

Registered Number 3632970

AARDVARK UNDERWRITING LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2012

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Directors

E E Maggs
F A Blood
S T Maggs

Company Secretary

Argenta Secretariat Limited

Registered Office

Fountain House
130 Fenchurch Street
London EC3M 5DJ

Bankers

Butterfield Private Bank
99 Gresham Street
London EC2V 7NG

Auditor

PKF Littlejohn LLP
Statutory Auditor
1 Westferry Circus
Canary Wharf
London E14 4HD

The Directors have pleasure in presenting their Report together with the Financial Statements for the year ended 31 December 2012

Results and Dividends

The results for the year are set out on pages 8 and 9 of the Financial Statements. Details of the interim dividends declared and paid is given in Note 13 of the Financial Statements. The Directors do not recommend the payment of a final dividend.

Review of the Business

The principal activity of the Company in the period under review was that of a corporate underwriting member of Lloyd's.

The Financial Statements incorporate the annual accounting results of the syndicates on which the Company participates for the 2010, 2011 and 2012 years of account, as well as any 2009 and prior run-off years.

The annual accounting technical result for the year is a profit of £256,103 (2011 – loss of £121,789).

The lack of any major catastrophe losses has seen the company record a strong annual accounting result.

The 2010 year closed at 31 December 2012 with a profit, net of any calendar year run-off movements of £71,991 (2009 profit - £374,865). The 2011 and 2012 open underwriting account will normally close at 31 December 2013 and 2014.

The Company does not participate on any run-off syndicates.

Future Developments

The Company continues to write insurance business in the Lloyd's insurance market as a corporate underwriting member of Lloyd's. The capacity being underwritten on the 2013 year of account is £1,997,935 an increase of £157,514 (9%) compared to the 2012 year of account.

Key Performance Indicators

The Directors consider the following to be the key performance indicators of the Company.

| | 2012 | 2011 | Change |
|--|---------|-----------|---------|
| US\$ exchange rate to £1 | 1.63 | 1.55 | 5.2% |
| Capacity (youngest underwriting year) £'000 | 1,841 | 1,917 | (4.0)% |
| Profit/(Loss) after tax £ | 103,137 | (199,351) | 151.7% |
| Underwriting profit of latest closed pure year | 71,991 | 374,805 | (80.8)% |
| as a % of capacity | 3.6% | 21.2% | (82.8)% |

Other Performance Indicators

As a result of the nature of this Company as a Lloyd's Corporate Member the majority of its activities are carried out by the Syndicates in which it participates. The company is not involved directly in the management of the Syndicate's activities, including employment of Syndicate staff, as these are the responsibility of the relevant Managing Agent. Each Managing Agent will also have responsibility for the environmental activities of each Syndicate, although by their nature insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

Risk Management

As a corporate member of Lloyd's the majority of the risks to this company's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed below, these risks are mostly managed by the Managing Agent of the syndicate. This company's role in managing this risk in conjunction with its Members' Agent is limited to selection of syndicate participations and monitoring performance of the syndicates. The Company seeks to achieve a balance of risk and reward in the portfolio of syndicates it chooses to support.

Syndicate risks

The trading activities of a syndicate expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. For the purposes of setting capital requirements for the 2013 year of account Lloyd's introduced the Lloyd's Capital Return ("LCR") which replaced the Individual Capital Assessment ("ICA"). Each Managing Agent prepares a LCR for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR, and typically the majority of the total assessed value of the risks concerned is attributable to Insurance Risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Prudential Regulation Authority provide additional controls over the syndicate's management of risks.

The company manages the risks faced by the syndicates on which it participates in conjunction with its Members' Agent by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its Managing Agent. In addition quarterly reports and annual accounts together with any other information made available by the Managing Agent are monitored and if necessary enquired into. If the company or Members' Agent considers that the risks being run by the syndicate are excessive it will seek confirmation from the Managing Agent that adequate management of the risk is in place and if considered appropriate will withdraw support from the next underwriting year.

Investment and currency risks

The other significant risks faced by the company are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, liquidity risk, currency risk and interest rate risk. To mitigate this, the surplus company funds are invested in the Money Market. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the company to meet the claim. In order to minimise investment, credit and liquidity risk the company's funds are invested in readily realisable money market deposits. The Company does not use derivative financial instruments to manage either its interest rate risk or its currency risk and, as such, no hedge accounting is applied.

Regulatory Risks

The company is subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting the capital requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the company is able to support.

Operational Risks

As there are relatively few transactions actually undertaken by the company there are only limited systems and staffing requirements of the company and therefore operational risks are not considered to be significant. Close involvement of all directors in the company's key decision making and the fact that the majority of the company's operations are conducted by syndicates provides control over any remaining operational risks.

Directors

F A Blood, E E Maggs and S T Maggs were Directors of the Company and held office throughout the year.

Disclosure of Information to the Auditor

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- (a) So far as the Directors are aware, there is no relevant audit information of which the company's auditor is unaware, and
- (b) They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

PKF Littlejohn LLP, formerly named Littlejohn LLP, has signified its willingness to continue in office as auditor.

By Order of the Board



F A Blood (Director)

Twenty Third August 2013

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report of the Directors and Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Shareholders of Aardvark Underwriting Limited

We have audited the Financial Statements of Aardvark Underwriting Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted accounting Practice).

