



CANOPIUS

Annual Report and Financial Statements 2006

CANOPIUS

Canopus is a leading specialist underwriting business operating at Lloyd's. We aim to generate consistent superior levels of profitability for our shareholders and other capital providers.

Our underwriters and other colleagues are dedicated to providing a first class service to policyholders and brokers and to the efficient handling of their insurance and reinsurance needs.

Through our managed syndicate 4444 Canopus accepts a diversified portfolio of insurance and reinsurance risks from customers worldwide. We aim to develop an excellent underwriting franchise designed to maximise returns throughout the underwriting cycle.

Chairman's Statement

2006 was a record year for Canopus, with many highlights:

Gross premiums written increased by 26% from £216m to £273m, profit after tax leapt from £1.1m to £19.9m, whilst our pre-tax return on opening shareholders' funds was 46%. Shareholders' equity increased from £54m to £91m and total financial resources (consisting of retained equity, long term debt and bank facility) from £85m to £159m. This growth in Canopus' financial resources and the Creechurch acquisition enabled us to increase Syndicate 4444's premium capacity for 2007 by 50% (from £300m to £450m) and to increase the share of that capacity in which Canopus has a direct economic interest from £161m to £365m.

Undoubtedly, 2006 was exceptionally calm in terms of insured damage from both natural catastrophes and major risk losses. As a consequence, Canopus was able to generate profits in excess of its expectations. But our success was down to much more than the weather. Canopus made some critically important moves to increase substantially its exposure to US property insurance risks in 2006 in anticipation of a vastly improved rating environment. Nor did we scale back our reinsurance writings of US property and energy exposures in the Gulf of Mexico (although we did adopt a more conservative PML methodology in both books). As a consequence, our strategic bias towards short tail property risks paid handsome dividends for Canopus last year.

Review of 2006 business

We increased the premium capacity of our flagship Syndicate 4444 by 25% for the 2006 year of account from £240m to £300m as we positioned the business to benefit from the substantial increase in rates following Hurricanes Katrina, Rita, and Wilma ("KRW"). A substantial amount of the growth came from two new underwriting teams – Global Property, led by Mike Duffy and North American Facilities, led by Paul Webb. Both of these expansion moves were unqualified successes, albeit in two very different books of business. Each team generated more premiums at better rates and with less exposure than anticipated. However, pleasing as the results are, it is the way they have controlled their accounts with dedication and professionalism and adopted the Canopus mantle that brings the greatest satisfaction. They are both now core parts of the Canopus underwriting franchise and expected to contribute approximately one third of gross premiums written for 2007.

Whilst the new teams performed exceptionally well, the existing parts of the Canopus underwriting franchise also turned in an excellent performance. Once again our casualty underwriters led the way in exhibiting underwriting discipline. In aggregate, our three teams – professional indemnity insurance and financial institutions insurance and worldwide (ex USA) casualty reinsurance – reduced premiums by 8% over 2005. This reflected their refusal to support significant rate reductions. It would appear that the casualty market has yet to reach the bottom of the cycle and further premium and, more importantly, exposure reductions are forecast for 2007. A big thank you to these teams for their continued focus on underwriting profitability at the expense of top line development.

2006 was a huge contrast to 2005 for our property and marine reinsurance teams. Underwriting profits in 2006 offset 2005's losses whilst the aggregate exposures on a per event basis were less than in 2005. Certain lessons were learned from the 2005 KRW losses, which resulted in changes to our aggregation scenarios, PML methodologies, attachment points and scope of coverage. In the event, the new structures were not tested empirically in 2006, but they reflect the Canopus underwriting disciplines of conservatism, quantification, use of technology and learning from experience. Definitely a great year but not one we would expect to see repeated too often.

The North American Property account started by Michael Manning and Alan Parker in 2004 also had a good year in 2006, although the market's desire for non-catastrophe exposed premium and the consequent slowdown in anticipated price increases restricted premium growth to 11%. In July Michael completed more than 40 years in the market and we wish him well in retirement. As foreshadowed last year, we have combined the North American Property and Facilities under Paul Webb's leadership and are adopting the best underwriting approaches and disciplines from each team.

Our Personal Lines and Property team once more was a model of consistency and a valuable contributor to the Syndicate's profits. Growth of 6% was achieved in competitive markets and bottom line results were once again healthy.

Finally, the Marine Cargo and Specie team consolidated the gains of 2005 and continued to bolster our line size and market position during 2006, whilst resisting the temptation to write vast amounts of low-priced commodity transit business. Despite our view that the market as a whole was slightly generous on rates the team was able to maintain premium volumes in 2006.

The rating environment in 2006 was much as we had predicted, a notable exception being the US content of Global Property where rates exceeded our expectations. Our forecast rate change on renewal business for 2006 across the entire portfolio was a decrease of 1%. In practice, the rate change achieved was an increase of 4.3%. Renewal business constituted 88% of business written for 2006, excluding that contributed by the two new underwriting teams. This provides us with a good guide to the ultimate outcome from these portfolios, as well as providing strong evidence of the market position and relationships we enjoy in these classes.

One matter of regret for 2006 has been our decision to close Syndicate 44 to new business. As we indicated a year ago, the present scale of this business (premium capacity £3m) made the economics impossible to justify for the long term. I am pleased to report that, once again, the 2004 year of account closed at a profit (11% of capacity) and that both 2005 and 2006 are forecast to generate profits also. It gives me little satisfaction to record that for the ten-year period ending with the 2004 year of account, Syndicate 44 has been significantly and consistently profitable and that it made a profit in all but one of its 54 years of underwriting. All credit to Chris Ray, Active Underwriter, and his team for helping us resolve this difficult situation. As a goodwill gesture, Canopus has bought all third party capacity and will deal with the run-off for its own account. As a consequence we have formed a 2007 year of account with the sole purpose of re-signing long-term policies.

Chairman's Statement

Creechurch

Undoubtedly the most significant development at Canopus during 2006 was the acquisition of fellow Lloyd's managing agent, Creechurch Underwriting Limited ("Creechurch"). Creechurch had two syndicates under management for the 2006 year of account – Syndicate 1607 (Jonathan Thomas) and Syndicate 3786 (Stephen Gargrave) – with combined premium capacity of £90m.

The business underwritten by these syndicates includes:

- a broad based marine and energy insurance account encompassing energy physical damage and liability, marine liabilities, cargo and marine property exposures;
- an international accident and health account; and
- accident and health, general liability and professional indemnity, predominantly in the UK, written through two service companies Impact and Charrington.

The Creechurch acquisition represents a quantum leap for Canopus. It delivers a significant increase in scale – prior to the acquisition Canopus was the 19th largest managing agent at Lloyd's; Canopus is now the 12th largest. It adds substantial diversification to our underwriting franchise (more than 90% of the Creechurch portfolio is diversifying to the existing Canopus portfolio). The Creechurch underwriters are leaders or have lead capability in virtually all of their business, something we value greatly at Canopus where we lead 60% of the business underwritten. There are also substantial capital efficiencies and scale economies which Creechurch contributes to Canopus.

Whilst we would not rule out other merger opportunities at Lloyd's it is hard to imagine one as harmonious as this. We are delighted by the immediate and positive contribution that the (now former) Creechurch team is making. We are well on course to retain the entire Creechurch premium volume for the 2007 year of account. In addition, the newly joined underwriting teams are making a very positive contribution to the quality and diversity of the Canopus underwriting franchise.

We continue to operate the Creechurch managing agency to oversee the naturally open years (2005 and 2006) of Syndicate 1607 and Syndicate 3786. All other years of all Creechurch managed syndicates (Syndicate 1607, Syndicate 2607 and Syndicate 2962) were successfully closed into Syndicate 1607 at year end 2006. It is our present intention that Creechurch will continue to manage Syndicate 1607 and Syndicate 3786 until their natural closure date at year end 2008 when it is intended they will close into Syndicate 4444. I am especially grateful to the Creechurch team of David Pye (Interim CEO), Karen Graves (Chief Operations Officer) and Active Underwriters Jonathan Thomas and Stephen Gargrave for facilitating the smooth integration of operations into Canopus. David and Karen continue as non-Executive Chairman and Managing Director respectively of Creechurch Underwriting Limited whilst Jonathan Thomas and Stephen Gargrave lead the Accident & Health and Marine & Energy teams respectively at Syndicate 4444. I am delighted that all of their deputies have elected to become members of the Canopus team.

Arista

Another extremely important development for Canopus during 2006 was the decision to support Arista, a new underwriting franchise providing property, commercial package and motor fleet insurance to the UK SME sector. We acknowledge that this is a crowded sector at a very competitive point in the cycle; however, we believe this is the right time to establish a presence in this market and that in Charles Earle and Lyn Carslake we have identified the right team to support. Our confidence is boosted by the fact that all senior members of the Arista team have invested in this new enterprise. It is a joint venture between Canopus, Arista management and another insurance group. Arista commenced trading on 1 January 2007 and the early indications of progress are encouraging.

The addition of Arista brings to four the number of Canopus owned service companies, the other three being Impact and Charrington (acquired with Creechurch) and the long-established Resource Underwriting, an Australian based professional indemnity underwriting agency whose association with Canopus reaches back to 1991. We believe that local access to business is of increasing importance and that ownership of distribution capability is a valuable asset. We shall be reviewing our capabilities in this arena during 2007 with a view to carving out a more distinct niche.

Capital

We grew our equity base during 2006 from £54m to £91m, which included £22m of earnings and a £15m further equity injection from our external shareholder, Englefield Capital LLP. We appreciate hugely our privileged relationship with Englefield. 2006 witnessed their third investment in Canopus and I am optimistic that, if we can present the right opportunity, they will make further investments to fuel the Canopus success story.

We also increased our long term (30 year) debt funding from £31m to £38m and arranged a £30m unsecured Letter of Credit Facility with leading commercial banks.

In addition, we restructured our involvement with a consortium of banks that provided underwriting capacity to Syndicate 4444 for the 2004-06 years of account. We are delighted that the consortium has entered into a direct relationship with Canopus that will see them extend their commitment for a further five underwriting years. This \$100m facility provides Canopus Syndicate 4444 with substantial medium-term certainty of funding.

