admirable company with the right framework, structure and culture to:

- Attract, retain, and develop the best talent – people who propel this business forward and drive our strategy
- Win choice business which matches our appetite and helps us achieve our short and long-term financial goals
- Secure capital and shareholder partners who are supportive of our ambition and allow us to capitalise on opportunities

With these aims front and centre, we believe we are building a winning business that delivers profitable and sustainable results. We are looking forward to you being part of this journey with us.



Neil Robertson
Group CEO

Chief Financial Officer's Statement

I am delighted to present my first Chief Financial Officer's statement, having joined Canopus Group at the start of 2022.

As I thought about my first report, I looked back to the comments made by my predecessor, Nigel Meyer, in the 2020 financial statements and have copied directly to remind the reader of his reflections:

"The effects of the worldwide pandemic, continuing low levels of investment return and the impact of record-breaking weather event frequency mean 2020 has been a very challenging year for the insurance market and for the Canopus Group."

And as I write my comments a year on, while there are positive signs as we learn to live with the pandemic, I unfortunately have to repeat the same messages as a year ago. We now face sickening and tragic events in Ukraine which I need to say no more about in this report, but the challenges of which we must face as a global community.

The one difference however to the 2020 report is that notwithstanding these events, our financial results for 2021 have generated a profit after tax of \$45m (2020: \$242m loss). This is pleasing, though we recognise we have more to do to achieve what our shareholders, directors and management aspire.

And before getting into more detail, I recognise that while we have one of the leading Syndicates in Lloyd's of London by capacity and write most of our business through Lloyd's, as a leading P&C CEO recently commented "the only number which matters is the calendar year outturn". This is our focus through 2022.

Underwriting returns

Towards the end of December 2021, we completed a \$583m Loss Portfolio Transfer (LPT) reinsurance deal with RiverStone (at 100% syndicate level \$664m). The agreement covers the majority of classes of business no longer written by Canopus' Syndicates and will see RiverStone's Syndicate 3500 indemnify Canopus against potential losses in respect of the covered liabilities. This transaction allows us to focus on our core business and release capital to reinvest in support of our future growth aspirations. My analysis below excludes the impact of the LPT as this has a distorting effect on ratios and the year in aggregate.

In the year 2021, our gross written premiums were \$2,220m and we had net earned premiums of \$1,662m. Our disciplined approach to underwriting and improving the composition of the portfolio has continued and has seen us shrink our presence on exiting classes which do not meet our profitability criteria. At the same time, we are seeing further improvements in rating conditions across the insurance market, with the 2021 rate change on our renewing premium of 10.1%, which had a positive impact on our underwriting performance.

As in the prior year, 2021 saw a very active hurricane season (most notably Hurricane Ida, which alone cost the Group \$84m); but we also were impacted by weather related losses including in February Winter Storm Uri (\$25m); in July the European floods (\$29m); and in December, the Kentucky tornado damage, which resulted in initial estimated Group losses of \$21m.

In aggregate, our catastrophe related losses were \$202m in the year which were materially above our plan estimates.

However, notwithstanding these catastrophe losses, we were able to achieve a 96.7% net combined ratio (119.3% in 2020), driven largely by a very strong non-catastrophe attritional loss ratio of 44.3% which has continued to fall from the 55.5% we saw in 2019 and 50.9% in 2020. Our attritional loss ratio is an important measure of performance for our underwriting activity and also includes the impact of a \$24m net loss from the South African riots in July 2021. The improvement in this ratio has been driven by three key factors.

CFO Statement (continued)

Underwriting returns (continued)

Firstly, our underwriting discipline is translating to a lower attritional loss ratio. Secondly, we remain a business, like many others, where it will take a little longer to reflect good news in our reserving as opposed to bad news. We have seen positive prior year development in our reserves of \$58m (2020: \$18m prior year adverse development) in the year (a 3.5% benefit to our GAAP combined ratio).

Finally, this year has seen a more benign COVID-19 outturn after the \$225m of (net) claims contributing 14.7% to the 2020 results. Movement in COVID-19 reserves in 2021 has been minimal, and the level of paid claims versus incurred claims remain relatively low.

Investment activity

Our investment result for the year (including mark to market adjustments) was \$15m, a return of 0.5% (2020: \$51m, 2%). The year on year reduction in our investment result is largely attributable to significant yield increases at the front end of the US Treasury yield curve which, in the context of a low starting yield environment, led to traditional core bond mandates performing poorly. In addition, credit spreads widened slightly over the year leading to further valuation pressure.

The Group remains defensively positioned with 93% (2020: 94%) of invested assets comprising cash and core fixed income securities. At 31 December 2021 93% (2020: 93%) of the portfolio was investment grade with a total portfolio weighted average duration of 1.0 year (2020: 0.7 year). This strategy of continuing to manage the portfolio short of duration versus our liabilities, whilst also seeking credit exposure via rotation of over \$600m from cash into additional positive returning floating rate securitised assets (such as AAA and AA CLOs), has helped support investment performance in this tough market environment.

Inflation continued to run higher than expected through the end of 2021, with headline CPI near 7% and the Federal Reserve's preferred measure (core Personal Consumption Expenditures) running north of 4.5%. A combination of supply side shocks continued to ripple through the economy and abundant stimulus on both the monetary and fiscal sides created the environment for a sustained, high rate of inflation.

Notwithstanding the developments in Ukraine, the market view is that central banks will continue to lift rates further and in a systematic way to try and get inflation back under control. As a result, there has been continued yield increases priced in at the front end of the curve which, alongside a risk off tone to credit and equity markets, has put the Group's investment portfolio under pressure in 2022. However, moving forward, these higher forward-looking yields should offer the potential for higher investment income in the Group's investment portfolio over the coming years.

We will continue to pursue a strategy of exercising caution while seeking opportunities to drive improved returns where they can be found.

Balance sheet strength

Despite the negative impact of the catastrophe losses incurred in 2021, the balance sheet of the Group remains strong. We closed the year with tangible net assets of \$1,093m, up from \$973m at the end of 2020, and with a healthy surplus of financial resources over our regulatory capital requirements.

Our tangible net asset value benefited from a further capital contribution from our shareholders in January 2021 of \$65.5m, giving further evidence of their confidence in the Canopus business and in the prospects for our market more generally.

The strength of the balance sheet is underpinned by a robust reserving process and a well-resourced and skilled actuarial team.

CFO Statement (continued)

Balance sheet strength (continued)

Looking forward

In his CEO remarks, Neil Robertson talks positively about the outlook for the business and I am fully in agreement with the opportunities for the Canopus Group. I am also delighted, having spent time with our shareholders, that they are giving us the support to grow this business and move Canopus from within to the front of the pack.

So, looking back at 2021, we have faced a plethora of challenges and delivered a decent profit after tax. The pandemic remains with us, the hurricane season and other natural catastrophe events were not kind to us. But the underlying improvement in our attritional loss ratios shows we are heading in the right direction and we will continue to reduce and/or exit lines if we feel the risk and reward equation isn't satisfactory.

Our investment return remains under pressure, but as ongoing events illustrate only too starkly, our prudent and well-judged approach to deployment of invested assets, limited volatility and rising yields will serve us well in an uncertain period.

We navigated a very challenging 2020. We moved forward in 2021 with both the existing and new members of the management team and are aligned to executing the strategy we are pursuing to deliver an improved set of results in 2022.

Finally, can I say to all in the Finance team, and the wider Canopus Group, a massive thank you for all you have done in 2021 and your support as I begin my time with you in 2022.

A handwritten signature in dark ink, appearing to read 'Gavin Phillips', is shown on a light-colored background.

Gavin Phillips
Group CFO

2021 Underwriting Review

Having adjusted from the trials of COVID-19, Canopus entered 2021 with rate adequacy across virtually all our lines of business and a renewed sense of purpose.

There was a lot to be positive about in 2021 from an underwriting perspective. Encouragingly, all three of our regional platforms (UK, United States & Bermuda and Asia-Pacific) recorded a profit. I would like to take this opportunity to thank our global underwriting and support teams for their hard work and diligence during 2021.

Gross written premiums (GWP) during 2021 increased by 13.9% to \$2,220m (2020: \$1,949m). Furthermore, rate change was better than planned at 10.1%, in no small part a result of the rapidly hardening cyber market.

Our 2021 net loss ratio improved by over 20% to 57.4% (2020: 77.8%).

Catastrophe and non-catastrophe performance

In 2021, global catastrophe activity continued at materially elevated levels, with a notable 'book ending' of events. Our catastrophe loss ratio added 12.3% (2020: 12.2%) with the most significant as follows

- In mid-February 2021, Winter Storm Uri descended across widespread areas of the United States, causing blackouts to 10 million people, particularly in Texas (\$25m)
- In July, Western Europe experienced devastating flooding, most notably in European Storm Bernd (\$29m)
- In late August, on the 16th anniversary of Hurricane Katrina, Hurricane Ida landed as a Category 4 in Louisiana with sustained winds of 150mph, the second most damaging in the state's history (\$84m)
- Finally, in December, when most observers hoped for a peaceful run in to year end, Kentucky experienced an enormous long tracked tornado system with winds of 190mph (\$21m)

As an industry, we must face the realities of climate change, increasing density of demographic in catastrophe-prone areas and recognise that confidently pricing these risks is becoming more challenging. Canopus continues to work diligently in this regard and will continually adjust as necessary.

As has been noted in previous reports, our non-catastrophe loss ratio has been a particular area of focus as it is the bedrock of our overall performance. In 2021, we improved this ratio again by 6.6% to 44.3% (2020: 50.9%), building on the 4.6% improvement delivered in 2020 (2019: 55.5%).

2021 underwriting highlights, looking to 2022

Buoyed by the improvements in our underlying loss ratios, we saw profitable performance from nearly all our product lines, with standout performances from our Credit & Political and Crisis (CPC) teams, Marine and our D&F/Specie teams, all recording net combined ratios of 85% or less.

Our underwriters in the Asia-Pacific region also had an outstanding year in 2021, recording a net combined ratio below 78%.

Canopus writes a diverse group of products and as such, growth in 2022 within each of our regional businesses is planned from careful iterative development.

We still believe the rating environment will be positive, but the upward pace of change is likely to be less marked than in either 2020 or 2021 - particularly when weighted for underlying inflationary pressures, whether social or from labour and materials.

2021 Underwriting Review (continued)

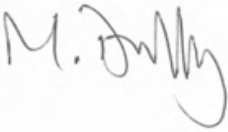
Digital underwriting focus

One area of exciting promise is our home-grown algorithmic underwriting MGA, VAVE. VAVE offers a suite of white-labelled API services that produce bindable quotes, allowing distributors to access products electronically, and bind and service them in real time. The VAVE 'engine' is now successfully providing cover for smaller business in the US Homeowner, Commercial and Flood markets.

VAVE grew steadily until 2020 during its 'proving phase' but after a successful full first year, is expected to write up to \$150m in 2022. Underwriting capital, initially from Canopus, has now been materially augmented by our three new external partners. Since 1 July 2021, VAVE has operated as a separate MGA to better support its growth trajectory.

VAVE now holds over \$2tn of detailed risk-level exposure and claims data that informs the pricing algorithms. This has led to 20% lower attritional loss costs and mitigated the impact of natural catastrophes.

Building on the success of VAVE, Canopus is now in full development of Canopus Digital Products (CDP) which was born to serve the 'in house' needs of the various Canopus lines. Starting in 2022, CDP is creating new products and services through a digital lens to improve our offering to both our broker partners and clients.



Mike Duffy
Group Chief Underwriting Officer

Stakeholder Engagement

In 2021, the Canopus Board undertook a variety of activities to engage with stakeholders and bring their voices into the boardroom.

Shareholders

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

The Canopus leadership team meets with our shareholders on a quarterly basis, engaging openly and collaboratively.

Colleagues

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

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

In 2021, we continued to develop the Canopus Inclusion & Diversity (I&D) Network. The Network is an employee-led group, supported by the Board and the Executive Committee, and is empowered to identify any facets of our business that might impede Canopus' commitment to create a working experience which gives everyone the freedom to perform and to bring their whole selves to work. It was also created to ensure that we are doing all we can to engage a diverse population of recruits, employees and business partners. More information can be found on page 20.

In 2021, the business created a UK apprenticeship programme, hiring four full-time apprentices across several disciplines who are gaining industry-accredited qualifications while also gaining on-the-job experience. In 2022, Canopus plans to continue the programme in the UK by hiring a further eight apprentices.

Policyholders

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

Canopus operations worldwide are committed to providing a good service and complying with local requirements with regards to the services provided to our policyholders. Where Canopus places business through partners such as brokers, coverholders etc. we endeavour to work with those who also share a similar ethos as Canopus when dealing with policyholders.

Although at times working remotely, Canopus and its group subsidiaries remain open for business to serve our broker partners and policyholders and continue to operate seamlessly, offering new business and renewal quotes, and handling claims promptly and fairly. Where we rely on third party service providers, we have done all we can to make sure they are also able to service our policyholders without any significant disruption.

Insurance regulators in various jurisdictions have issued guidance to insurers to support policyholders who continue to face challenging circumstances during this time. We remain fully committed to treating all our policyholders fairly and complying with all applicable regulatory requirements.

Stakeholder Engagement (continued)

Regulators

CGL is domiciled in Jersey with all regulated business carried out by its subsidiaries who ensure they comply with the relevant local regulatory requirements, for example Canopus Managing Agents Limited (CMA), a subsidiary of CGL, is regulated by the Prudential Regulation Authority ("PRA"), Financial Conduct Authority (FCA) and Lloyd's and as such CMA is responsible for ensuring compliance with the requirements of these regulators.

Community

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

Canopus has ensured that employees have the time and space to engage with their local community by entitling everybody to two community days leave per year. In 2021, much of our in-person community engagement continued to be curtailed due to COVID-19 restrictions, but Canopus encouraged all staff to continue to take community days to support their own local communities during the pandemic. We also offered staff the opportunity to take part in virtual volunteering exercises.

A major goal of the aforementioned I&D Network is to engage with community. In 2021, the special interest groups began planning to increase Canopus' engagement, particularly with young people from diverse backgrounds through partnerships with a number of community organisations.

Canopus management has set aside a portion of its budget each year to not only donate to worthy causes, but also to facilitate employees' ability to donate, participate and engage with their local communities and local charities.

In 2021, we donated almost \$50k to around 30 local community causes championed by our employees globally. Furthermore, in 2021 we supported employees in raising more than \$15k for our "charities of the year", Sistah Space and Switchboard LGBT+, through various fundraising activities.

Environmental, Social and Governance Focus

Overview – our work to build a better business

Environmental, social and governance (ESG) matters are core to Canopus' strategy. Our aim is to support the financial sector in driving positive change, including but not limited to the transition to net zero, ensuring we have a diverse and representative workforce, and fair, transparent and robust governance processes.

ESG forms a critical part of one of our five Canopus Group Goals for 2022:

'Strengthen Canopus' culture around strategic planning, innovation, data & analytics and ESG. We see the development of a robust ESG strategy as core to our being able to attract and retain the best talent, business and capital.'

We currently consider ESG through four key lenses – Risk, Underwriting, Investments and Corporate Governance. We take a balanced view and look holistically at the 'E', 'S' and 'G' across these four lenses. Canopus will ensure our arrangements and policies are consistent and coherent and to build out our ESG capability beyond climate change.

Looking to 2022, our ambition is to further strengthen our ESG commitments by hiring a dedicated Head of ESG to build out an umbrella strategy. This strategy will take into account our current Risk, Underwriting, Investment and Corporate Governance ESG policies, but will also inform them and create greater clarity, direction, cohesion and accountability within our organisation.

We are also looking to hire a Head of Responsible Underwriting in 2022 to further align our underwriting strategy with our ESG strategy with an aim to provide our underwriters with better data and tools to drive informed decision making.

Our strategy and KPIs will continue to develop as we respond to, and deepen our knowledge of the changing landscape, but we are firmly committed to setting corporate objectives that put ESG at the heart of our decision-making processes and throughout this year we expect to be able to report meaningful progress.

ESG – Regulation & Risk

We are keeping abreast of and responding to the evolving regulatory environment, specifically the heightened focus on climate change.

We are aligned with the requests from regulators. We believe setting a strong ESG framework is part of the daily course of running a sound business, understanding and responding to risks and opportunities, protecting and enhancing shareholder value and demonstrating corporate responsibility.

Canopus is committed to meeting all regulatory requirements globally and has developed a group-wide climate risk framework to ensure all requirements are met. In 2021, we have continued to make progress against the requirements of PRA SS3/19 (climate risk management).

Canopus has been tracking against its action plan which was developed following a gap analysis against the SS3/19 requirements which are split into four key areas (Governance, Risk Management, Scenario Analysis and Disclosure). Several elements have already been in place for some time, but we have significantly progressed the development of our Climate Risk Framework in the past twelve months.

