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Canopius Group Limited Annual Report and Financial Statements 2011

Personality: character, nature, identity, traits, disposition, temperament, persona, psyche, individuality.

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Total shareholders' interests – £m

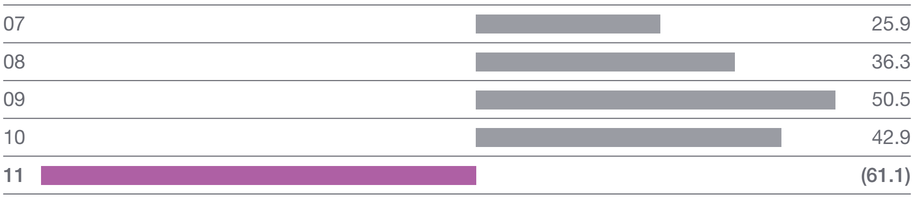
Financial resources – £m

Gross premiums written – £m

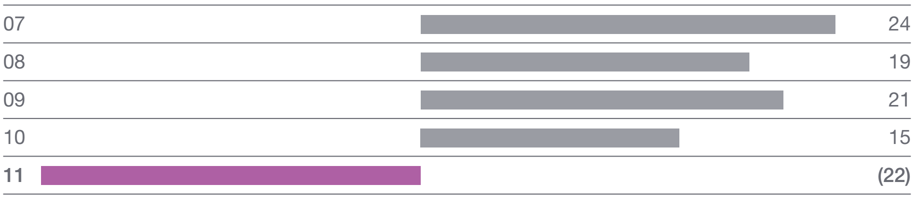
Net premiums earned – £m

Amounts presented 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.

Total (loss)/profit to shareholders after taxation – £m



Total post tax return on average equity – %



Net loss ratio – %

Combined ratio – %

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

The group has achieved significant growth over the last eight years through a mix of organic expansion and acquisition, and had total financial resources of over £365 million at year end.

Incorporated in Guernsey, the group operates in the UK, Bermuda, Singapore, Ireland, Switzerland 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 excellence, teamwork and service. This combination enables us to generate superior risk-adjusted returns for our shareholders and other capital providers, whilst delivering a first class service to clients and brokers.

Canopius has a clear and distinctive personality and brand; we are independent, ambitious, studied and colourful. These characteristics enable us to differentiate ourselves in our marketplace.

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Ambitious: aspiring, determined, enterprising, motivated, enthusiastic, energetic, committed, purposeful, intrepid, active, vigorous, challenging.

Results

With global catastrophe losses estimated to have exceeded $100 billion, 2011 is considered to be one of the two worst years ever for the insurance industry. The losses were caused by a string of natural catastrophe events that occurred around the globe including earthquakes, a tsunami, floods, hurricanes and tornadoes. Against that background it is perhaps understandable but nevertheless disappointing to report that Canopius incurred a loss in 2011 (£61 million after tax), the first in its eight year history.

The loss for the year, which equated to 20% of the Group's tangible net asset value at 31 December 2010, was also adversely affected by continuing losses on the recently acquired UK motor portfolio (£5 million), unrealised investment portfolio losses (£12 million) and costs associated with the proposed acquisition of Omega Insurance Holdings Limited ("Omega") (£2 million).

Despite a very challenging year, the Group remains in a sound financial position and is well-placed to take advantage of any upturn in the insurance cycle.

Underwriting

The Group suffered substantial losses from a succession of natural catastrophe events which occurred with exceptional frequency and severity during 2011. The more significant losses included New Zealand earthquakes (£28 million), the Japan earthquake and tsunami (£34 million), US tornadoes (£17 million), hurricane Irene (£4 million) and Thai floods (£16 million).

The aggregate quantum of these losses significantly exceeded our catastrophe budget for the year but, with the exception of the Thai floods, individually none of these losses exceeded our expectations for events of this magnitude. Whilst we consider these events to be exceptional, we have significantly reduced our exposure to low rate-on-line programmes for 2012.

Against the backdrop of catastrophe losses, it is pleasing to report that our attritional loss ratio was better than expected at 55% (2010: 48%). Our results also benefitted from reserve releases of £20 million (5%) (2010: £2 million (1%)). This is after maintaining our prudential reserve margin at the same percentage level as 2010.

We also made significant progress with re-underwriting our UK motor portfolio in 2011, reducing policy count by 18%, increasing rates by 8%, and re-engineering our claims processes. The result has been to return the current portfolio to underwriting profit. Our challenge now is to return the account to overall profitability by securing increased volumes of our target business and achieving further expense savings.

Investments

Canopius is, first and foremost, an underwriting business. Investment income is important but it comes second to underwriting profitability. That means our investment focus is primarily towards capital preservation. At the same time, as a privately-owned company, we are perhaps less concerned than some other businesses with short-term fluctuations in the value of our portfolios.

During 2011 we made a conscious decision to diversify our portfolio mix and increase the risk profile in pursuit of higher returns. Unfortunately, continued uncertainty around the eurozone and the general flight to the perceived safety of non-eurozone sovereign debt in the second half of 2011 meant that our diversification moves were not rewarded in the short run. At the same time, our investment return was further depressed by the decision to hold a substantial part of our surplus funds in cash for much of the year in anticipation of a possible acquisition. The consequence of these factors was a reduction in our investment return from 2.8% in 2010 (£27 million) to 0.4% in 2011 (£4 million). I am happy to report that 2012 has seen an early and strong reversal in fortunes.

People

I believe that the key to furthering our ambitions to make Canopius one of the best underwriting businesses at Lloyd's is to employ and empower as many high calibre professionals as we can in leadership positions.

In that context, I am delighted that 2011 witnessed the promotion of four new division heads in our seven existing underwriting divisions: Steve Bird – North American Facilities, Derek Hansen – Global Property, Joyce Webb – Marine and Energy, and Neil Manvell – UK Motor. All four epitomise the hallmarks of Canopius underwriting leaders – exceptionally talented, disciplined, and motivated to excel.

I am also delighted to welcome the arrival of Inga Beale as Chief Executive of Canopius Group with effect from January 2012. Inga brings a wealth of international experience to our Group and her energy and enthusiasm for progress and improvement will help us raise our game on all fronts. Providing leadership to the executive team, Inga will shape our priorities for both the short and long term. Working alongside me, she will also contribute to the formulation and achievement of our strategic goals.

2011 Initiatives

Against the background of the substantial catastrophe loss activity last year, it would be easy to overlook the fact that 2011 was a year of very solid progress for Canopius.

In February we added an eighth underwriting division – Political Risk & Crisis Management – following the recruitment of Simon Low. Simon is a very experienced and capable underwriter in the field of Political Risks, Trade Credit, and Aviation War, all new classes of business for Canopius. Later in the year we recruited additional underwriting resources, notably Tim Davies and Jennie Beard, who have enabled us to significantly upgrade our capabilities in Sabotage and Terrorism.

In May we announced the expansion of our international footprint with the launch of Canopius Europe, a reinsurance platform based in Zurich focused on indigenous Continental European business. Under the leadership of Eric Gutiérrez the team spent the second half of 2011 building the infrastructure and marketing Canopius Europe to their client and broker contacts. The team's efforts were well rewarded at January 2012 with a modest sized but high quality portfolio on which we aim to build over the next few years. As always, we will continue to emphasise profit over volume.

Following the completion of the strategic review of our various UK retail insurance capabilities which commenced in 2010, in June 2011 we formed our UK Retail insurance division and appointed Tim Rolfe as its Chief Executive.

Our goal is to leverage our strengths in underwriting and distribution into a wider range of products and distribution channels with an increased focus on specialist niches. In a busy few months we have reorganised our underwriting and marketing teams, developed new products, launched web-trading platforms (within K Drewe Insurance Brokers, Look Insurance, and Cherished Vehicle Insurance) that enable us to deal directly with customers and appointed a very experienced Head of Distribution – Douglas Young. These developments leave us well-positioned to ensure that in 2012 we weld our disparate capabilities into a coherent, sustainable and franchise-enhancing part of the Group.

Aside from business development initiatives, I would also like to acknowledge the phenomenal effort and success of our colleagues who worked on our Solvency II programme. We have an exceptionally talented and dedicated team whose output has reinforced our standing as one of the best risk-managed businesses at Lloyd's. We are starting to see significant benefits from our substantial investment in enhancing our enterprise risk management capabilities. I would particularly like to acknowledge the leadership contribution of Steve Manning, Gaynore Moss and Gary McInally. In addition, I should acknowledge the achievements of our Claims team led by Mike East. As well as completely re-engineering the claims function for our motor syndicate, the team have worked hard to ensure that the syndicate delivers strong technical excellence and service. An independent perception survey at the end of 2011 placed Canopius in the top ten in the market for overall satisfaction with brokers and we aim to build on this feedback to deliver further improvements in this strategically important function.

Financial Resources

Having suffered a substantial loss in 2011 our financial resources are inevitably diminished, but our franchise remains solid and will continue to grow this year. With rates for catastrophe-exposed business improving, we are maintaining the overall scale of our existing businesses in 2012 and will pursue growth through the development of the new initiatives that we launched in 2011.

A consequence of retaining the scale and risk appetite of our underwriting businesses was the need to decrease the share of them supported by Canopius's capital. It is a testament to the attractiveness of our portfolio and the quality of our underwriters that all six of our existing third party capital providers not only chose to continue their support, but increased their aggregate participation in 2012.

In addition, we were delighted to welcome three new capital providers with whom we hope to establish an enduring and profitable relationship. With nine third party capital supporters representing sophisticated insurance and reinsurance capital from across the globe, we have substantial flexibility to grow our business when the time is right.

Outlook

In the near term, prospects for an improved performance in 2012 look brighter. Improvements in rating and terms and conditions are now evident in many classes. At the end of March, the Group has written 51% of its planned premiums for 2012 at an overall rate increase of 2.8%. Renewal retention has remained pleasingly and consistently high at around 89%.

With improving market conditions, the prospects for organic growth are more conducive. Nevertheless, in the near term, we continue to believe that growth through M&A may be a more effective path to significantly increasing the scale and value of our business.

Having spent much of 2011 in the unsuccessful pursuit of the acquisition of Omega, we are cognisant of the risks of management distraction and costs which can arise from M&A activity. However, we have both the financial resources and management team to execute a transaction that would transform the scale and prospects of our business. Therefore I was delighted to be able to announce a formal offer to acquire Omega on 25 April 2012. We look forward to concluding the acquisition rapidly and welcoming new colleagues to the Group.

Whilst we are excited about the prospects for Canopius following this transaction, we will not allow the acquisition process to distract us from the job at hand: sharpening the focus of our business, elevating its performance, and continually raising the bar in terms of our people and processes.

In closing, it remains for me to thank our staff who have laboured long and hard in 2011 to deliver solid progress for the organisation and who have endured the most challenging year in our history. I would also like to thank our clients and brokers for their continued support. Without you we do not have a business.

Michael Watson
Executive Chairman
27 April 2012

CANOPIUS

Independent: individualistic, unconnected, self-governing, self-determining, autonomous, non-aligned, objective, open-minded.

Global Insurance

This segment comprises Canopius's worldwide insurance business underwritten at Lloyd's with business managed through five divisions: Marine & Energy, Global Property, North American Facilities, Casualty, and a newly-formed division – Political Risks & Crisis Management. In aggregate written premiums were £253 million in 2011 (2010: £230 million).

Marine & Energy

Overall market conditions in this sector remain disappointing with rates failing to respond to the losses experienced in 2010. A small amount of growth was achieved, with an increase in business coming through our leadership of new specialist marine business written via the Gemini consortium and from our construction and engineering account. The energy team skilfully managed its energy liability exposures to minimise the effects of a clash loss. Written premiums totalled £82 million, up 14% on 2010, with good results being achieved. This division is now led by Joyce Webb, supported by Philip Sandle, both being promoted from within the Group during the year.

Global Property

The property team did an excellent job, especially given the year's catastrophe experience, allocating their aggregate capacity with great skill to produce an excellent result for the year on written premiums of £54 million (2010: £53 million). This division is led by Derek Hansen who was appointed to this position in June 2011.

