ARGO INTERNATIONAL

Member Argo Group

ARGO (No. 607) LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2012

Company No: 04311802

Contents

ARGO INTERNATIONAL

Member Argo Group

Registered Officers and Advisors

Directors	D Argyle A J Carrier J L Radke	
Company Number	04311802	
Registered Office	Exchequer Court 33 St Mary Axe London EC3A 8AA	
Auditors	Ernst & Young LLP 1 More London Place London SE1 2AF	www ey com
Solicitors	Reynolds Porter Chamberlain LLP Tower Bridge House St Katharine's Way London E1W 1AA	www rpc co uk
Bankers	Barclays Bank Plc 1 Churchill Place London E14 5HP	www barclays com

Report of the Directors

The directors present their report, together with the audited Financial Statements of the Company for the year to 31 December 2012

Argo (No 607) Limited is registered in England and Wales as a company limited by shares, with registered number 04311802 The address of the registered office and principal place of business is Exchequer Court, 33 St Mary Axe, London, EC3A 8AA

Principal activities, business review and future developments
The Company was incorporated on 26 October 2001 with the intention of underwriting as a corporate capital member at Lloyd's The directors do not foresee a change in this activity in future years The Company's current participation in Lloyd's Syndicate1200 is as shown below -

	2013 Year	2012 Year	2011 Year	2010 Year
Syndicate 1200	£22,000,000	£22,000,000	£22,000,000	£30,000,000

The participation is 100% reinsured with an AA- rated reinsurer

Results and Dividends
The Company's results for the year ended 31 December 2012 are shown in the Profit and Loss Account on page 8 of the Financial Statements The profit for the year after taxation was £224 1k (2011 £253 9k) No dividend was paid in 2012 (2011 £nil) The directors do not recommend the payment of a final dividend (2011 £nil) The 2010 year of account of Syndicate 1200 was closed into the 2011 year of account of Syndicate 1200 at 31 December 2012

The Company reported an increased profit before tax on last year of £200 1k (2011 £185 7k), due predominantly to overrider commission charged to its trade reinsurer Business written through Syndicate 1200 is fully reinsured via a 100% quota share agreement with its trade capital provider and therefore any underwriting losses do not directly affect the Company's result

We are pleased to report the Syndicate results for 2012 calendar year have borne testament to the portfolio re-balancing and quality improvement initiatives carried out by management in recent years Gross written premium for the Syndicate rose from £337 3m to £375 5m and the combined ratio (on a comparable basis) improved from 126 1% to 88%, yielding a £46 6m profit While Superstorm Sandy had an impact of £17m on our results, this was within expectations for the year, and was mitigated by reserve releases elsewhere in the account Furthermore loss ratios on the non-catastrophe element of the portfolio performed in line with plan The Whole Account quota share of the 2009 and prior years of account, effected with Shelbourne Syndicate Services Ltd had a significantly favourable impact on our results, provides a clean break with past and enables management attention to be devoted to the current portfolio

Key Performance Indicators
The Managing Agent of the syndicate considers the following to be the key performance indicators of the syndicate

Syndicate 1200	2012* £m	2011 £m	Movement £m
Capacity (underwriting year)	349 8	350 0	(0 2)
Gross premium written	375 5	337 3	38 2
Net premium earned	257 6	271 3	(13 7)
Profit before tax for the year	46 6	(54 2)	100 8
Cash and investments	394 7	404 3	(9 6)

	2012 %	2011 %	Movement %
Loss ratio (net)	50 0	86 3	(36 3)
Expense ratio (net)	38 0	39 8	(1 8)
Combined ratio (net)	88 0	126 1	(38 1)

*A ground up whole account quota share was purchased for the 2009 and Prior Years of Account from Syndicate 2008, effective 31 December 2012 The loss ratio, expense ratio and combined ratio have been stated excluding this transaction to allow a more meaningful comparison to those at 2011

Report of the Directors (continued)

Directors and their interests
The directors and officers who served during the year and to the date of this report were

Directors	Appointed	Resigned
D Argyle	1 May 2012	
A J Carrier		
C J O'Donnell		31 March 2012
J L Radke		

No directors held an interest in the shares of the company during the year

As we announced in our press statement dated 12 March 2012, Ciaran O'Donnell, Chief Financial Officer, decided to leave the company effective 31 March 2012 Darren Argyle was appointed Finance Director on 1 May 2012