Key milestones have been achieved to help ensure climate risk is now better understood by Canopus, to better support decision making and risk management and allowing us to meet external stakeholder expectations, including those of regulators. This includes:

- Climate risk strategy Board workshops to discuss responsible underwriting and investment strategies, and create positive discussion towards the development of a net zero commitment by the business

Environmental, Social and Governance Focus (continued)

ESG – Regulation & Risk (continued)

- Developing and articulating our climate risk appetite, along with qualitative and quantitative tools for monitoring
- Scenario analysis has been performed (aligned with the Bank of England's Climate Biennial Exploratory Scenario (CBES) and discussed by management and Board, including mitigation plans
- Climate risk governance and policy is in review with defined roles and responsibilities for Board and Committee terms of reference
- We have made a commitment to future climate disclosures (TCFD aligned) through ClimateWise membership, which also involves participation in industry projects on key topics (e.g. net zero underwriting). ClimateWise is a global network of leading insurers, reinsurers, brokers and industry service providers which share a commitment to reduce the impact of climate change on society and the insurance industry.

Progress has been made against all requirements outlined above, but there is still more work to do in 2022. Climate risk management is a quickly evolving area and so our framework will need to further embed and develop over time, particularly as more data becomes available, tools improve, and good market practices emerge.

As we move through 2022, our key objectives consist of:

- further engagement on ESG and climate change matters with our key stakeholders, particularly our customers and business intermediaries
- further enhancements to the data and tools used within our climate risk framework to enable better assessment and management of climate change risks and to support the business to identify sustainable growth opportunities,
- develop enhanced climate and ESG related reporting and MI to support business decision making.

ESG – Investments

Canopus' approach to incorporating ESG into investing is codified in its periodically refreshed Responsible Investing Policy, which has been developed with specific reference to the UN Principles for Responsible Investment (UN PRI) guidance and UK Stewardship Code guidance.

Canopus predominantly invests via a range of outsourced investment arrangements and, prior to making a recommendation for investment, the extent to which a prospective asset manager fulfils internally defined criteria is considered. For example, Canopus establishes whether the asset manager is a signatory of the UN PRI and, if not, whether the asset manager has a sufficiently stringent policy in place which elucidates the ESG-specific principles according to which the asset manager decides and acts.

Following this initial screening, and as part of the ongoing monitoring of asset managers, the Investment team will re-establish on an annual basis whether the Manager remains a signatory of the UN PRI and whether the asset manager continues to assign sufficient importance to ESG-factors as they relate to investment risk and return – a key consideration being whether the asset manager has adequate systems and processes in place to monitor and address such risks.

Moreover, at an aggregate level, the Investment team also intermittently stresses the portfolios of all entities across the Group in accordance with guidance/specification from the Bank of England, stipulated within its 2021 CBES.

Environmental, Social and Governance Focus (continued)

ESG – Investments (continued)

Additional to its regular ongoing monitoring, and in line with guidance from The Corporation of Lloyd's, Canopus has implemented a negative screen across its core credit mandates restricting investment in ESG sensitive areas such as thermal coal-fired power plants, oil sands and new Arctic energy exploration activities.

Furthermore, the Investment team regularly receives ESG thought-leadership from a range of counterparties which is actively considered and has been demonstrably incorporated within reporting to ensure the organisation keeps abreast of the latest developments within what is a rapidly changing area of governance and investment.

ESG – Underwriting

We are committed to building out our underwriting approach and strategy in relation to ESG. In the immediate term our ESG strategy as it pertains to underwriting has been primarily focused on climate change; however we plan to further deepen and develop our approach to take a more holistic view.

To date, underwriting is primarily focused on the following workstreams, which are progressing as planned:

1. Financial Impact of climate change and implications for risk selection and underwriting pricing tools – run by the catastrophe modelling team
2. Implementing Lloyd's ESG's guidance, with a particular focus on the 2023 planning exercise starting in June 2022
3. Integrating ESG in our underwriting process with an ambition to be able to consider a wider range of issues, beyond climate change.

The second and third workstreams are now run by the Responsible Underwriting Workgroup, largely composed of underwriters. The overarching aim is to remain in control of our portfolio strategy and define a transition that works for Canopus and its clients.

As Canopus further strengthens its responsible underwriting strategy, our approach on thermal coal, oil sands and Arctic exploration activities can be summarised as following:

Starting in 2022, Canopus will not enter into any contracts that aren't renewals pertaining to the above activities, unless incidental, which we define as no more than 20% of turnover, or no more than 20% of total asset or project value, depending on the business line.

We are actively working with all our clients on their ongoing and demonstrable transition plans to reduce their greenhouse gas (GHG) emissions. Our minimum underwriting requirements now include seeking clarification from our clients on their exposures to those activities. We recognise that secondary exposures are somewhat more complicated to assess, and we will not have absolute clarity in all instances. This process will inform our global risk selection going forward.

Canopus is also seeking to build portfolios that demonstrably support low-emission energy production. We have been a market leader in renewable energy risk for some time and will continue to seek ways to offer new products in this space and others. We are dedicated to support the energy transition and re-weight our portfolio to support a lower-emission future.

At portfolio level, our transition plans are to:

1. Define the most relevant metric(s) and establish a baseline,
2. Actively select and accompany with a focus on relationships, and
3. Reduce over time our overall portfolio's GHG-emitting risks.

Environmental, Social and Governance Focus (continued)

ESG – Underwriting (continued)

Wherever possible, we will also work with our broker and distribution partners to define the appropriate policy language and remove uncertainty around definitions and coverage.

We are in the process of identifying data providers that would give us access to portfolio steering tools as well as risk selection tools (enriching our decision-making process).

These tools should ultimately integrate with our systems and processes with minimal administrative work. We hope to start testing them in the second quarter of 2022.

ESG - Corporate governance

Supply Chain: We have responsible governance processes and ensure we conduct relevant checks on our customers and supply chain to ensure we are meeting our anti-slavery and human trafficking policy. Our suppliers are partners in our business success and they are expected to comply with all local laws and regulations. We are firmly committed to ensuring that slavery or human trafficking does not exist within any part of our business or supply chain, and we continually work to improve our efforts to demonstrate this.

In 2021 we enhanced our supplier due diligence with additional questions related to modern slavery that we require new vendors to complete in line with best practice. This helps to ensure that compliance with modern slavery legislation can be evidenced in the supply chain.

We have a zero-tolerance approach and are committed to acting ethically and with integrity in all our business dealings and relationships. We also have an active Modern Slavery Working Group, made up of people all over the business, which aims to drive change and spread the importance of anti-modern slavery considerations in everything we do as a business.

Greenhouse gas emissions

Office: The Canopus Group is currently working on plans to assess, reduce or mitigate its emissions on a group-wide basis, considering both our office spaces around the world and our travel and consumption requirements. We will put in place measures to record emissions levels and set annual target levels to adhere to.

Inclusion & Diversity (I&D) & Wellbeing

At Canopus we genuinely want to foster a distinctive, positive culture. A culture which gives space for us all to flourish as people and which contributes to building a business which delivers profitable, sustainable results.

We seek to do this by being ourselves and embracing individuality, praising collaboration, speaking as truthfully as we can bear, encouraging sharp and diverse thinking and getting good work done.

Inclusion & Diversity

We believe our people's individuality is what helps us to push the boundaries, enabling us to do better and more innovative business. We know we can only achieve this through a workforce, which is diverse in thought, background and experience, and representative of the communities in which we operate globally at all levels of our business.

We are committed to ensuring everyone at Canopus feels an equal sense of belonging and ability to be their authentic selves and embedding best practice through inclusive leadership and management working practices to ensure a positive and winning workplace culture.

We have hired a dedicated Head of I&D, who arrived October 2021 and who has set an ambitious action list for 2022. In addition, during 2021 we hired EW Group - an independent equality and diversity company - to audit our inclusion, diversity and wellbeing offering. It was in the summary of the audit that they classified us as "market leading" in wellbeing for our staff. We used the basis of their recommendations to build and roll out mandatory I&D training to all staff.

While we have more work to do on gender parity within the organisation; we are proud to have 50:50 representation by gender on our newly created Leadership Team.

We have sponsorship from a non-executive director, Paul Meader, on ensuring the Canopus culture embraces I&D, and our I&D Committee chair is our recently announced UK CEO - demonstrating our commitment comes from the top.

I&D Network at Canopus in 2021

Over the past few years, we have focused our efforts in putting inclusion and diversity on everyone's radar at Canopus. In 2021 we took significant steps towards creating positive change. This includes commissioning an external consultancy to conduct a diagnostic audit of our inclusion and diversity performance.

We also worked with our I&D Network members that includes our 'Special Interest Groups' (five employee-led groups that focus on specific I&D issues – gender, LGBTQ+, disability and neurodiversity, socio-economic issues and race & faith) and global colleagues to celebrate inclusion dates and raise awareness of key issues that matter to our staff. Other activities included joining the Business Disability Forum and working with them to draft a Reasonable Adjustments Policy.

We also created a lively and engaging programme of educational events and talks with our global offices to give staff the opportunity to hear different voices, learn about new experiences and ask challenging questions.

We also developed mandatory training for people managers across all global offices and invested in female talent development schemes. We partnered with the London-based social mobility organisation, the Brokerage, to run outreach activities for young people and launched our inaugural apprenticeship program, all of which aims to diversify our talent pipeline.

Inclusion & Diversity (I&D) & Wellbeing (continued)

Work still to do - 2022 Goals

While we are headed in the right direction, we have more work to do to ensure we take strategic and meaningful action to change our culture and address representation issues. We acknowledge that our management and leadership teams are lacking in female and ethnicity diversity and have committed to setting targets to improve this.

Ethnicity representation is particularly low in the UK across all levels and is something we will use positive action to help address and will continue to monitor. We must do better when it comes to developing our staff and providing open and accessible internal - lateral and vertical – movement opportunities to help improve representation at managerial levels and retain our talent. As ever, reducing our Gender Pay Gap is a key priority, which is why we must hold ourselves to account on delivering our actions.

Moving forward, we are keen to improve data quality and use evidence-based insights to shape our priorities. Towards the end of 2021, we worked closely with our Special Interest Groups and wider stakeholders across all global offices to develop our first 2022 inclusion and diversity action plan.

This includes:

- Establishing gender and ethnicity targets
- Improving our census completion rates to better understand the diversity make-up of our people
- Developing an inclusion and diversity data dashboard to help us monitor trends and any issues across all stages of the employee life cycle
- Building a community of inclusion allies and senior champions
- Reviewing our recruitment practices and partnering with diversity specialist recruitment agencies
- Running an internship programme
- Completing an accessibility audit of our website
- Continuing to invest in female and ethnicity talent development schemes
- Reviewing and developing inclusive management working practices, policies and processes that promote a positive workplace culture.

Wellbeing

We believe our cultural aspirations are reflected in the extensive programme of wellbeing benefits that are on offer to our employees. A recent external audit of our I&D and Wellbeing programmes found us to have a “market leading” set of benefits in comparison to our market peers.

We're very proud of the benefits we offer our colleagues and want to ensure we remain a market leader to ensure we are retaining and attracting the best talent to our business. As we move towards our new Target Operating Model, we aim to bring all these benefits together within a strategy and programme which allows everyone to see the priority, direction and progress. This will see us offer a more holistic 'wellbeing' commitment to employees in 2022:

- Ensuring financial wellbeing is about supporting employees so they can meet their own financial obligations. We want to help them be financially prepared for an unexpected event, to be able to save for future goals including retirement and have the financial freedom to make choices that allow them to enjoy life. As risk managers, we understand the need for financial surety, so it's vital we offer opportunities for our employees to achieve their own financial goals and security.
- We are committed to offering our employees the benefits and services to achieve physical wellbeing. But not just by offering the legal minimum – we want to do all we can to support a healthy and balanced life without physical limitation, stress, and fatigue.

Inclusion & Diversity (I&D) & Wellbeing (continued)

Wellbeing (continued)

- We think it's critical to support all employees' psychological wellbeing, defined as one's level of psychological happiness and health. This encompasses benefits and support that encourages life satisfaction, and feelings of accomplishment. We want to do all we can to offer tools and services that allow employees a better perspective on life, by improving their self-esteem, self-efficacy, relationships with others and overall satisfaction. At Canopus we understand that championing good mental health is as important as supporting good physical health.
- Often, benefits and services that support an employee's social wellbeing are overlooked. But we understand that our business has a part to play in allowing employees to share, develop, and sustain meaningful relationships with others – central to our commitment of creating a distinctive and positive culture in Canopus is to support and recognise our employees' personal lives outside of Canopus.

Directors' Report

The directors of Canopus Group Limited ("CGL") present their Directors' Report for the Group for the year ended 31 December 2021.

Review of the business

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

On 22 January 2021 CGL issued \$65.5m of shares to its parent, Fortuna Holdings Limited ("FHL"), in exchange for a capital contribution.

On 18 February 2021, the Group entered into an agreement with Premia Re for the Reinsurance to Close ("RITC") of the 2017 and 2018 years of account of syndicates 1861, 5820 and 1206.

During 2021 the Group entered into a Loss Portfolio Transfer Reinsurance (LPT) agreement with RiverStone Managing Agency Limited ("RiverStone") covering the majority of classes of business no longer written by Syndicates 4444 and 1861. Under the terms of the agreement the syndicates purchased reinsurance from RiverStone's managed syndicate (Lloyd's syndicate 3500) to provide loss portfolio reinsurance on the agreed policies. The results for the year include the premium ceded to Riverstone of \$583m under the contract, while the reinsurers' share of the change in provisions for claims includes the recoveries due on the business reinsured under the agreement. As at the year end the full premium due to Riverstone of \$583m is included in creditors arising out of reinsurance operations.

Results and Performance

The Group result for the year ending 31 December 2021 was a profit after tax of \$45m (2020: loss of \$242m). The key performance indicators are shown in the table on page 3.

Gross written premiums increased by 13.9% to \$2,220m (2020: \$1,949m). Whilst rate change across the portfolio was positive in the year, this was heavily focused in certain areas such as Cyber. Where sufficient rate was not available, underwriting discipline was maintained in what was a competitive marketplace following the significant losses generated in 2020. Net earned premium is \$353m lower than prior year, reflecting the impact of the LPT to RiverStone.

The net loss ratio has improved to 57.4% (2020: 77.8%), with 2020 being heavily impacted by the unprecedented Covid-19 pandemic. Despite further Covid-19 enforced restrictions in 2021 the level of losses incurred was significantly lower at \$14m (2020: \$225m), mainly emanating from the Reinsurance and Delegated Authority portfolios.

The non-catastrophe loss ratio improved during the year to 44.3% (2020: 50.9%) as a result of the Group maintaining the discipline in underwriting, favourable claims experience in 2021 from the property D&F, North America and Marine classes and positive prior year development of \$58m (2020: \$18m prior year adverse development) on previously established reserves.

Catastrophe losses, excluding Covid-19, remained high in 2021, adding 12.3% (2020: 12.2%) to the loss ratio for the year. The catastrophe losses in the period are primarily driven by Hurricane Ida (\$84m), European floods (\$29m), Winter Storm Uri (\$25m) and Kentucky tornadoes (\$21m), with a number of small catastrophe events (\$48m). The Group continues to monitor the syndicates' exposure to catastrophe losses and during 2021 made the decision to exit US hurricane exposed business within the Delegated Authority portfolio, where appropriate returns were not being achieved over a sustained period.

Total operating expenses at \$674m were higher than in 2020 (\$657m). Commissions have risen due to increased premium volumes in 2021 but the commission ratio has fallen as a result of writing less in delegated classes, which carry a higher cost than open market business. Prudent expense management and driving efficiencies through the use of technology continues to be a focus of the Board.

Directors' Report (continued)

Results and Performance (continued)

The investment portfolio achieved a return of \$15m in 2021 (2020: \$51m). The decrease compared to the previous year is primarily due to significant increases in yields during the period, resulting in mark to market losses on the high quality short duration bond portfolio held within the Group. Offsetting these losses were positive performance on equities and securitised assets which are floating rate. Allocations to alternative higher yielding private asset classes have been made but take time to build to a consequential level within the portfolio.

Going Concern

The directors have considered the going concern basis of preparation of the Group's financial statements as at 31 December 2021 including the factors likely to affect its future performance as well as the Group's principal risks and uncertainties. The directors have considered those circumstances which may cause the business to cease to function effectively as a going concern e.g. a breach of its capital requirements and or liquidity position. Scenario testing was performed to assess the impact of reasonably foreseeable scenarios. These scenarios include, but are not limited to, an increase in loss ratios and a significant decrease in operational cashflow together with available management actions.

The directors believe that the conclusion on the use of the going concern basis of preparation remains unchanged under these reasonably foreseeable, but unlikely scenarios.

The directors have concluded that there are no material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern and they have a reasonable expectation that the Group and the Parent Company have adequate resources to continue in operational existence for the period to June 2023 and that therefore it is appropriate to adopt a going concern basis for the preparation of the financial statements.

Appointment of Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditor.

