CANOPIUS GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2010

CANOPIUS

Total shareholders' interests – £m

04	53.1
05	54.2
06	96.7
07	122.8
08	214.7
09	265.8
10	**306.2**

Total profit to shareholders after taxation – £m

04	14.4
05	1.1
06	20.5
07	25.9
08	36.3
09	50.5
10	**42.9**

Financial resources – £m

04	61.4
05	85.0
06	164.4
07	200.8
08	331.3
09	400.6
10	**429.0**

Total post tax return on average equity – %

04	39
05	2
06	28
07	24
08	19
09	21
10	**15**

Gross premiums written – £m

04	90.7
05	216.3
06	241.1
07	455.4
08	457.4
09	591.9
10	**563.8**

Net loss ratio – %

04	69
05	69
06	49
07	48
08	65
09	51
10	**56**

Net premiums earned – £m

04	45.8
05	99.1
06	142.7
07	256.0
08	324.9
09	435.2
10	**465.0**

Combined ratio – %

04	104
05	110
06	91
07	89
08	100
09	88
10	**92**

2006 to 2010 amounts are presented in accordance with International Financial Reporting Standards ("IFRS"); 2004 and 2005 are as previously reported under United Kingdom Accounting Standards. Amounts are determined excluding reinsurance to close premiums receivable or payable, and balances and movements in employee interest in shares deemed cash settled. Financial resources represent total shareholders' interests plus long term debt and letter of credit facilities.

Canopius Group is a privately-owned international insurance and reinsurance group underwriting a diversified portfolio of specialist business worldwide.

The group has achieved significant growth over the last seven years through a mix of organic expansion and acquisition, and had total financial resources of over £425 million at year end.

Incorporated in Guernsey, the group operates at Lloyd's through Syndicates 4444 and 260 and through its overseas operations in Bermuda, Singapore, Ireland and Australia.

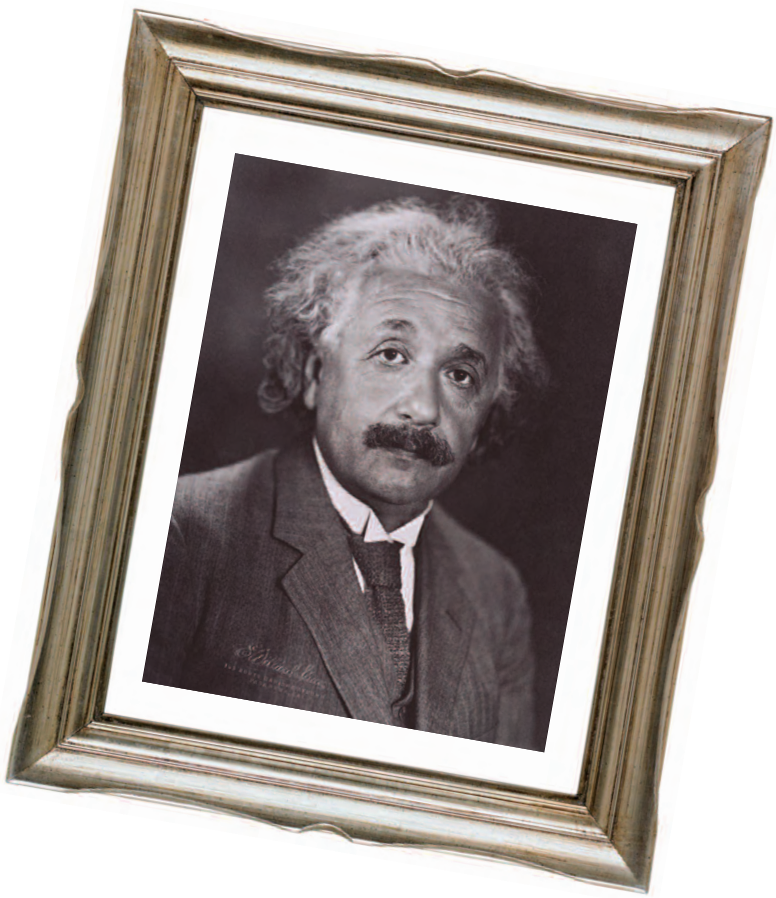
Our underwriters and other colleagues own a substantial stake in Canopius, resulting in a proprietary mentality which is reflected in our culture of underwriting excellence, entrepreneurship and dedicated service provision.
This combination enables us to generate consistent superior levels of risk-adjusted returns for our shareholders and other capital providers, whilst delivering a first class service to policyholders and brokers.

CANOPIUS

“No more bees, no more pollination...no more men”, Einstein is alleged to have remarked. In the same way that insurance has been described as the ‘DNA of capitalism’, bees perform an essential service to their community and to the biodiversity of our planet. In 2010, the International Year of Biodiversity, Canopius became involved in a project to support the biodiversity of the Square Mile and its environs by placing a hive of bees on its roof terrace on the 10th floor of the Lloyd’s building. This initiative was part of the City of London Festival’s beekeeping project, the first of its kind in the UK, and provides an innovative example of the scope for successful and productive urban beekeeping.

BIODIVERSITY

The hive is being maintained on an on-going basis by newly-trained Canopius beekeepers. We believe this initiative reflects the innovative and independent qualities of Canopius’s brand and culture.



Chairman's Statement

Barely was the ink dry on the final draft of this statement when the Japanese earthquake and tsunami struck. This is a terrible human catastrophe and our sympathies go to the unfortunate victims and families engulfed by this event. The cost to the insurance industry and to Canopius is presently unquantified and the ramifications for broader insurance pricing unclear. The comments that follow should be read in that context.

2010 was a challenging year for underwriters: rates declined in catastrophe exposed property business; margins remained wafer thin in casualty business where very soft markets persist; investment returns were reduced; (re)insurance losses were abundant – including substantial catastrophe events such as the Chilean and New Zealand earthquakes and Queensland floods, and major risk losses such as the Deepwater Horizon oil platform and the Central Pattana shopping mall in Bangkok. Insured losses from catastrophes in 2010 are estimated to be in the region of $37 billion, making it one of the six most costly years since 1980. Yet the reaction of the (re)insurance markets has been to continue reducing prices. This is folly!

Against this backdrop, the industry was fortunate to emerge relatively unscathed from the North Atlantic hurricane season – plenty of storms but remarkably little insured damage. However, we should not allow the notable absence of US windstorm losses to lull us into believing the industry had a good year. Rather we should recognise that risk is ever present and charge accordingly: the extraordinary run of Antipodean losses ought to concentrate the minds of underwriters – record hailstorms in Perth and Melbourne, floods in Queensland (principally Rockhampton and Brisbane), Cyclone Yasi, and two major earthquakes in Christchurch. Total insured losses from these events are estimated at $20 billion to $25 billion. Not enough to raise prices? Will Japan prove to be the tipping point? At this stage, most industry commentators appear to think not.

All is not Stygian gloom! Despite challenging market conditions and the myriad losses, Canopius beat its plan for 2010, achieving profit after tax for shareholders of £43 million and a return on average equity of 15%. Gross premiums written reduced from £592 million to £564 million, reflecting our underwriting discipline while our combined ratio increased from 88% to 92% (of which 11% is attributable to natural catastrophe and large losses). The average price change across our portfolio was a modest increase of 0.3% and our investment return decreased by the same amount from 3.1% to 2.8%. Tangible shareholders' interests (excluding minority interests) increased from £261 million to £303 million, and total financial resources from £401 million to £429 million. The Group has never been in a stronger financial position.

Whilst we look back on 2010 with some satisfaction, we are nevertheless left reflecting on what might have been. During the year we suffered considerable adverse development on our open market professional indemnity business and, in the face of no material signs of improvement in market conditions, we decided to withdraw from this segment in October.

The most notable development for Canopius in 2010 was the acquisition of fellow Lloyd's managing agent, KGM Underwriting Agencies Limited and Syndicate 260 ("KGM"), one of only two dedicated UK motor syndicates at Lloyd's. The UK motor insurance market has performed very poorly in recent years as a result of inadequate pricing and a huge increase in the frequency and relative severity of bodily injury claims. Many market participants, KGM included, have had to bolster their reserves substantially on more than one occasion to reflect such events. Fortunately Canopius has no exposure to such past uncertainties as it only assumed financial responsibility for underwriting from 1 July onwards. We are hopeful that strengthened management, improved risk selection and claims control, and an increase in the rating environment will enable us to restore this business to profit in 2011.

Each member of a honey bee colony has a specific role and responsibility, working together with their fellow bees towards a common goal: the prosperity of the colony. Like penguins, in the winter they circulate to keep warm, those towards the outside of the hive taking turns with those on the inside.

TEAMWORK

Canopius also recognises the value of collaborative effort. For example, if the potential reward is superior, our underwriters willingly reallocate planned income and capacity to their colleagues in order to maximise potential underwriting profits for the Group.

Chairman's Statement

The acquisition of a UK motor underwriting capability complements the Group's existing presence in the UK Retail insurance marketplace, notably in homeowners, accident and health, commercial combined for the SME sector, and professional indemnity for smaller organisations. In total we predict that approximately £200 million or 30% of the Group's premiums will emanate from our UK Retail insurance businesses in 2011. With UK Retail business assuming greater prominence within the Group's portfolio, we considered it important to enhance both our underwriting focus and our distribution capabilities within this segment. In September we were delighted to welcome Tim Rolfe, who has 30 years' experience in this sector and who, as Head of UK Retail Strategy, will assist us in the development of a sustainable and valuable UK Retail franchise for Canopius.

2011 has begun where 2010 left off – significant insured losses emanating from floods in Queensland (Brisbane), Cyclone Yasi, a further earthquake in Christchurch, and now the earthquake and tsunami in Japan. Industry losses from these events (excluding Japan) are estimated to be $12.5 billion to $15 billion and Canopius will have its share of losses, perhaps £20 million in total (again excluding Japan). Not the start we might have wished for. Fortunately our financial position is strong – uncommitted capital of £75 million and total financial resources of £429 million.

On the business front, we have so far renewed a little over £200 million of business in 2011 at an aggregate rate increase of 1.4%. Although relatively modest, the rate increase is nevertheless positive and will assist in preserving underwriting margins.

In January of this year we announced our plans to create a new underwriting platform in Zurich. The initial focus of this operation will be indigenous European reinsurance business that does not come to the London or Bermuda markets. Although the office will open in mid-2011, underwriting is not expected to commence until 2012.

We look forward to the balance of 2011 with a mixture of optimism and caution. We are optimistic because we have an excellent management team, first class underwriters, and a very healthy financial position. Yet we are cautious because of the string of losses which has already occurred, the general weakness of insurance pricing and the fragile economic outlook.

In Western economies, the source of 80% of Canopius's business, the economic recovery appears likely to be feeble at best over the next few years and, with existing penetration of insurance already high, we see little increase in demand. At the same time, the industry has an abundance of capital (at least until the full effect of the first quarter 2011 catastrophe losses can be quantified) and appears unable to resist cutting prices despite no diminution in risk. To make matters worse, Solvency II and similar pressures are raising capital requirements, thereby increasing pressure on margins. The above factors lead us to conclude that now is not the time to embark upon meaningful organic growth of our existing business. However we are prepared to consider, and have the capital resources to support, the continued development of our franchise through acquisition. We have the team, the ambition, the entrepreneurial flair and the capital to make further growth a profit-enhancing reality.

I would like to thank our broker colleagues for their support and our staff for their dedication and hard work in 2010 which contributed to a robust set of results in the face of substantial loss activity.

Michael Watson
Chairman
21 March 2011

Honey bees are extraordinary communicators. As long ago as Aristotle, writers observed that when worker bees return to the hive from foraging they perform a complex 'waggle' dance which enables them to share details of the direction and distance of nectar and pollen with their fellow bees. The longer the dance, the further away the source. This enables the bees to work efficiently as a team for the collective good of the colony.

COMMUNICATION

Canopius also understands the importance of good communication both within the organisation and to our external audiences.

Review of Underwriting

A significant development for the Group in 2010 was the promotion of Michael Duffy and Stephen Gargrave to the position of Joint Active Underwriters of Syndicate 4444. Under their combined leadership Mike and Steve have contributed excellent thought leadership and new found energy to our relentless pursuit of underwriting excellence.

Reinsurance

The Group's reinsurance business includes Property, Marine and Casualty Treaty business written through Syndicate 4444 from London, Bermuda and Singapore and Structured Reinsurance sourced by our team in Ireland. The Reinsurance division had an excellent year generating gross written premiums of £148 million (2009: £160 million) and recording a net loss ratio of 48% (2009: 45%) notwithstanding the many catastrophe losses of 2010. The reinsurance segment constituted 26% of the Group's gross premiums written for 2010.

In October 2010, David Clark, Head of Treaty Reinsurance stepped down after 9 years of service to Canopius and its predecessor companies and after 43 years in the market. Under David's leadership, Reinsurance has become the group's largest division and the source of substantial profits for Canopius. I would like to thank David for all that he has contributed to the Group and wish him well in his retirement.

Although sad to be losing David, I am delighted that the strong team he helped to create has yielded worthy successors with Jamie Wakeling being promoted to Head of Property Treaty and Alice Perry to Head of Casualty Treaty. Marine Treaty continues to be ably led by Andrew Hedges.

Property Treaty

The year was punctuated by a string of international catastrophe losses including Windstorm Xynthia, the Chile earthquake, hailstorms in Melbourne and Perth, the first New Zealand earthquake, and the Queensland (Rockhampton) floods. Fortunately, while the North Atlantic and Asian hurricane/typhoon seasons were every bit as active as predicted, there was little loss activity from landfall of storms. Individually, and in the aggregate, the losses inflicted on the industry were substantial, but all were contained within our risk tolerances and expectations for catastrophe events of this nature, resulting in a good outcome in the circumstances.

Marine Treaty

We reduced our portfolio in 2010 as we became increasingly selective about our cedents and as they reduced their Gulf of Mexico exposures. Despite a reduction in premium and the impact of losses emanating from the Deepwater Horizon event, the underwriting margin increased substantially over 2009 and produced a strong result.

Casualty Treaty

Original rates in the casualty market remained very weak and we maintained our underwriting discipline by reducing premiums approximately 25%. We were rewarded by a doubling of our underwriting margin.

Singapore Treaty

Now having completed their second full year of operation, Linus Phoon and his team have grown the portfolio to £12 million (2009: £11 million) and delivered a net loss ratio of 57% (2009: 64%). Market conditions in Asia remain very competitive, but the team are highly focused on achieving an underwriting profit rather than pursuing growth.

During their lives, honey bees progress through a range of jobs within the colony, including feeding, cleaning, nursing, foraging and defending. Should the queen bee depart in a swarm, the colony promote a young worker to become a new queen, giving the colony the chance to develop and thrive. Beekeepers often mark the queen with a coloured dot on her thorax (green, blue, white, yellow or red depending on her year of birth) to make her easier to identify. The current Canopius queen bee is marked with a green dot for 2009.

HOME GROWN TALENT

At Canopius, we also nurture the development and talent of our staff through our high standards in recruitment, training and performance management.

Review of Underwriting

Bermuda Treaty
Assisted by the almost total lack of landfall from the North Atlantic hurricane season, the Bermuda portfolio again delivered excellent results – a nil loss ratio, a repeat of 2009's performance.

Structured Reinsurance
Our structured reinsurance portfolio is sourced by our Irish-based team. Also having completed their second full year of operations, they have built the portfolio to a level of maturity – 2010 gross premiums: £14 million (2009: £12 million) and successfully delivered a net loss ratio of 58% (2009: 74%). Currently our portfolio comprises business underwritten for Lloyd's syndicates and European companies, often of a multi-year, multi-class nature. Unfortunately, we are finding that traditional providers of reinsurance solutions are often too cheap, which hinders our ability to grow our book of business at this time.

Global Insurance
The Group's insurance segment comprises four divisions: Marine & Energy, Global Property, North American Facilities and Casualty. In the aggregate they wrote gross premiums of £251 million (2009: £278 million) or 45% of the Group's total in 2010.

Marine & Energy
2010 will be long remembered for the blow out of the Macondo well, the resultant loss of the Deepwater Horizon platform and the ensuing oil spill in the Gulf of Mexico. The resolution of liability for this event and the quantum of insured claims will doubtless take many years to resolve. As a participant in the offshore energy market, Canopius will have its share of losses to absorb. Our gross premiums reduced by 13%, partly as a result of our decision to restrict Gulf of Mexico cover in the light of our views concerning the adequacy of rates. The division's underwriting margin also reduced, impacted by various energy losses including Deepwater Horizon. The marine liability and cargo books continued to perform very satisfactorily although cargo rates remain under severe pressure. The division also includes our new engineering (CAR/EAR) portfolio which grew cautiously during the year in the light of increased competition.

Global Property
The division includes both our direct and facultative property and crisis management teams. Gross premiums fell by 10%, driven by our decision to write less property business in the face of reduced rates for catastrophe-exposed locations. The property team did well to record a net loss ratio of 56% (2009: 29%) notwithstanding the impact of the Chilean and New Zealand earthquakes. Crisis management recorded a small loss principally driven by the Bangkok shopping mall loss.

North American Facilities
A consistent hallmark of this team has been its refusal to follow the general market trend of reducing rates over recent years. The consequence was an 8% reduction in gross premiums written, but only a modest increase in the net loss ratio from 54% to 56%. The reduction was almost entirely in the commercial general liability book. Paul Webb, who heads this team and played a major role in its successful development at Canopius, plans to step down from a full-time role in mid-2011. He will be succeeded by his very able deputy, Steven Bird, who has worked with Paul for nine years.

Bees have diversified over history, in synchrony with the evolution of flowering plants. Believed to have originated in Africa, they are now found on every continent except Antarctica, in every habitat on the planet that contains insect-pollinated flowering plants. Their diversity is demonstrated by their division by entomologists into a number of different families with both long-tongued and short-tongued branches, and nearly 20,000 known species of bee.

DIVERSIFICATION / DIVERSITY

Diversification is a cornerstone of Canopius's strategy. We underwrite a broad portfolio of specialist lines through multiple platforms worldwide. We also strongly support diversity through a range of progressive human resources policies and practices.

Review of Underwriting

Casualty

The Group's Casualty division includes financial institutions, professional indemnity, excess casualty, international accident and health, and general liability business. In total the division wrote 7% less gross premiums than in 2009. Our original expectation for 2010 was growth in premiums as we envisaged that liability underwriters, especially in professional lines, would demonstrate the discipline to enforce the necessary rate increases. Sadly it was not to be.