This report is made solely to the Company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances, and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors' for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Neil Coulson

Neil Coulson (Senior statutory auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

23 August 2013

AARDVARK UNDERWRITING LIMITED

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - GENERAL BUSINESS

| | Note | 2012 | 2011 |
|---|------|-----------|-------------|
| Gross Premiums Written | 1 | 1,808,522 | 1,701,796 |
| Outward reinsurance premiums | | (348,262) | (268,037) |
| Net Premiums Written | | 1,460,260 | 1,433,759 |
| Change in the provision for unearned premiums | | | |
| Gross provision | | (45,549) | (48,634) |
| Reinsurers' share | | 83 | (13,150) |
| Earned Premiums, Net of Reinsurance | | 1,414,794 | 1,371,975 |
| Allocated Investment Return Transferred from the Non-Technical Account | | 73,581 | 35,612 |
| Claims Paid | | | |
| Gross amount | | (952,697) | (927,635) |
| Reinsurers' share | | 150,201 | 137,711 |
| Net claims paid | | (802,496) | (789,924) |
| Change in Provision for Claims | | | |
| Gross amount | | 86,729 | (350,908) |
| Reinsurers' share | | 49,337 | 100,527 |
| Net change in provision for claims | | 136,066 | (250,381) |
| Claims Incurred, Net of Reinsurance | | (666,430) | (1,040,305) |
| Net operating expenses | 3 | (565,842) | (489,071) |
| Balance on Technical Account for General Business | | £256,103 | £(121,789) |

All the amounts above relate to continuing operations

The Accounting Policies and Notes on pages 13 to 25 form part of these Financial Statements

AARDVARK UNDERWRITING LIMITED**PROFIT AND LOSS ACCOUNT**
Year Ended 31 December 2012**NON TECHNICAL ACCOUNT**

| | Note | 2012 | 2011 |
|---|-------------|-----------------|-------------------|
| Balance on the General Business Technical Account | | 256,103 | (121,789) |
| Investment income | 4 | 85,806 | 61,781 |
| Unrealised gains on investments | | 41,225 | 27,227 |
| Investment expenses and charges | 5 | (37,485) | (47,126) |
| Unrealised losses on investments | | (83,737) | (44,614) |
| Allocated investment return transferred to the general business technical account | | (73,581) | (35,612) |
| Other income | | 44,411 | 43,742 |
| Other charges | | (114,989) | (147,816) |
| Profit/(Loss) on Ordinary Activities before Taxation | 6 | 117,753 | (264,207) |
| Tax on profit/(loss) on ordinary activities | 7 | (14,616) | 64,856 |
| Profit/(Loss) on Ordinary Activities after Taxation | 13 | <u>£103,137</u> | <u>£(199,351)</u> |

All operations are continuing

The Company had no recognised gains and losses in the year other than the result above

The Accounting Policies and Notes on pages 13 to 25 form part of these Financial Statements

| | | 2012 | | | 2011 | | |
|---|------|----------------------------|------------------------|--------------------------|----------------------------|------------------------|--------------------------|
| | Note | Syndicate Participation | Corporate | Total | Syndicate Participation | Corporate | Total |
| ASSETS | | | | | | | |
| Intangible Assets | | | | | | | |
| Syndicate participation rights | 8 | - | 48,151 | 48,151 | - | 19,263 | 19,263 |
| Investments | | | | | | | |
| Financial investments | 9 | 2,426,151 | 111,306 | 2,537,457 | 2,767,759 | 174,465 | 2,942,224 |
| Deposits with ceding undertakings | | 256 | - | 256 | 368 | - | 368 |
| | | <u>2,426,407</u> | <u>111,306</u> | <u>2,537,713</u> | <u>2,768,127</u> | <u>174,465</u> | <u>2,942,592</u> |
| Reinsurers' Share of Technical Provisions | | | | | | | |
| Provision for unearned premiums | | 74,989 | - | 74,989 | 77,426 | - | 77,426 |
| Claims outstanding | | 546,143 | - | 546,143 | 587,770 | - | 587,770 |
| | | <u>621,132</u> | <u>-</u> | <u>621,132</u> | <u>665,196</u> | <u>-</u> | <u>665,196</u> |
| Debtors | | | | | | | |
| Arising out of direct insurance operations | | | | | | | |
| Policyholders | | 4,976 | - | 4,976 | 2,575 | - | 2,575 |
| Intermediaries | | 390,552 | - | 390,552 | 338,999 | - | 338,999 |
| Arising out of reinsurance operations | | | | | | | |
| Other debtors | 10 | 433,494 | - | 433,494 | 412,681 | - | 412,681 |
| | | <u>145,133</u> | <u>-</u> | <u>145,133</u> | <u>296,125</u> | <u>-</u> | <u>296,125</u> |
| | | <u>974,155</u> | <u>-</u> | <u>974,155</u> | <u>1,050,380</u> | <u>-</u> | <u>1,050,380</u> |
| Other Assets | | | | | | | |
| Cash at bank and in hand | 11 | 114,045 | 70,890 | 184,935 | 95,882 | 50,980 | 146,862 |
| Other | | 154,512 | - | 154,512 | 210,586 | - | 210,586 |
| | | <u>268,557</u> | <u>70,890</u> | <u>339,447</u> | <u>306,468</u> | <u>50,980</u> | <u>357,448</u> |
| Prepayments and Accrued Income | | | | | | | |
| Accrued interest | | 9,896 | - | 9,896 | 11,570 | - | 11,570 |
| Deferred acquisition costs | | 177,889 | - | 177,889 | 169,400 | - | 169,400 |
| Other prepayments and accrued income | | 6,421 | - | 6,421 | 9,782 | - | 9,782 |
| | | <u>194,206</u> | <u>-</u> | <u>194,206</u> | <u>190,752</u> | <u>-</u> | <u>190,752</u> |
| Total Assets | | <u><u>£4,484,457</u></u> | <u><u>£230,347</u></u> | <u><u>£4,714,804</u></u> | <u><u>£4,980,923</u></u> | <u><u>£244,708</u></u> | <u><u>£5,225,631</u></u> |