Business Environment

Insurance markets saw significant rate rises through 2021 following the unprecedented events of the previous year, these were however somewhat tempered by new capital flowing into the market and fell short of predicted levels in some areas. These business lines were once again impacted by above average catastrophe losses, prompting insurers to review risk appetite and rating adequacy ahead of renewals in 2022.

Huge levels of fiscal stimulus and the efficacy of the global vaccine program managed to reduce the impact of the global recession following the pandemic but a sustained period of low interest rates has led to challenging levels of investment returns. As Covid-19's impact on the economy rescinds, central banks are beginning to embark on a process of normalising policies, which has already had an impact on financial assets in 2022. Bond yields have risen significantly in early 2022. This has led to mark to market losses being incurred in the first half of 2022 but will ultimately lead to a more attractive investment environment in future.

Businesses are having to consider what the future of work will entail, needing to embrace flexible return-to-office strategies whilst simultaneously seeking to develop a positive and winning corporate culture. There is a need too for firms to carefully balance investment in people with its investment in technology as digital transformation continues to accelerate and the availability of data increases.

The pandemic continues to reinforce society's focus on Environmental, Social and Governance (ESG) matters and is evolving consumer product and purchase preferences. For the insurance industry particularly this will present both risk and opportunity as society looks to transition to a more sustainable economy.

Directors' Report (continued)

The Group continues to develop its ESG framework to support its strategy. In particular, this has included the development of a climate risk framework. Through better identification and assessment of the financial risks of climate change, the Group believes it is well positioned to proactively manage and mitigate risk and seek opportunities for innovation, diversification and growth within the industry.

Risk assessment and management

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

Strategy

Our ambition is to establish Canopus as a world-class global specialty insurance business, fit for the digital era, with three geographic hubs in the UK, the United States & Bermuda and Asia-Pacific. This will be underpinned through operational excellence, with all functions of the business helping to deliver efficient use of capital, development of modern technology solutions and a scalable, streamlined business model.

Following the pooling of capacity for the two syndicates, 4444 and 1861, the 2021 year of account has been written through Syndicate 4444. It is the Group's intention to close the 2020 year of account of Syndicate 1861 into the 2021 year of account of Syndicate 4444 at the end of 2022.

The combined business continues to focus hard on underwriting profitability. In 2021 the results have been adversely impacted by the catastrophe events but the improving market conditions mean we are growing where we have expertise, leadership, capability, capacity and the right relationships with distribution partners. Expansion of our digital distribution capability, continued proactive cycle management and maintaining our excellent catastrophe management skills remain key to our strategy in future periods.

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

Future developments

On 24 February 2022 Russia launched an invasion into Ukraine, receiving international condemnation and widespread sanctions. The directors consider that the ultimate cost of these events is uncertain, however, the Group has mitigated its exposure to these events through its reinsurance programme. The directors continue to monitor the fast-developing situation closely and will take appropriate steps to manage the effect this has on the Group.

At a board meeting on 15 June 2022, the directors declared a dividend of \$27m to be paid in June 2022.

The Directors' report was approved by the Board on 15 June 2022 and signed on its behalf on 21 June 2022 by:



Michael Watson
Chairman



Gavin Phillips
Chief Financial Officer

Statement of directors' responsibilities in relation to the financial statements

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

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

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

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

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

Directors and Professional Advisers

Directors

Paul Ceurvorst
Michael Duffy
Miriam Greenwood (appointed 3 November 2021)
Peter Hazell
Paul Meader
Nigel Meyer (resigned 31 December 2021)
Ian Owen
Gavin Phillips (appointed 4 January 2022)
Neil Robertson (appointed 7 May 2021)
Michael Watson

Company Secretary

Mourant Secretaries (Jersey) Limited
22 Grenville Street, St Helier, Jersey, JE4 8PX

Registered Office

22 Grenville Street, St Helier, Jersey, JE4 8PX

Company Number

129591

Independent Auditors

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

Independent auditor's report to the members of Canopus Group Limited

Opinion

We have audited the financial statements of Canopus Group Limited (the "company") and its subsidiaries (the "group") for the year ended 31 December 2021 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 37 to the consolidated financial statements, and the Statement of Profit or Loss and Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 21 to the company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the company's loss for the year then ended;
- ▶ have been properly prepared in accordance with International Financial Reporting Standards; and
- ▶ have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and company's ability to continue as a going concern for the period to 30 June 2023 which is 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Other information

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

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

Independent auditor's report to the members of Canopus Group Limited (continued)

Other information (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Independent auditor's report to the members of Canopus Group Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the regulated business carried out by group's subsidiaries which include Lloyd's, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- ▶ We understood how Canopus Group Limited is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the company and regulatory bodies, reviewed minutes of the Board and Audit Committee and attended the Audit Committees and gained an understanding of the group's approach to governance.
- ▶ We assessed the susceptibility of the group's and company's financial statements to material misstatement, including how fraud might occur by considering the controls that the group has established to address risks identified by the group, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. The fraud risk was considered to be higher within the valuation of gross incurred but not reported provision and the recognition of estimated premium income.

Our audit procedures included:

- Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries we assessed if there were any indicators of management bias in the valuation of gross incurred but not reported provision and the recognition of estimated premium income;
- Evaluating the business rationale for significant and/or unusual transactions; and
- Testing the appropriateness of journal entries recorded in the general ledger, particularly in respect of judgemental areas including gross incurred but not reported provision and estimated premium income.

In addition, we considered the impact of Covid-19 on the group, including an assessment of the consistency of operations and controls in place as they used a mix of operating remotely and hybrid working model throughout 2021, making enquiries with management via the use of video conferencing where necessary. We performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporated unpredictability into the nature, timing and extent of our testing.

- ▶ Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees at a group level; inquiring about the group's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- ▶ The group operates in the insurance industry which is a highly regulated environment. As such the auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

**Group Accounts
Canopus Group Limited**

**Independent auditor's report to the members of Canopus Group Limited
(continued)**

Use of our report

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

DocuSigned by:

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Michael Purrington
for and on behalf of Ernst & Young LLP
London
21 June 2022

Group Accounts
Canopus Group Limited

Consolidated statement of profit or loss

for the year ending 31 December 2021

\$'000	Notes	2021	2020
Gross premiums	4a	2,093,404	2,130,057
Premiums ceded to reinsurers	4b	(942,854)	(603,610)
Reinsurance to close	4c	41,023	17,925
Net premiums		1,191,573	1,544,372
Fees and commission income	5	2,309	4,321
Investment income	6	25,506	43,002
Net realised gains	7	3,394	30,078
Fair value losses	8	(13,983)	(22,138)
Other operating income		4,180	12,687
Other revenue		21,406	67,950
Total revenue		1,212,979	1,612,322
Gross benefits and claims paid	9a	(1,112,898)	(1,205,797)
Claims ceded to reinsurers	9b	162,028	402,982
Gross change in insurance contract liabilities	9a	(183,163)	(605,617)
Change in insurance contract liabilities ceded to reinsurers	9b	673,115	220,299
Reinsurance to close	9c	(41,023)	(17,925)
Net benefits and claims		(501,941)	(1,206,058)
Finance costs	10	(8,635)	(6,750)
Other operating and administrative expenses	11	(674,221)	(656,668)
Other expenses		(682,856)	(663,418)
Total benefits, claims and other expenses		(1,184,797)	(1,869,476)
Profit/(loss) before tax		28,182	(257,154)
Income tax credit	13(a)	16,722	14,904
Profit/(loss) for the year		44,904	(242,250)
Profit/(loss) attributable to:			
Equity holders of the parent		45,725	(242,363)
Non-controlling interest		(821)	113
Profit/(loss) for the year		44,904	(242,250)

The notes on pages 37 to 88 form part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ending 31 December 2021

	2021	2020
\$'000		
Profit/(loss) for the year	44,904	(242,250)
Other comprehensive income (OCI):		
OCI that maybe reclassified to profit or loss in subsequent period:		
Currency translation differences	(1,960)	2,940
Total comprehensive income/(loss) recognised for the year	42,944	(239,310)

Total comprehensive income/(loss) is attributable to:

Equity holders of the parent	43,765	(239,423)
Non-controlling interest	(821)	113
	42,944	(239,310)

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

The notes on pages 37 to 88 form part of these consolidated financial statements.

Consolidated statement of financial position


as at 31 December 2021

\$'000	Notes	2021	2020
Assets			
Intangible assets	14	181,112	185,980
Property and equipment	15	15,507	5,041
Right-of-use assets	34	37,568	42,162
Deferred tax asset	13(d)	12,872	6,409
Deferred acquisition costs	16	355,818	330,513
Reinsurance assets	17	1,847,046	1,506,613
Financial assets at fair value through profit or loss	18	2,757,310	2,508,606
Derivative financial instruments	19	4,143	15,735
Income tax receivable	13(c)	1,021	-
Insurance receivables	21	1,046,164	1,064,164
Trade and other receivables	22	113,404	187,054
Other assets	23	153,475	116,093
Cash and cash equivalents	24	294,617	690,497
Total assets		6,820,057	6,658,867
Equity and liabilities			
Equity			
Issued share capital	25	341,868	341,868
Issued share premium	25	345,332	279,879
Capital reserves		759,956	759,956
Foreign currency translation reserve		(50,649)	(48,689)
Retained earnings		(148,223)	(193,948)
Equity attributable to equity holders of the parent		1,248,284	1,139,066
Non-controlling interests		485	1,306
Total equity		1,248,769	1,140,372
Liabilities			
Insurance contract liabilities	26	4,348,770	4,398,073
Derivative financial instruments	19	3,935	1,785
Lease liabilities	34	39,753	41,146
Income tax payable	13(c)	203	569
Insurance payables	28	1,041,094	860,371
Trade and other payables	29	137,533	216,551
Total liabilities		5,571,288	5,518,495
Total equity and liabilities		6,820,057	6,658,867

These financial statements were approved by the Board of Directors on 15 June 2022 and signed on its behalf on 21 June 2022 by:



Michael Watson
Chairman



Gavin Phillips
Chief Financial Officer

The notes on pages 37 to 88 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Attributable to equity holders of the parent						Non-controlling Interest	Total equity
	Issued Share Capital	Issued Share Premium	Capital reserves	Foreign currency translation reserve	Retained earnings	Total		
\$'000								
At 1 January 2020	106	-	759,956	(51,629)	41,737	750,170	-	750,170
Loss/(profit) for year	-	-	-	-	(242,363)	(242,363)	113	(242,250)
Other comprehensive income	-	-	-	2,940	-	2,940	-	2,940
Total comprehensive income/(loss)	-	-	-	2,940	(242,363)	(239,423)	113	(239,310)
Capital transactions								
Re-denomination of capital	(6)	-	-	-	-	(6)	-	(6)
Issue of new shares	341,768	279,879	-	-	-	621,647	-	621,647
Acquisitions made during the year	-	-	-	-	-	-	1,193	1,193
Capital contribution	-	-	-	-	6,678	6,678	-	6,678
At 31 December 2020	341,868	279,879	759,956	(48,689)	(193,948)	1,139,066	1,306	1,140,372
At 1 January 2021	341,868	279,879	759,956	(48,689)	(193,948)	1,139,066	1,306	1,140,372
Profit/(loss) for year	-	-	-	-	45,725	45,725	(821)	44,904
Other comprehensive loss	-	-	-	(1,960)	-	(1,960)	-	(1,960)
Total comprehensive (loss)/income	-	-	-	(1,960)	45,725	43,765	(821)	42,944
Issue of new shares	-	65,453	-	-	-	65,453	-	65,453
At 31 December 2021	341,868	345,332	759,956	(50,649)	(148,223)	1,248,284	485	1,248,769

The notes on pages 37 to 88 form part of these consolidated financial statements.

Group Accounts
Canopus Group Limited

Consolidated statement of cash flows

for the year ended 31 December 2021

		2021	2020
\$'000	Notes		
Operating activities			
Profit/(loss) before tax		28,182	(257,154)
Adjustment for:			
Change in operating assets	31	(934,008)	(126,261)
Change in operating liabilities	31	992,964	377,048
Financial income and expense		(20,265)	(66,330)
Non-cash items included in profit before tax:			
Fair value losses	8	13,983	22,138
Change in deferred acquisition costs		(69,523)	10,379
Amortisation of intangibles	11	5,021	5,400
Depreciation of property and equipment	11	2,067	1,222
Depreciation of right-of-use assets	34	3,637	5,211
Net foreign exchange differences		5,369	(5,150)
Income tax paid	13(c)	(770)	(1,412)
Income tax received	13(c)	3,930	3,082
Proceeds from sale of tax losses	13(b)	6,009	-
Transfer of risk payment		(39,060)	-
Net cash flows used in operating activities		(2,464)	(31,827)
Investing activities			
Net cash acquired on acquisition		-	176,600
Purchases of financial assets		(3,337,536)	(2,317,292)
Disposal of financial assets		2,883,620	1,933,988
Investment income		25,706	47,516
Purchases of intangible assets		(135)	-
Net purchase of property and equipment		(12,698)	(2,092)
Net cash flows used in investing activities		(441,043)	(161,280)
Financing activities			
Issue of shares		65,453	513,121
Finance costs		(10,208)	(6,981)
Payment of principal portion of lease liabilities	34	(1,797)	(6,349)
Net cash flows from financing activities		53,448	499,791
Net (decrease)/increase in cash and cash equivalents		(390,059)	306,684
Net foreign exchange on cash and cash equivalents		(5,821)	7,874
Cash and cash equivalents at beginning of year		690,497	375,939
Cash and cash equivalents at end of year	24	294,617	690,497

The net cash on acquisition in 2020 includes \$176.5m which is the cash and cash equivalents of Fleclat 2 on the date of acquisition and \$0.1m in relation to the acquisition of MSH Group.

The notes on pages 37 to 88 form part of these consolidated financial statements.

Notes to the consolidated financial statements

Year end 31 December 2021

1. Corporate information

Canopus Group Limited, incorporated and domiciled in Jersey, is the parent undertaking and controlling party of the Canopus 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

The Group has elected to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Companies (Jersey) Law 1991.

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

The preparation of financial statements in conformity with IFRS requires the Group's Board to exercise its judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the consolidated financial statements are explained in Note 2.5 below.

The directors have considered the going concern basis of preparation of the Group's financial statements as at 31 December 2021 including the factors likely to affect its future performance as well as the Group's principal risks and uncertainties. The directors have considered those circumstances which may cause the business to cease to function effectively as a going concern e.g. a breach of its capital requirements and or liquidity position. Scenario testing was performed to assess the impact of reasonably foreseeable scenarios. These scenarios include, but are not limited to, an increase in loss ratios and a significant decrease in operational cashflow together with available management actions.

The directors believe that the conclusion on the use of the going concern basis of preparation remains unchanged under these reasonably foreseeable, but unlikely scenarios.

The directors have concluded that there are no material uncertainties that may cast significant doubt about the Group's financial ability to continue as a going concern and they have a reasonable expectation that the Group and the Parent Company have adequate resources to continue in operational existence for the period to June 2023 and that therefore it is appropriate to adopt a going concern basis for the preparation of the financial statements.

In preparing these financial statements, the Directors have considered the impact of the physical and transition risks of climate change and identified this as an area of focus, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2021. This is because the financial investments are reported at fair value under IFRS and, as set out in note 18, therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change on the financial investments. Insurance liabilities are accrued based on past insurable events so will not be impacted by any future impact of climate change.

However, we recognise that government and societal responses to climate change risks are still developing and the future impact cannot be predicted. Future valuations of assets and liabilities may therefore differ as the market responds to these changing impacts or assesses the impact of current requirements differently.

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.

Notes to the consolidated financial statements

Year end 31 December 2021

2. Significant accounting policies, judgements and estimates

2.2. Basis of consolidation (continued)

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

Profit or loss and other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. A list of the principal subsidiaries included in these financial statements is contained in Note 3.2.

Business combinations and goodwill

The Group uses the 'acquisition method of accounting' under IFRS 3 – 'Business Combinations', to account for the acquisition of companies. Under IFRS 3, the consideration to purchase a business is recorded at fair value at the acquisition date. This fair value is re-estimated in subsequent financial statements (after the expiry of the measurement period for adjustment to the initial provisional fair value, which should not exceed one year from the date of acquisition) and any changes in estimates are taken to the Statement of Comprehensive Income. Adjustments to fair value can only be made during the measurement period if they relate to conditions that existed before acquisition and any changes due to events after the acquisition will go to the statement of profit or loss.

All acquisition-related expenses are charged to the statement of profit or loss when incurred, within other operating and administrative expenses. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets acquired net of liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of profit or loss for the period.

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

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

Business combinations under common control are accounted for using the pooling of interest method. Under this method, the assets and liabilities of the acquired entity are transferred at their carrying amounts. No additional goodwill is recognised.

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.

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

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

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 inception 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 reporting period date, calculated by reference to the expected incidence of insurance risk over the period of cover.

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

(ii) Insurance claims and claims settlement expenses

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

Provision is made at the period-end for the estimated cost of IBNR claims to the Group. The estimated cost of claims includes expenses to be incurred in settling claims less the expected value of salvage and other recoveries.