Finally, we increased both the number of reinsurance capital providers and the quantum of their support. For 2007 we have 5 (2006: 4) reinsurance partners supporting £132m (2006: £73m) of premium capacity. We are very pleased to have substantial support from the highest echelons of the reinsurance industry (all 5 of our supporters rank in the top 20 worldwide). We also value the constancy of their support; one has supported consistently for four years, and two for three years. At the same time, we are very pleased to welcome two new partners for 2007.

Outlook for 2007

On the back of further growth opportunities within the existing Canopus underwriting franchise and especially the augmentation of its portfolio through the acquisition of the former Creechurch businesses, we have expanded the premium capacity of Syndicate 4444 for the 2007 year of account by 50% from £300m (\$700m gross of commission) to £450m (\$1.05bn gross of commission). Also, by virtue of the increase in our capital resources described above we were able to grow by 66% the share of Syndicate 4444's capacity financed directly by Canopus from £127m to £211m, whilst the total share in which Canopus has a direct economic interest increased by 127% from £161m to £365m.

Chairman's Statement

Pleasing as this growth prospect is, I must sound a note of caution about the outlook for underwriting. There is no doubt that we are now in a down-market cycle with virtually all classes of business headed one way, albeit from varying starting points and with differing degrees of severity and rapidity. In the aggregate, across our particular mix of portfolio, I would describe conditions as softening rather than soft. In these circumstances the correct underwriting posture is cautious, reducing premium and exposures as the potential margin for profit diminishes. I am confident that our careful cycle management practices, which are constantly evolving, will stand us in good stead in 2007.

Despite the medium-term outlook for underwriting, progress for 2007 has been solid so far. During the first quarter of 2007, Canopus wrote gross premiums of £258m (2006: £219m). The aggregate rate change on the £222m of renewal premiums (86%) was a decrease of 0.7%. Not a bad picture, given where we're starting from.

Management

In all respects, Canopus is now more than twice the business that we began three years ago. Premium capacity has very nearly doubled from £230m (\$535m gross of commission) in 2004 to £450m (\$1.05bn gross of commission) in 2007. Our portfolio of businesses has expanded from 7 major classes to 12 and the Group's own financial resources have grown from £28m to £159m during this period. And yet we aspire to develop further. If we are to fulfil our ambitions certain management changes are warranted.

With effect from April 2007 I have relinquished my role as Chief Executive Officer of Canopus Managing Agents in order to concentrate on my role as Chairman and CEO of Canopus Group. I am delighted to announce that Clive Watson (still no relation!), Managing Director of CMA, will succeed me as CEO. Clive, who joined Canopus three years ago, has made an excellent contribution during that time. I have no doubt that his drive and vision will give extra impetus to CMA and provide the full-time leadership which it deserves. Jim Giordano has been my closest business confidante over the past six years and the principal architect of our underwriting success. Jim remains Underwriting Director of CMA and will also continue to provide input at Canopus Group level in our pursuit of wider underwriting opportunities.

I am delighted that we have expanded the circle of Canopus share ownership amongst management during 2006. We have increased the number of shareholders from 27 to 47, and very importantly, like their predecessors, all of the new shareholders have purchased their shares in Canopus. It's not everyday that employees write a cheque to their employer and we take it as a sign of their confidence in our future. I am also pleased that 11 former Creechurch employees now have an equity-linked stake in the future of Canopus.

It remains for me to thank the entire staff of Canopus and our new colleagues from Creechurch for the excellent contribution they have made to this record-breaking year for Canopus and to recognise the contribution of our brokers and clients without whom this performance could not have been achieved.

Michael Watson Chairman

27 April 2007

Directors

Michael Watson
Robert Alford
Adam Barron
Robert Law
Roger Le Tissier
Marcus Leese

Secretary

Ogier Corporate Services (Guernsey) Limited

Registered Office

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Company Number

41279

Independent Auditors

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National Westminster House
Le Truchot
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Directors' Report

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2006.

Principal activities

The Company is an investment holding company incorporated in Guernsey, Channel Islands, whose principal investment at 31 December 2006 is Canopus Holdings UK Limited ("CHUKL"), which owns underwriting businesses at Lloyd's.

CHUKL's subsidiary, Canopus Managing Agents Limited ("CMA") manages Syndicate 4444 on behalf of the Group's own corporate capital vehicles and for third parties. In addition, CMA manages the 2001

and prior years of account of Syndicate 839, which are in run-off and Syndicate 44, which is closed to new business.

On 23 November 2006, the Group extended its Lloyd's business interests acquiring Creechurch Holdings Limited and its subsidiary undertakings ("Creechurch"). Creechurch Underwriting Limited ("CUL") manages syndicates 1607 and 3786 on behalf of two Creechurch corporate capital vehicles and third parties. Canopus Group raised £15m ordinary share capital in connection with the acquisition and to increase the Group's participation on syndicate 3786 from 10% to 100%. The business written in these syndicates in 2006 is being written in syndicate 4444 for the 2007 year of account.

Total capacities and Canopus' participation on syndicates 4444, 44, 1607 and 3786:

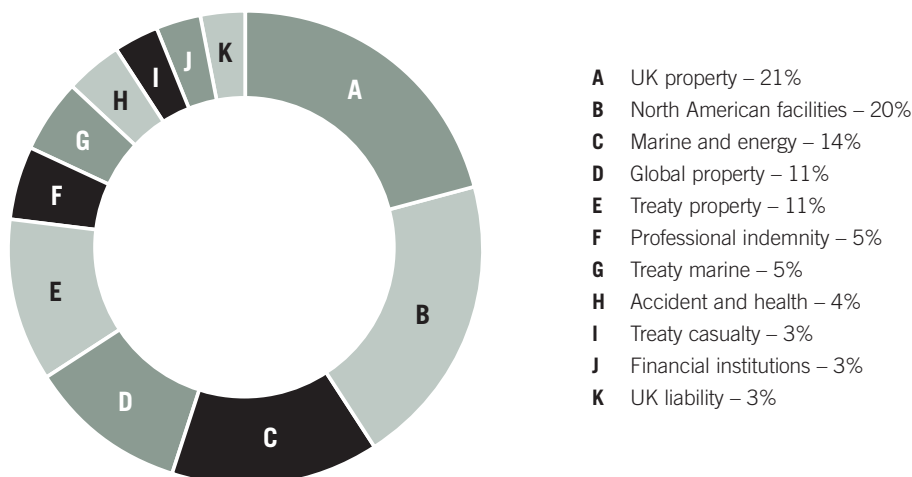
Syndicate	2005			2006			2007		
	Total capacity £'000	Canopus' capacity £'000	%	Total capacity £'000	Canopus' capacity £'000	%	Total capacity £'000	Canopus' capacity £'000	%
4444	240,000	149,000	62	300,000	185,000	62	450,000	420,000	93
44 (life)	2,981	2,585	87	3,000	2,585	86	1,800	1,800	100
1607	61,000	36,600	60	48,760	33,813	69	–	–	–
3786	–	–	–	41,309	41,309	100	–	–	–
Total	303,981	188,185	62	393,069	262,707	67	451,800	421,800	93

Syndicate 4444 is a leading writer of both insurance and reinsurance business. In insurance it specialises in UK Homeowners and Miscellaneous property covers, North American Facilities and Global Property, Marine and Energy, UK Professional Indemnity and

Financial Institutions and Accident and Health.

In Treaty reinsurance, Syndicate 4444 has a world-wide capability in the Property, Marine and Energy classes, and Casualty business is written worldwide, excluding the USA.

Expected business mix on Syndicate 4444's 2007 year of account:



Syndicate 44 underwrites term life insurance (£1.8m premium capacity in 2007) and is no longer accepting new business.

Syndicates 1607 and 3786 wrote Marine and Energy, Accident and Health, Professional Indemnity and General Liability. 2006 is their last underwriting year.

Canopus has no direct economic interest in the underwriting results of run-off Syndicate 839.

Canopus has increased the underwriting capacity of its managed syndicates by entering into agreements with third parties to provide quota share reinsurance of some of its corporate capital vehicles. Canopus' economic interest on these vehicles is the agency fee and profit commission agreement with each reinsurer. The table below shows Canopus' participation in its managed syndicates net of these quota share reinsurance arrangements.

Total capacities and Canopus' participation on syndicates 4444, 44, 1607 and 3786 net of quota share reinsurance:

Syndicate	2005			2006			2007		
	Total capacity £'000	Canopus' capacity £'000	Canopus' capacity %	Total capacity £'000	Canopus' capacity £'000	Canopus' capacity %	Total capacity £'000	Canopus' capacity £'000	Canopus' capacity %
4444	240,000	100,867	42	300,000	161,318	54	450,000	365,000	81
44 (life)	2,981	2,585	87	3,000	2,585	86	1,800	1,800	100
1607	61,000	36,600	60	48,760	9,313	19	–	–	–
3786	–	–	–	41,309	41,309	100	–	–	–
Total	303,981	140,052	46	393,069	214,525	55	451,800	366,800	81

Directors' Report

Business Review

In 2006 the Group made a profit before tax of £25.0m (2005: loss of £2.3m), which includes £13.9m profit from the technical account (2005: loss of £8.3m) and £11.1m profit from the non-technical account (2005: profit of £6.0m). The non-technical account profit includes £2.0m managing agents' fees and £2.8m profit commission in respect of third party

participation on the Canopius syndicates (2005: £1.7m agency fees and £3.2m profit commission).

Also included in the non-technical account is amortisation of negative goodwill amounting to £4.8m and finance charges of £2.7m (2005: £2.3m and £1.3m respectively). The Group's service companies contributed £0.4m to the Group's profits (2005: £0.5m).

