

**TORUS UNDERWRITING LIMITED**  
**(FORMERLY KNOWN AS BROADGATE UNDERWRITING LIMITED)**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

(Registered Number. 03871308)

WEDNESDAY



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19/09/2012  
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## Report of the Directors

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2011

### Principal Activity

The Company is a corporate member of the Society of Lloyd's and underwrites solely via Lloyd's Syndicate 1301

### Results and Dividends

The loss for the year after taxation attributable to shareholders was £15,063,072 (2010 loss of £15,022,667) No dividends were paid during the year (2010 No dividends)

### Review of the Business and Future Developments

The Company continues to underwrite only through Syndicate 1301 (The "Torus Syndicate" (formerly Broadgate Syndicate) or the "Syndicate") which reduced its underwriting capacity to £92 million for the 2011 year of account from £110 million, of which the company provides 90% for the 2010 year of account and 100% for all other years of account

To support the underwriting capacity the company had a quota share reinsurance arrangement totalling 21.22% (2010 15%) of capacity

The directors remain confident that 2012 will see a return to positive results for the company

The Syndicate's key financial performance indicators during the year were as follows

	2011 £m	2010 £m	Change %
Gross written premiums	88.9	96.0	-7.3
(Loss) for the financial year	(15.1)	(15.0)	
Combined ratio†	125.3%	131.3%	

† The Combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance

There are no post year end events to report

### Underwriting Performance of Syndicate 1301

The 2011 calendar year was a difficult year for all International property insurers and reinsurers due to the increased frequency of natural peril losses and the size of some of these events. Syndicate 1301 was no exception to this and the 2011 calendar year had to bear the strain of losses affecting both the 2010 and 2011 underwriting years. That said, the New Zealand earthquake and the Japanese Earthquake losses, as well as the Australian floods and Cyclone Yasi, were contained within our reinsurance protections and Possible Maximum Losses (PML's) held as expected.

Whilst there was a more stable investment environment when compared to the previous year and to an extent a more stable currency position, interest rates remained low and the pound remained weak against most of the main currencies. Investment income for the year ended at 2% as the Syndicate's investments are held in short-term cash or Government Securities.

The Syndicate capital provider, Clal Insurance, has sold the company to Torus Insurance on 30 November 2011 and the company has been renamed Torus Underwriting Limited.

The Syndicate's gross written premiums were £90.8m (2010 £105.2m) and the combined ratio was 126.1% (2010 133.6%) producing a technical loss of £18.6m (2010 £23.6m loss) for the year.

# Report of the Directors

## Business Profile

Broadgate Syndicate 1301 commenced trading on 1st July, 2000. Capacity is fully aligned and for 2012 year of account capital is provided by Torus Underwriting Limited, which is a wholly owned subsidiary of Torus Insurance Limited.

The Syndicate is committed to developing as a short tail entity concentrating on specialist accounts within the Lloyd's market.

For 2011 the portfolio included the following lines of business:

- Worldwide property treaty
- International direct and facultative property
- Worldwide property special risks (jewellers, fine art, specie and cash in transit)
- Worldwide accident and health
- Worldwide personal accident treaty
- Worldwide bloodstock
- Worldwide property Schemes

During 2011 market conditions and pricing levels were challenging, however, we were able to achieve rate increases in the loss affected areas of the portfolio. The Property Treaty portfolio was restructured to reduce the syndicate exposure to attritional catastrophe losses. The Property Direct and Facultative portfolio is focused on commercial and industrial on an excess of loss basis. The Property Special Risks account and the PA Catastrophe books also had a challenging rating environment to contend with, whilst Property Schemes and Bloodstock were less price-competitive.

The Syndicate is optimistic regarding pricing levels for 2012 with all classes reporting better than planned rate movements in the January renewal season. The Syndicate will continue to diversify the account by growing the less volatile classes during the year.

## **International Property Account**

This account currently comprises single and multi-territory industrial and commercial risks written predominantly on an excess of loss basis. The Syndicate is an established lead in this sector and has produced good results since 2000 although we have seen an increase in loss activity.

The 2011 calendar year was affected by the earthquake in Japan for £5m gross and £4.66m net after reinstatement premiums.

The Syndicate will continue to write primary business from the USA only, and selected full value business. The majority of the account will continue to be excess layered business. The Syndicate will write more US business, with firm restrictions as regards to catastrophe exposures.

## **Property Treaty Account**

The property treaty portfolio was re-underwritten during 2011. It is mainly catastrophe excess of loss, with the proportional account being written in support. We took the decision to withdraw from the Risk excess of loss business as pricing was too competitive.

For 2011, the premium base of this portfolio reduced from the 2010 level, due mainly to the re-underwriting of this portfolio, when it was decided to concentrate on business with exposures in the USA, Japan and Europe.

## **Property Special Risks Account**

This account is comprised of jewellers block risks emanating from Europe, the Far East, Australasia and the USA. In addition, a modest portfolio of Specie and Private Fine Art is also written.

Renewal pricing in this area has been under pressure and results have suffered from an increased loss activity driven by the poor economic environment. Pricing was challenging during 2011, but the account was maintained in 2011 at 2010 levels.

## **Accident & Health Account**

The Syndicate writes a specialist niche account covering aircrew, yacht and fishing vessel crews. General broker binders are not widely written.

The overall account continues to be profitable.

Rating levels are under pressure and we may have to reduce the portfolio as a result.

## **Report of the Directors**

### **PA Catastrophe Account**

We increased our business in this class for 2011 compared to 2010. Although the market is still competitive we believe the profitability to be acceptable.

### **Property Schemes**

The Syndicate is developing a small specialist household property portfolio through carefully selected Lloyd's coverholders. This business is predominantly derived from Europe. The 2011 year is running profitably following a small loss in 2009 caused by freeze losses in the UK. We grew this account during 2011 and expect the premium to reach £11.2m.