Directors indemnities
Argo Managing Agency Limited, a fellow subsidiary of this company, has granted indemnities to one or more of the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006 Such qualifying third party indemnity provisions remain in force as at the date of approving the directors' report

Shares
The entire issued share capital of the Company, being 1 ordinary share of £1, is owned by Argo Underwriting Agency Limited ('AUA')

Staff matters
The Company does not employ any staff directly and is charged a management charge by an associated group company, Argo Management Services Limited ('AMS'), for services of staff in managing the business

Environmental matters
The Company does not consider that a business such as a corporate vehicle at Lloyd's has a large adverse impact upon the environment As a result the Company does not manage its business by reference to any environmental key performance indicators The directors and employees of AUA are not provided with company cars and travel requisitions and expenses are subject to review as to whether it is necessary for the business The Company seeks to maintain a high proportion of its records electronically and of the paper it does use, over 80% of its paper consumption is recycled through the use of recycling bags

Risk management
The company's activities expose it to a variety of financial and non-financial risks, principally as a result of its participation in the syndicate as referred to above These risks include, at syndicate level

- Insurance risk, including the risk of exposure to catastrophic events, inadequate pricing, reduced business volume and inappropriate reserving,
- Reinsurance risk, arising from concentration and credit risks,
- Investment risk, liquidity and credit risk,
- Operational risks

The company is exposed to further credit risk by way of its 100% quota share arrangement with its Trade Capital provider, it is therefore important to reduce the possibility of a default To mitigate this risk the company ensures the reinsurer has as high a security rating as possible

Going concern
The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposure to price, credit, liquidity and cash flow risk are described above and in note 2 of the Financial Statements of AUA, the parent company

The company has access to sufficient financial resources, and as a consequence, the directors believe that the company is well placed to manage its business risks successfully in the current market and economic environment The reinsurer of the company's underwriting activities continues to participate for 2013 After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

Report of the Directors (continued)

Disclosure of information to auditors
In accordance with section 418 of the Companies Act 2006 each of the Directors at the date of the approval of this Report of the Directors confirms that

- there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors
The Company's auditors, Ernst & Young LLP, are deemed to be reappointed under the provisions of Section 487(2) of the Companies Act 2006

Approved by the Board of Directors and signed on behalf of the Board

D Argyle
Finance Director

Date 30 April 2013

Statement of Directors' responsibilities

The directors are responsible for preparing the Report of the Directors and the 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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

Report of the Auditors

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARGO (No 607) LIMITED

We have audited the financial statements of Argo (No 607) Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to18 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 members, 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 members 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 members 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 Directors' Responsibilities Statement set out on page 6, the 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 and Financial Statements 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 Directors' Report 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

Ernst & Young LLP
Kevin Senior (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Date 30 April 2013

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Profit and Loss Account Year ended 31 December 2012

	Note	2012 £'000	restated 2011 £'000
Technical Account – general business			
Gross premiums written	2	23,782 3	22,650 9
Outward reinsurance premiums		(23,782 3)	(22,650 9)
Net premiums written		-	-
Change in the gross provision for unearned premiums		(288 7)	3,921 7
Change in the provision for unearned premiums, reinsurers' share		288 7	(3,921 7)
Change in the provision for unearned premiums		-	-
Earned premiums net of reinsurance		-	-
Allocated investment return transferred from the non-technical account		-	-
Other technical income		213 1	245 8
Total technical income		213.1	245 8
Gross claims paid	2	(15,597.9)	(18,991 9)
Reinsurers' share		15,597.9	18,991 9
Net claims paid		-	-
Change in provision for claims			
Gross amount	2	5,164 1	(2,063 9)
Reinsurers' share		(5,164 1)	2,063 9
Net change in provision for claims		-	-
Claims incurred net of reinsurance		-	-
Net operating expenses	3	-	-
Total charges		-	-
Balance on technical account – general business		213 1	245 8
Non-Technical Account			
Balance on technical account – general business		213 1	245 8
Investment income	4	5 0	0 9
Allocated investment return transferred to the technical account – general business		-	-
Other income		-	-
Other gains/charges		(18 0)	(61 0)
Profit on ordinary activities before taxation		200 1	185 7
Tax on profit on ordinary activities	7	24 0	68 2
Retained profit for the year	12	224 1	253 9

All items relate only to continuing operations

There are no recognised gains or losses in the current and prior financial year other than those included in the profit and loss account