The division's financial institutions team had an excellent result, despite a 25% reduction in gross premiums, aided by positive development on prior years' claims.

The professional indemnity result was poor on the back of significant reserve strengthening across all years and most segments. With no imminent change in market conditions foreseen, we decided to exit the open market segment (the largest component) of this class in October. Our Australian portfolio, sourced through our 75%-owned coverholder, Resource Underwriting Pacific Pty Limited, and our UK regional portfolio (part of the UK Retail segment) written by David Hunwick, continued to perform creditably in challenging market conditions and remain part of our ongoing underwriting operations.

The excess casualty portfolio, underwritten from Bermuda, continued to develop positively and experienced an increase in rates of 4.4%. Unfortunately this book was impacted by a major oil pipeline loss and also contains exposure to the Deepwater Horizon situation resulting in a reported loss for the year.

The international accident and health book also grew in 2010 and again delivered good margins. In the current environment modest growth is the limit of our ambition for this portfolio in the face of increased competition and some erosion of pricing strength.

The general liability ("GL") book shrank to less than £5 million following our decision to withdraw from open-market business. Nevertheless the portfolio witnessed a welcome return to profit in 2010. We are now underwriting GL business only as part of a package policy.

UK Retail Insurance

The acquisition in June 2010 of the KGM Motor Insurance business written through Syndicate 260 substantially added to the Group's scale and product offering in UK Retail insurance. The motor portfolio is predominantly personal lines and complements the Group's existing homeowners' portfolio. In addition, this segment includes the commercial combined (property and liability) business underwritten through our joint venture Arista Insurance Limited, and our regional accident and health and professional indemnity books. In aggregate our UK Retail gross premiums totalled £164 million in 2010 (2009: £153 million) or 29% of the Group's total.

Motor

The Group's interest in motor insurance underwriting commenced on 1 July and gross premiums written for our account were £12 million in 2010. For Syndicate 260 as a whole, premiums in 2010 were £51 million, down from £80 million in 2009. The reduction was even more pronounced in the second half of the year – gross premiums of £22 million compared with £42 million twelve months earlier. This significant reduction reflects our absolute focus on underwriting profitability irrespective of volumes.

Honey bees thrive better in a regulated environment than in the wild. 2010 is the 200th anniversary of the birth of the Reverend Langstroth, sometimes referred to as “the Father of Modern Beekeeping”, who discovered the idea of ‘bee space’ being the ideal sized-space for a bee to work and flourish in. A smaller space and they will glue it together; any larger and they will build honeycomb and use it instead.

REGULATION

At Canopius, we recognise regulation as an essential part of the control framework for insurance businesses and we have embraced Solvency II as a development which will contribute to making Canopius one of the best managed businesses in our marketplace.

Review of Underwriting

The challenges facing the UK motor market, notably the rise in fraudulent claims (including increased claimants per claim) and the activities of claims' farmers, are well-documented and have impacted the majority of underwriters, Syndicate 260 included. Fortunately Canopius Group is protected against adverse development of reserves as liability for all business written up to 30 June remains with the former owners. Nevertheless, we face a continuing and substantial challenge in restoring this business to health. Large price hikes are helping, as are improvements in our underwriting and claims management. The early signs are encouraging, but with claims inflation continuing, it is not yet clear whether our actions, combined with market-wide rate increases, are sufficient to deliver acceptable profitability.

Homeowners

The winter weather at year end 2009/10 was described as the worst in 30 years and resulted in above average losses for the homeowners' portfolio. Yet the winter weather at year end 2010/11 was the worst since ABI records began in 1910! Perhaps not surprisingly, losses were higher than earlier in the year. Against this background, the improved performance resulting from enhanced underwriting processes, risk selection and aggregate management was somewhat masked.

Gross premiums reduced by 5% and the loss ratio increased from 57% to 61%. Excluding winter weather claims, the net loss ratio was 49%, down from 2009's 57%.

Arista

2010 marked the fourth full year of underwriting for our SME-focused joint venture, Arista Insurance Limited ("Arista"). It is pleasing to note that the venture has progressed in scale to record its first profit in 2010. From an underwriting perspective, the continued focus on profitability over volume is delivering benefits. Gross premiums underwritten by Canopius increased by 16% and the underwriting result swung from a loss to a profit. Market conditions remain challenging but we are optimistic for the further profitable development of Arista's franchise in 2011.

Accident and Health ("A&H")

The UK regional A&H team continue to make progress in developing products for distribution in the UK regional markets. As with the international A&H book only modest growth was achieved in 2010 due to the increasingly competitive environment.

Professional Indemnity

The UK regional professional indemnity segment has performed well considering the increased frequency of larger claims in the class. Our underwriters maintained their discipline and the book reduced further during the year to a core account of targeted SME business.

An apiarist develops his stock by both organic growth from within each hive and also by providing a new home for colonies that have decided to seek an alternative location through swarming.

GROWTH

Canopius also believes that depending on market conditions, growth can be achieved at times organically and at other times, through hiring new teams or through mergers and acquisitions.

Review of Underwriting

The rapid growth of Arista over the past four years, our entry into UK motor business in 2010, the gradual expansion of our regional A&H portfolio and the cautious maintenance of our regional professional indemnity portfolio, together with our continued presence in the homeowners' market, has resulted in the creation of a substantial block of UK Retail insurance business for Canopius, the success of which is fundamental to our overall strategy. In recognition of this, in September we recruited Tim Rolfe who has more than 30 years' experience of strategic development, marketing, distribution and underwriting in this sector. Tim is helping us to enhance our strategy for profitable and sustainable development of our UK Retail business and to build a value-enhancing franchise. Expect to see news of our progress during 2011.

Other Insurance

The Group's other insurance business comprises the run-off of Syndicate 839's 2001 and prior years of account in which Canopius has a 100% economic interest. The syndicate had an excellent result in 2010, attributable to favourable claims' development, especially on the financial institutions account, and recognition of risk premium charged when Canopius acquired the syndicate in 2008. The syndicate has delivered results well in excess of original expectations, but we believe there is scope to make further modest profits in 2011. Given the favourable development of this block of reserves, the substantial reduction in outstanding claims, and the extent of reinsurance protection available to the syndicate, it was reinsured to close into Syndicate 4444 at the end of 2010.

Jim Giordano
Group Chief Underwriting Officer
21 March 2011

Financial Review

Investments

The Group's investment return for the year was 2.8% (2009: 3.1%) on average funds under management.

Investment conditions remained challenging in 2010 with short-term interest rates in our three main trading currencies (US dollar, Sterling and Euro) remaining at historically low levels as the economic recovery in the western world remained weak.

The majority of the Group's assets is invested in high quality short dated bonds and cash, although small allocations were made to property funds, hedge funds and high yield bonds that all added to returns in the year.

At year end the Group's assets were invested as detailed below:

Asset Class	£m	%
Cash and cash equivalents	98	9.6
Corporate Bonds	555	54.6
Government Bonds	297	29.2
Commercial Property Unit Trusts	19	1.9
Hedge Funds	38	3.7
Equities	10	1.0
Total	1,017	100.0

Financial Resources

At the end of 2010 the Group had available financial resources of £429 million, comprising total shareholders' interests of £306 million, senior debt of £48 million and a £75 million letter of credit facility. The retention of our 2010 profits and the cancellation of a £13 million letter of credit facility served to reduce the Group's financial leverage to 29% from 34% at the end of 2009.

We view financial leverage as an important tool to increase the earning potential of our equity capital, but are cognisant of the amount of operating leverage we accept in our underwriting portfolios.

At the current point in the underwriting cycle we are more likely to reduce leverage in the Group, unless there is a clear business case to do otherwise.

A key challenge for the Group during 2011 is to ensure that we deploy effectively our surplus financial resources, which are expected to grow significantly from more than £50 million at the end of 2010. As always, we will actively seek good acquisition opportunities, which may be the most effective way of deploying our surplus capital.

Solvency II

The Group is preparing for Solvency II which is a fundamental overhaul of the risk and capital adequacy regime for the European insurance industry, scheduled to come into effect from 1 January 2013. We have implemented a comprehensive programme to engage proactively with the challenges and opportunities that arise from the Solvency II regime.

During 2010 we have made excellent progress in implementing our programme to ensure that we can demonstrate Solvency II compliance in accordance with the expectations and deadlines set by Lloyd's and the FSA. We are approaching our Solvency II preparations as an opportunity to build a platform for enhanced risk adjusted performance management and greater capital efficiency, whilst ensuring that we gain the maximum benefit in respect of our regulatory capital adequacy requirements.

We are now beginning to see real benefits from the development of our internal model as it begins to form part of our core operational practices. It was used extensively in the assessment of our 2011 reinsurance programme and contributed significantly to our decision-making.

Robert Law
Group Finance Director
21 March 2011

Directors and Professional Advisers

Directors
Michael Watson (Chairman)
Robert Alford
Adam Barron
Robert Law
Roger Le Tissier
Marcus Leese

Secretary
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Directors' Report

The directors present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2010.

Principal activities

The Company is an insurance holding company incorporated in Guernsey, Channel Islands. The Group's principal business is insurance and reinsurance underwriting through Lloyd's syndicates managed by Canopius Managing Agents Limited ("CMA") and reinsurance through Canopius Bermuda Limited ("CBL").

UK operations

The UK operations consist of syndicates underwriting at Lloyd's. A summary of the syndicates' capacity and the Group's participation in the syndicates as at 31 December 2010 is shown below for each year of account ("YOA").

Syndicate capacity by underwriting year of account

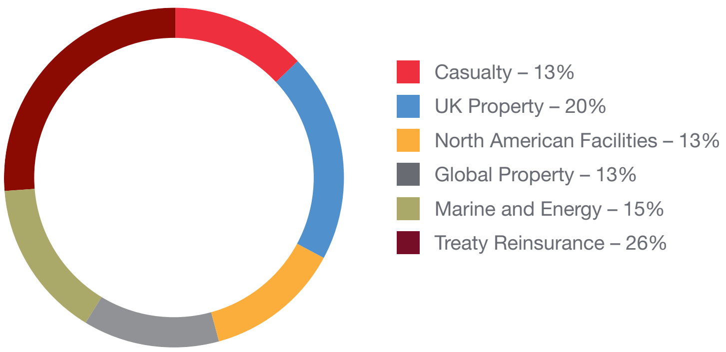
	2009 YOA			2010 YOA			2011 YOA		
	Premium capacity £'000	Canopius's participation £'000	%	Premium capacity £'000	Canopius's participation £'000	%	Premium capacity £'000	Canopius's participation £'000	%
4444	450,000	417,073	93	550,000	507,006	92	550,000	509,756	93
260	–	–	–	69,854	41,101	59	69,854	56,907	81
Total	450,000	417,073	93	619,854	548,107	88	619,854	566,663	91

In addition, Canopius had 100% participation in Syndicate 839's 2008 YOA, which was reinsured to close into Syndicate 4444 on 1 January 2011.

(i) Syndicate 4444

Syndicate 4444 is a leading writer of both insurance and reinsurance. In its insurance business it specialises in UK Property (principally Homeowners), North American Facilities, Global Property, Marine and Energy, and Casualty (including Professional Indemnity, Financial Institutions, General Liability, and Accident and Health). In Treaty Reinsurance, Syndicate 4444 has a worldwide capability in Property, Engineering and Marine classes. Treaty Casualty business is written worldwide, excluding the USA.

Expected gross premium mix on Syndicate 4444's 2011 year of account (total £608 million):



At 31 December 2010 the Group's share of the Syndicate's gross and net reserves (including unearned premium reserves) was £765 million and £646 million respectively.

A proportion of Canopius's capacity on Syndicate 4444 is supported by funds at Lloyd's provided by third party reinsurers by way of quota share reinsurance contracts.

(ii) Syndicate 839

Syndicate 839's 2008 year of account was formed to accept the reinsurance to close of Syndicate 839's 2001 and prior years of account, which was in run-off. At 31 December 2010, the gross and net reserves in respect of this portfolio were £163 million and £57 million, mainly with respect to Aviation and Casualty business (predominantly in the United States).

The Syndicate was reinsured to close into Syndicate 4444 on 1 January 2011.

(iii) Syndicate 260

On 30 June 2010 the Group acquired KGM Underwriting Agencies Limited ("KGM"), which managed Syndicate 260, one of two Lloyd's syndicates dedicated to writing motor business, together with 59% of Syndicate 260's capacity. The business specialises in the provision of UK motor insurance products to niche markets through a nationwide network of brokers. The Group has contractual arrangements with third parties that remove any exposure to profit or loss on business written on or before 30 June 2010.

The Group increased its participation in Syndicate 260's capacity to 81% for the 2011 underwriting year of account.

International operations

(i) Canopius Bermuda

Canopius Bermuda comprises Canopius Underwriting Bermuda Limited ("CUBL") and Canopius Bermuda Limited ("CBL").

CUBL is an insurance service company that wrote in 2010 £18 million Treaty Property and US Excess Casualty insurance premiums primarily using the Bermuda policy form on behalf of Syndicate 4444.

CBL is a Bermuda registered Class 3A insurance company that wrote in 2010 £14 million premium in relation to structured reinsurance contracts; and reinsured part of the Group's interests in its managed syndicates, providing funds at Lloyd's to support the syndicates' underwriting. The third party business is introduced to CBL by Canopius Ireland Limited, based in Dublin. At 31 December 2010, CBL's net assets amounted to £250 million.

(ii) Canopius Asia

Canopius Asia comprises Canopius Asia Pte. Ltd ("CAPL") and Canopius Labuan Limited ("CLL").

CAPL is an insurance service company underwriting within the Lloyd's Asia platform. CAPL and CLL wrote in 2010 £12 million premium, mainly property excess of loss reinsurance, on behalf of Syndicate 4444. CLL is an insurance service company that provides access to certain reinsurance markets in Malaysia.

(iii) Canopius Ireland

Canopius Ireland Limited ("Canopius Ireland") is an insurance service company that originates structured reinsurance business on behalf of CBL and Syndicate 4444.

Underwriting agencies

The Group owns shares in the following underwriting agencies.

Company name	Group's equity interest	Principal area of business
Arista Insurance Limited ("Arista")	56%	Commercial Combined and Motor for the UK SME sector
Canopius Underwriting Limited ("CUL")	100%	Professional Indemnity, General Liability, and Accident and Health
Resource Underwriting Pacific Pty Limited ("RUPPL")	75%	Predominantly Professional Indemnity in Australia and the Asia Pacific region

CUL underwrites exclusively on behalf of Syndicate 4444. Arista and RUPPL underwrite on behalf of Syndicate 4444 and for third parties.

Business review

The Group made a profit before tax of £42 million before employee owned share charges (2009: £56 million). Key features of the result include:

- Gross written premiums of £564 million, a decrease of 5% on 2009.
- Net earned premiums increased by 7% to £465 million from £435 million in 2009.
- Net loss ratio increased by 5.6% to 56.2% (2009: 50.6%).
- High incidence of catastrophe and large risk losses which increased the combined ratio to 91.8% (2009: 88.1%).
- £0.1 million gain from the treatment of foreign exchange on non-monetary items. Excluding the impact of foreign exchange on non-monetary items, the combined ratio was 91.9% (2009: 84.4%).
- Investment returns of £24 million net of corporate member quota share reinsurance interests (2009: £25 million), representing a 2.8% return on average funds under management (2009: 3.1%).
- Other operating expenses, excluding foreign exchange gains and losses, were £20.4 million in 2010 (2009: £19.9 million); the £0.5 million increase reflecting growth in the Group's overseas service company operations.

Directors' Report

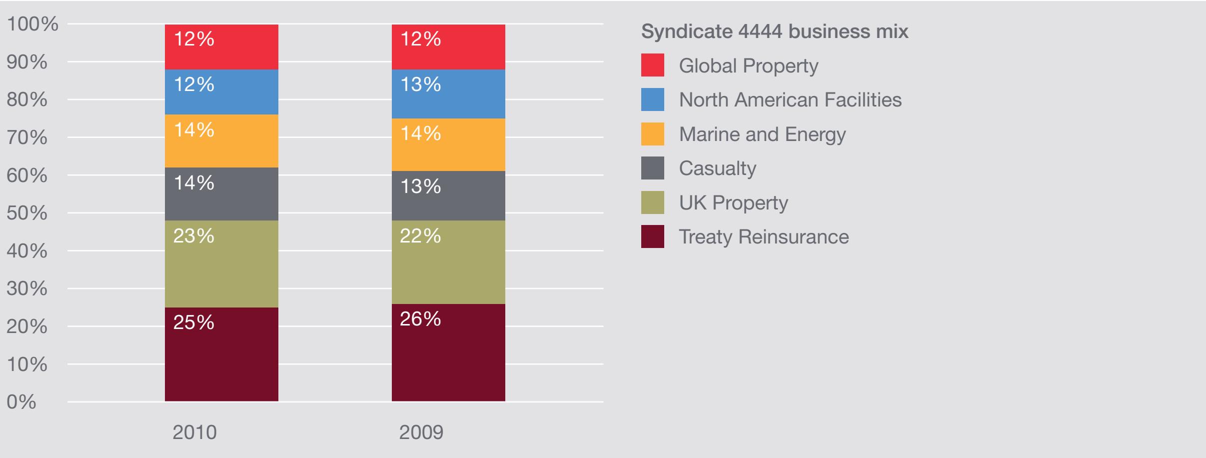
Key performance numbers and ratios are summarised below:

	2010 £'m	2009 £'m	% change
Gross premiums written*	**564**	592	(4.7)%
Gross earned premiums*	**593**	562	5.5%
Net earned premiums*	**465**	435	6.9%
Investment returns	**24**	25	(3.2)%
Insurance claims and claims settlement expenses*	**(302)**	(264)	
Net insurance claims*	**(268)**	(223)	
Insurance acquisition and administrative expenses	**(162)**	(162)	
Gross loss ratio*	**49.5%**	47.0%	
Net loss ratio*	**56.2%**	50.6%	
Combined ratio*	**91.8%**	88.1%	
Combined ratio, excluding foreign exchange on non-monetary items*	**91.9%**	84.4%	

*Premiums, claims and ratios are stated excluding reinsurance to close premiums receivable and the associated claims payable. Ratios exclude the charge to income for employee share interest and income statement line items relating to business written in Syndicate 260 on or before 30 June 2010 for which the Group is not liable.

