



Report & Financial Statements

Ark Corporate Member Limited

Registered number 6081055

2012

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## Directors and administration

### Directors

N Bonnar

N Deshpande

N Smith

C Watson (Chairman)

### Company secretary

J Masson

### Registered office

30 Fenchurch Avenue

London

EC3M 5AD

### Company registration number

6081055

### Bankers

Lloyds TSB Bank plc

PO Box 72

Bailey Drive

Gillingham Business Park

Kent

ME8 0LS

### Registered auditors

KPMG Audit Plc

15 Canada Square

London

E14 5GL

## Directors' report

The directors present their annual report and financial statements for the year to 31 December 2012

### Group structure

Group Ark Insurance Holdings Limited ("GAIHL") is the group parent company, and is a Bermuda registered company. The active trading companies that make up the Ark group as at 31 December 2012 are

- Ark Syndicate Management Limited ("ASML"), incorporated in the UK, the managing agent of Syndicate 4020 ("the Syndicate") and Special Purpose Syndicate 6105 ("Syndicate 6105"),
- Ark Corporate Member Limited ("ACML"), incorporated in the UK, a corporate member which participates on the 2010, 2011 and 2012 years of account ("YOA") of the Syndicate,
- Ark Corporate Member (No 2) Limited ("ACML2") and Ark Corporate Member (No 3) Limited ("ACML3"), incorporated in the UK, corporate members which have no current participation on the Syndicate,
- Group Ark Insurance Limited ("GAIL"), incorporated in Bermuda, a class III reinsurer

GAIL has written a 90% quota share of ACML in respect of its participation on the 2012, 2011, and 2010 YOA of the Syndicate. GAIL provides Funds at Lloyd's ("FAL") on behalf of ACML to support the underwriting of the Syndicate.

Syndicate 6105, a syndicate supported by traditional Lloyd's Names' capital, has written a quota share of the 2012, 2011 and 2010 YOA of the Syndicate.

### Principal activity and review of the business

The principal activity of ACML is that of a Lloyd's corporate member. The principal activity of the Syndicate is the underwriting of direct and reinsurance business in the Lloyd's market. All business is written in the Lloyd's market through approved brokers. Gross written premium income for the Syndicate by class of business for the year was as follows:

	2012 £'000	2011 £'000
Accident & Health	41,659	33,306
Cargo & Specie	11,235	11,789
Casualty Reinsurance	24,605	34,137
Energy – Upstream	39,180	33,350
Liability – Manne & Energy	7,589	7,925
Manne Hull	11,224	10,279
Property Reinsurance	39,369	36,343
Specialty Programmes	43,155	23,983
Specialty Reinsurance	10,722	10,406
War, Terrorism and Political Risk	27,426	38,425
Worldwide Property – Direct and Facultative	11,882	10,202
Worldwide Property Programmes	19,191	16,744
Incidental Syndicate 3902 - Contingency	4,964	4,073
Incidental Syndicate 3902 - Property Treaty	17,222	13,398
Incidental Syndicate 3902 – Fine Art and Specie	7,058	-
Total gross written premium	316,481	284,360

## Directors' report

### Principal activity and review of the business (continued)

The directors of ACML are of the opinion that the key performance indicators ("KPIs") of the Syndicate best represent the KPIs of the company. The result for the Syndicate for the year together with KPIs is shown below.

	2012	2011
Profit for the financial year (£'000)	29,348	20,203
Claims ratio (%)	59.6%	63.7%
Expenses ratio (%)	36.7%	32.5%
Combined ratio (%)	96.3%	96.2%

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of operating expenses and acquisition costs to earned premiums net of reinsurance. The result and ratios are broadly in line with expectations.

ACML entered into, at arms length, a 90% whole account quota share reinsurance contract with GAIL, protecting its participation on the 2010, 2011 and 2012 YOA of the Syndicate. GAIL has provided FAL on behalf of ACML in respect of its participation on these years.