The Accounting Policies and Notes on pages 13 to 25 form part of these Financial Statements

| | | 2012 | | | 2011 | | |
|--|------|----------------------------|-----------------|-------------------|----------------------------|------------------|-------------------|
| | Note | Syndicate Participation | Corporate | Total | Syndicate Participation | Corporate | Total |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | |
| Capital and Reserves | | | | | | | |
| Called-up share capital | 12 | - | 500 | 500 | - | 500 | 500 |
| Share Premium Account | | - | - | - | - | - | - |
| Profit and Loss Account | 13 | (3,930) | 23,582 | 19,652 | 114,773 | (198,258) | (83,485) |
| Total Shareholders' Funds | 14 | <u>(3,930)</u> | <u>24,082</u> | <u>20,152</u> | <u>114,773</u> | <u>(197,758)</u> | <u>(82,985)</u> |
| Technical Provisions | | | | | | | |
| Provision for unearned premiums | | 732,331 | - | 732,331 | 706,046 | - | 706,046 |
| Claims outstanding - gross amount | | 3,147,433 | - | 3,147,433 | 3,568,191 | - | 3,568,191 |
| | | <u>3,879,764</u> | <u>-</u> | <u>3,879,764</u> | <u>4,274,237</u> | <u>-</u> | <u>4,274,237</u> |
| Provisions for Other Risks | | | | | | | |
| Deferred Taxation | 15 | - | 91,133 | 91,133 | - | 130,000 | 130,000 |
| Deposits Received from Reinsurers | | 266 | - | 266 | 514 | - | 514 |
| Creditors | | | | | | | |
| Arising out of direct insurance operations | | 67,063 | - | 67,063 | 88,191 | - | 88,191 |
| Arising out of reinsurance operations | | 317,577 | - | 317,577 | 202,181 | - | 202,181 |
| Amounts owed to credit institutions | | - | - | - | - | - | - |
| Other creditors | 16 | 206,474 | 111,054 | 317,528 | 273,680 | 244,550 | 518,230 |
| | | <u>591,114</u> | <u>111,054</u> | <u>702,168</u> | <u>564,052</u> | <u>244,550</u> | <u>808,602</u> |
| Accruals and Deferred Income | | 17,243 | 4,078 | 21,321 | 27,347 | 67,916 | 95,263 |
| Total Liabilities | | <u>£4,484,457</u> | <u>£230,347</u> | <u>£4,714,804</u> | <u>£4,980,923</u> | <u>£244,708</u> | <u>£5,225,631</u> |

Approved by the Board on 23/8 2013

F A Blood
F A Blood (Director)

| | Note | 2012 | 2011 |
|--|------|------------------|-------------------|
| Net Cash Inflow/(Outflow) from operating activities | 17 | 205,420 | (15,508) |
| Returns on Investments and Servicing of Finance | | | |
| Interest received | | 871 | 18,735 |
| Interest paid on related party loan | | - | - |
| | | <u>871</u> | <u>18,735</u> |
| Net Cash Inflow from Returns on Investments and Servicing of Finance | | | 18,735 |
| Taxation | | | |
| Corporation Tax paid | | (29,170) | (108,226) |
| Overseas Taxation paid | | (4,647) | (12,493) |
| | | <u>(33,817)</u> | <u>(120,719)</u> |
| Taxation paid | | | (120,719) |
| Capital Expenditure and Financial Investment | | | |
| Purchase of syndicate participations rights | | (45,065) | (3,033) |
| Proceeds from sale of syndicate participations rights | | 51,147 | 44,131 |
| | | <u>6,082</u> | <u>41,098</u> |
| Net Cash Inflow/(Outflow) from Capital Expenditure and Financial Investment | | 6,082 | 41,098 |
| | | 178,556 | (76,394) |
| Equity Dividends Paid | | - | (263,713) |
| | | <u>178,556</u> | <u>(340,107)</u> |
| Net Cash Inflow/(Outflow) before Financing | | 178,556 | (340,107) |
| Financing | | | |
| Funds lent/(repaid) to the Company by the Shareholders to meet expenses and cash calls | | (153,162) | 104,301 |
| | | <u>(153,162)</u> | <u>104,301</u> |
| Net Cash (Outflow)/Inflow from Financing | | (153,162) | 104,301 |
| Net Cash Inflow/(Outflow) in the year | | <u>£25,394</u> | <u>£(235,806)</u> |
| Cash flows were invested as follows | 18 | | |
| Increase/(decrease) in cash holdings | | 19,910 | (21,010) |
| Net investment | | 5,484 | (214,796) |
| | | <u>£25,394</u> | <u>£(235,806)</u> |
| Net investment of cash flows | | <u>£25,394</u> | <u>£(235,806)</u> |

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Cash Flow Statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from the Syndicates at Lloyd's.