Gross written premiums decreased 5% by £28 million to £564 million (2009: £592 million); due to reduced premiums in most business lines in Syndicate 4444, reflecting underwriter discipline in difficult markets. This was offset by growth in the business underwritten by Canopius Bermuda Limited and Arista Insurance Limited, and £12 million of premiums written in Syndicate 260 since 30 June 2010.

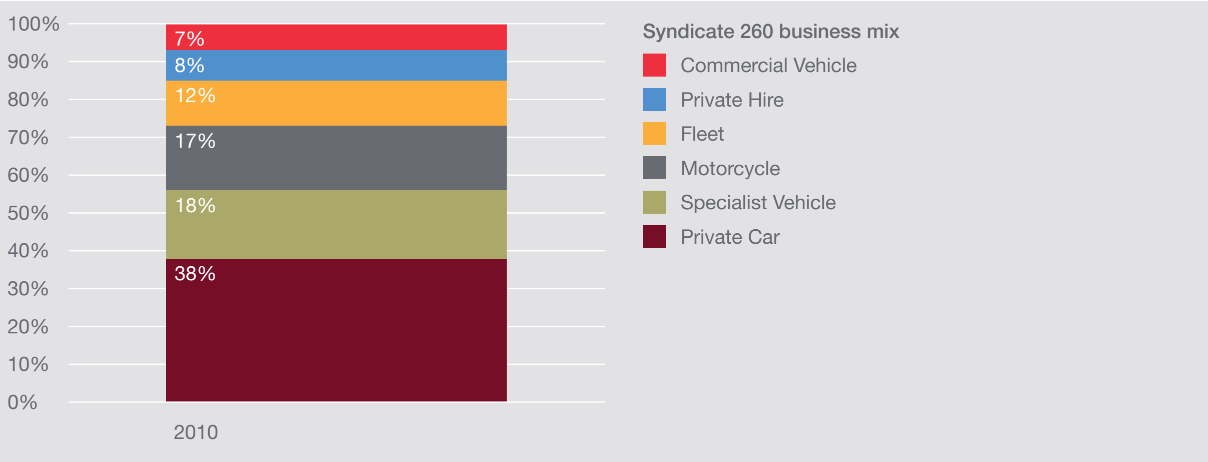
The mix of business of Syndicate 4444 is, year on year, consistently spread across the syndicate's six principal business divisions, as illustrated in the chart below, which shows the mix of gross premiums written in 2010 and 2009.



85% of Syndicate 4444's 2009 year of account was renewed in the 2010 year of account (renewal of 2008 premium in 2009: 80%), providing consistency of the business mix and quality. In aggregate, across all business divisions, renewal premium rates improved by 0.3% (2009: 3.9% increase), with increases more pronounced in the UK Property and Casualty divisions.

In 2010 the gross written premiums increased from the Group's Excess Casualty book written through the Bermuda office and UK SME general liability written through the Group's joint venture, Arista Insurance. Most of the syndicate's divisions reduced premium written, reflecting pricing pressures in these markets. In the second half of 2010 the syndicate withdrew from open market professional indemnity business, as the syndicate management was not satisfied about the outlook for this account.

The mix of business written in Syndicate 260 since 30 June 2010 is illustrated in the chart below:

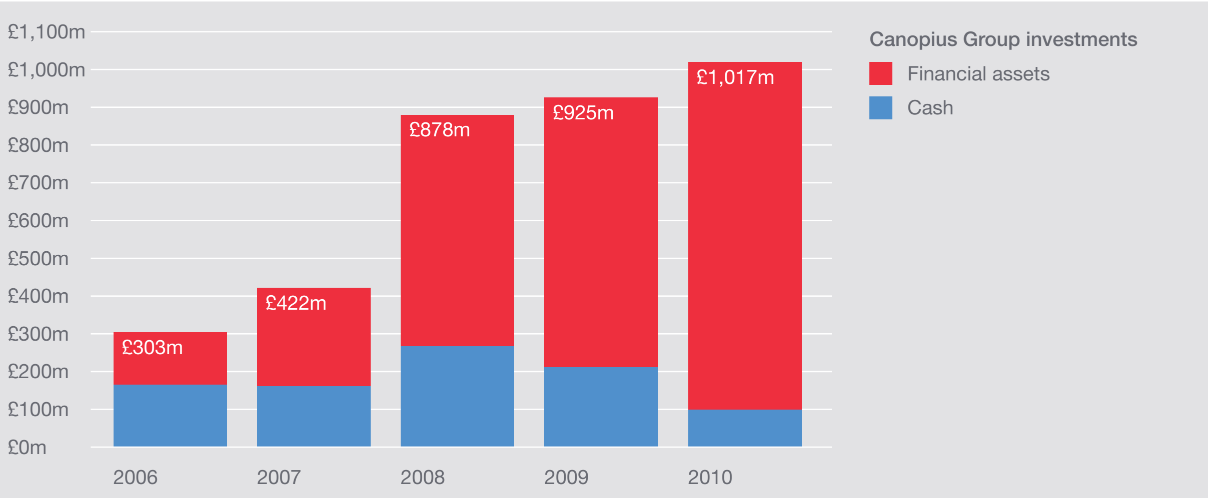


Premium rate increases in Syndicate 260 were in excess of 15% in 2010. However, this market remains challenging and the Group continues to take action on enhancing underwriting and claims management to restore this Syndicate to profitability. These actions have included reducing premiums written by the syndicate from £30 million in the first half of 2010 to £22 million in the second half.

The Group's gross earned premiums increased by £31 million (5%) from £562 million in 2009 to £593 million in 2010, of which £14 million (3%) relates to business written in Syndicate 260 on or before 30 June 2010, for which the Group is not liable, but is required to consolidate under international financial reporting standards. £5 million (1%) reflects the impact of increased earnings from the UK Property book, which benefited from gross written premium growth in 2009.

Net earned premiums grew by £30 million (7%) from £435 million to £465 million, broadly consistent with the growth in gross earned premiums but benefited from a small reduction in the proportion of premiums ceded to reinsurers.

Investment returns were £24 million in 2010 (2.8% of average investments) down from £25 million in 2009 (3.1% of average investments). Interest rates continued to be low in 2010 and the Group made investment returns above LIBOR by increasing allocations to corporate fixed interest securities and diversifying into other asset classes, including hedge funds, non-conforming mortgage backed bonds and commercial property. A market wide sell off of US treasury stocks in late 2010 and relatively high allocations to cash and short duration investments in the Group's surplus funds and syndicate funds at Lloyd's had a negative impact on the Group's overall investment return.



Gross and net loss ratios were 49.5% and 56.2% compared to ratios of 47.0% and 50.6% in 2009. 2010 was driven by a high incidence of natural and man-made catastrophes including the Chile and New Zealand earthquakes and Deepwater Horizon, but this was offset by an absence of significant North Atlantic hurricane losses. In 2009, there were relatively few catastrophe claims of significance and fewer large risk losses.

Directors' Report

The combined ratio increased to 91.8% in 2010 from 88.1% in 2009. The combined ratio was negatively impacted 11% from major claims events and benefited 1% from favourable development on prior year reserves.

The profit before tax includes foreign exchange gains of £1.8 million (2009: £13.8 million losses), of which £0.1 million gain (2009: £17.8 million losses) relates to the effect of translating non-monetary items (unearned premium reserves and deferred acquisition costs) at historic rates of exchange, instead of the closing rates of exchange that are applied to monetary items.

Underwriting related expenses as a percentage of net earned premiums decreased by 1.9% to 35.6% in 2010 from 37.5% in 2009, largely due to the benefits of favourable foreign exchange adjustments.

> Commission related expenses increased from 22% of gross earned premiums in 2009 to 23% in 2010 and increased as a percentage of net earned premiums from 29% to 30%.
> Other acquisition related costs and underwriting and administrative expenses were consistent at 8% of net earned premium in both 2010 and 2009.
> Other operating expenses (non-underwriting), excluding foreign exchange gains and losses, were 5% of net earned premiums in 2010 and 2009.

Other income increased by £4.8 million to £10.7 million in 2010 from £5.9 million in 2009, and includes a £5.4 million exceptional gain on the acquisition of KGM being the excess fair value over acquisition cost of the acquired companies.

Finance costs fell to £6.3 million in 2010 from £6.8 million in 2009. These costs included fees for letters of credit deposited in funds at Lloyd's, and borrowing costs on the Group's senior debt issues. The cost of unsecured letters of credit increased in 2010 as the Group increased its main unsecured facility from £50 million to £75 million to support underwriting on Syndicate 4444's 2010 year of account. This was offset by reduced borrowing costs on the Group's senior debt issues as a consequence of the fall in US LIBOR and EURIBOR.

The Group had a near breakeven result from its joint venture Arista Insurance Limited (2009: £0.7 million loss) whose gross premiums written increased by 12% to £67 million in 2010 from £60 million in 2009. Arista's business continues to develop satisfactorily.

The Group's tax result was £0.9 million gain (2009: £5.3 million charge).

Future developments

The Group's principal business operation continues to be Syndicate 4444 augmented in 2010 by the acquisition of Motor Syndicate 260. The Group will continue to develop its operations in Bermuda, Singapore and Ireland and will explore other growth opportunities, which may include acquisitions and/or recruitment of new underwriting teams.

In January 2011 the Group announced its intention to establish a reinsurance underwriting platform, Canopius Europe, based in Zurich. Canopius Europe will initially underwrite European treaty reinsurance business on behalf of syndicate 4444.

The Group is in the process of reviewing its UK Retail strategy, in which area the Group has expanded its capability through the acquisition of KGM, growth in business written by Arista Insurance and the acquisition in early 2011 of K Drewe Insurance Brokers, a UK regional coverholder writing mainly property exposures in the leisure industry (subject to FSA approval).

Prior to any impact from the New Zealand and Japan earthquakes in early 2011, the two benign hurricane seasons in 2009 and 2010 were expected to put increasing pressure on premium rates in 2011 for certain business divisions. The Group will seek to take advantage of the opportunities presented, growing or cutting back on gross premiums written where appropriate. Managing the underwriting cycle to achieve an appropriate return on capital will continue to be the principal priority of the Group.

The Group is continuing to prepare for Solvency II, which is a fundamental overhaul of the capital adequacy regime for the European insurance industry due to come into effect from 1 January 2013. We have made significant progress on our Solvency II implementation plan, and have met all regulatory deadlines to date. This plan will be extended as appropriate to the Group's Bermuda insurance company.

Principal risks and uncertainties

The Group has identified the following as the matters having greater potential for significant risk and uncertainty:

- Underwriting activities and cycle management;
- Catastrophe exposure management;
- Inadequate or insufficient reinsurance protection;
- Inappropriate payment of claims;
- Temporary or permanent diminution in investment values;
- Non payment of premiums;
- Fluctuations in foreign currency exchange rates;
- Insufficient liquidity to meet the Group's obligations as they fall due;
- Inadequate control over expenses; and
- Insufficient capital.

Risk monitoring and controls

The Group has established an Enterprise Risk Management process that is designed to identify, assess, measure and mitigate risk from all sources. Key policies and controls include:

- Regular meetings of the Boards of directors at which key aspects of the business are reviewed, including review of reports from various committees of the Boards;
- Underwriting guidelines and controls that cover, inter-alia, aggregate and individual limits on exposures by peril and risk, adequacy of premium for risks insured, and the extent of cover provided by reinsurance programmes;
- Claims management policies and guidelines;
- A risk register for each major business unit. Each risk register is reviewed 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 Group;
- An internal audit function whose audit plan is aligned with Canopius's risk registers;
- Human resources policies and guidelines designed to ensure that operations are adequately resourced by people who are sufficiently skilled, trained and appropriately remunerated; and
- Financial policies and controls that cover:
  - Establishing provisions for unpaid claims;
  - Investment of funds;
  - Maintaining segregated funds for the Group's and syndicates' assets;
  - Credit risk, including debt collection and managing counter-party exposures;
  - Matching by currency the Group's and the syndicates' principal exposures in foreign currencies;
  - Cash flow and other financial projections;
  - Regular review and reconciliation of the financial records; and
  - Expense management.

The financial risk management objectives and policies, and the exposure of the Company and the Group to credit, liquidity, interest rate and currency risks are set out in note 2 to these financial statements.

In addition, the Group's managing agent undertakes a comprehensive business planning process and assesses the syndicates' capital requirements in accordance with the FSA's 'Individual Capital Assessment' regime. This regime requires an assessment of the significant financial and non-financial risks, as identified by the managing agent's risk management process. Through the use of a stochastic model and scenario and stress tests, capital requirements are established that are considered appropriate to cover extreme loss scenarios.

Canopius Bermuda Limited ("CBL") regularly monitors its statutory solvency, which is calculated in accordance with regulation in Bermuda.

More detail on the management of insurance and financial risks is provided in note 2 to the financial statements. Information on capital management and policies is given in note 3.

Results and dividends

The results of the Group for the year ended 31 December 2010 are set out on pages 26 to 27 and that of the Company on page 72.

The directors do not recommend the payment of a dividend on any of the Company's shares.

Directors' Report

Directors and directors' interests

The present directors of the Company are listed on page 17, all of whom held office during the whole of the year ended 31 December 2010.

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

	At 31 December 2010 B Ordinary	At 31 December 2009 B Ordinary
Michael Watson	**15,000**	15,000
Robert Law	**2,680**	2,680

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with The Companies (Guernsey) Law, 2008 and applicable regulations. This Law requires the directors to prepare financial statements for each financial year.

Under the Law the directors have elected to prepare the Group financial statements under applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Accounting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group and Company financial statements, the directors are required to:

Group and Company

> select suitable accounting policies and 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.

Group

> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
> provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance.

The directors confirm that they have complied with the above requirements in preparing these 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, 2008. They are also responsible for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Certain corporate and financial information relating to Canopius Group Limited is available on the website www.canopius.com, although there is no legal or regulatory requirement for the Group to disseminate such financial information. The directors of the Company are responsible for the integrity of such information. Legislation in Guernsey governing the preparation of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditors

Each director of the company has confirmed at the date of this report that:

> 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; and
> 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 28 February 2011 and signed on its behalf on 21 March 2011 by:

Roger Le Tissier
Director

Marcus Leese
Director

Independent Auditors' Report

to the members of Canopius Group Limited

Report on the financial statements

We have audited the accompanying Group and Parent Company financial statements (the "financial statements") of Canopius Group Limited which comprise the consolidated and Company balance sheet as of 31 December 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of Group financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of applicable law, and for the preparation of Company financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards and with the requirements of Guernsey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of Group and Company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these Group and Company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Group and Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Group and Company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Group and Company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group and Company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Group and Company financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2010, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and United Kingdom Accounting Standards respectively and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Report on other legal and regulatory requirements

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 Group and Company financial statements. The other information comprises the Directors' Report, the Chairman's Statement, Review of Underwriting, Financial Review and the key statistics.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's and Group's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 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.

PricewaterhouseCoopers CI LLP
Chartered Accountants
Guernsey, Channel Islands
21 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Gross premiums written		**563,845**	591,940
Reinsurance to close premiums (payable)/receivable		**(2,374)**	6,401
Reinsurance premiums ceded		**(113,892)**	(127,707)
Net premiums written		**447,579**	470,634
Change in the provision for gross unearned premiums		**28,798**	(29,805)
Change in the provision for unearned premiums – reinsurers' share		**(13,774)**	769
Net change in the provision for unearned premiums		**15,024**	(29,036)
Earned premiums revenue, net of reinsurance		**462,603**	441,598
Investment return	4	**24,234**	25,023
Other income	5	**10,665**	5,945
Total income		**497,502**	472,566
Insurance claims and claims settlement expenses	6	**(302,359)**	(264,382)
Insurance claims and claims settlement expenses relating to reinsurance to close premiums receivable		**2,374**	(6,401)
Insurance claims and claims settlement expenses recoverable from reinsurers	6	**33,984**	41,137
Net insurance claims		**(266,001)**	(229,646)
Underwriting and administrative expenses	7	**(162,386)**	(161,631)
Other operating expenses (non-underwriting)	8	**(22,757)**	(18,809)
Total expenses	8	**(185,143)**	(180,440)
Results of operating activities		**46,358**	62,480
Finance costs	11	**(6,259)**	(6,837)
Share of operating loss in joint venture	18	**(66)**	(701)
Profit before tax		**40,033**	54,942
Tax	14	**854**	(5,343)
Profit for the year		**40,887**	49,599
Attributable to:			
– Equity holders of the parent company		**41,000**	49,682
– Minority interests		**(113)**	(83)
		40,887	49,599
– Employee interest in shares deemed cash settled	9	**1,994**	857
Total profit to the shareholders		**42,881**	50,456

All the above amounts are derived from continuing operations.

The notes on pages 32 to 79 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £'000**	Year ended 31 December 2009 £'000
Profit for the year		**40,887**	49,599
Other comprehensive income			
Currency translation differences	28	**502**	151
Total comprehensive income recognised for the year		**41,389**	49,750
Attributable to:			
– Equity holders of the parent company		**41,502**	49,833
– Minority interests		**(113)**	(83)
		41,389	49,750
– Employee interest in shares deemed cash settled	9	**1,994**	857
Total comprehensive income recognised for the year to the shareholders		**43,383**	50,607

All the above amounts are derived from continuing operations.

The notes on pages 32 to 79 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Intangible assets	15	**2,223**	3,783
Property and equipment	19	**7,438**	7,200
Reinsurance assets	21	**394,908**	405,222
Deferred acquisition costs	22	**70,451**	74,013
Loans and receivables, including insurance receivables	23	**139,870**	161,965
Financial assets – carried at fair value through income	24	**918,829**	714,111
Cash and cash equivalents	25	**97,717**	210,767
Total assets		**1,631,436**	1,577,061
Liabilities			
Insurance contract liabilities	29/30	**1,235,583**	1,199,643
Trade and other payables, including insurance payables	31	**38,298**	49,543
Deferred tax liabilities	20	**3,507**	13,005
Tax liabilities	20	**80**	2,058
Borrowings: debenture loans	32	**47,757**	46,964
Total liabilities before employee interest in shares		**1,325,225**	1,311,213
Net assets before employee interest in shares		**306,211**	265,848
Employee interest in shares			
Employee owned shares deemed cash settled	10	**7,585**	8,611
Net assets after employee interest in shares		**298,626**	257,237
Equity			
Share capital	26	**111,820**	111,862
Share premium	27	**1,736**	1,409
Other reserves	27	**2,309**	1,807
Retained earnings	27	**181,691**	140,976
Equity attributable to equity holders of the parent	28	**297,556**	256,054
Minority interest		**1,070**	1,183
Total equity		**298,626**	257,237
Analysis of shareholders' interests			
Equity attributable to equity holders of the parent		**297,556**	256,054
Employee interest in shares deemed cash settled	10	**7,585**	8,611
Minority interest		**1,070**	1,183
Total shareholders' interests		**306,211**	265,848

These financial statements were approved by the Board of Directors on 28 February 2011 and signed on their behalf on 21 March 2011 by:

Roger Le Tissier
Director

Marcus Leese
Director

The notes on pages 32 to 79 form part of these financial statements.

