



Report & Financial Statements

Ark Corporate Member (No. 2) Limited

Registered number 6430160

2012

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## Directors and administration

### Directors

N Bonnar  
N Deshpande  
N Smith

### Company secretary

J Masson

### Registered office

30 Fenchurch Avenue  
London  
EC3M 5AD

### Company registration number

6430160

### 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 ended 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 ACML2 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 Lloyd's approved brokers. Gross written premium income for the Syndicate by class of business for the year was as follows:

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Accident & Health                           | -             | 584           |
| Cargo & Specie                              | -             | 52            |
| Casualty Reinsurance                        | -             | 371           |
| Energy – Upstream                           | -             | 188           |
| Liability – Marine & Energy                 | -             | (106)         |
| Marine Hull                                 | -             | 91            |
| Property Reinsurance                        | -             | (136)         |
| Specialty Programmes                        | -             | (31)          |
| Specialty Reinsurance                       | -             | 2             |
| War, Terrorism and Political Risk           | -             | 160           |
| Worldwide Property – Direct and Facultative | -             | 23            |
| Worldwide Property Programmes               | -             | (14)          |
| Total gross written premium                 | -             | 1,184         |

ACML2 is not participating on the 2010, 2011 or 2012 YOA of the Syndicate and has made Funds at Lloyd's inter-available for the benefit of ACML for the 2010, 2011 and 2012 YOA.

## Directors' report

### Principal risks and uncertainties

The principal risks and uncertainties of ACML2 are aligned with the Syndicate. ASML has developed and maintains a risk register within its risk framework. 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 ACML2.

### Results

The loss after taxation for the year was £1.0m (2011: £0.7m). No dividend is proposed (2011: Nil).

### Future developments

ACML2 is not participating on the 2013 YOA of the Syndicate but has made Funds at Lloyd's inter-available for the benefit of ACML for the 2013 YOA.

### Directors and directors' interests

The directors of ACML2 below served from 1 January 2012 to the date of this report, unless stated otherwise.

N Bonnar

N Deshpande

N Smith

Certain directors own shares in GAIHL, the ultimate parent company. Details of directors' shareholdings in GAIHL are disclosed in the accounts of ASML, a copy of which can be requested from the registered office of ACML2.

### Political and charitable donations

ACML2 made no political or charitable donations during the year.

### Disclosure of information to auditors

The directors of ACML2 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. ACML2 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

8 April 2013

Ark Corporate Member (No. 2) Limited

## 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 (No 2) Limited

We have audited the financial statements of Ark Corporate Member (No 2) Limited (Company Number 6430160) for the year ended 31 December 2012 set out on pages 7 to 16. 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 5, 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 Practice Board's ("APB'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 FRC's web-site 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 loss 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<br>£'000 | 2011<br>£'000 |
|--|-------|---------------|---------------|
| <b>Technical account</b>   |       |               |               |
| Earned premiums, net of reinsurance                                    |       |               |               |
| Gross premiums written   | 4     | -             | 1,184         |
| Outward reinsurance premiums   |       | -             | (1,098)       |
| Change in the provision for unearned premiums                          |       |               |               |
| Gross amount   |       | -             | 2,711         |
| Reinsurers' share  |       | -             | (2,497)       |
|  |       |               | 300           |
| Allocated investment return transferred from the non-technical account |       | -             | 77            |
| Claims incurred, net of reinsurance                                    |       |               |               |
| Claims paid  |       |               |               |
| Gross amount   |       | -             | (11,332)      |
| Reinsurers' share  |       | -             | 10,395        |
|  |       | -             | (937)         |
| Change in the provision for claims                                     |       |               |               |
| Gross amount   |       | -             | 11,018        |
| Reinsurers' share  |       | -             | (10,037)      |
|  |       | -             | 981           |
|  |       |               | 44            |
| Other income   |       | -             | 255           |
| Operating expenses   | 4     | -             | (164)         |
| Balance on the technical account for general business                  |       | -             | 512           |
| <b>Non-technical account</b>   |       |               |               |
| Net investment income  | 7     | -             | 77            |
| Allocated investment return transferred to technical account           |       | -             | (77)          |
| Other expenses   | 5     | (48)          | (1,046)       |
| Loss on ordinary activities before taxation                            |       | (48)          | (534)         |
| Taxation on loss on ordinary activities                                | 8     | (950)         | (133)         |
| Loss on ordinary activities after taxation                             | 5,14  | (998)         | (667)         |

