

Company No: 2861145

ATRIUM 5 LIMITED

**REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010**

Registered Office
Room 790
Lloyd's
1 Lime Street
London
EC3M 7DQ

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COMPANIES HOUSE

Atrium 5 Limited

DIRECTORS

A Baddeley
S J Cook
N C Marsh

SECRETARY

M B W Bruce
David Venus & Company Limited
Thames House
Portsmouth Road
Esher
Surrey, KT10 9AD

AUDITORS

Ernst & Young LLP
1 More London Place
London SE1 2AF

BANKERS

Lloyds TSB Bank plc
113 Leadenhall Street
London EC3A 4AX

REGISTERED OFFICE

Room 790, Lloyd's
1 Lime Street
London EC3M 7DQ

Atrium 5 Limited

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2010

Results and dividends

The profit for the year, after taxation, amounted to \$18,403,000 (2009 \$20,728,000) The directors do not recommend a final ordinary dividend, making a total dividend paid of \$4,600,000 for the year (2009 \$15,700,000)

Principal activity and review of the business

The principal activity of the Company is that of a Corporate Underwriting Member at Lloyd's

The following table shows the syndicate participations for each year of account

Syndicate No	2008 Allocated Capacity £'000	2009 Allocated Capacity £'000	2010 Allocated Capacity £'000	2011 Allocated Capacity £'000
570	31,019	31,019	35,990	35,871
609	55,492	51,500	70,813	70,898
2791	37,106	37,106	8,017	-
Total	123,617	119,625	114,820	106,769

The Company has entered into calendar year reinsurance contracts with Ariel Reinsurance Company Limited, a subsidiary of AHL, for 2008, 2009, 2010 renewed for 2011 under the following terms

	2008	2009	2010	2011
Quota share	65 00%	65 00%	65 00%	65 00%
Ceding commission	3 75%	2 00%	2 50%	2 75%
Reinsurer's expenses	5 00%	5 00%	5 00%	5 00%
Profit commission	20 00%	25 00%	25 00%	25.00%

Atrium 5 Limited

DIRECTORS' REPORT *(continued)*

Key Performance Indicators	Year to 31 December 2010 \$'000	Year to 31 December 2009 \$'000	% Change
Net premiums earned	200,906	88,697	127%
Balance on technical account	21,080	18,041	17%
Profit before tax	23,773	29,975	(21)%

Commentary on KPIs

The increase in net premiums earned reflects the reinsurance to close transactions on the 2007 year of account, due to Atrium 5 reducing its participations on a number of syndicates

There have been a number of losses affecting the profitability in 2010, with the most significant due to the Chilean and New Zealand earthquakes, Xynthia Windstorm, Deepwater Horizon and Queensland floods

Post Balance Sheet Events

Both syndicate 570 and 609 have exposure to losses from the earthquake in Christchurch, New Zealand and the earthquake offshore Sendai, Japan. In the case of such events, it takes time to assess the potential loss cost and, at the time that these financial statements are being prepared, it is too early to provide a reliable estimate

Future Developments

It is intended that the company continues to trade as a Corporate Underwriting Member at Lloyd's. During 2010 the Company sold the remainder of its participation on Syndicate 2791 resulting in a realised profit of \$2.6m

Principal risks & Uncertainties

The Board recognises the critical importance of having efficient and effective risk management systems in place but also recognises that it can only mitigate risks, and not remove them completely. The portfolio of underwriting can be considered as comprising two parts: participation on syndicates managed by Atrium Underwriters Ltd ('AUL'), an associated company of the Company's immediate parent company also controlled 100% by Atrium Underwriting Group Limited, participation on other syndicates. The Board considers that the Principal risks & uncertainties and how the Company mitigates them may be viewed similarly in two parts

Managed Syndicates

The managing agency, AUL, has established a risk management framework for the Atrium managed syndicates encompassing a risk register, a programme of internal control testing and the risk policies which set out the risk appetite, controls and business conduct standards. The Audit and Risk Committee of AUL, has approved this framework and meets regularly to discuss risk management and approve any amendments to the framework. The principal risks and uncertainties facing the underlying syndicates are as follows

Insurance Risk

Insurance risk includes the risks that the policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk)

Atrium 5 Limited

DIRECTORS' REPORT (*continued*)

Underwriting risk is mitigated through numerous controls including underwriting peer review, authority limits and independent review of risks written. The Syndicate Business Forecast is completed for each syndicate annually and stipulates those classes of business and concentration by class that will be written during the forthcoming year. It is reviewed and approved by the Board prior to being submitted to the Lloyd's Franchise Board for approval. Actual performance during the year is monitored by reference to the Syndicate Business Forecast.