Review of Technical account

	Syndicate 4444 £m	Group's share of S.4444 £m	Reinsurance of corporate members £m	Group's net share of S.4444 £m	Interest in other syndicates & other charges £m	Group consolidated technical account £m
Gross written premium	464.5	262.9	–	262.9	9.7	272.6
Gross earned premium	421.3	234.0	–	234.0	8.4	242.4
Net earned premium	371.7	203.2	(35.9)	167.3	5.0	172.3
Investment return	7.5	3.6	(0.5)	3.1	0.1	3.2
Gross claims incurred	(219.2)	(114.8)	–	(114.8)	(4.2)	(119.0)
Net claims incurred	(227.3)	(117.7)	18.3	(99.4)	(2.8)	(102.2)
Net operating expenses	(121.4)	(67.4)	12.7	(54.7)	(3.1)	(57.8)
Other technical charges	(3.3)	(2.6)	1.0	(1.6)	–	(1.6)
Balance on the technical account	27.2	19.1	(4.4)	14.7	(0.8)	13.9
Gross loss ratio	52.0%	49.1%		49.1%		49.1%
Net loss ratio	61.2%	57.9%		59.4%		59.3%
Combined ratio	94.7%	92.4%		93.1%		93.8%

The following review focuses on the results of syndicate 4444, as this is the principal component of the Group's technical account.

Syndicate 4444 declared a profit after personal expenses of £27.2m for the year ended 31 December 2006 – 7.3% of the Syndicate's net earned premium. Canopius Group's share of this result was £19.1m.

The 'Reinsurance of corporate members' in the above table includes amounts payable and receivable to/from reinsurers of the Group's corporate capital vehicles under quota share and excess of loss arrangements.

Syndicate 4444 – key numbers and ratios

(excluding reinsurance to close premium receivable from syndicate 839's 2003 year of account, of £92.9m)

	2006		2005	
	£m	%	£m	%
Gross written premium	371.6		296.4	
Gross earned premium	328.4	100.0	284.6	100.0
Commissions and brokerage	(84.4)	25.7	(68.8)	24.2
Gross earned premium net of commissions	244.0	74.3	215.8	75.8
Reinsurance cost	(49.6)	15.1	(36.1)	12.7
Gross claims	(126.2)	38.4	(245.3)	86.2

Syndicate 4444 utilised near 100% of the Syndicate's underwriting capacity in 2006. Premium rate increases on renewal business across all lines of business amounted to 4.3% in 2006 (2005: 1.6% decrease), which compares to management's expected 1% decrease (2005: 6.4% decrease).

In 2006 the syndicate wrote more business under binding authorities compared to 2005, particularly in the USA. This business tends to have higher commission rates than business written directly in the London market, to cover administration costs. Accordingly, in 2006 the syndicate retained only 74% of gross earned premiums compared to 76% in 2005.

Syndicate 4444's reinsurance expense increased from 12.7% of gross earned premium in 2005 to 15.1% in 2006. The increase is largely driven by the syndicate's Global Property account that started at the beginning of 2006, insuring large commercial properties with policy limits up to \$15m. In its first year of operation this account ceded 54% of its earned gross premium to its reinsurers. In future years the percentage ceded to reinsurers is expected to fall.

The gross claims ratio in 2006 was 38.4% compared to 86.2% for 2005. In common with the global insurance market, the syndicate benefited from relatively benign claims experience in 2006, particularly catastrophe and other large claims; whereas in 2005, the Treaty Property, Treaty Marine and North American Property accounts were all severely impacted by hurricanes Katrina, Rita and Wilma.

Syndicate 4444 – key numbers and ratios

(excluding reinsurance to close premium receivable from syndicate 839's 2003 year of account, of £92.9m)

	2006		2005	
	£m	%	£m	%
Net earned premium	278.8	100.0	248.4	100.0
Net claims	(134.4)	48.2	(172.0)	69.2
Operating expenses (before members' personal expenses)	(21.5)	7.7	(18.2)	7.3
Foreign exchange	(6.4)	2.3	(0.3)	0.1
Members' personal expenses	(12.3)	4.4	(7.8)	3.1
Investment return	7.5	2.7	3.4	1.4

Directors' Report

Syndicate 4444's operating expenses increased from 7.3% to 7.7% of net earned premium. Most of this increase is the effect on the ratio of the higher reinsurance expense, as discussed above, which has depressed the net premium denominator in the ratio.

The personal expense ratio increased due to the growth in the business and accrual of profit commission payable to Canopius Managing Agents Limited.

Approximately 40% of the syndicate's business is written in US Dollars and the weakening of the US Dollar (\$1.96 at 31 December 2006 and \$1.72 at 31 December 2005) depressed the absolute result. Exchange movements, mostly arising from translating balances to year end exchange rates, contributed 2.3% to the Combined ratio.

The members of the syndicate have varying requirements for profits to be distributed in Sterling or US Dollars. Accordingly, profits and losses emerging on the syndicate are not hedged into a single currency.

Future developments

At the start of 2007 the Group's principal operations are centred on Syndicate 4444.

Premium rates have been softening, particularly in Casualty insurance; and management of the underwriting cycle to maintain profitability is a key priority of Canopius Managing Agents Limited.

The Group will continue to look at opportunities to increase its underwriting operations both within Lloyd's and outside of Lloyd's; however, all corporate transactions, which may include company acquisitions and/or new underwriting teams, must meet strict criteria on expected capital returns.

Principal risks and uncertainties

Risks, which the Canopius' managing agents manage on behalf of the syndicates, include the risk of:

- Inappropriate underwriting activities and cycle management.
- Inadequate catastrophe exposure management.
- Inadequate or insufficient reinsurance protection.
- Inappropriate payment of claims.
- Inadequate control over expenses.
- Inappropriate investment of funds.
- Default of debtors or investments.
- Large fluctuations in foreign currency exchange rates.
- Insufficient cash and other liquid assets to meet the syndicates' obligations as they fall due.

The Group and its managing agents have established an Enterprise risk management framework that is designed to identify, assess, measure and mitigate risk. Key policies and controls include:

- Regular meetings of the Boards of directors at which key aspects of the businesses are reviewed, including review of reports from various sub-committees of the Board.
- Underwriting guidelines and controls that cover, inter-alia, aggregate and individual limits on exposures by territory and risk, adequacy of premium for insured risks, and reinsurance programmes.
- Claims management policies and guidelines.
- A risk register for each major business unit, which sits below, and is aligned with the managing agents' risk registers. Each risk register is reviewed and signed off by the risk and control owners on a regular basis.
- A suite of risk policies for major risk categories relating to the activities of the syndicate.
- An internal audit function whose audit plan is aligned with Canopius' risk register.
- Human resources policies and guidelines designed to ensure that the operations are adequately resourced by people, who are sufficiently skilled, trained and appropriately remunerated.

- Financial policies and controls that cover:
 - Maintaining segregated funds for the Group's and syndicates' assets.
 - Investment of funds.
 - Expense management.
 - Establishing provisions for unpaid claims.
 - Matching by currency the Group's and the syndicates' assets and liabilities.
 - Credit risk, including debt collection and managing counter-party exposures.
 - Cash flow and other financial projections.
 - Regular review and reconciliation of the financial records.

In addition, the managing agents calculate the syndicates' capital requirements in accordance with the FSA's 'Individual Capital Assessment' regime, which is linked to a comprehensive business planning process. This regime requires an assessment of the significant financial and non-financial risks, as identified by the managing agents' risk management frameworks and, through the use of a stochastic model and scenario and stress tests, establishes capital requirements that are considered appropriate to cover extreme loss scenarios.

Results and dividends

The results of the Group for the year ended 31 December 2006 are set out on pages 16 and 17.

The directors do not recommend the payment of a dividend on any of the Company's shares, for the year ended 31 December 2006 (2005: £nil).

Directors and Directors' interests

The present directors of the Company are listed on page 7.

The directors listed below held office during the whole of the year ended 31 December 2006, unless otherwise indicated:

Michael Watson	Robert Law
Robert Alford	Marcus Leese
Adam Barron	Roger Le Tissier

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

	At 31 December 2005		At 31 December 2006	
	B Ordinary	E Ordinary	B Ordinary	E Ordinary
Michael Watson	14,000	322,000	14,000	322,000
Robert Law	2,680	61,640	2,680	61,640

Statement of directors' responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with The Companies (Guernsey) Law, 1994 and United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

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

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Report

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions, therefore uncertainty regarding legal requirement is compounded as information published on the internet is accessible in many countries.

Purchase of own shares

During July and August 2006 the Company purchased 6,680 B shares and 153,640 E shares from two employees who left the Group. The B shares purchased represented 13.36% of the total B shares and 2.23% of the total equity shares issued at the time. The E shares represented 2.15% of the total E shares and 0.4% of the total non-equity shares issued at the time. The aggregate consideration for these shares was £624,106 which were cancelled on purchase.

Disclosure of information to the auditors

Each director of the company has confirmed at the balance sheet date that in fulfilling their duties as a director they have:

- taken appropriate steps in order to make themselves aware of any information relevant to the audit and to establish that the auditors are aware of that information;
- so far as they are aware, there is no relevant audit information of which the auditors have not been made aware.

Independent Auditors

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

The report of the directors was approved by the board on 27 April 2007 and signed on its behalf by:

Marcus Leese Director

Roger Le Tissier Director

Independent Auditors' Report

to the members of Canopus Group Limited

We have audited the consolidated financial statements of Canopus Group Limited for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable Guernsey law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 64 of The Companies (Guernsey) Law, 1994 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Directors' report and the Chairman's statement. We consider the

implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the Group's and Company's affairs as at 31 December 2006 and of the Group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers CI LLP

Chartered Accountants
Guernsey, Channel Islands
27 April 2007

Consolidated Profit and Loss Account

Year ended 31 December 2006

Technical Account – General Business

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Earned premiums, net of reinsurance			
Gross premiums written			
– acquisitions		8,285	–
– reinsurance to close premium receivable		32,335	–
– other continuing operations		231,932	216,312
Continuing operations	3	272,552	216,312
Outward reinsurance premiums		(57,549)	(108,937)
Net premiums written		215,003	107,375
Change in the gross provision for unearned premiums		(30,157)	(35,768)
Change in the provision for unearned premiums – reinsurers' share		(12,543)	27,490
		(42,700)	(8,278)
Earned premiums, net of reinsurance		172,303	99,097
Allocated investment return transferred from the non-technical account		3,179	1,468
Claims incurred, net of reinsurance			
Claims paid:			
– gross amount		(89,936)	(39,247)
– reinsurers' share		41,323	9,223
		(48,613)	(30,024)
Change in the provision for claims:			
– gross amount		3,243	(125,504)
– reinsurers' share		(24,477)	87,131
– reinsurance to close claims provision		(32,335)	–
		(53,569)	(38,373)
Claims incurred, net of reinsurance		(102,182)	(68,397)
Net operating expenses	5	(57,794)	(40,219)
Other technical charges		(1,600)	(280)
Balance on the technical account for general business		13,906	(8,331)

All the above amounts are derived from continuing operations.