Accounting Policies**Basis of Preparation**

The Financial Statements are prepared under the historical cost basis of accounting modified to include the revaluation of investments, and comply with applicable Accounting Standards

The Company participates in insurance business as an underwriting member of various Syndicates at Lloyd's

The Financial Statements have been prepared in accordance with Section 396(3) of the Companies Act 2006, Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2011 and the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006 except that exchange differences arising on Syndicate assets and liabilities are dealt with in the technical account as all of these differences arise from technical account transactions

Accounting information in respect of the Syndicate participations has been provided by the Syndicate's managing agent and has been reported upon by the Syndicate's auditor

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Directors on page 3. In addition, the Report of the Directors includes the Company's objectives, policies and processes for managing the majority of the risk to the company's future cash flows

The Company continues to participate on the 2011 and 2012 underwriting years of account, which will normally close at 31 December 2013 and 2014 respectively, and has continued this participation since the year end on the 2013 year of account. The 2011 and 2012 underwriting years are expected to be profitable. As a consequence, the Directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The Directors have a reasonable expectation that the company has adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements

Basis of Accounting

The Financial Statements are prepared under the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods

Amounts reported in the General Business Technical Account relate to the movements in the calendar year in respect of all relevant years of account of the Syndicates on which the Company participates

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the Syndicates' managing agents. Accordingly, these assets and liabilities have been shown separately in the balance sheet as "Syndicate Participation". Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the Syndicates' insurance creditors

The information included in these Financial statements in respect of the Syndicates has been supplied by Managing Agents based upon the various accounting policies they have adopted. The following describes the policies they have generally adopted

General Business**I Premiums**

Premiums written comprise the total premiums receivable in respect of business inception during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

II Unearned Premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant managing agent.

III Deferred Acquisition Costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

IV Reinsurance Premiums

Reinsurance premium costs are allocated by the Managing Agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

V Claims Incurred and Reinsurers' Share

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to each syndicate's reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Each syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions made by each syndicate's managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

v Claims Incurred and Reinsurers' Share (continued)

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

vi Unexpired Risks Provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the balance sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant managing agent.

vii Closed Years of Account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

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

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

viii Run-off Years of Account

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

ix Net Operating Expenses (including Acquisition Costs)

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Company participates

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date

x Distribution of Profits and Collection of Losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements

xi Investments

Investments are stated at current value, including accrued interest at the Balance Sheet date

xii Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the current value at that date

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business

xiii Basis of Currency Translation

Syndicates maintain separate funds in sterling, United States dollars, Canadian dollars and Euros

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed

Assets and liabilities are translated into sterling at the rates of exchange at the Balance Sheet date

All differences arising on the translation of foreign currency amounts in syndicates are included in the technical account within net operating expenses irrespective of their treatment by the underlying syndicates. The underlying syndicates have adopted different accounting policies including the non-retranslation of non-monetary items by some and retractions to year end values within the Statement of Recognised Gains and Losses by others

xiv Debtors/Creditors arising from insurance/reinsurance operations

The amounts shown in the balance sheet include the totals of all the Syndicates outstanding debit and credit transactions as processed by the Lloyd's central facility, no account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate

Taxation

The company is taxed on its results including its share of underwriting results declared by the syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these financial statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

The taxable results of the syndicates at a syndicate level are calculated by the managing agent and computations submitted to HM Revenue & Customs (HMRC). Any adjustments that may be necessary to the tax provisions established by the Company, as a result of any HMRC enquiry into these computations, will be reflected in the financial statements of subsequent periods.

Deferred Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

Intangible Assets

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on Syndicates' underwriting years are included within intangible fixed assets and amortised over a 3 year period beginning in the year after the underwriting commences in respect of the purchased Syndicate participation.

Cash Flow Statement

The company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Cash Flow Statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from Syndicates at Lloyd's.

1 Class of Business

| 2012 | Gross written premiums | Gross premiums earned | Gross claims incurred | Net operating expenses | Reinsurance balance | Total |
|-----------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|--------------------------------|-----------------|
| Direct | | | | | | |
| Accident and health | 63,142 | 65,994 | (40,978) | (24,595) | (1,918) | (1,497) |
| Motor (third party liability) | 3,568 | 4,922 | 4,738 | (1,629) | (181) | 7,850 |
| Motor (other classes) | 211,083 | 160,181 | (109,763) | (58,161) | (300) | (8,043) |
| Marine, aviation and transport | 146,279 | 155,396 | (64,789) | (49,955) | (3,966) | 36,686 |
| Fire and other damage to property | 406,964 | 411,625 | (228,617) | (150,136) | (35,551) | (2,679) |
| Third party liability | 177,735 | 194,173 | (54,935) | (69,876) | (10,848) | 58,514 |
| Credit and suretyship | 34,101 | 39,287 | (3,869) | (15,317) | (6,725) | 13,376 |
| Legal expenses | 2,674 | 2,391 | (980) | (1,135) | 40 | 316 |
| Other | 142,919 | 120,691 | (67,043) | (46,296) | (10,355) | (3,003) |
| Total Direct | 1,188,465 | 1,154,660 | (566,236) | (417,100) | (69,804) | 101,520 |
| Reinsurance Business | | | | | | |
| Reinsurance balance | 620,057 | 608,313 | (299,732) | (148,741) | (78,837) | 81,003 |
| Total Reinsurance | 620,057 | 608,313 | (299,732) | (148,741) | (78,837) | 81,003 |
| Total | £1,808,522 | £1,762,973 | £(865,968) | £(565,841) | £(148,641) | £182,523 |