The introduction of the RMS v.11 catastrophe model, which we were one of the first syndicates to adopt, provided a stimulating challenge to our views of risk pricing and catastrophe exposures. With strong in-house expertise in this area, we continue to develop our ability to interpret and use such tools. Derek Hansen (Global Property), together with Steve Bird (North American Facilities) and Jamie Wakeling (Property Treaty), and their teams did an outstanding job implementing the new model and staying within our risk appetite, without sacrificing material premium volume. However, many of the year's catastrophes came from untested regions of the world and/or perils, leaving underwriting judgement and risk selection of paramount importance.

North American Facilities

This division comprises a carefully managed book of US property and casualty binding authority business. Overall market conditions have been difficult with rates continuing to be depressed until the very end of the year, when small but encouraging signs of improvement started to emerge. Against this background, written premiums remained relatively flat at just over £67 million, with satisfactory results being achieved. As planned, Steve Bird took over as Divisional Underwriter in July, after many years as the division's Deputy Underwriter.

Casualty

Conditions generally remain difficult, with our teams continuing to demonstrate their focus on underwriting profits rather than premium volume. Total written premiums were £24 million comprised of financial institutions, specialist professional indemnity and general liability business written by coverholders, and the professional indemnity and directors' and officers' business underwritten via our Australian managing general agent, Resource Underwriting Pacific Pty Ltd.

Political Risk & Crisis Management

This new division, led by Simon Low and formed in March 2011, comprises political risk, aviation war and trade credit insurance together with our existing crisis management business, comprising sabotage & terrorism, kidnap & ransom and product contamination. The division also includes our International Accident & Health business. Combined written premiums totalled £26 million.

Reinsurance

The Group's London Market reinsurance segment comprises Property, Marine and Casualty Treaty business, with total premiums written of £126 million. 2011 was, to say the least, a testing year for the reinsurance industry, with heavy catastrophe and large losses experienced, albeit combined with a relatively benign US hurricane season.

Property

Our property treaty account inevitably faced heavy losses from the Japanese earthquake and tsunami, New Zealand earthquakes, hurricane Irene, US tornadoes and Thai floods. Against this backdrop, our team continues to maintain its underwriting discipline, while constantly looking to optimise its aggregate deployment. 2011 saw a continuation of the process started the year before, to review and rebalance the book, reducing aggregates in areas with low rates-on-line and reallocating exposure to more attractively priced areas. Having updated this strategy during 2011, the team did a great job executing it at 1 January 2012. Total written premiums were £84 million in 2011.

Marine

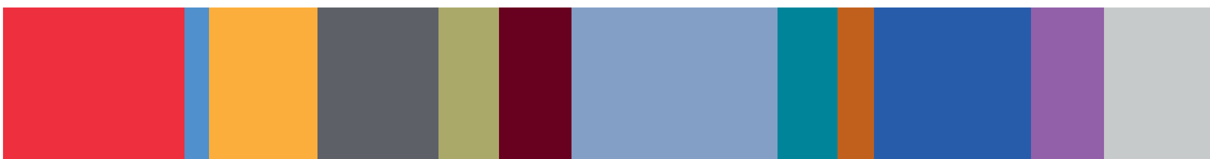
Our marine treaty team performed well, achieving a 40% growth in written premiums to £29 million, with careful selection criteria producing a very satisfactory result, especially in a year of major losses. During the year, Andrew Hedges, our head of marine treaty, was appointed Deputy Chairman of the LMA's Joint XL Committee, providing evidence of the market expertise and strong reputation of our underwriters.

Casualty

Our casualty treaty book has reduced in size over the years as we have shrunk this account in response to soft market conditions. Whilst the underwriting climate remains challenging, through careful underwriting selection the team held its resolve, seeking improvements in both original

Expected gross premium mix for 2012 year of account

- Marine & Energy – 15%
- Construction & Engineering – 2%
- Global Property – 9%
- North American Facilities – 10%
- Casualty – 5%
- Political Risks & Crisis Management – 6%
- Property Treaty – 17%
- Marine Treaty – 5%
- Casualty Treaty – 3%
- UK Personal Lines – 13%
- UK Commercial Combined – 6%
- Other UK Retail (inc. Motor) – 9%



and reinsurance rates. This resulted in some growth in the account to £13 million, with no material impact on profitability.

UK Retail Insurance

We created this new segment in June 2011 to provide us with a clearer identification of our desired business lines, customers and distribution channels. This division comprises homeowners and miscellaneous property (including caravan insurance via K Drewe); specialist motor written under the KGM brand; commercial insurance for SME businesses written through our joint venture Arista Insurance Limited; as well as accident and health and professional indemnity business. Gross written premiums for 2011 were £177 million.

Homeowners

Our focus for this book during 2011 was on technical pricing, increasing rates and risk selection and this resulted in a much stronger performance than in recent years. Written premiums were £83 million, down slightly from 2010, reflecting the continuing drive to improve the profitability of this book.

In early 2012, following a successful January renewal season, our homeowners underwriting team advised us of their intention to leave Canopius to pursue other opportunities. We believe that this will have a relatively modest impact on the written income levels for 2012 and are currently taking steps to enable our continued involvement in the more attractive parts of this business class.

Motor

During 2011, we began to see dramatic improvements in loss ratios from a combination of improved claims handling, risk selection and rate rises. Whilst these actions have taken their toll on the top line volume, the restoration of underwriting profitability provides us with a firm foundation from which to build. Neil Manvell, supported by Robin Mellish on business development, and Tony Scott on claims management deserve credit for their determined focus and drive to rebuild this specialist business. Written premiums were £33 million, down on 2010 but with a welcome return to underwriting profitability.

Accident & Health and Professional Indemnity

These two books both grew in 2011 and contributed written premiums of £14 million and £7 million respectively.

Arista

Market conditions for commercial property and liability business remain competitive for our SME-focused joint venture, Arista Insurance Limited. In 2011 our focus remained on pricing adequacy, profitability, and aggregate management rather than top line volume. As a consequence, written premiums were flat at around £32 million.

International

Our International segment comprises the business underwritten through our offices in Bermuda and Singapore, together with the structured reinsurance business introduced by Canopius Ireland. For 2012, this division will also include business underwritten by our Zurich platform, Canopius Europe, which commenced writing at 1 January 2012. Total written premiums were £51 million. The major losses of 2011, including the flooding in Thailand, were a major contributory factor to the result for this segment.

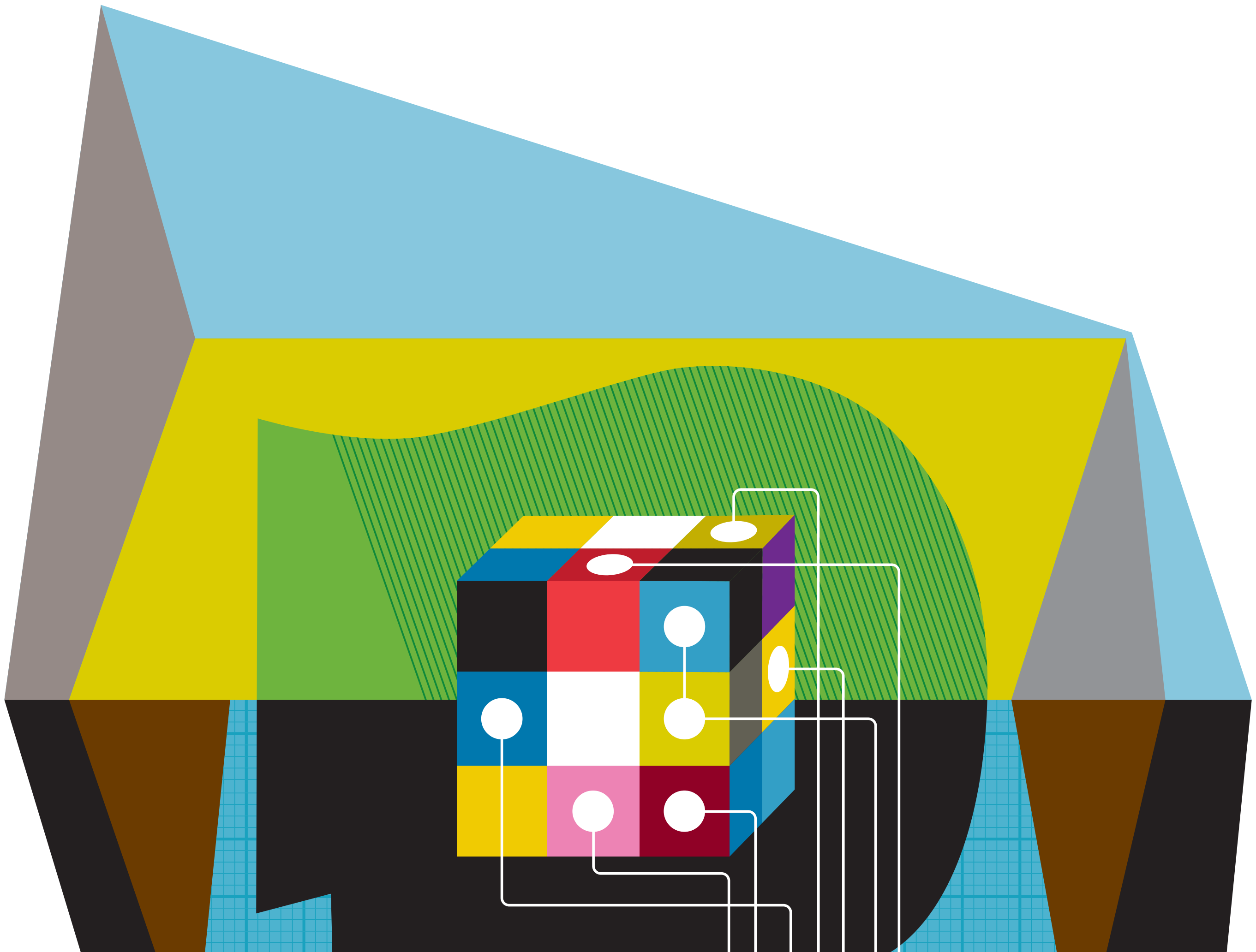
Conclusions

In summary, against a background of substantial catastrophe losses around the globe, we were pleased to have achieved advances in our footprint, focus, and risk management despite these events. With a diversified portfolio like ours, there are many components to manage. We could never have achieved what we have without the constant desire for improvement that Mike Duffy and Steve Gargrave, as Joint Active Underwriters of Syndicate 4444, bring to our organisation.

Jim Giordano
Group Chief Underwriting Officer
27 April 2012

CANOPIUS

Studied: planned, calculated, deliberate, conscious, intentional, considered, precise.



The total loss before tax to the Group's shareholders was £65 million (2010: £42 million profit). The loss for the year reflects exceptionally severe catastrophe and large risk losses, which were only partially offset by profits on non-catastrophe business and prior year reserve releases.

Highlights

> Gross written premiums increased by 9% from £564 million in 2010 to £616 million in 2011, which includes increases from the Group's newer business operations in Singapore and Political Risk & Crisis Management and Motor, as well as growth in most areas of its more established operations, including from rate increases.

> Net earned premiums were virtually unchanged at £462 million (2010: £465 million). In 2011 the Group ceded more of its interests in its managed syndicates to third parties, and increased reinstatement premiums were payable on the Group's reinsurances affected by the major losses. In addition, there is a lag between writing and earning premium.

> The net loss ratio increased by 16.9% to 73.1% (2010: 56.2%), reflecting the catastrophe losses arising from: the earthquake and tsunami in Japan; earthquakes in New Zealand; tornadoes and hurricane Irene in the USA; and floods in Thailand.

> The combined ratio was 110.8% (2010: 91.8%). The expense ratio, including commissions and expenses relating to underwriting activities, but excluding foreign exchange gains and losses, was steady at 37.6% (2010: 37.7%).

> The investment return was £3 million net of corporate member quota share reinsurance interests, representing a 0.3% return on average funds under management (2010: £24 million; 2.5%). The return in 2011 was particularly depressed by the adverse impact of credit spread widening on corporate fixed income securities in the third quarter of 2011.