The notes on pages 22 to 49 form part of these financial statements.

Non-Technical Account

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Balance on the technical account for general business		13,906	(8,331)
– Investment income	6	8,373	6,704
– Investment expenses and charges	6	(1,093)	(539)
– Unrealised losses on investments		(246)	(360)
Investment return		7,034	5,805
Allocated investment return transferred to the general business technical account		(3,179)	(1,468)
Interest expenses – loans		(2,734)	(1,315)
Other income	7	15,694	11,345
Other charges	8	(4,995)	(8,340)
– acquisitions		296	–
– other continuing operations		25,430	(2,304)
Group operating profit/(loss)		25,726	(2,304)
Share of operating loss in joint venture		(683)	–
Profit/(loss) on ordinary activities before tax	11	25,043	(2,304)
Tax on profit/(loss) on ordinary activities	13	(5,106)	3,394
Profit on ordinary activities after tax		19,937	1,090
Equity minority interests		(157)	(138)
Retained profit for the year		19,780	952

All the above amounts are derived from continuing operations.

Statement of Group Total Recognised Gains and Losses

Year ended 31 December 2006

		Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Retained profit for the year		19,780	952
Revaluation of investment	18	1,700	–
Total recognised gains for the year		21,480	952

The notes on pages 22 to 49 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006

Assets

	Note	2006 £'000	2005 £'000
Intangible assets	14	967	(4,874)
Investments			
Interest in a joint venture	17		
– share of gross assets		1,305	–
– share of gross liabilities		(1,392)	–
– investment in preference shares		1,203	–
Other financial investments	18	145,210	41,294
		146,326	41,294
Reinsurers' share of technical provisions			
Provision for unearned premiums		33,404	31,466
Claims outstanding		86,585	94,661
		119,989	126,127
Debtors			
Debtors arising out of direct insurance operations:			
– intermediaries		84,829	56,469
Debtors arising out of reinsurance operations:			
– intermediaries		18,181	49,135
Deferred tax asset	19	6,236	10,983
Other debtors		7,319	23,717
		116,565	140,304
Other assets			
Tangible assets	20	1,099	349
Cash at bank		149,536	93,913
Overseas deposits	21	8,678	3,164
		159,313	97,426
Prepayments and accrued income			
Deferred acquisition costs		43,872	23,787
Other prepayments and accrued income		11,130	8,673
		55,002	32,460
Total assets		598,162	432,737

The notes on pages 22 to 49 form part of these financial statements.

Liabilities

	Note	2006 £'000	2005 £'000
Capital and reserves			
Called up share capital	23	53,506	38,476
Share premium account	24	223	58
Capital redemption reserve	24	160	–
Revaluation reserve	24	1,700	–
Profit and loss reserve	24	35,040	15,331
Equity shareholders' funds	23	28,102	9,188
Non-equity shareholders' funds	23	62,527	44,677
Total shareholders' funds	25	90,629	53,865
Equity minority interests		598	374
Technical provisions			
Provision for unearned premiums		138,498	76,217
Claims outstanding		216,683	161,107
		355,181	237,324
Creditors			
Creditors arising out of direct insurance operations:			
– intermediaries		14,120	2,885
Creditors arising out of reinsurance operations:			
– intermediaries	26	62,238	88,859
Debenture loans	27	37,926	30,763
Other creditors including taxation and social security		29,003	13,485
		143,287	135,992
Accruals and deferred income		8,467	5,182
Total liabilities		507,533	378,872
Total liabilities and shareholders' equity		598,162	432,737

These financial statements were approved by the Board of Directors on 27 April 2007 and signed on their behalf by:

Marcus Leese

Director

Roger Le Tissier

Director

The notes on pages 22 to 49 form part of these financial statements.

Company Balance Sheet

As at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Investments in Group undertakings	15	3,403	3,403
Current assets			
Accrued income		210	415
Amounts due from Group undertakings		14,995	–
Cash at bank		79,228	67,231
		94,433	67,646
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		34	176
Other creditors and accruals		391	460
		425	636
Net current assets		94,008	67,010
Total assets less current liabilities		97,411	70,413
Creditors – amounts falling due after more than one year			
Debenture loans	27	37,926	30,763
Net assets		59,485	39,650
Capital and reserves			
Called up share capital	23	53,506	38,476
Share premium account	24	223	58
Capital redemption reserve	24	160	–
Profit and loss account	24	5,596	1,116
Equity shareholders' funds	23	299	296
Non-equity shareholders' funds	23	59,186	39,354
Total shareholders' funds	25	59,485	39,650

These financial statements were approved by the Board of Directors on 27 April 2007 and signed on their behalf by:

Marcus Leese
Director

Roger Le Tissier
Director

The notes on pages 22 to 49 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Net cash inflow from operating activities	28	95,919	32,138
Returns on investments and servicing of finance:			
– Interest received		7,034	5,805
– Interest paid		(2,734)	(1,315)
Taxation		–	(337)
Disposal/(purchase) of tangible fixed assets		8	(85)
Acquisitions			
Acquisition of a subsidiary undertaking	29	(1,775)	–
Net cash acquired with subsidiary undertaking	29	32,926	–
Investment in a joint venture	17	(1,560)	–
		29,591	–
Financing			
Increase in borrowings	30	10,396	22,488
Issue of shares		15,190	24
		25,586	22,512
Net cash inflow		155,404	58,718
Cash flows were invested as follows:			
Increase in cash holdings	30	62,829	42,587
Net portfolio investment			
Debt securities and other fixed income securities	30	68,192	26,998
Deposits with credit institutions	30	24,383	(10,867)
Net investment of cash flows		155,404	58,718

Notes to the Financial Statements

Year ended 31 December 2006

1 Accounting Policies

(a) Basis of presentation – group financial statements

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, the provisions of The Companies (Guernsey) Law, 1994 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (“the ABI SORP”) dated December 2005 (as amended in December 2006). A summary of the more important accounting policies, which have been applied consistently, is set out below.

(b) Basis of presentation – company financial statements

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards and the provisions of The Companies (Guernsey) Law, 1994.

(c) Changes in accounting policy

The Group has adopted Financial Reporting Standard (“FRS”) 20: ‘Share-based payment’ in these financial statements as FRS 20 became applicable to unlisted companies for accounting periods beginning on or after 1 January 2006. The effect of adopting this reporting standard has been disclosed in note 10.

(d) Comparatives

Where necessary, comparative amounts have been adjusted to conform to changes in presentation in the current year.

(e) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company, its subsidiary undertakings (except for as described in note 15), and the Group’s underwriting activities through its participation on Lloyd’s syndicates, on an annual accounting basis.

The results of subsidiary undertakings acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Interests in joint ventures are accounted for using the gross equity method.

(f) Basis of accounting for insurance business

The Group adopts an annual basis of accounting 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, relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group by intermediaries.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis unless there is a marked unevenness in the incidence of risk over the period of cover. Outwards reinsurance premiums are accounted for with regard to the incidence of risk of the premiums for the direct or inwards reinsurance business to which they relate.

1 Accounting Policies continued

(ii) Incurred claims and reinsurance recoveries

Paid claims represent all claims paid during the year and include claims handling expenses.

Provision is made at the period-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available.

Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve 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.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics 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 Group processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these 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 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.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

Provisions are not discounted for the investment earnings that may be expected to arise in the future on funds retained to meet the future liabilities.

Notes to the Financial Statements

Year ended 31 December 2006

1 Accounting Policies *continued*

The Group's participation in Lloyd's syndicates includes reinsurance business. The characteristics of this business mirror those of the underlying business ceded to the syndicate. There are a number of different types of business written by the syndicate, including property, aviation, liability and marine business, broadly categorised as either "short tail" or "long tail" business.

Short tail business

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

Long tail business

Liability and marine claims are generally longer tail than for those of the other classes of business described above and so a larger element of the claims provision relates to incurred but not reported claims. Claims estimates for business in this category are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in the estimation technique.

In respect of liability claims, the assessment of claims inflation and anticipated market experience 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 but no allowance is included for this as at the balance sheet date.

Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Group's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

(g) Unexpired risk provision

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

(h) Life business

All life business represents term life insurance or reinsurance. Because of the small size of the life portfolio and the amounts involved, it is included within general business in the technical account.

(i) 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 related premiums are earned.

1 Accounting Policies continued

(j) Reinsurance to close (RITC)

Each syndicate underwriting account is normally closed after the end of the third year by means of reinsurance into the following year, which reinsures all future liabilities for the closed year and all previous years in return for a premium calculated by the underwriter and approved by the managing agent. To the extent that the Group increases its participation on a managed syndicate from one Lloyd's year of account to the next, it is a net recipient of premium to reinsure the earlier year of account into the latter.

This share of the RITC premium is recognised as income in the financial year when the related RITC contract is signed, together with related claims incurred under the contract. It is represented in the balance sheet by the related share of assets and liabilities transferred between the two Lloyd's years of account of the managed syndicates.

The payment of a RITC premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of the Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

The directors consider that the likelihood of such a failure of the RITC is extremely remote, and consequently the reinsurance to close has been deemed to settle liabilities outstanding at the closure of an underwriting account. The Group adjusts its loss reserve at thirty six months of development for a year of account to equal its share of the syndicate RITC.

(k) Operating expenses

Operating expenses attributable to the participation of the Group's underwriting subsidiaries on syndicates are charged to the consolidated profit and loss technical account. Operating expenses, which relate to the Company's and Group's corporate activities, are charged to the consolidated profit and loss non-technical account.