There is inherent uncertainty in establishing claims provisions and it is likely that the final outcome will prove to be different from the original estimate of the liability. Adjustments to the amounts of claims provisions established in prior years are included in the financial statements in the period in which the adjustments are made. The claims provisions are reviewed regularly.

Estimating IBNR claims is inherently more uncertain than estimating the cost of claims notified, for which more information about the claim event is generally available.

Classes of business where the IBNR proportion of the total claims provisions is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility in the claims provisions.

Where possible the Group adopts multiple techniques, often based on historical claims data, to estimate the required level of claims provisions. The estimates given by the various methodologies assist in setting the range of possible outcomes and the most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each underwriting year of account.

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

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

Short tail business

Property, motor and accident and health business are generally “short tail”, whereby there is not normally a significant delay between the occurrence of the claim and the claim being reported. The costs of claims notified at the reporting date are estimated on a case-by-case basis to reflect the individual circumstances of each claim.

The ultimate expected cost of claims, including IBNR claims, is projected from this data by reference to historical claims development data, which show how estimates of claims incurred in previous periods have developed over time.

Longer tail business

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

Reinsurance recoveries

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

(iii) 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.

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

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

(iv) Unexpired risks

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency. At 31 December 2021 and 31 December 2020 the Group did not have an unexpired risk provision.

(v) Reinsurance to close ("RITC")

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

To the extent that the Group changes its participation on a managed syndicate from one underwriting year of account to the next, it is a net receiver or payer of premium to reinsure the earlier year of account into the latter. This RITC premium and the related net claims provision are recognised as income and expense in the financial year in which the RITC contract is effective. It is represented in the statement of financial position 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.

Reinsurance contracts that contain a retroactive element but continue to transfer significant insurance risk are recognised as reinsurance contracts in full and are not bifurcated.

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

(vii) Receivables and payables related to insurance contracts

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

(b) Other operating and administrative expenses

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

(c) Employee benefits

The Group operates defined contribution pension plans and a closed defined benefit pension scheme for its employees. The defined benefit pension scheme was acquired in 2010 with the acquisition of a new business. The scheme is closed to new entrants and has ceased accruing new benefits for current members. Any liability recognised in the consolidated statement of financial position 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 reporting period 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 statement of financial position when it is probable that future economic benefits will be recovered by the scheme sponsor in the form of refunds or reduced contributions.

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

(d) Finance costs

Finance costs consist of trustee fees and bank charges, interest on lease liabilities, fees accruing on the Group's borrowings and costs of arrangements with the parent company and third parties that secure or provide Funds at Lloyd's ("FAL") for the Group's corporate members underwriting on Lloyd's syndicates. Arrangement fees in respect of financing arrangements are charged over the life of the related facilities.

(e) Revenue recognition:

Fee and Commission Income

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

- i. Managing agents' fees relate to managing and operating the Lloyd's syndicate, and are therefore provided continuously throughout the year. These services are considered a single performance obligation. The price is fixed with no variable element and is matched against the single performance obligation. The passing of time is used to measure the amount of fees to be recognised.
- ii. Profit commission becomes payable once the year of account is profitable. Profit commission is recognised to the extent that it is highly probable it will not be subject to significant reversal.
- iii. Insurance services – commission and service fees are recognised at the point in time that the performance obligations are satisfied.

Other operating income

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

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

(f) Foreign currency translation

Functional and presentation currency

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

(f) Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency at average, rather than spot, 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 statement of profit or loss for the period. Non-monetary assets and liabilities (principally unearned premium reserves and deferred acquisition costs) carried at historical cost are translated in the statement of financial position at the exchange rate prevailing on the original transaction date.

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 statement of financial position and included in the consolidated statement of comprehensive income.

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

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

Intangible assets with finite lives are amortised over:

Webware and software development	3	to	5	years
Distribution channels	10	to	15	years
IT software and licences	3	to	10	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.

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

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.

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.

Distribution channels acquired on a business combination are recognised at fair value and amortised on a straight line basis over their estimated useful economic life.

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.

IT software and licences acquired 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.

(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 reporting period date and adjusted if appropriate. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired in which event the cost of writing down the asset to a lower valuation is charged to the statement of profit or loss.

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

(i) Financial assets

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

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

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

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

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

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

Loans and receivables

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

Derivative financial instruments

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

Derecognition of financial assets

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

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

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

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.

(j) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

i) Financial liabilities at FVPL

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

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

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

ii) Interest bearing loans and borrowings

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

Derecognition of financial liabilities

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

(k) Offsetting of financial instruments

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

Notes to the consolidated financial statements

Year end 31 December 2021

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 cash deposits with original maturities of three months or less. These assets are readily convertible into known amounts of cash.

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

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

(o) Taxation

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

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

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

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

(p) Share capital

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

(q) Dividends

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

(r) Non-controlling interests

Non-controlling interests represent equity in a subsidiary not attributable, directly or indirectly, to a parent. The non-controlling interest is measured as their share in the recognised amounts of the acquiree's identifiable net assets.

(s) Leases

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

Group as a lessee

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.3 Summary of significant accounting policies (continued)

(s) Leases (continued)

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the assets. The right-of-use assets are subject to impairment.

ii) Lease liabilities

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

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of any purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

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

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

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

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

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

(t) 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.

Notes to the consolidated financial statements

Year end 31 December 2021

2.4 New and amended standards and interpretations

In the current year, the Group has applied amendments to IFRS issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2021. The new effective requirements are:

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

- Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2021:

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

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

The amendments to IFRS 4 issued in 2016 address the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17. The amendments include an optional temporary exemption from applying IFRS 9 that is available to companies whose predominant activity is to issue insurance contracts until the earlier of the effective date of IFRS 17 or 2023. The Group qualifies for this exemption as at 31 December 2015 \$2,609m or 94% (i.e. over 90%) of its total liabilities were connected with insurance. There has been no change in the Group's activities since 31 December 2015, therefore the exemption still remains.

The Group has also disclosed information in relation to specific types of financial instruments to ensure the comparability with the entities applying IFRS 9. As such, fair values are disclosed separately for the Group's financial assets which are managed and evaluated on a fair value basis and those which meet the "solely payments of principal and interest" (SPPI) test under IFRS 9.

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

\$'000	2021	2020
Financial assets managed and evaluated on a fair value basis		
Debt securities and other fixed income securities	1,945,014	1,431,425
Holdings in collective investment schemes	673,879	971,446
Equity shares	116,521	105,735
Derivative financial instruments	4,143	15,735
Private credit funds	21,896	-
Total financial assets managed and evaluated on a fair value basis	2,761,453	2,524,341
Financial assets meeting the SPPI test		
Trade and other receivables	113,404	187,054
Total financial assets meeting the SPPI test	113,404	187,054

Notes to the consolidated financial statements

Year end 31 December 2021

2.4 New and amended standards and interpretations (continued)

The following new standards, amendments and interpretations, issued but not effective for the financial year beginning 1 January 2021, have not been early adopted:

- **IFRS 9 Financial Instruments:**

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

- **IFRS 17 Insurance Contracts:**

IFRS 17, which will replace IFRS 4, sets out requirements relating to the measurement, presentation and disclosure of insurance contracts. It prescribes a general measurement model based on the discounted estimates of future cash flows, including an explicit risk adjustment and a contractual service margin (which represents the unearned profit of the contracts). Application of a simplified premium allocation approach, which is similar to the current unearned premium approach, is permitted if it is expected to provide a measurement that is not materially different from the general measurement model or if the coverage period of the contracts is one year or less.

In June 2020, the IASB published a revised version of IFRS 17 that has an effective date of 1 January 2023. A temporary exemption from applying IFRS 9 that is available for qualifying insurers (as contained in IFRS 4) expires on 31 December 2022.

The Group's implementation of IFRS 17 is in progress and on track to be completed by the time of implementation. While the group is still refining its methodology and completing the development of models and operational capabilities, it is not possible to provide a reliable estimate of the impact on adopting IFRS 17, nor of the ongoing impact on the group's financial results.

2.5 Significant accounting judgements, estimates and assumptions

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

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

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

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

Notes to the consolidated financial statements

Year end 31 December 2021

2.5 Significant accounting judgements, estimates and assumptions (continued)

Premium estimation uses expert judgement, the quality of the estimate being influenced by the nature and maturity of the portfolio, availability of timely data, relevant underwriting input to the estimating process and management review. Gross written premiums are reviewed regularly using underwriter estimates and actuarial projections. The amount of estimated future premium that remains in insurance receivables is disclosed in Note 21.

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

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

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

Where an acquisition of a subsidiary gives rise to the recognition of intangible assets such as distribution channels and syndicate participation rights, the value of such intangibles is largely based on the expected cash flows of the business acquired. Certain key assumptions are used to assess the value of the intangible, such as forecast underwriting performance and past business retention rates. These are the subject of specific uncertainty and a reduction in underwriting profitability or renewal patterns of business acquired may result in the value of the intangible being impaired and written off in the current accounting period. Details of these assumptions are included in note 14.

Recognition of underwriting losses for deferred taxation purposes is based on management's prudent projections of future profitability and the probability of losses being utilised against taxable profits within a reasonable time-frame, as set out in note 13.

2.6 Change in accounting estimates

There are no changes in accounting estimates as at 31 December 2021.

Notes to the consolidated financial statements

Year end 31 December 2021

3. Group information

3.1. Ultimate parent undertaking and controlling party

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman Limited.

The immediate parent company of CGL is Fortuna Holdings Limited ("FHL").

3.2 Subsidiaries

The principal subsidiaries of Canopus Group Limited, which are consolidated in these financial statements, are listed below. The Group holds no investments in joint ventures or associates.

Subsidiary	Country of incorporation	Principal activities	% equity interest	
			2021	2020
Canopus Holdings UK Limited	England and Wales	Holding company	100%	100%
Canopus US Holdings, Inc.	USA (Delaware)	Holding company	100%	100%
Canopus Underwriting Agency Inc.	USA (Delaware)	Insurance company	100%	100%
Canopus US Insurance, Inc.	USA (Delaware)	Insurance company	100%	100%
Canopus Reinsurance Limited	Bermuda	Reinsurance company	100%	100%
Canopus Services Limited	England and Wales	Service company	100%	100%
Canopus Managing Agents Limited	England and Wales	Managing agent at Lloyd's	100%	100%
Canopus Asia Pte. Ltd.	Singapore	Syndicate service company	100%	100%
Canopus Europe Limited	England and Wales	Syndicate service company	100%	100%
Canopus Underwriting Bermuda Limited	Bermuda	Syndicate service company	100%	100%
Canopus ILS Limited	Bermuda	Reinsurance company	100%	100%
Vave Digital Services Limited	England and Wales	Syndicate service company	100%	100%
Canopus Capital Four Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopus Capital Seven Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopus Capital Nine Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopus Capital Ten Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopus Capital Twelve Limited	England and Wales	Lloyd's corporate member	100%	100%
Canopus Corporate Capital Limited	England and Wales	Lloyd's corporate member	100%	100%
Flectat 2 Limited	England and Wales	Lloyd's corporate member	100%	100%
Multi-Strat Holdings Limited ("MSH")	Bermuda	Holding company	65%	65%
Multi-Strat Reinsurance Ltd	Bermuda	Reinsurance company	65%	65%

Notes to the consolidated financial statements

Year end 31 December 2021

4. Net premiums

\$'000	2021	2020
a) Gross premiums on insurance contracts		
Gross premiums written	2,220,031	1,949,356
Change in unearned premiums provision	(126,627)	180,701
Total gross premiums	<u>2,093,404</u>	<u>2,130,057</u>
b) Premiums ceded to reinsurers of insurance contracts		
Reinsurance premiums ceded	(1,045,132)	(470,482)
Change in unearned premiums provision	102,278	(133,128)
Total premiums ceded to reinsurers	<u>(942,854)</u>	<u>(603,610)</u>
c) Reinsurance to close	41,023	17,925
Net premiums	<u>1,191,573</u>	<u>1,544,372</u>

Reinsurance premiums ceded in 2021 include \$583m of written premiums, \$470m of earned premiums, ceded as part of the LPT agreement with RiverStone.

5. Fees and commission income

\$'000	2021	2020
Lloyd's underwriting agencies:		
Management fees	1,001	1,355
Profit commission	177	1,236
Insurance services – commission and service fees	1,131	1,730
	<u>2,309</u>	<u>4,321</u>

6. Investment income

\$'000	2021	2020
Interest income on financial assets	18,772	28,001
Dividend income	5,820	5,653
Interest income on cash and cash equivalents	3,410	11,116
Gross investment income	<u>28,002</u>	<u>44,770</u>
Investment fees & expenses	(2,496)	(1,768)
Net investment income	<u>25,506</u>	<u>43,002</u>

7. Net realised gains and losses

\$'000	2021	2020
Realised gains on financial assets	16,272	44,265
Realised losses on financial assets	(12,878)	(14,187)
	<u>3,394</u>	<u>30,078</u>

8. Fair value gains and losses

\$'000	2021	2020
Fair value gains on financial assets	20,977	25,955
Fair value losses on financial assets	(34,960)	(48,093)
	<u>(13,983)</u>	<u>(22,138)</u>

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Year end 31 December 2021

9. Net benefits and claims

\$'000	2021	2020
a) Gross benefits and claims		
Gross benefits and claims paid	(1,112,898)	(1,205,797)
Change in contract liabilities	<u>(183,163)</u>	<u>(605,617)</u>
	<u>(1,296,061)</u>	<u>(1,811,414)</u>
b) Reinsurance		
Claims ceded to reinsurers	162,028	402,982
Change in contract liabilities ceded to reinsurers	<u>673,115</u>	<u>220,299</u>
	<u>835,143</u>	<u>623,281</u>
c) Reinsurance to close	<u>(41,023)</u>	<u>(17,925)</u>
Net benefits and claims	<u>(501,941)</u>	<u>(1,206,058)</u>

Change in contract liabilities ceded to reinsurers in 2021 includes recoveries under the LPT agreement with RiverStone.

10. Finance costs

\$'000	Note	2021	2020
Fees for letters of credit		(6,848)	(4,563)
Interest on lease liabilities	34	(1,354)	(347)
Interest expense		-	(1,337)
Trustee fees, bank charges and interest expenses		<u>(433)</u>	<u>(503)</u>
		<u>(8,635)</u>	<u>(6,750)</u>

Finance costs of \$10.2m (2020: \$7.0m) have been paid during the year. Interest expense of \$1.3m in 2020 was mainly made up of loan interest paid to CGL's immediate parent, FHL.

11. Other operating and administrative expenses

\$'000	Note	2021	2020
Direct commission		(447,926)	(519,795)
Employee benefit expenses	12	(125,047)	(106,257)
Amortisation of intangible assets	14	(5,021)	(5,400)
Depreciation of property and equipment	15	(2,067)	(1,222)
Depreciation of right-of-use assets	34	(3,637)	(5,211)
Premises expenses		(8,008)	(10,235)
Auditor's remuneration - audit & related services		(2,469)	(2,054)
Auditor's remuneration - other services		(512)	(445)
Syndicate personal expenses and Lloyd's charges		(38,716)	(37,553)
Professional fees		(22,300)	(25,934)
Other expenses		(10,286)	(15,693)
Income from ceded expenses		-	59,799
Expenses before exchange adjustments		<u>(665,989)</u>	<u>(670,000)</u>
Net foreign exchange adjustments		<u>(8,232)</u>	<u>13,332</u>
		<u>(674,221)</u>	<u>(656,668)</u>
Underwriting expenses		(636,970)	(632,613)
Non-underwriting expenses		<u>(37,251)</u>	<u>(24,055)</u>
		<u>(674,221)</u>	<u>(656,668)</u>

Notes to the consolidated financial statements

Year end 31 December 2021

11. Other operating and administrative expenses (continued)

Other expenses include IT and marketing costs and irrecoverable VAT expenses.

The comparative has been represented to show income from ceded expenses that represents recoveries relating to Syndicate 1861 2018 & prior expenses which were fully reinsured to Premia Re.

12. Employee benefit expenses

\$'000	2021	2020
Salaries and wages	(104,490)	(83,691)
Social security costs	(11,222)	(9,691)
Pension costs – defined contribution plans	(6,539)	(6,020)
Other benefits	(2,796)	(6,855)
	<u>(125,047)</u>	<u>(106,257)</u>

Employee benefits include termination payments of \$1.8m (2020:\$3.3m).

13. Income tax

The Company is incorporated in Jersey and registered for tax in the United Kingdom where it is managed and controlled.

The subsidiary companies are registered for tax in various jurisdictions, including the United Kingdom, United States, Singapore, Malaysia, and Australia. The subsidiary companies in the UK are the main operating companies in the Group. Therefore, as in prior years, it is appropriate to reconcile the Group tax charge to the UK Statutory rate. Overseas tax primarily relates to recognition of deferred tax assets on prior year losses incurred by the Group's US subsidiary.