2011**Direct**

| | | | | | | |
|-----------------------------------|------------------|------------------|------------------|------------------|-----------------|---------------|
| Accident and health | 66,349 | 68,444 | (50,938) | (25,762) | 1,724 | (6,532) |
| Motor (third party liability) | 5,558 | 6,079 | (3,631) | (2,243) | (219) | (14) |
| Motor (other classes) | 112,584 | 67,884 | (54,423) | (24,527) | (1,970) | (13,036) |
| Marine, aviation and transport | 165,657 | 164,334 | (68,888) | (51,389) | (1,826) | 42,231 |
| Fire and other damage to property | 385,087 | 402,249 | (202,974) | (138,963) | (44,154) | 16,158 |
| Third party liability | 182,857 | 196,046 | (137,732) | (71,870) | (16,956) | (30,512) |
| Credit and suretyship | 51,618 | 49,423 | (20,998) | (16,017) | 76 | 12,484 |
| Legal expenses | 2,652 | 2,290 | (819) | (1,487) | (2) | (18) |
| Other | 86,351 | 44,361 | (28,191) | (21,200) | (3,704) | (8,734) |
| Total Direct | 1,058,713 | 1,001,110 | (568,594) | (353,458) | (67,031) | 12,027 |

Reinsurance Business

| | | | | | | |
|--------------------------|-------------------|-------------------|---------------------|-------------------|------------------|-------------------|
| Reinsurance balance | 643,077 | 652,047 | (709,944) | (135,613) | 24,082 | (169,428) |
| Total Reinsurance | 643,077 | 652,047 | (709,944) | (135,613) | 24,082 | (169,428) |
| Total | £1,701,790 | £1,653,157 | £(1,278,538) | £(489,071) | £(42,949) | £(157,401) |

| 2 Geographical Analysis | 2012 | 2011 |
|---|-------------------|-------------------|
| Direct Gross Premium Written In | | |
| United Kingdom | 1,188,465 | 1,058,713 |
| Other EU Member States | - | - |
| Rest of the World | - | - |
| | <u>£1,188,465</u> | <u>£1,058,713</u> |
| 3 Net Operating Expenses | 2012 | 2011 |
| Acquisition costs | 443,100 | 391,917 |
| Change in deferred acquisition costs | (12,249) | (9,189) |
| Administrative expenses | 118,470 | 115,001 |
| (Profit)/loss on exchange | 16,521 | (8,658) |
| | <u>£565,842</u> | <u>£489,071</u> |
| 4 Investment Income | 2012 | 2011 |
| Income from investments | 67,145 | 46,231 |
| Realised gains on investments | 18,370 | 15,420 |
| Bank Deposit Interest | 291 | 130 |
| | <u>£85,806</u> | <u>£61,781</u> |
| 5 Investment Expenses and Charges | 2012 | 2011 |
| Investment management expenses | 4,452 | 4,428 |
| Losses on the realisation of investments | 33,033 | 42,698 |
| | <u>£37,485</u> | <u>£47,126</u> |
| 6 Profit/(Loss) on Ordinary Activities before Taxation | 2012 | 2011 |
| This is stated after charging/(crediting) | | |
| | £ | £ |
| Fees payable to the company's auditor for | | |
| - audit of the financial statements | 1,300 | 1,200 |
| - taxation services | 800 | 800 |
| - other services | 1,200 | 1,100 |
| Directors remuneration | - | 0 |
| Amortisation of syndicate capacity | 9,191 | 8,310 |
| (Profit)/loss on sale of syndicate capacity | (44,161) | (43,742) |
| Exchange (gain) or loss - Non Technical Account | 15,497 | 11,970 |
| Interest payable on related party loan | - | - |
| Interest payable - other | - | - |
| | <u></u> | <u></u> |
| The Company has no employees | | |

| 7 Taxation | 2012 | 2011 |
|--|----------------------|------------------------|
| Analysis of Charge in Year | | |
| Current tax | | |
| UK Corporation Tax on profits of the year | 54,997 | 49,000 |
| Adjustments in respect of previous years | (4,740) | - |
| | <hr/> 50,257 | <hr/> 49,000 |
| Double taxation relief | (1,421) | (16,349) |
| | <hr/> 48,836 | <hr/> 32,651 |
| Foreign tax | 4,647 | 12,493 |
| Total current tax | <hr/> 53,483 | <hr/> 45,144 |
| Deferred tax | | |
| Origination and reversal of timing differences | (28,467) | (92,222) |
| Effect of change in tax rate on opening liability or asset | (10,400) | (17,778) |
| Total deferred tax | <hr/> (38,867) | <hr/> (110,000) |
| Tax on profit/(loss) on ordinary activities | <hr/> <u>£14,616</u> | <hr/> <u>£(64,856)</u> |

