CANOPIUS

Canopius Group Limited Annual Report and Financial Statements 2012

Fizzing with Ambition

CANOPIUS

Total shareholders' interests – £m

Year	£m
08	214.7
09	265.8
10	306.2
11	243.8
12	**366.3**

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

Year	£m
08	36.3
09	50.5
10	42.9
11	(61.1)
12	**48.5**

Financial resources – £m

Year	£m
08	331.3
09	400.6
10	429.0
11	367.0
12	**517.2**

Total post tax return on average equity – %

Year	%
08	19
09	21
10	15
11	(22)
12	**17**

Gross premiums written – £m

Year	£m
08	457.4
09	591.9
10	563.8
11	615.6
12	**691.7**

Net loss ratio – %

Year	%
08	65
09	51
10	56
11	73
12	**59**

Net premiums earned – £m

Year	£m
08	324.9
09	435.2
10	465.0
11	462.0
12	**467.7**

Combined ratio – %

Year	%
08	100
09	88
10	92
11	111
12	**95**

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 unsecured letter of credit facilities.

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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 nine years through a mix of organic expansion and acquisition, and had total financial resources of over £500 million at year end.

Incorporated in Guernsey, the group operates in the UK, Ireland, Switzerland, Bermuda, US, Singapore 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, measured and colourful. These characteristics enable us to differentiate ourselves in our marketplace.

CANOPIUS

2012 was a transformational year for Canopius; we acquired Omega, a fellow Lloyd's business, boosting our premiums under management by 40% and our financial resources by 35%, thereby firmly positioning us as a top ten business at Lloyd's; we established a new Group executive team led by Inga Beale following her appointment as Group CEO; and we created three strategic business units – Global Property, Global Specialty and UK Retail – upon which our future strategic growth is based. We also had a strong and welcome return to profit.

Results

The result for the year ending 31 December 2012 was a profit to the shareholders of £49 million (2011: a loss of £61 million). Gross written premiums increased 12% to £692 million (2011: £616 million). We achieved a strong return on equity of 17% (2011: negative 22%) and a combined ratio of 95.1% (2011: 110.8%). Funds under management grew to in excess of £1.6 billion (2011: £1.1 billion) and we delivered an excellent investment return of 3.8% (2011: 0.3%).

Superstorm Sandy and Costa Concordia added 12% to the combined ratio (2011 catastrophes: 24%) whilst favourable prior year reserve development improved the combined ratio by 7% (2011: 5%).

Omega acquisition

The most significant development for Canopius in 2012 was the acquisition of Omega. This increased our premiums under management to more than £1 billion, substantially enhanced our scale at Lloyd's in two of our core classes – Treaty Property and North American binding authorities – and gave us a foothold in the world's largest insurance market, the United States, via an excess and surplus lines insurer eligible to write in all 50 states. We are delighted to welcome our new Omega colleagues to Canopius.

Strategy

During the year we reviewed our medium-term business strategy, the core elements of which are: to be centred at Lloyd's in London, with select underwriting hubs overseas; to be obsessive about underwriting excellence with a book of higher margin, higher volatility global business balanced by lower volatility UK Retail business; to have a relentless focus on capital, risk and financial management; and to have committed and professional colleagues of the highest calibre.

Financial resources

The Group's total shareholders' interest increased 50% from £244 million at 31 December 2011 to £366 million at 31 December 2012, and tangible net assets increased from £239 million to £336 million. This reflected our profit for the year and additional capital provided by our majority shareholder Bregal Capital and new partner, Tower Group International, Ltd. We are very pleased that Tower has joined our shareholder base and we have already completed a number of mutually beneficial transactions with them.

At 31 December 2012 the Group had available financial resources of £517 million (2011: £367 million), comprising total shareholders' interests of £366 million, senior debt of £46 million and a £105 million unsecured letter of credit facility. The ratio of debt to total financial resources decreased from 34% at the end of 2011 to 29% at 31 December 2012.

Capital management continues to be a critical element of our strategy. All of our nine existing third party capital providers chose to continue their support of Canopius in 2013 and we were delighted to welcome two new capital providers with whom we hope to establish an enduring and mutually profitable relationship. In the aggregate, our third party capital providers increased their economic interest in our managed syndicates from £174 million for 2012 to £258 million for 2013. Following the Omega acquisition our support from Names increased from £7 million at the start of 2012 to £91 million for 2013. Canopius has economic interests of 59%, 69% and 92% in the 2013 underwriting year of account of Syndicates 4444, 958 and 260 respectively.

People

In December 2012 we announced that Robert Law, Group Chief Financial Officer, was stepping down from full-time employment and planned to leave Canopius. Robert ceased his Group role in February this year after twelve years of unstinting service. Our reputation as a M&A machine owes

> 2012 was a transformational year for Canopius. We are continuing to attract top talent into the organisation, reflecting our evolution into a mature global business. We enter our tenth year stronger than ever, brimming with confidence and fizzing with ambition.

much to Robert's masterminding of our transaction support. He has been my right hand man in executing all our deals over the past years, making an invaluable contribution whilst never neglecting his day-to-day responsibilities. My gratitude is unbounded. It now transpires that the announcement of Robert's retirement was premature and I am delighted that he has recently agreed to take up a position with Canopius Bermuda. We shall therefore continue to benefit from his experience and wisdom. Robert will be succeeded as Group Chief Financial Officer by Paul Cooper who joins us in April.

At the end of May we will bid farewell to Susan Patschak, CEO of Canopius Bermuda. Since our entry into the Bermuda market over five years ago, Susan has ably led our first platform outside London and built a successful franchise and respected brand. Susan deserves huge credit for her role in this achievement. I wish her every success in her new venture which we will follow with interest. Susan's talented and experienced deputy, Stephen Hartwig, will succeed her as CEO in June.

Outlook

During 2012 the insurance industry again demonstrated its ability to cope with tragic events such as Superstorm Sandy, weather tough economic conditions and still increase its capital base. As a result competition remains fierce.

Against this background we will continue to develop organically our existing operations in the UK, Ireland, Switzerland, Bermuda, US, Singapore and Australia.

At the same time we believe that growth through M&A remains an effective path to increasing significantly the scale and value of our business and we remain alert to such opportunities.

Our franchise has grown substantially in 2012 and we are continuing to attract top talent into the organisation, reflecting our evolution into a mature global business. We enter our tenth year stronger than ever, brimming with confidence and fizzing with ambition. I would like to thank Inga, our senior leadership team and all our employees for their hard work and commitment to Canopius.

Michael Watson
Executive Chairman
26 March 2013

To be the company that others want to join, enabling us to "grow our own". A company where we continuously and tirelessly question everything in our passion to be the best.

Derek Hansen Divisional Underwriter, Direct & Facultative Property

My ambitions for **CANOPIUS**

After the dramatic grounding of Costa Concordia in the second week of 2012, I wondered what sort of year was in store. However, despite some months of the year where we saw severe flooding in the UK, there was very low catastrophe and large loss activity except for Sandy in October – all of these events we took in our stride. We acquired and integrated Omega which overall meant that I had an eventful first year at Canopius.

We have involvement in the US catastrophe market via various portfolios so I was very pleased that, despite Sandy, the core Canopius book produced an excellent profit of £49.6 million after tax. The overall Group with Omega consolidated since acquisition produced a profit to the shareholders for the year of £48.5 million, which reflects low loss activity, some favourable prior year reserve development and an excellent investment return in very challenging conditions.

A new group executive team structure was announced in April and with this came the creation of three strategic business units. These are Global Property headed up by Mike Duffy, Global Specialty by Stephen Gargrave, and UK Retail by Tim Rolfe. The creation of these units will enable us to focus on optimising our natural catastrophe aggregations and growing our niche and specialty lines.

Steve Manning was promoted to the role of Group Chief Operating Officer and Paul Cooper joins us in April 2013 as Group Chief Financial Officer. Paul is replacing Robert Law, who after 12 years with Canopius has stepped down as CFO. I'm delighted that we can attract talented individuals from outside the organisation to join Canopius as well as see our own people flourish in their careers.

Alongside the increasing size and reputation of Canopius, our market influence is also increasing. During 2012 Michael Watson was elected to the Lloyd's Council and LMA Board and Mike East became Chair of the LMA Claims Committee. We have representation and chair positions on numerous London market committees across underwriting, actuarial, and finance.

Underwriting

Under the leadership of Jim Giordano as Group Chief Underwriting Officer, our underwriting activities are conducted mainly through our managed syndicates at Lloyd's: Syndicates 4444 and 958 (composite) and Syndicate 260 (motor). In addition, the Group writes a small amount of structured reinsurance business through its Bermudian Class 3A reinsurance company. With the acquisition of Omega, we also have a US subsidiary underwriting regional binding authority business.

Gross written premiums increased to £692 million with Omega contributing premiums of £47 million to this growth. The net loss ratio at 59.3% (2011: 73.1%) is a 13.8% decrease on the prior year. In aggregate, across all business lines, premium rates increased by an average of 3.9% (2011: 3.5%), with increases most pronounced in the property and marine lines.

In 2012 we suffered only two major losses, Costa Concordia and Sandy, which together contributed 12% to the net loss ratio (2011 catastrophes: 24%). Against the backdrop of a year of low catastrophe activity, it is also pleasing to report that our attritional loss ratio remained stable at 54% (2011: 55%) despite the various UK flood events during the year.

Our results also benefitted from overall reserve releases of £30 million (2011: £20 million) predominantly from reserve releases in syndicates 4444 and 260 whilst maintaining our prudential reserve margin at the same percentage level as 2011. We also aligned syndicate 958 with our standard reserving approach.

The January renewal season showed pricing continuing to improve although we non-renewed business where it did not meet our hurdle rates. At the end of February, we had written 36% of planned premiums for 2013 at an overall rate increase of 3.2%. Renewal retention has fallen to 79% (2011: 89%) as we repositioned the Canopius book.

Global Property

This strategic business unit headed up by Mike Duffy is our largest, representing 40% of total premium and comprises property business written throughout the world either as insurance or reinsurance. The portfolio includes our catastrophe business with the majority of exposures being in the USA. In aggregate written premiums were £278 million in 2012 (2011: £238 million).

Direct & Facultative Property: This division is led by Derek Hansen. Together with his team, we have re-positioned this portfolio away from the more attritional occupancies, through both 2011 and 2012. As a result of this strategy, early signs are encouraging, with non-catastrophe losses through 2012 running at half the previous 5 year average. With losses from Sandy falling within expectations, the D&F team can be congratulated on a very good year in a difficult market. Written premiums were down modestly at £53 million (2011: £54 million).

Property Treaty: Jamie Wakeling in London, Linus Phoon in Singapore and their respective teams did an excellent job of re-balancing the portfolio. Over the past 18 months, we have elected to substantially reduce our exposure to low rate on line, high level business thus avoiding the inherent volatility. With the impact from Sandy well within expectations, results were very good. With the additional premium volume from the Omega book, written premiums increased to £133 million in 2012 (2011: £117 million).

North American Facilities: This division, led by Steve Bird, comprises a carefully managed book of US binding authority business. Results, moderately affected by Sandy, were somewhat disappointing. The premium volume was boosted by the Omega portfolio and increased to £92 million (2011: £67 million).

Global Specialty

Stephen Gargrave leads this strategic business unit that comprises specialty lines of business written throughout the world either as insurance or reinsurance. The largest component of the portfolio is marine and energy with casualty, political risk and crisis management growing in importance. In aggregate written premiums, representing 34% of total premium, were £237 million in 2012 (2011: £199 million).

Marine & Energy Direct: Our marine and energy account grew with an increased focus on upstream Energy business and in particular the construction segment. Offshore exploration is booming which is bringing additional premium to the market that we are taking advantage of. This division headed up by Joyce Webb, which writes a broad cargo, specie, marine liability and marine property account, in addition to Energy, again achieved excellent results. This was despite two major market losses, being Costa Concordia and Sandy having a substantial impact. Attritional losses were well down across the division which helped cushion the above.

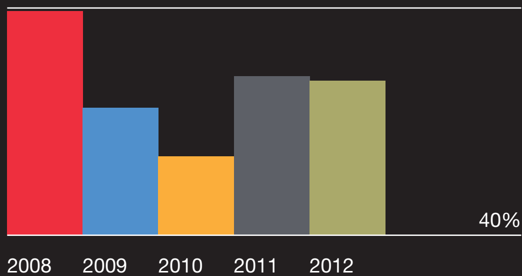
Gross Written Premium by Line of Business for 2012

Global Property – £278m 40%
- Direct & Facultative Property – £53m 8%
- Property Treaty – £133m 19%
- North American Facilities – £92m 13%

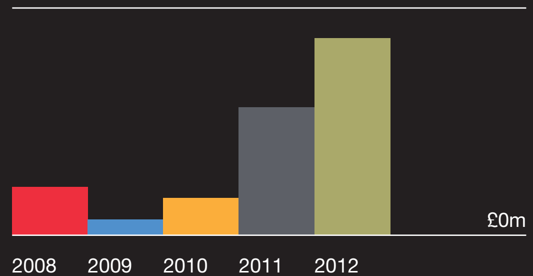
Global Specialty – £237m 34%
- Marine & Energy Direct – £95m 14%
- Marine Treaty – £46m 7%
- Political Risk & Crisis Management – £31m 4%
- Casualty Direct – £27m 4%
- Casualty Treaty – £38m 5%

UK Retail – £177m 26%
- Property – £89m 13%
- Motor – £42m 6%
- Personal Accident, Travel and Professional Indemnity – £7m 1%
- Arista – £39m 6%

Attritional Loss Ratio



Prior Year Reserve Release



Group Investments 2012

- Cash and Money Market Funds (including deposits) – £386m 27%
- Government – £290m 21%
- Corporate (government guaranteed) – £145m 10%
- Corporate (other) – £516m 36%
- Hedge Funds – £51m 4%
- Equities – £23m 2%

My ambitions for **CANOPIUS**

> To see the ongoing investment Canopius is making in our "best in class" capital models produce increasing business benefits – way beyond the Solvency II basics.
>
> **Jade Cho PhD** Capital Modeller

During the latter stages of 2012 the Engineering business was split out and now runs separately under Simon Challinor, and is another area, like Energy Construction, where we see growth potential. Written premiums totalled £95 million (2011: £84 million).

