REPORT ON EXAMINATION

OF THE

CANOPIUS US INSURANCE, INC.

AS OF

DECEMBER 31, 2012

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2012 of the

CANOPIUS US INSURANCE, INC.

is a true and correct copy of the document filed with this Department.

Attest By: Branti Biddle

Date: June 19, 2014

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 19th day of June, 2014.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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REPORT OF EXAMINATION

OF THE

CANOPIUS US INSURANCE, INC.

AS OF

DECEMBER 31, 2012

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 19th day of June, 2014

SALUATION

May 16, 2014

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
841 Silver Lake Blvd., Suite 100
Dover, DE 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.030, an examination has been made of the affairs, financial condition and management of the

CANOPIUS US INSURANCE, INC.

Hereinafter referred to as “Company” or “CUSI”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street Wilmington, DE 19801. The examination was conducted at the principal officers of the Company located at 1450 American Lane, Suite 1775, Schaumburg, IL 60173.

The last examination was an Organizational Examination as of March 31, 2007. This examination covered the period of Januarys 1, 2008, through December 31, 2012, and encompassed a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted in accordance with the National Association of

Insurance Commissions (NAIC) Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues revealed during the examination process.

SUBSEQUENT EVENTS

On December 18, 2013 Canopius Group Limited (CGL) announced that NKSJ Holdings would acquire 100% of the outstanding stock of CGL, pursuant to a definitive agreement reached with CGL shareholders. Subject to regulatory approval the transaction is expected to close in the second quarter of 2014. NKSJ Holdings is one of the top three insurers in Japan.

The Company's Parent on the following dates, paid in and contributed surplus to the Company in the following amounts:

- September 30, 2013 $5,000,000
- December 31, 2013 $1,400,000
- February 26, 2014 $10,000,000

HISTORY OF THE COMPANY

Canopius US Insurance, Inc. was formed as Omega US Insurance, Inc. a corporation under the laws of the State of Delaware on September 5, 2006. The Omega Group was a publicly traded international insurance and reinsurance group based in Bermuda. On August 20, 2012 Canopius Group acquired 100% of the outstanding stock of Omega Insurance Holdings, Ltd. On that date, Omega US Insurance, Inc. and its parent, Omega US Holdings, Inc., changed their names to Canopus US Insurance, Inc. and Canopus US Holdings, Inc., respectively. The Canopius Group is an international insurance and reinsurance group based in Guernsey. Canopius Group is privately owned.

Common Capital Stock and Paid-in and Contributed Surplus

The following chart shows the changes in the capital accounts during the examination period.

	Common Capital Stock	Gross Paid in and Contributed Surplus	
Per Organization Examination	$ 500,000	$ 49,500,000	1
April 8, 2008	3,000,000		2
February 6, 2009		5,000,000	3
March 16, 2010		1,500,000	4
December 22, 2010		1,500,000	5
December 31, 2011		2,000,000	6
September 30, 2012		7,000,000	7
Totals	$ 3,500,000	$ 66,500,000	

1. On April 8, 2008 the Company's Board authorized and the Company retired its 1000 shares of common stock, par value $500 totaling $500,000 of capital stock. In conjunction with this

the Company’s Board authorized, and the Company issued, 10,000 shares of common stock with a par value $350 per share totaling $3,500,000

2. On February 6, 2009 parent company paid in and contributed $5,000,000
3. On March 16, 2010 parent company paid in and contributed $1,500,000.
4. On December 22, 2010 parent company paid in and contributed $1,500,000.
5. On December 31, 2011 parent company paid in and contributed $2,000,000
6. September 30, 2012 parent company paid in and contributed $7,000,000.

Dividends to Stockholders

The Company did not pay any dividend during the examination period.

MANAGEMENT AND CONTROL

All corporate powers and its business are managed by or under the direction of the Board of Directors.