### Principal risks and uncertainties

The principal risks and uncertainties of ACML are aligned with the Syndicate. ASML has developed and maintains a risk register within its risk framework for the Syndicate. Identified risks are grouped into major risk categories according to their nature, and by whom they are managed. The risk framework allows new risks to be identified and new controls to be put in place as necessary, either to prevent the occurrence of the event or to mitigate its impact. These are explained in more detail in the accounts of the Syndicate, a copy of which can be requested from the registered office of ACML.

### Financial position

The main components of the balance sheet are technical provisions and investments and cash.

Technical provisions include a provision for outstanding claims of £431.5m (2011: £349.5m) and a provision for unearned premiums of £151.6m (2011: £150.7m). The reinsurers' share of technical provisions is £137.7m (2011: £137.2m) in respect of unearned premiums, and £394.7m (2011: £321.6m) in respect of outstanding claims. The provision for outstanding claims is based on evaluations of reported claims and estimates for losses incurred but not reported ("IBNR"). As claims may not be settled for a number of years after they are incurred, the setting of provisions involves a degree of judgement as to the ultimate exposure to losses.

Investments and cash total £424.5m (2011: £333.5m) and are actively managed by third party investment managers. The Syndicate has established a diversified investment portfolio with a mix of cash, government and corporate debt and asset backed securities.

### Results

The profit after taxation for the year was £5.9m (2011: £0.1m). No dividend is proposed (2011: Nil).

### Future developments

ACML will participate on the 2013 YOA of the Syndicate. ACML2 and ACML3 have made their Funds at Lloyd's inter-available for the benefit of ACML for the 2013 YOA. The capacity of the Syndicate for the 2013 YOA is £381.0m (2012 YOA: £389.5m).

## Directors' report

### Directors and Directors' interests

The directors of ACML below, served from 1 January 2012 to the date of this report, unless stated otherwise

N Bonnar

N Deshpande

N Smith

C Watson

Certain directors own shares in GAIHL, the ultimate parent company. Also, a Limited Liability Partnership ("LLP") was established for employees to participate on the 2012, 2011 and 2010 YOA of the Syndicate. Details of directors' shareholdings in GAIHL and their participation in the LLP are disclosed in the accounts of ASML, a copy of which can be requested from the registered office of ACML.

### Political and charitable donations

ACML made no political or charitable donations during the year.

### Disclosure of information to auditors

The directors of ACML who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

### Auditors

KPMG Audit Plc has expressed their willingness to continue in office as auditors to the company. ACML has an elective resolution in place under Section 487(2) of the Companies Act 2006 to dispense with the obligation to appoint auditors annually.

By order of the Board



J Masson

Company Secretary

9 April 2013

## Statement of directors' responsibilities

The following statement applies to the directors' report and financial statements

The directors are responsible for preparing the directors' report 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

- 1 select suitable accounting policies and then apply them consistently,
- 2 make judgments and estimates that are reasonable and prudent,
- 3 state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 4 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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a directors' report that complies with that law.

## Independent auditors' report to the member of Ark Corporate Member Limited

We have audited the financial statements of Ark Corporate Member Limited (Company Number 6081055) for the year ended 31 December 2012 set out on pages 8 to 18. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Principles).

This report is made solely to the company's member, 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 member those matters we are required to state to them in an auditor's report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### 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 UK Generally Accepted Accounting Practice, and
- have been properly 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 director's 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.



Robert Lewis (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

9 April 2013



## Profit and loss account

For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
<b>Technical account</b>			
Earned premiums, net of reinsurance			
Gross premiums written	4	316,481	284,360
Outward reinsurance premiums		(290,155)	(260,652)
Change in the provision for unearned premiums			
Gross amount		(7,238)	11,930
Reinsurers' share		6,314	(11,132)
		25,402	24,506
Allocated investment return transferred from the non-technical account		1,833	876
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(128,978)	(103,517)
Reinsurers' share		119,609	94,467
		(9,369)	(9,050)
Change in the provision for claims			
Gross amount		(47,857)	(97,138)
Reinsurers' share		42,053	90,165
		(5,804)	(6,973)
		(15,173)	(16,023)
Other income		2,796	1,496
Operating expenses	4,5	(9,238)	(7,849)
Balance on the technical account for general business		5,620	3,006
<b>Non-technical account</b>			
Net investment income	7	1,833	876
Allocated investment return transferred to technical account		(1,833)	(876)
Other expenses		(88)	(37)
Profit on ordinary activities before taxation		5,532	2,969
Taxation	8	352	(2,873)
Profit on ordinary activities after taxation	5,14	5,884	96