(l) Tangible fixed assets

Tangible fixed assets are written off in equal instalments over their useful lives, at the following annual rates:

Fixtures and fittings	15% to 33 $\frac{1}{3}$ % per annum
Computer equipment	10% to 33 $\frac{1}{3}$ % per annum
Motor vehicles	20% to 33 $\frac{1}{3}$ % per annum
Leasehold improvements	20% to 33 $\frac{1}{3}$ % per annum

(m) Intangible assets

Intangible assets are stated at historical values less any amortisation charges and impairment charges.

On consolidation, goodwill arising on the acquisition of subsidiary and associated undertakings is capitalised in the consolidated balance sheet and amortised over a period of up to twenty years. Goodwill arising on the acquisition of joint ventures is also amortised over a period of up to twenty years. Goodwill will be written down in value if, in the directors' opinion, the value has been permanently impaired.

Where the fair value of the net assets acquired exceeds the fair value of the consideration, the difference is treated as negative goodwill and is capitalised and amortised through the profit and loss account in the periods in which the fair value is realised whether through depreciation or sale.

(n) Investment return

Investment return comprises all investment income, investment gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and exclude the imputed tax credits. Interest and expenses are accounted for on an accruals basis.

Notes to the Financial Statements

Year ended 31 December 2006

1 Accounting Policies continued

Realised gains or losses represent the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments are reported in the profit and loss account and represent the difference between the valuation of investments at the balance sheet date and their purchase price or if they have been previously valued their valuation at the last balance sheet date. Provision is made for any permanent diminution in value and is written off to the profit and loss account.

Investment return is initially recorded in the non-technical account and a transfer is made to the technical account to reflect the investment return on funds supporting the underwriting business. The Group's share of the income from investments held by the syndicates' trustees is transferred to the technical account on an accruals basis.

(o) Investments

Investments are stated at their current value. For this purpose, listed investments are stated at the market value on the balance sheet date at bid (previously mid-market) prices quoted by the relevant exchanges. This change in accounting estimate did not have any material impact on the results of the current year. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date. Unlisted investments for which a market does not exist are valued by the directors based on available information.

Fixed asset investments in the Company balance sheet (including investments in subsidiary and associated undertakings) are stated at the lower of cost and recoverable amount.

(p) Managing agency fees and profit commission

Managing agency fees and profit commission are accounted for on the following bases:

- (i) Agency fees are accounted for in the year in which they are earned by the managing agent. A proportion of the managing agency fees are deferred to future years in order to recognise the income over the three-year accounting period of the syndicates to which the fees relate.
- (ii) Profit commission is accounted for in the year in which it is earned by the managing agent, where its measurement is reasonably certain.

(q) Foreign currency translations

Monetary assets and liabilities are translated into sterling at the exchange rates prevailing at the balance sheet date. Income and expense transactions and non-monetary assets and liabilities are translated using the rates prevailing at the date of transaction or appropriate average rates. Gains or losses arising on translation of assets held in syndicate trust funds are included in the technical account. Gains or losses arising on other corporate assets are included in the non-technical account.

(r) Taxation and deferred taxation

The charge for taxation is based on profits for the period and takes into account deferred taxation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

1 Accounting Policies continued

(s) Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding. Accrued finance costs attributable to borrowings where the maturity at the reporting date is less than twelve months are included in accrued charges within current liabilities. For all other borrowings, accrued finance charges and issue costs are added to the carrying value of those borrowings.

(t) Finance and operating leases

Where the Group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. All other leases are treated as operating leases.

Future instalments payable under finance leases, net of finance charges, are included in creditors with the corresponding asset values recorded in tangible fixed assets and depreciated over the shorter of their estimated useful lives or their lease terms. Payments are apportioned between the finance element, which is charged to the profit and loss account, net of amounts recharged to syndicates as interest, and the capital element, which reduces the outstanding obligation for future instalments.

Operating lease payments are charged to the profit and loss account on a straight line basis over the life of the lease.

(u) Pension contributions

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

(v) Share-based payments

Equity-settled share-based payment transactions are accounted for using the market value of the shares assessed by the directors based on available information. The cost of share-based payments is recognised in the year in which the shares are issued.

2 Hurricanes Katrina, Rita and Wilma

The major hurricanes of 2005, Katrina, Rita and Wilma, have resulted in significant claims being made against Syndicate 4444 and 1607, in which the Group participated. These claims have primarily impacted the reinsurance treaty, North American property, marine and energy and commercial property classes of business. The estimated gross loss to the Syndicates at 31 December 2006 is approximately £130.1m (Group share £80.2m), including £24.2m to Syndicate 1607, against which the Syndicates expect to recover from reinsurance protections approximately £75.0m (Group share £46.1m), including £22.7m for Syndicate 1607. The estimated gross loss to Syndicate 4444 at 31 December 2005 was approximately £114.3m (Group share £63.5m) against which the Syndicate expected to recover from reinsurance protections approximately £65.8m (Group share £38.0m). Both the gross and net figures are net of reinstatement premiums to reinstate cover for future losses.

Future increases or decreases in the gross losses may impact net losses associated with the Katrina and Rita hurricane estimates more significantly than for the other hurricanes estimates, as reinsurance cover for those events has been exhausted for some classes of business.

Notes to the Financial Statements

Year ended 31 December 2006

3 Analysis of underwriting result before investment return

Group technical account

Gross premiums written include £8,285,000 (2005: £nil) of post-acquisition gross premiums written from the acquisition of the Creechurch Holdings Limited on 23 November 2006 (note 16) and £32,335,000 (2005: £nil) from the reinsurance to close of Syndicate 839's 2003 year of account into Syndicate 4444's 2004 year of account.

Year ended 31 December 2006

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000
Marine, Aviation and Transport	16,196	14,392	(5,538)	(5,808)	(2,058)
Fire and other damage to property	106,635	95,699	(45,171)	(22,552)	(13,466)
Third Party Liability	40,060	31,841	(14,136)	(12,120)	(1,909)
Motor	9,317	5,733	(2,921)	(2,689)	(107)
Other	3,727	3,139	(1,487)	(220)	(1,204)
Reinsurance acceptances	64,282	59,256	(17,440)	(14,405)	(34,502)
Reinsurance to close	32,335	32,335	–	–	(32,335)
Total	272,552	242,395	(86,693)	(57,794)	(85,581)

Year ended 31 December 2005

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000
Marine, Aviation and Transport	14,368	10,910	(8,114)	(2,930)	160
Fire and other damage to property	93,271	63,690	(39,534)	(16,943)	1,251
Third Party Liability	20,489	19,529	(6,329)	(5,348)	(1,272)
Motor	185	114	(11)	(38)	32
Other	650	682	(4)	(285)	(73)
Reinsurance acceptances	87,349	85,619	(110,759)	(14,675)	14,809
Reinsurance to close	–	–	–	–	–
Total	216,312	180,544	(164,751)	(40,219)	14,907

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards.

All gross premiums have been underwritten in the Lloyd's of London insurance market and/or in the United Kingdom, which has been treated as one geographical segment by origin and class of business for the purposes of Statement of Standard Accounting Practice 25: 'Segmental Reporting'.

3 Analysis of underwriting result before investment return continued

The geographical analysis of gross written premiums by destination, excluding the reinsurance to close premium receivable, is as follows:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
UK	91,417	134,296
Other EU countries	17,126	17,407
US	88,894	29,049
Other	42,780	35,560
Total	240,217	216,312

4 Claims outstanding

Favourable/(adverse) deviations were experienced during the year in respect of the following business classes:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Fire and other damage to property	641	(649)
Aviation	473	–
Reinsurance acceptances	(4,227)	(2,657)
Other	1,499	(69)
Total	(1,614)	(3,375)

Notes to the Financial Statements

Year ended 31 December 2006

5 Net operating expenses – technical account

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Acquisition costs	53,703	33,071
Changes in deferred acquisition costs	(8,416)	(3,228)
Administrative expenses	15,599	10,735
Exchange gains	(3,092)	(359)
Total	57,794	40,219

6 Investment return

Investment return includes the following

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Investment income		
Income from investments	8,322	6,704
Gains on the realisation of investments	51	–
	8,373	6,704
Investment expenses and charges		
Investment management expenses, including interest	(112)	(141)
Losses on the realisation of investments	(981)	(398)
	(1,093)	(539)

7 Other Income

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Group non-technical account		
Lloyd's underwriting agencies:		
Agency fees	1,950	1,671
Run-off fees	250	500
Profit commission	2,769	3,179
	4,969	5,350
Insurance services	2,781	2,621
Amortisation of negative goodwill	4,880	2,301
Other	3,064	1,073
	15,694	11,345

Other income emanating from insurance services comprises £2,568,000 (2005: £2,621,000) of activities undertaken by a subsidiary in Australia, and £279,000 (2005: £nil) of activities undertaken by a subsidiary in France. The rest of other income is derived from activities wholly undertaken in the United Kingdom.

Profit before taxation and minority interests in Australia amounted to £986,000 (2005: £1,094,000) and the profit before tax in France amounted to £178,000 (2005: £238,000 loss).

Net corporate assets employed within insurance services include net assets of £1,968,000 (2005: £1,461,000) which are located in Australia and net liabilities of £nil (2005: £145,000) in France. All other net assets are located in the United Kingdom.

Amortisation of negative goodwill for 2006 arises from the realisation in the year of the remaining deferred tax asset recognised on acquisition of the Lloyd's underwriting operations in 2003.

8 Other charges

Other charges in 2005 include an advance profit payment of £1,250,000 to a third party which is not recoverable as Syndicate 4444's 2005 year of account is projected to result in a loss.

Notes to the Financial Statements

Year ended 31 December 2006

9 Directors' emoluments and staff costs

The Company has no employees. The monthly average number of people employed by the Group, including directors, was:

	Year ended 31 December 2006	Year ended 31 December 2005
Underwriting	85	50
Other agency, accounting and administration	46	67
Insurance services	24	19
	155	136

The employment costs were as follows:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Salaries and wages	7,509	6,729
Social security costs	772	732
Other pension costs	906	246
Other benefits	232	854
Total	9,419	8,561

Additionally, share-based payments (note 10) on the issue of shares to employees during the year amounted to £553,000.