Marine Treaty: Andrew Hedges heads up this team and is also Deputy Chairman of the LMA's Joint XL Committee. The focus in 2012 was again on careful client selection and the level of attachment. Costa Concordia and Sandy were substantial gross losses to this account, but despite this, it achieved a profit which is an exceptional result. Written premiums grew substantially to £46 million (2011: £31 million), partly driven by reinstatement premiums following the loss activity, but also through identifying new opportunities.

Political Risk & Crisis Management: This division, led by Simon Low, comprises sabotage & terrorism, kidnap & ransom, product contamination, aviation war, political risk, and trade credit insurance. This division also includes our International Accident & Health business. Political risk and trade credit were added during 2012 and we are now in a position to continue to grow in 2013. The Crisis Management team has been successful in repositioning the account away from emerging markets while growing the account by 50% over the last two years. Combined written premiums totalled £31 million (2011: £26 million).

Casualty Direct: This division continues to be focused on underwriting profits rather than premium volume and mainly comprises financial institutions and specialist professional indemnity, including that underwritten via our Australian managing general agent Resource Underwriting Pacific Pty Ltd. We are having increasing success in growing PI niche business, and are looking at further areas of strategic growth in 2013. This relatively small division has made a healthy contribution to our 2012 profits. Chris Head retired as our Head of FI during 2012, the role now being assumed by his long term deputy Nick Kirk. Total written premiums were £27 million (2011: £30 million).

An organisation that signifies under-writing performance, fresh thinking and exemplary service, providing rewards and stability for our clients and our people alike.

Andrew Perry Underwriter, Political Risk & Crisis Management

My ambitions for CANOPIUS

Casualty Treaty: Our London casualty treaty team, led by Alice Perry, underwrites predominantly Foreign Motor and General Third Party excess of loss business. This small account continues to perform consistently well and made another good contribution to our profits in 2012. The book is now growing with the introduction of new clients and further geographical spread, partially due to the integration of the Omega book. Written premiums grew to £38 million (2011: £28 million).

UK Retail Insurance

Our UK Retail unit under the leadership of Tim Rolfe has been strengthened with Richard Bradley (COO) and Paul Dilley (Head of Underwriting) joining Tim and Douglas Young (Head of Distribution) on the executive team. This strategic business unit comprises UK Homeowners and niche property (caravan insurance for example); specialist Motor written under the KGM brand; small commercial insurance including business written through our joint venture Arista Insurance Limited; as well as Personal Accident, Travel and Professional Indemnity business. The K Drewe business, a Midlands based broker acquired in 2011, has been transformed into a distribution hub and can now support broker, coverholder and retail distribution.

In April 2012 the business and client portfolio of Golfplan was acquired, a leading provider of specialist golf insurance and an official supplier to the Professional Golfers' Association ("PGA"). This acquisition increases our customer base significantly and supports our UK retail growth ambitions. The UK Retail unit represents 26% of total premium with written premiums in 2012 of £177 million (2011: £179 million).

Property: We hired a new underwriting team for this portfolio and this is now under the leadership of Stephen Snook. We are already seeing them re-shape the account and bring new business opportunities to the Group. We were successful in keeping the business targeted but saw written premiums reduce to £89 million (2011: £97 million).

Motor: The various underwriting actions taken under Neil Manvell's leadership together with our anti-fraud efforts are manifesting in improved loss ratios. Following the reduction in volume in 2010 and 2011 as we cut out underperforming business, we are confident in our revised risk selection and grew written premiums to £42 million (2011: £33 million).

To be a company that uses smart, cutting-edge analysis to a competitive advantage in enabling us to develop niches of profitable UK property business.

Kapila Rudra Management Information Analyst, UK Property

My ambitions for **CANOPIUS**

Personal Accident, Travel and Professional Indemnity: These books of business, while modest in volume, contribute to the overall product offering to our customers, and have a targeted and controlled growth focus. Written premiums totalled £7 million (2011: £17 million).

Arista: The focus in 2012 was on preparing Arista for the next phase in its development making certain that the underwriting selection, pricing and aggregate management approach is suitable for the planned expansion. As it reaches critical mass we are better able to see trends enabling us to fine tune its underwriting and trading strategies. Written premiums increased to £39 million (2011: £32 million).

International

Our International underwriting platforms, which comprise our offices in Switzerland, Bermuda, US and Singapore, now contribute over 10% of the gross premiums written in our business units. I believe in the importance of being close to one's markets and by having a local presence we have additional insight into the trends and growth prospects for those regions.

Our Zurich platform led by Eric Gutiérrez, focused on Continental European reinsurance business, has been accessing business that traditionally was not placed in the London Market. Under the leadership of Steve Hartwig, our Bermuda profile continues to grow in the Excess Casualty area and we see further opportunities in 2013.

The acquisition of Omega brought us a US platform. Canopius US, headed up by Wayne Bates, underwrites property and casualty insurance on a surplus lines basis from its office in Chicago. It targets small-sized, commercial businesses via a network of general agents throughout the US and is eligible to underwrite in 50 US jurisdictions.

Our Singapore office, headed up by Linus Phoon, continues to capture opportunities in Asia Pacific and we will continue to invest in the region.

Our international hubs form an important part of our growth ambitions providing access to specialist business that does not naturally (or will not always) come to London. They provide additional geographic portfolio diversification and enable us to better manage the economic cycles which are increasingly regional in nature.

My ambitions for

CANOPIUS

> To be recognised as our clients' most trusted and value-added partner. Operating from Singapore – the key hub that draws the best clients and people in Asia. A dynamic environment in which our people succeed.

Martin Lee Underwriter/Manager, Canopius Asia

There was some impact from Sandy but results overall were good. Total written premiums were £78 million (2011: £51 million).

Investments

Canopius is, first and foremost, an underwriting business. Investment income is important but it comes second to underwriting profitability. Our decision in 2011 to diversify our portfolio mix and increase the risk profile in pursuit of higher returns paid off in 2012 as we have seen a strong improvement.

We achieved an investment return of £40 million, representing a yield of 3.8% on average cash and investment funds under management (2011: £3 million, 0.3%). The Group's investments and cash at 31 December 2012 were £1,411 million (2011: £1,048 million). The Group maintains a highly liquid investment portfolio ensuring that the great majority of funds are capable of being realised quickly.

The Group outperformed against its targets across most investment classes. The overall credit quality of investment assets remains high with 87% held in A– or better rated securities and the portfolio is considered appropriately matched to our liabilities.

Other income

Other income totalled £28.1 million (2011: £5.2 million) including a bargain gain of some £15.4 million representing largely the time value of money from the discounting of the insurance contract liabilities following the acquisition of Omega.

Claims and operations

We had a strong focus on claims excellence during 2012 and early in the year launched our PACE claims service principles which clearly describe what our customers, clients and brokers can expect and what we will deliver, whoever the claims handler, whatever the claim or class of business.

Partnership: We want to work together with our brokers and insureds so that all parties benefit from our claims service.

Accessibility: We do not want our relationships with brokers to be remote, we make ourselves accessible.

Culture: We employ experienced and empowered claims professionals who are committed to agreeing and paying valid claims quickly.

Efficiency: Our claims model is segmented, but integrated: the claims professionals can concentrate on adjusting claims and providing first class service whilst our Technical Claims Services team implement all the administrative functions. I am very proud of our claims team who have been rated top quartile by Lloyd's against various Lloyd's claims metrics that were introduced in 2012.

With the amazing effort of our employees who had worked on our Solvency II programme, we were able to see significant benefits during 2012. Our enhanced capital modelling capabilities enabled us to identify more effective business mixes that will enhance our profitability and to make better informed decisions on ceded reinsurance.

Our actuarial reserving function scored highly in an independent benchmarking exercise, which is a clear recognition of the calibre of our people.

Expenses

Underwriting and administrative expenses include commissions paid to brokers and expenses that are directly related to underwriting activities. These expenses as a percentage of net earned premiums decreased to 35.8% (2011: 37.6%) largely as a result of commission related expenses which fell to 26.5% (2011: 29.2%); other underwriting and administrative expenses, excluding foreign currency movements, also fell to 7.2% (2011: 8.0%).

Other operating expenses (non-underwriting) were £35.8 million (2011: £21.6 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. The increase in expenses is attributable to the addition of Omega and costs associated with the acquisition.

People and culture

People are at the heart of our vision: Canopius is the place where smart people are passionate about creating value. We believe in our senior leaders having "skin in the game" and our private ownership structure enables us to create equity-based incentives which act both as a powerful motivational tool and a unifying force.

We welcomed some 80 new employees from Omega and now employ 560 people across the globe with different backgrounds and experiences. They are connected by a shared understanding of what matters at Canopius.

This shared understanding promotes a common culture which is key to our success. We like to do things properly taking pride in our work and striving for excellence and professionalism in everything we do; integrity is a keystone for us. We achieve together taking a collegiate approach without egos or politics. We recognise the importance of a personal touch in relationships and service in a people industry and are serious about success.

Integrating a business the size of Omega alongside the regular job is tough and yet it was done smoothly and efficiently. I thank all our employees for their efforts to make the integration a success.

Inga Beale
Group Chief Executive Officer
26 March 2013

Directors and Professional Advisers

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

Secretary
Ogier Corporate Services (Guernsey) Limited

Registered office
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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 2012.

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 insurance and reinsurance through Canopius US Inc. ("CUS") and Canopius Reinsurance Limited ("CRL").

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 and the Chief Executive's Review on pages 2 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.

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

The Group's managing agent, CMA, is meeting the principles of all tests and standards for compliance with 'Solvency II' and anticipates being fully compliant with the relevant regulations when they come into force, expected to be January 2016 for regulated entities.

CRL has implemented policies, procedures and controls designed to ensure compliance with the Bermuda Insurance Code of Conduct, which was effective from 1 July 2011. CUS has implemented policies, procedures and controls designed to ensure compliance with the requirements of the Delaware Insurance Code and the National Association of Insurance Commissioners ("NAIC").

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 2012 are set out on pages 22 to 23 and those of the Company on page 70.

The directors do not recommend the payment of a dividend on any of the Company's shares (2011: £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 £85,122 (2011: £24,773).

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 2012, except Ian Owen and Michael Lee who were appointed on 28 March 2012 and 20 August 2012 respectively. Robert Law resigned as a director of the Company on 28 March 2012.

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

			At 31 December 2012	At 31 December 2011
	B Ordinary shares of no par value	C Ordinary shares of no par value	D shares of no par value	B Ordinary shares of £1 each[1]
Michael Watson	–	**4,552,329**	**185,280**	15,000
Ian Owen (appointed 28 March 2012)[2]	**100,724**	–	–	n/a
Robert Law (resigned 28 March 2012)	–	**n/a**	**n/a**	2,680

1 B Ordinary shares of a par value of £1 each were converted into C Ordinary and D shares of no par value on 20 August 2012. Note 26 to the financial statements describes the share restructure.

2 Mr Owen previously held 254 A Ordinary shares, 19,000 D shares and 6,000 E shares of a par value of £1 each, which were converted into 100,724 B Ordinary shares of no par value on 20 August 2012.