### **Bloodstock**

The Syndicate started writing the class in late 2008 following the recruitment of Mike Cernuschi and Alan Clements. The new underwriters have successfully developed an account which has been profitable and grown to £15m in 2011. We have written a number of pet insurance schemes within this portfolio for 2011.

### **Outwards Reinsurance Arrangements**

As in previous years, a comprehensive reinsurance programme is purchased by the Syndicate for each account, providing protection on a proportional and non proportional basis. The protections are arranged to increase gross line capacity and to give cover against catastrophe losses and single risk claims. Facultative reinsurances continue to be purchased, where deemed necessary, to protect the portfolio on a risk basis. The Syndicate's underwriting philosophy and strategy for each account is based on the need to make a gross and net underwriting profit.

### **International Property**

The reinsurance programme purchased for this account for 2011 is broadly similar to the previous year, as is the panel of reinsurers with one or two changes.

The Syndicate's programme covers all scenarios within our Realistic Disaster Scenario and continues to be placed on a losses occurring basis with per risk capacity of up to \$10.0m protected by a risk excess layer of \$3.0m xs \$5.0m. Natural Perils cover within the per risk programme is maintained. Catastrophe cover totals \$25.0m for both US and non US. Our net retention for 2012 is up \$5m to \$10m. Larger catastrophic events in the USA and Japan are protected by an Industry Loss Warranty (ILW) cover that protects the Direct & Facultative (D&F) and Treaty exposures.

### **Property Treaty**

The retrocession market has continued to be expensive. For 2012, the Syndicate purchased a catastrophe programme similar to that bought in 2011. We have vertical cover on a losses occurring basis of \$35.0m xs \$10.0m with the top layer being for certain specified territories. The syndicate programme covers all exposures earned on a PML/ modelled basis. We did not renew an aggregate excess of loss cover for \$15.0m xs \$15.0m due to the re-underwriting of this portfolio and reduction in territorial exposures.

We continue to place an ILW cover against the possibility of a large market loss in the USA or Japan from earthquake, protecting both the Treaty and D & F portfolios.

The syndicate purchased back up protections to the Treaty Catastrophe programme, due to the unprecedented catastrophe events during 2011. This additional cost was borne by the 2011 year of account.

### **Property Special Risks**

A specific risk and catastrophe programme is bought and this is the same as 2011 programme. The first £0.5m xs £0.5m cover bought is for catastrophe perils only. We have per risk and catastrophe cover for £9.0m excess of £1.0m.

### **Accident and Health**

This account produces relatively low accumulations and so we did not purchase the £5.0m xs £5.0m on a risk attaching basis. Cover continues to be bought up to £5m. We have maintained our retention at £0.5m on the first loss and £0.3m for the second, third and fourth losses.

### **PA Catastrophe**

A specific retrocession catastrophe reinsurance programme has been purchased on a losses occurring basis of £15m xs £5m to protect our own writings.

## Report of the Directors

### Bloodstock

A specific programme has been arranged for this account for \$4.9m xs \$0.1m

### 2011 calendar year loss activity.

The Syndicate was affected by a number of event losses

Cyclone Yasi	—	gross £4.49m
Brisbane Floods	—	gross £4.07m
New Zealand Earthquake	—	gross £24.92m
Japan Earthquake	—	gross £26.13m
Copenhagen Cloudburst	—	gross £3.50m
Thailand Floods	—	gross £0.37m

The net loss to the syndicate from the above events is £14.18m

### Syndicate open year cash calls

On the 20th July 2011, due to an unanticipated strain on Syndicate free cash funds resulting from claims payments on catastrophe losses and regulatory funding requirements, the Board of Chaucer Syndicates Limited approved cash calls on the 2009 & 2010 years of account of Syndicate 1301 of £14.5m and £18.8m respectively

### Industry Loss Warranty

The 2010 year of account includes reinsurance recoveries totalling \$20.0m in respect of an Industry Loss Warranty (ILW) purchased by the Syndicate. This is included due to the Japanese earthquake in March 2011 reaching the trigger point which was an industry loss estimate of \$35.0bn. There is however a risk that if this figure falls below \$35.0bn in the future the \$20.0m will have to be returned.

# Report of the Directors

## Directors and their interests

The following directors served during the period of review

A Kaplan (resigned 30 November 2011)  
O Meir-Stacey (resigned 30 November 2011)  
S Talmon (resigned 30 November 2011)  
D O'Donohoe (appointed 30 November 2011)  
C Tobin (appointed 30 November 2011)  
Z Petwalla (appointed 30 November 2011)

None of the directors held any interest in the shares of the Company

## Principal risks and uncertainties

The Syndicate's day to day management is performed by Chaucer Syndicates Limited ('CSL'), a Lloyd's registered managing agent. The principal risks and uncertainties faced by the Company arise through the Syndicate. These risks and the controls put in place by Chaucer Syndicates Limited (the "Managing Agency") are set out below.

### Underwriting risk

The Syndicate separately defines underwriting risk appetite in respect of market losses and syndicate-specific losses, with appetite for the former being greater.

Underwriting risk appetite is expressed at the highest level, as a maximum event-specific net underwriting loss as a percentage of syndicate capacity for a specific year of account.

The Managing Agency Board approves the risk appetite limit, after consultation with the capital provider and considering the relativity between 'willing to lose' and potential forecast profitability for each year of account. The risk appetite will therefore reflect the view of forecast profitability, utilising the Syndicate's latest business plan assumptions.

The Syndicate manages underwriting risk through monthly reporting utilising centrally prepared detailed underwriting management information packs. The Syndicate reports to an Underwriting Board, which in turn, reports to the Managing Agency Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, variations in experience, cycle management, reinsurance protection and catastrophe modelling.

Underwriting authorities, underwriting peer reviews of all risks, Independent Review procedures, Board of Directors review procedures and the audit and review of delegated arrangements, all contribute to the strength of the underwriting control environment.