Factors Affecting Tax Charge for the Year

The tax assessed for the period is different to the standard rate of corporation tax in the UK. The differences are explained below

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Profit/(loss) on ordinary activities before tax | <hr/> £117,753 | <hr/> (264,207) |
| Profit/(loss) on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 24.5% (2011 - 26.5%) | 28,849 | (70,015) |
| Effects of | | |
| Expenses not deductible for tax purposes | - | 5,709 |
| Income not subject to tax | 16,818 | 23,432 |
| Timing differences arising on the taxation of the underwriting results | 12,320 | 92,325 |
| Trading losses carried forward | - | - |
| Foreign tax | 3,226 | (3,856) |
| Adjustments in respect of previous periods | (4,740) | - |
| Marginal rate adjustment | (2,990) | (2,451) |
| Current tax charge for year | <hr/> <u>£53,483</u> | <hr/> <u>£45,144</u> |

Factors that may affect Future Tax Charges

The results of the Company's participation on the 2010, 2011 and 2012 years of account and the calendar year movement on 2009 and prior run-offs, will not be assessed to tax until the year ended 31 December 2013, 2014 and 2015 respectively being the year after the calendar year result of each run-off year or the normal date of closure of each year of account. In addition, tax only Claims Equalisation Reserves (CER) may further affect the timing of the taxation of underwriting profits.

The Company has trading losses of £Nil (2011 - £Nil) available for carry forward against future profits which, if utilised, should significantly reduce tax payments in subsequent years.

The above charge for foreign taxes has been estimated after making provision for double taxation relief with the UK. However due to the differences of timings and tax rates some foreign taxes may ultimately not be fully recoverable.

8 Intangible Assets

| | Syndicate Participation Rights |
|-----------------------|---|
| Cost | |
| At 1 January 2012 | 76,146 |
| Additions | 45,065 |
| Disposals | (12,393) |
| | <hr/> |
| At 31 December 2012 | 108,818 |
| Amortisation | |
| At 1 January 2012 | 56,883 |
| Charge for the year | 9,191 |
| Disposals | (5,407) |
| | <hr/> |
| At 31 December 2012 | 60,667 |
| Net Book Value | |
| At 31 December 2012 | <hr/> £48,151 <hr/> |
| At 31 December 2011 | <hr/> £19,264 <hr/> |

9 Investments**Other Financial Investments - Syndicate**

| | 2012 | | 2011 | |
|---|-------------------------|-------------|-------------------------|-------------|
| | Market Value | Cost | Market Value | Cost |
| Shares and other variable yield securities and units in unit trusts | 332,643 | 328,431 | 363,038 | 360,825 |
| Debt securities and other fixed income securities | 1,919,527 | 1,895,572 | 2,235,757 | 2,262,522 |
| Participation in investment pools | 110,178 | 140,310 | 143,301 | 141,282 |
| Loans secured by mortgage | - | - | - | - |
| Other Loans | 15,515 | 15,511 | 21,995 | 21,857 |
| Deposits with credit institutions | 2,692 | 2,692 | 2,838 | 2,838 |
| Overseas deposits | 45,447 | 43,608 | - | - |
| Other | 149 | 72 | 830 | 753 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | £2,426,151 | £2,426,196 | £2,767,759 | £2,790,077 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Listed investments included within the above | £2,362,348 | £2,364,313 | £2,742,096 | £2,764,629 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Other Financial Investments - Corporate | | | | |
| Shares and other variable yield securities and units in unit trusts | 111,306 | 179,949 | 174,465 | 220,390 |
| Debt securities and other fixed income securities | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | £111,306 | £179,949 | £174,465 | £220,390 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Listed investments included within the above | £111,306 | £179,949 | £174,465 | £220,390 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

10 Debtors

| | 2012 | | | 2011 | | |
|------------------------|----------------------------|-----------|-----------------|----------------------------|-----------|-----------------|
| | Syndicate Participation | Corporate | Total | Syndicate Participation | Corporate | Total |
| Deferred Tax (Note 15) | - | - | - | - | - | - |
| Intercompany Debtor | - | - | - | - | - | - |
| Other | 145,133 | - | 145,133 | 296,125 | - | 296,125 |
| | <u>£145,133</u> | <u>£-</u> | <u>£145,133</u> | <u>£296,125</u> | <u>£-</u> | <u>£296,125</u> |

Other debtors includes £Nil (2011 - £Nil) in respect of cash calls paid to Lloyd's syndicates. This amount will be recoverable when the year of account on whose behalf the call was made is closed at a profit, or will be treated as a payment on account if the year is closed at a loss.

11 Cash at Bank and in hand

| | 2012 | | | 2011 | | |
|--------------------------|----------------------------|----------------|-----------------|----------------------------|----------------|-----------------|
| | Syndicate Participation | Corporate | Total | Syndicate Participation | Corporate | Total |
| Lloyd's deposit | - | 64,194 | 64,194 | - | 47,256 | 47,256 |
| Cash at bank and in hand | 114,045 | 6,696 | 120,741 | 95,882 | 3,724 | 99,606 |
| | <u>£114,045</u> | <u>£70,890</u> | <u>£184,935</u> | <u>£95,882</u> | <u>£50,980</u> | <u>£146,862</u> |

The Lloyd's deposit represents monies deposited with the Corporation of Lloyd's (Lloyd's) to support the Company's underwriting activities as described in the Accounting Policies. The Company has entered into a Lloyd's Deposit Trust Deed which gives the Corporation the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Company's liabilities in respect of its underwriting.