Company Balance Sheet

As at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Shares in Group undertakings	16	**185,485**	185,373
Financial investments	24	**53,834**	14,669
		239,319	200,042
Current assets			
Amounts due from Group undertakings		**722**	29,672
Cash at bank		**2,622**	14,710
Prepayments and accrued income		**36**	106
		3,380	44,488
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		**–**	30,234
Other creditors		**410**	252
Accruals and deferred income		**–**	469
		410	30,955
Net current assets		**2,970**	13,533
Total assets less current liabilities		**242,289**	213,575
Creditors – amounts falling due after more than one year			
Borrowings: debenture loans	32	**47,757**	46,964
Net assets before employee interest in shares		**194,532**	166,611
Employee interest in shares			
Employee owned shares deemed cash settled	10	**7,585**	8,611
Net assets after employee interest in shares		**186,947**	158,000
Capital and reserves			
Share capital	26	**111,820**	111,862
Share premium	27	**1,736**	1,409
Capital redemption reserve	27	**178**	178
Profit and loss reserve	27	**73,213**	44,551
Total shareholders' funds	28	**186,947**	158,000
Analysis of shareholders' funds			
Equity attributable to equity holders		**186,947**	158,000
Employee interest in shares deemed cash settled	10	**7,585**	8,611
Total shareholders' interests		**194,532**	166,611

These financial statements were approved by the Board of Directors on 28 February 2011 and signed on their behalf on 21 March 2011 by:

Roger Le Tissier
Director

Marcus Leese
Director

The notes on pages 32 to 79 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Notes	Attributable to equity holders of the parent Share reserves[1] £'000	Other reserves[2] £'000	Retained earnings[3] £'000	Total £'000	Minority interests £'000	Total equity £'000
At 1 January 2009		111,126	1,656	100,620	213,402	1,266	214,668
Issue of shares and share issue costs		733	–	–	733	–	733
Purchase and cancellation of shares		(90)	–	(70)	(160)	–	(160)
Own shares		1,502	–	(1,502)	–	–	–
Reclassification to liability – employee interest in shares	10	–	–	(7,754)	(7,754)	–	(7,754)
Total recognised comprehensive income for the year		–	151	49,682	49,833	(83)	49,750
At 31 December 2009		113,271	1,807	140,976	256,054	1,183	257,237
Employee owned shares deemed cash settled	10						8,611
Total shareholders' interests at 31 December 2009							265,848
At 1 January 2010		113,271	1,807	140,976	256,054	1,183	257,237
Issue of shares and share issue costs	27	1,270	–	(1,270)	–	–	–
Purchase and cancellation of shares	27	(985)	–	985	–	–	–
Total recognised comprehensive income for the year		–	502	41,000	41,502	(113)	41,389
At 31 December 2010		**113,556**	**2,309**	**181,691**	**297,556**	**1,070**	**298,626**
Employee owned shares deemed cash settled	10						7,585
Total shareholders' interests at 31 December 2010							306,211

1 Share reserves include share capital, share premium and own shares reserves (see note 27).
2 Other reserves include currency translation, revaluation and capital redemption reserves (see note 27).
3 Retained earnings amount is after provision for the liability for employee owned share interest (see note 10).

The notes on pages 32 to 79 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Cash flows from operating activities			
Cash generated from operations	34	**61,674**	63,931
Income tax paid		**(2,465)**	(1,121)
Net cash from operating activities		**59,209**	62,810
Cash flows from investing activities			
Purchases less sales of financial assets		**(212,502)**	(130,524)
Acquisition of subsidiaries, net of cash acquired	17	**26,658**	–
Investment in preference shares in joint venture		**(82)**	(1,227)
Purchases less sales of property and equipment and intangible assets		**(3,804)**	(2,575)
Interest received		**19,019**	20,799
Net cash used in investing activities		**(170,711)**	(113,527)
Cash flows from financing activities			
Interest paid		**(2,255)**	(2,851)
Proceeds from issue of shares, net of share issue costs		**1,270**	13
Purchase and cancellation of shares		**(4,290)**	(160)
Net cash (outflow)/inflow from financing activities		**(5,275)**	(2,998)
Net decrease in cash and cash equivalents		**(116,777)**	(53,715)
Cash and cash equivalents at beginning of year		**210,767**	267,314
Effect of exchange rate changes on cash and cash equivalents		**3,727**	(2,832)
Cash and cash equivalents at end of year	25	**97,717**	210,767

The notes on pages 32 to 79 form part of these financial statements.

1 Accounting Policies

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

(a) Basis of presentation and preparation

(i) Group

Canopius Group Limited has elected to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and with the provisions of The Companies (Guernsey) Law, 2008. Since 2002, the standards adopted by the International Accounting Standards Board ("IASB") have been referred to as IFRS. The standards from prior years continue to bear the title 'International Accounting Standards' ("IAS"). Insofar as a particular standard is not explicitly referred to, the two terms are used in these financial statements synonymously. Compliance with IFRS also includes the adoption of interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investments and financial assets and liabilities which are valued at fair values.

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

The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated.

(ii) Company

The financial statements of the Company have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and in accordance with applicable United Kingdom Accounting Standards and the provisions of The Companies (Guernsey) Law, 2008. Accounting policies stated below relate to the Group as well as to the Company unless stated otherwise.

(iii) Going concern and liquidity considerations – Group and Company

The Group underwrites a diversified portfolio of insurance and reinsurance risks from customers worldwide through its underwriting business operations at Lloyd's and through its subsidiary, Canopius Bermuda Limited. The directors have maintained and monitored systems and processes for the management of risk in the business and, having regard to the Group's financial resources, the directors have assessed the likelihood of the Group and Company being unable to meet its financial obligations or being unable to operate as a going concern for the foreseeable future to be low. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements. Information relevant to the directors' assessment may be found in these report and financial statements, including as noted below.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report ("the report") on pages 18 to 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 28 to 31 and on pages 75 to 77. In addition, note 2 to the financial statements includes information on the Group's insurance and financial risk management and exposures to valuation risk, credit risk and liquidity risk. Note 3 to the financial statements includes information on the Group's objectives, policies and processes for managing its capital. Note 32 details the Group's borrowings (debenture loans) and note 36(c) its available bank facilities.

(b) Application of standards and interpretations to the Group

(i) Segment reporting and Earnings per share

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

(ii) Amendments to standards and IFRIC interpretations

All applicable standards, amendments to standards and IFRIC interpretations effective in 2010 have been adopted.

The consolidated financial statements have been prepared in compliance with IFRS 3 (revised) – 'Business combinations', which is applicable for accounting periods commencing on or after 1 July 2009 and has been applied prospectively to business combinations from 1 January 2010. The revised standard incorporates a number of changes in accounting for business combinations which impact the amount of goodwill recognised and the results reported in the period of the combination and future reporting periods.

No reclassification of financial assets, as permitted by amendments to IAS 39 – 'Financial Instruments: Recognition and Measurement' and IFRS 7 – 'Financial Instruments: Disclosures', effective from 2008, has been made during the year or the previous years.

The directors' initial assessment is that the adoption in future years of other standards, amendments and IFRIC interpretations to existing standards that are not yet effective will have no material impact on the financial statements of the Group.

(c) Basis of consolidation – Group

(i) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results, on an annual accounting basis, of the Company and its subsidiaries including the Group's underwriting activities through its participation on Lloyd's syndicates. Subsidiaries are all entities (including special purpose entities) over which the Group directly or indirectly has the power to govern the financial and operating policies so as to derive benefits from their activities. These are generally entities where the Group holds shares with more than 50% of the voting rights in those entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are prepared for the same reporting year-end as the parent company. Consolidation adjustments are made to convert subsidiary financial statements prepared under UK GAAP into IFRS to remove the effect of any different accounting policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date control ceases. All inter-company balances, profits and transactions are eliminated on consolidation.

A list of the subsidiaries included in the consolidated financial statements is contained in note 16.

The Group uses the 'acquisition method of accounting' under IFRS 3 (revised) – 'Business Combinations', (previously called the 'purchase method of accounting' under IFRS 3), to account for the acquisition of subsidiaries.

The cost of an acquisition, previously under IFRS 3, was measured as the fair value of the consideration, including assets and equity instruments given to the vendor and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The assets acquired and liabilities and contingent liabilities assumed on acquisition were measured initially at their provisional fair values at the acquisition date. Under IFRS 3 (revised), which is required to be applied prospectively, the consideration to purchase a business (including contingent consideration) is recorded at fair value at the acquisition date, with contingent consideration included in creditors at directors' best estimate of the ultimate liability. These are re-estimated in subsequent financial statements (after the expiry of the measurement period for adjustment to the initial provisional fair value, which should not exceed one year from the date of acquisition) and any changes in estimates are taken to the Statement of Comprehensive Income. All acquisition-related expenses are charged to the income statement when incurred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement for the period.

(ii) Joint ventures

The consolidated financial statements incorporate the Group's share of the results, assets and liabilities of jointly controlled entities ("joint ventures") using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture, less any provision for impairment. The results of joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

1 Accounting Policies continued

(d) Basis of accounting for insurance contracts – Group

Insurance contracts (including inwards reinsurance contracts) are defined as those that transfer significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits above the premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Contracts that do not transfer significant insurance risk are accounted for as financial transactions.

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

(i) Premiums

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

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

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

(ii) Insurance claims and claims settlement expenses

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

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

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

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

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

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

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

1 Accounting Policies continued

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

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

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

Claims provisions are not discounted for the investment earnings that may be expected to arise in the future on funds retained to settle the claims.

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

Short tail business

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

Longer tail business

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

Reinsurance recoveries

Reinsurance recoveries in respect of IBNR claims are assumed to be consistent with the historical recoveries on paid and outstanding claims, adjusted to reflect changes in the nature and extent of the Group's reinsurance programmes. An assessment is made of the recoverability of reinsurance having regard to available data on the financial strength of the reinsurance companies.

(iii) Unexpired risks reserve – Group

At each balance sheet date tests are performed to ensure the adequacy of the unearned premium reserve, net of associated deferred acquisition costs, to cover related future claims liabilities. In performing these tests, estimates of future premiums and claims cash flows, claims handling expenses and investment income from the assets backing such liabilities are considered and compared to the balances in the unearned premium reserve and deferred acquisition costs. Provision is made for any deficiencies by establishing an unexpired risks reserve.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. Unexpired risk reserves are included in "insurance contract liabilities" in the balance sheet.

(iv) Deferred acquisition costs – Group

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

(v) Reinsurance to close ("RITC") – Group

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

1 Accounting Policies continued

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

(vi) Outwards reinsurance contracts – Group

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

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

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

(vii) Receivables and payables related to insurance contracts – Group

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

(e) Administrative and other expenses – Group

Operating expenses associated with underwriting activities of subsidiaries are charged to the consolidated income statement as ‘administrative expenses’ and included as part of ‘underwriting and administrative expenses’. Operating expenses which relate to other activities are charged to the consolidated income statement as ‘other operating expenses (non-underwriting)’.

(f) Pension contributions – Group

The Group operates defined contribution pension plans and a defined benefit pension scheme for its employees.

The defined benefit pension scheme was acquired in 2010 on the acquisition of a new business (see note 17). The scheme is closed to new entrants and has ceased accruing new benefits for current members. The liability recognised in the consolidated balance sheet in respect of the scheme (“scheme liability”) is the present value of the defined benefit obligation less the fair value of the scheme’s assets as at the balance sheet date. Scheme assets exclude any insurance contracts issued by the Group. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. To the extent that a surplus emerges on the scheme liability, it is only recognised as an asset in the balance sheet when it is probable that future economic benefits will be recovered by the scheme sponsor in the form of refunds or reduced contributions.

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

(g) Finance costs – Group

Finance costs consist of interest charges and fees accruing on the Group’s borrowings, bank facilities and costs of arrangements with third parties that secure or provide funds at Lloyd’s for the Group’s corporate members underwriting on Lloyd’s syndicates. Arrangement fees in respect of financing arrangements are charged over the life of the related facilities.

(h) Revenue recognition: other income – Group

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

- managing agents’ fees are usually collected at the beginning of each year and are earned over the period to which the fees relate, normally the three year accounting period of each syndicate’s year of account.
- profit commission is accounted for in the year in which it is considered earned by the managing agent, where its measurement is reasonably certain. Profit commission due after more than one year is held at fair value, which is the discounted present value of the amount expected to be received. Subsequent unwinding of the discount is recognised as investment income.

1 Accounting Policies continued

(i) Foreign currency translation – Group and Company

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). All Group companies incorporated in the United Kingdom have adopted Pounds Sterling as their functional currency. The Group's overseas subsidiaries have adopted the currency of their country of incorporation as their functional currency, except for Canopius Bermuda Limited as the majority of its business is writing Sterling denominated reinsurance contracts of the Group's subsidiaries underwriting on Lloyd's syndicates. Accordingly, this company has adopted Sterling as its functional currency. The consolidated financial statements are presented in Sterling which is the Group's presentation currency. The functional currency of the Company is Sterling.

(ii) Transactions and balances

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

(iii) Group companies

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

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

When a foreign operation is sold, the cumulative amount of the exchange differences previously taken direct to equity is recognised in the income statement as part of the gain or loss on sale.

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

(j) Property and equipment – Group

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

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

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

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

(k) Intangible assets – Group

Intangible assets comprise goodwill arising on acquisitions, values attributed to acquired claims provisions and business renewal rights; and computer software licences.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the acquisition date, subject to annual impairment tests.

1 Accounting Policies continued

Acquired claims provisions is the difference between the fair value of claims provisions purchased from third parties usually as part of a company acquisition and the claims provisions as determined in accordance with the Group's accounting policies. This intangible asset is amortised on a basis consistent with the settlement of the claims.

Renewal rights intangible asset is the value attributed to future income streams on business acquired where reasonable estimates can be made of the longevity of annually renewable insurance contracts. Renewal rights are valued at fair value at acquisition and amortised on a basis consistent with the estimated retention rates of the business acquired. Where rights to capacity on a syndicate are acquired from third parties, the cost of acquisition is adopted as the fair value of the associated renewal rights.

Computer software licences acquired, other than through a business combination, are capitalised at cost and amortised on a straight line basis over the shorter of the estimated useful economic life or the duration of the licence agreement.

(l) Financial assets – Group and Company

The Company states financial assets at fair value.

The Group classifies its financial assets into the following categories: financial assets at fair value through income and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(i) Financial assets at fair value through income

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

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

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

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

(ii) Loans and receivables

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

(iii) Derivative financial instruments

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

The Group had no derivative instruments designated for hedge accounting during the current and previous financial years.

1 Accounting Policies continued

(m) Cash and cash equivalents – Group and Company

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

(n) Taxation – Group

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

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

Deferred tax is recognised on temporary differences, which are gains or losses that will be taxable in future periods and are not included in the current tax calculation. Deferred tax liabilities are generally recognised for all gains that are not currently taxable but will be taxable in the future. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which non-current taxable losses can be deducted.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are not discounted for the time value of money.

(o) Borrowings – Group and Company

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

(p) Share capital – Group and Company

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

(q) Leases – Group

Leases in which significantly all the risks and rewards of ownership are transferred to the Group are classified as finance leases. All other leases are treated as operating leases.

At the commencement of the lease term, finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. The minimum lease payments are apportioned between finance charges and repayments of the outstanding liability, finance charges being charged to each period of the lease term so as to produce a constant rate of interest on the outstanding balance of the liability.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the life of the lease.

1 Accounting Policies continued

(r) Transactions in employee owned shares – Group and Company
Expenses relating to the sale and issue of shares, or options granted to employees are determined based on the fair value of the shares or options as assessed by the directors based on available information and using pricing models for the options. These expenses are charged over the relevant vesting period of the shares from the date of issue or grant of option. The credit for charges associated with equity-settled employee share transactions is included in equity and the credit associated with cash-settled employee share transactions is included as a liability in the balance sheet. In the case of cash-settled employee share transactions, the liability is re-measured at each period end at fair value, with any changes in fair value recognised in the Statement of Comprehensive Income for the period.

(s) Impairment of assets – Group and Company
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows. The amount of the loss is recognised in the income statement.

(t) Critical accounting estimates and judgements in applying accounting policies – Group and Company
The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The most critical accounting estimate made by the Group is the estimate of the ultimate claims liability from insurance contracts underwritten. The estimation of the claims liability is described in (d) (ii) above.

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

(v) Comparatives
Where necessary, comparative amounts within the notes to the financial statements have been adjusted in order to improve comparability. There is no impact on the profit after tax or net assets as a result of these adjustments.

2 Management of insurance and financial risk

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

The risk management processes and their enabling governance structures are designed to provide comprehensive control over and ongoing management of the significant financial and non-financial risks facing the Group.

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

Risk Management and oversight begins with Canopius's Boards of directors which are ultimately responsible for ensuring the effective management and control of risk from all sources.

2 Management of insurance and financial risk continued

The Group operates a "Three Lines of Defence" approach to risk governance and risk reporting.

The first line of defence involves all members of staff at every level within the business who are responsible for identifying, taking and managing risk in their area.

The second line of defence involves the Risk and Actuarial Function who provide oversight and challenge to the risk taking business and the first line of defence.

Risk reporting is through the Risk and Actuarial Functions, who routinely engage with individual business units and report to the Boards and their subcommittees. Functional risk reporting is escalated through the Canopius structure to the Boards e.g. Syndicate 4444's divisional aggregate information is collated, analysed and reported by a central catastrophe management team to the Syndicate Management Committee. The Underwriting Director reports aggregate information to the Board of Canopius Managing Agents Limited.

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

Risk appetite

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

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

Target levels of risk appetite have been established on a qualitative basis for all of the risks documented in risk registers. In addition, specific risk limits have been adopted and are in use on a qualitative and quantitative basis in the following areas:

> underwriting;
> aggregate exposures;
> reinsurance;
> investments;
> liquidity;
> credit; and
> market.