Underwriting exposure is controlled via risk policy coding systems, setting of maximum lines, setting of jurisdiction limits, strict underwriter authority limits, Realistic Disaster Scenarios modelling, reinsurance programme design, policy limitations and exclusions, imposed deductibles and standard policy wording and coverage clauses.

The Syndicate records and monitors individual risk exposures on a regular basis to ensure they remain within the policies and guidelines set. Aggregations of risk are monitored using specialist software tools.

The Syndicate manages claims related risks by way of reinsurance and by a similar monitoring process to underwriting. There are strict claims handling authority limits and standard claims reports such as non-moving claims. Only approved third party adjusters and surveyors are used.

The Syndicate undertakes an extensive annual underwriting planning process in order to determine targets for premiums written and profitability for the coming year. Factors taken into account in determining the targets include the risk appetite agreed by the capital provider, anticipated policy pricing, terms and conditions, expected claims frequency and cost and reinsurance cost and efficacy.

# Report of the Directors

## Credit risk

A Security Committee reviews all reinsurer counterparties with whom the Syndicate wishes to conduct business and sets credit limits for the recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, management of reinsurer credit risk follows active and regular review, with the assistance of outside expertise, of the credit rating and financial exposure to all approved reinsurers.

The Syndicate predominantly purchases reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

## Claims risk

While claims events are inherently uncertain and volatile, the claims department is an experienced team covering a wide range of business classes. The Managing Agency has various management controls in place to mitigate claims risk, some of these controls are outlined below.

### *Claims settlement and reserving authority limits*

The Syndicate employs strict claims handling authority limits. All transactions in excess of an individual claims handler's authority are referred in a tiered approach to a colleague with the requisite knowledge and experience.

### *Monthly reporting*

Various reports are produced based on several different aspects of the claims handling function such as, significant movements, catastrophes, and static claims. These reports are communicated at various levels both within the business and with key external stakeholders, including the Lloyd's franchise performance directorate.

### *Management of external experts*

The Syndicate actively appoints trusted third party loss adjusters, surveyors and legal advisors for claims investigation and assessment services. The Syndicate uses and appoints suitable experts as appropriate and puts terms of engagement in place accordingly.

## Reserving risk

The Syndicate's reserving policy seeks to ensure appropriate allowance for reserving risk, consistency in reserving from year to year and the equitable treatment of capital providers on the closure of a year of account.

Reserves are set on a two tier hierarchical basis.

### *Tier 1 Actuarial best estimate reserves*

Actuarial best estimate reserves are prepared on an underwriting year basis and are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The actuarial best estimate reserves are the responsibility of the Managing Agency's Signing Actuary. The Managing Agency's Actuarial Team calculates the reserves in conjunction with extensive discussions with underwriting and claims staff.

### *Tier 2 Syndicate reserves*

Syndicate reserves are the level of reserves booked at a syndicate level. Determination of syndicate reserves is a two-stage process: first, they are determined on an underwriting year basis and then they are converted to an annually accounted basis.

#### *(a) Underwriting year syndicate reserves*

Underwriting year syndicate reserves are prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings. The intention of such risk loadings is to match areas within each syndicate where the perception is that there is a particularly high risk that the best estimate reserve may be inadequate. Such areas include, but are not limited to, the following:

- New classes of business
- Classes where early development is materially better or worse than expected
- Classes or events with abnormally skew claim distributions
- Claim events or reserving categories with a poorly understood distribution

To ensure consistency in the application of risk loadings, the starting point in their assessment is, where possible, formulaic. The formulaic risk loadings are adjusted wherever considered either excessive or understated. There may also be additional risk loadings in respect of risks not covered by the formulaic basis.



## Report of the Directors

The underwriting year syndicate reserves provide the basis for all syndicate results and forecasts

### **(b) Annually accounted syndicate reserves**

Annually accounted syndicate reserves are the underwriting year syndicate reserves converted to an annually accounted basis, plus additional loadings. These loadings are entirely formulaic.

The Managing Agency Board ultimately determines all risk loadings within syndicate reserves.

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical data supports the estimation of ultimate loss ratios. The analysis also draws on external data or market data or non-standard methodologies where appropriate. Whenever actual development of premiums or claims within a reserving category during a quarter is materially different from expected development based on the existing methodology, then that methodology is reassessed and, where appropriate, amended. The analysis takes credit for reinsurance recoveries and provides for the possibility of reinsurer failure.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners and access to a history of loss data. Finally, explicit risk loadings are applied in respect of the areas of greatest risk within the reserve assessment.

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences (e.g. the legal environment) and the quantum of reserves relative to net tangible assets, mean that reserving remains a significant source of risk to the Syndicate.

### **Investment strategy and risk management**

The Syndicate's philosophy is that investment activities are complementary to the primary underwriting activities of the business and should not therefore divert or utilise financial resources otherwise available for insurance operations.

The preservation of capital and maintenance of sufficient liquidity to support the business and the enhancement of investment returns, within a set of defined risk constraints, are at the heart of the financial market risk policies adopted by the Syndicate.

An Investment Committee is responsible for reviewing and amending asset allocations in accordance with investment risk constraints. Due regard is given to the risk appetite of the corporate members and the outlook for each asset class because of changes in market conditions and investment returns. The Committee tests proposed asset allocations using stochastic modelling techniques prior to formal approval.

The Syndicate invests a significant proportion of funds in money market funds and fixed income securities managed by professional portfolio managers. Each manager operates within a defined set of investment guidelines. The Investment Committee, which is responsible for selecting investment managers and individual funds, measures the performance of each manager against an appropriate benchmark.

#### **Interest rate risk**

The most significant proportion of risk within the Syndicate's fixed income portfolio is interest rate risk, which increases as the duration of each portfolio gets longer. In order to manage this risk duration constraints are set, relative to a benchmark, to provide downside protection for increases in interest rates although no limit is set for the minimum duration of each portfolio, enabling managers to switch to cash or variable rate securities, if considered appropriate.