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

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Aggregate emoluments	586	558
Group contributions paid to money purchase schemes in respect of qualifying services	129	124
Sums paid to third parties for directors' services	17	16

Retirement benefits are accruing to 2 directors (2005: 2) under money purchase schemes.

Englefield Capital LLP, which manages the funds of the majority shareholder of the Company, receives an annual monitoring fee of £50,000. Mr Adam Barron, a director of the Company, is a partner of Englefield Capital LLP.

Highest paid director

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Aggregate emoluments	397	384
Group contributions paid to money purchase schemes in respect of qualifying services	104	101

10 Share-based payments

During 2006, the Company granted options over 4,350 shares in the Company to 11 employees at an exercise price of £100 per share. These options vest over a period of four years unless an Exit event occurs earlier, when the options vest in full. On the basis of materiality, no amount has been expensed for these options in 2006.

Also, during 2006, the Company issued to employees a total of 7,951 C shares, which vest over a four year period, and 182,873 E shares. A share-based payment of £553,000 has been expensed in the profit and loss account in connection with the issue of the C shares with a corresponding entry within shareholders' funds. The charge was determined by the Directors by reference to both an independent and a net assets valuation in a range of £74 to £100 per share, assuming the shares were fully vested and traded on an open market basis. The value of the E shares was assessed by the Directors to be the same as their par value.

11 Profit/(loss) on ordinary activities before tax

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Profit/(loss) on ordinary activities before tax		
is stated after charging/(crediting) the following items:		
Staff costs, including directors' emoluments (note 9)	9,419	8,561
Depreciation of tangible fixed assets (note 20)	134	126
Amortisation of goodwill arising on acquisition of subsidiaries (note 14)	(4,880)	(2,301)
Operating lease rentals	861	832

The Group paid total staff costs of £16,123,000 (2005: £17,292,000) of which £14,310,000 (2005: £13,137,000) was incurred by the managed syndicates. Amounts in the table above include the share of such costs attributable to the Group's participation in the relevant syndicates.

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Auditors' remuneration		
Audit services		
– audit fees payable to Company auditor for the audit of parent company and consolidated accounts	27	25
Non-audit services		
– audit fees payable for the audit of the Company's subsidiaries	214	169
– other services	36	55
– audit fees for Canopus Pension Trustees Limited	4	3

Notes to the Financial Statements

Year ended 31 December 2006

12 Pension contributions

The Group operates defined contribution schemes for its United Kingdom employees. The levels of contribution varied between 5% and 20%. The assets of the schemes are held separately from those of the Company and the Group in independently administered funds. The charge for the year is disclosed in note 9 and no contributions were outstanding at the year end.

Pension entitlements of employees overseas are provided through state schemes, to which the Group contributes in accordance with local regulations. The defined contribution rate is 1% for French employees and 9% for Australian employees.

13 Tax on profit/(loss) on ordinary activities

The Company is resident for tax in Guernsey, and has been granted exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. The subsidiary companies are registered for tax in the United Kingdom, Australia and France.

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Guernsey tax	–	–
Overseas taxation:		
Current	359	(337)
Deferred	4,747	(3,057)
	5,106	(3,394)
Factors affecting tax charge		
Profit/(loss) before tax	25,043	(2,304)
UK tax at 30%	7,513	(691)
Income not subject to tax	(2,695)	(867)
Effect of timing differences	131	–
Utilisation of brought forward losses	(2,949)	(2,975)
Deferred underwriting results	(1,641)	4,196
	359	(337)

A deferred tax asset of £6,236,000 (2005: £10,983,000) has been recognised (note 19).

14 Intangible assets – Group

	Goodwill on acquired claims provisions £'000	Other goodwill £'000	Syndicate participation rights £'000	Group total £'000
Cost				
At 1 January 2006	–	(15,328)	6	(15,322)
Acquisition (note 16)	1,750	(783)	–	967
Disposal	–	–	(6)	(6)
At 31 December 2006	1,750	(16,111)	–	(14,361)
Accumulated amortisation				
At 1 January 2006	–	10,448	–	10,448
Amortisation in the year	–	4,880	–	4,880
At 31 December 2006	–	15,328	–	15,328
Net book value				
At 31 December 2006	1,750	(783)	–	967
At 31 December 2005	–	(4,880)	6	(4,874)

The useful economic life of goodwill in the acquired claims provisions has been assessed by the directors as eight years, being the expected run-off period of the claims arising from the portfolio of business acquired. Amortisation of goodwill on acquired claims provisions will be included in other technical charges in the technical account. Other negative goodwill arising on the acquisition during the year of £783,000 will be amortised in line with expected emergence of future profits in 2007, 2008 and 2009 from the business written or projected to be written on the 2006 and prior years of account of syndicates 1607 and 3786. The other negative goodwill brought forward, relating to deferred tax, has been fully amortised. Amortisation of other goodwill is included in other charges in the non-technical account.

Syndicate participation rights related to capacity rights in syndicates not managed by the Group.

15 Fixed assets – Investments in group undertakings – Company

The Company's fixed asset investments represent investments in subsidiary and associated undertakings stated at the lower of cost and recoverable amount.

	2006 £'000	2005 £'000
Balance at 1 January and 31 December	3,403	3,403

Details of the Company's direct and indirect subsidiary and associated undertakings as at 31 December 2006 are stated below, all of which operate in the United Kingdom and are registered in England and Wales, unless stated otherwise.

All the subsidiary undertakings have been consolidated using acquisition accounting, with the exception of the investments in Packchance Limited and Oak Dedicated Four Limited.

Notes to the Financial Statements

Year ended 31 December 2006

15 Fixed assets – Investments in group undertakings – Company *continued*

The Group holds 100% of the issued ordinary share capital and voting rights of Packchance Limited and Oak Dedicated Four Limited, and 20% of the economic interest of Packchance Limited through its holding of 20 C preference shares, which are included in the group accounts at their current value of £1,700,000 (2005: £nil) as referred to in note 18. The economic interest held in Oak Dedicated Four Limited is minimal (less than 1%). As a result of an agreement between the Group and the parties holding the majority of the economic interest in these entities, severe long-term restrictions substantially hinder the exercise of the rights of the Company over the assets or management of these subsidiary undertakings. Therefore items of income and expense and associated assets and liabilities have been excluded from the consolidated financial statements.

Subsidiaries	Principal activities	Effective ordinary shares held by the Company	Effective ordinary shares held by the Group
Canopus Holdings UK Limited	Investment Holding Company	100%	
Creechurch Holdings Limited	Investment Holding Company		100%
Canopus Managing Agents Limited	Managing Agent at Lloyd's		100%
Creechurch Underwriting Limited	Managing Agent at Lloyd's		100%
Impact Underwriting Limited	Syndicate Service Company		100%
Charrington (962) Limited	Syndicate Service Company		100%
Canopus Services Limited	Group Service Company		100%
Resource Underwriting Pacific Pty Limited (incorporated in Australia)	Insurance Intermediary		75%
Canopus International EURL (incorporated in France)	Insurance Intermediary		100%
Creechurch Services Limited	Insurance Intermediary		100%
Trenwick Underwriting Limited	Insurance Intermediary		100%
Canopus Capital Limited	Lloyd's Corporate Member		100%
Canopus Capital Three Limited	Lloyd's Corporate Member		100%
Canopus Capital Four Limited	Lloyd's Corporate Member		100%
Canopus Capital Six Limited	Lloyd's Corporate Member		100%
Canopus Capital Seven Limited	Lloyd's Corporate Member		100%
Canopus Capital Eight Limited	Lloyd's Corporate Member		100%
Creechurch Dedicated Limited	Lloyd's Corporate Member		100%
Creechurch Dedicated (2) Limited	Lloyd's Corporate Member		100%
Creechurch Dedicated (3) Limited	Lloyd's Corporate Member		100%
Oak Dedicated Four Limited	Lloyd's Corporate Member		100%
Acorn Corporate Capital Limited	Lloyd's Corporate Member		100%
Packchance Limited	Lloyd's Corporate Member		100%
Canopus Pension Trustees Limited	Trustee of Pension schemes		100%
Canopus Capital Two Limited	Dormant		100%
Canopus Capital Five Limited	Dormant		100%
Stylevanish Limited	Dormant		100%
Bowman Loss Adjusters Limited	Dormant		100%

Additionally, the group holds 55% of the ordinary shares in Arista Insurance Limited, a joint venture in an underwriting agency (note 17).

16 Acquisition

On 23 November 2006 Canopus Holdings UK Limited acquired the whole of the issued share capital of Creechurch Holdings Limited at a total cost of £2,025,000. The total adjustments required in order to present the net assets at fair values amount to £1,576,000, the details of which are set out below. The Group has used acquisition accounting to account for the purchase.

For the year ended 31 December 2005, the Creechurch Holdings Limited group (“the Creechurch group”) incurred a loss on ordinary activities after taxation of £2,949,000. For the period since that date to the date of acquisition, the consolidated profit on ordinary activities after taxation of the Creechurch group was £2,465,000 based on its consolidated management accounts, as summarised below:

	£'000
Gross premiums written	71,294
Profit on ordinary activities before taxation	2,551
Tax on profit on ordinary activities	(86)
Profit attributable to shareholders	2,465
Total recognised gains for the period	2,465

Acquired assets and liabilities, fair value adjustments (provisional) and goodwill

	Book value of net assets on acquisition £'000	Alignment of accounting policies £'000	Revaluations £'000	Adjusted net assets £'000
Assets				
Investments				
Group undertakings and participating interests	406	–	–	406
Other financial investments	19,023	–	–	19,023
Reinsurers' share of technical provisions				
– Provision for unearned premiums	7,469	–	(335)	7,134
– Claims outstanding	31,103	–	(1,394)	29,709
Debtors	48,609	771	–	49,380
Other assets	33,881	–	–	33,881
Prepayments and accrued income	11,283	–	–	11,283
Liabilities				
Technical provisions				
– Provision for unearned premiums	(34,749)	–	1,052	(33,697)
– Claims outstanding	(54,098)	–	2,427	(51,671)
Creditors	(60,115)	(150)	(525)	(60,790)
Accruals and deferred income	(1,580)	(270)	–	(1,850)
Net assets	1,232	351	1,225	2,808

Notes to the Financial Statements

Year ended 31 December 2006

16 Acquisition continued

	£'000
Cost of acquisition	2,025
Adjusted net assets	2,808
Goodwill arising on acquisition	(783)
Goodwill on acquired claims provisions	1,750
Total goodwill on acquisition	967

The book value of assets and liabilities has been taken from the consolidated management accounts of the Creechurch group at 22 November 2006, and adjusted by an amount of £351,000 to align with the Group's accounting policies and by an amount of £1,225,000 to fair value the net technical provisions, net of taxation. The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

An amount of £1,750,000, representing the resulting goodwill on acquired claims provisions (note 14), is included in the total of £1,225,000 under 'revaluations' in the above table.