Claims risk is mitigated where possible by using catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

Reserving risk is mitigated by the robust reserve adequacy exercise that is performed on a quarterly basis by the Head Actuary and approved by the Board.

Credit Risk

The key aspect of credit risk is the risk of default by one or more of the syndicates' reinsurers or investment counterparties. Reinsurance is placed only with those reinsurers that comply with the Atrium reinsurance policy. This policy also dictates the permitted level of concentration in respect of each reinsurer for any one underwriting year. The exposure to credit risk in the investment portfolio is mitigated through adherence to guidelines on the limits of exposure to individual issuers of securities, the aggregate investments in each credit quality rating, and the duration of the portfolio.

Market Risk

This is the risk that the syndicates incur losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The majority of the syndicates' business is denominated in US Dollars and the majority of assets are maintained in US Dollars accordingly, thus reducing substantially the mismatch risk.

Investment Risk

The investment risk is the risk that the syndicates' earnings are affected by changes in the valuation of the investment portfolio, such changes in valuations may be driven by changes in the economic and political environment and by movements in interest and foreign exchange rates. The agency manages the syndicates' investments in accordance with investment guidelines established by the Board that are reviewed on a regular basis. The Board monitors the performance of the external investment manager and the custodians responsible for the safekeeping of the investments.

Liquidity Risk

This is the risk that the syndicates will not be able to meet their short term liabilities as they fall due, owing to a shortfall in cash. This risk is mitigated through invested funds being held in high credit quality and short duration investments, but cashflow projections are also reviewed on a regular basis. The need for overdraft facilities in case of unprojected cash flow deficit is also reviewed regularly.

Operational Risk

This is the risk that errors caused by people, processes or systems lead to losses to the syndicates. The agency seeks to manage this risk by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review. Regular reviews are performed by the internal audit department to ensure that any deviations from the agency's policies are identified and reported to the appropriate level of management when considered necessary.

Atrium 5 Limited

DIRECTORS' REPORT *(continued)*

Regulatory Risk

The 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 agency has a compliance officer and a team who monitor regulatory developments and assess the impact on agency policy. They also carry out a compliance monitoring programme.

Non-Managed Syndicates

With respect to non-managed syndicates, it has been concluded by the Board that it is appropriate to assume that risk management policies should be in place which are similar to those in place at AUL in order for those firms to remain authorised and regulated by the FSA. Also regular meetings are held with their managing agents to review performance.

Solvency II

During the last year considerable progress has been made by the Agency on its Solvency II project. The project team has been in regular contact with the Corporation of Lloyd's to ensure both that the Agency meets interim deliverables, and develops an appropriate Internal Model for each syndicate that will enable them to trade efficiently for the Company and their other capital providers.

Directors

The directors who served during the year ended 31 December 2010 are disclosed on page 1.

Disclosure of information to the auditors

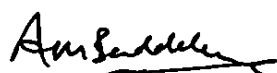
The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Re-appointment of auditors

The Company's auditors will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006.

On behalf of the board



A Baddeley
Director
12 April 2011

Atrium 5 Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

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

- select suitable accounting policies and then apply them consistently,
- make judgments and 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Atrium 5 Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ATRIUM 5 LIMITED

We have audited the financial statements of the Company for the year ended 31 December 2010 which comprise the Profit and Loss account, Balance Sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities on page 6, the directors are responsible for the preparation of the company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the company 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 by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company 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.