#### **Currency risk**

The Syndicate writes a significant proportion of insurance business in currencies other than sterling, which gives rise to a potential exposure to currency risk. The Syndicate mitigates this by adopting a policy of matching assets and liabilities, by currency for all exposures representing more than 5% of the assets of the business.

#### **Liquidity risk**

The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. The Syndicate operates and maintains a liquidity risk policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The liquidity risk policy, which is subject to review and approval by a Risk and Capital Committee on an annual basis, sets limits for cash required to meet expected cash flows. It includes a contingency funding plan, which details the process and provisions for liquidating assets and/or raising additional funds required to meet liabilities in extreme circumstances.

## Report of the Directors

### Credit risk

#### *Investments*

The Syndicate holds the majority of its investments in high-quality investment grade securities, managed by external portfolio managers. Investment managers may take credit risk as a tactical enhancement to fixed income returns when suitable opportunities arise within the risk budget set for each manager.

#### *Insurance and reinsurance debtors*

The Syndicate has an exposure to credit risk in respect of insurance and reinsurance debtors. It has implemented an internal credit rating policy and limit setting process in response.

### Operational risk

This is the risk that events caused by people, processes or systems lead to losses to the Syndicate and Company. The Managing Agency seeks to manage this risk with detailed procedures, manuals and a structured programme of testing of processes and systems by Internal Audit and other assurance processes.

### Regulatory and Legal risk

The Managing Agency is required to comply with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agency has a Compliance Officer, who monitors regulatory and legal developments and assesses the impact on agency policy. The Syndicate also carries out a compliance-monitoring programme.

### Elective Resolutions

Elective resolutions were passed in accordance with Section 252 of the Companies Act 2006 to dispense with the requirement to lay financial statements and reports before the annual general meeting and, subsequently, in accordance with Section 366A to hold annual general meetings.

### Statement of disclosure of information to Auditors

Each person who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and
- he or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

### Auditors

An elective resolution was passed on 29 November 2000 dispensing with the need to reappoint the auditors on an annual basis in accordance with Section 386 of the Companies Act 2006 and this remains in force.

### Going Concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Directors on pages 1 to 9.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Report of the Directors

### Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with the 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). The financial statements are required by law to 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



C Tobin  
Director  
88 Leadenhall Street  
London EC3A 3BP  
14 March 2012

## Independent Auditors' Report

### Independent Auditors' Report to the Members of Torus Underwriting Limited (formerly Broadgate Underwriting Limited)

We have audited the financial statements of Broadgate Underwriting Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 20. 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 auditors' 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 auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, 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 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.

#### 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 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Opinion on other matter prescribed by the Companies Act 2006

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

#### Matters on which we are required to report by exception

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

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

#### Emphasis of matter

In forming our conclusion, which is not qualified, we have considered the adequacy of the disclosure made in the Directors' Report and in note 1 of the Annual Report concerning an amount of USD 18m that the company has recognised within Debtors that is contingent upon the Sigma estimate for market insured losses arising from the 2011 Japan earthquake being USD 35 billion or greater. This amount is recoverable under two contracts, with USD 9m due under each contract. As at 31 December 2011 the Sigma estimate was USD 35 billion. If this Sigma estimate should fall below USD 35 billion at the contractual determination dates of 31 December 2013 and 31 December 2014, the value of these reinsurance recoveries would be nil.

*Ernst & Young LLP*

Angus Millar (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

15 March 2012

**Profit and Loss Account: Technical Account – General Business**  
**For the year ended 31 December 2011**

	Notes	£	2011	£	£	2010	£
<b>Earned premiums, net of reinsurance</b>							
Gross premiums written	2			88,938,633			95,980,288
Outward reinsurance premiums				<u>(36,075,127)</u>			<u>(38,938,783)</u>
Net premiums written				52,863,506			57,041,505
<b>Change in the provision for unearned premiums</b>							
Gross amount	3	3,149,361			(1,223,203)		
Reinsurers' share	3	<u>727,096</u>			<u>(1,556,998)</u>		
Net change in provision for unearned premium				<u>3,876,457</u>			<u>(2,780,201)</u>
<b>Earned premiums, net of reinsurance</b>				56,739,963			54,261,304
<b>Allocated investment return transferred from the Non-Technical Account</b>	4			823,476			460,666
<b>Claims incurred, net of reinsurance</b>							
Claims paid							
Gross amount	3	(84,294,964)			(62,228,596)		
Reinsurers' share	3	<u>41,122,806</u>			<u>16,046,051</u>		
Net claims paid				<u>(43,172,158)</u>			<u>(46,182,545)</u>
<b>Change in the provision for claims</b>							
Gross amount			(17,325,628)		(33,444,880)		
Reinsurers' share			<u>10,280,337</u>		<u>26,477,277</u>		
Net change in the provision for claims			<u>(7,045,291)</u>		<u>(6,967,603)</u>		
<b>Claims incurred, net of reinsurance</b>				(50,217,449)			(53,150,148)
<b>Net operating expenses</b>	2, 5			(20,863,232)			(18,089,598)
<b>Balance on the technical account - for general business</b>				<u>(13,517,242)</u>			<u>(16,517,776)</u>

## Profit and Loss Account: Non-Technical Account – General Business

For the year ended 31 December 2011

	Notes	2011 £	2010 £
Balance on the technical account – for general business		(13,517,242)	(16,517,776)
Investment return	4	823,476	460,666
Allocated investment return transferred to the general business technical account		(823,476)	(460,666)
Other charges	7	(995,422)	(937,869)
(Loss) on ordinary activities before taxation	6	(14,512,664)	(17,455,645)
Tax (charge)/credit on (loss) on ordinary activities	10	(550,408)	2,432,978
(Loss) on ordinary activities after taxation	17	(15,063,072)	(15,022,667)

All operations are continuing

There were no recognised gains or losses relating to the current or preceding years other than those included in the Profit and Loss Account. Therefore, no separate statement of Total Recognised Gains and Losses has been prepared.