As part of the ongoing risk management programme, the Group is in the process of reviewing and revising the approach to expressing risk appetite including more sophisticated methods of measuring exposure to catastrophe risk. This is an integral part of the development of a Capital Capacity, Risk Appetite and Risk Limits ("CAL") Framework.

The CAL Framework provides Canopius with the ability to:

> develop risk strategies based on the measurement of risk exposure and consistent with Canopius's risk appetite;
> limit the exposure to some risks and increase the exposure to others to optimise the deployment of capital and maximise diversification benefits;
> establish effective management of risk-exposure and risk limits; and
> develop and monitor the overall Canopius risk appetite and hence our risk bearing capacity.

Risk control

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

2 Management of insurance and financial risk continued

Risk categories

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

Insurance Risk	Risk of loss arising from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities and premiums;
Operational Risk	Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;
Financial Risk	Risks relating to market, credit and liquidity as follows:
(a) Market Risk	Risk that arises from fluctuations in values of or income from assets, or interest or exchange rates;
(b) Credit Risk	Risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion;
(c) Liquidity Risk	Risk that insufficient liquid financial resources are maintained to meet liabilities as they fall due;
Capital Risk	Risk of loss arising from inappropriate levels or sources of capital;
Strategic Risk	Risk of loss inherent in the Group's market positions, strategic direction and commercial interests;
Regulatory Risk	Risk of loss from dealings with Regulators; and
Systemic Risk	Risk of loss from global or localised failures, including where the failure of one institution causes other institutions to fail.

Risk policies

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

- delegated underwriting;
- reinsurance purchase;
- investments;
- outsourcing;
- treating customers fairly ("TCF");
- whistle blowing;
- sanctions;
- IT and physical security;
- foreign exchange;
- human resources ("HR");
- asset-liability management ("ALM"); and
- money laundering.

Risk assessment

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

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

Reporting

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

Regular internal reporting is provided in Top Ten Risks Reports which cover a review of contemporary and emerging risks, updates of the risk registers and reporting on relevant risk issues to ensure senior management and the Boards receive timely and actionable forward-looking risk reporting on significant risk issues.

2 Management of insurance and financial risk continued

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

Insurance risk

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

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

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

Underwriting

The Group accepts insurance risk in a range of classes of business through its insurance underwriting entities, Syndicate 4444, Syndicate 260 and Canopius Bermuda Limited. The Group also owns a number of underwriting service companies and insurance intermediaries in Bermuda, Ireland, Singapore, Australia, Labuan and the UK.

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

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

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

The Group seeks to limit exposures and the quantum and likelihood of loss that it is prepared to accept using stochastic and other modelling techniques by reference to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. These are monitored through the regular calculation of realistic disaster scenarios and catastrophe modelling. The aggregate of exposures is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations.

The Group has in place personal authority limits which are binding upon all staff authorised to underwrite and are specific to underwriters and classes of business. These authority limits are enforced through a sign-off process for underwriting transactions. Exception reports are also run regularly to monitor compliance.

A proportion of the Group's insurance is written by third parties under delegated authorities. The Group has in place a binding authority policy and control framework. The policy covers all aspects of delegated underwriting and control of coverholders including initial due diligence, frequency and monitoring of bordereaux and requirements for both internal reviews and external audits. Compliance with the policy is regularly monitored.

2 Management of insurance and financial risk continued

Catastrophe modelling

The greatest likelihood of significant losses to the Group arises from natural catastrophe events, such as windstorm, earthquake or flood. The Group has licence agreements with two catastrophe modelling organisations. The Group uses these modelling tools, along with the Group's knowledge of the business, historical loss information and geographic accumulations, to monitor aggregation and to simulate catastrophe losses. The range of scenarios considered includes natural catastrophe, property, marine, liability and terrorism events.

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

A detailed analysis of catastrophe exposures is carried out monthly and measured against the Group's risk appetite.

Reinsurance

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

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

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

Claims management

Claims management risk may arise in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or claims leakage. The Group's claims teams seek to ensure that claims handling activities are performed with a consistent approach and that a standardised resolution and adjustment process is adopted wherever possible.

Reserving

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

The Group's actuarial teams use a range of recognised actuarial techniques to project gross premiums written, monitor claims development patterns and to determine the claims provisions. The Group reviews at least quarterly, premium and claims experience by class of business and year of account and the earned and projected ultimate gross and net loss ratios. Claims provisions are reviewed annually by external consulting actuaries who provide independent opinions to the Group and relevant regulatory bodies.

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. At 31 December 2010, of the Group's gross claims reserves, £648 million (73%) were attributable to Syndicate 4444, £163 million (18%) to Syndicate 839, £67 million (8%) to Syndicate 260 and £12 million (1%) to Canopius Bermuda Limited.

The figures in the tables and footnotes below are presented at the exchange rates prevailing at 31 December 2010. The top half of each table below illustrates how the estimate of total gross and net claims outstanding, excluding unallocated loss adjustment expenses, for each underwriting year of Syndicate 4444 has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the Group's balance sheet.

2 Management of insurance and financial risk continued

Underwriting year – Gross

	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	Total £'000
Estimate of ultimate claims costs:								
At end of period 1	190,550	263,717	209,159	294,249	337,479	312,821	332,113	1,940,088
At end of year 2	202,307	246,931	207,149	311,282	344,569	348,446		1,660,684
At end of year 3	195,570	241,127	201,802	315,485	345,688			1,299,672
At end of year 4	194,133	239,605	196,648	314,905				945,291
At end of year 5	184,086	237,273	196,074					617,433
At end of year 6	183,355	237,731						421,086
At end of year 7	183,115							183,115
Current estimate of cumulative gross claims	183,115	237,731	196,074	314,905	345,688	348,446	332,113	1,958,072
Cumulative payments to date	(168,478)	(211,265)	(164,484)	(234,911)	(213,930)	(137,425)	(28,713)	(1,159,206)
Gross claims outstanding	14,637	26,466	31,590	79,994	131,758	211,021	303,400	798,866
Unearned balance								(162,635)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)								25,876
Other liabilities (see (ii) below)								21,250
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses								683,357
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses								648,029
Liability in respect of Syndicate 839 (see (iii) below), including unallocated loss adjustment expenses								162,576
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iv) below)								67,341
Liability in respect of Canopius Bermuda Limited								12,156
Corporate and other adjustments (see (v) below)								8
Total liability included in the balance sheet (note 30)								890,110

Underwriting year – Net

	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	Total £'000
Estimate of ultimate claims costs:								
At end of period 1	169,249	187,610	201,860	259,478	291,486	286,990	281,200	1,677,873
At end of year 2	168,971	184,272	187,886	274,645	291,239	299,295		1,406,308
At end of year 3	163,392	177,594	182,737	284,115	293,925			1,101,763
At end of year 4	156,025	175,620	179,753	283,919				795,317
At end of year 5	151,889	172,944	179,713					504,546
At end of year 6	151,864	172,383						324,247
At end of year 7	151,741							151,741
Current estimate of cumulative net claims	151,741	172,383	179,713	283,919	293,925	299,295	281,200	1,662,176
Cumulative payments to date	(138,186)	(149,327)	(148,541)	(210,115)	(193,687)	(131,416)	(27,457)	(998,729)
Net claims outstanding	13,555	23,056	31,172	73,804	100,238	167,879	253,743	663,447
Unearned balance								(146,154)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)								19,254
Other liabilities (see (ii) below)								18,878
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses								555,425
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses, before corporate member level quota share reinsurances								529,166
Liability in respect of Syndicate 839 (see (iii) below), including unallocated loss adjustment expenses								56,793
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iv) below)								42,879
Liability in respect of Canopius Bermuda Limited								12,156
Corporate and other adjustments, including corporate member level quota share reinsurances (see (v) below)								(78,110)
Total liability included in the balance sheet (note 30)								562,884

2 Management of insurance and financial risk continued

Notes to the claims development tables

(i) Liabilities in respect of the 1993 to 2006 years of account of Syndicates 1607 and 3786 (and their predecessor syndicates) were reinsured to close into the 2007 year of account of Syndicate 4444 as at 1 January 2009 at a reinsurance to close premium of £63 million gross and £50 million net of reinsurance recoverable. The related liability is running off satisfactorily within the reserves with claims outstanding at 31 December 2010 being £26 million gross and £19 million net of reinsurance recoverable. Cumulative payments since 1 January 2009 amount to £7 million (2009: £15 million) gross and £18 million (2009: £10 million) net of reinsurance recoverable. The reduction in the cumulative gross payments between 2009 and 2010 results from a claims recovery of £17 million during 2010.

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

(iii) The 2001 and prior years of Syndicate 839 were acquired by the Group by way of reinsurance to close into a newly constituted 2008 year of account of Syndicate 839 with effect from 1 January 2008 at a reinsurance to close premium of £375 million gross and £106 million net of reinsurance recoverable. The related liability is running off satisfactorily within the reserves with claims outstanding at 31 December 2010 being £159 million gross and £53 million net of reinsurance recoverable. These amounts are exclusive of unallocated loss adjustment expenses of £4 million.

Cumulative payments since 1 January 2008 amount to £125 million (2009: £67 million) gross and £54 million (2009: £37 million) net of reinsurance. The change in the net claims reserves includes the effect of commuted reinsurance contracts.

The 2008 year of account of Syndicate 839 was reinsured to close into the 2011 year of account of Syndicate 4444 at 1 January 2011.

(iv) The Group's share of Syndicate 260's liability is in respect of Flectat Limited ("Flectat"), a corporate member acquired by the Group on 30 June 2010 (see note 17). Flectat has approximately 60% participation in Syndicate 260's 2010 and prior years' of account. The Group is not liable for liabilities relating to policies written on or prior to the date of acquisition. The ultimate expected claims liabilities, excluding unearned balance, with respect to post-acquisition policies for the 2010 year of account at 31 December 2010 amounted to £4 million gross and £3 million net of reinsurance and net of related cumulative claims payments since 30 June 2010 of £1 million.

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

Operational risk

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

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

Financial risk

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

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

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

2 Management of insurance and financial risk continued

(a) Market risk

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

(i) Valuation

The Group has classified its financial instruments as at 31 December 2010 using the fair value hierarchy required by the Amendments to IFRS 7 (effective from 1 January 2009): 'Improving Disclosures about Financial Instruments'. The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value, with Level 1 considered the most reliable. The levels within the fair value hierarchy are defined as follows:

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

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

The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

At 31 December 2010

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Cash and cash equivalents	61,904	35,813	–	97,717
Debt securities and other fixed income securities	359,367	102,995	18,263	480,625
Holdings in collective investment schemes	376,694	61,409	–	438,103
Derivative financial instruments	101	–	–	101
Financial assets	**736,162**	**164,404**	**18,263**	**918,829**

At 31 December 2009

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Cash and cash equivalents	191,897	18,870	–	210,767
Debt securities and other fixed income securities	393,124	69,246	53,125	515,495
Holdings in collective investment schemes	170,484	26,822	–	197,306
Derivative financial instruments	1,310	–	–	1,310
Financial assets	564,918	96,068	53,125	714,111

2 Management of insurance and financial risk continued

The level within the hierarchy that a financial instrument is placed is based on the lowest level of any input that is significant to its fair value measurement. At 31 December 2010, securities at a valuation of £18 million (2009: £53 million) have been classified as Level 3 under IFRS 7. This amount comprises £18 million (2009: £21 million) in AAA rated UK mortgage-backed floating-rate securities, £nil (2009: £25 million) held in GNMA mortgage securities which are explicitly guaranteed by the US government and £nil (2009: £7 million) held in mortgage securities rated AAA and issued by FNMA or FHLMC which are sponsored by the US government.

The mortgage backed securities included in Level 3 are traded through a small number of broker dealers and are bought and sold by individual negotiation with a broker or through an auction process. Typically the market in these securities is relatively inactive – prices are quoted on request and are often open to negotiation. Pricing will be influenced by recent trades in other similar securities and prices will vary between brokers depending on their perception of value and the level of investor demand. Valuation prices are sourced from an independent company that carries out a survey of dealer prices in the market.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2010:

	2010 £'000	2009 £'000
Opening balance at 1 January	**53,125**	34,172
Reclassified from Level 3 to Level 2	**(4,634)**	–
Purchases during the year	**6,937**	53,383
Realised gains and losses recognised in income statement	**(166)**	24
Sales during the year	**(39,323)**	(34,197)
Unrealised gains/(losses) recognised in income statement	**2,324**	(257)
Closing balance at 31 December	**18,263**	53,125
Total gains/(losses) for the year included in income statement for assets held at the end of the year	**2,324**	(257)

The sensitivity of level 3 measurements to favourable and unfavourable changes within a reasonable range of assumptions used to determine the fair value shows potential for changes of between £1.0 million (2009: £2.5 million) favourable to £1.5 million (2009: £4.0 million) unfavourable changes to profit for the year in the income statement.

(ii) Market price

The Group invests in a unitised absolute return fund which had exposure to price risk on investments in equities at 31 December 2010 of £10,226,000 (2009: £7,418,000) and price risk to three Hedge funds of £6,550,000 (2009: £5,595,000).

The Group has additional exposure to price risk on a portfolio of Hedge funds amounting to £31,052,000 (2009: £nil), which is controlled by the fund manager by ensuring that the portfolio is well diversified across a range of strategies.

2 Management of insurance and financial risk continued

(iii) Interest rates

The vast majority of the Group's investments comprise cash, cash equivalents and fixed income securities. The fair value of these investments is inversely correlated to movements in interest rates.

The Group manages interest rate risk by investing in financial investments, cash, cash equivalents and exchange traded bond futures with an aggregate average duration of less than 3 years. The Investment Committee monitors the duration of these assets on a regular basis.

If interest rates fall, the fair value tends to rise and vice versa. The fair value of fixed income investments in the Group's balance sheet at 31 December 2010 was £480,625,000 (2009: £515,495,000) with an average duration of around 2.7 (2009: 2.2) years. If interest rates were to rise or fall by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would decrease or increase by £11,638,000 (2009: £10,255,000). The relationship between changes in profit and changes in basis points is linear.

Insurance contract liabilities are less sensitive to the level of interest rates, as they are undiscounted and contractually non-interest bearing.

The Group's borrowings (debenture loans) at 31 December 2010 totalled £47,757,000 (2009: £46,964,000). As stated in note 32, the interest rate for the fixed/floating rate US dollar loan was fixed at 7.4% per annum until June 2010, and at 3-month LIBOR plus a fixed percentage thereafter. The floating rate Euro and US dollar loan notes bear interest respectively at 3-month EURIBOR and 3-month LIBOR plus fixed rate percentages. Variable rates expose the Group to cash flow interest rate risk. However, this exposure is to some extent mitigated as any changes in EURIBOR and LIBOR could be expected to impact both the interest earned on the cash and investments held by the Group as well as on the loans themselves. If interest rates were to rise or fall by 100 basis points for the year, the profit after tax and equity is estimated would increase or decrease by £436,000 (2009: £431,000). The relationship between changes in profit and changes in basis points is linear.

(iv) Credit spreads

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

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

(v) Exchange rates

The Group operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US dollar and the Euro. The Group partially mitigates this risk by endeavouring to match assets and liabilities in US dollar and Euro; and other currencies where the risk of loss through mismatch is deemed material. Mismatches arising from significant loss activity may be permitted where there is an expectation that future earnings will offset the mismatch and where insurance contracts are not fully earned and are still exposed to risk of material loss.

2 Management of insurance and financial risk continued

The profile of the Group's assets and liabilities, categorised by currency, was as follows:

At 31 December 2010

	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Intangible assets	2,223	–	–	–	2,223
Property and equipment	7,087	131	3	217	7,438
Reinsurance assets	206,564	183,874	5,734	(1,264)	394,908
Deferred acquisition costs	41,698	26,135	1,755	863	70,451
Loans and receivables, including insurance receivables	55,896	67,752	12,221	4,001	139,870
Financial assets – carried at fair value through income	456,577	382,282	64,677	15,293	918,829
Cash and cash equivalents	67,195	17,969	1,895	10,658	97,717
Total assets	**837,240**	**678,143**	**86,285**	**29,768**	**1,631,436**

At 31 December 2010

	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Insurance contract liabilities, excluding provision for unearned premiums	520,748	420,977	55,842	6,918	1,004,485
Provision for unearned premiums	108,011	112,131	7,503	3,453	231,098
Trade and other payables, including insurance payables	7,321	19,708	6,681	4,588	38,298
Tax liabilities, including deferred tax liabilities	3,668	–	48	(129)	3,587
Borrowings: debenture loans	–	37,664	10,093	–	47,757
Total liabilities before employee shares	639,748	590,480	80,167	14,830	1,325,225
Total Equity, including employee shares	197,492	87,663	6,118	14,938	306,211
	837,240	**678,143**	**86,285**	**29,768**	**1,631,436**

At 31 December 2009

	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Intangible assets	3,783	–	–	–	3,783
Property and equipment	6,515	344	4	337	7,200
Reinsurance assets	205,933	188,155	13,881	(2,747)	405,222
Deferred acquisition costs	41,137	28,881	3,006	989	74,013
Loans and receivables, including insurance receivables	79,535	72,868	5,771	3,791	161,965
Financial assets – carried at fair value through income	264,146	369,721	65,720	14,524	714,111
Cash and cash equivalents	170,311	17,320	12,097	11,039	210,767
Total assets	771,360	677,289	100,479	27,933	1,577,061

2 Management of insurance and financial risk continued

At 31 December 2009

	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Insurance contract liabilities, excluding provision for unearned premiums	434,674	442,919	74,193	6,687	958,473
Provision for unearned premiums	103,153	122,648	11,725	3,644	241,170
Trade and other payables, including insurance payables	37,215	5,468	638	6,222	49,543
Tax liabilities, including deferred tax liabilities	15,105	–	57	(99)	15,063
Borrowings: debenture loans	–	36,550	10,414	–	46,964
Total liabilities before employee shares	590,147	607,585	97,027	16,454	1,311,213
Total Equity, including employee shares	181,213	69,704	3,452	11,479	265,848
	771,360	677,289	100,479	27,933	1,577,061

The effect of a 10% strengthening or weakening of exchange rates against Sterling is estimated would increase or decrease profit after tax and equity by approximately £14 million (2009: £13 million) for US dollar and approximately £1 million (2009: £1 million) for Euro.