> Other operating expenses (non-underwriting), excluding foreign exchange gains and losses, were £21.9 million (2010: £20.4 million); the £1.5 million increase reflecting costs incurred on acquisition related activities, including K Drewe Insurance Brokers Limited and the proposed acquisition of Omega Insurance Holdings Limited.

Summary Income Statement

	2011 £'m	2010 £'m
Gross written premiums*	**615.6**	563.8
Gross earned premiums*	**608.0**	592.6
Net earned premiums*	**462.0**	465.0
Net claims*	**(342.6)**	(268.4)
Underwriting and administrative expenses*	**(167.0)**	(160.4)
(Loss)/profit from underwriting*	**(47.6)**	36.2
Other income	**5.2**	10.7
Investment return	**3.3**	24.2
Other expenses	**(21.6)**	(22.8)
Finance charges and other	**(4.5)**	(6.3)
(Loss)/profit before tax*	**(65.2)**	42.0
Tax	**4.1**	0.9
(Loss)/profit after tax*	**(61.1)**	42.9
Gross loss ratio*	**75.9%**	49.5%
Net loss ratio*	**73.1%**	56.2%
Combined ratio*	**110.8%**	91.8%

*Premiums, claims and ratios exclude reinsurance to close premiums and the equal amount of associated claims. Expenses, Profit and Ratios exclude the credit of £1.6 million (2010: charge of £2.0 million) with respect to employee shares deemed cash settled. Ratios exclude transactions (with net £nil impact on profit) relating to business written in Syndicate 260 on or before 30 June 2010 for which the Group is not liable.

The Group's underwriting activities are mainly conducted through its managed syndicates at Lloyd's: Syndicate 4444 (composite) and Syndicate 260 (motor). In addition, the Group writes a small amount of structured reinsurance business through its Bermudian Class 3A reinsurance company, Canopius Bermuda. Most of the Group's wealth is held by Canopius Bermuda, which provides capital to support the Group's underwriting activities at Lloyd's.

The Group enables third party insurance and reinsurance companies to participate on its managed syndicates. Generally this is in the form of quota share reinsurance of the Group's corporate members at Lloyd's, or through the third parties' own corporate members, where the Group retains the ownership of the syndicate participation rights. The Group has 68% and 90% economic interests, after quota share cessions, on the 2012 underwriting years of account of Syndicate 4444 and Syndicate 260.

Premiums

Gross written premiums in 2011 increased by £52 million (9%) to £616 million (2010: £564 million). The increase includes £20 million from the Group's 81% participation in Syndicate 260's 2011 year of account (2010: 59% participation on the 2010 year of account from 1 July 2010); and the balance was broadly spread across the Group's underwriting divisions.

87% of Syndicate 4444's 2010 year of account business was renewed in 2011 (renewal of 2009 premium in 2010: 85%), providing on-going consistency of the business mix and quality. In aggregate, across all business divisions, renewal premium rates increased by an average of 3.5% (2010: 0.3%), with increases most pronounced in the motor division, whilst most other lines of business saw rate increases in the range 3% to 6%.

The Group's gross earned premiums increased £15 million (3%) from £593 million in 2010 to £608 million in 2011, of which £11 million relates to the Group's share of Syndicate 260. Typically, movements in earned premiums lag movements in written premiums.

Net earned premiums reduced £3 million (0.6%) from £465 million to £462 million, which reflects an increase in third party participations on Syndicate 4444 through whole account quota share arrangements of the Group's corporate members at Lloyd's. 20% was ceded at 31 December 2011 on the 2011 underwriting year, compared to 6.8% ceded at 31 December 2010 on the 2010 underwriting year. The increase in quota share reinsurance has enabled the Group to maintain the proportion of aggregate risk it assumes from its underwriting on Syndicate 4444 in line with its reduced capital resources, without constraining the growth and profit potential of the Syndicate. In addition, there was a small increase in the cost of reinsurance arising from reinstatement premiums payable as a result of the large catastrophe claims in 2011.

Claims

Gross and net loss ratios for 2011 were 75.9% and 73.1%, significantly higher than for 2010 (gross loss ratio: 49.5%; net loss ratio: 56.2%). The cost of major catastrophe claims added 24% to the net loss ratio (2010: 11%); and releases from prior year reserves, after maintaining the same percentage margin of prudence, benefited the net loss ratio by 5% (2010: 1%).

In 2011 the major catastrophe losses were the earthquake and tsunami in Japan, earthquakes in New Zealand, tornadoes in USA, hurricane Irene, and floods in Thailand. In 2010 the major catastrophes included earthquakes in Chile and New Zealand and the oil spill from the Deepwater Horizon rig. The industry has been fortunate that the North Atlantic hurricane season has been relatively benign for insurance losses in the last two years. Excluding the major catastrophe claims, the attritional net loss ratio increased somewhat, reflecting a higher incidence of larger claims.

Underwriting and Administrative Expenses

Underwriting and administrative expenses include commissions paid to brokers and expenses that are directly related to underwriting activities. Underwriting and administrative expenses as a percentage of net earned premiums increased from 35.6% in 2010 to 37.7% in 2011; however, excluding foreign exchange adjustments, the expense ratio improved marginally from 37.7% in 2010 to 37.6% in 2011 mainly in the commission expense ratio.

Commission related expenses were 29.8% in 2010 and 29.4% in 2011; other underwriting and administrative expenses, excluding foreign currency movements, were consistent at close to 8% of net earned premiums in both 2011 and 2010.

Other Income

Other income includes management fees, commissions and profit commissions earned by the Group's managing agents and insurance service companies in relation to third party interests in Syndicates 260 and 4444. Other income in 2010 included £5.4 million exceptional gain on the acquisition of the KGM motor business being the excess of the fair value over the acquisition cost of the acquired companies. Excluding this transaction, other income decreased marginally from £5.3 million in 2010 to £5.2 million in 2011, reflecting increased income from the Group's broker and insurance service companies offset by reduced profit commission earned.

Investments and Investment Returns

The Group's investments and cash at 31 December 2011 were £1,048 million (2010: £1,017 million). The Group invests mainly in fixed income securities, but permits up to 20% of the portfolio to be invested in diversifying strategies, which, at the end of 2011, included exposure to UK commercial property, equities and hedge funds. The Group sets its investment limits and defines its risk appetite with a view to maintaining a conservative portfolio that gives a reasonable prospect of achieving a return well in excess of LIBOR. This is challenging in current volatile markets, especially as the yield curve for US and UK government securities is near flat and well under 1% in the 0 to 3 year duration range in which the Group positions its fixed income portfolios.

The Group maintains a highly liquid investment portfolio ensuring that the great majority of funds are capable of being realised quickly. The Group makes use of a £75 million letter of credit facility and has £48 million of long term senior debt, which provide the Group with significant liquidity and financial flexibility as well as ensuring the efficient use of capital in funds at Lloyd's. At the year end, cash and investments not deployed directly in support of underwriting exceeded £80 million, which may be rapidly deployed, including facilitating M&A activity.

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Colourful: bright, vibrant, rich, variegated, informal, stimulating, lively, distinctive, vivid, multi-coloured.

The chart below shows the split of investments between the principal asset classes.

Investment returns were £4 million in 2011 (before cessions to whole account quota share reinsurers), representing 0.4% return on average investments. In 2010, the investment return was £27 million, gross of amounts ceded to quota share reinsurers (2.8% of average investments). The Group underperformed against its targets, principally due to widening credit spreads on non-government fixed income securities in the third quarter of 2011. Although the return for the year is disappointing, the portfolio is considered appropriately matched to the liabilities and is well positioned to take advantage of opportunities for better returns in 2012.

Other Operating Expenses (Non-underwriting)

Other operating expenses (non-underwriting) were little changed from the prior period: £21.6 million in 2011 (2010: £22.8 million). Other operating expenses (non-underwriting) include expenses not directly related to underwriting activities incurred by the Group's holding companies, corporate members at Lloyd's, managing agents, insurance service companies, and include the amortisation of intangible assets. Excluding foreign exchange gains and losses other operating expenses increased by £1.5 million due to the Group's retail insurance broker (K Drewe) acquired early in 2011, and costs of the proposed acquisition of Omega Insurance Holdings Limited.

Finance Charges and Other

Finance costs reduced to £4.9 million in 2011 from £6.3 million in 2010. These costs included fees for letters of credit deposited in Funds at Lloyd's and borrowing costs relating to the Group's senior debt issues. The reduction mainly reflects reduced costs of letters of credit used in funds at Lloyd's.

The Group's joint venture, Arista Insurance Limited, has delivered a satisfactory performance and the Group has recognised a pre-tax gain of £0.4 million (2010: £0.1 million deficit).

Percentage of Asset Class – Canopius Total Investment Portfolio as at 31 December 2011

- Cash/Money Market Funds – 17.0%
- Government – 15.7%
- Hedge Funds – 5.4%
- Equities – 1.8%
- Corporate – 48.0%
- Overseas Deposits – 8.3%
- UK Commercial Property – 3.3%
- High Yield – 0.5%

Tax

The Group recorded a tax credit of £4.1 million in 2011 (2010: £0.9 million). The Group's holding company is Guernsey resident (0% corporation tax) and most of the business is ultimately underwritten by Canopius Bermuda Limited (not subject to tax). Accordingly, the effective tax rate is a credit of 6.4% in 2011, due to losses retained by the UK operations.

Financial Resources

The Group's Total Equity reduced 21% from £306 million at 31 December 2010 to £244 million at 31 December 2011, reflecting the exceptional catastrophe losses as reported above. The liability for 'Employee shares deemed cash settled', has been included in Total Equity. Total tangible net assets reduced £64 million from £303 million at 31 December 2010 to £239 million at 31 December 2011. The reduction in tangible net assets includes the impact of the acquisition of K Drewe Insurance Brokers Limited in early 2011, which had the effect of transferring £3 million from tangible assets to intangible assets. The Group has ensured that it does not exceed its risk appetite for catastrophe losses (measured by exposure relative to the Group's tangible net assets) by reducing its participation on Syndicate 4444 for the 2011 and 2012 underwriting years and taking other appropriate actions including additional reinsurance purchases and reduced premiums written where rates are felt inadequate for the risk.

At 31 December 2011 the Group had available financial resources of £367 million (2010: £429 million), comprising total shareholders' interests of £244 million, senior debt of £48 million and £75 million unsecured letter of credit facility. The Group is meeting all its regulatory capital requirements and is holding cash in reserve to support unforeseen future demands and/or M&A activities. As a result of the loss in the year, the ratio of unsecured letters of credit and senior debt to total financial resources increased from 29% at the end of 2010 to 34% at 31 December 2011, similar to where it was at the end of 2009.

Solvency II and Bermuda Code of Conduct

The Group's managing agent at Lloyd's has made excellent progress in its preparation for Solvency II and has met all deadlines set by Lloyd's and the FSA, culminating with the submission to Lloyd's of a draft Final Application Pack on 16 December 2011. Work continues and there will be little reduction in activities in 2012 as we meet the demands of the new regime, although the work is becoming increasingly embedded in 'business as usual' rather than 'project'. The Group is taking advantage of the enhanced capital modelling and enterprise risk management systems in its review and management of its underwriting activities, particularly as they concern the syndicates. The Group's Bermudian reinsurance company, Canopius Bermuda Limited, has adopted and implemented the BMA's Insurance Code of Conduct.

Future Developments

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

Robert Law
Group Chief Financial Officer
27 April 2012

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

Secretary
Ogier Corporate Services (Guernsey) Limited

Registered office
Ogier House
St Julian's Avenue
St Peter Port
Guernsey GY1 1WA
Channel Islands

Company number
41279

Auditors
PricewaterhouseCoopers CI LLP
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey GY1 4ND
Channel Islands

The directors present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2011.

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").

Review of business

A detailed review of the business for the year and a summary of future developments are included in the Chairman's Statement, Review of Underwriting and Financial Review on pages 3 to 16.

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 Company and principal subsidiary 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.

CBL regularly monitors its solvency, which is calculated in accordance with regulations in Bermuda.