# **Balance Sheet** **at 31 December 2011**

		31 December 2011			31 December 2010		
	Notes	Corporate Undertaking £	Syndicate Participation £	Total £	Corporate Undertaking £	Syndicate Participation £	Total £
<b>ASSETS</b>							
<b>FINANCIAL INVESTMENTS</b>							
Financial investments	11	20,428,480	23,952,601	44,381,081	20,705,419	32,806,805	53,512,224
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>							
Provision for unearned premiums	3	7,057,167	1,807,173	8,864,340	6,656,789	1,480,455	8,137,244
Claims outstanding	3	11,587,340	37,325,181	48,912,521	9,309,893	29,498,813	38,808,706
		<u>18,644,507</u>	<u>39,132,354</u>	<u>57,776,861</u>	<u>15,966,682</u>	<u>30,979,268</u>	<u>46,945,950</u>
<b>DEBTORS</b>							
Arising out of insurance operations		-	21,067,506	21,067,506	-	21,996,824	21,996,824
Arising out of reinsurance operations		-	22,537,152	22,537,152	-	13,397,972	13,397,972
Other debtors	12	8	310,270	310,278	4,216,319	(2,606,984)	1,609,335
Deferred tax Asset	15	-	-	-	550,408	-	550,408
Amount due from company/syndicate		<u>(17,507,088)</u>	<u>17,507,088</u>	<u>-</u>	<u>(28,189,259)</u>	<u>28,189,259</u>	<u>-</u>
		<u>(17,507,088)</u>	<u>61,422,016</u>	<u>43,914,936</u>	<u>(23,422,532)</u>	<u>60,977,071</u>	<u>37,554,539</u>
<b>Other Assets</b>							
Overseas deposits	13	-	11,183,235	11,183,235	-	6,887,200	6,887,200
Cash at bank and in hand		<u>182,414</u>	<u>4,212,526</u>	<u>4,394,940</u>	<u>182,181</u>	<u>-</u>	<u>182,181</u>
		<u>182,414</u>	<u>15,395,761</u>	<u>15,578,175</u>	<u>182,181</u>	<u>6,887,200</u>	<u>7,069,381</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>							
Deferred acquisition costs		(2,108,011)	10,334,913	8,226,902	(1,712,901)	9,726,127	8,013,226
Other prepayments and accrued income		-	150,507	150,507	-	57,216	57,216
		<u>(2,108,011)</u>	<u>10,485,420</u>	<u>8,377,409</u>	<u>(1,712,901)</u>	<u>9,783,343</u>	<u>8,070,442</u>
<b>TOTAL ASSETS</b>		<u>19,640,310</u>	<u>150,388,152</u>	<u>170,028,462</u>	<u>11,718,849</u>	<u>141,433,687</u>	<u>153,152,536</u>

# **Balance Sheet** **at 31 December 2011**

Notes	31 December 2011			31 December 2010		
	Corporate Undertaking £	Syndicate Participation £	Total £	Corporate Undertaking £	Syndicate Participation £	Total £
<b>LIABILITIES</b>						
<b>CAPITAL AND RESERVES</b>						
Called up share capital	100	-	100	100	-	100
Profit and loss account	(21,976,512)	-	(21,976,512)	(6,913,440)	-	(6,913,440)
Equity shareholders' (deficit)/funds	(21,976,412)	-	(21,976,412)	(6,913,340)	-	(6,913,340)
<b>TECHNICAL PROVISIONS</b>						
Provision for unearned premiums	-	36,352,005	36,352,005	-	39,501,368	39,501,368
Claims outstanding	-	103,574,984	103,574,984	-	86,245,320	86,245,320
	-	139,926,989	139,926,989	-	125,746,688	125,746,688
<b>CREDITORS</b>						
Arising out of direct insurance operations	-	1,386,126	1,386,126	-	5,196,814	5,196,814
Arising out of reinsurance operations	2,921,190	7,523,040	10,444,230	7,356,154	9,406,534	16,762,688
Other creditors including taxation and social security	30,362,189	1,182,360	31,544,559	11,276,035	678,231	11,954,266
Current tax	-	-	-	-	-	-
Cash Call received from QS Reinsurers	8,333,333	-	8,333,333	-	-	-
	41,616,722	10,091,526	51,708,248	18,632,189	15,181,579	33,813,768
<b>ACCRUALS AND DEFERRED INCOME</b>						
	-	369,637	369,637	-	505,422	505,422
<b>Total Liabilities</b>	<b>19,640,310</b>	<b>150,388,152</b>	<b>170,028,462</b>	<b>11,718,849</b>	<b>141,433,687</b>	<b>153,152,536</b>

The financial statements were approved by the Board of Directors on 14 March 2012 and were signed on its behalf by

  
Z. Petrucci  
Director  
14 March 2012



# Notes to the Financial Statements

For the year ended 31 December 2011

## 1 Accounting policies

### Basis of preparation

The financial statements are prepared in accordance with Companies Act 2006, and include statements of the transactions, assets and liabilities of the syndicate on which the Company participates as a corporate member at Lloyd's

As detailed in note 19, capital to support underwriting is provided by way of letters of credit secured on funds provided by Clal Insurance Enterprises Holdings Limited

The financial statements have been prepared in accordance with applicable UK Law and Accounting Standards and under the historical cost accounting rules as modified by the revaluation of investments. The Company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers (the ABI SORP)

The Company underwrites insurance business as principal through its participation in a Lloyd's syndicate