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 April 2011

Ernst & Young LLP

Atrium 5 Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2010

TECHNICAL ACCOUNT – GENERAL BUSINESS

	Note	2010 \$'000	2009 \$'000
Gross premiums written	2	274,491	204,320
Outward reinsurance premiums		(88,211)	(111,548)
Net premiums written		186,280	92,772
Change in the gross provision for unearned premiums		17,450	(5,113)
Change in the provision for unearned premiums, reinsurers' share		(2,824)	1,038
Change in the net provision for unearned premiums		14,626	(4,075)
Earned premiums, net of reinsurance		200,906	88,697
Allocated investment return transferred from the non-technical account	2	7,474	5,962
Claims paid			
Gross amount		(79,335)	(51,073)
Reinsurers' share		64,923	23,827
Net of reinsurance		(14,412)	(27,246)
Change in the provision for claims			
Gross amount		(114,314)	(42,424)
Reinsurers' share		(11,189)	42,712
Net of reinsurance		(125,503)	288
Claims incurred, net of reinsurance		(139,915)	(26,958)
Net operating expenses	3	(47,385)	(49,660)
Balance on the technical account for general business	2	21,080	18,041

Atrium 5 Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2010

NON-TECHNICAL ACCOUNT

	Note	2010 \$'000	2009 \$'000
Balance on the general business technical account	2	21,080	18,041
Investment income	4	8,136	4,170
Unrealised gain on investments	4	2,288	3,192
Investment expenses and charges	4	(749)	(658)
Unrealised losses on investments	4	(2,201)	(742)
Allocated investment return transferred to the general business technical account		(7,474)	(5,962)
Profit on sale of syndicate participations		2,637	12,935
Other charges, including amortisation	5	56	(1,001)
Profit on ordinary activities before tax		23,773	29,975
Tax on profit on ordinary activities	7	(5,370)	(9,247)
Profit on ordinary activities after tax		18,403	20,728

The profit and loss account relates entirely to continuing activities

There are no recognised gains and losses other than the profit or loss for the period

Atrium 5 Limited

BALANCE SHEET

at 31 December 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Intangible assets			
Purchased syndicate capacity	9	4,902	5,232
Investments			
Financial investments	10	263,762	170,839
Deposits with ceding undertakings		392	306
		264,154	171,145
Reinsurers' share of technical provisions			
Provision for unearned premiums		4,992	7,816
Claims outstanding		79,261	73,178
		84,253	80,994
Debtors			
Arising out of direct insurance operations			
- owed by intermediaries		54,568	38,402
Arising out of reinsurance operations		83,280	59,606
Other debtors		46,928	24,987
	11	184,776	122,995
Other assets			
Cash at bank		79,107	36,486
		79,107	36,486
Prepayments and accrued income			
Deferred acquisition costs		16,560	20,701
Other prepayments and accrued income		937	534
		17,497	21,235
Total assets		634,689	438,087

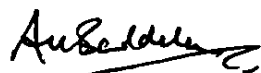
Atrium 5 Limited

BALANCE SHEET

at 31 December 2010

	Note	2010 \$'000	2009 \$'000
Liabilities			
Capital and reserves			
Called up share capital	12	-	-
Profit and loss account		30,150	16,347
Total shareholders funds	13	30,150	16,347
Technical provisions			
Provision for unearned premiums		63,063	80,513
Claims outstanding		287,831	155,905
		350,894	236,418
Provisions for other risk and charges	7(c)	46,997	32,010
Deposits received from reinsurers		161	625
Creditors			
Arising out of direct insurance operations		30,747	4,069
Arising out of reinsurance operations		150,345	128,443
Other creditors including taxation and social security		19,580	14,072
	14	200,672	146,584
Accruals and deferred income		5,815	6,103
Total liabilities		634,689	438,087

The financial statements were approved by the Board of Directors on 12 April 2011 and signed on its behalf by



A Baddeley
Director

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

1. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are prepared in accordance with the special provisions relating to insurance companies in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulation 2008 made under the Companies Act 2006, and include statements of the transactions, assets and liabilities of the syndicates on which the company participates as a corporate member at Lloyd's. The financial statements comply with applicable accounting standards. The Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended in December 2006 (the "ABI SORP") has been adopted.

The syndicates in which the company participates are managed and controlled by their respective managing agents. The accounting information in respect of these participations has been provided by the managing agents and has been audited by the syndicate auditors. Information in respect of the company's participations on the managed syndicates is available direct from the syndicate accounting records.

As a wholly owned subsidiary of Ariel Holdings Limited, the company has taken advantage of the exemption in FRS 1 from the requirement to prepare a cash flow statement.