The Group's managing agent, CMA, has made progress in its preparations for compliance with 'Solvency II' and anticipates being fully compliant with the relevant regulations when they come into force, expected to be January 2014 for regulated entities.

CBL has implemented policies, procedures and controls designed to ensure compliance with the Bermuda Insurance Code of Conduct, which was effective from 1 July 2011.

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 2011 are set out on pages 22 to 23 and those of the Company on page 67.

The directors do not recommend the payment of a dividend on any of the Company's shares (2010: £nil).

Political and charitable donations

No political donations were made by the Group in either of the current or prior years. The Group made charitable donations during the year of £24,773 (2010: £8,924).

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 2011, except Ian Owen who was appointed on 28 March 2012. Robert Law, who was a director for the whole of the year, resigned on 28 March 2012.

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

	At 31 December 2011 B Ordinary	At 31 December 2010 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 Group and Company and of the profit or loss of the Group and 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 Group and 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; the work carried out by the auditors does not involve consideration of the maintenance and the integrity of the website and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. 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 2 March 2012 and signed on its behalf on 27 April 2012 by:

Roger Le Tissier
Director

Robert Alford
Director

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 2011 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 2011, 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
27 April 2012

	Note	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Gross premiums written		**615,594**	563,845
Reinsurance to close premiums payable		**(100)**	(2,374)
Reinsurance premiums ceded		**(163,448)**	(113,892)
Net premiums written		**452,046**	447,579
Change in the provision for gross unearned premiums		**(7,592)**	28,798
Change in the provision for unearned premiums – reinsurers' share		**17,399**	(13,774)
Net change in the provision for unearned premiums		**9,807**	15,024
Earned premiums revenue, net of reinsurance		**461,853**	462,603
Investment return	4	**3,280**	24,234
Other income	5	**5,219**	10,665
Total income		**470,352**	497,502
Insurance claims and claims settlement expenses	6	**(461,779)**	(302,359)
Insurance claims and claims settlement expenses relating to reinsurance to close premiums payable		**100**	2,374
Insurance claims and claims settlement expenses recoverable from reinsurers	6	**119,192**	33,984
Net insurance claims		**(342,487)**	(266,001)
Underwriting and administrative expenses	7	**(165,417)**	(162,386)
Other operating expenses (non-underwriting)	8	**(21,566)**	(22,757)
Total expenses	8	**(186,983)**	(185,143)
Results of operating activities		**(59,118)**	46,358
Finance costs	11	**(4,914)**	(6,259)
Share of operating profit/(loss) in joint venture	18	**389**	(66)
(Loss)/profit before tax		**(63,643)**	40,033
Tax	14	**4,078**	854
(Loss)/profit for the year		**(59,565)**	40,887
Attributable to:			
– Equity holders of the parent company		**(59,435)**	41,000
– Non-controlling interests		**(130)**	(113)
		(59,565)	40,887
– Employee interest in shares deemed cash settled	9	**(1,552)**	1,994
Total (loss)/profit to the shareholders		**(61,117)**	42,881

All the above amounts are derived from continuing operations.

The notes on pages 28 to 74 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
(Loss)/profit for the year		**(59,565)**	40,887
Other comprehensive income			
Currency translation differences	28	**(226)**	502
Total comprehensive (loss)/income recognised for the year		**(59,791)**	41,389
Attributable to:			
– Equity holders of the parent company		**(59,661)**	41,502
– Non-controlling interests		**(130)**	(113)
		(59,791)	41,389
– Employee interest in shares deemed cash settled	9	**(1,552)**	1,994
Total comprehensive (loss)/income recognised for the year to the shareholders		**(61,343)**	43,383

All the above amounts are derived from continuing operations.

The notes on pages 28 to 74 form part of these financial statements.

	Note	2011 £'000	2010 £'000
Assets			
Intangible assets	15	**4,358**	2,223
Property and equipment	19	**4,905**	7,438
Reinsurance assets	21	**457,962**	394,908
Deferred acquisition costs	22	**70,733**	70,451
Loans and receivables, including insurance receivables	23	**154,015**	139,870
Financial assets – carried at fair value through income	24	**902,601**	918,829
Cash and cash equivalents	25	**145,702**	97,717
Total assets		**1,740,276**	1,631,436
Liabilities			
Insurance contract liabilities	29/30	**1,370,882**	1,230,348
Trade and other payables, including insurance payables	31	**75,343**	43,533
Deferred tax liabilities	20	**2,013**	3,507
Tax liabilities	20	**–**	80
Borrowings: debenture loans	32	**48,242**	47,757
Total liabilities before employee interest in shares		**1,496,480**	1,325,225
Net assets before employee interest in shares		**243,796**	306,211
Employee interest in shares			
Employee owned shares deemed cash settled	10	**5,901**	7,585
Net assets after employee interest in shares		**237,895**	298,626
Equity			
Share capital	26	**111,794**	111,820
Share premium	27	**1,899**	1,736
Other reserves	27	**2,083**	2,309
Retained earnings	27	**121,179**	181,691
Equity attributable to equity holders of the parent	28	**236,955**	297,556
Non-controlling interest		**940**	1,070
Total equity		**237,895**	298,626
Analysis of shareholders' interests			
Equity attributable to equity holders of the parent		**236,955**	297,556
Employee interest in shares deemed cash settled	10	**5,901**	7,585
Non-controlling interest		**940**	1,070
Total shareholders' interests		**243,796**	306,211

These financial statements were approved by the Board of Directors on 2 March 2012 and signed on their behalf on 27 April 2012 by:

Roger Le Tissier
Director

Robert Alford
Director

The notes on pages 28 to 74 form part of these financial statements.

	Note	2011 £'000	2010 £'000
Fixed assets			
Shares in Group undertakings	16	**185,485**	185,485
Financial investments	24	**34,135**	53,834
		219,620	239,319
Current assets			
Amounts due from Group undertakings		**2,324**	722
Cash at bank		**20,508**	2,622
Prepayments and accrued income		**36**	36
		22,868	3,380
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		**1,069**	–
Other creditors		**1,198**	410
		2,267	410
Net current assets		**20,601**	2,970
Total assets less current liabilities		**240,221**	242,289
Creditors – amounts falling due after more than one year			
Borrowings: debenture loans	32	**48,242**	47,757
Net assets before employee interest in shares		**191,979**	194,532
Employee interest in shares			
Employee owned shares deemed cash settled	10	**5,901**	7,585
Net assets after employee interest in shares		**186,078**	186,947
Capital and reserves			
Share capital	26	**111,794**	111,820
Share premium	27	**1,899**	1,736
Capital redemption reserve	27	**178**	178
Profit and loss reserve	27	**72,207**	73,213
Total shareholders' funds	28	**186,078**	186,947
Analysis of shareholders' funds			
Equity attributable to equity holders		**186,078**	186,947
Employee interest in shares deemed cash settled	10	**5,901**	7,585
Total shareholders' interests		**191,979**	194,532

These financial statements were approved by the Board of Directors on 2 March 2012 and signed on their behalf on 27 April 2012 by:

Roger le Tissier
Director

Robert Alford
Director

The notes on pages 28 to 74 form part of these financial statements.

		Attributable to equity holders of the parent					
	Notes	Share reserves[1] £'000	Other reserves[2] £'000	Retained earnings[3] £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2010		113,271	1,807	140,976	256,054	1,183	257,237
Issue of shares and share issue costs		1,270	–	(1,270)	–	–	–
Purchase and cancellation of employee shares deemed cash settled		(985)	–	985	–	–	–
Total recognised comprehensive income/(loss) 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
At 1 January 2011		113,556	2,309	181,691	297,556	1,070	298,626
Issue of shares and share issue costs	27	237	–	(237)	–	–	–
Purchase and cancellation of employee shares deemed cash settled	27	(95)	–	95	–	–	–
Purchase and cancellation of equity settled employee shares	27	(5)	–	(928)	(933)	–	(933)
Other	27	–	–	(7)	(7)	–	(7)
Total recognised comprehensive (loss)/income for the year		–	(226)	(59,435)	(59,661)	(130)	(59,791)
At 31 December 2011		**113,693**	**2,083**	**121,179**	**236,955**	**940**	**237,895**
Employee owned shares deemed cash settled	10						5,901
Total shareholders' interests at 31 December 2011							243,796

1 Share reserves include share capital and share premium (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 28 to 74 form part of these financial statements.

	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Cash flows from operating activities			
Cash generated from operations	34	**12,360**	61,674
Income tax received/(paid)		**11**	(2,465)
Net cash from operating activities		**12,371**	59,209
Cash flows from investing activities			
Purchases less sales of financial assets		**18,373**	(212,502)
Acquisition of subsidiaries, net of cash acquired	17	**(2,223)**	26,658
Investment in preference shares in joint venture		**–**	(82)
Purchases less sales of property and equipment and intangible assets		**(30)**	(3,804)
Interest received		**21,698**	19,019
Net cash realised from/(used in) investing activities		**37,818**	(170,711)
Cash flows from financing activities			
Interest paid		**(1,972)**	(2,255)
Proceeds from issue of shares, net of share issue costs		**237**	1,270
Purchase and cancellation of employee shares		**(1,302)**	(4,290)
Net cash outflow from financing activities		**(3,037)**	(5,275)
Net increase/(decrease) in cash and cash equivalents		**47,152**	(116,777)
Cash and cash equivalents at beginning of year		**97,717**	210,767
Effect of exchange rate changes on cash and cash equivalents		**833**	3,727
Cash and cash equivalents at end of year	25	**145,702**	97,717

The notes on pages 28 to 74 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 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 20. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 24 to 27 and on pages 70 and 72. 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 2011 have been adopted.

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', to account for the acquisition of subsidiaries.

Under IFRS 3 (revised), the consideration to purchase a business (including contingent consideration) is recorded at fair value at the acquisition date, with contingent consideration included in creditors at 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.

(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:

1 Accounting Policies

(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.

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.

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.

1 Accounting Policies

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

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

(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.

(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.

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.

Website development costs capitalised, including those acquired, are amortised on a straight line basis over five years.

1 Accounting Policies

(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.

(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.

(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.

1 Accounting Policies

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.

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 an enhanced Capital Capacity, Risk Appetite and Risk Limits ("CAL") Framework that is expected to be fully functional in 2012.

The enhanced CAL Framework will improve Canopius's abilities to:

- Compare different potential portfolio business mixes to determine which is optimal on a risk-adjusted basis (portfolio optimisation);
- Set volume and profitability targets for business units based on preferred business mix; and
- Calibrate pricing frameworks and models to support underwriters in delivering the desired business mix at the required price.

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.

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.

2 Management of insurance and financial risk

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;
> whistle blowing;
> sanctions;
> IT and physical security;
> foreign exchange;
> human resources;
> asset-liability management; 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.

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, Switzerland and the UK.

2 Management of insurance and financial risk

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

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

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

Catastrophe modelling

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

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

Catastrophe losses in 2011 were the second costliest of all time to the insurance industry after 2005. Losses experienced in 2011 highlight the risk from non core areas and from perils not captured in vendor catastrophe models. Effective risk management in non core areas and from non modelled perils is ensured using a suite of exposure accumulation and aggregation monitoring techniques and proprietary deterministic models.

A detailed analysis of catastrophe 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.

2 Management of insurance and financial risk

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 2011, of the Group's gross claims reserves, £915 million (91%) were attributable to Syndicate 4444, £61 million (6%) to Syndicate 260 and £26 million (3%) to Canopius Bermuda Limited (excluding intra-group reinsurance liabilities).

The figures in the tables and footnotes below are presented at the exchange rates prevailing at 31 December 2011. 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.