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 6 March 2013 and signed on its behalf on 26 March 2013 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 2012 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 2012, 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, the Chief Executive's 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
26 March 2013

	Note	**Year ended 31 December 2012 £'000**	Year ended 31 December 2011 £'000
Gross premiums written		**691,683**	615,594
Reinsurance to close premiums payable		**(1,658)**	(100)
Reinsurance premiums ceded		**(226,797)**	(163,448)
Net premiums written		**463,228**	452,046
Change in the provision for gross unearned premiums		**(13,733)**	(7,592)
Change in the provision for unearned premiums – reinsurers' share		**16,556**	17,399
Net change in the provision for unearned premiums		**2,823**	9,807
Earned premiums revenue, net of reinsurance		**466,051**	461,853
Investment return	4	**39,968**	3,280
Other income	5	**28,138**	5,219
Total income		**534,157**	470,352
Insurance claims and claims settlement expenses	6	**(412,726)**	(461,779)
Insurance claims and claims settlement expenses relating to reinsurance to close premiums payable		**1,658**	100
Insurance claims and claims settlement expenses recoverable from reinsurers	6	**131,689**	119,192
Net insurance claims		**(279,379)**	(342,487)
Underwriting and administrative expenses	7	**(165,786)**	(165,417)
Other operating expenses (non-underwriting)	8	**(35,772)**	(21,566)
Total expenses	8	**(201,558)**	(186,983)
Results of operating activities		**53,220**	(59,118)
Finance costs	11	**(5,405)**	(4,914)
Share of operating profit in joint venture	18	**680**	389
Profit/(loss) before tax		**48,495**	(63,643)
Tax	14	**(1,876)**	4,078
Profit/(loss) for the year		**46,619**	(59,565)
Attributable to:			
– Equity holders of the parent company		**46,617**	(59,435)
– Non-controlling interests		**2**	(130)
		46,619	(59,565)
– Employee interest in shares deemed cash settled	9	**1,899**	(1,552)
Total profit/(loss) to the shareholders		**48,518**	(61,117)

All the above amounts are derived from continuing operations.

The notes on pages 28 to 78 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	**Year ended 31 December 2012 £'000**	Year ended 31 December 2011 £'000
Profit/(loss) for the year		**46,619**	(59,565)
Other comprehensive income			
Currency translation differences	28	**(7,406)**	(226)
Total comprehensive income/(loss) recognised for the year		**39,213**	(59,791)
Attributable to:			
– Equity holders of the parent company		**39,211**	(59,661)
– Non-controlling interests		**2**	(130)
		39,213	(59,791)
– Employee interest in shares deemed cash settled	9	**1,899**	(1,552)
Total comprehensive income/(loss) recognised for the year to the shareholders		**41,112**	(61,343)

All the above amounts are derived from continuing operations.

The notes on pages 28 to 78 form part of these financial statements.

	Note	2012 £'000	2011 £'000
Assets			
Intangible assets	15	**30,027**	4,358
Property and equipment	19	**2,919**	4,905
Reinsurance assets	21	**538,324**	457,962
Deferred acquisition costs	22	**96,415**	70,733
Loans and receivables, including insurance receivables	23	**198,440**	154,015
Financial assets – carried at fair value through income	24	**1,189,339**	902,601
Cash and cash equivalents	25	**221,443**	145,702
Total assets		**2,276,907**	1,740,276
Liabilities			
Insurance contract liabilities	29/30	**1,755,553**	1,370,882
Trade and other payables, including insurance payables	31	**104,604**	75,343
Deferred tax liabilities	20	**4,483**	2,013
Tax liabilities	20	**72**	–
Borrowings: debenture loans	32	**45,869**	48,242
Total liabilities before employee interest in shares		**1,910,581**	1,496,480
Net assets before employee interest in shares		**366,326**	243,796
Employee interest in shares			
Employee owned shares deemed cash settled	10	**7,605**	5,901
Net assets after employee interest in shares		**358,721**	237,895
Equity			
Share capital	26	**187,890**	111,794
Share premium	27	**–**	1,899
Other reserves	27	**3,619**	2,083
Retained earnings	27	**166,270**	121,179
Equity attributable to equity holders of the parent	28	**357,779**	236,955
Non-controlling interest		**942**	940
Total equity		**358,721**	237,895
Analysis of shareholders' interests			
Equity attributable to equity holders of the parent		**357,779**	236,955
Employee interest in shares deemed cash settled	10	**7,605**	5,901
Non-controlling interest		**942**	940
Total shareholders' interests		**366,326**	243,796

These financial statements were approved by the Board of Directors on 6 March 2013 and signed on their behalf on 26 March 2013 by:

Roger Le Tissier
Director

Robert Alford
Director

The notes on pages 28 to 78 form part of these financial statements.

	Note	2012 £'000	2011 £'000
Fixed assets			
Shares in Group undertakings	16	**349,354**	185,485
Financial investments	24	**38,001**	34,135
		387,355	219,620
Current assets			
Amounts due from Group undertakings		**3,352**	2,324
Cash at bank		**10,176**	20,508
Prepayments and accrued income		**357**	36
		13,885	22,868
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		**82,897**	1,069
Other creditors		**770**	1,198
		83,667	2,267
Net current (liabilities)/assets		**(69,782)**	20,601
Total assets less current liabilities		**317,573**	240,221
Creditors – amounts falling due after more than one year			
Borrowings: debenture loans	32	**45,869**	48,242
Net assets before employee interest in shares		**271,704**	191,979
Employee interest in shares			
Employee owned shares deemed cash settled	10	**7,605**	5,901
Net assets after employee interest in shares		**264,099**	186,078
Capital and reserves			
Share capital	26	**187,890**	111,794
Share premium	27	**–**	1,899
Other reserves	27	**9,120**	178
Profit and loss reserve	27	**67,089**	72,207
Total shareholders' funds	28	**264,099**	186,078
Analysis of shareholders' funds			
Equity attributable to equity holders		**264,099**	186,078
Employee interest in shares deemed cash settled	10	**7,605**	5,901
Total shareholders' interests		**271,704**	191,979

These financial statements were approved by the Board of Directors on 6 March 2013 and signed on their behalf on 26 March 2013 by:

Roger Le Tissier
Director

Robert Alford
Director

The notes on pages 28 to 78 form part of these financial statements.

	Notes	Attributable to equity holders of the parent				Non-controlling interests £'000	Total Equity £'000
		Share reserve £'000	Other reserves[1] £'000	Retained earnings[2] £'000	Total £'000		
At 1 January 2011		113,556	2,309	181,691	297,556	1,070	298,626
Issue of shares and share issue costs		237	–	(237)	–	–	–
Purchase and cancellation of employee shares deemed cash settled		(95)	–	95	–	–	–
Purchase and cancellation of shares		(5)	–	(928)	(933)	–	(933)
Other		–	–	(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
At 1 January 2012		113,693	2,083	121,179	236,955	940	237,895
Issue of par value shares and share issue costs	27	680	–	(680)	–	–	–
Purchase and cancellation of employee shares deemed cash settled	27	(120)	–	120	–	–	–
Purchase and cancellation of shares	27	(6)	–	(966)	(972)	–	(972)
Issue of new no par value shares on 20 August 2012	27	73,650	–	–	73,650	–	73,650
Investment in capital reserve on 20 August 2012	27	–	8,935	–	8,935	–	8,935
Other movements	27	(7)	7	–	–	–	–
Total recognised comprehensive income/(loss) for the year	27	–	(7,406)	46,617	39,211	2	39,213
At 31 December 2012		**187,890**	**3,619**	**166,270**	**357,779**	**942**	**358,721**
Employee owned shares deemed cash settled	10						7,605
Total shareholders' interests at 31 December 2012							**366,326**

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

The notes on pages 28 to 78 form part of these financial statements.

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash flows from operating activities			
Cash (absorbed in)/generated from operations	34	**(26,428)**	12,360
Income tax received		**5,639**	11
Net cash (to)/from operating activities		**(20,789)**	12,371
Cash flows from investing activities			
Purchases less sales of financial assets		**103,841**	18,373
Acquisition of subsidiaries, net of cash acquired	17	**(99,814)**	(2,223)
Purchases less sales of property and equipment and intangible assets		**(2,679)**	(30)
Interest received		**22,879**	21,698
Net cash realised from investing activities		**24,227**	37,818
Cash flows from financing activities			
Interest paid		**(1,973)**	(1,972)
Proceeds from issue of shares, net of share issue costs		**82,975**	237
Purchase and cancellation of employee shares		**(1,852)**	(1,302)
Net cash inflow/(outflow) from financing activities		**79,150**	(3,037)
Net increase in cash and cash equivalents		**82,588**	47,152
Cash and cash equivalents at beginning of year		**145,702**	97,717
Effect of exchange rate changes on cash and cash equivalents		**(6,847)**	833
Cash and cash equivalents at end of year	25	**221,443**	145,702

The notes on pages 28 to 78 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 subsidiaries in USA and Bermuda. 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. At 31 December 2012, the Company had net current liabilities of £69.8 million, arising principally from liabilities to subsidiary companies. On 13 March 2013, following the receipt of special dividends and capital repayments of £127.6 million from Canopius Bermuda Limited and Canopius Holdings Bermuda Limited in connection with the transaction that followed the exercise of a merger option (see note 39), the Company repaid £83.2 million of these liabilities and restored its financial position to holding net current assets.

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 73 and 75. 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 results or financial position had the Group adopted IAS 33 or IFRS 8 in these consolidated financial statements.

1 Accounting Policies

(ii) Amendments to standards and IFRIC interpretations

All applicable standards, amendments to standards and IFRIC interpretations effective in 2012 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 or other local 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 assets acquired net of liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the 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.

1 Accounting Policies

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 with the acquisition of a new business. The scheme is closed to new entrants and has ceased accruing new benefits for current members. Any liability recognised in the consolidated 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"). 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 Consolidated Statement of 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, fair values attributed to acquired insurance contracts ("insurance contract intangible asset"), insurance policy renewal rights, syndicate participation rights, website and software development costs 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 identifiable assets net of liabilities and contingent liabilities of the acquired entity at the acquisition date. Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses.

Insurance contract intangibles represent the difference between the fair value of insurance contractual liabilities purchased from third parties usually as part of a company acquisition and the insurance contractual liabilities 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.

Insurance policy renewal rights represent 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.

1 Accounting Policies

Intangible assets relating to purchased syndicate participation rights are valued at cost at the date of acquisition. Syndicate participation rights acquired through a business combination are measured at fair value at the date of acquisition. Syndicate participation rights are considered to have an indefinite life and as such are subject to annual impairment testing. Impairment losses are included in the statement in the period in which they arise.

Software development costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Website and software development costs capitalised, including those acquired, are amortised on a straight line basis over their useful economic lives.

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

(l) Financial assets – Group and Company

The Company states financial assets at fair value.

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

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

(i) Financial assets at fair value through income

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

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

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

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

(ii) Loans and receivables

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

(iii) Derivative financial instruments

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

(m) Cash and cash equivalents – Group and Company

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

(n) Taxation – Group

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

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

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

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

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

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

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

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

(o) Borrowings – Group and Company

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

(p) Share capital – Group and Company

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

(q) Leases – Group

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

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

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

1 Accounting Policies

(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 employee share transactions is included in equity other than the credit associated with cash settled employee share transactions, which is included as a liability in the balance sheet. In the case of cash settled employee share transactions, the liability is re-measured at each period end at fair value, with any changes in fair value recognised in the Statement of Comprehensive Income for the period.

(s) Impairment of assets – Group and Company

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

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

(t) Critical accounting estimates and judgements in applying accounting policies – Group and Company

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

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

(u) Shares in Group undertakings – Company

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

(v) Comparatives

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

2 Management of insurance and financial risk

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

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

Risk governance

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

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

2 Management of insurance and financial risk

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 Actuarial, Compliance and Risk functions who provide oversight and challenge to the risk taking business and the first line of defence.

Risk reporting is through the Actuarial, Compliance and Risk 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. Syndicates 4444 and 958 divisional aggregate information is collated, analysed and reported by a central catastrophe management team to the Syndicate Management Committee. The Joint Active Underwriters report 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 has enhanced its approach to expressing risk appetite including more sophisticated methods of measuring exposure to catastrophe risk. This is an integral part of the development of the Group's Capital Capacity, Risk Appetite and Risk Limits ("CAL") Framework. The CAL framework has been implemented into the business planning process and directly addresses the risk preferences of the business.

The CAL framework enhances Canopius's risk and capital management by enabling it 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.

2 Management of insurance and financial risk

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.
Group risk	The potential impact of risk events, of any nature, arising in or from membership of a corporate group.

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 authority;
- 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.

2 Management of insurance and financial risk

Regular internal reporting is provided in Top 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 958, Syndicate 260, Canopius Reinsurance Limited and Canopius US Insurance, Inc. The Group owns a number of underwriting service companies and insurance intermediaries in the UK, Ireland, Switzerland, Bermuda, Singapore and Australia.

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, and the Boards of Canopius Reinsurance Limited and Canopius US Insurance, Inc., as applicable. From 1 January 2013, Syndicates 4444 and 958 are serviced by underwriters that split business written in accordance with percentages set for each class of business at the start of the underwriting year.

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.

2 Management of insurance and financial risk

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.

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.

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 2012, of the Group's gross claims reserves, £877 million (70%) were attributable to Syndicate 4444, £60 million (5%) to Syndicate 260, £257 million (20%) to Syndicate 958, £56 million (4%) to Canopius US Insurance, Inc. and Canopius Reinsurance Limited and £17 million (1%) to Canopius Bermuda Limited (excluding intra-group reinsurance liabilities).

2 Management of insurance and financial risk

The figures in the tables and footnotes below are presented at the exchange rates prevailing at 31 December 2012. 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, by inclusion of amounts arising from syndicates 958, 260 and other Group entities.