(b) Basis of accounting

The financial statements have been prepared using the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

The Company's functional and presentational currency is US Dollars.

(c) Premiums

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Outwards reinsurance premiums are allocated by the managing agent of each syndicate to reflect the protection purchased by each year of account.

(d) Unearned premiums

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of the risk. The specific basis adopted by each individual syndicate is determined by the relevant managing agency.

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

(e) Claims

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

The provision for claims outstanding is made on an individual case by 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 at the balance sheet date based on statistical methods. The estimation process will vary from managing agent to managing agent but is likely to include the use of statistical projections based on previous claims history, case by case reviews of notified losses, and the use of security ratings to help assess the financial ability of reinsurers to pay reinsurance recoveries anticipated of them.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in notification and settlement of certain claims and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business of later periods.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate were to be unable to meet its obligations and other elements of the Lloyd's chain of security were to fail, then the members of the closed underwriting year would have to settle outstanding claims. The Directors consider that the likelihood of such failure of the reinsurance to close is extremely remote and, therefore, the reinsurance to close has been deemed to settle liabilities outstanding at the closure of the underwriting account and no further provision is made for any potential variation in the ultimate liability of that year of account.

(f) Deferred acquisition costs

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

(g) Unexpired risks

Provision is made where the cost of claims and expenses arising after the end of the financial period from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable. The assessment of whether a provision is necessary is made on a syndicate by syndicate basis, using information supplied by the respective managing agents.

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

(h) Investment income and expenses

Dividends are included as investment income when the investments to which they relate are declared "ex-dividend" Interest income and investment expenses are recognised on an accruals basis

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years that have been realised during the year and are reported as realised gains and losses in the current profit and loss account

Investment return, comprising investment income, realised and unrealised gains and losses, and investment expenses, is included initially within the non-technical account The investment return is allocated from the non-technical account to the technical account - general business so as to reflect the longer term investment return on the company's investments supporting its underwriting activities together with the whole of the investment return on the company's share of syndicate investments

(i) Investments

Investments are stated at their current values at the end of the year Listed investments are included in the balance sheet at bid-market value Unlisted investments are stated at an estimate of market value determined by the managing agents of the relevant syndicates Deposits with credit institutions are included at cost

(j) Deferred tax

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

(k) Intangible assets

Syndicate participations

Managed syndicate capacity purchased at auction is capitalised at cost and amortised on a straight-line basis over its estimated useful life of 20 years less any accumulated impairment losses Third party syndicate capacity purchased at auction is capitalised at cost and amortised on a straight-line basis over its estimated useful life of 3 years Amortisation is charged from the beginning of the first accounting period following acquisition, when the asset becomes available for use

Managed syndicate capacity is reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired The amount of any impairment is charged to the income statement in the year in which the impairment arises

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

(l) Foreign currencies

Items in the profit and loss account have been translated into the functional currency of US Dollars at the average rate for the quarter in which the transaction takes place, whilst the Balance Sheet has been translated at the exchange rate on the balance sheet date as per the following table, with translation differences being recognised through the profit and loss account

	Balance sheet rate at 31 December 2010	Average rate for Quarter 1 2010	Average rate for Quarter 2 2010	Average rate for Quarter 3 2010	Average rate for Quarter 4 2010
Sterling	1 5471	1 5614	1 4919	1 5498	1 5819
Canadian Dollar	1 0001	0 9610	0 9735	0 9622	0 9872
Euro	1 3253	1 3856	1 2761	1 2902	1 3603
Singapore Dollar	0 7748	0 7129	0 7189	0 7373	0 7678