The Board of Directors at December 31, 2012 consisted of the following members:

Wayne Bates	President Canopius US Insurance, Inc.
Robert Tincu	CFO Canopius US Insurance, Inc.
James Giordano	Chief Underwriting Officer Canopius Group
Susan Patschak	President Canopius Bermuda

Ms. Patschak resigned on April 3, 2013 and was replaced by Mr. Michael Duffy in September 2013. Mr. Duffy is the Canopius Group’s Chief Executive Officer of Global Property.

The officers of the Company and their reporting responsibility are as follows:

Wayne Bates	President
Robert Tincu	Chief Financial Officer, Treasurer and Secretary

Articles of Incorporation and Bylaws

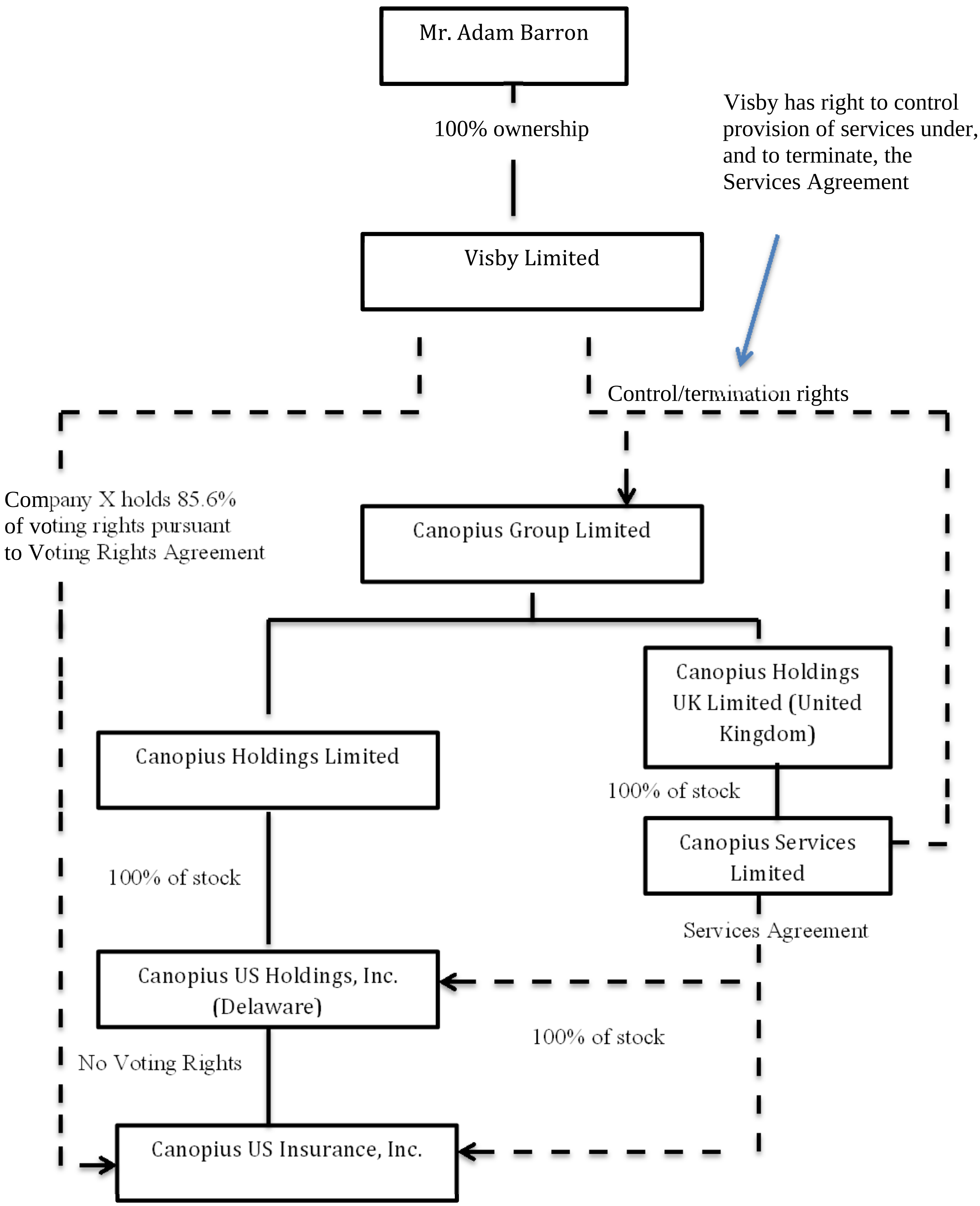
The Certificate of Incorporation was amended on March 23, 2007. The amendment was to change the total number of shares of stock that the Corporation shall have authority to issue to 1,000, all of one class, with a par value of $500.00 per share.