The notes on pages 10 to 20 form part of these financial statements

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Balance Sheet At 31 December 2012

	Note	31 December 2012 Held Directly £'000	31 December 2012 Syndicate Participation £'000	31 December 2012 Total £'000	31 December 2011 restated Held Directly £'000	31 December 2011 restated Syndicate Participation £'000	31 December 2011 restated Total £'000
Assets							
Investments							
Financial investments	8,15	286 1	28,866 2	29,152 3	773 7	39,908 6	40,682 3
Deposits with ceding undertakings		-	2 5	2 5	-	6 1	6 1
		286 1	28,868 7	29,154 8	773 7	39,914 7	40,688 4
Reinsurers' share of technical provisions							
Claims outstanding		-	23,589 5	23,589 5	-	7,549 5	7,549 5
Provision for unearned premium		-	2,887 3	2,887 3	-	1,366 7	1,366 7
Debtors							
Arising out of direct insurance operations - intermediaries		-	6,130 5	6,130 5	-	5,781 0	5,781 0
Arising out of reinsurance operations		-	62,043 6	62,043 6	-	94,086 6	94,086 6
Other debtors	9	4,048 4	913 9	4,962 3	3,222 5	769 1	3991 6
		4,048 4	69,088 0	73,136 4	3,222 5	100,636 7	103,859 2
Other assets							
Cash at bank and in hand		-	1,175 8	1,175 8	-	1,634 2	1,634 2
Other	10	-	6,988 2	6,988 2	-	8,100 4	8,100 4
		-	8,164 0	8,164 0	-	9,734 6	9,734 6
Prepayments and accrued income							
Deferred acquisition costs		-	1,623 0	1,623 0	-	2,464 1	2,464 1
Other prepayments and accrued income		-	22 7	22 7	-	65 2	65 2
		-	1,645 7	1,645 7	-	2,529 3	2,529 3
Total assets		4,334 5	134,243 2	138,577 7	3,996 2	161,731 5	165,727 7
Equity and liabilities							
Capital and reserves							
Called up share capital	11	-	-	-	-	-	-
Profit and loss account	12	1,556 1	(0 2)	1,555 9	1,331 8	-	1,331 8
Shareholders' funds attributable to equity interests	12	1,556 1	(0 2)	1,555 9	1,331 8	-	1,331 8
Technical provisions							
Claims outstanding		-	42,850 5	42,850 5	-	60,041 8	60,041 8
Provision for unearned premium		-	9,679 6	9,679 6	-	9,390 5	9,390 5
Provisions for other risks and charges	13	103 0	-	103 0	142 3	-	142 3
Creditors							
Arising out of direct insurance operations		-	1,161 2	1,161 2	-	1,146 7	1,146 7
Arising out of reinsurance operations		-	79,846 2	79,846 2	-	91,126 6	91,126 6
Other creditors including taxation and social security	14	2,662 9	693 1	3,356 0	2,508 5	-	2,508 5
		2,662 9	81,700 5	84,363 4	2,508 5	92,273 3	94,781 8
Accruals and deferred income		12 5	12 8	25 3	13 6	25 9	39 5
Total equity and liabilities		4,334 5	134,243 2	138,577 7	3,996 2	161,731 5	165,727 7

Approved by the Board of Directors on 30 April 2013 and signed on its behalf by

D Argyle
Finance Director

The notes on pages 10 to 20 form part of these financial statements

Notes to the Financial Statements Year ended 31 December 2012

1 Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with section 6 of, and Schedule 3 to, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 pursuant to section 396 of the Companies Act 2006

The financial statements have also been prepared in accordance with applicable United Kingdom accounting standards and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the "ABI SORP") in December 2005, as amended in December 2006, except as follows Realised exchange gains and losses have been included in the technical account as they are considered to arise only in respect of technical account transactions The ABI SORP recommends that they are included in the non-technical account As a consequence, the Company's share of the transactions assets and liabilities of the syndicate in which the Company participates as a corporate member at Lloyd's are included in the Financial Statements

The financial statements have been prepared under the historical cost convention The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been applied consistently to all the years presented, unless otherwise stated The financial statements values are presented in pounds sterling (£), rounded to the nearest thousand (£'000), unless otherwise stated