All other exchange differences are included in the technical account

(m) Changes in Accounting Policy

There have been no changes to accounting policies

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

2. SEGMENTAL ANALYSIS

2010	Gross Premiums Written \$'000	Gross Premiums Earned \$'000	Gross Claims Incurred \$'000	Gross Operating Expenses \$'000	Reinsurance Balance \$'000	Net Technical Result \$'000	Net Technical Provisions \$'000
Direct business							
Accident and health	20,548	20,980	(15,178)	(4,480)	(1,979)	(657)	(12,872)
Motor	4,246	4,683	(3,060)	(1,055)	946	1,514	29,678
Marine, aviation and transport	101,088	104,448	(68,427)	(15,788)	(19,729)	504	9,896
Fire and other damage to property	60,702	64,965	(44,103)	(13,367)	(814)	6,681	130,935
Third party liability	41,597	42,089	(31,022)	(8,549)	983	3,501	68,600
Other	1,386	1,600	(1,449)	(342)	(1,531)	(1,722)	(33,762)
Total direct	229,567	238,765	(163,239)	(43,581)	(22,124)	9,821	192,475
Reinsurance business							
Reinsurance acceptances	44,924	53,176	(30,410)	(8,292)	(10,689)	3,785	74,166
	274,491	291,941	(193,649)	(51,873)	(32,813)	13,606	266,641
Allocated investment return						7,474	
Balance on technical account						21,080	

Commission on direct insurance gross premiums earned during 2010 were \$32,268,000

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

2 SEGMENTAL ANALYSIS (continued)

2009	Gross Premiums Written \$'000	Gross Premiums Earned \$'000	Gross Claims Incurred \$'000	Gross Operating Expenses \$'000	Reinsurance Balance \$'000	Net Technical Result \$'000	Net Technical Provisions \$'000
Direct business							
Accident and health	12,593	12,360	(5,796)	(4,659)	(3,056)	(1,151)	(13,342)
Motor	2,352	2,549	(1,425)	(922)	(266)	(64)	(1,271)
Marine, aviation and transport	68,546	65,697	(31,621)	(15,234)	(15,763)	3,079	103,126
Fire and other damage to property	41,787	39,782	(16,760)	(11,455)	(9,452)	2,115	73,283
Third party liability	26,563	25,833	(17,538)	(7,950)	(920)	(575)	7,063
Other	1,471	1,619	(2,257)	(505)	(679)	(1,822)	(37,817)
Total direct	153,312	147,840	(75,397)	(40,725)	(30,136)	1,582	133,584
Reinsurance Business							
Reinsurance acceptances	51,008	51,367	(18,100)	(12,226)	(10,544)	10,497	21,840
	204,320	199,207	(93,497)	(52,951)	(40,680)	12,079	155,424
Allocated investment return						5,962	
Balance on technical account						18,041	

Commission on direct insurance gross premiums earned during 2009 were \$31,983,000

The company's activities are undertaken solely in the United Kingdom

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

3. NET OPERATING EXPENSES

	2010 \$'000	2009 \$'000
Brokerage and other business acquisition expenses	30,760	40,315
Change in deferred acquisition costs	4,142	(1,616)
Foreign exchange gain	(2,004)	(897)
Syndicate operating expenses	5,775	6,397
Direct operating expenses	13,200	8,752
	<u>51,873</u>	<u>52,951</u>
Reinsurance commissions receivable	(4,488)	(3,291)
	<u>47,385</u>	<u>49,660</u>

4. INVESTMENT RETURN

	2010 \$'000	2009 \$'000
Investment income		
Income from investments	7,944	4,140
Net gains on the realisation of investments	188	-
Other interest	4	30
	<u>8,136</u>	<u>4,170</u>
Investment expenses and charges		
Investment management expenses	(749)	(482)
Net losses on the realisation of investments	-	(176)
	<u>(749)</u>	<u>(658)</u>
Net unrealised (losses)/gains on investments		
Unrealised gains on investments	2,288	3,192
Unrealised losses on investments	(2,201)	(742)
	<u>87</u>	<u>2,450</u>
Total investment return	<u>7,474</u>	<u>5,962</u>

5. OTHER CHARGES, INCLUDING AMORTISATION

Other charges include, amortisation of syndicate capacity of \$313,000 (2009 \$437,000), auditors' remuneration in respect of audit services of \$19,596 (2009 \$7,826) and fees paid to the company's auditor for tax services are \$10,000 (2009 \$nil)

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

6. DIRECTORS EMOLUMENTS AND STAFF COSTS

The directors of the company are all directors of Atrium Group Services Limited, the employing company within the Atrium group. They are remunerated by the Atrium group and their remuneration is disclosed in the financial statements of Atrium Group Services Limited.