The comparative results have been represented to report overseas taxes within both current tax on profits for the year and adjustments for current tax on prior periods.

The major components of income tax credits for the years ended 31 December 2021 and 31 December 2020 are:

a) Consolidated statement of profit or loss

\$'000	2021	2020
Current tax		
Current tax on profits for the year	(441)	356
Adjustments for current tax on prior periods	10,614	564
Total current tax credit	<u>10,173</u>	<u>920</u>
Deferred tax		
Origination and reversal of temporary differences	3,710	15,442
Adjustments for deferred tax on prior periods	1,184	-
Impact of change in deferred tax rate	1,655	(1,458)
Total deferred tax credit	<u>6,549</u>	<u>13,984</u>
Total income tax credit	<u>16,722</u>	<u>14,904</u>

Notes to the consolidated financial statements

Year end 31 December 2021

13. Income tax (continued)

b) Reconciliation of tax credit

\$'000	2021	2020
Profit/(loss) before tax	28,182	(257,154)
Tax at 19%	(5,355)	48,859
Profits/(losses) not subject to UK tax	7,712	(10,813)
Overseas current tax	(441)	356
Adjustments for tax on prior periods	11,798	564
Effect of losses not recognised	(1,048)	(24,781)
Effect of free group relief	2,065	902
Effect of deferred tax rate change	1,655	(1,458)
Other	336	1,275
Total income tax credit	16,722	14,904

Adjustments for prior periods include a payment received of \$6,009k (2020: \$nil) from the previous owner of Flectat 2 Limited for the surrender of losses by Flectat 2 Limited.

c) Income tax receivable/(payable), net

\$'000	2021	2020
At 1 January	(569)	111
Taxes recorded in the statement of profit or loss	4,164	1,146
Payments made on-account during the year	770	1,412
Tax received	(3,930)	(3,082)
Foreign exchange adjustments	383	(156)
At 31 December	818	(569)
Reflected in the statement of financial position as follows;		
Income tax receivable	1,021	-
Income tax payable	(203)	(569)
Net income tax receivable/(payable)	818	(569)

d) Deferred tax, net

\$'000	2021	2020
Excess of tax over book depreciation	1,650	589
Tax on underwriting losses	34,025	25,325
Tax on intangible asset	(25,520)	(20,000)
Bonus accrual	2,021	-
Other deferred tax balances	696	495
Total deferred tax asset	12,872	6,409
Reflected in the statement of financial position as follows;		
Deferred tax asset	12,872	6,409
Net deferred tax asset	12,872	6,409

Notes to the consolidated financial statements

Year end 31 December 2021

13. Income tax (continued)

d) Deferred tax, net (continued)

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

The recoverability of deferred tax assets in relation to underwriting losses will depend on the availability of future taxable profits. Based on current business forecasts it is probable that sufficient profits will accrue within the foreseeable future to support the current level of recognised deferred tax asset.

The Group has tax losses and gross temporary differences in respect of underwriting losses in the corporate members and other tax losses in Group entities which total approximately \$391m (2020: \$407m) which have no expiry date, except for \$9m of US losses expiring in 2035, and have not been recognised for deferred tax purposes. An amount of \$34m of deferred tax asset has been recognised in relation to the crystallised underwriting losses (2020: \$25m).

On 3 March 2021, it was announced in the UK Government's Budget that the main UK corporation tax rate will increase to 25% from 1 April 2023. The enacted UK Corporation tax rate applicable to the company was increased from 19% to 25% on 24 May 2021. The closing net deferred tax assets have been calculated at 25% and accordingly a rate change adjustment has arisen as the opening deferred tax balance had been calculated taking into account the previously enacted rate of 19%.

e) Reconciliation of deferred tax assets, net

\$'000	2021	2020
Balance at 1 January	6,409	8,060
Acquired on acquisition	-	(15,668)
Origination and reversal of temporary differences	3,710	15,442
Adjustments for deferred tax on prior periods	1,184	-
Impact of change in deferred tax rate	1,655	(1,458)
Foreign exchange and other adjustments	(86)	33
Balance at 31 December	<u>12,872</u>	<u>6,409</u>

Notes to the consolidated financial statements

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14. Intangible assets

\$'000	Goodwill	Syndicate participation rights	Insurance contract intangible asset	Distribution channels intangible asset	Managing agency contract	IT Software and licences	Total
Cost							
At 1 January 2020	-	22,698	25,905	-	10,233	17,227	76,063
Acquired on acquisition	58,662	63,184	-	28,983	-	-	150,829
Disposals	-	-	-	-	(10,000)	-	(10,000)
Exchange and other	-	-	-	-	(233)	615	382
At 31 December 2020	58,662	85,882	25,905	28,983	-	17,842	217,274
Additions	-	135	-	-	-	-	135
Disposals	-	-	-	-	-	(384)	(384)
Exchange and other	(31)	-	-	-	-	(247)	(278)
At 31 December 2021	58,631	86,017	25,905	28,983	-	17,211	216,747
Accumulated amortisation							
At 1 January 2020	-	-	19,913	-	256	5,619	25,788
Amortisation in the year	-	-	1,954	1,964	-	1,482	5,400
Disposals	-	-	-	-	(250)	-	(250)
Exchange and other	-	-	-	-	(6)	362	356
At 31 December 2020	-	-	21,867	1,964	-	7,463	31,294
Amortisation in the year	-	-	1,224	1,965	-	1,832	5,021
Disposals	-	-	-	-	-	(384)	(384)
Exchange and other	-	-	-	-	-	(296)	(296)
At 31 December 2021	-	-	23,091	3,929	-	8,615	35,635
Carrying amount							
At 31 December 2020	58,662	85,882	4,038	27,019	-	10,379	185,980
At 31 December 2021	58,631	86,017	2,814	25,054	-	8,596	181,112

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 syndicate participation rights intangible was allocated to the syndicates at Lloyd's cash generating unit ("CGU"). The recoverable amount of the syndicate participation rights was established with reference to its fair value less costs to sell.

The fair value measurement is evaluated through comparison of external quoted peers, past performance and future prospects of the group to the group's tangible net asset value. This indicates sufficient headroom such that reasonably alternative assumptions are not anticipated to result in a potential impairment of syndicate participation rights.

Goodwill has been allocated to the syndicates at Lloyd's CGU and tested for impairment using an estimate of its recoverable amount. This has been assessed by valuing the Group at fair value less cost to sell. Similarly, fair value has been established with reference to market multiples for similar businesses, which indicates sufficient headroom such that reasonably alternative assumptions are not anticipated to result in a potential impairment.

The external quoted market prices provide current and observable inputs into the fair value measurements, which are classed as level 2 within the fair value hierarchy.

Notes to the consolidated financial statements

Year end 31 December 2021

14. Intangible assets (continued)

Intangible assets with a finite useful life

The distribution channels, IT software 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. There was no impairment in 2021 (2020: \$0m).

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

15. Property and equipment

	Note	Computer equipment	Motor vehicles	Fixtures, fittings and equipment	Leasehold improvements	Total
\$'000						
Cost						
At 1 January 2020		7,927	149	3,059	1,401	12,536
Additions		847	-	409	1,490	2,746
Disposals		(90)	(163)	(402)	-	(655)
Exchange		326	14	9	25	374
At 31 December 2020		9,010	-	3,075	2,916	15,001
Additions		4,061	-	905	7,732	12,698
Disposals		(1,490)	-	(861)	(660)	(3,011)
Exchange		(123)	-	(50)	(31)	(204)
At 31 December 2021		11,458	-	3,069	9,957	24,484
Accumulated depreciation						
At 1 January 2020		5,062	53	2,373	1,298	8,786
Charge for the year	11	922	16	265	19	1,222
Disposals		(90)	(57)	(263)	-	(410)
Exchange		323	(12)	28	23	362
At 31 December 2020		6,217	-	2,403	1,340	9,960
Charge for the year	11	1,436	-	259	372	2,067
Disposals		(1,490)	-	(861)	(660)	(3,011)
Exchange		(51)	-	(62)	74	(39)
At 31 December 2021		6,112	-	1,739	1,126	8,977
Carrying amount						
At 31 December 2020		2,793	-	672	1,576	5,041
At 31 December 2021		5,346	-	1,330	8,831	15,507

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16. Deferred acquisition costs

\$'000	2021	2020
Insurance contract deferred acquisition costs at 1 January	330,513	268,301
Movement in deferred acquisition costs	18,324	(15,377)
Transfer to external reinsurer	(44,218)	-
Unwind of acquired fair value adjustment	51,199	77,589
Insurance contract deferred acquisition costs at 31 December	<u>355,818</u>	<u>330,513</u>

17. Reinsurance assets

\$'000	Note	2021	2020
Non-life:			
Reinsurers' share of outstanding claims provision	27 i	617,543	406,504
Reinsurers' share of incurred but not reported provision	27 ii	928,120	817,811
Reinsurers' share of claims outstanding		<u>1,545,663</u>	<u>1,224,315</u>
Reinsurers' share of unearned premiums	27 iii	301,383	282,298
		<u>1,847,046</u>	<u>1,506,613</u>

18. Financial assets

a) Financial assets at fair value through profit or loss

\$'000	2021	2020
Fair value (designated as such upon initial recognition)		
Debt securities and other fixed income securities	1,945,014	1,431,425
Holdings in collective investment schemes	673,879	971,446
Equity shares	116,521	105,735
Private credit funds	21,896	-
Total financial assets at fair value through profit or loss	<u>2,757,310</u>	<u>2,508,606</u>

Financial assets which are subject to restrictions are referred to in Note 35(a). Financial assets that are classified as loans and receivables are disclosed in Note 22 Trade and Other Receivables.

(b) Carrying value of financial instruments other than derivatives

\$'000	2021	2020
Fair value (designated as such upon initial recognition)		
At 1 January	2,508,606	1,783,036
Acquired on acquisition	-	334,464
Transfer to external reinsurer	(194,675)	-
Purchases	3,337,536	2,317,292
Disposals	(2,883,620)	(1,933,988)
Fair value losses	(13,931)	(22,276)
Realised gains	3,394	30,078
At 31 December	<u>2,757,310</u>	<u>2,508,606</u>

Notes to the consolidated financial statements

Year end 31 December 2021

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.

	2021			2020		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
\$'000						
Derivatives at FVPL:						
Interest rate futures	40	(5)	10,884	11	-	5,264
Forward exchange contracts	4,103	(3,930)	648,797	15,724	(1,785)	679,426
	<u>4,143</u>	<u>(3,935)</u>	<u>659,681</u>	<u>15,735</u>	<u>(1,785)</u>	<u>684,690</u>

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

20. Fair value measurement

i) Valuation

The Group has classified its financial instruments as at 31 December 2021 using the fair value hierarchy required by IFRS 13 'Fair value measurement'. The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value, with Level 1 considered the most reliable. The levels within the fair value hierarchy are defined as follows:

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

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

The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique.

The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The valuation techniques include broker dealer quotes, reported trades, issuer spreads and available bids. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. There have been no transfers between level 1 and level 2 financial instruments during the year (2020: \$nil).

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20. Fair value measurement (continued)

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
Financial assets at 31 December 2021				
Debt securities & other fixed income securities	580,806	1,364,208	-	1,945,014
Holdings in collective investment schemes	451,777	222,102	-	673,879
Equity	86,118	-	30,403	116,521
Private credit funds	-	-	21,896	21,896
Derivative assets	40	4,103	-	4,143
Financial assets	1,118,741	1,590,413	52,299	2,761,453
Other assets – overseas deposits	36,339	117,136	-	153,475
Total	1,155,080	1,707,549	52,299	2,914,928
Financial liabilities at 31 December 2021				
Derivative liabilities	5	3,930	-	3,935
Total	5	3,930	-	3,935
Financial assets at 31 December 2020				
Debt securities & other fixed income securities	528,168	903,257	-	1,431,425
Holdings in collective investment schemes	638,351	333,095	-	971,446
Equity	74,882	-	30,853	105,735
Derivative assets	11	15,724	-	15,735
Financial assets	1,241,412	1,252,076	30,853	2,524,341
Other assets – overseas deposits	33,436	82,657	-	116,093
Total	1,274,848	1,334,733	30,853	2,640,434
Financial liabilities at 31 December 2020				
Derivative liabilities	-	1,785	-	1,785
Total	-	1,785	-	1,785

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.

Level 3 include non-traded private credit funds and the Group's share of the syndicates' loans to the Lloyd's central fund. The fair value of the private credit funds is determined with reference to the net asset value. The Group's share of the syndicates' loans to the Lloyd's central fund is not tradeable and is valued based on a discounted cash flow model to which a fair value adjustment has been applied to appropriately reflect the credit and illiquidity risk of the instrument. These loans are deemed to be equity on the basis that the repayment of the loan and interest is at the discretion of the Corporation of Lloyd's. The syndicate loans have been classified as level 3 assets because the valuation approach includes significant unobservable inputs and an element of subjectivity in determining appropriate credit and illiquidity spreads within the discount rates used in the discounted cash flow model.

Any transfers between levels in the fair value hierarchy is deemed to have taken place by assessing categorisation at the end of the reporting period. There were no transfers to and from level 3 assets for the period ended 31 December 2021 when compared with the comparative prior period end.

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20. Fair value measurement (continued)

ii) Fair value measurement of assets (continued)

The table below shows a reconciliation of opening and closing balances for financial instruments classified as level 3 of the fair value hierarchy.

\$'000	2021	2020
At 1 January	30,853	4,157
Transferred on Flectat 2 acquisition	-	2,684
Total net loss through profit or loss	(771)	(2,243)
Purchases	22,217	26,255
At 31 December	52,299	30,853

In 2020, the \$2,243k net loss recognised in the profit or loss on level 3 investments included an unrealised loss of \$2,320k for a fair value adjustment applied to appropriately reflect the credit and illiquidity risk of level 3 assets. In 2021 the net loss of \$771k represents the impact of foreign exchange.

21. Insurance receivables

\$'000	2021	2020
Debtors arising out of insurance operations	707,457	675,015
Debtors arising out of reinsurance operations	338,707	389,149
	<u>1,046,164</u>	<u>1,064,164</u>
Amounts due within 1 year	1,040,712	1,055,999
Amounts due in over 1 year	5,452	8,165
	<u>1,046,164</u>	<u>1,064,164</u>

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

Insurance receivables include \$693m (2020: \$641m) of pipeline premium which is estimated using expert judgement, relevant underwriting input and management review.

22. Trade and other receivables

\$'000	2021	2020
Loans	23,432	16,788
Other debtors	71,146	152,733
Accrued income	12,971	15,001
Amounts due from parent undertakings	5,855	2,532
	<u>113,404</u>	<u>187,054</u>
Amounts due within 1 year	97,478	173,286
Amounts due in over 1 year	15,926	13,768
	<u>113,404</u>	<u>187,054</u>

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22. Trade and other receivables (continued)

The fair value of trade and other receivables approximates to their carrying value. The loan principal comprises US property bridge loans of \$23.4m (2020: \$8.7m) and, in 2020, a business loan of \$8.1m, which are classified as loans and receivables in accordance with IAS 39 and are carried at amortised cost. The business loan of \$8.1m as at 31 December 2020 has been repaid during the year.

Details about the maturity of these loans can be found in Note 33(c).

Other debtors in 2021 include \$48.6m (2020: \$142m) of unsettled investment trades, resulting from trading activity over the year end date. The amount was settled in January 2022.

23. Other assets

Other assets include overseas deposits of \$153.5m (2020: \$116.1m) which are lodged as a condition of conducting underwriting business in certain countries.

24. Cash and cash equivalents

\$'000	2021	2020
Cash at bank and in hand	177,637	132,027
Cash equivalents	116,980	558,470
	<u>294,617</u>	<u>690,497</u>

The cash and cash equivalents include \$241.2m (2020: \$644.1m) that are held in Lloyd's Premium and other trust funds supporting insurance liabilities. These assets are subject to restrictions under the relevant trust deeds and bank facilities.

25. Share capital and share premium

	2021	2020
	Number	Number
Authorised shares		
Ordinary shares		
Ordinary shares of 1USD each	341,868,305	341,868,305
Ordinary shares total	<u>341,868,305</u>	<u>341,868,305</u>

	At 1 January 2020 Number	Changes in issued capital number	At 31 December 2020 number	Changes in issued capital number	At 31 December 2021 Number
Issued and fully paid:					
Ordinary shares					
Ordinary shares of 1CHF par value	100,000	(100,000)	-	-	-
Ordinary shares of 1USD par value	-	341,868,295	341,868,295	1	341,868,296
Ordinary shares total	<u>100,000</u>	<u>341,768,295</u>	<u>341,868,295</u>	<u>1</u>	<u>341,868,296</u>

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25. Share capital and share premium (continued)

Issued share capital	At 1 January 2020 \$	Changes in issued capital \$	At 31 December 2020 \$	Changes in issued capital \$	At 31 December 2021 \$
Ordinary shares					
Ordinary shares of 1CHF par value	105,719	(105,719)	-	-	-
Ordinary shares of 1USD par value	-	341,868,293	341,868,293	1	341,868,294
Share capital total	105,719	341,762,574	341,868,293	1	341,868,294

Issued share premium	At 1 January 2020 \$	Changes in issued share premium \$	At 31 December 2020 \$	Changes in issued share premium \$	At 31 December 2021 \$
Ordinary shares					
Ordinary shares of 1USD par	-	279,879,008	279,879,008	65,452,861	345,331,869
Share premium total	-	279,879,008	279,879,008	65,452,861	345,331,869

On 7 January 2020, following the re-domiciliation of CGL from Switzerland to Jersey on 6 August 2019, a special resolution was passed for the issued and unissued share capital of CGL to be redenominated from Swiss Franc (CHF) to US dollars (US\$) at a rate of exchange (CHF 1.00 to US\$ 0.99999). The 100,000 authorised and issued shares in the Company were consolidated as 99,999 ordinary shares of US\$1.00.