17 Interest in a joint venture

On 22 December 2006 Canopius Holdings UK Limited ("CHUKL") entered into a joint venture underwriting agency (Arista Insurance Limited ("Arista")) focused on commercial products for the UK SME. CHUKL holds 55% of the voting ordinary share capital, and 68.75% of the 20% cumulative redeemable preference share capital of Arista. The cost to CHUKL for the share of the joint venture was £1,799,000, consisting of a cash consideration of £1,560,000 and additional expenses of £239,000.

Arista commenced trading on 2 January 2007. The assets, liabilities and results of the joint venture to 31 December 2006 have been included in the Group accounts using the gross equity method of accounting.

Despite owning 55% of the ordinary share capital, CHUKL is considered to be a joint venturer in Arista since each of CHUKL and its 25% co-venturer can veto all high-level strategic decisions. This amounts to a 'severe long-term restriction' that substantially hinders the exercise of the rights of CHUKL, which prevents CHUKL acting as a parent undertaking. The investment in Arista is therefore not consolidated but instead treated as a joint venture according to the requirements of FRS 9: 'Associates and joint ventures'.

18 Other financial investments – Group

	Current value 2006 £'000	Current value 2005 £'000	Cost 2006 £'000	Cost 2005 £'000
Debt securities and other fixed income securities	117,478	41,061	117,802	44,303
Deposits with credit institutions	26,032	233	26,032	233
Other	1,700	–	–	–
At 31 December	145,210	41,294	143,834	44,536

£115,678,000 (2005: £39,171,000) of the debt securities and other fixed income securities are listed. Other investments of £1,700,000 (2005: £nil) represents the current value of the Group's 20% interest in the preference shares of Packchance Limited, a fellow group undertaking (note 15).

19 Deferred tax asset – Group

A deferred tax asset of £6,236,000 (2005: £10,983,000) has been recognised. This arises as a result of tax losses, which are carried forward for tax purposes and are available to offset future taxable profits.

	2006 £'000	2005 £'000
Balance at 1 January	10,983	7,181
Adjustments in respect of prior years	–	1,893
Arising during the year	417	4,210
Utilised during the year	(5,164)	(2,301)
Balance at 31 December	6,236	10,983

The deferred tax asset has been recognised on the basis that the Group is expected to generate sufficient taxable profits to utilise this asset in the future.

Notes to the Financial Statements

Year ended 31 December 2006

20 Tangible assets – Group

	Computer equipment £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Leasehold improvements £'000	Group total £'000
Cost					
At 1 January 2006	129	180	282	48	639
Disposals	(8)	–	–	–	(8)
Acquired on acquisition	840	–	529	–	1,369
At 31 December 2006	961	180	811	48	2,000
Accumulated depreciation					
At 1 January 2006	112	49	99	30	290
Charge for the year	38	30	66	–	134
Acquired on acquisition	267	–	210	–	477
At 31 December 2006	417	79	375	30	901
Net book value					
At 31 December 2006	544	101	436	18	1,099
At 31 December 2005	17	131	183	18	349

21 Overseas deposits – Group

This represents the Group's share of overseas deposits which are lodged by Syndicates as a condition of conducting underwriting business in certain countries.

22 Insurance intermediaries' assets and liabilities – Group

Four companies in the Group (note 15) acted as agents in placing insurable risks with managed syndicates and as such are generally not liable as principal for premiums due to underwriters, or for claims payable to clients. Notwithstanding the legal relationship with clients and underwriters, and since in practice premium and claim monies are usually accounted for by insurance intermediaries, these companies have followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the companies themselves.

Included in the consolidated balance sheet headings listed below are the following amounts, which relate to such intermediaries' assets and liabilities:

	2006 £'000	2005 £'000
Cash at bank	4,496	2,694
Other debtors	2,121	2,799
Other creditors including tax and social security	5,459	3,978

23 Called up share capital

Authorised

	At 31 December 2005 £	Changes in authorised capital £	At 31 December 2006 £
241,557 A ordinary shares of £1 each	241,557	–	241,557
43,320 B ordinary shares of £1 each	50,324	(7,004)	43,320
17,069 C ordinary shares of £1 each	10,065	7,004	17,069
Equity share total	301,946	–	301,946
21,236,871 D ordinary shares of £1 each	21,236,871	–	21,236,871
7,186,316 E ordinary shares of £1 each	7,186,316	–	7,186,316
10,064,868 F ordinary shares of £1 each	10,064,868	–	10,064,868
15,000,000 G ordinary shares of £1 each	–	15,000,000	15,000,000
Non-equity share total	38,488,055	15,000,000	53,488,055
	38,790,001	15,000,000	53,790,001

Allotted, issued and fully paid

	At 31 December 2005 £	Changes in issued capital £	At 31 December 2006 £
240,000 A ordinary shares of £1 each	240,000	–	240,000
43,320 B ordinary shares of £1 each	50,000	(6,680)	43,320
15,271 C ordinary shares of £1 each	7,320	7,951	15,271
Equity share total	297,320	1,271	298,591
21,100,000 D ordinary shares of £1 each	21,100,000	–	21,100,000
7,107,593 E ordinary shares of £1 each	7,078,360	29,233	7,107,593
10,000,000 F ordinary shares of £1 each	10,000,000	–	10,000,000
15,000,000 G ordinary shares of £1 each	–	15,000,000	15,000,000
Non-equity share total	38,178,360	15,029,233	53,207,593
	38,475,680	15,030,504	53,506,184

During the year the Company issued 7,951 “C” ordinary shares of £1 each, 182,873 “E” ordinary shares of £1 each and 15,000,000 “G” ordinary shares of £1 each. During the year the Company redeemed 6,680 “B” ordinary shares and 153,640 “E” ordinary shares.

Notes to the Financial Statements

Year ended 31 December 2006

23 Called up share capital *continued*

Each of the A, B, C, D, E, F and G shares carries the same rights in relation to dividends and entitles their holders to dividends as and when the directors resolve to distribute profits. Only A and B shares entitle the holders to attend and vote at general meetings. A and B shares carry one vote each. On a return of assets upon a liquidation or reduction of capital, the holders of the G shares rank in first priority, followed by those of F, D and E shares. The amount payable to the G shareholders is the issue price plus an amount calculated as 10% per annum (compounded annually) of their price from 24 November 2006 less any dividends paid (after applying 10% on the dividends since the date of receipt of the dividend). The amount payable to the D, E and F shares is calculated in the same way, though 8% is used for the D and E shares and 10% for the F shares. Thereafter A, B and C shareholders are treated as constituting a single class, ranking *pari passu*, for the return of any remaining assets.

The A, B and C shares are accordingly equity, and D, E, F and G are non-equity shares. The analysis of total shareholders' funds between equity and non-equity shareholders reflects the amounts potentially payable under the above share rights. None of the shares are redeemable.

24 Share premium account and reserves

Group

	Share premium account £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 2006	58	–	–	15,331
Issue of shares at a premium	165	–	–	–
Share-based payment (note 10)	–	–	–	553
Redemption of shares	–	–	160	(624)
Gains on revaluation (note 18)	–	1,700	–	–
Retained profit for the year	–	–	–	19,780
At 31 December 2006	223	1,700	160	35,040

Company

	Share premium account £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 2006	58	–	–	1,116
Issue of shares at a premium	165	–	–	–
Share-based payment (note 10)	–	–	–	553
Redemption of shares	–	–	160	(624)
Retained profit for the year	–	–	–	4,551
At 31 December 2006	223	–	160	5,596

25 Reconciliation of movements in shareholders' funds

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Balance at 1 January 2006	53,865	52,889	39,650	39,038
Issue of shares	15,190	24	15,190	24
Increase in share premium account	165	–	165	–
Share-based payment (note 10)	553	–	553	–
Redemption of shares	(624)	–	(624)	–
Increase in revaluation reserve	1,700	–	–	–
Retained profit for the year	19,780	952	4,551	588
Balance at 31 December 2006	90,629	53,865	59,485	39,650

The Company's profit and loss account has not been included in these financial statements. The Company's profit for the financial year was £4,551,000 (2005: £588,000).

26 Creditors – Group

The balance includes £1,076,000 (2005: £1,458,000) payable to third party reinsurers of two Group subsidiaries under quota share agreements relating to Syndicate 4444's 2005 year of account. As the subsidiaries are forecast to make a loss on the 2005 year of account, the entire amount of the £3,427,000 minimum and deposit premium was recognised as an expense in 2005.

27 Debenture loans – Group and company

	2006 £'000	2005 £'000
Due in more than five years		
Floating rate Euro loan notes	7,960	8,063
Fixed/floating rate US Dollar loan notes	9,963	11,313
Floating rate US Dollar loan notes	20,003	11,387
Total	37,926	30,763

The floating rate Euro loan stock bears interest at 3-month EURIBOR plus 4%, and is redeemable at par between December 2009 and December 2034. The fixed/floating rate US Dollar loan bears interest at 7.4% per annum until June 2010, and thereafter at 3-month LIBOR plus 3.3%; it is redeemable at par between June 2010 and June 2035. There are two floating rate US Dollar loans. One bears interest at 3-month LIBOR plus 3.6%, and is redeemable at par between July 2010 and July 2035. The other bears interest at 3-month LIBOR plus 3.4% and is redeemable at par between June 2011 and June 2036. Redemption of any or all of the loan notes earlier than the latest redemption date is at the Group's option.