12 Called-up Share Capital

| | 2012 | 2011 |
|----------------------------|---|---|
| | Allotted, Called-up and Fully Paid | Allotted, Called-up and Fully Paid |
| Ordinary shares of £1 each | <u>£500</u> | <u>£500</u> |

13 Profit and Loss Account

| | 2012 | | |
|--|----------------------------|----------------|----------------|
| | Syndicate Participation | Corporate | Total |
| Retained profit/(loss) brought forward | 114,773 | (198,258) | (83,485) |
| Transfer | (374,806) | 374,806 | - |
| Profit/(loss) for the financial year | 256,103 | (152,966) | 103,137 |
| Equity dividends paid and declared | - | - | - |
| | <u>£(3,930)</u> | <u>£23,582</u> | <u>£19,652</u> |

14 Reconciliation of Movements in Shareholders' Funds

| | 2012 | 2011 |
|--|----------|-----------|
| Opening shareholders' funds | (82,985) | 380,079 |
| Profit / (loss) for the financial year | 103,137 | (199,351) |
| Equity dividends paid and declared | - | (263,713) |
| | <hr/> | <hr/> |
| Closing shareholders' funds | £20,152 | £(82,985) |
| | <hr/> | <hr/> |

15 Provision for Deferred Tax

| | 2012 | 2011 |
|--|----------|-----------|
| Liability/(asset) at start of year | 130,000 | 240,000 |
| Deferred tax charge/(credit) in Profit and Loss Account for year | (38,867) | (110,000) |
| | <hr/> | <hr/> |
| Liability/(asset) at end of year | £91,133 | £130,000 |
| | <hr/> | <hr/> |

Analysis of Provision for Deferred Taxation

| | | |
|--|----------|----------|
| Timing differences arising from the taxation of the underwriting results | (26,190) | 30,904 |
| Claims Equalisation Reserves | 117,323 | 99,096 |
| Tax losses carried forward | - | - |
| | <hr/> | <hr/> |
| | £91,133 | £130,000 |
| | <hr/> | <hr/> |

16 Other Creditors

| | 2012 | | | 2011 | | |
|---------------------------------|----------------------------|-----------|----------|----------------------------|-----------|----------|
| | Syndicate Participation | Corporate | Total | Syndicate Participation | Corporate | Total |
| Other creditors | 206,474 | - | 206,474 | 273,680 | - | 273,680 |
| Corporation Tax | - | 53,576 | 53,576 | - | 33,910 | 33,910 |
| Dividends declared but not paid | - | - | - | - | - | - |
| Related party loan accounts | - | 57,478 | 57,478 | - | 210,640 | 210,640 |
| Intercompany Creditor | - | - | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | £206,474 | £111,054 | £317,528 | £273,680 | £244,550 | £518,230 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

17 Reconciliation of Operating Profit / (Loss) to Net Cash Inflow / (Outflow) from Operating Activities

| | 2012 | 2011 |
|---|-----------|-----------|
| Operating Profit/(Loss) | 117,753 | (264,207) |
| Interest and dividends received - non-technical account | (871) | (18,735) |
| Realised and unrealised profits and losses on corporate investments | 68,643 | 57,079 |
| Interest charged - non-technical account | - | - |
| Underwriting result in year | (256,103) | 121,789 |
| Closed Year result distributable in year | 374,806 | 280,609 |
| Increase / (Decrease) in creditors | (63,838) | (160,456) |
| (Increase) / Decrease in debtors | - | 3,845 |
| (Profit) / Loss on sale of capacity | (44,161) | (43,742) |
| Amortisation of syndicate capacity | 9,191 | 8,310 |
| | <hr/> | <hr/> |
| Net cash Inflow / (Outflow) from operating activities | £205,420 | £(15,508) |
| | <hr/> | <hr/> |

18 Movement in Cash and Portfolio Investments

| | At 1 January 2012 | Non-cash Transactions | Cash Flow | Changes to Market Values | At 31 December 2012 |
|-----------------------------|-------------------------|--------------------------|----------------|--------------------------------|---------------------------|
| Cash at bank and in hand | 50,980 | - | 19,910 | - | 70,890 |
| Other portfolio investments | 174,465 | - | 5,484 | (68,643) | 111,306 |
| | <u>£225,445</u> | <u>-</u> | <u>£25,394</u> | <u>(68,643)</u> | <u>£182,196</u> |

19 Funds at Lloyd's

In addition to the Funds held in the Lloyd's Deposit (Note 11) the Company's Lloyd's underwriting is supported by further funds of £1,387,948 (2011- £1,122,155) held in the name of Maitland Trustees Limited under a third party deposit deed

20 Related Party Transactions

During 2012 the Company repaid loans by £239,154 (2011 – repaid loans by £15,923) from Maitland Trustees Limited. Maitland Trustees Limited charges the Company for the use of Funds at Lloyd's pledged on behalf of this Company to support its underwriting, at the rate 8% per annum. The charge for 2012 amounted to £85,992 (2011 - £120,224). No interest is charged on the amounts due to and from Maitland Trustees Limited during 2012 (2011 - £nil).