## Statement of total recognised gains and losses

|   | Notes | 2012<br>£'000 | 2011<br>£'000 |
|---|-------|---------------|---------------|
| Loss for the financial year                                 | 14    | (998)         | (667)         |
| Currency translation difference on foreign currency ledgers | 14    | (1)           | 5             |
| Total recognised losses in the financial year               |       | (999)         | (662)         |

All operations are continuing. The notes on pages 9 to 16 form part of these financial statements.



## Balance sheet

As at 31 December 2012

|   | Notes | 2012<br>£'000 | 2011<br>£'000 |
|---|-------|---------------|---------------|
| <b>Assets</b>   |       |               |               |
| Investments   |       |               |               |
| Other financial investments                                       | 9     | -             | 32,565        |
| Reinsurers' share of technical provisions                         |       |               |               |
| Provision for unearned premiums                                   |       | -             | -             |
| Claims outstanding  |       | -             | 28,462        |
|   |       | -             | 28,462        |
| Debtors   |       |               |               |
| Debtors arising out of direct insurance operations                | 10    | -             | 344           |
| Debtors arising out of reinsurance operations due within one year | 11    | -             | 1,164         |
|   |       |               | 1,508         |
| Other assets  |       |               |               |
| Cash at bank and in hand  |       | -             | 669           |
| Overseas deposits   | 12    | -             | 1,328         |
|   |       | -             | 1,997         |
| Prepayments and accrued income                                    |       |               |               |
| Prepayments and accrued income                                    |       | 22            | 628           |
| Other debtors   |       | 568           | 649           |
|   |       | 590           | 1,277         |
| <b>Total assets</b>   |       | 590           | 65,809        |
| <b>Liabilities</b>  |       |               |               |
| Capital and reserves  |       |               |               |
| Called up share capital   | 13    | -             | -             |
| Profit and loss account   | 14    | (6,642)       | (5,643)       |
| Other reserves  | 14    | 75            | 76            |
|   |       | (6,567)       | (5,567)       |
| Technical provisions  |       |               |               |
| Claims outstanding  |       | -             | 31,235        |
|   |       | -             | 31,235        |
| Creditors   |       |               |               |
| Creditors arising out of direct insurance operations              | 15    | -             | 38            |
| Creditors arising out of reinsurance operations                   | 16    | -             | 1,638         |
| Other creditors including taxation and social security            | 17    | 7,157         | 37,635        |
| Accruals and deferred income                                      |       | -             | 647           |
| Deferred taxation   | 18    | -             | 183           |
|   |       | 7,157         | 40,141        |
| <b>Total liabilities</b>  |       | 590           | 65,809        |

The notes on pages 9 to 16 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

13 March 2013 9 April 2013

Ark Corporate Member (No. 2) Limited

## 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, ACML2 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.

ACML2 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, ACML2 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 periods. 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 earned 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 periods 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

ACML2 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, ACML2 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