Underwriting year – Gross

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	Total £m
Estimate of ultimate claims costs:										
At end of period 1	187	257	205	288	329	306	325	322	363	2,582
At end of year 2	198	241	203	304	336	340	461	337	–	2,420
At end of year 3	191	235	198	308	337	327	464	–	–	2,060
At end of year 4	190	234	193	308	341	322	–	–	–	1,588
At end of year 5	180	231	193	306	339	–	–	–	–	1,249
At end of year 6	179	232	189	304	–	–	–	–	–	904
At end of year 7	179	234	186	–	–	–	–	–	–	599
At end of year 8	180	232	–	–	–	–	–	–	–	412
At end of year 9	178	–	–	–	–	–	–	–	–	178
Current estimate of cumulative net claims	178	232	186	304	339	322	464	337	363	2,725
Cumulative payments to date	(170)	(214)	(174)	(260)	(270)	(213)	(283)	(137)	(29)	(1,750)
Gross claims outstanding	8	18	12	44	69	109	181	200	334	975
Unearned balance										(179)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)										8
Liabilities in respect of Syndicate 839's 2008 year of account (see (ii) below)										113
Other liabilities (see (iii) below)										12
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses										929
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses										877
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iv) below)										60
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see (v) below)										257
Liabilities in respect of Canopius US Insurance Inc. and Canopius Reinsurance Limited third party reinsurance (see (vi) below)										56
Liability in respect of Canopius Bermuda Limited (a group entity until disposal on 13 March 2013)										17
Corporate and other adjustments (see (vii) below)										(7)
Total liability included in the balance sheet (note 30)										1,260

2 Management of insurance and financial risk

Underwriting year – Net

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	Total £m
Estimate of ultimate claims costs:										
At end of period 1	166	184	198	253	284	281	275	282	304	2,227
At end of year 2	166	180	184	268	284	293	350	296	–	2,021
At end of year 3	160	174	179	277	287	280	345	–	–	1,702
At end of year 4	153	172	176	277	285	270	–	–	–	1,333
At end of year 5	149	169	176	274	279	–	–	–	–	1,047
At end of year 6	149	169	173	269	–	–	–	–	–	760
At end of year 7	149	171	170	–	–	–	–	–	–	490
At end of year 8	149	169	–	–	–	–	–	–	–	318
At end of year 9	148	–	–	–	–	–	–	–	–	148
Current estimate of cumulative net claims	148	169	170	269	279	270	345	296	304	2,250
Cumulative payments to date	(140)	(153)	(158)	(233)	(230)	(199)	(236)	(131)	(28)	(1,508)
Net claims outstanding	8	16	12	36	49	71	109	165	276	742
Unearned balance										(156)
Liabilities in respect of Syndicates 1607 and 3786 (see (i) below)										7
Liabilities in respect of Syndicate 839's 2008 year of account (see (ii) below)										30
Other liabilities (see (iii) below										11
Total liability included in Syndicate 4444's balance sheet, excluding unallocated loss adjustment expenses										634
Group's share of Syndicate 4444's total liability, including unallocated loss adjustment expenses, before corporate member level quota share reinsurances										575
Group's share of Syndicate 260's total liability, including unallocated loss adjustment expenses (see (iv) below)										45
Group's share of Syndicate 958's total liability, including unallocated loss adjustment expenses (see (v) below)										232
Liabilities in respect of Canopius US Insurance Inc. and Canopius Reinsurance Limited third party reinsurance (see (vi) below										53
Liability in respect of Canopius Bermuda Limited (a group entity until disposal on 13 March 2013)										17
Corporate and other adjustments, including corporate member level quota share reinsurances (see (vii) below)										(50)
Total liability included in the balance sheet (note 30)										872

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 2012 being £8 million (2011: £18 million) gross and £7 million (2011: £14 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 2012 being £113 million (2011: £137 million) gross and £30 million (2011: £41 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 90% participation in Syndicate 260's 2012 year of account, 80% participation in its 2011 year of account and approximately 60% participation in 2010 and prior years' of account. Up to the closure of the 2010 and prior years on 1 January 2013, the Group was 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, 2011 and 2012 years of account at 31 December 2012 amounted to £34 million (2011: £16 million) gross and £28 million (2011: £8 million) net of reinsurance and net of related cumulative claims payments since 30 June 2010 of £30 million (2011: £12 million).

(v) The Group's share of Syndicate 958's liability is in respect of a 20% quota share by Canopius Reinsurance Limited (formerly Omega Specialty Insurance Company Limited) and in respect of the retained share of capacity by Omega Dedicated Limited, which was 50.9% for the 2012 year of account (40.5% for the 2011 and 38.8% for the 2010 year of account). The book values of the liability assumed at the date of acquisition on 20 August 2012 were £283 million gross and £239 million net of reinsurance recoveries.

(vi) This represents liabilities in respect of Canopius US Insurance, Inc. and the third party catastrophe reinsurance of Canopius Reinsurance Limited (excluding intra-group quota share reinsurances and the 20% quota share of Syndicate 958). These two entities were acquired by the Group on 20 August 2012 as part of the acquisition (see note 17).

(vii) 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 the Group's 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 2012 using the fair value hierarchy required by IFRS 7. 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.

2 Management of insurance and financial risk

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 2012

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Cash and cash equivalents	148,702	72,741	–	221,443
Debt securities and other fixed income securities	477,929	314,976	30,600	823,505
Holdings in collective investment schemes	278,812	87,022	–	365,834
Financial assets	**756,741**	**401,998**	**30,600**	**1,189,339**

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

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 2012, securities at a valuation of £31 million (2011: £23 million) have been classified as Level 3 under IFRS 7. This amount comprises £22 million (2011: £19 million) in AAA rated UK mortgage-backed floating-rate securities and £9 million (2011: £4 million) held in AA rated UK mortgage-backed floating-rate securities. Liability for derivative financial instruments of £0.4 million (2011: £0.3 million), classified as level 1, is included in trade and other payables in 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.

2 Management of insurance and financial risk

The following table presents the changes in Level 3 instruments for the year ended 31 December 2012:

	2012 £'000	2011 £'000
Opening balance at 1 January	**22,964**	18,263
Exchange losses on retranslation	**(95)**	(76)
Purchases during the year	**3,179**	6,612
Realised gains and losses recognised in income statement	**–**	136
Sales during the year	**(602)**	(556)
Unrealised gains/(losses) recognised in income statement	**5,154**	(1,415)
Closing balance at 31 December	**30,600**	22,964
Total gains/(losses) for the year included in income statement for assets held at the end of the year	**5,154**	(1,415)

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 £1.7 million (2011: £1.2 million) favourable to £2.3 million (2011: £1.7 million) unfavourable changes to profit for the year in the income statement.

(ii) Market price

The Group invests in a unitised absolute return fund which had exposure to price risk on investments in equities at 31 December 2012 of £10.6 million (2011: £17.5 million) and price risk to three Hedge funds of £3.5 million (2011: £5.0 million).

The Group has additional exposure to price risk on a portfolio of Hedge funds amounting to £44.1 million (2011: £44.6 million), 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 2012 was £823.5 million (2011: £456.7 million) with an average duration of around 2.0 (2011: 1.6) years. If interest rates were to rise or fall by 100 basis points at the balance sheet date, the fair value and therefore the profit after tax and equity would decrease or increase by £11.0 million (2011: £5.6 million). 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 2012 totalled £45.9 million (2011: £48.2 million). The floating rate Euro and US dollar loan notes bear interest respectively at 3-month EURIBOR and 3-month US 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 US 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 £0.4 million (2011: £0.4 million). The relationship between changes in profit and changes in basis points is linear.

2 Management of insurance and financial risk

(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 2012 was £445.6 million (2011: £237.2 million). 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 £6.9 million (2011: £4.1 million). The relationship between changes in profit and changes in basis points is linear.

(v) Exchange rates

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

At 31 December 2012

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Intangible assets	14,320	15,707	–	–	30,027
Property and equipment	2,622	244	53	–	2,919
Reinsurance assets	356,251	156,976	19,323	5,774	538,324
Deferred acquisition costs	49,318	42,719	2,518	1,860	96,415
Loans and receivables, including insurance receivables	95,408	80,180	15,824	7,028	198,440
Financial assets – carried at fair value through income	430,358	661,289	73,552	24,140	1,189,339
Cash and cash equivalents	126,016	86,940	4,391	4,096	221,443
Total assets	**1,074,293**	**1,044,055**	**115,661**	**42,898**	**2,276,907**

At 31 December 2012

	Sterling and other £'000	US dollar £'000	Euro £'000	Canadian dollar £'000	Total £'000
Insurance contract liabilities, excluding provision for unearned premiums	716,570	611,588	80,411	17,467	1,426,036
Provision for unearned premiums	130,413	178,333	12,724	8,047	329,517
Trade and other payables, including insurance payables	76,810	6,329	15,985	5,480	104,604
Tax liabilities, including deferred tax liabilities	2,764	1,791	–	–	4,555
Borrowings: debenture loans	–	36,309	9,560	–	45,869
Total liabilities before employee shares	926,557	834,350	118,680	30,994	1,910,581
Total Equity, including employee shares	147,736	209,705	(3,019)	11,904	366,326
	1,074,293	**1,044,055**	**115,661**	**42,898**	**2,276,907**

2 Management of insurance and financial risk

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

The effect of a 10% strengthening or weakening of exchange rates against Sterling would increase or decrease profit after tax and equity by approximately £27.8 million (2011: £8.2 million) for US dollar and approximately £0.4 million (2011: £0.9 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.

2 Management of insurance and financial risk

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 2012

	AAA £'000	AA £'000	A £'000	Other and/ or not rated £'000	Total £'000
Reinsurance assets	–	145,888	367,339	25,097	538,324
Debt and fixed income securities	588,737	62,717	145,796	26,255	823,505
Holdings in collective investment schemes	130,155	16,889	57,977	160,813	365,834
Cash and cash equivalents	83,311	20,162	116,274	1,696	221,443
Total	**802,203**	**245,656**	**687,386**	**213,861**	**1,949,106**

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

Reinsurance assets under 'other and/or not rated' include £1.7 million (2011: £3.5 million) due from BBB rated reinsurers and £13.6 million (2011: £14.3 million) held in collateralised deals. Holdings in debt and fixed income securities under 'other and/or not rated' of £26.3 million (2011: £13.7 million) are all BBB and below rated. The underlying investments in the 'other and/or not rated' holdings in collective investment schemes (that includes participation in investment pools) at 31 December 2012 comprised:

	2012 £'000	2011 £'000
Equities	**10,608**	17,451
Property Funds	**–**	33,144
A portfolio of hedge funds	**44,067**	44,630
BBB and below securities	**55,797**	21,783
Hedge Funds as part of an absolute return portfolio	**3,532**	4,961
A UCIT's fund on a look through basis:		
AAA securities	**7,233**	26,091
AA securities	**4,620**	18,394
A securities	**3,561**	15,003
BBB securities	**9,308**	28,089
Not rated securities	**8,335**	12,584
Equities	**13,752**	–
Total	**160,813**	222,130

Cash and cash equivalents under 'other and/or not rated' include £1.7 million (2011: £2.7 million) BBB rated securities in overseas deposits.

2 Management of insurance and financial risk

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 2012

	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	92%	4%	0%	0%	1%	3%	538,324
Loans and receivables,							
including insurance receivables	100%						198,440
Financial assets at fair value	100%						1,189,339

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

(c) Liquidity risk

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

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

The majority of the Group's investments are in highly liquid assets which could be converted into cash in a prompt fashion and at minimal expense. Cash and cash equivalents are generally bank deposits and money 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 2012 was as follows:

2 Management of insurance and financial risk

	Debt and other fixed income securities £'000	Holdings in collective investment schemes £'000	Cash and cash equivalents £'000	**2012 Total £'000**	2011 Total £'000
Less than one year	279,080	220,046	221,443	**720,569**	593,065
Between one and two years	208,110	26,964	–	**235,074**	48,712
Between two and five years	274,054	20,460	–	**294,514**	246,794
Over five years	62,261	26,405	–	**88,666**	59,546
	823,505	293,875	221,443	**1,338,823**	948,117
Other non-dated instruments	–	71,959	–	**71,959**	100,186
	823,505	365,834	221,443	**1,410,782**	1,048,303

The expected payment profile of gross insurance contract liabilities as at 31 December 2012 was as follows:

	2012 %	2011 %
Less than one year	**33**	40
Between one and two years	**20**	20
Between two and five years	**31**	28
Over five years	**16**	12
	100	100
Average	**2.8 years**	2.4 years

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

	2012 Years	2011 Years
Pound sterling	**2.0**	1.4
US dollar	**2.8**	1.7
Euro	**1.8**	1.4

Payment profile of the Group's borrowings (debenture loans) involves amounts due at the rate of approximately £1.9 million (2011: £2.0 million) for each of the next five years and a total of approximately £77.9 million (2011: £84.7 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")[1] and Lloyd's oversee a capital regime that requires companies to calculate their own capital requirements through an Individual Capital Assessment ("ICA")/Solvency Capital Requirement ("SCR"). Syndicates 4444, 958 and 260 maintain models in accordance with this regime and also prepare an Own Risk & Solvency Assessment ("ORSA") report.

1 The FSA will be replaced by two new regulatory bodies – the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). 'Legal cutover' is when the PRA and FCA will officially come into existence on 1 April 2013.