The Company is exempt from the requirement of Financial Reporting Standard No 1 (Revised 1996) to prepare a cash flow statement as it is a 100% owned subsidiary of Argo Underwriting Agency Limited, and its cash flows are included within the consolidated cash flow of the ultimate parent company, Argo Group International Holdings, Ltd, whose financial statements are publicly available

Technical account

The results are determined on an annual accounting basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period

Premiums written

Premiums written comprise premiums on contracts of insurance incepted during the financial year and any adjustments made in the year to estimates of premiums written in prior years Premiums are shown gross of commission payable and exclude taxes and duties levied on them Estimates are made for pipeline premiums, including amounts due to the syndicate not yet notified

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 the basis of established earnings patterns or time apportionment as appropriate

Reinsurance premium ceded

Outward reinsurance premiums are accounted for on an earned basis in the same accounting period as the premiums for the related direct or inwards business being reinsured, except for Losses Occurring During Treaty reinsurance which is earned from the start of the reinsurance policy over the life of the policy

Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are recognised by reference to premium written They are deferred to the extent that they are attributable to and recoverable against premiums unearned at the balance sheet date

Claims incurred

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year, and the movement in provision for outstanding claims and settlement expenses brought forward Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties

Notes to the Financial Statements Year ended 31 December 2012

1. **Accounting Policies** (continued)

Technical account (continued)

Claims provisions and related reinsurance recoveries

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR) The amount of IBNR, which is based on statistical techniques of estimation applied by the syndicate's in-house actuaries and reserving team, is reviewed by external consulting actuaries These statistical techniques generally involve projecting, from past experience, the development of claims over time to form a view of the likely ultimate claims to be expected 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 for internal and external claims handling costs For the most recent years, where a higher degree of volatility may arise from projections, estimates may partly be based on 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 The syndicate will evaluate the reinsurance programme in place for the class of business, the claims experience for the year, and the security rating of the reinsurance companies involved The syndicate uses a number of statistical techniques to assist in these estimates

Hence the two most critical assumptions for claims provisions are that the past is a reasonable predictor of future claims development, and that rating and other models used, including pricing models for recent business, are fair indicators of the ultimate claims that will be incurred

The uncertainty of such estimations generally decreases with the time that has elapsed since policy inception In addition short tail claims such as property, where claims are typically notified and settled quickly, 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 Where disputes exist over coverage under policies, or the relevant law governing a claim changes, uncertainty in the estimation of outcomes may increase

The assessment of these provisions can be the most subjective aspect of an insurer's accounts, and may result in greater uncertainty than found within the financial statements of other businesses The directors of the managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available However, ultimate liability can be varied by further information and events and this may result in significant adjustments to the provisions Modifications to claims provisions established in prior years are shown in the financial statements for the period in which the adjustments are made Provisions are not discounted for investment earnings that may arise on funds retained to meet future liabilities The methods used, and the estimates made, are reviewed regularly

Sometimes claims, related expenses and deferred acquisition costs, anticipated to arise after the end of the financial period (for contracts concluded before that date), are projected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs In such circumstances a provision for unexpired risks will be included within technical provisions in the balance sheet Such provision is calculated separately for classes of business which are managed together

Although profits and losses on general insurance business are recognised as they arise, under the Lloyd's current accounting system, syndicate profits are only distributed following the closure of the underwriting account This is normally following the end of the third year

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

Unexpired risks provision

Sometimes claims, related expenses and deferred acquisition costs, anticipated to arise after the end of the financial period (for contracts concluded before that date), are projected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs In such circumstances a provision for unexpired risks will be included within technical provisions in the balance sheet Such provision is calculated separately for classes of business which are managed together

1. Accounting Policies (continued)

Syndicate closed years of account and reinsurance to close

At the end of the third year an underwriting year of 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 The profit attributable to each underwriting year is capable of being distributed to the members of the syndicates on an annual basis after making an allowance for prudence Only when a year of account closes are the full profits released to members

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

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 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 liabilities outstanding at the closure of an underwriting account The Company adjusts its provision for outstanding claims at 36 months for a year of closure to equal its share of the syndicate reinsurance to close, and no further provision is made for any potential variation in the ultimate liability of that year of account

The portfolio premiums payable and receivable by the Company arising from the syndicate reinsurance to close are offset and the difference, representing the increase or decrease in the Company's capacity on the syndicate, is shown in the technical account as gross premiums written or reinsurance premiums payable