On 23 November 2020, 341,768,294 ordinary shares, with a nominal value of \$1.00 were issued for \$1.00 each, in exchange for a capital injection received from FHL of \$341.8m.

Changes in Issued Capital

On 7 January 2020, one ordinary share with a nominal value of \$1.00 was issued to FHL in exchange for \$88.5m of shares of Flectat 2.

On 15 June 2020, one ordinary share with a nominal value of \$1.00 was issued in exchange for a capital injection received from FHL of \$171.4m and the transfer of assets of \$20m.

On 22 January 2021, one ordinary share with a nominal value of \$1.00 was issued to FHL in exchange for a capital injection of \$65.5m received from FHL.

26. Insurance contract liabilities

\$'000	Note	2021	2020
Non-life:			
Outstanding claims provision	27 i	1,417,082	1,418,595
Incurred but not reported provision	27 ii	1,651,521	1,796,948
Claims outstanding		3,068,603	3,215,543
Provision for unearned premiums	27 iii	1,280,167	1,182,530
		<u>4,348,770</u>	<u>4,398,073</u>

Notes to the consolidated financial statements

Year end 31 December 2021

27. Insurance contract liabilities and reinsurance assets

i. Outstanding claims provision

	2021			2020		
	Insurance contract liabilities	Reinsurance of liabilities	Net	Insurance contract liabilities	Reinsurance of liabilities	Net
\$'000						
Non-life:						
At 1 January	1,418,595	(406,504)	1,012,091	1,047,207	(185,619)	861,588
Transferred on acquisition	-	-	-	262,898	(227,910)	34,988
Movement during the year	90,279	(341,492)	(251,213)	60,771	25,791	86,562
Reinsurance to close	91,472	(63,143)	28,329	22,236	(5,313)	16,923
Transfers of risk	(171,711)	171,711	-	-	-	-
Exchange and other adjustments	(11,553)	21,885	10,332	25,483	(13,453)	12,030
At 31 December	<u>1,417,082</u>	<u>(617,543)</u>	<u>799,539</u>	<u>1,418,595</u>	<u>(406,504)</u>	<u>1,012,091</u>

ii. Incurred but not reported provision

	2021			2020		
	Insurance contract liabilities	Reinsurance of liabilities	Net	Insurance contract liabilities	Reinsurance of liabilities	Net
\$'000						
Non-life:						
At 1 January	1,796,948	(817,811)	979,137	781,737	(215,668)	566,069
Transferred on acquisition	-	-	-	439,455	(352,006)	87,449
Movement during the year	92,884	(331,623)	(238,739)	544,846	(246,090)	298,756
Reinsurance to close	63,638	(56,622)	7,016	7,641	(2,707)	4,934
Transfers of risk	(277,022)	277,022	-	-	-	-
Exchange and other adjustments	(24,927)	914	(24,013)	23,269	(1,340)	21,929
At 31 December	<u>1,651,521</u>	<u>(928,120)</u>	<u>723,401</u>	<u>1,796,948</u>	<u>(817,811)</u>	<u>979,137</u>

It is estimated, using historical settlement trends that \$1,073m (2020: \$1,029m) of the gross claims outstanding and incurred but not reported provision and \$539m (2020: \$146m) of the corresponding amount recoverable from reinsurers included in the above analyses, will settle in the next 12 months.

iii. Provision for unearned premiums

	2021			2020		
	Insurance contract liabilities	Reinsurance of liabilities	Net	Insurance contract liabilities	Reinsurance of liabilities	Net
\$'000						
Non-life:						
At 1 January	1,182,530	(282,298)	900,232	822,875	(113,728)	709,147
Transferred on acquisition	-	-	-	455,181	(299,386)	155,795
Movement during the year	126,627	(102,278)	24,349	(180,700)	133,128	(47,572)
Reinsurance to close	17,531	(11,853)	5,678	1,654	(199)	1,455
Transfers of risk	(97,477)	97,477	-	-	-	-
Unwind of acquired fair value adjustment	51,199	-	51,199	77,589	-	77,589
Exchange and other adjustments	(243)	(2,431)	(2,674)	5,931	(2,113)	3,818
At 31 December	<u>1,280,167</u>	<u>(301,383)</u>	<u>978,784</u>	<u>1,182,530</u>	<u>(282,298)</u>	<u>900,232</u>

The transfers of risk line represents the impact of the RITC agreement with Premia Re of the 2018 and prior years of account of Syndicate 1861.

Notes to the consolidated financial statements

Year end 31 December 2021

28. Insurance payables

\$'000	2021	2020
Creditors arising out of insurance operations	96,266	153,676
Creditors arising out of reinsurance operations	944,828	706,695
	<u>1,041,094</u>	<u>860,371</u>
Amounts due within 1 year	786,350	859,881
Amounts due in over 1 year	254,744	490
	<u>1,041,094</u>	<u>860,371</u>

Creditors arising out of reinsurance operations comprise principally premiums payable for reinsurance, including reinstatement premiums in both the managed syndicates and other Group operations. In 2021 creditors arising out of reinsurance operations include \$583m of premium due to RiverStone in relation to the LPT agreement. In 2020 creditors arising out of reinsurance operations included \$368.0m in relation to the quota share arrangements for the 2018 and prior years of account of Syndicate 1861.

29. Trade and other payables

\$'000	2021	2020
Other creditors including taxation and social security	72,160	161,707
Accruals and deferred income	65,373	54,844
	<u>137,533</u>	<u>216,551</u>
Amounts due within 1 year	137,533	216,551
	<u>137,533</u>	<u>216,551</u>

Other creditors in 2021 include \$52.3m (2020: \$142.3m) of unsettled investment trades, resulting from trading activity over the year end date. The amount was settled in January 2022.

30. Pension benefit obligation

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

i) Defined benefit scheme

The defined benefit pension scheme ("the scheme") was closed with effect from 30 June 2010 and all active members were treated as having left pensionable service under the scheme with effect from that date. A valuation of the scheme was undertaken at 31 December 2021 by a qualified independent actuary.

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

	2021	2020
	% per annum	% per annum
Discount rate	1.9	1.3
Expected long-term rate of return of scheme assets	2.8	2.4
Increase in salaries	n/a	n/a
Inflation assumptions	3.3	2.9
LPI pension increases (capped at 5% per annum)	<u>3.2</u>	<u>2.9</u>

Notes to the consolidated financial statements

Year end 31 December 2021

30. Pension benefit obligation (continued)

i) Defined benefit scheme (continued)

The underlying mortality assumption is based upon the standard table known as S2LPA on a year of birth usage with CMI 2020, subject to a minimum annual rate of future improvement of 1% per annum.

The scheme is operated by Canopus Services Limited, a subsidiary of the Group and current sponsor of the scheme. At 31 December 2021 the present value of the scheme liabilities was \$14.0m (2020: \$15.9m) and the market value of scheme assets was \$15.8m (2020: \$17.0m), giving a surplus of \$1.8m (2020: surplus of \$1.1m) calculated in accordance with the requirements of accounting standards.

The surplus was calculated based on the above assumptions in compliance with the requirements of accounting standards. The surplus is not recognised in the accounts on the basis that it is not considered probable that it will be recovered by the scheme.

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

ii) Defined contribution plans

The level of contributions for the defined contribution plans generally varies between 10% to 20% of salaries. Contributions of \$0.6m (2020: \$0.5m) in respect of the plans were outstanding at the year end and are included in other creditors including taxation and social security. These were settled in the month following the year end.

31. Cash generated from operating activities

\$'000	2021	2020
<i>Net change in operational assets</i>		
Net change in reinsurance assets	(886,642)	(106,357)
Net change in insurance receivables	(67,432)	107,375
Net change in other assets	20,066	(127,279)
Total	<u>(934,008)</u>	<u>(126,261)</u>
<i>Net change in operational liabilities</i>		
Net change in non-life insurance contract liabilities	496,906	579,878
Net change in insurance payables	572,154	(245,868)
Net change in other liabilities	(76,096)	43,038
Total	<u>992,964</u>	<u>377,048</u>

32. Risk management framework

a. Governance framework

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

Notes to the consolidated financial statements

Year end 31 December 2021

32. Risk management framework (continued)

a. Governance framework (continued)

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

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

b. Capital management objectives, policies and approach

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

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

c. Regulatory framework

The operations of the Group are also subject to regulatory requirements within the jurisdictions in which they operate. 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 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.

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

Canopus 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 \$600,000 (\$500,000 prior to 1 January 2020). 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.

Notes to the consolidated financial statements

Year end 31 December 2021

32. Risk management framework (continued)

c. Regulatory framework (continued)

These jurisdictions have varying minimum capital and surplus requirements to maintain eligibility. The state of New York has the largest minimum requirement at \$48m (\$47m prior to 1 January 2022).

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

In 2021, the Group has renewed its letter of credit facility with ING and increased it to \$500m (comprised of \$365m and £100m) (2020: comprised of \$400m), all of which is currently utilised (2020: \$400m).

Available capital resources

\$'000	2021	2020
Shareholders' equity	1,248,284	1,139,066
Unsecured letters of credit facilities	500,449	400,000
Available capital resources	1,748,733	1,539,066
Less: Intangible assets	(181,112)	(185,980)
Add: Deferred tax on intangible assets	25,520	20,000
Tangible financial resources	1,593,141	1,373,086

Asset liability management (ALM) framework

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

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

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk

Risk governance

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

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

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

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

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

The Risk function routinely engages with individual business units and reports to the Boards and their sub-committees. Functional risk reporting is escalated through the group structure to the Boards e.g. syndicate 4444 and 1861's aggregate information is collated, analysed and reported by a central catastrophe management team to the Group Underwriting Committee. The Active Underwriters report aggregate information to the Board of Canopus Managing Agents Limited.

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

Risk appetite

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

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

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

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

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

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

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

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

Risk control

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

Risk categories

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

Insurance Risk	Risk of loss arising from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities and premiums;
Operational Risk	Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;
Financial Risk	Risks relating to market, credit and liquidity as follows:
(a) Market Risk	Risk of loss resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments;
(b) Credit Risk	Risk of loss arising as a result of another party failing to perform its financial obligations or failing to perform them in a timely fashion;
(c) Liquidity Risk	Risk that insufficient liquid financial resources are maintained to meet liabilities as they fall due;
Strategic Risk	Risk of making wrong business decisions, implementing decisions poorly, managing capital inadequately, or being unable to adapt to changes in the operating environment;
Risks from climate change	Risk of loss from the consequences and responses to the impacts of climate change. Climate change risks include physical, transition, liability risk and other risks such as reputational and regulatory risks.

Risk assessment

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

Where control performance issues or control enhancements are identified, a remedial action plan is implemented. A self-assessment process is undertaken on a regular basis and signed off by risk and control owners. Internal Audit also reviews and tests the adequacy and effectiveness of controls documented during the self-assessment process and reports to the Audit Committee.

Reporting

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

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

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

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

Insurance risk

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

- Inappropriate underwriting activities and cycle management;
- Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
- Inadequate or insufficient reinsurance protection;
- Inadequate catastrophe exposure management;
- Ineffective controls over coverholders; and
- Inadequate reserves.

Insurance risk appetite and tolerance

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

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

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

Underwriting

The Group accepts insurance risk in a range of classes of business through its insurance underwriting entities: Syndicate 4444, Syndicate 1861, CRL and Canopus US Insurance, Inc. The Group owns a number of underwriting service companies and insurance intermediaries in Bermuda, Singapore, Malaysia, UK and it has branches in Australia and Labuan.

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

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

These are monitored through catastrophe modelling over a range of return periods and the regular calculation of realistic disaster scenarios. The aggregate of exposures is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the aggregations.

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

Underwriting (continued)

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 catastrophe events, such as windstorm, earthquake or flood in addition to certain man-made perils. The Group licences leading industry modelling tools, and supplements these with the Group's knowledge of the business, historical loss information and geographic accumulations, to monitor aggregation and to simulate catastrophe losses. The range of scenarios considered includes natural catastrophe, property, marine, liability and terrorism events.

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

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

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

Reinsurance

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

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

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

There are a number of areas of uncertainty over the reinsurance assumptions. The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which reduce the recoveries made. The impact on profit after tax and equity of a 1% deterioration in the total reinsurance recoveries would be a \$6.8m loss (2020: \$2.3m 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.

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

Reserving

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

The Group's actuarial teams use a range of recognised actuarial techniques to project gross premiums written, monitor claims development patterns and to determine the claims provisions. The Group reviews at least quarterly, premium and claims experience by class of business and year of account and the earned and projected ultimate gross and net loss ratios.

The claims provisions established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit after tax and equity of a 1% improvement/deterioration in the total net claims reserves would be an \$12.3m gain/loss (2020: \$18.8m).

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 2021 of the Group's gross claims reserves of \$3,069m (2020: \$3,216m), \$2,673m (87.1%) (2020: \$2,226m) were attributable to Canopus Corporate Capital Ltd, \$269m (8.8%) (2020: \$872m) were attributable to Flectat 2, \$87m (2.8%) (2020: \$63m) to Canopus US Insurance, Inc., \$27m (0.9%) (2020: \$39m) to Canopus Reinsurance Limited and \$13m (0.4%) (2020: \$16m) to MSH.

The figures in the tables below are presented at the exchange rates prevailing at 31 December 2021.

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33. Management of insurance and financial risk (continued)

Claims development tables (continued)

Underwriting year – Gross \$m	2012 and prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate claims costs:											
At end of period 1	1,111	666	707	830	835	1,162	853	1,128	1,164	1,249	9,705
At end of year 2	1,058	653	676	789	924	1,296	953	1,422	1,197		8,968
At end of year 3	1,051	628	680	836	972	1,304	1,101	1,464			8,036
At end of year 4	1,029	619	681	842	978	1,326	1,055				6,530
At end of year 5	1,015	624	683	851	1,004	1,307					5,484
At end of year 6	1,013	620	676	857	1,008						4,174
At end of year 7	1,008	606	677	842							3,133
At end of year 8	939	600	669								2,208
At end of year 9	930	593									1,523
At end of year 10	950										950
Older years	134										134
Current estimate of cumulative gross claims	1,084	593	669	842	1,008	1,307	1,055	1,464	1,197	1,249	10,468
Cumulative payments to date	(869)	(566)	(608)	(713)	(818)	(1,096)	(702)	(796)	(408)	(114)	(6,690)
Gross claims outstanding	215	27	61	129	190	211	353	668	789	1,135	3,778
Unearned balance											(754)
Unallocated loss adjustment expenses											45
Total liability											3,069

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

Claims development tables (continued)

Underwriting year – Net \$m	2012 and prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate claims costs:											
At end of period 1	751	580	614	696	680	881	701	946	905	894	7,648
At end of year 2	710	592	590	680	735	986	812	1,175	827		7,107
At end of year 3	711	573	588	701	773	1,017	865	1,106			6,334
At end of year 4	765	569	585	707	780	1,023	748				5,177
At end of year 5	675	575	585	716	795	967					4,313
At end of year 6	670	573	580	723	735						3,281
At end of year 7	667	561	581	644							2,453
At end of year 8	670	555	551								1,776
At end of year 9	658	540									1,198
At end of year 10	651										651
Older years	26										26
Current estimate of cumulative net claims	677	540	551	644	735	967	748	1,106	827	894	7,689
Cumulative payments to date	(633)	(527)	(527)	(611)	(682)	(873)	(640)	(746)	(371)	(112)	(5,722)
Net claims outstanding	44	13	24	33	53	94	108	360	456	782	1,967
Unearned balance											(489)
Unallocated loss adjustment expenses											45
Total liability											1,523

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

Operational risk

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

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

Financial risk

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

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

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

(a) Market risk

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

i) Valuation

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

ii) Market price

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

The cash and core fixed income portfolio as at end of December 2021 represented 93% (2020: 94%) of the Group's financial assets, while the diversifying and return seeking allocation was 7% (2020: 6%).