3 Capital management policies and objectives

There are seven key elements to Canopius's capital 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; the Lloyd's Integrated Capital Platform; prior years' ICA/SCRs; Syndicate Quantitative Impact Study ("QIS") results and the FSA published calculations based on industry ICA/SCR submissions; and
- Board understanding and challenge.

The ICA/SCR represents the equivalent of minimum regulatory capital, as is required by the FSA and Lloyd's, and does not represent the amount of economic capital required to support and maintain the Lloyd's ratings. The ICA/SCR 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 subsidiaries are required to maintain capital and surplus determined by the greater of a percentage of outstanding losses or net written premiums. They are also required to maintain a level of capital and surplus which is based on a statutory risk-based capital model. In addition, Canopius Reinsurance Limited (renamed from Omega Specialty Insurance Company Limited on 18 March 2013) and Canopius Bermuda Limited (a group entity until its disposal on 13 March 2013 – see note 39) utilise their capital to collateralise a significant proportion of their policy limits.

Canopius US Insurance, Inc. ("CUS") is domiciled in the state of Delaware and is required to maintain capital and surplus determined by the greater of the minimum under the Delaware Insurance Code of US$500,000 or the amount required by the National Association of Insurance Commissioners ("NAIC") risk-based capital standards. The NAIC's standards relate an insurer's reported capital and surplus to the risks inherent in its overall operations. In addition to its Delaware licence, CUS is eligible to write business on a non-admitted or surplus lines basis in the other 49 states and the District of Columbia. These jurisdictions have varying minimum capital and surplus requirements to maintain eligibility. The states of California and New York have the largest minimum requirement at US$45 million. Further, CUS maintains capital required by A.M. Best to support its current Financial Strength Rating of 'A-'.

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 parameterised 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 £517 million, comprising of total shareholders' interests of £366 million, senior debt of £46 million and a £105 million letter of credit facility (2011: £367 million, comprising of total shareholders' interests of £244 million, senior debt of £48 million and a £75 million letter of credit facility). Excluding intangible assets of £30 million (2011: £4 million) this is approximately £167 million (2011: £106 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 implemented a programme of initiatives to proactively engage with the challenges and opportunities that arise from the preparation for Solvency II. Although there is currently uncertainty about the implementation date of Solvency II, Canopius has continued to enhance its risk management processes and their enabling governance structures to ensure that Canopius can demonstrate Solvency II compliance. 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, as has Canopius US Insurance, Inc. to comply with the requirements of the Delaware Insurance Code and the NAIC.

4 Investment return

Investment return includes the following:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Investment income:		
Interest income on financial assets	**22,070**	21,112
Interest income on cash and cash equivalents	**809**	586
	22,879	21,698
Realised gains/(losses) on financial assets at fair value through income:		
Realised gains	**9,132**	9,097
Realised losses	**(8,058)**	(15,518)
Fair value gains/(losses) on financial assets at fair value through income:		
Fair value gains on other financial assets	**26,986**	6,971
Fair value losses on other financial assets	**(10,971)**	(18,968)
	39,968	3,280

5 Other income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Lloyd's underwriting agencies:		
Management fees	**1,088**	874
Profit commission	**1,305**	352
	2,393	1,226
Insurance services – commission and service fees	**6,813**	3,899
Excess of Group's interest in the net fair value of assets acquired through business combinations	**15,415**	–
Other	**3,517**	94
	28,138	5,219

6 Insurance claims and claims settlement expenses

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Gross		
Current year insurance claims and claims settlement expenses	**425,931**	473,394
Reduced cost for prior year insurance claims and claims settlement expenses	**(13,205)**	(11,615)
	412,726	461,779
Reinsurance		
Current year insurance claims and claims settlement expenses recoverable from reinsurers	**(113,941)**	(123,857)
(Increased)/reduced prior year insurance claims and claims settlement expenses recoverable from reinsurers	**(17,748)**	4,665
	(131,689)	(119,192)
Total net insurance claims and claims settlement expenses	**281,037**	342,587

7 Underwriting and administrative expenses

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Direct commission	**119,400**	122,739
Other underwriting and administrative expenses	**34,941**	35,308
Changes in deferred expenses for the acquisition of insurance contracts	**2,084**	7,187
Exchange losses	**9,361**	183
	165,786	165,417

8 Total expenses

Total expenses analysed by expense type were as follows:

Year ended 31 December 2012

	Underwriting and administrative expenses £'000	Other operating expenses (non-underwriting) £'000	**Total £'000**
Employee benefit expenses, including Directors' emoluments	29,115	14,172	**43,287**
Depreciation of property and equipment	1,261	1,359	**2,620**
Amortisation of intangible assets	(4,100)	979	**(3,121)**
Operating lease rentals and property related costs	2,735	1,673	**4,408**
Exchange losses	9,361	143	**9,504**
Other underwriting and administrative expenses	127,414	–	**127,414**
Other operating expenses	–	17,446	**17,446**
	165,786	35,772	**201,558**

Amortisation of intangible assets includes a credit with respect to prudential margins on unearned premium reserves, which is amortised in line with the earning of the premiums to which the margins included in the intangible asset relate.

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	–	136,300
Other operating expenses	–	7,364	7,364
	165,417	21,566	186,983

9 Directors' emoluments and employee benefit expenses

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

	Year ended 31 December 2012	Year ended 31 December 2011
Underwriting	**182**	168
Other agency, accounting and administration	**229**	192
Insurance services	**104**	101
	515	461

Employee benefit expenses were as follows:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Salaries and wages	**32,108**	27,942
Social security costs	**4,086**	3,849
Pension costs – defined contribution plans	**3,507**	3,020
Other benefits	**1,687**	1,167
Charge/(credit) for employee interest in shares deemed cash settled (note 10)	**1,899**	(1,552)
	43,287	34,426

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Aggregate emoluments	**1,066**	1,057
Group contributions paid to money purchase schemes in respect of qualifying services	**25**	253
Sums paid to third parties for directors' services	**52**	54

Retirement benefits accrued to 2 directors (2011: 2) under money purchase schemes.

Highest paid director

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Aggregate emoluments	**892**	682
Group contributions paid to money purchase schemes in respect of qualifying services	**15**	211

10 Share-based payments

Employee share transactions

The Company, from time to time, allows certain employees to purchase shares in the Company. On 20 August 2012, the Company reorganised its Ordinary and Other shares of par value into new Ordinary and Other shares of no par value (see note 26 for details).

Employee entitlement to receive fair value for C Ordinary shares of no par value, and D and E shares of no par value (2011: B, C and Y Ordinary shares of par value) normally vests over four years. There were no E shares of no par value in issue during or at the year end.

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. This basis is considered not to have changed following the conversion of par value shares to no par value shares as the terms and conditions relevant to the consideration of share-based payments have not altered.

10 Share-based payments

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 fair value of the Ordinary and Other shares of no par value is calculated in accordance with prescribed formulae for their valuation on an Exit event (defined as a sale, disposal, listing or winding up of the Company) and the liability for cash settled 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 liability for Employee owned shares deemed cash settled is £7,605,000 (2011: £5,901,000), of which £7,605,000 (2011: £5,471,000) is expected to be settled after more than one year. The amount charged/credited to the income statement in respect of the Employee owned shares deemed cash settled during the year is a charge of £1,899,000 (2011: credit of £1,552,000).

During the year, but prior to the share reorganisation on 20 August 2012, the Company issued shares to employees as follows:

- 2,514 (2011: 493) par value C Ordinary shares for £628,500 (2011: £187,664);
- 1,500 (2011: 175) par value Y Ordinary shares for £1,500 (2011: £28,525); and
- 49,800 (2011: 4,200) par value W2 shares for £49,800 (2011: £21,000).

The shares were issued at the directors' assessment of the fair value.

Prior to the share reorganisation, the Company also repurchased and cancelled the following shares, previously included in the liability for cash settled shares, for a total consideration of £446,669 (2011: £630,734):

- 1,495 (2011: 1,535) par value C Ordinary shares;
- 700 (2011: 350) par value Y Ordinary shares; and
- 16,800 W2 (2011: 8,400 W) par value shares.

On conversion of the existing par value shares at the directors' assessment of their fair value, the Company issued 13,836,218 C Ordinary shares of no par value and 657,937 D shares of no par value to employees.

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

Shares of par value	B Shares Number	C Shares Number	Y Shares Number	W2 Shares Number
Employee shares deemed cash settled				
At 1 January 2011	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
Issued in 2012, prior to 20 August 2012	–	2,514	1,500	49,800
Purchased and cancelled, prior to 20 August 2012	–	(1,495)	(700)	(16,800)
At 20 August 2012, shares of par value	2,280	16,697	4,700	112,800
Change on conversion to no par value shares (see below)	(2,280)	(16,697)	(4,700)	(112,800)
	–	–	–	–

Shares of no par value on conversion	C Shares Number	D Shares Number	E shares Number
Issued since conversion date and balance at 31 December 2012	**13,836,218**	**657,937**	**–**

11 Finance costs

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest expenses – debenture loans	**1,973**	1,972
Amortisation of issue costs of debenture loans	**36**	36
Fees for letters of credit in funds at Lloyd's	**3,056**	2,188
Other	**340**	718
	5,405	4,914

12 Group profit/(loss) before tax

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Group profit/(loss) before tax is stated after charging/(crediting) the following items:		
Depreciation of property and equipment (note 19)	**2,620**	3,199
Excess of Group's interest in the net fair value of assets acquired through business combinations (note 17)	**(15,415)**	–
Amortisation of intangible assets (note 15)	**(3,121)**	1,348
Operating lease rentals	**3,126**	2,750

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'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	**267**	96
Other services		
– audit fees payable for the audit of the Company's subsidiaries and managed syndicates	**1,069**	751
– services relating to tax	**208**	69
– services relating to corporate finance and other transactions	**648**	431
– services relating to Statement of Actuarial Opinion	**197**	194
– services relating to internal audit	**124**	–
– audit fees relating to Canopius pension schemes	**13**	5
	2,526	1,546

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 £37,000 (2011: £328,000) 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 various jurisdictions, including the United Kingdom, Switzerland, Bermuda, United States and Singapore.

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 other jurisdictions are immaterial to these financial statements.

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
UK tax:		
Current tax – current year	**(207)**	885
– prior year	**66**	(4,189)
Deferred tax – origination and reversal of temporary differences	**895**	(3,947)
– prior year	**–**	2,917
Non-UK tax	**1,122**	206
Other	**–**	50
Tax charge/(credit)	**1,876**	(4,078)
Tax credit above includes Group's share of joint venture's tax credit (note 18)	**–**	(853)
Factors affecting tax charge/(credit):		
Profit/(loss) before tax	**48,495**	(63,643)
UK tax at 24.5% (2011: 26.5%)	**11,881**	(16,865)
Income not subject to tax:		
Non-UK and other income not subject to tax	**(14,746)**	13,186
Reconciling items in relation to post acquisition results of Omega	**3,537**	–
Prior year losses not previously recognised in deferred tax	**–**	(1,874)
Prior year adjustments	**66**	(1,272)
Foreign taxes charged to corporate members	**1,122**	885
Reclassification	**–**	1,805
Other, including effect of change in UK tax rate	**16**	57
	1,876	(4,078)

A net deferred tax liability of £4.5 million (2011: £2.0 million) has been recognised (see note 20).

15 Intangible assets – Group

	Goodwill £'000	Insurance contract intangible asset £'000	Insurance policy renewal rights £'000	Syndicate participation rights £'000	Website and software development costs £'000	Computer software licences £'000	Total £'000
Cost							
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
At 1 January 2012	3,029	1,750	7,324	–	140	744	12,987
Additions	–	–	1,427	857	–	28	2,312
Acquired	–	11,500	–	7,500	1,489	–	20,489
Exchange difference	–	(201)	–	–	(52)	–	(253)
At 31 December 2012	**3,029**	**13,049**	**8,751**	**8,357**	**1,577**	**772**	**35,535**
Accumulated amortisation							
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
At 1 January 2012	–	1,095	7,010	–	44	480	8,629
Amortisation in the year	–	(3,822)	331	–	195	175	(3,121)
At 31 December 2012	**–**	**(2,727)**	**7,341**	**–**	**239**	**655**	**5,508**
Net book value							
At 31 December 2012	**3,029**	**15,776**	**1,410**	**8,357**	**1,338**	**117**	**30,027**
At 31 December 2011	3,029	655	314	–	96	264	4,358
Current	–	1,979	282	–	268	39	2,568
Non-current	3,029	13,797	1,128	8,357	1,070	78	27,459
	3,029	15,776	1,410	8,357	1,338	117	30,027

The time value of money, risk margin to unearned premium reserve and other related components of the insurance contract intangible asset run-off at different rates and are amortised according to their respective useful economic lives, and as such, the amount recognised may be a net benefit in some periods and a net expense in other periods. The useful economic life of the time value of money component is estimated as eight to twenty three years based on the expected run-off period of the claims arising from the portfolio of business when acquired. The useful economic life of risk margin to unearned premium reserve and other related components of the insurance contract intangible asset follow the settlement pattern of the related unearned premium reserve and charged/(credited) to underwriting and administrative expenses. The useful economic life of the insurance policy renewal rights is estimated as four to 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 between three and five years from the date the related website and software come into use. Intangible assets, other than risk margin to unearned premium reserves, goodwill and syndicate participation rights, are amortised over their useful economic lives and the charge is included in other operating expenses (non-underwriting) in the Income Statement.