| Year ended 31 December 2011                 | Gross<br>premiums<br>written<br>£'000 | Gross<br>premiums<br>earned<br>£'000 | Gross claims<br>incurred<br>£'000 | Operating<br>expenses<br>£'000 | Reinsurance<br>balance<br>£'000 | Total<br>£'000 |
|---|---------------------------------------|--------------------------------------|-----------------------------------|--------------------------------|---------------------------------|----------------|
| Accident & Health                           | 584                                   | 1,080                                | 61                                | (85)                           | (1,045)                         | 11             |
| Cargo & Specie                              | 52                                    | 187                                  | (35)                              | (13)                           | (142)                           | (3)            |
| Casualty Reinsurance                        | 371                                   | 607                                  | (1,273)                           | (28)                           | 603                             | (91)           |
| Energy – Upstream                           | 188                                   | 448                                  | (560)                             | (16)                           | 146                             | 18             |
| Liability – Manne & Energy                  | (106)                                 | (74)                                 | 657                               | 9                              | (515)                           | 77             |
| Manne Hull                                  | 91                                    | 212                                  | 216                               | (12)                           | (393)                           | 23             |
| Property Reinsurance                        | (136)                                 | (71)                                 | 300                               | 18                             | (181)                           | 66             |
| Specialty Programmes                        | (31)                                  | 117                                  | (18)                              | (1)                            | (94)                            | 4              |
| Specialty Reinsurance                       | 2                                     | 26                                   | 178                               | 9                              | (184)                           | 29             |
| War, Terrorism and Political Risk           | 160                                   | 924                                  | (173)                             | (35)                           | (720)                           | (4)            |
| Worldwide Property – Direct and Facultative | 23                                    | 112                                  | 445                               | (2)                            | (509)                           | 46             |
| Worldwide Property Programmes               | (14)                                  | 327                                  | (112)                             | (8)                            | (203)                           | 4              |
| <b>Total</b>                                | <b>1,184</b>                          | <b>3,895</b>                         | <b>(314)</b>                      | <b>(164)</b>                   | <b>(3,237)</b>                  | <b>180</b>     |

There were no transactions through the technical account in 2012

All direct premiums were written and concluded in the UK. Gross written premiums by the Syndicate by location of risk are as follows:

|                    | 2012<br>£'000 | 2011<br>£'000 |
|--------------------|---------------|---------------|
| UK                 | -             | 166           |
| Other EU countries | -             | 102           |
| US                 | -             | 822           |
| Other              | -             | 94            |
|                    | -             | 1,184         |

### 5 Operating expenses

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Acquisition costs – brokerage and commission         | -             | 76            |
| Acquisition costs – other                            | -             | 5             |
| Administrative expenses, including personal expenses | 48            | 30            |
| Managing agency fee and profit commission            | -             | 53            |
|  | 48            | 164           |

The loss on ordinary activities after taxation is stated after charging:

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Incurred by ASML on behalf of ACML2 - 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 ACML2.

## Notes to the financial statements

### 7 Net investment income

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Income from investments                  | -             | 114           |
| Gains on the realisation of investments  | -             | 3             |
| Unrealised gains on investments          | -             | 24            |
| Losses on the realisation of investments | -             | (9)           |
| Unrealised losses on investments         | -             | (53)          |
| Investment management charges            | -             | (2)           |
|  | -             | 77            |

### 8 Taxation

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| UK corporation tax credit for the year  | 1,133         | -             |
| Movement in deferred taxation           | (183)         | 133           |
| Taxation on loss on ordinary activities | 950           | 133           |

There are no known factors that would significantly impact the future tax charge of ACML2. 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 loss for the year. The difference is explained below:

|  | 2012<br>£'000 | 2011<br>£'000 |
|--|---------------|---------------|
| Loss on ordinary activities  | (48)          | (534)         |
| UK corporation tax credit at 24.5% (2011: 26.5%) based on the UK loss for the year | (12)          | (142)         |
| Taxation effect of:  |               |               |
| Profits not taxable in the current year  | 1,145         | (698)         |
| Losses surrendered for no payment  | -             | 840           |
| Current taxation on loss on ordinary activities                                    | 1,133         | -             |