Underwriting year – gross

	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	Total £'000
Estimate of ultimate claims costs:									
At end of period 1	191,046	265,168	209,923	295,415	339,605	314,363	333,751	330,956	2,280,227
At end of year 2	203,162	248,299	207,849	312,395	346,403	350,096	472,124		2,140,328
At end of year 3	196,460	242,548	202,466	316,933	347,556	336,538			1,642,501
At end of year 4	195,029	241,031	197,288	316,302	351,145				1,300,795
At end of year 5	184,978	238,613	196,668	314,856					935,115
At end of year 6	184,223	239,081	192,891						616,195
At end of year 7	183,977	241,726							425,703
At end of year 8	184,613								184,613
Current estimate of cumulative gross claims	184,613	241,726	192,891	314,856	351,145	336,538	472,124	330,956	2,424,849
Cumulative payments to date	(171,689)	(217,121)	(170,962)	(253,803)	(244,241)	(193,255)	(180,418)	(28,939)	(1,460,428)
Gross claims outstanding	12,924	24,605	21,929	61,053	106,904	143,283	291,706	302,017	964,421
Unearned balance									(166,187)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)									18,372
Liabilities in respect of Syndicate 839's 2008 year of account (see (ii) below)									133,838
Other liabilities (see (iii) below)									16,966
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses									967,410
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses									914,911
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iv) below)									60,485
Liability in respect of Canopius Bermuda Limited									26,116
Corporate and other adjustments (see (v) below)									–
Total liability included in the balance sheet (note 30)									1,001,512

Underwriting year – net

	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	Total £'000
Estimate of ultimate claims costs:									
At end of period 1	169,603	188,277	202,585	260,492	293,143	288,349	282,544	289,614	1,974,607
At end of year 2	169,499	184,991	188,543	275,772	292,588	300,406	358,320		1,770,119
At end of year 3	163,946	178,344	183,370	285,375	295,279	287,354			1,393,668
At end of year 4	156,590	176,366	180,375	285,153	292,797				1,091,281
At end of year 5	152,435	173,646	180,289	282,089					788,459
At end of year 6	152,389	173,082	176,728						502,199
At end of year 7	152,262	175,458							327,720
At end of year 8	152,541								152,541
Current estimate of cumulative net claims	152,541	175,458	176,728	282,089	292,797	287,354	358,320	289,614	2,014,901
Cumulative payments to date	(140,576)	(153,142)	(155,032)	(226,890)	(216,201)	(181,552)	(170,500)	(28,628)	(1,272,521)
Net claims outstanding	11,965	22,316	21,696	55,199	76,596	105,802	187,820	260,986	742,380
Unearned balance									(145,391)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)									14,107
Liabilities in respect of Syndicate 839's 2008 year of account (see (ii) below)									37,619
Other liabilities (see (iii) below)									14,393
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses									663,108
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses, before corporate member level quota share reinsurances									595,620
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iv) below)									44,889
Liability in respect of Canopius Bermuda Limited									26,116
Corporate and other adjustments, including corporate member level quota share reinsurances (see (v) below)									(34,649)
Total liability included in the balance sheet (note 30)									631,976

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 2011 being £18 million (2010: £26 million) gross and £14 million (2010: £19 million) net of reinsurance recoverable.

(ii) 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. The 2008 year of account of Syndicate 839 was subsequently reinsured to close into the 2011 year of account of Syndicate 4444 at 1 January 2011 with gross and net reserves of £163 million and £57 million respectively. The related liability is running off satisfactorily within the reserves with claims outstanding and unallocated loss adjustment expenses at 31 December 2011 being £137 million (2010: £163 million) gross and £41 million (2010: £57 million) net of reinsurance recoverable.

(iii) 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.

2 Management of insurance and financial risk

(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. Flectat has approximately 80% participation in Syndicate 260's 2011 year of account and 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 and 2011 years of account at 31 December 2011 amounted to £16 million (2010: £4 million) gross and £8 million (2010: £3 million) net of reinsurance and net of related cumulative claims payments since 30 June 2010 of £12 million (2010: £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:

(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 2011 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 2011

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Cash and cash equivalents	**79,681**	**66,021**	**–**	**145,702**
Debt securities and other fixed income securities	363,704	69,987	22,964	456,655
Holdings in collective investment schemes	355,770	90,176	–	445,946
Financial assets	**719,474**	**160,163**	**22,964**	**902,601**

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

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 2011, securities at a valuation of £23 million (2010: £18 million) have been classified as Level 3 under IFRS 7. This amount comprises £19 million (2010: £18 million) in AAA rated UK mortgage-backed floating-rate securities and £4 million (2010: £nil) held in AA rated UK mortgage-backed floating-rate securities. Liability for derivative financial instruments of £274,000 (2010: assets of £101,000), classified as level 1, is included in 'trade and other payables' (note 31).

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 2011:

	2011 £'000	2010 £'000
Opening balance at 1 January	**18,263**	53,125
Exchange losses on retranslation	**(76)**	–
Reclassified from Level 3 to Level 2	**–**	(4,634)
Purchases during the year	**6,612**	6,937
Realised gains and losses recognised in income statement	**136**	(166)
Sales during the year	**(556)**	(39,323)
Unrealised (losses)/gains recognised in income statement	**(1,415)**	2,324
Closing balance at 31 December	**22,964**	18,263
Total (losses)/gains for the year included in income statement for assets held at the end of the year	**(1,415)**	2,324

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 £1.2 million (2010: £1.0 million) favourable to £1.7 million (2010: £1.5 million) unfavourable changes to profit for the year in the income statement.

2 Management of insurance and financial risk

(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 2011 of £17,451,000 (2010: £10,226,000) and price risk to three Hedge funds of £4,961,000 (2010: £6,550,000).

The Group has additional exposure to price risk on a portfolio of Hedge funds amounting to £44,630,000 (2010: £31,052,000), which is controlled by a fund manager, which ensures that the portfolio is well diversified across a range of strategies.

(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 2011 was £456,655,000 (2010: £480,625,000) with an average duration of around 1.6 (2010: 2.7) 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 £5,645,000 (2010: £11,638,000). 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 2011 totalled £48,242,000 (2010: £47,757,000). 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 £438,000 (2010: £436,000). 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 trade at 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.

If credit spreads narrow then, other things being equal, the fair value rises and vice versa. The fair value of fixed income investments exposed to movements in credit spreads in the Group's balance sheet at 31 December 2011 was £237,163,000 (2010: £199,186,000). If credit spreads were to change by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would change by £4,099,000 (2010: £2,062,000). The relationship between changes in profit and changes in basis points is linear.

(v) Exchange rates

The Group operates internationally and its exposure to foreign exchange risk arises 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. The Group will normally seek to minimise any other significant currency exposures through forward currency sale or purchase contracts.

2 Management of insurance and financial risk

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

At 31 December 2011

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Intangible assets	4,358	–	–	–	4,358
Property and equipment	4,820	83	2	–	4,905
Reinsurance assets	248,471	204,288	5,226	(23)	457,962
Deferred acquisition costs	43,065	25,141	1,567	960	70,733
Loans and receivables, including insurance receivables	80,217	66,204	6,824	770	154,015
Financial assets – carried at fair value through income	455,384	374,827	58,111	14,279	902,601
Cash and cash equivalents	120,231	19,373	1,094	5,004	145,702
Total assets	**956,546**	**689,916**	**72,824**	**20,990**	**1,740,276**

At 31 December 2011

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Insurance contract liabilities, excluding provision for unearned premiums	588,753	484,856	50,340	8,244	1,132,193
Provision for unearned premiums	112,196	115,318	7,186	3,989	238,689
Trade and other payables, including insurance payables	46,249	28,692	365	37	75,343
Tax liabilities, including deferred tax liabilities	2,013	–	–	–	2,013
Borrowings: debenture loans	–	38,354	9,888	–	48,242
Total liabilities before employee shares	749,211	667,220	67,779	12,270	1,496,480
Total Equity, including employee shares	207,335	22,696	5,045	8,720	243,796
	956,546	**689,916**	**72,824**	**20,990**	**1,740,276**

At 31 December 2010

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'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

2 Management of insurance and financial risk

At 31 December 2010

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Insurance contract liabilities, excluding provision for unearned premiums	515,513	420,977	55,842	6,918	999,250
Provision for unearned premiums	108,011	112,131	7,503	3,453	231,098
Trade and other payables, including insurance payables	12,556	19,708	6,681	4,588	43,533
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

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 £8 million (2010: £14 million) for US dollar and approximately £1 million (2010: £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 2011

	AAA £'000	AA £'000	A £'000	Other and/or not rated £'000	Total £'000
Reinsurance assets	1,476	137,199	297,464	21,823	457,962
Debt and fixed income securities	300,119	47,264	95,629	13,643	456,655
Holdings in collective investment schemes	151,907	53,713	18,196	222,130	445,946
Cash and cash equivalents	74,223	41,655	27,124	2,700	145,702
Total	**527,725**	**279,831**	**438,413**	**260,296**	**1,506,265**

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

Reinsurance assets under 'other and/or not rated' include £3,476,000 (2010: £90,000) due from BBB rated reinsurers and £14,258,000 (2010: £9,360,000) held in collateralised deals. Holdings in debt and fixed income securities under 'other and/or not rated' of £13,643,000 (2010: £8,540,000) 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 2011 comprised £21,783,000 (2010: £104,214,000) held in BBB and below securities, £4,961,000 (2010: £6,550,000) held in Hedge Funds as part of an absolute return portfolio, £17,451,000 (2010: £10,226,000) held in Equities, £33,144,000 (2010: £19,220,000) in Property Funds and £44,630,000 (2010: £31,052,000) in a portfolio of Hedge Funds. Additionally a UCIT's fund classified as 'other and/or not rated' holdings in collective investment schemes on a look through basis comprises of £26,091,000 (2010: £19,752,000) in AAA securities, £18,394,000 (2010: £16,837,000) held in AA securities, £15,003,000 (2010: £16,797,000) held in A securities, £28,089,000 (2010: £4,827,000) in BBB securities and £12,584,000 (2010: £nil) in not rated securities. Cash and cash equivalents under 'other and/or not rated' include £2,700,000 (2010: £nil) BBB rated overseas deposits.

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

At 31 December 2011

	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	94%	1%	0%	0%	1%	4%	457,962
Loans and receivables, including insurance receivables	100%						154,015
Financial assets at fair value	100%						902,601

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	94%	1%	0%	0%	0%	5%	394,908
Loans and receivables, including insurance receivables	100%						139,870
Financial assets at fair value	100%						918,829

(c) Liquidity risk

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

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

2 Management of insurance and financial risk

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

The Group manages the maturity profile of its investments having regard to the expected 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 2011 was as follows:

	Debt and other fixed income securities £'000	Holdings in collective investment schemes £'000	Cash and cash equivalents £'000	**2011 Total £'000**	2010 Total £'000
Less than one year	138,948	308,415	145,702	**593,065**	461,509
Between one and two years	40,427	8,285	–	**48,712**	87,420
Between two and five years	234,596	12,198	–	**246,794**	223,310
Over five years	42,684	16,862	–	**59,546**	177,258
	456,655	345,760	145,702	**948,117**	949,497
Other non-dated instruments	–	100,186	–	**100,186**	67,049
	456,655	445,946	145,702	**1,048,303**	1,016,546

Debt and other fixed income securities include an amount of £nil (2010: £101,000) in respect of derivative financial instruments.

The expected payment profile of gross insurance contract liabilities as at 31 December 2011 was as follows:

	2011 %	2010 %
Less than one year	**40**	30
Between one and two years	**20**	27
Between two and five years	**28**	26
Over five years	**12**	17
	100	100
Average	**2.4 years**	2.8 years

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

	2011 Years	2010 Years
Pound sterling	**1.4**	2.3
US dollar	**1.7**	2.6
Euro	**1.4**	2.0

Payment profile of the Group's borrowings (debenture loans) involves amounts due at the rate of approximately £2.0 million (2010: £2.0 million) for each of the next five years and a total of approximately £84.7 million (2010: £86.0 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 and 260 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 Bermuda Insurance Act 1978 and related regulations, 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. In addition, Canopius Bermuda Limited utilises its capital to collateralise 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 challenge the results from 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 £367 million, comprising of total shareholders' interests of £244 million, senior debt of £48 million and a £75 million letter of credit facility (2010: £429 million, comprising of total shareholders' interests of £306 million, senior debt of £48 million and a £75 million letter of credit facility). This is approximately £110 million (2010: £150 million) in excess of the aggregate regulatory capital requirement within the Group at the balance sheet date.