## Statement of total recognised gains and losses

	Notes	2012 £'000	2011 £'000
Profit for the financial year	14	5,884	96
Currency translation difference on foreign currency ledgers	14	(397)	92
Total recognised gains in the financial year		5,487	188

All operations are continuing The notes on pages 10 to 18 form part of these financial statements

# Balance sheet

As at 31 December 2012

		2012 £'000	2011 £'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	9	419,862	328,840
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		137,747	137,202
Claims outstanding		406,337	321,614
		544,084	458,816
<b>Debtors</b>			
Debtors arising out of direct insurance operations	10	74,935	63,504
Debtors arising out of reinsurance operations	11	27,508	34,019
		102,443	97,523
<b>Other assets</b>			
Cash at bank and in hand		4,654	4,661
Overseas deposits	12	31,627	25,768
		36,281	30,429
Prepayments and accrued income			
Deferred acquisition costs		37,851	34,068
Prepayments and accrued income		4,746	4,857
Other debtors		17,588	3,032
		60,185	41,957
<b>Total assets</b>		<b>1,162,856</b>	<b>957,565</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	13	-	-
Profit and loss account	14	8,677	2,793
Other reserves	14	429	826
		9,106	3,619
<b>Technical provisions</b>			
Provision for unearned premiums		151,583	150,666
Claims outstanding		454,913	349,449
		606,496	500,115
<b>Creditors</b>			
Creditors arising out of direct insurance operations	15	992	940
Creditors arising out of reinsurance operations	16	20,209	18,361
Other creditors including taxation and social security	17	512,629	424,828
Accruals and deferred income		9,413	5,339
Deferred taxation	18	4,011	4,363
		547,254	453,831
<b>Total liabilities</b>		<b>1,162,856</b>	<b>957,565</b>

The notes on pages 10 to 18 form part of these financial statements. The financial statements were approved by the Board on 13 March 2013 and signed on its behalf by

N Smith, Director

9 April 2013

Ark Corporate Member Limited  
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## Notes to the financial statements

### 1 Basis of preparation

These financial statements have been prepared in accordance with section 255 of, and Schedule 3 to, the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 by the Association of British Insurers (as amended in December 2006).

Under Financial Reporting Standard 1, ACML is exempt from the requirement to prepare a cash flow statement on the grounds that the company is a subsidiary with more than 90% of the voting rights controlled by GAIHL which has produced a consolidated cash flow statement.

ACML recognises in the technical account its proportion of all the transactions undertaken by the Syndicate. Similarly, its proportion of the assets and liabilities of the Syndicate have been reflected in the balance sheet of the company. In addition, ACML purchases its own reinsurance protection and the premiums and recoveries arising from these transactions are recorded within the technical account.

### 2 Accounting policies

The financial statements are prepared under the historical cost convention.

#### a Premiums written

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting years. Premiums are shown gross of acquisition costs such as brokerage payable and taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified.

#### b Unearned premiums

Written premiums are recognised as 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. The provision is calculated on a policy by policy basis.

#### c Reinsurance premiums ceded

Outwards reinsurance premiums are accounted for in the same accounting year as the premiums for the direct or inwards business being reinsured.

#### d Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported ("IBNR").

Claims incurred comprise claims and claims handling expenses paid in the year and the movement in provision for outstanding claims and future claims handling expenses. Recoverable amounts arising out of subrogation and salvage together with reinsurance recoveries are deducted from the cost of gross claims.

Outstanding claims consist of amounts set aside for notified claims and a provision for IBNR claims. The amount included in respect of IBNR is arrived at by considering the actuarially calculated provision, using techniques which generally involve using statistical techniques of estimation applied by ASML's actuaries and reviewed by external consulting actuaries, as well as the opinion of the class underwriters and executive management. The actuarial techniques generally involve projecting from past experience of 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. Large claims are generally assessed individually, being calculated on a case by case basis or projected separately to allow for the possible distortive effects of the developments of these claims on the balance of the data. The provision for claims also includes amounts in respect of internal and external claims handling costs.