The other intangible assets of goodwill and syndicate participation rights are deemed to have indefinite useful life as they are expected to have value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but annually tested for impairment in relation to the business units from where or for which they were acquired. Any impairment charge is included in other operating expenses (non-underwriting) in the Income Statement.

Goodwill is tested for impairment using projected cash flows based on financial budgets approved by the management and discounted at the rate of the Group's weighted average cost of capital. There were no impairments recognised in the current or prior year for goodwill.

15 Intangible assets – Group

Syndicate participation rights were acquired at fair value during the year through acquisition of Omega on 20 August 2012 (note 17) and subsequent purchases in the Lloyd's syndicate capacity auctions. Based on financial budgets approved by the management and discounted at the rate of the Group's weighted average cost of capital and comparison to recent capacity auction prices, the carrying value of this asset as recognised in the Balance Sheet is not considered to be impaired.

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.

	2012 £'000	2011 £'000
Balance at 31 December – Company	**349,354**	185,485

During the year, the Company invested a total of £163,869,000 in acquiring Omega Insurance Holdings Limited.

The subsidiaries of the Company at 31 December 2012, 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.

Subsidiaries	Principal activities	Country of incorporation
Canopius Holdings UK Limited	Investment Holding Company	England and Wales
Canopius Holdings Limited (note a below)	Investment Holding Company	Bermuda
Canopius Holdings Bermuda Limited (note b below)	Investment Holding Company	Bermuda
Canopius Bermuda Limited (note b below)	Reinsurance Company	Bermuda
Canopius Reinsurance Limited (note c below)	Reinsurance Company	Bermuda
Canopius US Insurance, Inc. (note c and j below)	Insurance Company	USA (Delaware)
Canopius Ireland Limited	Reinsurance Intermediary	Ireland
Canopius Managing Agents Limited	Managing Agent at Lloyd's	England and Wales
Omega Underwriting Agents Limited (note c below)	Managing Agent at Lloyd's	England and Wales
KGM Underwriting Agencies Limited (note d 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	Syndicate Service Company	England and Wales
Canopius Germany GmbH (note c below)	Syndicate Service Company	Germany
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	Insurance Intermediary	England and Wales
Resource Underwriting Pacific Pty Limited (note e below)	Insurance Intermediary	Australia
Trenwick Underwriting Limited	Insurance Intermediary	England and Wales
Canopius Services Limited	Group Service Company	England and Wales
Omega Administration Services Limited (note c below)	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

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

Subsidiaries	Principal activities	Country of incorporation
Canopius Capital Eleven Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Twelve Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Fourteen Limited	Lloyd's Corporate Member	England and Wales
Canopius Capital Fifteen Limited (note f below)	Lloyd's Corporate Member	England and Wales
Canopius Capital Sixteen Limited (note f 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
Omega Dedicated Limited (note c below)	Lloyd's Corporate Member	England and Wales
Omega Dedicated (No 2) Limited (note c below)	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
Canopius US Holdings, Inc. (note c below)	Holding Company	USA (Delaware)
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
Omega Underwriting Holdings Limited (note c below)	Holding Company	England and Wales
Look Insurance Services Limited	Non-trading	England and Wales
KDIB Holdings Limited	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
Canopius Mergerco, Inc. (note b and g below)	Dormant	USA (Delaware)
Condor 1 Corporation (note b and h below)	Dormant	USA (Delaware)
Condor 2 Corporation (note b and i below)	Holding Company	USA (Delaware)

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 has not traded since 2011.

(a) Canopius Holdings Limited, which was incorporated on 17 April 2012, is the surviving entity from its amalgamation with Omega Insurance Holdings Limited on 20 August 2012.

(b) Canopius Holdings Bermuda Limited, Canopius Bermuda Limited, Canopius Mergerco, Inc., Condor 1 Corporation and Condor 2 Corporation were sold on 13 March 2013 (see note 39).

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

(c) Omega Specialty Insurance Company Limited, Omega Underwriting Agents Limited ("OUAL"), Omega Administration Services Limited, Omega Dedicated Limited, Omega Dedicated (No 2) Limited, Omega Underwriting Holdings Limited, Omega US Insurance, Inc., Omega US Holdings, Inc. and Omega Europe GmbH were acquired by the Group on 20 August 2012 (note 17). Omega US Insurance, Inc. and Omega US Holdings, Inc. were renamed Canopius US Insurance, Inc. and Canopius US Holdings, Inc. respectively on 20 August 2012 and Omega Europe GmbH was renamed Canopius Germany GmbH on 15 November 2012. Omega Specialty Insurance Company Limited was renamed Canopius Reinsurance Limited on 18 March 2013. Additionally, OUAL was the Managing Agent of Syndicate 958 until 20 August 2012, being the effective date on which the managing agency function was novated to Canopius Managing Agents Limited. OUAL is not trading but will continue to be registered as a managing agent at Lloyd's until after the 2010, 2011 and 2012 years of account of Syndicate 958 have been reinsured to close.
(d) 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. These years were reinsured to close on 1 January 2013.
(e) The Group owns 75% of the ordinary shares of Resource Underwriting Pacific Pty Limited.
(f) Canopius Capital Fifteen Limited and Canopius Capital Sixteen Limited were incorporated on 21 September 2012.
(g) Canopius Mergerco, Inc. was incorporated on 2 April 2012.
(h) Condor 1 Corporation was incorporated on 25 July 2012.
(i) Condor 2 Corporation was incorporated on 25 July 2012.
(j) While the Group owns 100% of the non-voting ordinary shares of Canopius US Insurance, Inc. ("the entity"), all of its voting rights are owned by related parties (note 37). However, the Group is entitled to all the economic benefits of the entity and, in the opinion of the Board, the Group controls the entity for financial reporting purposes. The Group has therefore included the assets, liabilities and results of the entity in its consolidated financial statements from the date of acquisition, 20 August 2012.

17 Acquisitions

On 20 August 2012, Canopius Group Limited acquired the entire issued and to be issued share capital of Omega Insurance Holdings Limited ("Omega"), an international insurance and reinsurance group that was listed on the London Stock Exchange and domiciled in Bermuda, at a price of 67p per share. The acquisition was effected by means of an amalgamation under the Bermuda Companies Act between Omega and Canopius Holdings Limited, a wholly-owned subsidiary of Canopius Group Limited.

The acquisition was funded by a combination of new shares issued by Canopius Group Limited, funds raised from granting certain future transaction options to Tower Group, Inc., existing Group cash resources and an increase in the Group's letter of credit facility. The cost of the acquisition to the Group was a total consideration of £163,869,000, being 67p for each for the entire issued and to be issued shares. The consideration was settled for cash. The acquisition has enabled the Group to significantly increase its underwriting operations at Lloyd's and in the United States.

17 Acquisitions

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

Assets and liabilities acquired

	£'000
Assets	
Intangible assets (note 15)	20,489
Reinsurance assets	71,374
Loans and receivables, including insurance receivables	69,754
Financial assets – carried at fair value through income	397,567
Cash and cash equivalents	63,921
Other assets	20,011
Liabilities	
Insurance contract liabilities	(421,868)
Trade and other payables, including insurance payables	(40,784)
Other liabilities	(1,180)
Net assets acquired at provisional fair value	179,284

	£'000
Cost of acquisition – cash	163,735
Cost of acquisition – payable for outstanding options	134
Total consideration	163,869
Net assets acquired at provisional fair value as above	179,284
Excess of Group's interest in the provisional net fair value of assets acquired, included in other income in the consolidated income statement	15,415
Cash outflow from acquisitions	
Cost of acquisition – cash outflow	(163,735)
Cash and cash equivalents from acquired companies – cash inflow	63,921
	(99,814)

Excess of Group's interest in the provisional net fair value of assets acquired in aggregate of £15,415,000 over the consideration paid at the acquisition date is largely the time value of money from the discounting of the insurance contract liabilities.

Directly attributable acquisition costs of £4,644,000 have been expensed and are included, under IFRS 3 (revised), within other operating expenses (non-underwriting) in the consolidated income statement.

The Group's share of the post-acquisition earned premium, net of reinsurance, of £51,043,000 and loss after tax of £12,427,000 for the acquired Omega group are included in the consolidated income statement at 31 December 2012.

Accounting standards require a pro-forma summary for the Group presenting certain information as if the businesses had been acquired on 1 January 2012. Had the businesses been acquired on 1 January 2012, the consolidated income statement on a pro-forma basis would have included earned premium, net of reinsurance, of approximately £144,023,000 and loss after tax for the year of approximately £68,909,000 for the Group's share of the acquired businesses. 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 and is not necessarily indicative of the future results of the combined companies.

18 Interest in a joint venture

Canopius Holdings UK Limited ("CHUKL") holds 56% of the voting ordinary share capital, and 68.75% of the preference share capital of Arista Insurance Limited ("Arista"), a joint venture underwriting agency. As at 31 December 2012, CHUKL's total investment in Arista amounted to £10,016,000 (2011: £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 2012 have been included in these financial statements using the equity method of accounting.

The remaining 19% of the ordinary share capital of Arista is owned by employees of Arista.

Interest in joint venture consists of:

	2012 £'000	2011 £'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	**(5,401)**	(6,643)
Share of profits before tax for the year	**680**	389
Share of tax (charge)/credits for the year	**–**	853
Carrying amount in joint venture	**5,295**	4,615

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

	2012 £'000	2011 £'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	**(4,125)**	(4,805)
Carrying amount of investment in preference shares included in loans and receivables under IAS 39 (see note 23)	**5,295**	4,615
Total carrying amount in joint venture, due after more than one year	**5,295**	4,615

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 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
At 1 January 2012	9,145	339	1,056	3,953	14,493
Additions	180	–	207	–	387
Acquired	63	200	4	–	267
Disposals	–	(48)	(27)	–	(75)
At 31 December 2012	**9,388**	**491**	**1,240**	**3,953**	**15,072**
Accumulated depreciation					
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
At 1 January 2012	6,271	192	798	2,327	9,588
Charge for the period	1,989	53	151	427	2,620
Disposals	–	(30)	(25)	–	(55)
At 31 December 2012	**8,260**	**215**	**924**	**2,754**	**12,153**
Net book value					
At 31 December 2012	**1,128**	**276**	**316**	**1,199**	**2,919**
At 31 December 2011	2,874	147	258	1,626	4,905

20 Tax assets and liabilities

Deferred tax assets and liabilities – Group

A deferred tax liability of £4,483,000 (2011: £2,013,000) 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.

	2012 £'000	2011 £'000
Balance at 1 January	**(2,013)**	(3,507)
Timing differences relating to recognition of underwriting results and depreciation:		
– arising during the year	**(6,650)**	1,645
– utilised during the year	**5,908**	(1,063)
Acquired	**(947)**	55
Prior year adjustment	**–**	661
Other, including reduction in losses carried forward and reclassifications	**(781)**	196
Balance at 31 December	**(4,483)**	(2,013)

20 Tax assets and liabilities

The net deferred tax liability of £4,483,000 (2011: £2,013,000) comprises deferred tax liability of £14,940,000 (2011: £13,865,000) less deferred tax assets of £10,457,000 (2011: £11,852,000). £nil (2011: £nil) 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 £4,162,000 (2011: £240,000) in respect of trading losses that has not been recognised in these financial statements at 31 December 2012 as its recoverability is not certain based on prudential projections.

Tax liabilities – Group

Tax liabilities of £72,000 (2011: £ nil), of which £nil (2011: £nil) is overseas tax, are payable within 12 months.

21 Reinsurance assets – Group

	2012 £'000	2011 £'000
Reinsurers' share of claims outstanding (see note 30)	**388,787**	369,536
Reinsurers' share of unearned premiums (see note 30)	**79,642**	49,486
Debtors arising out of reinsurance operations (see note 30)	**69,895**	38,940
	538,324	457,962

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

22 Deferred acquisition costs – Group

	2012 £'000	2011 £'000
Balance at 1 January	**70,733**	70,451
Additions	**95,516**	66,460
Release	**(69,834)**	(66,178)
Balance at 31 December	**96,415**	70,733

23 Loans and receivables, including insurance receivables

	2012 £'000	2011 £'000
Insurance receivables – debtors arising out of direct insurance operations	**178,164**	127,504
Loans and receivables:		
Other debtors	**9,384**	14,984
Prepayments and accrued income	**5,597**	6,912
Carrying value of investment in preference shares in joint venture (see note 18)	**5,295**	4,615
	20,276	26,511
Loans and receivables, including insurance receivables	**198,440**	154,015

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

	2012 £'000	2011 £'000
Within one year	**188,918**	146,847
After one year	**9,522**	7,168
	198,440	154,015

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:

	2012 £'000	2011 £'000
Financial assets at fair value through income	**1,189,339**	902,601
Derivative financial instruments (see below)	**–**	–
	1,189,339	902,601

Financial assets at fair value consist of:

	Valuation 2012 £'000	Valuation 2011 £'000	Cost 2012 £'000	Cost 2011 £'000
Debt securities and other fixed income securities	**823,505**	456,655	**813,994**	457,743
Holdings in collective investment schemes	**365,834**	445,946	**355,358**	455,483
At 31 December	**1,189,339**	902,601	**1,169,352**	913,226

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 £406,000 (2011: £274,000) is included in 'trade and other payables' in 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 of £38,001,000 (2011: £34,135,000) consist of holdings in collective investment schemes at market value of £17,789,000 (2011: £34,135,000) and cost of £17,695,000 (2011: £35,928,000) and debt securities and other fixed income securities at market value of £20,212,000 (2011: £nil) and cost of £20,613,000 (2011: £nil).