Run-off years and estimated liabilities

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 for that year The provision is determined initially by the managing agency 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 thereon 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

Net operating expenses (including acquisition costs)

Net operating expenses include acquisition costs, profit and loss on exchange, and amounts charged to members through the syndicate All expenses are accounted for on an accruals basis Syndicate operating expenses are allocated to the year of account for which they are incurred

There has been a change in accounting policy for deferred acquisition costs to defer only acquisition costs that relate directly to successfully acquired business The result of this has been a restatement of result brought forward and deferred acquisition costs in the balance sheet

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are recognised by reference to the percentage of business bound compared to written All other operating expenses are accounted for on an accruals basis

	2011 Restated	2011 Original
Balance sheet		
Other Debtors	3991 6	3,991 9

Expenses

All expenses are accounted for on an accruals basis Syndicate operating expenses are allocated to the year of account for which they are incurred

Current tax

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid or recovered using applicable tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Notes to the Financial Statements Year ended 31 December 2012

1. Accounting policies (continued)

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 future dates, at rates expected to apply when they crystallize based on current tax rates and law

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Accounts

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 are not discounted

Profit commission

Profit commission within these financial statements is charged at a rate of 15% on the first 15% of profits and 20% thereafter Profit commission is payable on distributble results and is subject to the operation of a three year deficit clause

Investments

Syndicate investment values are collated from syndicate returns The Syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through the profit and loss (FVTPL) This is in accordance with the syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis Information relating to investments is provided internally to the directors of the Managing Agent and key managers on a fair value basis

Gains or losses on the revaluation of financial assets held at fair value are recognised through the profit and loss account Investments in unlisted securities are valued at fair value

Purchases and sales of investments are recognised on the trade date, which is the date the Syndicate commits to purchase or sell the assets These are initially recognised at fair value, and subsequently remeasured at fair value based on quoted bid prices Changes in fair value of investments are included in the profit and loss account in the period in which they arise If the market for an investment is not active, the Syndicate establishes fair value by using valuation techniques such as recent arms length transactions, or reference to similar listed transactions Investments are recognised / held on a pooled basis

Directly held investments that are held as fixed assets are stated at cost less provision for permanent diminution in value Investments held as current assets are stated at the lower of cost and market value

Exchange rates

The rates of exchange used in preparing the financial statements were

	2012		2011	
	Average	Closing	Average	Closing
Euro	**1.23**	**1 24**	1 15	1 17
US dollar	**1 58**	**1 60**	1 61	1 57
Canadian dollar	**1 58**	**1 58**	1 58	1 59

Investment return

Interest receivable from cash and short term deposits and interest payable are accrued to the end of the year

Syndicate 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 gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price or valuation at the previous year-end Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses from earlier periods for investment disposals in the current period

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 investment return on funds supporting underwriting business

Notes to the Financial Statements Year ended 31 December 2012

1. Accounting policies (continued)

Foreign exchange translation

Income and expenditure in Euros (EUR), US dollars (USD) and Canadian dollars (CAD) are translated at average rates of exchange for the period Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed

Monetary assets and liabilities are translated into sterling at the rates of exchange at the balance sheet date Differences arising on the translation of the members' balances brought forward and the technical account are included in net operating expenses

Non-monetary assets and liabilities, including deferred acquisition costs and unearned premiums are translated into a functional currency using monthly average rates of exchange prevailing at the time of the transaction as a proxy for the transactional rates The translation difference arising on non-monetary items is recognised in net operating expenses All exchange differences relating to the Syndicate are dealt with in the technical account

The profit or loss on fair valuing forward currency contracts is reflected in the technical account All exchange differences relating to the Syndicate are dealt with in the technical account

2 Segmental analysis

Underwriting activities split by class of business in relation to its primary business segments are as follows