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 the 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. The Syndicate uses a number of statistical techniques to assist in making these estimates.

## Notes to the financial statements

### 2 Accounting policies (continued)

#### d Claims provisions and related recoveries (continued)

Accordingly the two most critical assumptions 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 for current business are fair reflections of the likely level of ultimate claims to be incurred

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 year in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

#### e Acquisition costs

Acquisition costs, comprising brokerage and taxes and duties levied on them are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

#### f Foreign currencies

Transactions in US dollars, Euros, Canadian dollars and Australian dollars are translated at the average rates 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. Realised exchange differences are included in the technical account within operating expenses.

Assets and liabilities denominated in US dollars, Euros, Canadian dollars and Australian dollars, where the assets and liabilities in the currency ledgers are broadly matched, are translated at the closing rate of exchange for the year with exchange differences arising from the retranslation of the opening net investment, and the result for the year, in the respective ledgers are recorded as a movement in reserves within the statement of total recognised gains and losses. Assets and liabilities denominated in other foreign currencies are translated into sterling at the rates of exchange at the balance sheet date.

#### g Investments

Investments that ASML has the expressed intention and ability to hold to maturity (held-to-maturity investments) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in the Profit and Loss Account when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised. The carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

All other investments are shown at current market value, excluding accrued interest, at the balance sheet date. For this purpose listed investments are stated at bid-price and deposits with credit institutions and overseas deposits are stated at cost. Accrued interest is included in prepayments and accrued income on the face of the balance sheet. The cost of syndicate investments held at the balance sheet date is the original cost of investments held at the year end. Unrealised gains and losses are recognised in the profit and loss account.

## Notes to the financial statements

### 2 Accounting policies (continued)

#### h Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and purchase price, together with the reversal of unrealised gains and losses recognised in earlier accounting years in respect of investment disposals in the current year

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 underwriting business. Investment return has been wholly allocated to the technical account as all investments relate to the technical account

#### i Taxation

ACML is taxed on its share of the underwriting results declared by the Syndicate which are deemed to accrue evenly over the calendar year in which they are declared. The results of the Syndicate included in the financial statements relate to the open years of account and will only be declared for tax purposes in the year following the closure of the year of account. Other profits are assessable to tax in the same year as they are recognised for accounting purposes, after adjustment in accordance with tax legislation

The charge for taxation based on the result for the year takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The provisions of FRS 19 "Deferred Tax" have been adopted in these financial statements. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes. As a consequence, full provision has been made for the deferred tax on tax assets and liabilities arising on timing differences

#### j Profit commission

Profit commissions expected to arise on closure of a Lloyd's year of account are recognised on an accruals basis subject to an assessment of certainty over the year's profitability

#### k Outwards reinsurance premiums in respect of underwriting capital

Outwards reinsurance premiums associated with the provision of underwriting capital are recognised over the expected life of the underlying YOA according to the estimated income stream of that YOA. The premiums are included within the non-technical account as other expenses

## Notes to the financial statements

### 3 Management of financial risk

Through its participation on the Syndicate, ACML is exposed to financial risks primarily through its financial assets, reinsurance assets and policyholder liabilities. The key financial risks assessed are:

#### a Market risk

Market risk is the risk that the Syndicate suffers loss from volatility or over concentration in its investment portfolio or due to currency mismatch between assets and liabilities. The Syndicate's investment manager produces a monthly report which sets out the investment mix and performance against benchmark indices. This is reviewed by executive management each month. The principal market risks and how exposure to these risks is managed are:

- Interest rate risk: The Syndicate works to manage the impact of interest rate fluctuations on the fixed maturity portfolio. The effective duration of the fixed maturity profile is managed with consideration given to the estimated duration of policyholder liabilities.
- Foreign Exchange Risk: Foreign Exchange Risk is managed primarily by matching assets and liabilities in each foreign currency as closely as possible. To assist in the matching of assets and liabilities in foreign currencies the Syndicate may enter into foreign exchange contracts.