(b) Credit risk

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

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

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

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

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

At 31 December 2010

	AAA £'000	AA £'000	A £'000	Other and/or not rated £'000	Total £'000
Reinsurance assets	908	161,044	221,811	11,145	394,908
Debt and fixed income securities	361,049	51,486	59,550	8,540	480,625
Holdings in collective investment schemes	167,270	26,188	15,170	229,475	438,103
Derivative financial instruments	–	101	–	–	101
Cash and cash equivalents	52,091	36,301	9,325	–	97,717
Total	**581,318**	**275,120**	**305,856**	**249,160**	**1,411,454**

2 Management of insurance and financial risk continued

At 31 December 2009

	AAA £'000	AA £'000	A £'000	Other and/or not rated £'000	Total £'000
Reinsurance assets	53,606	67,166	262,862	21,588	405,222
Debt and fixed income securities	368,661	57,932	66,826	22,076	515,495
Holdings in collective investment schemes	111,861	23,855	–	61,590	197,306
Derivative financial instruments	–	–	1,310	–	1,310
Cash and cash equivalents	130,043	16,287	64,437	–	210,767
Total	664,171	165,240	395,435	105,254	1,330,100

Reinsurance assets under 'other and/or not rated' include £90,000 (2009: £27,000) due from BBB rated reinsurers and £9,360,000 (2009: £13,366,000) held in collateralised deals. Holdings in debt and fixed income securities under 'other and/or not rated' of £8,540,000 (2009: £22,076,000) are all BBB and below rated. The underlying investments in the 'other/not rated' holdings in collective investment schemes (that includes participation in investment pools) at 31 December 2010 comprised £104,214,000 (2009: £nil) held in BBB and below securities, £6,550,000 (2009: £6,364,000) held in Hedge Funds as part of an absolute return portfolio, £10,226,000 (2009: £5,343,000) held in Equities, £19,220,000 (2009: £nil) in Property Funds and £31,052,000 (2009: £nil) in a portfolio of Hedge Funds. Additionally a UCIT's fund classified as 'Other/non rated' Holding in collective investment schemes on a look through basis comprises of £19,752,000 (2009: £14,710,000) in AAA securities, £16,837,000 (2009: £13,869,000) held in AA securities, £16,797,000 (2009: £7,432,000) held in A securities, £4,827,000 in BBB securities (2009: £13,091,000 in BBB – C securities) and £nil (2009: £781,000) not rated securities.

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

At 31 December 2010

	Neither past due nor impaired	Past due but not impaired (during range of months) 0-3	3-6	6-12	Over 12	Impaired	Carrying value £'000
Reinsurance assets	96%	2%	0%	0%	0%	2%	394,908
Loans and receivables, including insurance receivables	100%						139,870
Financial assets at fair value	100%						918,829

At 31 December 2009

	Neither past due nor impaired	Past due but not impaired (during range of months) 0-3	3-6	6-12	Over 12	Impaired	Carrying value £'000
Reinsurance assets	95%	2%	1%	0%	1%	1%	405,222
Loans and receivables, including insurance receivables	100%						161,965
Financial assets at fair value	100%						714,111

(c) Liquidity risk

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

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

2 Management of insurance and financial risk continued

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

Notwithstanding the high proportion of investments that may readily be converted into cash, the Group manages the maturity profile of its investments such that this is broadly similar to the expected payout pattern for the claims liabilities.

The contractual maturity profile of the Group's financial assets and cash and cash equivalents is calculated by reference to the period between the period end and the final maturity date of the security, which for mortgage backed bonds will be the last mortgage redemption date in the underlying security. The contractual maturity profile at 31 December 2010 was as follows:

	Debt and other fixed income securities £'000	Holdings in collective investment schemes £'000	Cash and cash equivalents £'000	**2010 Total £'000**	2009 Total £'000
Less than one year	37,220	326,572	97,717	**461,509**	419,469
Between one and two years	70,548	16,872	–	**87,420**	76,316
Between two and five years	208,102	15,208	–	**223,310**	272,756
Over five years	164,856	12,402	–	**177,258**	144,502
	480,726	371,054	97,717	**949,497**	913,043
Other non-dated instruments	–	67,049	–	**67,049**	11,835
	480,726	438,103	97,717	**1,016,546**	924,878

Debt and other fixed income securities include an amount of £101,000 (2009: £1,310,000) in respect of derivative financial instruments.

The expected payment profile of gross insurance contract liabilities as at 31 December 2010 was as follows:

	2010 %	2009 %
Less than one year	**30**	46
Between one and two years	**27**	28
Between two and five years	**26**	22
Over five years	**17**	4
	100	100
Average	**2.8 years**	1.6 years

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

	2010 Years	2009 Years
Pound sterling	**2.3**	2.9
US dollar	**2.6**	2.2
Euro	**2.0**	2.5

Payment profile of Group's borrowings (debenture loans) involves amounts due at the rate of approximately £2.0 million (2009: £2.4 million) for each of the next five years and a total of approximately £88.0 million (2009: £98.0 million) after five years to maturity.

3 Capital management policies and objectives

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

The Group's other objectives in managing its capital are:
- to satisfy the requirements of its policyholders and regulators;
- to allocate capital efficiently to support growth; and
- to manage exposure to movements in exchange rates.

The Financial Services Authority ("FSA") and Lloyd's oversee a capital regime that requires companies to calculate their own capital requirements through an Individual Capital Assessment ("ICA"). Syndicates 4444, 260 and 839 maintain models in accordance with this regime.

There are seven key elements to Canopius's ICA methodology namely:
- risk identification;
- the articulation of risk bearing capacity and establishment of risk appetite;
- identification of capital requirement for all significant risks;
- sensitivity analysis and "reasonableness checks";
- aggregation and correlation of risks;
- comparison with other benchmarks e.g. the Enhanced Capital Requirement ("ECR") formula of the FSA; the Lloyd's Integrated Capital Platform; prior years' ICAs; Syndicate 4444's QIS5 results and the FSA published calculations based on industry ICA submissions; and
- Board understanding and challenge.

The ICA represents the equivalent of minimum regulatory capital, as is required by the FSA, and does not represent the amount of economic capital required to support and maintain the Lloyd's ratings. The ICA process produces a result that is uplifted by Lloyd's to the capital required to maintain their rating, currently 'A+ (strong)' by Standard & Poor's.

Under the Insurance Act 1978 the Group's Bermuda reinsurance subsidiary is required to maintain capital and surplus determined by the greater of a percentage of outstanding losses or net written premiums. Canopius Bermuda Limited currently collateralises a significant proportion of its policy limits.

To improve the risk management capability, and the assessment of capital requirements, the Group has developed a stochastic model to analyse the potential performance of its main underwriting operations. Stress and scenario analysis is also performed for those risks that cannot be easily modelled quantitatively and where more subjective judgment is required (for example, operational risk) as well as to calibrate and validate the stochastic model. Using its detailed measurement of risk exposures, the Group allocates capital to support the business activities according to the risk appetite and expected returns.

The Group has complied with all capital requirements during the year. At the year end, the Group's available financial resources were £429 million, comprising of total shareholders' interests of £306 million, senior debt of £48 million and a £75 million letter of credit facility (2009: £401 million, comprising of total shareholders' interests of £266 million, senior debt of £47 million and £88 million letter of credit facility). This is £151 million (2009: £112 million) in excess of the aggregate regulatory capital requirement within the Group at the balance sheet date.

The Group continues to develop and implement documentation, procedures and controls to ensure compliance with Solvency II, which is a fundamental overhaul of the capital adequacy regime for the European insurance industry.

Canopius has implemented a programme of initiatives to proactively engage with the challenges and opportunities that arise from the preparation for Solvency II. During 2010, Canopius has enhanced its risk management processes and their enabling governance structures in accordance with the Solvency II implementation plan submitted to the FSA and Lloyd's in December 2009. The plan is designed to ensure that Canopius can demonstrate Solvency II compliance in line with the deadlines set by Lloyd's and the FSA. This plan is extended as appropriate to the Group's Bermuda insurance company.

4 Investment return

Investment return includes the following:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Investment income:		
Interest income on financial assets	**18,290**	18,529
Interest income on cash and cash equivalents	**729**	2,270
	19,019	20,799
Realised gains/(losses) on financial assets at fair value through income:		
Realised gains	**16,255**	9,322
Realised losses	**(9,248)**	(8,820)
Fair value gains/(losses) on financial assets at fair value through income:		
Net fair value gains on derivative financial instruments	**88**	878
Fair value gains on other financial assets	**5,261**	4,636
Fair value losses on other financial assets	**(7,141)**	(1,792)
	24,234	25,023

5 Other income

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Lloyd's underwriting agencies:		
Management fees	**892**	545
Profit commission	**1,083**	2,596
	1,975	3,141
Insurance services – commission and service fees	**3,091**	2,720
Excess of Group's interest in the net fair value of assets acquired through business combinations (see note 17)	**5,356**	–
Other	**243**	84
	10,665	5,945

6 Insurance claims and claims settlement expenses

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Gross		
Current year insurance claims and claims settlement expenses	**349,348**	273,597
Reduced cost for prior year insurance claims and claims settlement expenses	**(46,989)**	(9,215)
	302,359	264,382
Reinsurance		
Current year insurance claims and claims settlement expenses recoverable from reinsurers	**(82,519)**	(48,516)
Reduced prior year insurance claims and claims settlement expenses recoverable from reinsurers	**48,535**	7,379
	(33,984)	(41,137)
Total net insurance claims and claims settlement expenses	**268,375**	223,245

7 Underwriting and administrative expenses

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Direct commission	**126,785**	127,827
Other underwriting and administrative expenses	**34,651**	37,973
Changes in deferred expenses for the acquisition of insurance contracts	**6,671**	(9,888)
Exchange (gains)/losses	**(5,721)**	5,719
	162,386	161,631

8 Total expenses

Total expenses analysed by expense type were as follows:

Year ended 31 December 2010

	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	**Total £'000**
Employee benefit expenses, including Directors' emoluments	24,463	10,235	**34,698**
Depreciation of property and equipment	827	2,505	**3,332**
Amortisation of intangible assets	–	1,802	**1,802**
Operating lease rentals and property related costs	2,385	1,340	**3,725**
Exchange (gains)/losses	(5,721)	2,320	**(3,401)**
Other underwriting and administrative expenses	140,432	–	**140,432**
Other operating expenses	–	4,555	**4,555**
	162,386	22,757	**185,143**

Year ended 31 December 2009

	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	Total £'000
Employee benefit expenses, including Directors' emoluments	24,536	10,214	34,750
Depreciation of property and equipment	489	1,010	1,499
Amortisation of intangible assets	–	1,691	1,691
Operating lease rentals and property related costs	2,340	1,071	3,411
Exchange losses/(gains)	5,719	(1,050)	4,669
Other underwriting and administrative expenses	128,547	–	128,547
Other operating expenses	–	5,873	5,873
	161,631	18,809	180,440

9 Directors' emoluments and employee benefit expenses

The monthly average number of people employed, including directors, was:

	Year ended 31 December 2010	Year ended 31 December 2009
Underwriting	**152**	131
Other agency, accounting and administration	**128**	108
Insurance services	**88**	57
	368	296

Employee benefit expenses were as follows:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Salaries and wages	**25,552**	26,628
Social security costs	**2,984**	3,402
Pension costs – defined contribution plans	**2,711**	2,741
Other benefits	**3,451**	1,979
	34,698	34,750

The expense included during the year in other benefits for the 'Employee owned shares deemed cash settled' (note 10) amounts to £1,994,000 (2009: £857,000).

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Aggregate emoluments	**1,199**	1,442
Group contributions paid to money purchase schemes in respect of qualifying services	**149**	165
Sums paid to third parties for directors' services	**33**	35

Retirement benefits are accruing to 2 directors (2009: 2) under money purchase schemes.

Bregal Capital LLP, which manages the funds of the majority shareholders of the Company, receives an annual monitoring fee of £50,000 (2009: £50,000). Mr Adam Barron, a director of the Company, is a partner of Bregal Capital LLP.

Highest paid director

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Aggregate emoluments	**825**	1,015
Group contributions paid to money purchase schemes in respect of qualifying services	**110**	135

10 Share-based payments

Employee share transactions

Employee entitlement to receive fair value for Ordinary shares (B, C and Y) normally vests over four years, and for Other shares (E and W) immediately.

The Company has acquired shares from employee leavers, although this is not a contractual obligation of the Company. Under IFRS 2, this practice has been deemed to indicate that such shares should be re-classified from equity to cash-settled.

As 'cash-settled' the Group is obliged by IFRS 2 to recognise in the balance sheet a liability as if, at the balance sheet date, all relevant employees had left the Group's employment and as if, at the same date, the Company had agreed to acquire all the relevant employee owned shares. The liability is calculated by reference to the fair value and vesting periods of the shares at the balance sheet date.

The Group uses the directors' assessment of the values of shares to calculate the fair value of the liability for 'Employee owned shares deemed cash settled'. The value of the Ordinary shares is determined by reference to the lower of the Group's tangible net assets value before deducting the liability for 'Employee owned shares deemed cash settled' and 'market value' based on a basket of comparable listed company market valuations.

The fair value of the Other shares is calculated in accordance with prescribed formulae (see note 26) for their valuation on an Exit event (defined as a sale, disposal, listing or winding up of the Company).

The potential liability for employee owned shares deemed cash-settled is £7,585,000 (2009: £8,611,000), £7,417,000 (2009: £5,673,000) of which is expected to be settled after more than one year. £7,754,000 of the potential liability at 31 December 2009 related to shares issued in 2008 and prior and was reclassified from equity. The expense charged to the income statement in respect of the employee owned shares deemed cash settled during the year is £1,994,000 (2009: £857,000).

During the year, the Company granted to employees nil (2009: 2,000) B shares for £nil (2009: £670,000) and issued 2,834 (2009: 50) C shares for £964,392 (2009: £13,000), and 3,225 (2009: 400) Y shares for £108,250 (2009: £2,000). The Company also issued 39,600 (2009: 9,600) W shares at their par value of £5. The shares were issued at the directors' assessment of the fair value.

The number of employee owned shares deemed cash-settled is shown below:

Employee shares	B Shares Number	C Shares Number	Y Shares Number	E Shares Number	W Shares Number
At 1 January 2009	8,280	19,332	1,450	265,788	34,800
Issued in 2009	2,000	50	400	–	9,600
Purchased and cancelled in 2009	–	(1,075)	–	(24,725)	–
At 31 December 2009	10,280	18,307	1,850	241,063	44,400
Issued in 2010	–	2,834	3,225	–	39,600
Purchased and cancelled in 2010	(8,000)	(4,421)	(1,000)	(241,063)	–
At 31 December 2010	**2,280**	**16,720**	**4,075**	**–**	**84,000**

11 Finance costs

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Interest expenses – debenture loans	**2,255**	2,851
Amortisation of issue costs of debenture loans	**40**	35
Reinsurance costs incurred in relation to the provision of syndicate capacity	**300**	724
Fees for letters of credit in funds at Lloyd's	**3,600**	3,096
Other	**64**	131
	6,259	6,837

12 Group profit before tax

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Group profit before tax is stated after charging/(crediting) the following items:		
Depreciation of property and equipment	**3,332**	1,499
Excess of Group's interest in the net fair value of assets acquired through business combinations (see note 17)	**(5,356)**	–
Amortisation of intangible assets	**1,802**	1,691
Operating lease rentals	**2,529**	2,042

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Auditors' remuneration		
Audit services		
– audit fees payable to the Company's auditor for the audit of the parent company and the consolidated financial statements	**115**	88
Other services		
– audit fees payable for the audit of the Company's subsidiaries	**618**	584
– services relating to tax	**103**	102
– services relating to corporate finance, data warehousing and other transactions	**52**	109
– services relating to Statement of Actuarial Opinion	**318**	189
– audit fees relating to Canopius pension schemes	**14**	14

13 Pension contributions

The Group operates defined contribution pension plans and a closed defined benefit pension scheme for its employees. The assets of the plans and the scheme are held separately from those of the Company and the Group in independently administered funds.

The level of contributions for the defined contribution plans generally varies between 5% and 20% of salaries. Contributions of £326,000 (2009: £244,000) in respect of the plans were outstanding at the year end and are included in other creditors including taxation and social security. These were settled in the month following the year end.

Pension entitlements of employees overseas are provided through state schemes, to which the Group contributes in accordance with local regulations.

Details of the retirement benefit obligations of the closed defined benefit pension scheme are given in note 33.

14 Tax expense

The Company is resident in Guernsey and is taxed at the company standard rate of 0%. As the Company is wholly-owned by non-Guernsey resident shareholders, withholding tax on deemed and actual distributions will be at the company standard rate of 0%.

The subsidiary companies are registered for tax in the United Kingdom, Singapore, Labuan, Ireland, Australia and Bermuda.

No income or other taxes are imposed under Bermuda Law on the Company's subsidiaries in Bermuda, which has received an undertaking from the Minister of Finance that in the event of any taxes being introduced in the future, the Bermuda subsidiaries will continue to be exempt from taxation in Bermuda until March 2016.

Taxes arising in the Group's Singapore, Ireland, Labuan and Australia subsidiaries are immaterial to these financial statements.

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
UK tax:		
Current tax – current year	**402**	3,369
– prior year	**(579)**	(424)
Deferred tax – origination and reversal of temporary differences	**(716)**	1,495
– prior year	**39**	903
Tax expense	**(854)**	5,343
Factors affecting tax charge:		
Profit before tax	**40,033**	54,942
UK tax at 28% (2009: 28%)	**11,209**	15,384
Income not subject to tax:		
Excess of Group's interest in the net fair value of assets acquired	**(1,945)**	–
Non-UK and other income not subject to tax	**(9,388)**	(10,593)
Amortisation of intangible asset	**452**	473
Prior year losses not previously recognised in deferred tax	**–**	(400)
Prior year adjustments	**(539)**	479
Other, including effect of change in UK tax rate	**(643)**	–
	(854)	5,343

A deferred tax liability of £3,507,000 (2009: £13,005,000) has been recognised (see note 20).