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

Financial risk – market risk (continued)

iii) Interest rate sensitivity of the fixed income portfolio

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

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

By way of example, the value of fixed income investments in the Group's balance sheet at 31 December 2021 was \$1,945m (2020: \$1,431m) with an average duration of 1.5 years (2020: 1.9 years). If interest rates were to rise or fall by 100 basis points at the balance sheet date, the market value of the fixed income securities would be expected to decrease or increase by \$25.1m (2020: \$27.0m).

The Group manages interest rate risk by 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 interest rates are likely to rise in order to limit the impact on the market value of the portfolio.

The Group did not hold debenture loans at 31 December 2021 or 31 December 2020.

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 \$38.9m (2020: \$24.9m).

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 external investment managers can hold in the portfolio.

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

v) Exchange rates

The Group operates internationally and has exposure to foreign exchange risk. The Group seeks to hold its net assets primarily in US dollars. Where the risk of loss through mismatch of other currencies is deemed material, the Group will seek to mitigate the risk by buying or selling the relevant currency assets or entering into forward currency sale or purchase contracts.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's consolidated financial statements are presented in US Dollars (the "presentation currency"). Accordingly, the Group actively manages its non US dollar balance sheet exposures, which are predominantly against the Euro, Canadian Dollar and Sterling.

The net currency position at 31 December 2021 and 31 December 2020 was:

Statement of profit or loss 'at risk' exposures:

At 31 December 2021	GBP £'000	EUR €'000	CAD C\$'000
Gross exposure	121,581	(33,141)	(51,994)
Forward currency contracts	(113,422)	30,053	45,204
Net exposure	8,159	(3,088)	(6,790)

At 31 December 2020	GBP £'000	EUR €'000	CAD C\$'000
Gross exposure	122,670	41,137	(16,549)
Forward currency contracts	(160,619)	(50,814)	27,979
Net exposure	(37,949)	(9,677)	11,430

It is estimated that the effect of a 10% strengthening (or weakening) of exchange rates against US dollar would change profit after tax and equity by approximately \$0.6m (2020: \$2.8m) for Sterling, \$0.3m (2020: \$0.8m) for Euro and \$0.9m (2020: \$1.5m) for CAD.

(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.
- Counterparty risk with respect to loans and other receivables.

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.

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

(b) Credit risk (continued)

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 2021	AAA	AA	A	Other and/or not rated	Total
\$'000					
Reinsurance assets	-	328,469	1,369,096	149,481	1,847,046
Reinsurance receivables	-	-	-	338,707	338,707
Debt and fixed income securities	1,179,889	408,222	288,162	68,741	1,945,014
Holdings in collective investment schemes	236,370	135,657	189,747	112,105	673,879
Private credit funds	-	-	-	21,896	21,896
Loans	-	-	-	23,432	23,432
Other assets – overseas deposits	65,867	8,046	31,484	48,078	153,475
Cash and cash equivalents	-	-	294,617	-	294,617
Total	1,482,126	880,394	2,173,106	762,440	5,298,066

At 31 December 2020	AAA	AA	A	Other and/or not rated	Total
\$'000					
Reinsurance assets	-	336,504	996,971	173,138	1,506,613
Reinsurance receivables	-	-	-	389,149	389,149
Debt and fixed income securities	923,688	162,047	258,091	87,599	1,431,425
Holdings in collective investment schemes	517,047	89,466	239,139	125,794	971,446
Loans	-	-	-	16,788	16,788
Other assets – overseas deposits	70,955	8,917	21,388	14,833	116,093
Cash and cash equivalents	-	-	690,497	-	690,497
Total	1,511,690	596,934	2,206,086	807,301	5,122,011

The underlying investments in the 'other/not rated' holdings in collective investment schemes (that includes participation in investment pools) at 31 December 2021 comprised:

\$'000	2021	2020
Absolute return funds	55,866	55,048
Bond funds	43,633	49,793
Hedge funds	28	10,596
Open ended funds	12,578	10,357
Total	112,105	125,794

The carrying values represent the maximum exposure to credit risk at the balance sheet date in respect of the above assets. Insurance and reinsurance debtors are included in loans and receivables.

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

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

(b) Credit risk (continued)

At 31 December 2021	Neither past due nor impaired	Past due (during range of months)				Carrying value
		0-3	3-6	6-12	Over 12	
\$'000						
Reinsurance assets	1,847,046	-	-	-	-	1,847,046
Debtors arising out of reinsurance operations	224,054	70,320	15,489	17,038	11,806	338,707
Debtors arising out of insurance operations	702,722	3,928	665	73	69	707,457
Financial assets at fair value	2,757,310	-	-	-	-	2,757,310
Loans	23,432	-	-	-	-	23,432

At 31 December 2020	Neither past due nor impaired	Past due (during range of months)				Carrying value
		0-3	3-6	6-12	Over 12	
\$'000						
Reinsurance assets	1,506,613	-	-	-	-	1,506,613
Debtors arising out of reinsurance operations	275,963	57,363	33,004	11,380	11,439	389,149
Debtors arising out of insurance operations	668,766	4,031	1,185	666	367	675,015
Financial assets at fair value	2,508,606	-	-	-	-	2,508,606
Loans	16,788	-	-	-	-	16,788

Debtors arising out of reinsurance operations are presented net of bad debt provision of \$2.2m (2020: \$1.2m). Debtors arising out of insurance operations are presented net of bad debt provision of \$6.1m (2020: \$5.8m).

(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 market funds.

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

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

(c) Liquidity risk (continued)

The contractual maturity profile at 31 December 2021 was as follows:

31 December 2021

\$'000	Loan	Debt and other fixed income securities	Holdings in collective investment schemes	Private credit funds	Overseas deposits	Cash and cash equivalents	Total
Less than one year	7,506	358,139	-	-	153,475	294,617	813,737
Between one and two years	13,403	198,375	-	-	-	-	211,778
Between two and five years	2,523	532,843	-	-	-	-	535,366
Over five years	-	855,657	-	-	-	-	855,657
	23,432	1,945,014	-	-	153,475	294,617	2,416,538
Other non-dated instruments	-	-	673,879	21,896	-	-	695,775
	23,432	1,945,014	673,879	21,896	153,475	294,617	3,112,313

At 31 December 2020

\$'000	Loan	Debt and other fixed income securities	Holdings in collective investment schemes	Private credit funds	Overseas deposits	Cash and cash equivalents	Total
Less than one year	3,020	442,649	-	-	116,093	690,497	1,252,259
Between one and two years	13,768	175,784	-	-	-	-	189,552
Between two and five years	-	426,281	-	-	-	-	426,281
Over five years	-	386,711	-	-	-	-	386,711
	16,788	1,431,425	-	-	116,093	690,497	2,254,803
Other non-dated instruments	-	-	971,446	-	-	-	971,446
	16,788	1,431,425	971,446	-	116,093	690,497	3,226,249

Loan principal of \$23.4m represents US property bridge loans (2020: \$8.7m). In 2020 the loan principal amount also included a business loan of \$8.1m, which was paid off during the year.

The US property bridge loans of \$23.4m (2020: \$8.7m), and accrued interest thereon of \$0.1m, have been classified as loans and receivables in accordance with IAS 39, and are carried at amortised cost. The carrying amount of US property bridge loans has been tested for impairment and management concluded that it is not impaired as at 31 December 2021.

The expected payment profile of gross insurance contract liabilities and borrowings as at 31 December 2021 and 31 December 2020 are as follows:

\$'000	2021	2020
Less than one year	1,579,547	1,516,454
Between one and three years	1,598,830	1,689,638
Between three and five years	630,644	644,072
Over five years	539,749	547,909
	<u>4,348,770</u>	<u>4,398,073</u>

Claims outstanding is reported net of discounting credit on non-life annuities liability business of \$6.2m (2020: \$4.5m).

Notes to the consolidated financial statements

Year end 31 December 2021

33. Management of insurance and financial risk (continued)

(c) Liquidity risk (continued)

The expected payment profile of lease liabilities, based on undiscounted cash flows, as at 31 December 2021 and 31 December 2020 are as follows:

\$'000	2021	2020
Less than one year	2,304	2,079
Between one and two years	2,201	2,075
Between two and five years	17,732	15,081
Over five years	26,150	32,207
	<u>48,387</u>	<u>51,442</u>

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

	2021	2020
	Years	Years
Sterling	0.1	0.5
US dollar	1.6	1.7
Euro	2.0	3.3
Canadian dollar	2.2	2.5

By taking into account the diversifying and return seeking assets within the portfolio (in addition to the fixed income investments), the average duration of the portfolio is around 1.0 years (2020: 0.7 years).

Risks from climate change

The Group has recognised climate change as an emerging risk for a number of years but has significantly developed its climate risk framework recently in line with Canopus Group developments and evolving regulatory expectations. Climate change and society's response to it, present physical, transition and liability risks to the business but the Group believes it is well positioned to identify, assess, manage and mitigate risk and seek opportunities for innovation, diversification and growth within the industry.

The Group's climate risk framework covers governance, risk management, scenario analysis and disclosures. It aligns with the requirements of regulatory requirements in the UK, specifically PRA Supervisory Statement SS3/19. Key areas of focus in the year have been the further development of Group's climate change risk strategy and risk appetite, governance and risk management approach, establishment of a multi-disciplinary climate risk working group, consideration of scenario analysis (aligned with the Bank of England's 2021 Climate Biennial Exploratory Scenario), and a commitment to develop TCFD-aligned disclosures from 2022 onwards. Canopus is a member of ClimateWise, a global network of leading insurers, reinsurers, brokers and industry service providers which share a commitment to reduce the impact of climate change on society and the insurance industry.

Group's climate risk framework is part of its wider Environmental, Social and Governance (ESG) framework which covers a broad range of sustainability issues. As part of this, Group is developing and embedding a suite of responsible business policies covering underwriting, investments and operations.

The Group has considered the impact of the physical and transition risks of climate change and identified this as an area of focus, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2021.

Notes to the consolidated financial statements

Year end 31 December 2021

34. Leases

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

Group as a lessee

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

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

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

\$'000	Land and buildings	Equipment	Total
At 1 January 2020	4,688	364	5,052
Additions	38,622	3,970	42,592
Depreciation expense	(4,462)	(749)	(5,211)
Foreign exchange	100	(371)	(271)
At 31 December 2020	38,948	3,214	42,162
Additions	969	-	969
Disposals	(1,111)	-	(1,111)
Depreciation expense	(2,830)	(807)	(3,637)
Foreign exchange	(838)	23	(815)
At 31 December 2021	35,138	2,430	37,568

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

\$'000	2021	2020
At 1 January	41,146	5,174
Additions	862	41,328
Cancelled lease derecognised	(1,111)	-
Unwind of discounting (interest on lease liabilities)	1,354	347
Lease payments	(1,797)	(5,625)
Foreign exchange	(701)	(78)
At 31 December	39,753	41,146

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

\$'000	2021	2020
Depreciation expense of right-of-use assets	3,637	5,211
Interest expense on lease liabilities	1,354	347
Expense relating to short-term leases*	3,301	2,015
Expense relating to leases of low-value assets*	278	233
Variable lease payments*	1,120	111
Total amount recognised in profit or loss	9,690	7,917

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

Notes to the consolidated financial statements

Year end 31 December 2021

34. Leases (continued)

The Group had total cash outflows for leases of \$6.5m in 2021 (2020: \$8.0m).

The Group entered into a new property lease for a new office space in London at 22 Bishopsgate in December 2020. This resulted in recognition of a right-of-use asset of \$34.6m and a lease liability of \$33.4m.

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

As at 31 December 2021, undiscounted potential future lease payments of \$26.5m (2020: \$26.9m) were not reflected in amounts recognised within the consolidated statement of financial position. These relate to periods following the exercise date of an extension option of 22 Bishopsgate not expected to be exercised.

As at 31 December 2021 the Group does not have any lease contracts that have not yet commenced but to which the Group is committed. In 2020 the undiscounted future lease payments for non-cancellable lease contracts were \$nil within one year, \$1.0m within five years and \$nil thereafter.

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

35. Guarantees and contingencies

(a) Assets securing insurance and other liabilities

Of the total of financial assets, cash and cash equivalents and other assets disclosed on the Group's balance sheet, \$2,849m (2020: \$2,539m) are held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit. These assets are subject to restrictions under the relevant trust deeds and bank facilities.

(b) Deeds of Indemnity

During 2021, the Group did not enter into new Deeds of Indemnity (2020: one) and did not terminate any existing Deeds of Indemnity with Lloyd's (2020: twelve). There are a total of five (2020: five) as at 31 December 2021. Deeds remaining cover remote potential liabilities that may arise following the release by Lloyd's of various members' FAL.

(c) Bank facilities

As at 31 December 2021, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

- \$500m (2020: \$400m) unsecured, of which \$500m (2020: \$400m) has been utilised to support underwriting on syndicate 4444's 2020, 2021 and 2022 years of account and syndicate 1861's 2020 year of account.

In addition, CRL had the following facility:

- Letters of credit totalling \$6.8m (2020: \$14.3m) with various overseas cedants. Should CRL fail to meet its obligations under contracts with these cedants they would be able to drawdown on these letters of credit. The letters of credit facilities are all secured by a charge over certain of CRL's bank deposits totalling \$6.8m (2020: \$14.5m).

Notes to the consolidated financial statements

Year end 31 December 2021

36. Related party transactions

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

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

Key management compensation

Key management personnel are those directors and senior managers responsible for the activities of the Group. During the year key management comprised of eighteen (2020: thirteen) persons. Nine (2020: Seven) of the key management persons were directors of CGL. 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'.

	2021	2020
\$'000		
Short-term employment benefits	12,306	7,266

Loans to related parties

Loans in relation to share purchases in Fortuna Topco Limited ("FTL") amounted to \$0.5m (2020: \$1.0m). FTL is the holding company of Fortuna Midco Limited, who owns FHL, the immediate parent of CGL.

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

Samsung Fire and Marine Insurance ("SFMI"), a non-life insurance company, has a minority shareholding in a parent of CGL. The Syndicate has an inwards quota-share arrangement with SFMI to underwrite US admitted business. Premium written during 2021 totalled \$2,996k (2020: \$nil).

37. Subsequent events

On 24 February 2022 Russia launched an invasion into Ukraine, receiving international condemnation and widespread sanctions. The directors consider that the ultimate cost of these events is uncertain, however, the Group has mitigated its exposure to these events through its reinsurance programme. The directors continue to monitor the fast-developing situation closely and will take appropriate steps to manage the effect this has on the Group.

At a board meeting on 15 June 2022, the directors declared a dividend of \$27m to be paid in June 2022.

Statement of profit or loss and comprehensive income

for the year ending 31 December 2021

\$'000	Notes	2021	2020
Investment income	4	2,888	3,717
Net realised gains	5	329	6,738
Fair value gains/(losses)	6	251	(7,313)
Total revenue		3,468	3,142
Finance costs	7	(872)	(3,680)
Other operating and administrative expenses	8	(3,697)	(2,376)
Other expenses		(4,569)	(6,056)
Loss before tax		(1,101)	(2,914)
Income tax charge	9(a)	-	(3)
Loss for the year		(1,101)	(2,917)

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

The notes on pages 93 to 105 form part of these financial statements

Statement of financial position

as at 31 December 2021

\$'000	Notes	2021	2020
Assets			
Investment in subsidiary undertakings	10	1,102,123	911,222
Financial assets at fair value through profit or loss	11	440,606	176,538
Derivative financial instruments	12	611	-
Trade and other receivables	13	4,241	8,591
Cash and cash equivalents	14	38,017	417,592
Total assets		1,585,598	1,513,943
Equity and liabilities			
Equity attributable to equity holders of parent			
Issued share capital	15	341,868	341,868
Issued share premium	15	345,332	279,879
Capital reserves		759,956	759,956
Retained earnings		79,231	80,332
Total equity		1,526,387	1,462,035
Liabilities			
Derivative liabilities	12	279	-
Trade and other payables	17	58,932	51,908
Total liabilities		59,211	51,908
Total equity and liabilities		1,585,598	1,513,943

These financial statements were approved by the Board of Directors on 15 June 2022 and signed on its behalf on 21 June 2022 by:



Michael Watson
Chairman



Gavin Phillips
Chief Financial Officer

The notes on pages 93 to 105 form part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2021

\$'000	Attributable to equity holders of the parent				
	Issued share capital Note 15	Issued share Premium Note 15	Capital reserves	Retained earnings	Total equity
At 1 January 2020	106	-	759,956	83,249	843,311
Loss for year	-	-	-	(2,917)	(2,917)
Re-denomination of capital	(6)	-	-	-	(6)
Issue of new shares	341,768	279,879	-	-	621,647
At 31 December 2020	341,868	279,879	759,956	80,332	1,462,035
At 1 January 2021	341,868	279,879	759,956	80,332	1,462,035
Loss for year	-	-	-	(1,101)	(1,101)
Issue of new shares	-	65,453	-	-	65,453
At 31 December 2021	341,868	345,332	759,956	79,231	1,526,387

The notes on pages 93 to 105 form part of these financial statements.