#### b Credit risk

Credit Risk is the risk that a counterparty will be unable to pay amounts in full when they fall due. Key areas where the Syndicate is exposed to credit risk are:

- Reinsurance recoverables,
- Amounts due from insurance intermediaries,
- Amounts due from insurance contract holders, and
- Amounts due from corporate bond issuers.

The Syndicate's fixed maturity portfolio is monitored to ensure credit risk does not exceed the Syndicate's risk appetite. In addition, the Syndicate places limits on concentrations of exposures to a specific counterparty. At 31 December 2012 over 90% of the Syndicate's fixed maturity portfolio is rated 'A' or better.

The Syndicate takes a proactive approach to the collection of reinsurance recoveries. New reinsurers may be required to post collateral depending on their size, rating and potential debt to the Syndicate.

## Notes to the financial statements

### 4 Segmental analysis

An analysis of the underwriting result before investment return of the Syndicate is set out below

Year ended 31 December 2012	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident & Health	41,659	41,249	(18,339)	(1,746)	(20,809)	355
Cargo & Specie	11,235	12,547	(9,500)	(445)	(2,600)	2
Casualty Reinsurance	24,605	30,132	(28,669)	(680)	(1,306)	(523)
Energy – Upstream	39,180	39,145	(19,132)	(1,007)	(18,586)	420
Liability – Manne & Energy	7,589	7,908	(19,214)	(188)	11,061	(433)
Manne Hull	11,224	9,981	(5,861)	(342)	(3,765)	13
Property Reinsurance	39,369	39,648	(16,775)	(783)	(21,595)	495
Specialty Programmes	43,155	33,108	(18,214)	(1,272)	(13,593)	29
Specialty Reinsurance	10,722	10,497	(8,785)	(196)	(1,532)	(16)
War, Terrorism and Political Risk	27,426	32,366	(4,024)	(958)	(26,666)	718
Worldwide Property – Direct and Facultative	11,882	12,069	(6,692)	(312)	(4,995)	70
Worldwide Property Programmes	19,191	15,710	(11,390)	(645)	(4,085)	(410)
Incidental Syndicate 3902 - Contingency	4,964	4,782	(2,247)	(176)	(2,334)	25
Incidental Syndicate 3902 - Property Treaty	17,222	17,627	(4,686)	(407)	(12,235)	299
Incidental Syndicate 3902 – Fine Art & Specie	7,058	2,474	(3,307)	(81)	861	(53)
<b>Total</b>	<b>316,481</b>	<b>309,243</b>	<b>(176,835)</b>	<b>(9,238)</b>	<b>(122,179)</b>	<b>991</b>

Year ended 31 December 2011	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident & Health	33,306	39,051	(16,072)	(1,681)	(20,999)	299
Cargo & Specie	11,789	9,439	(3,958)	(323)	(5,036)	122
Casualty Reinsurance	34,137	46,611	(40,083)	(680)	(5,929)	(81)
Energy – Upstream	33,350	36,845	(21,910)	(484)	(13,696)	755
Liability – Manne & Energy	7,925	10,208	(7,289)	15	(2,715)	219
Manne Hull	10,279	11,620	(6,949)	(308)	(4,282)	81
Property Reinsurance	36,343	35,768	(75,647)	(994)	37,887	(2,986)
Specialty Programmes	23,983	20,291	(11,444)	(672)	(8,159)	16
Specialty Reinsurance	10,406	11,613	(4,917)	(194)	(6,098)	404
War, Terrorism and Political Risk	38,425	34,243	(2,753)	(1,717)	(29,476)	297
Worldwide Property – Direct and Facultative	10,202	13,174	383	(82)	(12,484)	991
Worldwide Property Programmes	16,744	14,883	(6,698)	(432)	(7,610)	143
Incidental Syndicate 3902 - Contingency	4,073	2,372	(1,173)	(84)	(1,082)	33
Incidental Syndicate 3902 - Property Treaty	13,398	10,172	(2,145)	(213)	(7,473)	341
<b>Total</b>	<b>284,360</b>	<b>296,290</b>	<b>(200,655)</b>	<b>(7,849)</b>	<b>(87,152)</b>	<b>634</b>