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

25 Cash and cash equivalents – Group

	2012 £'000	2011 £'000
Cash at bank and in hand	**127,040**	61,833
Short-term bank deposits – Overseas deposits	**94,403**	83,869
	221,443	145,702

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 £124,525,000 (2011: £127,526,000) 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 2011 number	Changes in authorised capital number	At 31 December 2012 number
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	8,000	(8,000)	–
72,000 Z Ordinary shares of £5 each	72,000	(72,000)	–
31,766,961 A Ordinary shares of no par value	–	31,766,961	**31,766,961**
250,468,540 B Ordinary shares of no par value	–	250,468,540	**250,468,540**
13,836,218 C Ordinary shares of no par value	–	13,836,218	**13,836,218**
Ordinary share total	386,750	295,684,969	**296,071,719**
21,236,871 D shares of £1 each	21,236,871	(21,236,871)	–
7,202,100 E shares of £1 each	7,202,100	(7,202,100)	–
10,064,868 F shares of £1 each	10,064,868	(10,064,868)	–
15,000,000 G shares of £1 each	15,000,000	(15,000,000)	–
1,728,000 W1 shares of £5 each	1,728,000	(1,728,000)	–
192,000 W2 shares of £5 each	192,000	(192,000)	–
14,000,000 X shares of £5 each	14,000,000	(14,000,000)	–
1,315,874 D shares of no par value	–	1,315,874	**1,315,874**
31,580,976 E shares of no par value	–	31,580,976	**31,580,976**
Other share total	69,423,839	(36,526,989)	**32,896,850**
	69,810,589	259,157,980	**328,968,569**

26 Share capital

Allotted, issued and fully paid:

	At 31 December 2011 number	Changes in Issued capital number	**At 31 December 2012 number**
244,050 A Ordinary shares of £1 each	244,050	(244,050)	**–**
30,615 B Ordinary shares of £1 each	30,615	(30,615)	**–**
15,678 C Ordinary shares of £1 each	15,678	(15,678)	**–**
3,900 Y Ordinary shares of £5 each	3,900	(3,900)	**–**
54,000 Z Ordinary shares of £5 each	54,000	(54,000)	**–**
31,766,961 A Ordinary shares of no par value	–	31,766,961	**31,766,961**
250,468,540 B Ordinary shares of no par value	–	250,468,540	**250,468,540**
13,836,218 C Ordinary shares of no par value	–	13,836,218	**13,836,218**
Ordinary share total	348,243	295,723,476	**296,071,719**
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)	**–**
1,296,000 W1 shares of £5 each	1,296,000	(1,296,000)	**–**
79,800 W2 shares of £5 each	79,800	(79,800)	**–**
10,500,000 X shares of £5 each	10,500,000	(10,500,000)	**–**
657,937 D shares of no par value	–	657,937	**657,937**
Other share total	63,711,370	(63,053,433)	**657,937**
	64,059,613	232,670,043	**296,729,656**
Share capital	£111,794,413	£76,095,178	**£187,889,591**

On 23 April 2012, a Special Resolution was passed which allowed, upon the acquisition of Omega Insurance Holdings Limited ("Omega") on 20 August 2012, the re-designation by the Company of all classes of the authorised and issued shares of par values into various new classes of no par value shares. This resulted in the re-designation of the Company's shares as follows:

- 244,050 issued A Ordinary shares of £1 each, 21,075,570 issued and 161,301 unissued D shares of £1 each, 5,760,000 issued and 1,442,100 unissued E shares of £1 each, 10,000,000 issued and 64,868 unissued F shares of £1 each, 15,000,000 issued G shares of £1 each, 1,296,000 issued and 432,000 unissued W1 shares of £5 each, 10,500,000 issued and 3,500,000 unissued X shares of £5 each and 54,000 issued and 18,000 unissued Z Ordinary shares of £5 each into 216,152,379 issued B Ordinary shares of no par value;
- 27,215 issued and 14,080 unissued B Ordinary shares of £1 each and 16,697 issued and 4,708 unissued C Ordinary shares of £1 each into 13,326,792 issued C Ordinary shares of no par value and 542,401 issued D shares of no par value; and
- 112,800 issued and 79,200 unissued W2 shares of £5 each and 4,700 issued and 3,300 unissued Y Ordinary shares of £5 each into 509,426 issued C Ordinary shares of no par value and 115,536 issued D shares of no par value.

During the year, and prior to the acquisition of Omega on 20 August 2012, the Company issued shares as follows:

- 2,514 (2011: 493) C Ordinary shares of £1 each for a total consideration of £628,500 (2011: £187,664); and
- 1,500 (2011: 175) Y Ordinary shares of £5 each for a total consideration of £1,500 (2011: £28,525); and 49,800 W2 (2011: 4,200 W) shares of £5 each for a total consideration of £49,800 (2011: £21,000).

During the same period, the Company repurchased the following shares for a total consideration of £1,419,069 (2011: £ 1,563,374):

- 3,400 (2011: 2,680) B Ordinary shares of £1 each;
- 1,495 (2011: 1,535) C Ordinary shares of £1 each;
- 16,800 W2 (2011: 8,400 W) shares of £5 each; and
- 700 (2011: 350) Y Ordinary shares of £5 each.

£nil (2011: £429,550) of the consideration for the repurchase of the shares was outstanding at the balance sheet date and included in employee interest in shares liability.

26 Share capital

Upon the acquisition of Omega on 20 August 2012, the Company issued 31,766,961 A Ordinary shares of no par value to Tower Group, Inc. ("Tower") for total consideration of £38,650,000 (£32,400,000 and US$10,000,000) and 34,316,161 B Ordinary shares of no par value to an investment fund managed by Bregal Capital LLP for a consideration of £35,000,000.

Each of the A, B, C, D and E shares of no par value 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 C shares entitle the holders to attend and vote at general meetings. A, B and C 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, the holders of the A, B, C and E shares receive a priority amount of £1 per share 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, the holders of the D shares are entitled to up to 10% of any remaining surplus assets, with the remaining 90% or more being distributed to the holders of the A, B and C shares, pro-rata to the shares in issue, in accordance with a prescribed formula.

The A, B and C shares of no par value (2011: A, B, C, Y and Z shares of a par value) are classified as Ordinary, and D and E shares of no par value (2011: D, E, F, G, W1, W2 and X shares of a par value) 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 on a return of assets under the above share rights as at 31 December 2012. None of the shares are redeemable.

	Group 2012 £'000	Group 2011 £'000
Ordinary shareholders' funds	**328,606**	65,399
Other shareholders' funds	**6,751**	173,099
Total shareholders' funds, excluding intangible assets and including shares deemed cash settled	**335,357**	238,498

27 Share capital, share premium and other reserves

Group

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2012	111,794	1,899	2,083	121,179
Issue of par value shares and share issue costs (prior to 20 August 2012)	54	626	–	(680)
Purchase and cancellation of employee shares deemed cash settled	(89)	(31)	–	120
Purchase and cancellation of shares	(3)	(3)	–	(966)
Issue of new no par value shares on 20 August 2012 (note 26)	73,650	–	–	–
Capital reserve	–	–	8,935	–
Revaluation losses	–	–	(7,406)	–
Transfer of share premium to no par value share capital account and other reserves	2,484	(2,491)	7	–
Retained profit for the year	–	–	–	46,617
At 31 December 2012	**187,890**	**–**	**3,619**	**166,270**

27 Share capital, share premium and other reserves

Other reserves include Revaluation reserve of £1,815,000 and Capital Redemption reserve of £178,000 at both 31 December 2012 and 2011, a Currency Translation reserve of (£7,316,000) (2011: £90,000) and a new capital reserve consisting of US$14 million (£8,935,000) of investment from Tower on 20 August 2012, which was a consideration for the right to effect certain future transactions (see note 37). This investment is not repayable if any subsequent failure to effect the transactions is caused by factors outside the control of the Company. As this contingent settlement event is within the control of the Company such that actions can be taken to avoid the event occurring, it has been classified as a capital reserve.

Company

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss reserve £'000
At 1 January 2012	111,794	1,899	178	72,207
Issue of par value shares and share issue costs (prior to 20 August 2012)	54	626	–	(680)
Purchase and cancellation of employee shares deemed cash settled	(89)	(31)	–	120
Purchase and cancellation of shares	(3)	(3)	–	(966)
Issue of new no par value shares on 20 August 2012 (note 26)	73,650	–	–	–
Capital reserve	–	–	8,935	–
Transfer of share premium to no par value share capital account and other reserves	2,484	(2,491)	7	–
Retained loss for the year	–	–	–	(3,592)
At 31 December 2012	**187,890**	**–**	**9,120**	**67,089**

28 Reconciliation of movements in shareholders' funds

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Balance at 1 January	**236,955**	297,556	**186,078**	186,947
Issue of par value shares, including share premium, prior to 20 August 2012	**680**	237	**680**	237
Purchase and cancellation of employee shares deemed cash settled	**(120)**	(95)	**(120)**	(95)
Reclassification to liability – included in employee interest in shares	**(560)**	(142)	**(560)**	(142)
Purchase and cancellation of shares	**(972)**	(933)	**(972)**	(933)
Issue of new no par value shares on 20 August 2012 (note 26)	**73,650**	–	**73,650**	–
Increase in capital reserve	**8,935**	–	**8,935**	–
Decrease in currency translation reserve	**(7,406)**	(226)	**–**	–
Other	**–**	(7)	**–**	1
Retained profit/(loss)	**46,617**	(59,435)	**(3,592)**	63
Balance at 31 December	**357,779**	236,955	**264,099**	186,078

29 Insurance contract liabilities

	2012 £'000	2011 £'000
Claims outstanding (see note 30)	**1,260,446**	1,001,512
Provision for unearned premiums (see note 30)	**329,517**	238,689
Creditors arising out of reinsurance operations (see note 30)	**165,590**	130,681
	1,755,553	1,370,882

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 2011	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
Acquired	323,542	79,779	18,547	421,868
Movement in the year	(54,451)	13,183	11,588	(29,680)
Exchange and other adjustments	(10,155)	(2,134)	4,774	(7,515)
At 31 December 2012	**1,260,446**	**329,517**	**165,590**	**1,755,553**
Reinsurance assets				
At 1 January 2011	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
Acquired	47,553	7,421	16,400	71,374
Movement in the year	(27,122)	22,920	14,865	10,663
Exchange and other adjustments	(1,180)	(185)	(310)	(1,675)
At 31 December 2012	**388,787**	**79,642**	**69,895**	**538,324**

Creditors arising out of reinsurance operations of £165,590,000 (2011: £130,681,000) 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 £69,895,000 (2011: £38,940,000) comprise principally amounts receivable from reinsurers in respect of paid claims and brokers' balances receivable on inwards reinsurance business.

30 Insurance contract liabilities and reinsurance assets

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

	2012 £'000	2011 £'000
Gross		
Notified claims outstanding and loss adjustment expenses	**925,203**	683,132
Claims incurred but not reported	**335,243**	318,380
	1,260,446	1,001,512
Recoverable from reinsurers		
Notified claims outstanding and loss adjustment expenses	**301,095**	259,924
Claims incurred but not reported	**87,692**	109,612
	388,787	369,536
Net		
Notified claims outstanding and loss adjustment expenses	**624,108**	423,208
Claims incurred but not reported	**247,551**	208,768
	871,659	631,976

It is estimated using historical settlement trends that £411 million (2011: £418 million) of the gross claims outstanding and £304 million (2011: £101 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

	2012 £'000	2011 £'000
Insurance payables – creditors arising out of direct insurance operations	**16,470**	16,767
Trade and other payables:		
Other creditors including taxation and social security	**55,588**	37,442
Accruals and deferred income	**32,140**	20,860
Derivative financial instruments	**406**	274
	88,134	58,576
Trade and other payables, including insurance payables	**104,604**	75,343

Trade and other payables include £4,123,000 (2011: £3,914,000), 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 £406,000 (2011: £274,000).