The accounting information in respect of underwriting income and syndicate assets and liabilities for Syndicate 1301 has been provided by the managing agent, Chaucer Syndicates Limited. This information is based on audited syndicate data for the year ended 31 December 2011

The technical account represents the Company's accounting transactions in respect of its Syndicate participation. Broadgate Underwriting Limited entered into quota share reinsurance arrangements totalling 21.22% of capacity (2010 25%). The syndicate financial information is prepared on an annual accounting basis

Transactions entered into directly by the Company, other than reinsurance transactions, foreign currency translation differences and Funds at Lloyds (FAL) income accounted for in the technical account, are reported in the non-technical account

### Going Concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Directors on pages 1 to 9

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

### Assets and liabilities

The assets and liabilities entitled "Syndicate Participation" represent the assets and liabilities of the syndicate in which the Company participates. These assets are held subject to the syndicate trust funds and the Company cannot obtain or use them until such time as they are distributed from the Syndicate and released by Lloyd's under the provisions of a bi-annual release test

### Premiums written

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

### 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, calculated on the basis of established earnings patterns or time apportionment as appropriate

### Reinsurance premium ceded

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

## **Notes to the Financial Statements**

**For the year ended 31 December 2011**

### **Claims provisions and related recoveries**

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods. Notified outstanding claims are assessed on an individual case basis.

These methods generally involve projection 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. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the 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. A number of statistical methods are used to assist in making these estimates.

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 the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the 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 accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

### **Unexpired risks provision**

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

### **Deferred acquisition costs**

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

### **Net operating expenses**

Net operating expenses are recognised on an accruals basis. These comprise the Syndicate's operating expenses such as remuneration, office and administrative costs, acquisition costs, Managing Agency costs, the costs of membership of Lloyd's and other expenses attributable to the Syndicate's underwriting, stated net of contributions from quota share reinsurers.

# Notes to the Financial Statements

For the year ended 31 December 2011

## Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at period end rates. Any exchange differences arising from the change in rates of exchange are recognised in the technical account.

Transactions and non-monetary assets and liabilities denominated in foreign currencies are recorded in sterling at monthly average rates prevailing at the time of the transaction.

The rates of exchange used to translate monetary balances at the period end in foreign currencies into sterling are as follows:

	31 December 2011	31 December 2010
US Dollars	1.55	1.57
Canadian Dollars	1.58	1.56
Euros	1.20	1.17

## Investments

Investments are stated at market value (bid price) at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

## 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. Investment income from cash and overseas deposits are accrued to the end of the year.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of 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. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

## Taxation

The tax expense represents the sum of the current tax and the movement in deferred tax recognised in the period (see below).

The current tax is based on the taxable income for the period. Taxable profits differ from profit on ordinary activities as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates applicable at the balance sheet date.

## Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not, that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## **Notes to the Financial Statements**

**For the year ended 31 December 2011**

### **Pension costs**

Chaucer Syndicates Limited (CSL) operates a defined benefit scheme and a defined contribution scheme. Pension contributions relating to syndicate staff are recharged from CSL to the Syndicate and included within net operating expenses. All pension schemes are fully reported within the financial statements of CSL.

### **Profit commission**

Profit commission is charged at 10% of profit. In addition profit commission is capped at 10% of 5% of capacity. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

### **Industry Loss Warranty**

The 2010 year of account includes reinsurance recoveries totalling \$18.0m in respect of an Industry Loss Warranty (ILW) purchased by the Syndicate. This is included due to the Japanese earthquake in March 2011 reaching the trigger point which was an industry loss estimate of \$35.0bn. There is however a risk that if this figure falls below \$35.0bn in the future the \$18.0m will have to be returned.

# Notes to the Financial Statements

## For the year ended 31 December 2011

### 2 Segmental analysis

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

#### 2011

	Gross premiums written £	Gross premiums earned £	Gross claims incurred £	Gross* operating expenses £	Reinsurance balance £	Total £	Net technical provisions £
<b>Direct Insurance</b>							
Accident and health	8,623,113	11,613,864	(11,086,816)	(1,402,614)	(772,170)	(1,647,736)	6,353,736
Marine, aviation and transport	2,205,731	2,550,318	(3,202,865)	(1,181,889)	(74,506)	(1,908,942)	2,511,513
Fire and other damage to property	33,913,209	29,873,756	(22,017,185)	(10,831,464)	(2,845,945)	(5,820,838)	29,545,977
Miscellaneous	191,704	230,781	(344,264)	(7,858)	(30,389)	(151,730)	281,669
Motor	2,185,439	2,261,357	(1,594,444)	(772,547)	(187,115)	(292,749)	1,050,219
<b>Total direct</b>	<b>47,119,196</b>	<b>46,530,076</b>	<b>(38,245,574)</b>	<b>(14,196,372)</b>	<b>(3,910,125)</b>	<b>(9,821,995)</b>	<b>39,743,114</b>
Reinsurance	41,819,437	45,557,918	(63,375,018)	(12,090,243)	19,965,237	(9,942,106)	42,407,014
Net contribution from quota share reinsurer to gross operating expenses	-	-	-	-	5,423,383	5,423,383	-
<b>Total</b>	<b>88,938,633</b>	<b>92,087,994</b>	<b>(101,620,592)</b>	<b>(26,286,615)</b>	<b>21,478,495</b>	<b>(14,340,718)</b>	<b>82,150,128</b>