All direct premiums were written and concluded in the UK. Gross premiums written by the Syndicate, analysed by location of risk is set out below

	2012 £'000	2011 £'000
UK	43,443	39,757
Other EU countries	21,721	24,485
US	229,744	197,516
Other	21,573	22,602
<b>Total</b>	<b>316,481</b>	<b>284,360</b>

## Notes to the financial statements

### 5 Operating expenses

	2012	2011
	£'000	£'000
Acquisition costs – brokerage and commission	6,285	5,449
Acquisition costs – other	409	377
Administrative expenses, including personal expenses	1,639	1,418
Managing agency fee and profit commission	905	605
	9,238	7,849

The profit on ordinary activities after taxation is stated after charging

	2012	2011
	£'000	£'000
Incurred by ASML on behalf of ACML - audit fees	9	6

### 6 Directors and employees

All staff are remunerated by ASML. The directors do not receive any remuneration in respect of their services to ACML.

### 7 Net investment income

	2012	2011
	£'000	£'000
Income from investments	1,388	1,214
Gains on the realisation of investments	11	40
Unrealised gains on investments	726	242
Losses on the realisation of investments	(116)	(94)
Unrealised losses on investments	(144)	(499)
Investment management charges	(32)	(27)
Income from investments	1,833	876

### 8 Taxation

	2012	2011
	£'000	£'000
UK corporation tax charge for the year	-	-
Movement in deferred taxation	(352)	2,873
Taxation on profit on ordinary activities	(352)	2,873

There are no known factors that would significantly impact the future tax charge of ACML. The current tax credit for the year is lower than the standard rate of corporation tax in the UK of 24.5% applied to the profit for the year. The difference is explained below.

	2012	2011
	£'000	£'000
Profit on ordinary activities	5,532	2,969
UK corporation tax at 24.5% (2011: 26.5%)	1,355	787
Taxation effect of		
Adjustment in respect of prior years	-	(787)
Profits not taxable in the current year	(1,355)	-
Current taxation on profit on ordinary activities	-	-



## Notes to the financial statements

### 9 Other financial investments

	Cost 2012 £'000	Value 2012 £'000	Cost 2011 £'000	Value 2011 £'000
<b>Current value</b>				
Shares and other variable yield securities	78,713	78,901	53,705	53,352
Debt and other fixed income securities	220,318	224,640	212,385	209,449
Deposits with credit institutions	66,557	66,689	22,428	22,428
	365,588	370,230	288,518	285,229
<b>Amortised cost</b>				
Debt and other fixed income securities	49,174	49,632	43,393	43,611
	414,762	419,862	331,911	328,840

Current value investments are valued at market value. Amortised cost investments are valued at amortised cost, less impairment losses. The market value of held to maturity investments is £53.5m (2011: £39.8m). The net excess of amounts receivable at maturity over amortised cost is £3.0m (2011: £3.1m).

Shares and other variable yield securities represent funds held by the Syndicate in managed liquidity funds.

### 10 Debtors arising out of direct insurance operations

	2012 £'000	2011 £'000
Due within one year	74,902	63,386
Due after one year	33	118
	74,935	63,504

### 11 Debtors arising out of reinsurance operations

	2012 £'000	2011 £'000
Due within one year	27,442	33,877
Due after one year	67	142
	27,509	34,019

### 12 Overseas deposits

Overseas deposits are deposits lodged by the Syndicate as a condition of conducting underwriting business in certain countries or states within countries.

### 13 Share capital

	Authorised Number	Authorised £'000	Allotted, issued and fully paid Number	Allotted, issued and fully paid £'000
Ordinary shares of £1 each	1,000	1	1	-

## Notes to the financial statements

### 14 Reconciliation of movement in shareholders' funds

	Share capital	Profit and loss account	Other reserves	Total
	£'000	£'000	£'000	£'000
At 1 January 2011	-	2,697	734	3,431
Profit for the year	-	96	-	96
Currency translation difference on foreign currency ledgers	-	-	92	92
At 31 December 2011	-	2,793	826	3,619
Profit for the year	-	5,884	-	5,884
Currency translation difference on foreign currency ledgers	-	-	(397)	(397)
Closing shareholders' funds	-	8,677	429	9,106