	Worldwide Property Unit	Non- US Liability Unit	Specialty	Aerospace	Other	Total
Year ended 31 December 2012	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written	11,278 8	8,396 9	3,087 3	1,019 3	-	23,782 3
Outward reinsurance premiums	(11,278 8)	(8,396 9)	(3,087 3)	(1,019 3)	-	(23,782 3)
Gross premiums earned	11,720 3	8,272 2	2,653 1	843 0	-	23,493 6
Reinsurers' share of premiums earned	(11,720 3)	(8,272 2)	(2,653 1)	(843 0)	-	(23,493 6)
Gross claims incurred	(3,496 1)	(3,751 2)	(2,513 6)	(672 9)	-	(10,433 8)
Reinsurers' share of claims incurred	3,496 1	3,751 2	2,513 6	672 9	-	10,433 8
Other technical income	101 1	75 2	27 7	9 1	-	213 1
Investment return	-	-	-	-	5 0	5 0
Gross operating expenses	(3,969 9)	(2,846 7)	(686 3)	(251 7)	-	(7,754 6)
Reinsurers' share of operating expenses	3,969 9	2,846 7	686 3	251 7		7,754 6
Profit attributable to underwriting	101 1	75 2	27 7	9 1	5 0	218 1
Other non underwriting expenses (less gains)	-	-	-	-	(18 0)	(18 0)
Profit before tax	101 1	75 2	27 7	9 1	(13 0)	200 1

Notes to the Financial Statements Year ended 31 December 2012

2. Segmental analysis (continued)

All income is derived from external customers

The total gross premiums written of £23,782,310 (2011 £22,650,871) were all in respect of direct business written in the United Kingdom
Total commissions for direct insurance accounted for in the year amounted to £4,914,632 (2011 £7,555,415)

Assets and liabilities split by class of business are as follows

Year ended 31 December 2012	Worldwide Property Unit £'000	Non- US Liability Unit £'000	Specialty £'000	Aerospace £'000	Other £'000	Total £'000
Assets						
Assets attributable to business units	62,004 8	63,836 7	6,676 1	1,725 7	-	134,243 2
Non underwriting assets	-	-	-	-	4,334 5	4,334 5
Total assets	62,004 8	63,836 7	6,676 1	1,725 7	4,334 5	138,577 7
Liabilities						
Liabilities attributable to business units	62,005 0	63 836 7	6,676 1	1,725 7	-	134,243 4
Non underwriting liabilities	-	-	-	-	2,778 4	2,778 4
Total liabilities	62,005 0	63,836 7	6,676 1	1,725 7	2,778 4	137,021 8
Total net assets	-	-	-	-	1,556 1	1,555 9

Underwriting activities split by class of business in relation to its primary business segments are as follows

restated Year ended 31 December 2011	Worldwide Property Unit £'000	Non- US Liability Unit £'000	Specialty £'000	Aerospace £'000	Other £'000	Total £'000
Gross premiums written	14,647 0	5,027 2	2,520 7	456 0	-	22,650 9
Outward reinsurance premiums	(14,647 0)	(5,027 2)	(2,520 7)	(456 0)	-	(22,650 9)
Gross premiums earned	17,875 0	7,003 0	1,359 8	334 8	-	26,572 6
Reinsurers' share of premiums earned	(17,875 0)	(7,003 0)	(1,359 8)	(577 2)	-	(26,572 6)
Gross claims incurred	(16,810 1)	(3,234 5)	(684 3)	(326 9)	-	(21,055 8)
Reinsurers' share of claims incurred	16,810 1	3,234 5	684 3	326 9	-	21,055 8
Other technical income	159 1	54 5	27 3	4 9	-	245 8
Investment return	-	-	-	-	0 9	0 9
Gross operating expenses*	(5,942 6)	(2,116 3)	(422 3)	(86 5)	-	(8,567 7)
Reinsurers' share of operating expenses*	5,942 6	2,116 3	422 3	86 5	-	8,567 7
Profit attributable to underwriting	159 1	54 5	27 3	4 9	-	245 8
Other non underwriting expenses	-	-	-	-	(61 0)	(61 0)
Profit before tax	159 1	54 5	27 3	4 9	(60 1)	185 7

Notes to the Financial Statements Year ended 31 December 2012

2. Segmental analysis (continued)

Assets and liabilities split by class of business are as follows

restated As at 31 December 2011	Worldwide Property Unit £'000	Non-US Liability Unit £'000	Specialty £'000	Aerospace £'000	Other £'000	Total £'000
Assets						
Assets attributable to business units	95,880 2	64,732 9	999 7	120 7	-	161,731 5
Non underwriting assets	-	-	-	-	3,996 2	3,996 2
Total assets	95,880 2	64,732 9	997 7	120 7	3,996 2	165,727 7
Liabilities						
Liabilities attributable to business units	95,880 2	64,732 9	999 7	120 7	-	161,731 5
Non underwriting liabilities	-	-	-	-	2,664 4	2,664 4
Total liabilities	95,880 2	64,732 9	997 7	120 7	2,664 4	164,395 9
Total net assets	-	-	-	-	1,331 8	1,331 8