At 31 December 2012 the company owed £57,478 (2011 – £210,640) to Maitland Trustees Limited

21 Ultimate Controlling Party

The company is a wholly owned subsidiary of Aardvark Investment Holdings Limited, a company incorporated in the British Virgin Islands and wholly owned by Maitland Trustees Limited in its capacity as a trustee of a discretionary trust of which the Directors EE and ST Maggs and other Newton family members are discretionary beneficiaries. Maitland Trustees Limited is therefore the ultimate controlling party.

22 Syndicate Participation

| Syndicate Managing Agent No | | Allocated capacity per underwriting year | | | |
|--------------------------------|-------------------------------------|--|---------------|---------------|---------------|
| | | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
| 33 | Hiscox Syndicates Limited | 250 | 261 | 270 | 300 |
| 218 | Equity Syndicate Management Limited | 200 | 200 | 100 | - |
| 308 | R J Kiln & Company Limited | 100 | 113 | 100 | - |
| 510 | R J Kiln & Company Limited | 250 | 275 | 275 | 275 |
| 557 | R J Kiln & Company Limited | 50 | 50 | 75 | 150 |
| 609 | Atrium Underwriters Limited | 100 | - | - | - |
| 623 | Beazley Furlonge Limited | 210 | 200 | 255 | 255 |
| 727 | S A Meacock & Company Limited | 225 | 275 | 300 | 325 |
| 958 | Canopus Underwriting Agents Limited | - | - | - | - |
| 1200 | Argo Managing Agency Limited | - | - | - | 150 |
| 2010 | Cathedral Underwriting Limited | 117 | 117 | 117 | 117 |
| 2791 | Managing Agency Partners Limited | 250 | 300 | 315 | 315 |
| 6103 | Managing Agency Partners Limited | 22 | - | - | - |
| 6104 | Hiscox Syndicates Limited | 100 | 50 | 50 | 40 |
| 6106 | Amlin Underwriting Limited | 50 | - | 60 | 46 |
| 6111 | Catlin Underwriting Agents Limited | 75 | - | - | - |
| | | <u>£1,998</u> | <u>£1,841</u> | <u>£1,917</u> | <u>£1,973</u> |

AARDVARK UNDERWRITING LIMITED

DETAILED PROFIT AND LOSS ACCOUNT
Year Ended 31 December 2012

| | | As at 1 January 2012 | As at 31 December 2012 | 2012 Movement | 2011 Movement |
|--|---|----------------------------|------------------------------|------------------|-------------------|
| Syndicate Profit / (Loss) | | | | | |
| 2009 & Prior Account | Results | - | - | - | 145,159 |
| | Profit Commission | - | - | - | (7,299) |
| 2010 Account | Results | (136,432) | 75,771 | 212,203 | (136,030) |
| | Profit Commission | - | (3,780) | (3,780) | - |
| 2011 Account | Results | (123,619) | 6,056 | 129,675 | (123,619) |
| | Profit Commission | - | (304) | (304) | - |
| 2012 Account | Results | - | (81,691) | (81,691) | - |
| | Profit Commission | - | - | - | - |
| | | <u>(260,051)</u> | <u>(3,948)</u> | <u>256,103</u> | <u>(121,789)</u> |
| Other income | | | | | |
| | Gain / (loss) on revaluation of investments | | (70,023) | (45,925) | |
| | Gain / (loss) on sale of investments | | 1,380 | (11,154) | |
| | Profit / (Loss) on sale of capacity | | 44,161 | 43,742 | |
| | Other income | | 250 | - | |
| | Interest on Lloyd's funds | | 287 | 74 | |
| | Bank interest receivable | | 4 | 56 | |
| | Interest on other funds | | - | - | |
| | Dividends Received | | 580 | 18,605 | |
| | | | <u>(23,361)</u> | | <u>5,398</u> |
| | | | 232,742 | | (116,391) |
| Expenditure | | | | | |
| | Irrecoverable VAT | | 680 | 640 | |
| | Sundry expenses | | - | - | |
| | Lloyd's charges | | 329 | 3,212 | |
| | Amortisation of capacity | | 9,191 | 8,310 | |
| | Failed Bids | | - | - | |
| | Auditor's remuneration | | 1,320 | 1,290 | |
| | Fee for provision of FAL | | 85,992 | 120,224 | |
| | Accountancy | | 1,980 | 2,170 | |
| | Legal and professional fees | | - | - | |
| | Payment to ART scheme | | - | - | |
| | Impairment of capacity | | - | - | |
| | Bonus Received | | - | - | |
| | Bank charges | | - | - | |
| | Exchange gains or losses | | 15,497 | 11,970 | |
| | Interest charged | | - | - | |
| | Fee for provision for LOC | | - | - | |
| | Bank charges for FAL letter of credit | | - | - | |
| | Travel & Accommodation | | - | - | |
| | Directors Loan Write off | | - | - | |
| | | | <u>(114,989)</u> | | <u>(147,816)</u> |
| Profit / (Loss) before taxation | | | | <u>£117,753</u> | <u>£(264,207)</u> |