15 Intangible assets – Group

	Acquired claims provisions £'000	Insurance policy renewal rights £'000	Computer software licences £'000	Total £'000
Cost				
At 1 January 2009	1,750	7,010	229	8,989
Additions	–	–	273	273
At 31 December 2009	1,750	7,010	502	9,262
At 1 January 2010	1,750	7,010	502	9,262
Additions	–	–	242	242
At 31 December 2010	**1,750**	**7,010**	**744**	**9,504**
Accumulated amortisation and impairment				
At 1 January 2009	438	3,350	–	3,788
Amortisation in the year	219	1,400	72	1,691
At 31 December 2009	657	4,750	72	5,479
At 1 January 2010	657	4,750	72	5,479
Amortisation in the year	219	1,400	183	1,802
At 31 December 2010	**876**	**6,150**	**255**	**7,281**
Net book value				
At 31 December 2010	**874**	**860**	**489**	**2,223**
At 31 December 2009	1,093	2,260	430	3,783
Current	219	860	246	1,325
Non-current	655	–	243	898
	874	860	489	2,223

The useful economic life of the acquired claims provisions is estimated as eight years, being the expected run-off period of the claims arising from the portfolio of business when acquired. The useful economic life of the renewal rights is estimated as five years based on estimates of retention rates of the businesses when acquired. The useful economic life of computer software licences is estimated to be three years from the date the related software comes into use. Intangible assets are amortised over their useful economic lives and the charge is included in other operating expenses (non-underwriting) in the Income Statement.

16 Investments in subsidiaries and other group companies – Group and Company

The Company's fixed asset investments represent investments in subsidiary undertakings stated at cost, unless their value is impaired in which case they are valued at their realisable value or value in use as appropriate.

	2010 £'000	2009 £'000
Balance at 31 December – Company	**185,485**	185,373

During the year, the Company invested a total of £112,000 in Canopius Labuan Pte Limited (2009: £88,882,000 in Canopius Holdings Bermuda Limited).

The subsidiaries of the Company at 31 December 2010, which are consolidated in these financial statements, are listed below. The Company holds, directly or indirectly, all of the ordinary share capital and voting rights ("ownership interest") of these companies unless stated otherwise. The companies operate in their respective countries of incorporation.

16 Investments in subsidiaries and other group companies – Group and Company continued

Subsidiaries	Principal activities	Country of incorporation
Canopius Holdings UK Limited	Investment Holding Company	England and Wales
Canopius Holdings Bermuda Limited	Investment Holding Company	Bermuda
Canopius Bermuda Limited	Reinsurance Company	Bermuda
Canopius Ireland Limited	Reinsurance Intermediary	Ireland
Canopius Managing Agents Limited	Managing Agent at Lloyd's	England and Wales
KGM Underwriting Agencies Limited (note a below)	Managing Agent at Lloyd's	England and Wales
Canopius Asia Pte. Ltd.	Syndicate Service Company	Singapore
Canopius Labuan Pte Limited (note b below)	Syndicate Service Company	Malaysia
Canopius Underwriting Bermuda Limited	Syndicate Service Company	Bermuda
Canopius Underwriting Limited	Syndicate Service Company	England and Wales
Resource Underwriting Pacific Pty Limited (note c below)	Insurance Intermediary	Australia
Trenwick Underwriting Limited	Insurance Intermediary	England and Wales
Canopius Services Limited	Group Service Company	England and Wales
Canopius Capital Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Two Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Three Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Four Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Five Limited (note d below)	Lloyd's Corporate Member	England and Wales
Canopius Capital Six Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Seven Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Eight Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Nine Limited (note d below)	Lloyd's Corporate Member	England and Wales
Canopius Capital Ten Limited (note d below)	Lloyd's Corporate Member	England and Wales
Flectat Limited (note e below)	Lloyd's Corporate Member	England and Wales
Acorn Corporate Capital Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated (2) Limited	Lloyd's Corporate Member	England and Wales
Creechurch Dedicated (3) Limited	Lloyd's Corporate Member	England and Wales
Packchance Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Two Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Three Limited	Lloyd's Corporate Member	England and Wales
Oak Dedicated Four Limited	Lloyd's Corporate Member	England and Wales
Creechurch Holdings Limited	Holding Company	England and Wales
Pebbles 123 Limited (note f below)	Holding Company	England and Wales
Pebbles 456 Limited	Holding Company	Bermuda
Trenwick UK Holdings Limited	Holding Company	England and Wales
Trenwick UK Limited	Holding Company	England and Wales
Archer Dedicated Limited	Dormant	England and Wales
Chartwell Advisers Limited	Dormant	England and Wales
Stylevanish Limited (note f below)	Dormant	England and Wales
Bowman Loss Adjusters Limited	Dormant	England and Wales
Creechurch Services Limited (note f below)	Dormant	England and Wales
The KGM Motor Insurance Services Limited (note a below)	Dormant	England and Wales
The KGM Motor Policies Limited (note a below)	Dormant	England and Wales
Creechurch Underwriting Limited (note g below)	Dormant	England and Wales
Impact Underwriting Limited	Dormant	England and Wales
Canopius Pension Trustees Limited (note h below)	Trustee of Pension schemes	England and Wales

16 Investments in subsidiaries and other group companies – Group and Company continued

(a) KGM Underwriting Agencies Limited ("KGMUAL") was the managing agent of Syndicate 260 until 30 June 2010 when the managing agency function was novated to Canopius Managing Agents Limited and the Group subsequently acquired the control of KGMUAL and its two dormant subsidiaries, KGM Motor Insurance Services Limited and KGM Motor Policies Limited. KGMUAL will continue to be registered as a managing agent at Lloyd's until the 2008, 2009 and 2010 years of account of Syndicate 260 have been reinsured to close into 2011 or later years of account.
(b) The Company was incorporated on 2 March 2010.
(c) The Group owns 75% of the ordinary shares of Resource Underwriting Pacific Pty Limited.
(d) Canopius Capital Five Limited (incorporated as Canopius Capital Eleven Limited and renamed), Canopius Capital Nine Limited and Canopius Capital Ten Limited were incorporated on 23 August 2010.
(e) The Group acquired Flectat Limited on 30 June 2010.
(f) The Company is in the process of being struck off.
(g) Creechurch Underwriting Limited was a registered managing agent at Lloyd's until 27 October 2010, when it was deregistered.
(h) Canopius Pension Trustees Limited was dissolved on 2 February 2010.

The Group holds 56% of the ordinary shares in Arista Insurance Limited, a joint venture in an underwriting agency. The Company's interest in Arista Insurance Limited has been included in the Group financial statements using the equity method (note 18).

Canopius Employee Benefit Trust ("EBT"), a trust established by a Trust Deed in 2008 between Canopius Group Limited and Ogier Trustee (Guernsey) Limited, is consolidated in these financial statements as the EBT is deemed to be controlled by the Group.

17 Acquisitions

On 30 June 2010, the Group's wholly-owned subsidiary Canopius Holdings UK Limited ("CHUKL") acquired the entire issued share capital of Flectat Limited ("Flectat"), a corporate member with 58.84% participation in Lloyd's Syndicate 260's 2010 year of account. In conjunction with this, the business of managing Syndicate 260, which was previously managed by KGM Underwriting Agencies Limited ("KGM"), was novated to Canopius Managing Agents Limited and specific KGM assets, including the Landscape underwriting system and all trade names, IT platforms and systems associated with KGM's and Syndicate 260's business, were purchased by Canopius Services Limited on the same date. Both Canopius Managing Agents Limited and Canopius Services Limited are wholly-owned subsidiaries of CHUKL. CHUKL acquired control of KGM Underwriting Agencies Limited on the same date, subject only to approval by the Financial Services Authority ("FSA") and completion of the related sale and purchase agreement. FSA approval was obtained on 13 August 2010 and the transaction completed, with CHUKL acquiring the entire issued share capital of KGM.

Flectat's assets and liabilities are contractually ring-fenced into "Fund 1" and "Fund 2", representing net assets arising from policies incepting on or before, and after, 30 June 2010 respectively. The Group is not liable for the assets or liabilities of Fund 1, which shall be applied to discharge liabilities relating to Fund 1 only. Fund 2 and the Group have no liability in relation to liabilities in respect of pre-acquisition policies for which CHUKL has received indemnities and undertakings from third parties, supported by collateral where appropriate.

The cost of the acquisition to the Group was a total cash consideration of £1,568,336 comprising of £250,000 for Flectat's entire issued share capital and £1,318,336 for KGM's entire issued share capital.

17 Acquisitions continued

Acquired assets and liabilities at provisional fair values, and excess of the group's interest in the net fair value of assets acquired in aggregate at the acquisition date, along with consideration paid, were as follows:

	Provisional Fair values £'000
Assets	
Cash and cash equivalents	28,226
Financial assets – carried at fair value through income	18,304
Loans and receivables, including insurance receivables	13,720
Deferred tax asset	8,641
Deferred acquisition costs	3,592
Reinsurance assets	15,598
Liabilities	
Insurance contract liabilities	(74,366)
Trade and other payables, including insurance payables	(6,558)
Deferred tax liabilities	(233)
Net assets	6,924
Cost of acquisition	(1,568)
Net assets acquired at fair value	6,924
Excess of Group's interest in the net fair value of assets acquired, included in other income in the consolidated income statement (see note 5)	5,356
Cash inflow from acquisitions	
Cost of acquisition	(1,568)
Cash and cash equivalents from acquired companies	28,226
	26,658

The fair values are provisional as pre-acquisition incurred claims may be further assessed during the measurement period to 30 June 2011. Loans and receivables, including insurance receivables acquired have a fair value and gross contractual value of £13,720,000 and are expected to be collected in full.

Directly attributable acquisition costs of £516,000 have been expensed and are included within other operating expenses (non-underwriting) in the consolidated income statement.

The acquisition complements and diversifies the Group's existing underwriting portfolio and builds on its specialist capabilities. It fits in with the Group's significant involvement in the UK retail insurance sector through its substantial retail and commercial SME property, liability and motor businesses.

The post-acquisition gross premiums written of £12,400,000 and loss after tax of £1,400,000 for the acquired companies are included in the consolidated income statement at 31 December 2010.

Accounting standards require a pro-forma summary for the Group presenting certain information as if the businesses had been acquired on 1 January 2010. Had the businesses been acquired on 1 January 2010, the consolidated income statement on a pro-forma basis would have shown gross premiums written of approximately £576,300,000 and profit after tax for the year of approximately £39,400,000. This summary does not include any possible synergies from the acquisition nor any actions taken by management subsequent to the acquisition. The information is provided for illustrative purposes only, based on the annualisation of the Group's economic interest since acquisition, and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of the combined companies.

18 Interest in a joint venture

Canopius Holdings UK Limited ("CHUKL") holds 56% of the voting ordinary share capital, and 68.75% of the preference share capital of Arista Insurance Limited ("Arista"), a joint venture underwriting agency. As at 31 December 2010, CHUKL's total investment in Arista amounted to £10,016,000 (2009: £9,934,000).

Despite owning 56% 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 veto distinguishes CHUKL's co-venturer as a joint venturer rather than a minority shareholder. This also hinders CHUKL's exercise of its rights over the assets or management of Arista, which prevents CHUKL acting as a parent undertaking. The interest in Arista has been treated as a joint venture according to the requirements of IAS 31: 'Interests in joint ventures'. The assets, liabilities and results of the joint venture to 31 December 2010 have been included in these financial statements using the equity method of accounting.

Interest in joint venture consists of:

	2010 £'000	2009 £'000
Equity	**596**	596
Preference shares	**9,027**	8,945
Capital contribution	**393**	393
Total investment in Arista by CHUKL	**10,016**	9,934
Share of losses after tax brought forward	**(6,595)**	(5,992)
Share of losses before tax for the year	**(66)**	(701)
Share of tax credits for the year	**18**	98
Carrying amount in joint venture	**3,373**	3,339

Interest in joint venture included in the balance sheet as follows:

	2010 £'000	2009 £'000
Investment in equity	**596**	596
Share of losses allocated against equity	**(596)**	(596)
Carrying amount in equity	**–**	–
Investment in preference shares	**9,027**	8,945
Capital contribution	**393**	393
Share of losses allocated against preference shares	**(6,047)**	(5,999)
Carrying amount of investment in preference shares included in loans and receivables under IAS 39 (see note 23)	**3,373**	3,339
Total carrying amount in joint venture, due after more than one year	**3,373**	3,339

19 Property and equipment – Group

	Computer equipment £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Leasehold improvements £'000	Total £'000
Cost					
At 1 January 2009	4,037	159	1,188	3,447	8,831
Additions	1,967	96	79	200	2,342
Disposals	(6)	(34)	–	–	(40)
At 31 December 2009	5,998	221	1,267	3,647	11,133
At 1 January 2010	5,998	221	1,267	3,647	11,133
Reclassification	–	–	(97)	97	–
Additions	3,186	83	85	221	3,575
Disposals	–	(13)	–	–	(13)
At 31 December 2010	**9,184**	**291**	**1,255**	**3,965**	**14,695**
Accumulated depreciation					
At 1 January 2009	881	70	1,056	433	2,440
Charge for the period	876	30	197	396	1,499
Disposals	(1)	(5)	–	–	(6)
At 31 December 2009	1,756	95	1,253	829	3,933
At 1 January 2010	1,756	95	1,253	829	3,933
Reclassification	–	–	(300)	300	–
Charge for the period	2,474	45	153	660	3,332
Disposals	–	(8)	–	–	(8)
At 31 December 2010	**4,230**	**132**	**1,106**	**1,789**	**7,257**
Net book value					
At 31 December 2010	**4,954**	**159**	**149**	**2,176**	**7,438**
At 31 December 2009	4,242	126	14	2,818	7,200

20 Tax assets and liabilities

Deferred tax assets and liabilities – Group

A deferred tax liability of £3,507,000 (2009: £13,005,000) has been recognised. Deferred tax assets and liabilities arise through (a) temporary differences in the recognition of underwriting profits/losses for accounting and tax purposes; (b) temporary differences in the recognition of depreciation for accounting and tax purposes; and (c) tax losses which are available to offset future taxable profits.

	2010 £'000	2009 £'000
Balance at 1 January	(13,005)	(10,972)
Timing differences relating to recognition of underwriting results and depreciation:		
– arising during the year	(3,242)	(19,083)
– utilised during the year	3,271	17,578
Acquired on acquisition	8,641	–
Prior year adjustment	–	(903)
Other, including reduction in losses carried forward and reclassifications	828	375
Balance at 31 December	(3,507)	(13,005)

The net deferred tax liability of £3,507,000 comprises deferred tax liability of £12,148,000 less deferred tax assets of £8,641,000 acquired on acquisition (note 17). £4,971,000 (2009: £2,367,000) of the deferred tax liability is expected to reverse or be settled within 12 months.

The Group has a potential deferred tax asset of approximately £1,100,000 (2009: £nil), in respect of trading losses, that has not been recognised in these financial statements at 31 December 2010 as its recoverability is not certain based on prudential projections.

Tax liabilities – Group

Tax liabilities of £80,000 (2009: £2,058,000), of which £48,000 (2009: £62,000) is overseas tax, are payable within 12 months.

21 Reinsurance assets – Group

	2010 £'000	2009 £'000
Reinsurers' share of claims outstanding (see note 30)	327,226	329,662
Reinsurers' share of unearned premiums (see note 30)	31,986	45,760
Debtors arising out of reinsurance operations (see note 30)	35,696	29,800
	394,908	405,222

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

22 Deferred acquisition costs – Group

	2010 £'000	2009 £'000
Balance at 1 January	74,013	65,998
Acquired on acquisition	3,592	–
Additions	64,667	67,540
Release	(71,821)	(59,525)
Balance at 31 December	70,451	74,013

23 Loans and receivables, including insurance receivables

	2010 £'000	2009 £'000
Insurance receivables – debtors arising out of direct insurance operations	**114,561**	147,190
Loans and receivables:		
Other debtors	**16,482**	7,932
Prepayments and accrued income	**5,454**	3,504
Carrying value of investment in preference shares in joint venture (see note 18)	**3,373**	3,339
	25,309	14,775
Loans and receivables, including insurance receivables	**139,870**	161,965

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

	2010 £'000	2009 £'000
Within one year	**134,940**	157,498
After one year	**4,930**	4,467
	139,870	161,965

The fair value of loans and receivables, including insurance receivables, approximate to their carrying amounts.

24 Financial assets – Group and Company

The Group's financial assets are summarised below:

	2010 £'000	2009 £'000
Financial assets at fair value through income	**918,728**	712,801
Derivative financial instruments	**101**	1,310
	918,829	714,111

Financial assets at fair value consist of:

	Valuation 2010 £'000	Valuation 2009 £'000	Cost 2010 £'000	Cost 2009 £'000
Debt securities and other fixed income securities	**480,625**	515,495	**479,909**	502,707
Holdings in collective investment schemes	**438,103**	197,306	**434,828**	173,721
Derivative financial instruments	**101**	1,310	**–**	6
At 31 December	**918,829**	714,111	**914,737**	676,434

Derivative financial instruments represent the fair value of exchange traded bond futures contracts used to hedge duration risk and forward contracts used to hedge excess foreign currency exposures.

Financial assets in the Company consist of holdings in collective investment schemes at market value of £53,834,000 (2009: £14,669,000) and cost of £53,736,000 (2009: £14,649,000).

Financial assets which are subject to restrictions are referred to in note 36(a).

25 Cash and cash equivalents – Group

	2010 £'000	2009 £'000
Cash at bank and in hand	**37,557**	159,349
Short-term bank deposits – Overseas deposits	**60,160**	51,418
	97,717	210,767

Overseas deposits represent the Group's share of deposits lodged by syndicates as a condition of conducting underwriting business in certain countries.

The cash and cash equivalents include £75,244,000 (2009: £195,371,000) held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit (see note 36 (a) and (d)). These assets are subject to restrictions under the relevant trust deeds and bank facilities.