The company has a quota share arrangement in respect of its entire underwriting The company's underwriting capacity is supported by a letter of credit facility made available by its reinsurer as part of the quota share arrangement referred to above In the event of underwriting losses being suffered, together with any failure of the quota share reinsurer, the liability for such losses would fall to the company The directors are of the opinion, that given the quality of the reinsurer, any residual liability to the company is negligible and remote

3 Net operating expenses

	2012 £'000	restated 2011 £'000
Acquisition costs	**4,263 1**	5,423 6
Change in deferred acquisition costs	**651 5**	1,748 9
Administrative expenses	**1,473 9**	1,654 0
Profit on exchange	**(19 9)**	(258 7)
Less recoverable under quota share arrangement	**(6,368 6)**	(8,567 8)
	-	-

4 Investment income

	2012 £'000	2011 £'000
Investment income	**1,079 9**	1,586 1
Realised investment gains less losses	**(32 4)**	178 0
Unrealised investment gains less losses	**216 9**	262 4
Investment manager's fees	**(33 1)**	(27 6)
Less payable under quota share arrangement	**(1,226 3)**	(1,998 0)
	5 0	0 9

5 Auditors' remuneration

All audit fees are borne by Argo Management Services Limited, a fellow subsidiary undertaking, and recharged to other group companies In 2011 the amount recharged to the company was £2,800 (2011 £4,000)

6 Directors and employees

The Company does not directly employ any staff and the directors have not received any remuneration in respect of executive services during the period Details of the remuneration paid to employees and directors of the group are disclosed in the report and accounts of the holding company, AUA

Notes to the Financial Statements Year ended 31 December 2012

7. Taxation on profit on ordinary activities

		2012 £'000	2011 £'000
(a)	**Analysis of charge/(credit) in year**		
	Current tax		
	UK corporation tax for the year	78 8	-
	Group relief payable	-	72 4
	Adjustment in respect of prior year	(69 8)	(204 4)
	Overseas tax	6 3	79 7
		15 3	(52 3)
	Deferred tax		
	Origination and reversal of timing differences	(39 3)	(35 1)
	Adjustment in respect of prior year	-	19 2
		(39 3)	(15 9)
	Tax (credit) on ordinary activities	(24 0)	(68 2)
(b)	**Factors affecting tax charge for the year**		
	Profit on ordinary activities before tax	200 1	185 7
	Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	49 0	49 2
	Effect of		
	Timing difference on underwriting results	29 8	23 2
	Other permanent differences	-	-
	Overseas tax	6 3	79 7
	Adjustments in respect of prior periods	(69 8)	(204 4)
	Current tax credit/(charge) for the year	15 3	(52 3)

8 Financial investments

	At valuation		At cost	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Company				
Funds at Lloyd's	286 1	773 7	286 1	773 7
Syndicate participation				
Shares and other variable yield securities	2,805 9	3,518 8	2,805 9	3,518 8
Debt securities and other fixed income securities	25,975 0	36,225 7	25,590 8	35,640 5
Participation in investment pools	85 3	164 1	75 1	160 0
	28,866 2	39,908 6	28,471 8	39,319 3
Total	29,152 3	40,682 3	28,757 9	40,093 0

All investments are listed on a recognised stock exchange

Notes to the Financial Statements Year ended 31 December 2012

9. Other debtors

Debtors due within 12 months	2012 £'000	restated 2011 £'000
Amounts due from group undertakings	**3,431 7**	1,105 3
Taxes recoverable	**321 2**	258 1
Other directly held debtors	**529 7**	2,024 9
Syndicate amounts due from group undertakings	**603 4**	475 6
Syndicate's other debtors	**76 3**	109 7
	4,962 3	3,991 6

10 Other assets

	2012 £'000	2011 £'000
Overseas deposits	**6,988 2**	8,100 4

Overseas deposits were placed as a condition of carrying on business in Illinois and Kentucky, USA, Australia, South Africa and other countries

11 Share capital

Ordinary shares of £1 each	2012	2011
Authorised	**100**	100
Allotted, called up, and fully paid	**1**	1

The entire issued share capital of the Company, being 1 ordinary share of £1, is owned by Argo Underwriting Agency Limited ('AUA') The ultimate holding company is Argo Group International Holdings, Ltd, incorporated and registered in Bermuda