Loans issued

The Company issued a loan of \$20,000,000 during the year. The Sterling equivalent of the consideration received was £10,396,000.

Notes to the Financial Statements

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28 Reconciliation of profit/(loss) before tax to net cash inflow from operating activities

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Group operating profit/(loss) on ordinary activities before tax	25,043	(2,304)
Interest received	(7,034)	(5,805)
Interest paid	2,734	1,315
Decrease/(increase) in debtors, prepayments and accrued income	54,507	(29,771)
Decrease/(increase) in amounts owed by intermediaries	2,594	(76,925)
(Decrease)/increase in creditors	(53,246)	95,600
Increase in accruals	1,372	2,336
Increase in net technical provisions	74,012	49,843
Depreciation of fixed assets	134	126
Amortisation of goodwill/write-off of intangible assets	(4,880)	(2,277)
Share of losses from a joint venture	683	–
Net cash inflow from operating activities	95,919	32,138

29 Cash flows on purchase of subsidiary undertakings

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Net cash acquired with subsidiary undertakings	32,926	–
Portfolio investments acquired with subsidiary undertakings	19,023	–
Other net liabilities	(50,266)	–
Acquisition expenses	(875)	–
Goodwill	967	–
Settled by payment of cash	1,775	–

30 Movement in opening and closing portfolio investments net of financing

(i) Movement in cash and portfolio investments net of financing

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Increase in cash holdings	62,829	42,587
Cash inflow on portfolio investments	92,575	18,887
Increase in loans	(10,396)	(22,134)
Movement arising from cash flows	145,008	39,340
Acquired with subsidiary	19,023	–
Changes to market values and currencies	(7,841)	(3,110)
Total movements in portfolio investments net of financing	156,190	36,230
Portfolio investments net of financing at 1 January	107,608	71,378
Portfolio investments net of financing at 31 December	263,798	107,608

(ii) Cash flows invested in portfolio investments

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Purchase of debt securities and other fixed income securities	108,833	105,768
Sale of debt securities and other fixed income securities	(40,641)	(76,014)
Net increase/(decrease) in deposits with credit institutions	24,383	(10,867)
Net cash inflow on portfolio investments	92,575	18,887

(iii) Movement in cash, portfolio investments, and financing

	At 31 December 2005 £'000	Cash flow £'000	Changes to market values and currencies £'000	Acquired with purchase of subsidiary £'000	Movement in the year £'000	At 31 December 2006 £'000
Cash at bank and overseas deposits	97,077	62,829	(1,692)	–	61,137	158,214
Debt securities and other fixed income securities	41,061	68,192	(9,382)	17,607	76,417	117,478
Deposits with credit institutions	233	24,383	–	1,416	25,799	26,032
	138,371	155,404	(11,074)	19,023	163,353	301,724
Loans due in more than five years	(30,763)	(10,396)	3,233	–	(7,163)	(37,926)
Total	107,608	145,008	(7,841)	19,023	156,190	263,798

(iv) Restrictions in cash

The cash at bank balance includes £129,415,000 (2005: £73,887,000) held in Lloyd's trust funds, deposits in Lloyd's and collateral bank accounts supporting the letters of credit (note 32(a) and 32(b)), whose usage is subject to relevant restrictions from Lloyd's and/or bank facilities.

Notes to the Financial Statements

Year ended 31 December 2006

31 Operating lease commitments – Group

The Group had annual lease commitments for land and buildings, the majority of which were recharged to managed syndicates as incurred, details of which are as follows:

Operating leases which expire

	Group 2006 £'000	Group 2005 £'000
Within one year	525	–
Between one to five years	217	525
After five years	379	–
	1,121	525

32 Guarantees and contingencies

(a) Funds at Lloyd's collateral

As at 31 December 2006, the Company and its subsidiary undertaking Canopus Holdings UK Limited (“CHUKL”) provided cash collateral to secure letters of credit (“LoCs”), which have been deposited in the Funds of Lloyd's (“FAL”) on behalf of the Company's corporate member subsidiary undertakings. The Funds are held by Lloyd's under the terms of appropriate Lloyd's Trust Deeds to meet the obligations of those corporate members to the Society of Lloyd's.

In addition, CHUKL provided cash collateral to secure a letter of credit on behalf of Oak Dedicated Limited, whose FAL have been made inter-available to support the life insurance underwriting of the Company's corporate member subsidiary undertaking, Packchance Limited.

The amount of the Group's LoCs at 31 December 2006 and 31 December 2005, for each member, is shown below:

	Group LoCs 2006 £'000	Company LoCs 2006 £'000	Group LoCs 2005 £'000	Company LoCs 2005 £'000
Subsidiary undertakings				
Canopus Capital Limited	734	734	69,746	60,582
Canopus Capital Two Limited	64,210	55,046	–	–
Canopus Capital Six Limited	1,100	1,100	1,100	1,100
Creechurch Dedicated Limited	282	–	–	–
Creechurch Dedicated (2) Limited	18,970	18,970	–	–
Oak Dedicated Four Limited	441	–	441	–
Non-subsidiary undertaking				
Oak Dedicated Limited	442	–	442	–
	86,179	75,850	71,729	61,682

The Group LoCs are supported by collateral (investments and cash) of £86,179,000 (2005: £71,729,000). The Company's LoCs are supported by collateral (investment and cash) of £75,850,000 (2005: £61,682,000).

32 Guarantees and contingencies continued

(b) Assets held under trust

Of the total assets disclosed on the Group's balance sheet, £130,641,000 (2005: £48,142,000) are subject to Lloyd's Premium Trust Funds ("PTF") or will become subject to the PTF on realisation, of which £110,929,000 (2005: £40,615,000) are investments.

(c) Letters of support and Deeds of Indemnity

The Company has provided indemnities, by way of letters of financial support, to certain Group companies in the event they are unable to settle outstanding liabilities as they fall due. The indemnity if required is unlikely to exceed £55,000 to third parties.

The Company has given indemnities for former related companies (Trenwick group companies) to meet certain financial obligations which may arise in the future, but which are not expected to exceed £450,000 in the aggregate. The directors consider the likelihood of these financial obligations and/or circumstances arising to be remote.

A subsidiary company, CHUKL, entered into two Deeds of Indemnity with Lloyd's. One of the Deeds relates to a reorganisation of the Group's corporate members' underwriting on Syndicate 4444 and is secured by a floating charge over all the assets of CHUKL in favour of Lloyd's. The other Deed is with respect to potential liabilities that may arise following the release in 2006 of a member's funds at Lloyd's.

A subsidiary company, Creechurch Underwriting limited, has undertaken to indemnify two of its subsidiaries (syndicate service companies) against all losses, expenses, claims and other liabilities that they may suffer or incur as a result of any third party bringing a professional indemnity/negligence complaint or claim against them in connection with underwriting.

(d) Bank facilities

The Group has the following facilities for the provision of letters of credit:

- Five year annually amortising \$100m unsecured, non-recourse, of which \$100m has been utilised to support underwriting on Syndicate 4444's 2007 year of account at a cost of 2% per annum offsettable against a 30% share of profits arising from the capacity supported by the letter of credit. The Group has also issued share warrants (see note 32 (f) below) in connection with this facility.
- £30m unsecured, of which £25.7m has been utilised to support underwriting on Syndicate 4444's 2007 year of account, at a cost of 2.5% per annum plus 0.5% per annum on the unutilised amount.
- £150m, secured by cash and reinsurance contracts of which, at 31 December 2006, £122.8m has been utilised at an average cost of 0.45% per annum. Of the utilised amount, £85.9m is secured by cash and £36.9m by reinsurers.

(e) Other contingent liabilities

A subsidiary of the Group deposited the amounts of £1,500,000 and £1,125,000 with a third party in respect of its participation on the 2007 and 2006 years of account of Syndicate 4444. The deposits are not refundable if the third party's share of the Syndicate results is a loss. The directors believe that the probability of a loss to the Group from these arrangements is low.

(f) Share warrants

In connection with a facilities agreement, applicable to 2007 and subsequent years, the Group has granted warrants representing a 5% stake in Canopus Group Limited ("CGL") based on an initial strike value of CGL of £100m. The warrants are exercisable on an Exit event defined as a sale, disposal, listing or winding-up of CGL.

Notes to the Financial Statements

Year ended 31 December 2006

33 Capital commitments

There were no capital commitments contracted for but not provided in the financial statements.

34 Post balance sheet events

Reinsurance to close

Various syndicates in which Group companies participate accepted reinsurances to close from the earlier years of account as shown below.

These were effective from 1 January 2007 and no adjustment has been made in the financial statements for these transactions which will be reflected in the 2007 financial statements.

	RITC premium £'m	RITC gross of reinsurance recoveries £'m
2004 year of account RITC into the 2005 year of account:		
Syndicate 4444	119.5	146.5
Syndicate 44	0.7	0.7
Syndicate 1607 (see below)	31.8	63.0
2000 year of account RITC into the 2006 year of account:		
Syndicate 1607	2.0	3.0

Syndicate 1607's 2005 year of account accepted reinsurances to close from the 2004 year of account of Syndicate 1607 of £20,635,000, Syndicate 2607 of £4,001,000 and Syndicate 2962 of £7,129,000, net of reinsurance recoveries.

Premises lease

Subsequent to the year end, Canopus Holdings UK Limited entered into an agreement to guarantee a premises lease being entered into by Canopus Services Limited. The lease has a break clause in 2012 and the amounts guaranteed are approximately £1,932,000 per annum.

35 Related parties

Advantage has been taken of the exemption given by FRS 8: 'Related party disclosures' not to disclose transactions with entities that are part of the Group.

36 Ultimate parent undertaking and controlling party

80% (2005: 81%) of the equity shares in issue in the Company are held by Englefield Custody Limited as nominee for various funds managed by Englefield Capital LLP. The balance of the shares is held by directors and staff of the Group. To the extent that Englefield Capital LLP manages the funds' investments on behalf of its fund investors, it is not the controlling party and the funds are not parent undertakings.

Canopus Group Limited is therefore considered to be the ultimate parent undertaking and controlling party of the Canopus Group Limited group of companies.