The Company's bylaws were amended on August 7, 2012. The amendment reflected the name change of the Company from Omega US Insurance, Inc. to Canopius US Insurance, Inc.

HOLDING COMPANY SYSTEM

The Company is part of a holding company system. The chart below is not a chart of the entire holding company but a chart of the Company and its direct links to the ultimate ownership.

ORGANIZATIONAL CHART



Intercompany Management and Services Agreements

Affiliated Agreements

Services Agreement

The Company entered into a Service Agreement on August 20, 2012 with Canopius US Holdings, Inc., Canopius Services Limited (CSL) and Canopius Group Limited (CGL). Per the agreement the following is provided: accounting services, tax returns, assistance to outside auditors, legal services, investment services, personnel services, actuarial services actuarial and risk management services and other services.

Tax Allocation Agreement

The Company is party to a tax allocation agreement with its parent. Per the agreement the Company files a federal income tax return on a consolidated basis with its U.S. Parent Canopius US Holdings, Inc. Per the agreement the Company pays only the amount as if it filed an individual federal income tax return.

Reinsurance Agreement

The Company entered into a quota share reinsurance agreement with Omega Specialty Insurance Company Limited (OSIC) (name changed to Canopius Reinsurance Limited) on January 1, 2013. The agreement called for Canopius to cede 25% of its premiums to OSIC.

Non Affiliated Agreements

The Company has thirty-four (34) Agent/Broker agreements. The agreements state the binding limits, compensation, agents authority, requires agent to carry $1,000,000 of errors and omission insurance per claim and in the aggregate, requires agent to carry $250,000 of fidelity bond insurance, requires agent to be responsible for surplus lines taxes, requires agent to submit on a monthly premium bordereau 15 days after the end of the month, and requires agent to set up a separate bank account for premium deposits.

The Company has nine (9) TPA agreements. The agreements call for the TPA to perform all claims management services on behalf of the Insurer in respect of claims under those insurance policies issued pursuant to those contracts specified in the Declarations in accordance with all applicable laws and regulations and accepted claims practices, and with all due care and skill reasonably expected of an experienced claims administrator. The Insurer, via a Zero Balance Account arrangement, will fund bank accounts for the TPA to pay claims. The TPA shall carry Errors and Omissions insurance providing coverage in the amount of not less than $1,000,000 with a per clam deductible not to exceed $25,000 and a Fidelity bond providing coverage in the amount not less than $100,000 with a deductible not less than $25,000. The TPA shall also provide a bordereau electronically on a monthly basis in an agreed format listing all outstanding claims and claim payments in an agreed format or noting there has been no claims activity.

External Management and Services Agreements

Investment Advisory Agreement

Company entered into an Investment Advisory Agreement with Neuberger Berman Fixed Income LLC on January 16, 2008. The Investment Advisor supervises and directs the investments of the Account in compliance with the investment guidelines and special instructions from the Client.

Custodial Agreement

As of December 31, 2012 the Company had a Custodial Agreement with Bank of New York Mellon. The Company changed custodians in January 2013 for its bond portfolio. The new custodian was Brown Brothers Harriman & Co.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a domestic insurer in the State of Delaware. The Company is eligible to write surplus lines business in all states and the District of Columbia.

The Company predominantly focuses on insuring small to medium sized clients, through the surplus lines distribution channel. The average annual premium per risk is less than $5,000. A balance of 60% property and 40% liability in terms of premium has been the long-term objective. The mix in 2012 was approximately 59% property and 41% liability.

REINSURANCE

The Company's reinsurance program consists of a quota share agreement with an affiliate and excess layer of coverage.