26 Share capital

Authorised:

	At 31 December 2009 £	Changes in authorised capital £	**At 31 December 2010 £**
244,050 A Ordinary shares of £1 each	244,050	–	**244,050**
41,295 B Ordinary shares of £1 each	41,295	–	**41,295**
21,405 C Ordinary shares of £1 each	21,405	–	**21,405**
8,000 Y Ordinary shares of £5 each	40,000	–	**40,000**
72,000 Z Ordinary shares of £5 each	360,000	–	**360,000**
Ordinary share total	706,750	–	**706,750**
21,236,871 D shares of £1 each	21,236,871	–	**21,236,871**
7,202,100 E shares of £1 each	7,202,100	–	**7,202,100**
10,064,868 F shares of £1 each	10,064,868	–	**10,064,868**
15,000,000 G shares of £1 each	15,000,000	–	**15,000,000**
1,920,000 W shares of £5 each	9,600,000	–	**9,600,000**
14,000,000 X shares of £5 each	70,000,000	–	**70,000,000**
Other share total	133,103,839	–	**133,103,839**
	133,810,589	–	**133,810,589**

26 Share capital continued

Allotted, issued and fully paid:

	At 31 December 2009 £	Changes in issued capital £	**At 31 December 2010 £**
244,050 A Ordinary shares of £1 each	244,050	–	**244,050**
33,295 B Ordinary shares of £1 each	41,295	(8,000)	**33,295**
16,720 C Ordinary shares of £1 each	18,307	(1,587)	**16,720**
4,075 Y Ordinary shares of £5 each	9,250	11,125	**20,375**
54,000 Z Ordinary shares of £5 each	270,000	–	**270,000**
Ordinary share total	582,902	1,538	**584,440**
21,075,570 D shares of £1 each	21,075,570	–	**21,075,570**
5,760,000 E shares of £1 each	6,001,063	(241,063)	**5,760,000**
10,000,000 F shares of £1 each	10,000,000	–	**10,000,000**
15,000,000 G shares of £1 each	15,000,000	–	**15,000,000**
1,380,000 W shares of £5 each	6,702,000	198,000	**6,900,000**
10,500,000 X shares of £5 each	52,500,000	–	**52,500,000**
Other share total	111,278,633	(43,063)	**111,235,570**
	111,861,535	(41,525)	**111,820,010**

During the year the Company issued nil (2009: 2,000) B Ordinary shares of £1 each for a total consideration of £nil (2009: £670,000), 2,834 (2009: 50) C Ordinary shares of £1 each for a total consideration of £964,392 (2009: £13,000), 3,225 (2009: 400) Y shares of £5 each for a total consideration of £108,250 (2009: £2,000) and also issued at par 39,600 (2009: 9,600) W shares of £5 each. The Company repurchased 8,000 (2009: 4,025) B ordinary shares of £1 each, 4,421 (2009: 1,115) C ordinary shares of £1 each and nil (2009: 31,048) D shares of £1 each, 241,063 (2009: 1,176,105) E shares of £1 each and 1,000 (2009: nil) Y shares of £5 each, during the year for a total consideration of £4,289,658 (2009: £ 2,852,121).

Each of the A, B, C, D, E, F, G, W, X, Y and Z 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, B and Z shares entitle the holders to attend and vote at general meetings. A, B and Z shares carry one vote each. On a return of assets upon a liquidation or reduction of capital, the surplus assets of the Company are apportioned between the shareholders in accordance with prescribed formulae.

In respect of a return of assets designated to the A to G shareholders, 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 par value plus a capital amount calculated as 10% per annum (compounded annually) from the date of issue less any dividends paid (after applying 10% on the dividends since the date of payment of the dividend). The amount payable to the D, E and F shareholders is calculated in the same way, though 8% is used from the date of issue for the D and E shares and 10% for the F shares from the date of issue.

Thereafter A, B and C shareholders are entitled to any remaining surplus assets, in a fixed proportion between A shareholders (79.56%) and B and C shareholders together (20.44%).

In respect of a return of surplus assets designated to the W to Z shareholders, the holders of the X shares rank in first priority, followed by those of W shares. The amount payable to the X and W shareholders is the par value plus a capital amount calculated as 8% per annum (compounded annually) from the date of issue less any dividends paid (after applying 8% on the dividends since the date of payment of the dividend).

Thereafter Y and Z shareholders are entitled to any remaining surplus assets pro-rata to the shares in issue.

26 Share capital continued

The A, B, C, Y and Z shares are classified as Ordinary, and D, E, F, G, W and X as Other shares. The analysis below of total shareholders' funds between Ordinary and Other shares, including 'Employee owned shares deemed cash settled', reflects the amounts potentially payable under the above share rights as at 31 December 2010. None of the shares are redeemable.

	Group 2010 £'000	Group 2009 £'000	**Company 2010 £'000**	Company 2009 £'000
Ordinary shareholders' funds	**145,575**	117,484	**34,966**	19,430
Other shareholders' funds	**159,566**	147,181	**159,566**	147,181
Total shareholders' funds, including employee share interest deemed cash settled	**305,141**	264,665	**194,532**	166,611

27 Share capital, share premium and other reserves

Group

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2010	111,862	1,409	1,807	140,976
Issue of shares and share issue costs	217	1,053	–	(1,270)
Purchase and cancellation of shares	(259)	(726)	–	985
Revaluation gains	–	–	502	–
Retained profit for the year	–	–	–	41,000
At 31 December 2010	**111,820**	**1,736**	**2,309**	**181,691**

Other reserves include Revaluation reserve of £1,815,000 and Capital Redemption reserve of £178,000 at both 31 December 2010 and 2009; and Currency Translation reserve of £316,000 (2009: £(186,000)).

Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Profit and loss reserve £'000
At 1 January 2010	111,862	1,409	178	44,551
Issue of shares and share issue costs	217	1,053	–	(1,270)
Purchase and cancellation of shares	(259)	(726)	–	985
Retained profit for the year	–	–	–	28,947
At 31 December 2010	**111,820**	**1,736**	**178**	**73,213**

28 Reconciliation of movements in shareholders' funds

	Group 2010 £'000	Group 2009 £'000	**Company 2010 £'000**	Company 2009 £'000
Balance at 1 January	**256,054**	213,402	**158,000**	150,341
Issue of shares	**217**	52	**217**	52
Increase in share premium	**1,053**	681	**1,053**	681
Purchase and cancellation of shares	**(985)**	(2,852)	**(985)**	(2,852)
Reclassification to liability – included in employee interest in shares	**(285)**	(7,754)	**(285)**	(7,754)
Own shares	**–**	2,692	**–**	–
Increase in currency translation reserve	**502**	151	**–**	–
Retained earnings	**41,000**	49,682	**28,947**	17,532
Balance at 31 December	**297,556**	256,054	**186,947**	158,000

29 Insurance contract liabilities

	2010 £'000	2009 £'000
Claims outstanding (see note 30)	**890,110**	839,349
Provision for unearned premiums (see note 30)	**231,098**	241,170
Creditors arising out of reinsurance operations (see note 30)	**114,375**	119,124
	1,235,583	1,199,643

Insurance payables (creditors arising out of direct insurance operations) are included in 'trade and other payables, including insurance payables' in note 31.

30 Insurance contract liabilities and reinsurance assets

	Claims outstanding £'000	Provision for unearned premiums £'000	Creditors and debtors arising out of reinsurance operations £'000	Total £'000
Insurance contract liabilities				
At 1 January 2009	906,189	211,252	152,377	1,269,818
Movement in the year	(18,363)	29,805	(27,909)	(16,467)
Exchange and other adjustments	(48,477)	113	(5,344)	(53,708)
At 31 December 2009	839,349	241,170	119,124	1,199,643
Acquired on acquisition	55,581	18,784	–	74,365
Movement in the year	(2,492)	(28,798)	(4,863)	(36,153)
Exchange and other adjustments	(2,328)	(58)	114	(2,272)
At 31 December 2010	**890,110**	**231,098**	**114,375**	**1,235,583**
Reinsurance assets				
At 1 January 2009	403,193	44,991	31,989	480,173
Movement in the year	(44,724)	769	98	(43,857)
Exchange and other adjustments	(28,807)	–	(2,287)	(31,094)
At 31 December 2009	329,662	45,760	29,800	405,222
Acquired on acquisition	14,740	–	856	15,596
Movement in the year	(42,236)	(13,774)	2,550	(53,460)
Exchange and other adjustments	25,060	–	2,490	27,550
At 31 December 2010	**327,226**	**31,986**	**35,696**	**394,908**

Creditors arising out of reinsurance operations of £114,375,000 (2009: £119,124,000) comprise principally premiums payable for reinsurance, including reinstatement premiums and corporate member level quota share reinsurance premiums payable. Debtors arising out of reinsurance operations of £35,696,000 (2009: £29,800,000) comprise principally amounts receivable from reinsurers in respect of paid claims and brokers' balances receivable on inwards reinsurance business.

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

	2010 £'000	2009 £'000
Gross		
Notified claims outstanding and loss adjustment expenses	**574,219**	581,898
Claims incurred but not reported	**315,891**	257,451
	890,110	839,349
Recoverable from reinsurers		
Notified claims outstanding and loss adjustment expenses	**237,284**	261,776
Claims incurred but not reported	**89,942**	67,886
	327,226	329,662
Net		
Notified claims outstanding and loss adjustment expenses	**336,935**	320,122
Claims incurred but not reported	**225,949**	189,565
	562,884	509,687

It is estimated using historical settlement trends that £280 million (2009: £384 million) of the gross claims outstanding and £78 million (2009: £131 million) of the amount recoverable from reinsurers included in the above analysis, will settle in the next 12 months.

31 Trade and other payables, including insurance payables

	2010 £'000	2009 £'000
Insurance payables – creditors arising out of direct insurance operations	**11,199**	24,394
Trade and other payables:		
Other creditors including taxation and social security	**17,457**	12,877
Accruals and deferred income	**9,642**	12,272
	27,099	25,149
Trade and other payables, including insurance payables	**38,298**	49,543

Trade and other payables include £3,035,000 (2009: £150,000), in accruals and deferred income, payable after more than one year. The fair value of trade and other payables approximate to their carrying amounts.

32 Borrowings: debenture loans – Group and Company

	2010 £'000	2009 £'000
Due in more than five years		
Floating rate Euro loan notes	**10,093**	10,414
Fixed/floating rate US Dollar loan notes	**12,515**	12,137
Floating rate US Dollar loan notes	**25,149**	24,413
	47,757	46,964

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 bore interest of 7.4% per annum until June 2010, and is now floating at 3-month LIBOR plus 3.3%; it is redeemable at par between June 2010 and June 2035. There are two other 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.

33 Retirement benefit obligations – Group and Company

The defined benefit pension scheme ("the scheme") was acquired in 2010 on the acquisition of KGM (see note 17). The scheme is closed with effect from 30 June 2010 and all active members were treated as having left pensionable service under the scheme with effect from that date.

A valuation of the scheme was undertaken at 1 January 2010 and updated to 31 December 2010 by a qualified independent actuary. The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2010 % per annum
Discount rate	5.4
Expected long-term rate of return of scheme assets	4.7
Increase in salaries	n/a
Inflation assumptions	3.2
LPI pension increases (capped at 5% per annum)	3.2

The underlying mortality assumption is based upon the standard table known as PA00 on a year of birth usage with medium cohort future improvement factors, subject to a minimum annual rate of future improvement of 1% per annum.

33 Retirement benefit obligations – Group and Company continued

The amounts recognised in the balance sheet as at 31 December 2010 by KGM, a subsidiary and current sponsor of the scheme, were the present value of the scheme liabilities of £7,844,000 and market value of scheme assets of £7,789,000, leading to a deficit of £55,000. The liability in the balance sheet was calculated based on the above assumptions in compliance with the requirements of accounting standards. The latest triennial valuation of the scheme prepared as at 1 January 2010 on behalf of the Trustees of the scheme concluded there was a funding requirement amounting to £1,200,000. This has been accrued at the balance sheet date and is due to be paid into the scheme's trust funds in early 2011.

As the scheme is considered not material in the context of the Group, reduced disclosure is given in this note. Further details are provided in KGM financial statements for the year ended 31 December 2010.

34 Reconciliation of profit before tax to cash generated from operations

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit before tax	**40,033**	54,942
Interest received	**(19,019)**	(20,799)
Interest paid	**2,255**	2,851
Net fair value (gains)/losses on investments, including currency translation differences	**(18,772)**	27,475
Charge for cash-settled share-based payments	**1,994**	857
Decrease in debtors, prepayments and accrued income	**19,841**	3,625
Decrease in creditors	**(26,757)**	(44,752)
Increase in net claims and unearned premium reserves	**56,899**	35,841
Depreciation of property and equipment	**3,332**	1,499
Amortisation of intangible assets	**1,802**	1,691
Share of losses from joint venture	**66**	701
Cash generated from operations	**61,674**	63,931

35 Operating lease commitments – Group

The Group has annual lease commitments for land, buildings and equipment. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group 2010 Land and buildings £'000	**Group 2010 Equipment £'000**	Group 2009 Land and buildings £'000	Group 2009 Equipment £'000
Not later than one year	**2,622**	**128**	2,472	57
Later than one year but not later than five years	**9,877**	**36**	9,279	82
Later than five years	**1,670**	**–**	3,919	–
	14,169	**164**	15,670	139

36 Guarantees and contingencies

(a) Assets securing insurance and other liabilities

Of the total of financial assets and cash and cash equivalents disclosed on the Group's balance sheet, £918,126,000 (2009: £824,770,000) are held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit. These assets are subject to restrictions under the relevant trust deeds and bank facilities, of which £842,882,000 (2009: £629,399,000) are financial assets and the balance is cash and cash equivalents.

(b) Deeds of Indemnity

The Company has entered into two (2009: one) Deeds of Undertaking and Guarantee with third party FAL providers on behalf of Canopius Capital Five Limited and Canopius Capital Seven Limited, both subsidiary companies, to cover the potential liabilities in the event that the third party FAL providers' FAL amounting to £4,433,000 (2009: nil) and £15,884,000 (2009: £15,884,000) are drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement.

The Company and its subsidiary undertakings, Acorn, CBL and Canopius Managing Agents Limited, have entered into a FAL Providers Deed with a third party FAL provider on behalf of Acorn to cover the potential liabilities in the event that the third party FAL provider's FAL amounting to £10,000,000 (2009: £10,000,000) is drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement.

A subsidiary company, Canopius Holdings UK Limited ("CHUKL"), has entered into nine (2009: ten) Deeds of Indemnity with Lloyd's. Two (2009: four) of the Deeds relate to reorganisations of the Group's corporate members' underwriting on Syndicate 4444. The other seven (2009: six) Deeds are to cover remote potential liabilities that may arise following the release by Lloyd's between 2007 and 2010 of various members' FAL.

(c) Bank facilities

As at 31 December 2010, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

> £75.0 million unsecured, all of which has been utilised to support underwriting on Syndicate 260's 2011 year of account and Syndicate 4444's 2011 and prior years of account, at a cost of 2.85% per annum.

During 2010, the following facilities, under which letters of credit had been issued, deposited in FAL, released and cancelled, were terminated:

> £29.2 million, partially secured, to support underwriting on Syndicate 839's 2008 year of account (2009: £27.6 million utilised, of which £14.8 million was secured by cash and investments, £7.2 million was secured by an excess of loss reinsurance contract underwritten by Canopius Bermuda Limited and £5.6 million was unsecured).

> £50.0 million secured by investments to support underwriting on Syndicate 4444's open years of account (2009: £21.8 million utilised).

During 2010 Canopius Bermuda Limited entered into the following facility whereby letters of credit were made available:

> US$25.0 million to be used as collateral to support the company's underwriting. The company pledged structured deposits with a value at 31 December 2010 of US$28.1 million to secure the letters of credit.

(d) Preference shares

A subsidiary company, Flectat Limited, has issued £15,240,000 preference shares (152,400 shares at £100 per share) during 2010 to a third party which are redeemable only out of net assets arising in that Company's Fund 1 (see note 17). At the balance sheet date Fund 1 had net assets of £nil and the directors consider the probability of net assets arising in the future to be remote. Accordingly, the preference shares have been valued at £nil.

(e) Funds at Lloyd's cash collateral

During 2010, all letters of credit ("LoCs"), in respect of which the Company and its subsidiary undertaking Canopius Bermuda Limited ("CBL") had provided cash collateral to secure and which had been deposited in the funds at Lloyd's ("FAL") on behalf of the Company's corporate member subsidiary undertakings, were released from FAL and cancelled. FAL is held under the terms of Trust Deeds to meet the potential obligations of those corporate members to Lloyd's.

At 31 December 2009, the Group had LoCs of £36,587,000 supported by collateral (investments and cash) of £37,268,759 and the Company had LoCs of £3,821,000 supported by collateral (investments and cash) of £3,918,997.

37 Capital commitments

Capital commitments contracted for but not provided in the financial statements at 31 December 2010 amounted to £0.1 million (2009: £0.1 million).

38 Post balance sheet events

On 9 February 2011, Creechurch Holdings Limited agreed to acquire 100% of the issued ordinary share capital of KDIB Holdings Limited, K Drewe Insurance Brokers Limited ("KDIB") and Look Insurance Services Limited ("LIS"). The acquisition is subject to various conditions precedent, including FSA agreement to the change of control of KDIB and LIS. KDIB is a UK regional wholesale broker and LIS is its appointed representative in the UK retail market. The gross assets and liabilities acquired are not material in the context of these financial statements.

Subsequent to the balance sheet date, the Group has been exposed to losses arising from flooding in Brisbane, Cyclone Yasi, an earthquake in Christchurch, New Zealand and an earthquake and tsunami in Japan. At the date of signing these financial statements, the aggregate loss to the Group from these events cannot be quantified. However, having considered the Group's exposures and the level of reinsurance protection, the Board believes that any resulting losses will be absorbed in the normal course of operations. These events occurred after the year end and accordingly they are not reflected in the Group's financial statements for the year ended 31 December 2010.

39 Related party transactions

The following transactions were carried out with related parties.

Key management compensation

Key management personnel are those directors and senior managers responsible for the activities of the Group. Key management comprised four (2009: five) persons at 31 December 2010, following the recruitment of an executive early in 2009 who left during the year. Two (2009: two) of the key management persons are directors of the Parent Company. Details of the remuneration of the Group's key management personnel, including the two directors of the parent company, are shown below in aggregate for each of the categories specified by IAS 24 – 'Related party disclosures'.

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Short-term employment benefits	**2,281**	3,179
Post-employment benefits	**828**	694

Loans to related parties

A non-interest bearing loan of £23,000 to a member of key management to purchase E shares in the Company was outstanding and not due for repayment at 31 December 2009. This loan was repaid to the Group on 31 March 2010. A non-interest bearing season ticket loan made to the same person during the year amounted to £4,999 (2009: £9,260) of which £3,750 (2009: £6,945) was outstanding as at 31 December 2010.

Directors' interests in shares

The details of the directors' interests in shares of the Company are shown in the Directors' report in these financial statements.

Transactions with the joint venture

During the year, Arista Insurance Limited ("Arista"), a joint venture of the Group, was paid commission of £4,374,000 (2009: £3,724,000) by syndicate 4444 on gross premiums written for the Group. At 31 December 2010 commission of £145,000 (2009: £196,000) was payable to Arista.

40 Ultimate parent undertaking and controlling party

84% (2009: 83%) of the Ordinary shares in issue at 31 December 2010 in the Company were held by six (2009: six) funds managed by Bregal Capital LLP. The funds, as investment vehicles, and Bregal Capital LLP, as manager of the funds, are not controlling parties nor parent undertakings of the Group.

Canopius Group Limited is the ultimate parent undertaking and controlling party of the Group.

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