The company does not have any employees, however it uses the services of employees of the Atrium group. No amounts are charged to the company for the use of these services (2009 \$nil)

7. TAX

	2010 \$'000	2009 \$'000
(a) Tax on profit on ordinary activities		
The tax charge is made up as follows		
Current tax		
UK corporation tax	-	(11,296)
Group relief receipt	(9,559)	-
Tax overprovided in previous years	(115)	(7,395)
	<u>(9,674)</u>	<u>(18,691)</u>
Foreign tax	57	53
Total current tax (note 7 (b))	<u>(9,617)</u>	<u>(18,638)</u>
Deferred tax		
Origination and reversal of timing differences	17,472	20,334
Deferred tax (over)/underprovided in previous years	(744)	7,551
Rate changes	(1,741)	-
Total deferred tax (note 7 (c))	<u>14,987</u>	<u>27,885</u>
Tax on profit on ordinary activities	<u>(5,370)</u>	<u>(9,247)</u>
(b) Factors affecting current tax charge		
The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2009 – 28%). The differences are reconciled below		
Profit on ordinary activities before tax	<u>23,773</u>	<u>29,975</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 – 28%)	6,656	8,393
Effects of		
Timing of underwriting profits	(17,534)	(20,445)
Tax overprovided in previous years	(115)	(3,794)
Foreign tax	57	53
Adjustments to group relief payments in prior years	-	(3,614)
Group relief not paid for at the standard rate	1,319	769
Current tax charge for period (note 7(a))	<u>(9,617)</u>	<u>(18,638)</u>

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

7 TAX (continued)

	2010 \$'000	2009 \$'000
(c) Deferred tax		
Balance at 1 January	32,010	4,125
Deferred tax charge in profit and loss account (note 7(a))	14,987	27,885
At 31 December	<u>46,997</u>	<u>32,010</u>
Analysis of deferred tax liability at 31 December		
Provision for underwriting results	51,459	34,936
Other	(33)	-
Trading losses	<u>(4,429)</u>	<u>(2,925)</u>
	<u>46,997</u>	<u>32,010</u>

The deferred tax liability in respect of underwriting results relates to the underwriting results that have arisen on the 2008, 2009 and 2010 years of account. These results will be assessed to tax in 2011, 2012 and 2013 respectively.

The company is subject to US tax on its US underwriting profit. No provision is made in respect of US taxes which arise in 2010 (2009: \$nil) as any provision is likely to be immaterial.

The company has an unrelieved foreign tax credit of \$nil (2009: \$247,000) on which a deferred tax asset has not been recognised as the recovery is uncertain in the foreseeable future.

(d) Factors affecting future tax charges

A gradual reduction in the UK corporation tax rate from 28% to 24% over the next 4 years was announced in the Emergency Budget of 22 June 2010 with a further 1% reduction being announced in the Budget of 23 March 2011. The Finance (No 2) Act 2010 included the first of the 1% rate reductions with effect from April 2011, with further reductions to be dealt with by future legislation. The benefit to the Company's net assets arising from the further 4% reduction of rate is estimated as \$4,217,000 and will be recognised as the legislation is substantively enacted.

8. DIVIDENDS

	2010 \$'000	2009 \$'000
Declared and paid during the year on ordinary shares		
Equity dividends paid		
Interim dividend	4,600	15,700

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

9. INTANGIBLE ASSETS

Purchased syndicate capacity	\$'000
Cost	
At 1 January 2010	6,116
Disposals	(205)
At 31 December 2010	<u>5,911</u>
Amortisation	
At 1 January 2010	884
Amortisation on disposals	(188)
Provided during the year	313
At 31 December 2010	<u>1,009</u>
Net book value	
At 31 December 2010	<u>4,902</u>
At 1 January 2010	<u>5,232</u>

10. FINANCIAL INVESTMENTS

	2010 Historic Cost \$'000	2010 Market Value \$'000	2009 Historic Cost \$'000	2009 Market Value \$'000
Shares and other variable yield securities	-	-	1,594	1,594
Debt securities and other fixed income securities	233,042	235,423	150,253	157,278
Loans and deposits with credit institutions	16,764	16,850	2,244	2,224
Other	10,130	11,489	7,419	9,743
	<u>259,936</u>	<u>263,762</u>	<u>161,510</u>	<u>170,839</u>