The Group has developed and implemented 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 2011, Canopius continued to enhance its risk management processes and their enabling governance structures to ensure that Canopius can demonstrate Solvency II compliance in line with the Solvency II deadlines set by Lloyd's and the FSA. The Group's Bermuda reinsurance company has developed policies, processes and controls in order to comply with the Bermuda Monetary Authority's Insurance Code of Conduct.

4 Investment return

Investment return includes the following:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Investment income:		
Interest income on financial assets	**21,112**	18,290
Interest income on cash and cash equivalents	**586**	729
	21,698	19,019
Realised gains/(losses) on financial assets at fair value through income:		
Realised gains	**9,097**	16,255
Realised losses	**(15,518)**	(9,248)
Fair value gains/(losses) on financial assets at fair value through income:		
Net fair value gains on derivative financial instruments	**–**	88
Fair value gains on other financial assets	**6,971**	5,261
Fair value losses on other financial assets	**(18,968)**	(7,141)
	3,280	24,234

5 Other income

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Lloyd's underwriting agencies:		
Management fees	**874**	892
Profit commission	**352**	1,083
	1,226	1,975
Insurance services – commission and service fees	**3,899**	3,091
Excess of Group's interest in the net fair value of assets acquired through business combinations	–	5,356
Other	**94**	243
	5,219	10,665

6 Insurance claims and claims settlement expenses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Gross		
Current year insurance claims and claims settlement expenses	**473,394**	349,348
Reduced cost for prior year insurance claims and claims settlement expenses	**(11,615)**	(46,989)
	461,779	302,359
Reinsurance		
Current year insurance claims and claims settlement expenses recoverable from reinsurers	**(123,857)**	(82,519)
Reduced prior year insurance claims and claims settlement expenses recoverable from reinsurers	**4,665**	48,535
	(119,192)	(33,984)
Total net insurance claims and claims settlement expenses	**342,587**	268,375

7 Underwriting and administrative expenses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Direct commission	**122,739**	126,785
Other underwriting and administrative expenses	**35,308**	34,651
Changes in deferred expenses for the acquisition of insurance contracts	**7,187**	6,671
Exchange losses/(gains)	**183**	(5,721)
	165,417	162,386

8 Total expenses

Total expenses analysed by expense type were as follows:

Year ended 31 December 2011

	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	**Total £'000**
Employee benefit expenses, including Directors' emoluments	24,594	9,832	**34,426**
Depreciation of property and equipment	1,495	1,704	**3,199**
Amortisation of intangible assets	–	1,348	**1,348**
Operating lease rentals and property related costs	2,845	1,198	**4,043**
Exchange losses	183	120	**303**
Other underwriting and administrative expenses	136,300	202	**136,502**
Other operating expenses	–	7,162	**7,162**
	165,417	21,566	**186,983**

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

9 Directors' emoluments and employee benefit expenses

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

	Year ended 31 December 2011	Year ended 31 December 2010
Underwriting	**168**	152
Other agency, accounting and administration	**192**	128
Insurance services	**101**	88
	461	368

Employee benefit expenses were as follows:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Salaries and wages	**27,942**	25,552
Social security costs	**3,849**	2,984
Pension costs – defined contribution plans	**3,020**	2,711
Other benefits	**1,167**	1,457
(Credit)/charge for employee interest in shares deemed cash settled (note10)	**(1,552)**	1,994
	34,426	34,698

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

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Aggregate emoluments	**1,057**	1,199
Group contributions paid to money purchase schemes in respect of qualifying services	**253**	149
Sums paid to third parties for directors' services	**54**	33

Retirement benefits were accruing to 2 directors (2010: 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 (2010: £50,000). Mr Adam Barron, a director of the Company, is a partner of Bregal Capital LLP.

Highest paid director

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Aggregate emoluments	**682**	825
Group contributions paid to money purchase schemes in respect of qualifying services	**211**	110

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 W2) 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 £5,901,000 (2010: £7,585,000), £5,471,000 (2010: £7,417,000) of which is expected to be settled after more than one year. The amount credited to the income statement in respect of the Employee owned shares deemed cash settled during the year is £1,552,000 (2010: charge of £1,994,000).

During the year, the Company issued to employees 493 (2010: 2,834) C shares for £187,694 (2010: £964,392), and 175 (2010: 3,225) Y shares for £28,525 (2010: £108,250) as well as 4,200 (2010: nil) W2 shares for £21,000. 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 deemed cash settled	B Shares Number	C Shares Number	Y Shares Number	E Shares Number	W2 Shares Number
At 1 January 2010	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
Issued in 2011	–	493	175	–	4,200
Purchased and cancelled in 2011	–	(1,535)	(350)	–	(8,400)
At 31 December 2011	**2,280**	**15,678**	**3,900**	**–**	**79,800**

11 Finance costs

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Interest expenses – debenture loans	**1,972**	2,255
Amortisation of issue costs of debenture loans	**36**	40
Fees for letters of credit in funds at Lloyd's	**2,188**	3,600
Other	**718**	364
	4,914	6,259

12 Group (loss)/profit before tax

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Group (loss)/profit before tax is stated after charging/(crediting) the following items:		
Depreciation of property and equipment (note 19)	**3,199**	3,332
Excess of Group's interest in the net fair value of assets acquired through business combinations	**–**	(5,356)
Amortisation of intangible assets (note 15)	**1,348**	1,802
Operating lease rentals	**2,750**	2,529

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'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	**96**	115
Other services		
– audit fees payable for the audit of the Company's subsidiaries and managed syndicates	**751**	618
– services relating to tax	**69**	103
– services relating to corporate finance, data warehousing and other transactions	**431**	52
– services relating to Statement of Actuarial Opinion	**194**	318
– audit fees relating to Canopius pension schemes	**5**	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 £328,000 (2010: £326,000) 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 scheme are given in note 33.

14 Tax expense/(credit)

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, Switzerland, Singapore, Malaysia, 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 2035.

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

		Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
UK tax:			
Current tax	– current year	**885**	402
	– prior year	**(4,189)**	(579)
Deferred tax	– origination and reversal of temporary differences	**(3,947)**	(716)
	– prior year	**2,917**	39
Overseas tax		**206**	–
Other		**50**	–
Tax credit		**(4,078)**	(854)
Tax credit above includes Group's share of joint venture's tax credit (note 18)		**(853)**	(18)
Factors affecting tax charge:			
(Loss)/profit before tax		**(63,643)**	40,033
UK tax at 26.5% (2010: 28.0%)		**(16,865)**	11,209
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		**13,186**	(9,388)
Amortisation of intangible asset		**–**	452
Prior year losses not previously recognised in deferred tax		**(1,874)**	–
Prior year adjustments		**(1,272)**	(539)
Foreign taxes charged to corporate members		**885**	–
Reclassification		**1,805**	–
Other, including effect of change in UK tax rate		**57**	(643)
		(4,078)	(854)

A net deferred tax liability of £2,013,000 (2010: £3,507,000) has been recognised (see note 20).

15 Intangible assets – Group

	Goodwill £'000	Acquired claims provisions £'000	Insurance policy renewal rights £'000	Website costs £'000	Computer software licences £'000	Total £'000
Cost						
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
At 1 January 2011	–	1,750	7,010	–	744	9,504
Additions	–	–	314	25	–	339
Acquired	3,029	–	–	115	–	3,144
At 31 December 2011	**3,029**	**1,750**	**7,324**	**140**	**744**	**12,987**
Accumulated amortisation						
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
At 1 January 2011	–	876	6,150	–	255	7,281
Amortisation in the year	–	219	860	44	225	1,348
At 31 December 2011	**–**	**1,095**	**7,010**	**44**	**480**	**8,629**
Net book value						
At 31 December 2011	**3,029**	**655**	**314**	**96**	**264**	**4,358**
At 31 December 2010	–	874	860	–	489	2,223
Current	–	219	79	32	225	555
Non-current	3,029	436	235	64	39	3,803
	3,029	655	314	96	264	4,358

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 website costs and computer software licences is estimated to be five and three years respectively from the date the related website and software come into use. Intangible assets, other than goodwill, are amortised over their useful economic lives and the charge is included in other operating expenses (non-underwriting) in the Income Statement. Any impairment charge to goodwill 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.

	2011 £'000	2010 £'000
Balance at 31 December – Company	**185,485**	185,485

During the prior year, the Company invested a total of £112,000 in Canopius Labuan Pte Limited.

The subsidiaries of the Company at 31 December 2011, 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

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 Europe Limited with a Branch in Zurich, Switzerland (note b below)	Syndicate Service Company	England and Wales
Canopius Labuan Pte Limited	Syndicate Service Company	Malaysia
Canopius Underwriting Bermuda Limited	Syndicate Service Company	Bermuda
Canopius Underwriting Limited	Syndicate Service Company	England and Wales
K Drewe Insurance Brokers Limited (note c below)	Insurance Intermediary	England and Wales
Resource Underwriting Pacific Pty Limited (note d 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	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	Lloyd's Corporate Member	England and Wales
Canopius Capital Ten Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Eleven Limited (note e below)	Lloyd's Corporate Member	England and Wales
Canopius Capital Twelve Limited (note e below)	Lloyd's Corporate Member	England and Wales
Canopius Capital Fourteen Limited (note e below)	Non-trading	England and Wales
Flectat Limited	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 456 Limited	Holding Company	Bermuda
Trenwick UK Holdings Limited	Holding Company	England and Wales
Trenwick UK Limited	Holding Company	England and Wales
Look Insurance Services Limited (note c below)	Non-trading	England and Wales
KDIB Holdings Limited (note c below)	Non-trading	England and Wales
Archer Dedicated Limited	Dormant	England and Wales
Bowman Loss Adjusters Limited	Dormant	England and Wales
The KGM Motor Insurance Services Limited	Dormant	England and Wales
The KGM Motor Policies Limited	Dormant	England and Wales
Creechurch Underwriting Limited	Dormant	England and Wales
Impact Underwriting Limited	Dormant	England and Wales

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

(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. KGMUAL is not trading but 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.
(b) Canopius Europe Limited was incorporated on 1 April 2011 and operates through registered branch operations in Switzerland.
(c) K Drewe Insurance Brokers Limited and Look Insurance Services Limited were acquired on 28 March 2011, and KDIB Holdings Limited was acquired on 30 March 2011.
(d) The Group owns 75% of the ordinary shares of Resource Underwriting Pacific Pty Limited.
(e) Canopius Capital Eleven Limited, Canopius Capital Twelve Limited and Canopius Capital Fourteen Limited were incorporated on 12 July 2011.
(f) Former subsidiaries Pebbles 123 Limited and Stylevanish Limited were both dissolved on 22 February 2011, Creechurch Services Limited on 1 March 2011 and Chartwell Advisers Limited on 28 August 2011.

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. EBT did not trade during 2011 or 2010.

17 Acquisitions

On 28 March 2011, the Group's wholly-owned subsidiary Creechurch Holdings Limited ("CHL") acquired the entire issued ordinary voting share capital of K Drewe Insurance Brokers Limited ("KDIB"), a wholesale broker, and of a related company Look Insurance Services Limited ("Look"), a direct retail broker. Both specialise in the UK leisure industry with KDIB having operated as a coverholder for caravan business to Syndicate 4444 for many years. CHL also acquired on 30 March 2011 the beneficial ownership of the entire issued voting ordinary share capital of KDIB Holdings Limited ("KDIB Holdings"), which was the immediate holding company of KDIB.

The cost of the acquisition to the Group was a total cash consideration of £2,852,003, being £1 each for the entire issued ordinary shares of £1 each of KDIB and Look, and £1 for 31,340 (82.71%) of the 37,892 ordinary shares of £1 each of KDIB Holdings (together "the KDIB Group"), £10,000 for the purchase of 10,000 preference shares of £1 each in KDIB Holdings and £2,842,000 for 2,842 B ordinary non-voting shares of £1,000 each in KDIB. The B shares were issued at par to Syndicate 4444 on 28 March 2011 and the Group committed to acquire all the issued B shares from Syndicate 4444 at cost at the Syndicate's request. Canopius Managing Agents Limited, as managing agent of the Syndicate, sold these shares to CHL on 19 December 2011 for a cash consideration of £2,842,000 paid to the Syndicate.