#### 2010

	Gross premiums written £	Gross premiums earned £	Gross claims incurred £	Gross* operating expenses £	Reinsurance balance £	Total £	Net technical provisions £
<b>Direct Insurance</b>							
Accident and health	11,791,961	11,883,230	(12,401,356)	(2,761,776)	(386,700)	(3,666,602)	10,715,448
Marine, aviation and transport	3,305,236	3,443,328	(1,294,425)	(1,119,371)	(845,299)	184,233	2,048,381
Fire and other damage to property	30,362,849	26,939,044	(14,148,345)	(8,035,867)	(6,328,863)	(1,574,031)	23,632,690
Miscellaneous	263,913	238,595	(541,115)	(50,783)	138,603	(214,700)	469,722
Motor	1,352,552	1,464,610	(877,053)	(433,988)	(165,419)	(11,850)	881,490
<b>Total direct</b>	<b>47,076,511</b>	<b>43,968,807</b>	<b>(29,262,294)</b>	<b>(12,401,785)</b>	<b>(7,587,678)</b>	<b>(5,282,950)</b>	<b>37,747,731</b>
Reinsurance	48,903,777	50,788,278	(66,411,182)	(10,636,842)	9,615,225	(16,644,521)	41,053,005
Net contribution from quota share reinsurer to gross operating expenses	-	-	-	-	4,949,029	4,949,029	-
<b>Total</b>	<b>95,980,288</b>	<b>94,757,085</b>	<b>(95,673,476)</b>	<b>(23,038,627)</b>	<b>6,976,576</b>	<b>(16,978,442)</b>	<b>78,800,736</b>

All premiums were concluded in the UK

\* Gross operating expenses differ from net operating expenses, as contributions from Quota Share reinsurers have been set off in arriving at the net operating expenses for 2010 and 2011

## Notes to the Financial Statements

For the year ended 31 December 2011

### 2 Segmental analysis (continued)

The geographical analysis of premiums by situs is as follows

	2011 £	2010 £
UK	5,568,850	11,829,323
Other EU countries	9,973,753	8,366,130
US	18,366,719	16,481,505
Other	55,029,311	59,303,330
	<u>88,938,633</u>	<u>95,980,288</u>

### 3 Technical Provisions

	Provision for unearned premiums £	Claims outstanding £	Total £
<b>Gross</b>			
Balance brought forward	39,501,366	86,245,320	125,746,686
Exchange adjustments	-	4,036	4,036
Claims paid in the year	-	(84,294,964)	(84,294,964)
Movement in year	<u>(3,149,361)</u>	<u>101,620,592</u>	<u>98,471,231</u>
Balance carried forward	<u>36,352,005</u>	<u>103,574,984</u>	<u>139,926,989</u>
<b>Reinsurance</b>			
Balance brought forward	8,137,244	38,808,706	46,945,950
Exchange adjustments	-	(176,522)	(176,522)
Reinsurance recoveries in the year	-	(41,122,806)	(41,122,806)
Movement in year	<u>727,096</u>	<u>51,403,143</u>	<u>52,130,239</u>
Balance carried forward	<u>8,864,340</u>	<u>48,912,521</u>	<u>57,776,861</u>
Net as at 31 December 2011	<u>27,487,665</u>	<u>54,662,463</u>	<u>82,150,128</u>
Net as at 31 December 2010	<u>31,364,122</u>	<u>47,436,614</u>	<u>78,800,736</u>

The Movement in net provision for claims includes a release of £2,441k in respect of claims outstanding at the previous year end (2010 £3,540k)

This release is in view of the unwinding of the Managing Agency risk loadings across the business and favourable development of claims on the non catastrophe effected Property accounts, offset by unfavourable development of claims on the Accident and Health account

## Notes to the Financial Statements

### For the year ended 31 December 2011

#### 4 Investment return

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Investment Income	723,256	481,531
Realised gains on investments	203,520	1,694,259
Unrealised gains on investments	78,855	-
	<u>1,005,631</u>	<u>2,175,790</u>
Investment expenses and charges	(5,640)	(6,633)
Realised losses on investments	(87,140)	(1,708,491)
Unrealised losses on investments	(89,375)	-
	<u>(182,155)</u>	<u>(1,715,124)</u>
	<u>823,476</u>	<u>460,666</u>

#### 5 Net operating expenses

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Acquisition costs	23,257,262	22,358,585
Movement in deferred acquisition costs	(608,786)	(988,169)
Syndicate operating expenses	2,147,505	1,391,671
(Profit)/loss on exchange	(303,841)	(2,025,402)
Personal expenses	1,794,475	2,301,942
	<u>26,286,615</u>	<u>23,038,627</u>
Net contribution from quota share reinsurers	(5,423,383)	(4,949,029)
	<u>20,863,232</u>	<u>18,089,598</u>

#### 6 (Loss) on ordinary activities before taxation

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
<b>(Loss) on ordinary activities is stated after charging</b>		
Fees payable to the Company's auditors for the audit of the Company's Annual accounts	7,725	7,500
Fees payable to the Company's auditors and their associates for the other services to the Group	20,600	20,000
Other services - Quarterly reviews	<u>28,325</u>	<u>27,500</u>

# Notes to the Financial Statements

For the year ended 31 December 2011

## 7 Other Charges

Other charges of £995,422 (2010 £937,869) include £835,280 (2010 £824,137) in respect of expenses incurred to guarantee the letters of credit held to support underwriting activities

## 8 Employee remuneration

The company had no employees during the year (2010 Nil)

## 9 Directors' remuneration

The directors did not receive any emoluments for their services to the Company (2010 Nil)

## 10 Tax charge/(credit) on (loss) on ordinary activities

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Current tax		
Adjustments in respect of prior years	-	(2,149,823)
Total current tax (credit) in the year	-	(2,149,823)
Deferred tax		
Deferred tax on profits and losses taxable in future years	-	(550,408)
Adjustments in respect of current year	550,408	267,253
Total deferred tax charge/(credit) in the year	550,408	(283,155)
Tax charge/(credit) on (loss) on ordinary activities	550,408	(2,432,978)

### Factors affecting the tax (credit)/charge for the current year

The current tax (credit)/charge for the year is lower (2010 lower) than the standard rate of corporation tax in the UK of 28% (2010 28%) The differences are explained below