12 Reconciliation of movement in shareholders' funds

	2012 £'000	restated 2011 £'000
Shareholders' funds at 1 January	**1,331 8**	1,077 9
Profit for the year	**224 1**	253 9
Shareholders' funds at 31 December	**1,555 9**	1,331 8

Notes to the Financial Statements Year ended 31 December 2012

13 Provision for other risks and charges

The movements in deferred taxation during the year were as follows

	2012 £'000	2011 £'000
Deferred tax liability at 1 January	**142 3**	158 2
Credit for the year	**(39 3)**	(15 9)
Deferred tax liability at 31 December	**103 0**	142 3

Deferred taxation provided in the accounts is as follows

	2012 £'000	2011 £'000
Timing differences on syndicate result	**103 0**	142 3

The rate of corporation tax at 31 December 2012 was 24% and the average effective rate for the year was 24 5% Parliament has legislated that the rate of corporation tax will reduce to 23% with effect from 1 April 2013 Deferred tax balances have been calculated using this rate On 20 March 2013 the Chancellor announced the intention to further reduce thecorporation tax rate by 3% with effect from 1 April 2015 having the effect of reducing the effective tax rate to 20% It is expected that the impact of these future rate changes would reduce the closing deferred tax liability by £13,433

14. Other creditors including taxation and social security

Creditors payable within 12 months	2012 £'000	2011 £'000
Amounts due to group undertakings	**2,584 1**	849 4
Other creditors	**-**	1,581 6
Syndicate amounts due to group undertakings	**693 1**	-
Syndicate's other creditors	**-**	-
Corporation tax	**78 8**	77 5
	3,356 0	2,508 5

15 Funds at Lloyd's

The Company's underwriting activities are supported by Funds at Lloyd's and held in the Lloyd's Personal Reserve Fund (see note 8) At 31 December 2012 these funds amounted to £286,072 (2011 £773,732) In addition to the funds held in the Lloyd's Personal Reserve Fund, the Company's underwriting activities are further supported by Letters of Credit, made available by its reinsurer and lodged with Lloyd's At 31 December 2012 these funds amounted to £18,327,622 (2011 £18,327,622) Funds at Lloyd's are held by Lloyd's until the underwriting liabilities of the company are extinguished

16 Off-balance sheet arrangements

The Company has no material off-balance sheet arrangements, other than the provision of Funds at Lloyd's by its reinsurers, as described in note 15 above

Notes to the Financial Statements Year ended 31 December 2012

17 Related parties

The Company has taken advantage of exemptions under Financial Reporting Standard No 8 paragraph(c) to not disclose inter-group transactions as the Company is a wholly-owned subsidiary of Argo Underwriting Agency Ltd Transactions with entities that are part of the Group are consolidated in that Company's accounts The ultimate parent company is Argo Group International Holdings, Ltd Copies of these companies' financial statements and accounts are available from the registered office of the company at 110 Pitts Bay Road, Pembroke HM08 Bermuda 11

Any material related party transactions are carried out under normal market conditions

The Directors are satisfied that there are no other material related party transactions requiring disclosure under FRS No 8

18 Controlling party

The Company's immediate parent undertaking is Argo Underwriting Agency Limited The ultimate parent company is Argo Group International Holdings, Ltd, incorporated and registered in Bermuda Group financial statements may be obtained from the registered office of the company at 110 Pitts Bay Road, Pembroke HM08 Bermuda 11

Detailed Profit and Loss Account Year ended 31 December 2012

	2012 £'000	restated 2011 £'000
Technical income	**213.1**	245 8
Investment Income	**5.0**	0 9
Other income		
Total income	**218 1**	246 7
Administrative expenses		
Acquisition costs	**-**	35 0
Salaries and related costs	**-**	-
Lloyd's expenses	**-**	-
Auditors' remuneration	**2 8**	4 0
Office and administration	**15.0**	15 0
Miscelleaneous income	**(5 6)**	-
Accounting fees	**-**	0 3
Legal and professional fees	**7 0**	7 2
Profit on exchange	**(1 2)**	(0 5)
	18 0	61 0
Profit on ordinary activities before taxation	**200 1**	185 7
Taxation	**24.0**	68 2
Profit for the year	**224 1**	253 9

This statement is unaudited and is for Directors' information only