### 15 Creditors arising out of direct insurance operations

	2012	2011
	£'000	£'000
Due within one year	992	940
Due after one year	-	-
	992	940

### 16 Creditors arising out of reinsurance operations

	2012	2011
	£'000	£'000
Due within one year	20,209	18,361
Due after one year	-	-
	20,209	18,361

### 17 Other creditors including taxation and social security

	2012	2011
	£'000	£'000
Due to GAIL in respect of quota share reinsurance contract – 2010 YOA and prior	180,839	224,700
Due to GAIL in respect of quota share reinsurance contract – 2011 YOA	104,901	171,326
Due to GAIL in respect of quota share reinsurance contract – 2012 YOA	177,058	-
Other creditors	49,831	28,802
	512,629	424,828

The amount due to GAIL in respect of quota share reinsurance contracts will be settled upon closure of the relevant YOA. The 2010 YOA was closed with effect from 31 December 2012 and the amounts due to GAIL will be settled when the profits of the YOA are distributed in April 2013. It is currently anticipated that the 2011 YOA will close on 31 December 2013 and the 2012 YOA will close on 31 December 2014.

## Notes to the financial statements

### 18 Deferred taxation

	2012	2011
	£'000	£'000
Provision at 1 January	4,363	1,490
Underwriting results taxable on closure of the 2010, 2011 and 2012 YOA	(352)	2,873
Deferred tax liability at 31 December	4,011	4,363

The Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 25% to 24% (effective from 1 April 2012) and to 23% (effective from 1 April 2013) was substantively enacted on 26 March 2012 and 3 July 2012 respectively. The deferred tax liability at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date. The March 2013 Budget announced that the rate will further reduce to 20% by 2015. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

### 19 Related parties

#### *Ultimate parent company*

The results of ACML are consolidated in the financial statements of GAIHL, a company registered in Bermuda. The registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda. No other group financial statements include the results of ACML. The consolidated financial statements of GAIHL are not available to the public.

#### *Other disclosures*

ACML has taken advantage of the exemption for wholly owned subsidiaries available in FRS8 and has not disclosed related party transactions between itself and other group companies.

C Watson is employed by Aquiline Capital Partners LLC ("Aquiline"). Funds managed by Aquiline hold 47% of the ordinary share capital of GAIHL. During the year, Aquiline acquired Equity Syndicate Management Limited ("Equity"), the managing agent of Syndicate 218 at Lloyd's. As there is a level of common ownership between ASML and Equity, there is a risk that in the event of a significant loss from Syndicate 218 which results in a call on the Lloyd's Central Fund that, under the cross deficit clause of the managing agents agreement, the Ark group could be impacted. Potential implications could include restrictions to future profit releases by the Syndicate, and exposure to losses incurred by Syndicate 218 which could inhibit the ability of the Syndicate and ACML to trade forward on a normal basis.

### 20 Funds at Lloyd's

In case syndicate assets prove insufficient to meet the member's underwriting liabilities, ACML is required to arrange for additional capital to be held at Lloyd's, known as FAL, which is held in trust. For the 2010, 2011 and 2012 YOA FAL was provided on behalf of ACML by GAIL.

Under the capital regime for Lloyd's syndicates, the Financial Services Authority ("FSA") requires ASML to perform an individual capital assessment ("ICA") of the Syndicate to determine the level of FAL required. The ICA process requires an assessment of gross risks faced by the business. The controls to mitigate these risks are then assessed to give the net or residual risks faced. These risks are quantified as far as possible to arrive at the amount of capital needed to support the Syndicate. The ICA is reported to Lloyd's who review the process and calculation of the ICA in light of the aggregate amount of capital the Lloyd's market is required to hold as agreed with the FSA. The Syndicate's ICA may be increased in order to ensure that sufficient capital is held across the Lloyd's market.

Whilst the Solvency II regulatory regime has not yet been implemented, the ICA capital setting process for 2013 onwards has been modified to utilise the Syndicate Calculation Kernel developed for Solvency II as a calculation mechanism for the capital requirement.