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Current tax reconciliation		
(Loss) on ordinary activities before tax	(14,512,663)	(17,455,645)
Current tax at 28% (2010 28%)	(4,063,545)	(4,887,580)
Effects of		
Underwriting (losses) to be taxed in future years	4,063,545	4,887,580
Adjustments in respect of prior years	-	(2,149,823)
Total current tax (credit) in the year	-	(2,149,823)



# Notes to the Financial Statements

For the year ended 31 December 2011

## 11 Financial investments

	31 December 2011		31 December 2010	
	Historic Cost £	Market Value £	Historic Cost £	Market Value £
Shares and other variable yield securities	23,952,601	23,952,601	20,010,959	20,010,959
Debt securities and other fixed income securities	-	-	7,204,904	6,743,362
Deposits with credit institutions	20,428,480	20,428,480	26,757,903	26,757,903
	<b>44,381,081</b>	<b>44,381,081</b>	<b>53,973,766</b>	<b>53,512,224</b>

## Analysis for market value

	2011 £	2010 £
Listed investments	23,919,523	32,620,198
Unlisted investments	20,461,558	20,892,026
	<b>44,381,081</b>	<b>53,512,224</b>

## 12 Other Debtors

Other debtors comprise of deposits with ceding undertakings

## 13 Overseas deposits

Overseas deposits represent monies kept in overseas funds managed by Lloyd's. The funds are required in order to protect policyholders in overseas markets and enable the syndicates to operate in those markets. The access to those funds is restricted and the syndicates cannot influence the investment strategy.

## 14 Other creditors including taxation and social security

	31 December 2011 £	31 December 2010 £
Corporate undertaking		
- Amounts due to quota share reinsurers	8,100,179	11,221,220
- Other	54,815	54,815
- Capital received from Clal	22,207,205	-
Syndicate participations		
- Amounts due to Chaucer Syndicates Limited	1,182,360	204,073
- Amounts due to Clal	-	374,158
	<b>31,544,559</b>	<b>11,854,266</b>

On the 20th July 2011, due to an unanticipated strain on Syndicate free cash funds resulting from claims payments on catastrophe losses and regulatory funding requirements, the Board of Chaucer Syndicates Limited approved cash calls on the 2009 & 2010 years of account of Syndicate 1301 of £14.5m and £18.8m respectively.

The cash calls will be liquidated in 2012 and 2013 respectively through the Syndicate distribution process following the closure of the year of account.

# Notes to the Financial Statements

For the year ended 31 December 2011

## 15. Deferred tax asset

	31 December 2011 £	31 December 2010 £
Deferred tax (asset) brought forward	(550,408)	(267,253)
(Credited) to profit and loss in respect of current year	-	(550,408)
Adjustments in respect of prior years	550,408	267,253
	<hr/>	<hr/>
Deferred tax (asset) carried forward	-	(550,408)

In the year ended 31 December 2011 the Directors concluded that there was a lack of certainty that there will be enough future taxable profits to utilise the losses of the open underwriting years and therefore no deferred tax asset has been recognised (2010, £550,408)

Deferred tax asset has not been recognised in respect of closed year losses £311,584 (2010 £728,893) and open year losses £6,218,711 (2010 £1,889,505)

The UK government proposes to reduce the corporation tax rate down to 23% for the 2015/16 tax year. It is likely that the deferred tax asset would reverse after this change is implemented which would reduce the unrecognised deferred tax asset by £522,377

## 16 Called up share capital

	31 December 2011 £	31 December 2010 £
Authorised 100 ordinary shares of £1 each	100	100
Allotted and fully paid 100 ordinary shares of £1 each	100	100

## 17 Reconciliation of movement in shareholders' (deficit)

	Share capital £	Profit and loss account £	Total shareholders' deficit £
Balance at 1 January 2011	100	(6,913,440)	(6,913,340)
(Loss) for the year	-	(15,063,072)	(15,063,072)
Balance at 31 December 2011	100	(21,976,512)	(21,976,412)

## **Notes to the Financial Statements**

**For the year ended 31 December 2011**

### **18 Ultimate Parent Company**

The ultimate parent company is Torus Insurance Holdings Limited (Torus), a company registered in Bermuda. Copies of the consolidated financial statements may be obtained from the registered office at 26 Reid Street, Hamilton HM11, Bermuda.

Torus Insurance Holdings Limited (Torus) purchased Torus Underwriting Limited (TUL), which at the time of the transaction was called Broadgate Underwriting Limited, from Clal Insurance Enterprises Holdings Limited (Clal) on 30 November 2011.

Pursuant to the transaction Clal and Torus agreed that Torus will be responsible for the economic performance of the 2012 and future underwriting years of TUL and Clal will be responsible for the economic performance of the 2011 and prior underwriting years.

The Company takes advantage of the exemption conferred by Financial Reporting Standard No. 8 (Related Party Disclosures) on the grounds that 100% of the Company's voting rights are controlled within a group and that the Company's results are included in the consolidated financial statements of Torus Insurance Holdings Limited which are publicly available from the registered office at 26 Reid Street, Hamilton HM11, Bermuda. Accordingly, transactions with entities that form part of the group are not disclosed.

Advantage has also been taken of the exemption from preparing a cash flow statement as permitted by FRS1 (revised).

### **19 Contingent Liability**

The Company supports its underwriting activities via letters of credit (LOCs) provided by its parent company, the previous parent company and Quota Share reinsurers, in the sum of £91.6 million (2010: £56.2 million) which is deposited at Lloyd's. The Corporation of Lloyd's is entitled to draw down on the letter of credit in order to satisfy any outstanding underwriting liabilities of the company.

At the date of the financial statements the directors are not aware of any circumstances that might give rise to the utilisation of the LOCs.

### **20 Related Parties**

There are no transactions with or balances due to Torus, the new ultimate parent company.

In respect of Clal, the previous ultimate parent company, transactions relate to the provision of capital and other amounts shown in note 7. Balances due to Clal are disclosed in note 14.