### 9 Other financial investments

|  | Cost<br>2012<br>£'000 | Value<br>2012<br>£'000 | Cost<br>2011<br>£'000 | Value<br>2011<br>£'000 |
|--|-----------------------|------------------------|-----------------------|------------------------|
| <b>Current value</b>                       |                       |                        |                       |                        |
| Shares and other variable yield securities | -                     | -                      | 4,766                 | 4,741                  |
| Debt and other fixed income securities     | -                     | -                      | 22,630                | 22,365                 |
| Deposits with credit institutions          | -                     | -                      | 940                   | 940                    |
|  | -                     | -                      | 28,336                | 28,046                 |
| <b>Amortised cost</b>                      |                       |                        |                       |                        |
| Debt and other fixed income securities     | -                     | -                      | 4,495                 | 4,519                  |
|  | -                     | -                      | 32,831                | 32,565                 |

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 Nil (2011: £4.1m). The net excess of amounts receivable at maturity over amortised cost is Nil (2011: £0.3m).

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

## Notes to the financial statements

### 10 Debtors arising out of direct insurance operations

|                     | 2012<br>£'000 | 2011<br>£'000 |
|---------------------|---------------|---------------|
| Due within one year | -             | 328           |
| Due after one year  | -             | 16            |
|                     | -             | 344           |

### 11 Debtors arising out of reinsurance operations

|                     | 2012<br>£'000 | 2011<br>£'000 |
|---------------------|---------------|---------------|
| Due within one year | -             | 1,152         |
| Due after one year  | -             | 12            |
|                     | -             | 1,164         |

### 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<br>Number | Authorised<br>£'000 | Allotted, issued and<br>fully paid<br>Number | Allotted, issued and<br>fully paid<br>£'000 |
|----------------------------|----------------------|---------------------|--|---|
| Ordinary shares of £1 each | 1,000                | 1                   | 1  | -   |

### 14 Reconciliation of movement in shareholders' funds

|   | Share capital<br>£'000 | Profit and loss<br>account<br>£'000 | Other reserves<br>£'000 | Total<br>£'000 |
|---|------------------------|-------------------------------------|-------------------------|----------------|
| At 1 January 2011   | -                      | (4,976)                             | 71                      | (4,905)        |
| Loss for the period   | -                      | (667)                               | -                       | (667)          |
| Currency translation difference on foreign currency ledgers | -                      | -                                   | 5                       | 5              |
| At 31 December 2011   | -                      | (5,643)                             | 76                      | (5,567)        |
| Loss for the period   | -                      | (999)                               | -                       | (999)          |
| Currency translation difference on foreign currency ledgers | -                      | -                                   | (1)                     | (1)            |
| Closing shareholders' funds                                 | -                      | (6,642)                             | 75                      | (6,567)        |

### 15 Creditors arising out of direct insurance operations

|                     | 2012<br>£'000 | 2011<br>£'000 |
|---------------------|---------------|---------------|
| Due within one year | -             | 38            |

### 16 Creditors arising out of reinsurance operations

|                     | 2012<br>£'000 | 2011<br>£'000 |
|---------------------|---------------|---------------|
| Due within one year | -             | 1,638         |

## Notes to the financial statements



**17 Other creditors including taxation and social security**

|                                       | 2012  | 2011   |
|---------------------------------------|-------|--------|
|                                       | £'000 | £'000  |
| Amounts due to fellow group companies | 5,985 | 27,626 |
| Other                                 | 1,172 | 10,009 |
|                                       | 7,157 | 37,635 |

**18 Deferred taxation**

|   | 2012  | 2011  |
|---|-------|-------|
|   | £'000 | £'000 |
| Provision at 1 January                                  | 183   | 50    |
| Underwriting results taxable on closure of the 2009 YOA | (183) | 133   |
| Deferred tax liability at 31 December                   | -     | 183   |

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 accordingly.

**19 Related parties***Ultimate parent company*

The results of ACML2 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 ACML2. The consolidated financial statements of GAIHL are not available to the public.

*Other disclosures*

ACML2 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.

**20 Funds at Lloyd's**

In case syndicate assets prove insufficient to meet the member's underwriting liabilities, ACML2 is required to arrange for additional capital to be held at Lloyd's, known as FAL, which is held in trust. For the 2009 YOA FAL was provided on behalf of ACML2 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.