For 2012, the Company reported the following distribution of net premiums written:

Direct written	$ 58,862,294
Reinsurance assumed from affiliates	0
Reinsurance assumed from non-affiliates	0
Subtotal reinsurance assumed	$ -
Reinsurance ceded to affiliates	12,261,712
Reinsurance ceded to non-affiliates	6,870,201
Subtotal reinsurance ceded	$ 19,131,913
Net premiums written during year	$ 39,730,381

Assumed

The Company does not assume any business.

Ceded

The Company participates in a quota share reinsurance agreement with an affiliate Canopius Reinsurance Limited (CRL), formerly Omega Specialty Insurance Company Limited. CRL is a wholly owned subsidiary of CHL. Under terms of the agreement 25% of all premiums, losses, and loss adjustment expenses on policies underwritten by the Company, net of applicable excess of loss, catastrophe and quota share reinsurance payments and recoveries, are ceded to CRL. Prior to 2012, 50% of all premiums, losses and loss adjustment expenses, net of applicable reinsurance payments and recoveries were ceded. The reinsurance agreement also provides for a 35% ceding commission from CRL for policies issued after 2009 and 30% ceding commission from CRL for policies issued prior to 2010. The ceding commission from CRL was $5,078,045 and $8,805,389 for 2012 and 2011, respectively.

To secure its obligations to the Company, CRL has funded a trust account totaling $26,950,909, and the Company owes $1,482,689 to CRL for unpaid reinsurance premiums, net of commissions. The maximum amount of return commission that would have been due to CRL had the Company's reinsurance been canceled as of December 31, 2012, with the return of unearned premium, was $2,516,538.

The Company maintains excess of loss reinsurance agreements, whereby the Company is reinsured for each loss. Allocated loss adjustment expenses are reinsured proportionate to losses. For property losses, the Company is reinsured for amounts in excess of $200,000 prior to 2010, in excess of $300,000 in 2010 and in excess of $500,000 in 2011 and 2012 with coverage up to $2,000,000. For casualty losses, the Company is reinsured for amounts in excess of $500,000 prior to 2010 and in excess of $1,000,000 in 2010 through 2012 with coverage up to $2,000,000. The Company does not issue polices with insurance limits exceeding its reinsurance coverage.

The Company also maintains a catastrophe excess of loss reinsurance agreement, whereby the Company is reinsured for losses and allocated loss adjustment expenses directly occasioned by any one disaster or series of disasters. The Company is reinsured for amounts in excess of $5,000,000 with coverage up to $40,000,000.

The Company has ceded to three unauthorized other non-U.S. Insurers. The Company is a beneficiary of an irrevocable standby letter of credit issued by the Bank of America for benefit of these unauthorized reinsurers.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, accounting systems, organization structure and the processing structure. The Company operates in a computer-dominated environment. CUSI records financial transactions into the Sungard General Ledger System. Statutory reports are developed from the financial information in the General Ledger.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operation areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operation and organization controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The consulting firm of INS Services, Inc. performed a review of the Company's global controls over its information and technology (IT) environment but did not perform any testing of identified controls to determine their effectiveness in mitigating identified significant IT risks. Accordingly LOW reliance was placed during the examination on Company embedded application controls. Based on this, application controls were not relied upon nor were the testing of detail reduced.

GROWTH OF THE COMPANY

The Company is in a growth phase. Commencing business in 2008 the Company has made an effort to increase premiums written to give them a greater diversification in the market place. Despite the lack of income during the period the Company has been able to maintain capital levels as a result of capital contributions from its parent.