Statement of cash flows

for the year ended 31 December 2021

		2021	2020
\$'000	Notes		
Operating activities			
Loss before tax		(1,101)	(2,914)
Adjustment for:			
Change in operating assets	18	3,740	3,276
Change in operating liabilities	18	5,722	(56,913)
Financial income and expense		(2,345)	(6,775)
Fair value (gains)/losses		(251)	7,313
Net foreign exchange differences		(93)	(131)
Income tax paid	9(b)	-	(149)
Net cash flows from/(used in) operating activities		5,672	(56,293)
Investing activities			
Investment income		2,958	4,046
Investment in subsidiary undertakings	10	(190,901)	(160,296)
Purchase of financial assets		(583,405)	(280,040)
Disposal of financial assets		320,555	249,531
Net cash flows used in investing activities		(450,793)	(186,759)
Financing activities			
Issue of shares		65,453	513,121
Net cash flows from financing activities		65,453	513,121
Net (decrease)/increase in cash and cash equivalents		(379,668)	270,069
Net foreign exchange on cash and cash equivalents		93	131
Cash and cash equivalents at beginning of year		417,592	147,392
Cash and cash equivalents at end of year	14	38,017	417,592

The notes on pages 93 to 105 form part of these financial statements.

Notes to the Company Accounts

for the year ended 31 December 2021

1. Corporate information

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

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

2. Significant accounting policies, judgements and estimates

2.1 Basis of preparation and presentation

Canopus Group Limited (“the Company”) has elected to prepare its year end financial statements in accordance with International Financial Reporting Standards (“IFRS”) and in accordance with the Companies (Jersey) Law 1991.

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

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

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

The directors have considered the going concern basis of preparation of the Company’s financial statements as at 31 December 2021. This included the factors likely to affect its future performance as well as the Company’s principal risks and uncertainties.

Having assessed the principal risks on liquidity, credit risk and operational risk for the Company, the directors have concluded that there are no material uncertainties that may cast significant doubt about the Company’s financial ability to continue as a going concern and they have a reasonable expectation that the Company has adequate resources to continue in operational existence until at least 30 June 2023 and that therefore it is appropriate to adopt a going concern basis for the preparation of the financial statements.

2.2 Summary of significant accounting policies

(a) Operating and administrative expenses

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

(b) Finance costs

Finance costs reflect loan interest payable.

(c) Current Tax

Current tax is determined based on the taxable profit or loss for the year and adjustments to tax payable or recoverable on prior years’ profits or losses.

The taxable profit or loss differs from the profit or loss before tax as reported in the statement of profit or loss because it excludes items of income or expense that may be taxable or deductible in other years or are expected never to be taxable or deductible. The liability or asset for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Notes to the Company Accounts

for the year ended 31 December 2021

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

2.2 Summary of significant accounting policies (continued)

(d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency at average, rather than spot, 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 statement of profit or loss for the period.

(e) Investment in subsidiary undertakings

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

(f) Financial instruments

Classification

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

- I. the business model within which financial assets are managed; and
- II. their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

Derivative financial instruments

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

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.

Notes to the Company Accounts

for the year ended 31 December 2021

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

2.2 Summary of significant accounting policies (continued)

(g) Trade and other receivables

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

(h) Cash and cash equivalents

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

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

(i) Share capital

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

(j) Dividends

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

(k) Trade and other payables

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

2.3 New and amended standards and interpretations

In the current year, the Company has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2021. The new effective requirements are:

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments had no impact on the consolidated financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

- Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2021:

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Notes to the Company Accounts

for the year ended 31 December 2021

2.4 Significant accounting judgements, estimates and assumptions

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

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Company's balance sheet includes significant investments in subsidiary companies, which are included at cost, including any contingent consideration payable, less any provision for impairment. The recoverability of these balances is dependent on the financial position and future prospects of the subsidiary companies. Further details can be found in Note 10 of the financial statements.

3. Company information

3.1 Ultimate parent undertaking and controlling party

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman Limited.

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

3.2 Subsidiaries

The principal subsidiaries of CGL are listed in Note 3.2 of the Group accounts on page 53. The Company holds no investments in joint ventures or associates.

4. Investment income

\$'000	2021	2020
Interest income on financial assets	750	2,223
Dividend income	2,050	806
Interest income on cash and cash equivalents	192	744
Gross investment income	2,992	3,773
Investment fees & expenses	(104)	(56)
Net investment income	2,888	3,717

5. Net realised gains and losses

\$'000	2021	2020
Realised gains on other financial assets	1,388	11,815
Realised losses on other financial assets	(1,059)	(5,077)
	329	6,738

6. Fair value gains and losses

\$'000	2021	2020
Fair value gains on other financial assets	5,295	382
Fair value losses on other financial assets	(5,044)	(7,695)
	251	(7,313)

Notes to the Company Accounts
for the year ended 31 December 2021

7. Finance Costs

\$'000	2021	2020
Fees for Letters of Credit	(65)	-
Loan Interest expense	(806)	(3,679)
Trustee fees and bank charges	(1)	(1)
	<u>(872)</u>	<u>(3,680)</u>

Loan interest expense in 2021 includes \$nil (2020: 1,367k) paid to FHL.

8. Operating and administrative expenses

\$'000	2021	2020
Professional and advisory fees	(39)	(585)
Other expenses	(3,892)	(2,088)
Expenses before exchange adjustments	(3,931)	(2,673)
Net foreign exchange adjustments	234	297
	<u>(3,697)</u>	<u>(2,376)</u>

Other expenses include an allocation of management recharges from CHUKL of \$2.6m (2020: \$1.8m).

9. Current tax

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

(a) Reconciliation of tax charge

\$'000	2021	2020
Loss before tax	(1,101)	(2,914)
Tax at 19%	209	554
Effect of group relief at nil consideration	(209)	(554)
Overseas taxes	-	(3)
Income tax charge	<u>-</u>	<u>(3)</u>

(b) Income tax payable

\$'000	2021	2020
At 1 January	-	(146)
Overseas taxes recorded in the statement of profit or loss	-	(3)
Payments made on-account during the year	-	149
At 31 December	<u>-</u>	<u>-</u>

In the current period, the enacted UK Corporation tax rate applicable to the company is 19%. The 2021 Finance Act raises the main rate of corporation tax to 25% effective from 1 April 2023.

Notes to the Company Accounts

for the year ended 31 December 2021

10. Investment in subsidiary undertakings

\$'000	2021	2020
At 1 January	911,222	662,406
Capital contribution in Flectat 2 Limited	154,072	-
Investment in CHUKL	26,829	248,816
Investment in Canopus US Holdings Inc.	10,000	-
At 31 December	1,102,123	911,222

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

On the 15 June 2020 CGL subscribed to \$160.3m worth of shares in CHUKL which was settled through the payment of \$140.3m of cash and transfer of \$20.0m of assets to CHUKL.

On the 23 February 2021 CGL subscribed to \$10m worth of shares in Canopus US Holdings Inc. which was settled through the cash payment of \$10m.

On the 30 June 2021 CGL subscribed to \$26.8m worth of shares in CHUKL which was settled through a combination of cash and in-species transfers totalling \$26.8m.

CGL made a capital contribution to its subsidiary Flectat 2 Limited on 30 June 2021 for total consideration of \$154.1m.

The investment in subsidiary undertakings has been assessed for indicators of potential impairment at the balance sheet date. The company has considered the recoverable amount of its investment in subsidiary with reference to its fair value less costs to sell.

The company has considered external quoted peers, past performance and future prospects of the group which provides a current and observable input into the fair value measurement, which is classed as level 2 within the fair value hierarchy. At 31 December 2021, the recoverable amount of the investment in subsidiary was determined to be greater than the carrying value and therefore management has concluded that there is no impairment.

11. Financial assets

a) Financial assets at fair value through profit or loss

\$'000	2021	2020
Fair value (designated as such upon initial recognition)		
Debt securities and other fixed income securities	301,692	88
Holdings in collective investment schemes	68,907	167,453
Equity shares	70,007	8,997
Total financial assets at fair value through profit or loss	440,606	176,538

Financial assets include \$326.3m (2020: \$9.0m) that are held in trust supporting insurance liabilities of the Group's managed syndicates. These assets are subject to restrictions under the relevant trust deeds and bank facilities.

Notes to the Company Accounts

for the year ended 31 December 2021

11. Financial assets (continued)

b) Carrying value of financial instruments other than derivatives

\$'000	2021	2020
Fair value (designated as such upon initial recognition)		
At 1 January	176,538	147,385
Purchases	583,405	280,040
Disposals	(320,555)	(249,531)
Fair value gains/(losses)	251	(7,117)
Realised gains	967	5,761
At 31 December	440,606	176,538

12. Derivative financial instruments

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

The derivative financial instruments represent the fair value of exchange traded bond futures contracts used to hedge duration risk, and forward contracts used to hedge excess foreign currency exposures. The derivative financial instruments held by the Group have not been designated for hedge accounting during the current and previous financial years as permitted by IFRS 9.

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.

\$'000	2021			2020		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives at FVPL:						
FX forward derivatives	611	(279)	86,289	-	-	-
	611	(279)	86,289	-	-	-

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.

Notes to the Company Accounts

for the year ended 31 December 2021

13. Trade and other receivables

\$'000	2021	2020
Loan	-	8,100
Other debtors	1,204	105
Prepayments and accrued income	490	-
Amounts due from group undertakings	2,547	386
	<u>4,241</u>	<u>8,591</u>
Amounts due within 1 year	4,241	3,191
Amounts due in over 1 year	-	5,400
	<u>4,241</u>	<u>8,591</u>

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

The business loan of \$8.1m as at 31 December 2020 has been repaid during the year.

14. Cash and cash equivalents

\$'000	2021	2020
Cash at bank and in hand	5,350	1,280
Cash equivalents	32,667	416,312
	<u>38,017</u>	<u>417,592</u>

The cash and cash equivalents include \$17.6m (2020: \$402.9m) that are held in trust supporting insurance liabilities of the Group's managed syndicates. These assets are subject to restrictions under the relevant trust deeds and bank facilities.

15. Share capital and premium

	2021	2020
Authorised shares	Number	Number
Ordinary shares		
Ordinary shares of 1USD each	341,865,305	341,865,305
Ordinary shares total	<u>341,865,305</u>	<u>341,865,305</u>

	At 1 January 2020 Number	Changes in issued capital Number	At 31 December 2020 Number	Changes in issued capital Number	At 31 December 2021 Number
Issued and fully paid:					
Ordinary shares					
Ordinary shares of 1CHF par value	100,000	(100,000)	-	-	-
Ordinary shares of 1USD par value	-	341,868,295	341,868,295	1	341,868,296
Ordinary shares total	<u>100,000</u>	<u>341,768,295</u>	<u>341,868,295</u>	<u>1</u>	<u>341,868,296</u>

Notes to the Company Accounts

for the year ended 31 December 2021

15. Share capital and premium (continued)

Issued Share Capital	At 1 January 2020	Changes in issued capital	At 31 December 2020	Changes in issued capital	At 31 December 2021
	\$	\$	\$	\$	\$
Ordinary shares					
Ordinary shares of 1CHF par value	105,719	(105,719)	-	-	-
Ordinary shares of 1USD par value	-	341,868,293	341,868,293	1	341,868,294
Share capital total	105,719	341,762,574	341,868,293	1	341,868,294

On 7 January 2020, following the re-domiciliation of CGL from Switzerland to Jersey on 6 August 2019, a special resolution was passed for the issued and unissued share capital of CGL to be redenominated from Swiss Franc (CHF) to US dollars (US\$) at a rate of exchange (CHF 1.00 to US\$ 0.99999). The 100,000 authorised and issued shares in the Company were consolidated as 99,999 ordinary shares of US\$1.00.

On 23 November 2020, 341,768,294 ordinary shares, with a nominal value of \$1.00 were issued for \$1.00 each, in exchange for a capital injection received from FHL of \$341.8m.

Issued Share Premium	At 1 January 2020	Changes in issued share premium	At 31 December 2020	Changes in issued Share premium	At 31 December 2021
	\$	\$	\$	\$	\$
Ordinary shares					
Ordinary shares of 1USD par	-	279,879,008	279,879,008	65,452,861	345,331,869
Share premium total	-	279,879,008	279,879,008	65,452,861	345,331,869

On 7 January 2020, one ordinary share with a nominal value of \$1.00 was issued to FHL in exchange for \$88.5m of shares of Flectat 2.

On 15 June 2020, one ordinary share with a nominal value of \$1.00 was issued in exchange for a capital injection received from FHL of \$171.4m and the transfer of assets of \$20m.

On 22 January 2021, one ordinary share with a nominal value of \$1.00 was issued to FHL in exchange for a capital injection of \$65.5m received from FHL.

Notes to the Company Accounts

for the year ended 31 December 2021

16. Fair value measurement

i) Valuation

The Company has classified its financial instruments as at 31 December 2021 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 Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured.

Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The valuation techniques include broker dealer quotes, reported trades, issuer spreads and available bids. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

ii) Fair value measurement of assets

\$'000	Level 1	Level 2	Total
Valuation at 31 December 2021			
Debt securities & other fixed income securities	1,994	299,698	301,692
Holdings in collective investment schemes	68,907	-	68,907
Equity	70,007	-	70,007
	<u>140,908</u>	<u>299,698</u>	<u>440,606</u>
\$'000	Level 1	Level 2	Total
Valuation at 31 December 2020			
Debt securities & other fixed income securities	88	-	88
Holdings in collective investment schemes	167,453	-	167,453
Equity	8,997	-	8,997
	<u>176,538</u>	<u>-</u>	<u>176,538</u>

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 2021 and 31 December 2020 there were no securities classified as Level 3 under IFRS.

Notes to the Company Accounts

for the year ended 31 December 2021

17. Trade and other payables

\$'000	2021	2020
Amounts owed to group undertakings	53,781	51,463
Accruals and deferred income	151	81
Other creditors	5,000	364
	<u>58,932</u>	<u>51,908</u>
Amounts due within 1 year	<u>58,932</u>	<u>51,908</u>
	<u>58,932</u>	<u>51,908</u>

Amounts owed to group undertakings mainly include \$38m of loans payable (2020: \$38m), \$11m due to Syndicate 4444 (2020: \$10m) and \$3m due to Canopus Reinsurance Limited (2020: \$3m).

18. Cash generated from operating activities

\$'000	2021	2020
<i>Net change in operational assets</i>		
Net change in other assets	<u>3,740</u>	<u>3,276</u>
Total	<u>3,740</u>	<u>3,276</u>
<i>Net change in operational liabilities</i>		
Net change in other liabilities	<u>5,722</u>	<u>(56,913)</u>
Total	<u>5,722</u>	<u>(56,913)</u>

19. Management of risk

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

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

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

Credit Risk	Risk of loss arising as a result of another party failing to perform its financial obligations or failing to perform them in a timely fashion.
Liquidity Risk	Risk that insufficient liquid financial resources are maintained to meet liabilities as they fall due.

Notes to the Company Accounts

for the year ended 31 December 2021

19. Management of risk (continued)

(i) Credit risk

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

At 31 December 2021	AAA	AA	A	Total
\$'000				
Debt securities and other fixed income	161,086	91,219	49,387	301,692
Holdings in collective Investment	68,907	-	-	68,907
Cash and cash equivalents	-	-	38,017	38,017
Total	229,993	91,219	87,404	408,616

At 31 December 2020	AAA	AA	A	Total
\$'000				
Debt securities and other fixed income	88	-	-	88
Holdings in collective investment schemes	119,581	-	47,872	167,453
Cash and cash equivalents	-	-	417,592	417,592
Total	119,669	-	465,464	585,133

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

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

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

The table below details the gross carrying amount and the net carrying amount post loss allowance (2020: no loss allowance).

\$'000	Notes	Gross Carrying Amount	Loss Allowance	Net Carrying Amount
Trade and other receivables	13	4,241	-	4,241
Cash and cash equivalents	14	38,017	-	38,017

Notes to the Company Accounts

for the year ended 31 December 2021

19. Management of risk (continued)

(ii) Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due. The contractual maturity profile of the Company's cash and cash equivalents at 31 December 2021 and 31 December 2020 are as follows:

At 31 December 2021	Less than one year	Between one and five years	Over five years	Total
\$'000				
Debt securities and other fixed income	9	32,950	268,733	301,692
Holdings in collective investment schemes	68,907			68,907
Cash and cash equivalents	38,017	-	-	38,017
Total	106,933	32,950	268,733	408,616

At 31 December 2020	Less than one year	Between one and five years	Over five years	Total
\$'000				
Debt securities and other fixed income	88	-	-	88
Holdings in collective investment schemes	167,453			167,453
Cash and cash equivalents	417,592	-	-	417,592
Total	585,133	-	-	585,133

20. Related party transactions

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

Amounts due from and to Group undertakings can be found in notes 13 and 17 of the company accounts.

21. Subsequent events

At a board meeting on 15 June 2022, the directors declared a dividend of \$27m to be paid in June 2022.