The goodwill of £3,029,000 arising from the acquisition is attributable to the expected future income stream arising from KDIB. These acquisitions expand the Group's UK retail insurance distribution channels and are expected to support potential further development of the Group's UK Retail segment.

17 Acquisitions

Acquired assets and liabilities of the KDIB Group at fair values, and excess of the consideration paid over the Group's interest in the net fair value of liabilities acquired in aggregate at the acquisition date, were as follows:

	Fair values £'000
Assets	
Property and equipment	222
Cash and cash equivalents	629
Loans and receivables, including insurance receivables	1,161
Deferred tax asset	55
Liabilities	
Trade and other payables, including insurance payables	(1,950)
Borrowings	(234)
Preference shares liability in KDIB Holdings Limited	(60)
Net liabilities	(177)

	£'000
Cost of acquisition – cash	2,852
Net liabilities acquired at fair value as above	177
Goodwill, included in intangible assets in the consolidated balance sheet	3,029
Cash inflow from acquisitions	
Cost of acquisition – cash outflow	(2,852)
Cash and cash equivalents from acquired companies – cash inflow	629
	(2,223)

Directly attributable acquisition costs of £572,000 have been expensed and are included, under IFRS 3 (revised), within other operating expenses (non-underwriting) in the consolidated income statement.

The post-acquisition turnover of £1,846,000 included in other income and profit after tax of £388,000 for the acquired companies are included in the consolidated income statement at 31 December 2011.

Accounting standards require a pro-forma summary for the Group presenting certain information as if the businesses had been acquired on 1 January 2011. Had the businesses been acquired on 1 January 2011, the consolidated income statement on a pro-forma basis would have shown turnover included in other income of approximately £2,262,000 and profit after tax for the year of approximately £270,000. 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.

As reported in the financial statements as at 31 December 2010, 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. CHUKL acquired control of KGM Underwriting Agencies Limited on the same date.

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.

Assets and liabilities acquired in relation to this transaction were at provisional fair values as at 31 December 2010. These were further assessed during the measurement period to 30 June 2011 and no adjustments were necessary to be made to those fair values.

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 2011, CHUKL's total investment in Arista amounted to £10,016,000 (2010: £10,016,000).

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 2011 have been included in these financial statements using the equity method of accounting.

Interest in joint venture consists of:

	2011 £'000	2010 £'000
Equity	596	596
Preference shares	9,027	9,027
Capital contribution	393	393
Total investment in Arista by CHUKL	10,016	10,016
Share of losses after tax brought forward	(6,643)	(6,595)
Share of profits/(losses) before tax for the year	389	(66)
Share of tax credits for the year	853	18
Carrying amount in joint venture	4,615	3,373

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

	2011 £'000	2010 £'000
Investment in equity	596	596
Share of losses allocated against equity	(596)	(596)
Carrying amount in equity	–	–
Investment in preference shares	9,027	9,027
Capital contribution	393	393
Share of losses allocated against preference shares	(4,805)	(6,047)
Carrying amount of investment in preference shares included in loans and receivables under IAS 39 (see note 23)	4,615	3,373
Total carrying amount in joint venture, due after more than one year	4,615	3,373

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 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
At 1 January 2011	9,184	291	1,255	3,965	14,695
Additions	399	52	139	–	590
Acquired	–	32	75	–	107
Disposals	(438)	(36)	(413)	(12)	(899)
At 31 December 2011	**9,145**	**339**	**1,056**	**3,953**	**14,493**
Accumulated depreciation					
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
At 1 January 2011	4,230	132	1,106	1,789	7,257
Charge for the period	2,479	65	105	550	3,199
Disposals	(438)	(5)	(413)	(12)	(868)
At 31 December 2011	**6,271**	**192**	**798**	**2,327**	**9,588**
Net book value					
At 31 December 2011	**2,874**	**147**	**258**	**1,626**	**4,905**
At 31 December 2010	4,954	159	149	2,176	7,438

20 Tax assets and liabilities

Deferred tax assets and liabilities – Group

A deferred tax liability of £2,013,000 (2010: £3,507,000) 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.

	2011 £'000	2010 £'000
Balance at 1 January	**(3,507)**	(13,005)
Timing differences relating to recognition of underwriting results and depreciation:		
– arising during the year	**1,645**	(3,242)
– utilised during the year	**(1,063)**	3,271
Acquired	**55**	8,641
Prior year adjustment	**661**	–
Other, including reduction in losses carried forward and reclassifications	**196**	828
Balance at 31 December	**(2,013)**	(3,507)

The net deferred tax liability of £2,013,000 (2010: £3,507,000) comprises deferred tax liability of £13,865,000 (2010: £12,148,000) less deferred tax assets of £11,852,000 (2010: £8,641,000). £nil (2010: £4,971,000) 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 £240,000 (2010: £1,100,000) in respect of trading losses that has not been recognised in these financial statements at 31 December 2011 as its recoverability is not certain based on prudential projections.

Tax liabilities – Group

Tax liabilities of £nil (2010: £80,000), of which £nil (2010: £48,000) is overseas tax, are payable within 12 months.

21 Reinsurance assets – Group

	2011 £'000	2010 £'000
Reinsurers' share of claims outstanding (see note 30)	**369,536**	327,226
Reinsurers' share of unearned premiums (see note 30)	**49,486**	31,986
Debtors arising out of reinsurance operations (see note 30)	**38,940**	35,696
	457,962	394,908

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

22 Deferred acquisition costs – Group

	2011 £'000	2010 £'000
Balance at 1 January	**70,451**	74,013
Acquired on acquisition	**–**	3,592
Additions	**66,460**	64,667
Release	**(66,178)**	(71,821)
Balance at 31 December	**70,733**	70,451

23 Loans and receivables, including insurance receivables

	2011 £'000	2010 £'000
Insurance receivables – debtors arising out of direct insurance operations	**127,504**	114,561
Loans and receivables:		
Other debtors	**14,984**	16,482
Prepayments and accrued income	**6,912**	5,454
Carrying value of investment in preference shares in joint venture (see note 18)	**4,615**	3,373
	26,511	25,309
Loans and receivables, including insurance receivables	**154,015**	139,870

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

	2011 £'000	2010 £'000
Within one year	**146,847**	134,940
After one year	**7,168**	4,930
	154,015	139,870

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:

	2011 £'000	2010 £'000
Financial assets at fair value through income	**902,601**	918,728
Derivative financial instruments	**–**	101
	902,601	918,829

Financial assets at fair value consist of:

	Valuation 2011 £'000	Valuation 2010 £'000	Cost 2011 £'000	Cost 2010 £'000
Debt securities and other fixed income securities	**456,655**	480,625	**457,743**	479,909
Holdings in collective investment schemes	**445,946**	438,103	**455,483**	434,828
Derivative financial instruments	**–**	101	**–**	–
At 31 December	**902,601**	918,829	**913,226**	914,737

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. Liability for derivative financial instruments of £274,000 (2010: assets of £101,000) is included in 'trade and other payables' (note 31). The derivative financial instruments held by the Group have not been designated for hedge accounting during the current and previous financial years as permitted by IAS 39.

Financial assets in the Company consist of holdings in collective investment schemes at market value of £34,135,000 (2010: £53,834,000) and cost of £35,928,000 (2010: £53,736,000).

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

25 Cash and cash equivalents – Group

	2011 £'000	2010 £'000
Cash at bank and in hand	**61,833**	37,557
Short-term bank deposits – Overseas deposits	**83,869**	60,160
	145,702	97,717

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 £127,526,000 (2010: £75,244,000) that is held in Lloyd's Premium and other trust funds supporting insurance liabilities, or is collateralising letters of credit (see note 36 (a)). These assets are subject to restrictions under the relevant trust deeds and bank facilities.

26 Share capital

Authorised:

	At 31 December 2010 £	Changes in authorised capital £	At 31 December 2011 £
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**
Nil (2010: 1,920,000) W shares of £5 each	9,600,000	(9,600,000)	**–**
1,728,000 (2010: Nil) W1 shares of £5 each	–	8,640,000	**8,640,000**
192,000 (2010: Nil) W2 shares of £5 each	–	960,000	**960,000**
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

Allotted, issued and fully paid:

	At 31 December 2010 £	Changes in issued capital £	**At 31 December 2011 £**
244,050 A Ordinary shares of £1 each	244,050	–	**244,050**
30,615 (2010: 33,295) B Ordinary shares of £1 each	33,295	(2,680)	**30,615**
15,678 (2010: 16,720) C Ordinary shares of £1 each	16,720	(1,042)	**15,678**
3,900 (2010: 4,075) Y Ordinary shares of £5 each	20,375	(875)	**19,500**
54,000 Z Ordinary shares of £5 each	270,000	–	**270,000**
Ordinary share total	584,440	(4,597)	**579,843**
21,075,570 D shares of £1 each	21,075,570	–	**21,075,570**
5,760,000 E shares of £1 each	5,760,000	–	**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**
Nil (2010: 1,380,000) W shares of £5 each	6,900,000	(6,900,000)	**–**
1,296,000 (2010: Nil) W1 shares of £5 each	–	6,480,000	**6,480,000**
79,800 (2010: Nil) W2 shares of £5 each	–	399,000	**399,000**
10,500,000 X shares of £5 each	52,500,000	–	**52,500,000**
Other share total	111,235,570	(21,000)	**111,214,570**
	111,820,010	(25,597)	**111,794,413**

On 4 October 2011, a Special Resolution was passed re-designating 1,375,800 issued and 544,200 unissued W shares of £5 each into 1,296,000 issued and 432,000 unissued W1 shares of £5 each and 79,800 issued and 112,200 unissued W2 shares of £5 each.

During the year the Company issued 493 (2010: 2,834) C Ordinary shares of £1 each for a total consideration of £187,664 (2010: £964,392), 175 (2010: 3,225) Y shares of £5 each for a total consideration of £28,525 (2010: £108,250) and also issued at par 4,200 (2010: 39,600) W shares of £5 each. The Company repurchased 2,680 (2010: 8,000) B ordinary shares of £1 each, 1,535 (2010: 4,421) C ordinary shares of £1 each, 350 (2010: 1,000) Y ordinary shares of £5 each and 8,400 W shares of £5 each, during the year for a total consideration of £1,563,374 (2010: £4,457,359), of which £429,550 (2010: £167,700) was outstanding at the balance sheet date and included in employee interest in shares liability.

Each of the A, B, C, D, E, F, G, W1, W2, 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 W1, W2, X, Y and Z shareholders, the holders of the X shares rank in first priority, followed by those of W1 and W2 shares. The amount payable to the X and W1 and W2 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

The A, B, C, Y and Z shares are classified as Ordinary, and D, E, F, G, W1, W2 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 2011. None of the shares are redeemable.

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Ordinary shareholders' funds	**69,757**	145,575	**18,880**	34,966
Other shareholders' funds	**173,099**	159,566	**173,099**	159,566
Total shareholders' funds, including shares deemed cash settled	**242,856**	305,141	**191,979**	194,532

27 Share capital, share premium and other reserves

Group

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2011	111,820	1,736	2,309	181,691
Issue of shares and share issue costs	22	215	–	(237)
Purchase and cancellation of employee shares deemed cash settled	(45)	(50)	–	95
Purchase and cancellation of equity settled employee shares	(3)	(2)	–	(928)
Revaluation losses	–	–	(226)	–
Other	–	–	–	(7)
Retained loss for the year	–	–	–	(59,435)
At 31 December 2011	**111,794**	**1,899**	**2,083**	**121,179**

Other reserves include Revaluation reserve of £1,815,000 and Capital Redemption reserve of £178,000 at both 31 December 2011 and 2010; and Currency Translation reserve of £90,000 (2010: £316,000).

Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Profit and loss reserve £'000
At 1 January 2011	111,820	1,736	178	73,213
Issue of shares and share issue costs	22	215	–	(237)
Purchase and cancellation of employee shares deemed cash settled	(45)	(50)	–	95
Purchase and cancellation of equity settled employee shares	(3)	(2)	–	(928)
Other	–	–	–	1
Retained profit for the year	–	–	–	63
At 31 December 2011	**111,794**	**1,899**	**178**	**72,207**

28 Reconciliation of movements in shareholders' funds

	Group 2011 £'000	Group 2010 £'000	**Company 2011 £'000**	Company 2010 £'000
Balance at 1 January	**297,556**	256,054	**186,947**	158,000
Issue of shares	**22**	217	**22**	217
Increase in share premium	**215**	1,053	**215**	1,053
Purchase and cancellation of employee shares deemed cash settled	**(95)**	(985)	**(95)**	(985)
Reclassification to liability – included in employee interest in shares	**(142)**	(285)	**(142)**	(285)
Purchase and cancellation of equity settled employee shares	**(933)**	–	**(933)**	–
(Decrease)/increase in currency translation reserve	**(226)**	502	**–**	–
Other	**(7)**	–	**1**	–
Retained (loss)/earnings	**(59,435)**	41,000	**63**	28,947
Balance at 31 December	**236,955**	297,556	**186,078**	186,947

29 Insurance contract liabilities

	2011 £'000	2010 £'000
Claims outstanding (see note 30)	**1,001,512**	890,110
Provision for unearned premiums (see note 30)	**238,689**	231,098
Creditors arising out of reinsurance operations (see note 30)	**130,681**	109,140
	1,370,882	1,230,348

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 2010	839,349	241,170	119,124	1,199,643
Acquired	55,581	18,784	–	74,365
Movement in the year	(2,492)	(28,798)	(10,098)	(41,388)
Exchange and other adjustments	(2,328)	(58)	114	(2,272)
At 31 December 2010	890,110	231,098	109,140	1,230,348
Movement in the year	110,672	7,439	21,541	139,652
Exchange and other adjustments	730	152	–	882
At 31 December 2011	**1,001,512**	**238,689**	**130,681**	**1,370,882**
Reinsurance assets				
At 1 January 2010	329,662	45,760	29,800	405,222
Acquired	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
Movement in the year	42,310	17,500	3,395	63,205
Exchange and other adjustments	–	–	(151)	(151)
At 31 December 2011	**369,536**	**49,486**	**38,940**	**457,962**

Creditors arising out of reinsurance operations of £130,681,000 (2010: £114,375,000) 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 £38,940,000 (2010: £35,696,000) 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:

	2011 £'000	2010 £'000
Gross		
Notified claims outstanding and loss adjustment expenses	**683,132**	574,219
Claims incurred but not reported	**318,380**	315,891
	1,001,512	890,110
Recoverable from reinsurers		
Notified claims outstanding and loss adjustment expenses	**259,924**	237,284
Claims incurred but not reported	**109,612**	89,942
	369,536	327,226
Net		
Notified claims outstanding and loss adjustment expenses	**423,208**	336,935
Claims incurred but not reported	**208,768**	225,949
	631,976	562,884

It is estimated using historical settlement trends that £418 million (2010: £280 million) of the gross claims outstanding and £101 million (2010: £78 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

	2011 £'000	2010 £'000
Insurance payables – creditors arising out of direct insurance operations	**16,767**	10,311
Trade and other payables:		
Other creditors including taxation and social security	**37,442**	14,632
Accruals and deferred income	**20,860**	18,590
Derivative financial instruments	**274**	–
	58,576	33,222
Trade and other payables, including insurance payables	**75,343**	43,533

Trade and other payables include £3,914,000 (2010: £3,414,000), in accruals and deferred income, payable after more than one year. The fair value of trade and other payables approximate to their carrying amounts. Derivative financial instruments, representing the fair value of exchange traded bond futures contracts used to hedge duration risk, amounted to a liability of £274,000 (2010: assets of £101,000 as in note 24).

32 Borrowings: debenture loans – Group and Company

	2011 £'000	2010 £'000
Due in more than five years		
Floating rate Euro loan notes	**9,888**	10,093
Fixed/floating rate US Dollar loan notes	**12,747**	12,515
Floating rate US Dollar loan notes	**25,607**	25,149
	48,242	47,757

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 was closed with effect from 30 June 2010 and all active members were treated as having left pensionable service under the scheme with effect from that date.

A valuation of the scheme was undertaken at 1 January 2010 and updated to 31 December 2011 by a qualified independent actuary. The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2011 % per annum	2010 % per annum
Discount rate	**4.7**	5.4
Expected long-term rate of return of scheme assets	**3.5**	4.7
Increase in salaries	**n/a**	n/a
Inflation assumptions	**2.8**	3.2
LPI pension increases (capped at 5% per annum)	**2.8**	3.2

33. Retirement benefit obligations – Group and Company

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.

The amounts recognised in the balance sheet as at 31 December 2011 by Canopius Services Limited (2010: KGM), a subsidiary of the Group and current sponsor of the scheme, were the present value of the scheme liabilities of £8,516,000 (2010: £7,844,000) and market value of scheme assets of £9,382,000 (2010: £7,789,000), leading to a surplus of £866,000 (2010: deficit of £55,000) calculated in accordance with the requirements of accounting standards. 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 prepared by the scheme Actuary as at 1 January 2010 on behalf of the Trustees of the scheme concluded there was a funding requirement amounting to £1,117,000. This was accrued at 31 December 2010 and 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 Canopius Services Limited's financial statements for the year ended 31 December 2011.

34 Reconciliation of (loss)/profit before tax to cash generated from operations

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
(Loss)/profit before tax	**(63,643)**	40,033
Interest received	**(21,698)**	(19,019)
Interest paid	**1,972**	2,255
Net fair value gains on investments, including currency translation differences	**(2,145)**	(18,772)
(Credit)/charge for cash-settled share-based payments	**(1,552)**	1,994
(Increase)/decrease in debtors, prepayments and accrued income	**(17,673)**	19,841
Increase/(decrease) in creditors	**53,758**	(26,757)
Increase in net claims and unearned premium reserves	**59,183**	56,899
Depreciation of property and equipment	**3,199**	3,332
Amortisation of intangible assets	**1,348**	1,802
Share of (profits)/losses from joint venture	**(389)**	66
Cash generated from operations	**12,360**	61,674

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 2011 Land and buildings £'000	**Group 2011 Equipment £'000**	Group 2010 Land and buildings £'000	Group 2010 Equipment £'000
Not later than one year	**2,931**	**195**	2,622	128
Later than one year but not later than five years	**9,456**	**196**	9,877	36
Later than five years	**–**	**–**	1,670	–
	12,387	**391**	14,169	164

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, £935,920,000 (2010: £918,126,000) 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 £808,394,000 (2010: £842,882,000) are financial assets and the balance is cash and cash equivalents.

(b) Deeds of Indemnity

The Company has entered into three (2010: two) Deeds of Undertaking and Guarantee with third party funds at Lloyd's ("FAL") providers on behalf of Canopius Capital Five Limited, Canopius Capital Twelve Limited and Flectat Limited (2010: Canopius Capital Five Limited and Canopius Capital Seven Limited), all subsidiary companies, to cover the potential liabilities in the event that the third party FAL providers' FAL amounting respectively to £10,000,000, £5,500,000 and £20,000,000 (2010: £4,433,000 and £15,884,000) are drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement.

During 2011, a subsidiary company, Canopius Holdings UK Limited ("CHUKL"), has entered into three (2010: one) new Deeds of Indemnity with Lloyd's, bringing the total to twelve (2010: nine). Two (2010: two) of the Deeds relate to reorganisations of the Group's corporate members, who are underwriting on Syndicate 4444. The other ten (2010: seven) Deeds are to cover remote potential liabilities that may arise following the release by Lloyd's between 2006 and 2011 of various members' FAL.

(c) Bank facilities

As at 31 December 2011, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

> £75.0 million (2010: £75.0 million) unsecured, of which £71.0 million (2010: £75.0 million) has been utilised to support underwriting on Syndicate 260's 2011 and 2012 (2010: 2011) years of account and Syndicate 4444's 2012 (2010: 2011) and prior years of account, at a cost of 2.75% (2010: 2.85%) per annum on the utilised portion and 0.75% per annum on the unutilised portion.

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

> US$25.0 million (2010: US$25.0 million) to be used as collateral to support the company's underwriting, of which US$20.0 million (2010: US$25.0 million) was utilised. The company pledged structured deposits with a value at 31 December 2011 of US$27.1 million (2010: US$28.1 million) to secure the letters of credit.

(d) Preference shares

A subsidiary company, Flectat Limited, has issued £5,632,200 (2010: £15,240,000) preference shares (56,322 (2010: 152,400) shares at £100 per share) during 2011 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) Other contingent liabilities

A subsidiary company, CHUKL, provided an irrevocable undertaking to a third party in respect of its participation on the 2012 underwriting year of account of Syndicate 4444. CHUKL's maximum liability in respect of this undertaking is £258,936. The directors' current best estimate is that this will not be payable.

37 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 (2010: four) persons at 31 December 2011, increasing to five with effect from 3 January 2012. Two (2010: two) of the key management persons were directors of the Parent Company at 31 December 2011. 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 2011 £'000	Year ended 31 December 2010 £'000
Short-term employment benefits	**2,172**	2,281
Post-employment benefits	**314**	828

Loans to related parties

A non-interest bearing season ticket loan made to a member of key management during the year amounted to £4,999 (2010: £4,999) of which £3,750 (2010: £3,750) was outstanding as at 31 December 2011.

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 £4,819,000 (2010: £4,374,000) by Syndicate 4444 on gross premiums written for the Group. At 31 December 2011 commission of £306,000 (2010: £145,000) was payable to Arista. Profit commission paid by Syndicate 4444 to Arista amounted to £348,000 during the year with an amount payable of £496,000 (2010: £323,000) at 31 December 2011. Interest payable by Arista to the Group in respect of short-term loan balances amounted to £1,229 (2010: £511) at 31 December 2011.

38 Ultimate parent undertaking and controlling party

85% (2010: 84%) of the Ordinary shares in issue at 31 December 2011 in the Company were held by six (2010: 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.

39 Post balance sheet events

On 25 April 2012, the Company made an offer for the acquisition of the entire issued and to be issued share capital of Omega Insurance Holdings Limited ("Omega"), domiciled in Bermuda. The offer price is 67 pence per share payable in cash, which valued Omega at £164 million. The offer represents 92% of the tangible net asset value of Omega of $288 million at 31 December 2011 (£180 million).

The completion of the acquisition is subject to acceptance of the offer by Omega's shareholders and various regulatory approvals. This transformational acquisition will enable Canopius to significantly increase its underwriting operations at Lloyd's and establish a platform in the United States. It will also deliver substantial scale benefits. It is not certain that the acquisition will be completed and the Company is not in a position to provide all of the information required by IFRS 3 for a business combination, including the calculation of the fair values of the assets and liabilities that may be acquired and the goodwill or bargain gain arising on acquisition; and, accordingly, the value of total shareholders' interests in the Company post acquisition.

The Company will fund the acquisition out of its existing resources, plus £34 million from increasing to £105 million and fully utilising its letter of credit facility (see note 36(c)) and £82 million from new equity investments in the Company. The fees payable under the increased facility will be between 2.75% and 3.25%.

As at 26 April 2012, £98 million of the Company's funds is held in an escrow account for the purposes of part funding the acquisition.

Subject to the completion of the acquisition of Omega, the existing shareholders have agreed to reorganise the shares in the Company such that the existing A, B, C, Y and Z Ordinary shares and D, E, F, G, W1, W2 and X shares, of par values as set out in note 26, will be re-designated into A, B and C Ordinary voting shares and D non-voting shares of no par values.

In connection with and dependent on the completion of the acquisition of Omega, the Company has entered into a contractual arrangement with Tower Group, Inc. ("Tower") to assist the development of Tower's business interests, including the establishment of a presence at Lloyd's and giving Tower the option to combine with the Company's reinsurance business in Bermuda.

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