Year	Net Admitted Assets	Capital and Surplus	Gross Written Premium	Net Income
2012	$ 105,375,814	$ 47,751,427	$ 58,862,294	$ (6,260,738)
2011	86,091,932	46,718,695	50,448,824	(1,656,687)
2010	76,882,542	46,941,764	45,979,868	(1,552,893)
2009	65,578,285	45,449,931	36,172,795	(4,771,718)

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2012:

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account

Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$66,821,758		$66,821,758	1
Cash	3,120,980		3,120,980	
Cash Equivalents	999,854		999,854	
Short tem investments	24,279,143		24,279,143	
Subtotals	$ 95,221,735		$95,221,735	
Investment Income due and accrued	224,827		224,827	
Premiums and consideration:				
Uncollected premiums and agents' balances in the course of collection	6,724,330		6,724,330	
Reinsurance:				
Amounts recoverable from reinsurers	2,924,609		2,924,609	
Electronic data processing equipment and software	75,840	64,514	11,326	
Furniture and equipment	30,962	30,962	0	
Receivables from parent, subs and affiliates	242,197		242,197	
Aggregate write-ins for other than invested assets	127,711	100,920	26,791	
Totals	$105,572,211	$196,396	$105,375,815	

Liabilities Surplus and Other Funds
As of December 31, 2012

		Note
Losses	24,030,077	2
Loss adjustment expense	4,866,236	2
Commissions payable	1,029,999	
Other expenses	825,886	
Taxes, licenses and fees	32,102	
Unearned premiums	20,242,282	
Ceded reinsurance premiums payable	2,509,230	
Provision for reinsurance	266,000	
Payable to parent, subsidiary and affiliates	726,734	
Payable for securities	3,094,334	
Aggregate write-ins for liability	1,508	
Total liability	57,624,388	
Common capital stock	3,500,000	
Gross paid in and contributed surplus	66,500,000	
Unassigned funds (surplus)	-22,248,573	
Surplus as regards policyholders	47,751,427	
Totals	105,375,815	

Statement of Income
For the Period Ended December 31, 2012

UNDERWRITING INCOME		
Premiums earned	$	31,908,707
DEDUCTIONS		
Losses incurred		18,733,653
Loss adjustment expenses incurrred		5,955,443
Other underwriting expenses incurred		14,208,674
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		38,897,770
Net income of protected cells		0
Net underwriting gain or (loss)		(6,989,063)
INVESTMENT INCOME		
Net investment income earned		664,761
Net realized capital gains (losses) less captial gains tax		63,565
Net investment gain or (loss)	$	728,326
OTHER INCOME		
Total other income		0
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income tax	$	(6,260,737)
Dividends to policyholders		0
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income tax	$	(6,260,737)
Federal and foreign income taxes incurred		0
Net income	$	(6,260,737)
CAPITAL AND SURPLUS ACCOUNT		
Surplus as regards policyholders, december 31 prior year	$	46,718,695
Net income		(6,260,737)
Change in nonadmitted assts		(26,531)
Change in provision for reinsurance		320,000
Surplus adjustments:		
Paid in		7,000,000
Change in surplus as regards policyholders for the year	$	1,032,732
Surplus as regards policyholders, December 31 current year	$	47,751,427

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 – Bonds:

The Company's long-term bond holdings totaled $66.82 million and were approximately 63% of total admitted assets and 70% of cash and invested assets. Security composition for the year ended 2012 was as follows:

U.S. Government	$ 43,634,534
U.S. Special Revenue and Special Assessment Obligations and All non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions	1,931,291
Industrial and Miscellaneous	21,255,931

The Company's bond holdings were made up of 100% class 1 and 2 with respect to NAIC credit quality standards.

Liabilities Surplus and Other Funds

Note 2 – Losses and Loss Adjustment Expenses:

INS Consultants Inc. (INS) performed an analysis of the Company's Loss and LAE reserves as of December 31, 2012 on both a gross and net basis. The net discounted reserves compared to the Company's booked reserves resulted in the following differences. INS estimated net Loss and DCC reserve of $26.316 million is $50,000 higher than the Company's booked net Loss and DCC reserves of $26.266 million. INS accepted the Company's carried adjusting and other LAE net reserve of $2,630 million. The differences were considered immaterial and no adjustments were made to the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

There are no current recommendations.

CONCLUSION

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and consulting Information System firm INS Services Inc. and the cooperation of the Company's outside audit firm, PwC LLC and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted

Richard Randour

Richard Randour, CFE
Examiner-In-Charge
State of Delaware