32 Borrowings: debenture loans – Group and Company

	2012 £'000	2011 £'000
Due in more than five years		
Floating rate Euro loan notes	**9,560**	9,888
Floating rate US Dollar loan notes	**36,309**	38,354
	45,869	48,242

The floating rate Euro loan stock of €12 million bears interest at 3-month EURIBOR plus 4%, and is redeemable at par between December 2009 and December 2034. There are three floating rate US Dollar loans of $20 million each. One bears interest at 3-month US LIBOR plus 3.3%, and is redeemable at par between June 2010 and June 2035, one bears interest at 3-month US LIBOR plus 3.6%, and is redeemable at par between July 2010 and July 2035, and one bears interest at 3-month US 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 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 2012 by a qualified independent actuary. The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2012 % per annum	2011 % per annum
Discount rate	**4.5**	4.7
Expected long-term rate of return of scheme assets	**3.1**	3.5
Increase in salaries	**n/a**	n/a
Inflation assumptions	**2.9**	2.8
LPI pension increases (capped at 5% per annum)	**2.9**	2.8

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 2012 by Canopius Services Limited, a subsidiary of the Group and current sponsor of the scheme, were the present value of the scheme liabilities of £8,479,000 (2011: £8,516,000) and market value of scheme assets of £9,207,000 (2011: £9,382,000), leading to a surplus of £728,000 (2011: £866,000) 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 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 2012.

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit/(loss) before tax	**48,495**	(63,643)
Interest received	**(22,879)**	(21,698)
Interest paid	**1,973**	1,972
Net fair value gains on investments, including currency translation differences	**6,988**	(2,145)
Charge/(credit) for cash-settled share-based payments	**1,899**	(1,552)
Increase in debtors, prepayments and accrued income	**(648)**	(17,673)
Increase in creditors	**2,332**	53,758
(Decrease)/increase in net claims and unearned premium reserves	**(47,992)**	59,183
Depreciation of property and equipment	**2,620**	3,199
Amortisation of intangible assets	**(3,121)**	1,348
Excess of Group's interest in the net fair value of assets acquired through business combinations	**(15,415)**	–
Share of profits from joint venture	**(680)**	(389)
Cash (absorbed in)/generated from operations	**(26,428)**	12,360

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 2012 Land and buildings £'000	**Group 2012 Equipment £'000**	Group 2011 Land and buildings £'000	Group 2011 Equipment £'000
Not later than one year	**3,410**	**228**	2,931	195
Later than one year but not later than five years	**9,623**	**215**	9,456	196
Later than five years	**–**	**4**	–	–
	13,033	**447**	12,387	391

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, £1,112,645,000 (2011: £935,920,000) 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 £982,453,000 (2011: £808,394,000) are financial assets and the balance is cash and cash equivalents.

(b) Deeds of Indemnity

The Company has entered into two (2011: three) Deeds of Undertaking and Guarantee with third party funds at Lloyd's ("FAL") providers on behalf of Canopius Capital Five Limited and Canopius Capital Twelve Limited (2011: Canopius Capital Five Limited, Canopius Capital Twelve Limited and Flectat Limited), all subsidiary companies, to cover the potential liabilities in the event that the third party FAL providers' FAL amounting respectively to £17,709,734 and £7,290,435 (2011: £10,000,000, £5,500,000 and £20,000,000) are drawn to meet an obligation which falls outside of the terms of the FAL provision arrangement.

36 Guarantees and contingencies

During 2012, a subsidiary company, Canopius Holdings UK Limited ("CHUKL"), has entered into one (2011: three) new Deeds of Indemnity with Lloyd's, bringing the total to thirteen (2011: twelve). Three (2011: two) of the Deeds relate to reorganisations of the Group's corporate members, who are underwriting on Syndicates 260, 958 and 4444. The other ten (2011: ten) Deeds are to cover remote potential liabilities that may arise following the release by Lloyd's between 2006 and 2012 of various members' FAL.

The Company has given a guarantee to a third party with respect to a services contract entered into by Canopius Services Limited.

(c) Bank facilities

As at 31 December 2012, the Group had the following facility available to it for letters of credit which may be deposited in FAL:

- £105.0 million (2011: £75.0 million) unsecured, with £105.0 million (2011: £71.0 million) utilised, which is available to support underwriting on Syndicate 260's 2011, 2012 and 2013 years of account, Syndicate 958's 2013 year of account and Syndicate 4444's 2011, 2012 and 2013 years of account, £82.5 million of which is additionally available to support underwriting on Syndicate 4444's 2010 year of account, with the remaining £22.5 million additionally available to support underwriting on Syndicate 958's 2012 and prior years of account, at a cost of between 2.00% and 2.20% (2011: 2.75%) per annum on the utilised portion and 0.75% (2011: 0.75%) per annum on the unutilised portion.

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

- US$10.6 million (2011: US$25.0 million) to be used as collateral to support the company's underwriting, of which US$5.5 million (2011: US$20.0 million) was utilised. The company pledged structured deposits with a value at 31 December 2012 of US$11.7 million (2011: US$27.1 million) to secure the letters of credit. The Company was sold on 13 March 2013 (see note 39).

Omega Specialty Insurance Company Limited, renamed Canopius Reinsurance Limited ("CRL") on 18 March 2013, deposited letters of credit totalling US$14.9 million and Canadian$0.1 million respectively with various US cedants and a Canadian cedant. Should CRL fail to meet its obligations under contracts with these cedants they would be able to drawdown on these letters of credit. The letters of credit facilities are all secured by a charge over certain of CRL's bank deposits totalling US$18.2 million.

(d) Preference shares

A subsidiary company, Flectat Limited, has issued a further £11,000 (2011: £5,632,200) in preference shares, consisting of 110 (2011: 56,322) shares at £100 per share, during 2012 to a third party in exchange for the transfer to Flectat Limited of the beneficial ownership of funds at Lloyd's in the amount of £11,000 (2011: £5,632,000). The shares are redeemable only out of net assets arising in Flectat Limited's Fund 1. Flectat Limited's assets and liabilities are ring-fenced into "Fund 1" and "Fund 2", representing net assets arising from certain 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 Fund 1, for which CHUKL has received indemnities and undertakings from third parties, supported by collateral where appropriate. At the balance sheet date, Fund 1 had net assets of £nil and from 1 January 2013 the relevant policy liabilities and premium trust funds are liabilities and assets of Fund 2, following the reinsurance to close of that business into the 2011 underwriting year. Accordingly, the directors consider the probability of net assets arising in the future in Fund 1 to be remote and the preference shares have been valued at £nil.

(e) Other contingent liabilities

A subsidiary company, CHUKL, provided during 2011 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 eight (2011: four) persons at 31 December 2012, increasing to eight with effect from 12 April 2012. One (2011: two) of the key management persons is a director of the Parent Company. Details of the remuneration of the Group's key management personnel, including the one (2011: two) director 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 2012 £'000	Year ended 31 December 2011 £'000
Short-term employment benefits	**4,934**	2,172
Post-employment benefits	**256**	314
Share-based payments	**202**	–

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 (2011: £4,999) of which £3,749 (2011: £3,750) was outstanding as at 31 December 2012. A similar season ticket loan made to a new member of key management during the year amounted to £2,912 of which £458 was outstanding on becoming a key management personnel and £1,456 as at 31 December 2012.

Directors' and key management personnel's interests in shares

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

During the year and prior to the re-designation of shares, members of key management subscribed in total for 2,024 C Ordinary shares of £1 each, 1,500 Y Ordinary shares of £5 each and 36,000 W2 shares of £5 each for a total consideration of £543,500.

Transactions with the joint venture

During the year, Arista Insurance Limited ("Arista"), a joint venture of the Group, was paid commission of £5,944,000 (2011: £4,819,000) by Syndicate 4444 on gross premiums written for the syndicate. At 31 December 2012 commission of £342,000 (2011: £306,000) was payable to Arista. Profit commission paid by Syndicate 4444 to Arista amounted to £861,000 (2011: 348,000) during the year with an amount payable of £75,000 (2011: £496,000) at 31 December 2012. Interest payable by Arista to the Group in respect of short-term loan balances, amounted to £nil (2011: £1,229). A non-interest bearing term loan facility until 31 March 2013, repayable by the Company to Arista, amounted to £600,000 (2011: £nil) at 31 December 2012.

Transactions with other related parties, including directors of the Company

Bregal Capital LLP, which manages the funds of the majority shareholders of the Company, receives an annual monitoring fee of £50,000 (2011: £50,000). Mr Adam Barron, a director of the Company, is a partner of Bregal Capital LLP.

Tower Group Inc. ("Tower"), which owns 10.7% of the Ordinary shares in issue at 31 December 2012, invested US$14 million in the Company on 20 August 2012 for a merger option (see note 39), and for assisting Tower in the future to establish a greater presence at Lloyd's, which may include a Lloyd's syndicate and a managing agency for Tower. Details of the agreements are set out in a Master Transaction Agreement between the Canopius Group and Tower. A copy of the Master Transaction Agreement is filed on Tower's website, twrgrpintl.com, under SEC filings on 25 April 2012. Tower paid the Merger Exercise Price of US$1 million to the Company on 31 July 2012 on electing to effect the merger, which was effected on 13 March 2013. This amount, together with an amount of US$0.5 million due from Tower at 31 December 2012, was utilised to cover related expenses. Mr Michael Lee, a director of the Company, is Chairman, President and Chief Executive Officer of Tower Group International, Ltd., the indirect parent of Tower.

37 Related party transactions

Two of the Group's subsidiaries, Canopius Capital Eleven Limited ("CC11L") and Flectat Limited ("Flectat"), had quota share reinsurance arrangements in place when Tower became a related party to the Group on 20 August 2012. For the 2012 underwriting year of account, 100% of CC11L's underwriting was ceded to Tower such that CC11L retained no underwriting risk. The net result to Tower in respect of the contract as at 31 December 2012 is a loss of £244,951 which is the amount due to CC11L as at that date. On 13 March 2013, the quota share arrangement was commuted by an agreement between CC11L and Tower such that CC11L retains 100% of the underwriting risk. Under the agreement, Tower has undertaken to pay CC11L £244,951 following the closure of the 2012 underwriting year of account. In respect of Flectat, under the terms of the quota share reinsurance arrangements, 8.62% of business earned from 1 July 2011 onwards on the 2011 underwriting year of account of Syndicate 4444 was ceded to Tower. The net result to Tower in respect of the contract as at 31 December 2012 is a profit of £892,445 which is the amount due to Tower as at that date. On 13 March 2013, the quota share arrangement was commuted by an agreement between Flectat and Tower. Under the agreement, Flectat has undertaken to pay Tower £892,445 following closure of the 2011 underwriting year of account.

Guy Carpenter performs insurance services for Canopius Group Companies and for third parties conducting business with Canopius Group Companies. The services are all provided on a commercial arms' length fee basis. The lead Guy Carpenter executive in respect of certain of these services, for which Canopius Group Companies paid Guy Carpenter fees amounting to £245,000 (2011: £180,000), is the partner of Mr Michael Watson, a director and shareholder of the Company.

Voting rights in Canopius US Insurance, Inc., an entity the Group controls, are owned 85.6% by Visby Limited, 9.9% by Tower and 4.5% by Sunny Magic Ltd. Visby Limited and Sunny Magic Ltd. are respectively owned 100% by Mr Adam Barron and Mr Michael Watson, both of whom are directors of the Company.

38 Ultimate parent undertaking and controlling party

84.6% (2011: 85.4%) of the Ordinary shares in issue at 31 December 2012 in the Company were held by seven (2011: 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 13 March 2013, Canopius Holdings Bermuda Limited ("CHBL") and its subsidiaries, Canopius Bermuda Limited ("CBL"), Canopius Mergerco, Inc., Condor 1 Corporation and Condor 2 Corporation were sold to third party investors for consideration of US$216.7 million. CHBL was renamed Tower Group International, Ltd., and Canopius Bermuda Limited was renamed Tower Reinsurance, Ltd.

The transaction followed the exercise of a merger option agreement between Canopius Group Limited and Tower Group, Inc ("Tower") that was agreed and exercised by Tower in 2012. In connection with this transaction and on the same day, CBL and CHBL declared and paid special dividends and made capital repayments to Canopius Group Limited amounting to £127.6 million. A second dividend was also declared, but not paid, which will be determined at an amount equal to the difference between the net asset value on 13 March 2013 of the businesses sold and the sale proceeds less placement agents' fees of US$10.8 million less US$7.9 million. On payment of the second dividend, which is expected to be in the order of US$10 million, Canopius Group Limited will recognise a gain on the sale and an increase in the total shareholders' interests in the Company of US$7.9 million. The second dividend is expected to be paid before the end of May 2013.

39 Post balance sheet events

In addition and in connection with the above transaction, certain contracts of reinsurance written by CBL have been part reinsured or transferred to Canopius Reinsurance Limited ("CRL") (formerly known as Omega Specialty Insurance Company Limited). This restructuring of business between CBL and CRL included the reinsurance of Quota share contracts in respect of Lloyd's syndicate business managed by Canopius Managing Agents Limited for aggregate premiums payable to CRL on a funds withheld basis amounting to £409.3 million and the novation of structured reinsurance business from CBL to CRL for consideration paid by CRL to CBL amounting to £3.7 million and for consideration paid by CBL to CRL of US$1.3 million. Gross and net liabilities ceded to or transferred to CRL amounted to £601.3 million and £359.5 million respectively. The Group made no gain or loss from this business restructuring.

On the same day, the Company settled £83.2 million of its liabilities to group undertakings out of the dividends and capital repayments.

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