Analysis of market value	2010 \$'000	2009 \$'000
Listed investments	235,423	158,872
Unlisted investments	28,339	11,967
	<u>263,762</u>	<u>170,839</u>

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

Disclosure of Fair Values in accordance with the fair value hierarchy

In accordance with the Amendments to FRS 29 Financial Instruments Disclosures, the fair value of financial instruments based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value is provided below

The levels of the fair value hierarchy are defined by the standard as follows

Level 1 - fair values measured using quoted prices (unadjusted) in active markets for identical instruments,

Level 2 - fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data,

Level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data

The fair value of the Company's financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Included within Level 1 of the hierarchy are the Company's share of Government bonds and Treasury bills which are measured based on quoted prices over which the Atrium Group has control.

Level 2 of the hierarchy contains the Company's share of U S Government Agencies, Corporate Securities, Asset Backed Securities, Mortgage Backed Securities over which the Atrium Group has control. The fair value of these assets are based on prices obtained from both investment managers and investment custodians as discussed above. This level also include a disclosure of the Company's share of investments held by non managed syndicates. The directors have classified these holdings as Level 2 following discussions with the relevant managing agencies.

The Company records the unadjusted price provided and validates the price through a number of methods, including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US Government Agencies and Corporate Securities are based on a limited number of transactions for those securities and as such the Company considers these instruments to have similar characteristics of those instruments classified as Level 2.

Having reviewed the Company's investments using the above criteria as valuation and pricing the Directors are satisfied that there are no Level 3 investments.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

During the year, there were no transfers made between Level 1 and Level 2 of the fair value hierarchy

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total fair value \$'000
31 December 2010				
Financial assets designated at fair value through profit or loss				
Government securities	52,570	59,246	-	111,816
Corporate	-	63,213	-	63,213
Asset backed securities	-	1,871	-	1,871
Mortgage backed securities	-	10,334	-	10,334
Deposits with ceding undertakings	-	392	-	392
Group Share of Non managed syndicate investments	-	76,528	-	76,528
	<u>52,570</u>	<u>211,584</u>	<u>-</u>	<u>264,154</u>

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total fair value \$'000
31 December 2009				
Financial assets designated at fair value through profit or loss				
Government securities	34,617	28,365	-	62,982
Corporate	-	36,302	-	36,302
Asset backed securities	-	877	-	877
Mortgage backed securities	-	1,348	-	1,348
Deposits with ceding undertakings	-	306	-	306
Group Share of Non managed syndicate investments	-	69,330	-	69,330
	<u>34,617</u>	<u>136,528</u>	<u>-</u>	<u>171,145</u>

11. DEBTORS

	2010 \$'000	2009 \$'000
Amounts falling due within one year		
Arising out of direct insurance operations		
- owed by intermediaries	54,470	38,356
Arising out of reinsurance operations	82,664	58,187
Other debtors	42,981	22,045
	<u>180,115</u>	<u>118,588</u>
Amounts falling due after one year		
Arising out of direct insurance operations		
- owed by intermediaries	98	46
Arising out of reinsurance operations	616	1,419
Other debtors	3,947	2,942
	<u>4,661</u>	<u>4,407</u>
	<u>186,776</u>	<u>122,995</u>

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

12. AUTHORISED AND ISSUED SHARE CAPITAL

	2010 £	2009 £
Authorised		
75 (2009 – 75) ordinary shares of £1 each	75	75
100 (2009 – 100) 'A' ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid		
1 (2009 – 1) ordinary share of £1	1	1
	<hr/>	<hr/>

Following the change of functional currency in 2009, the brought forward balances for the issued share capital have been translated into USD for the purposes of financial reporting at the exchange rate at the date of the change being £1 \$1 4479

	2010 \$	2009 \$
Allotted, called up and fully paid		
1 (2009 – 1) ordinary share	1	1
	<hr/>	<hr/>

The rights of the shares can be summarised as follows

Ordinary shares confer upon the holders the right to receive notice, attend and vote at General Meetings of the company, and the right to receive a dividend. The holders of the 'A' ordinary shares do not have the right to receive notice, attend and vote at General Meetings of the company.

The holders of 'A' ordinary shares shall, on payment of a dividend, or other distribution, be entitled to receive 1p on each 'A' ordinary share for every £10,000 paid per ordinary share, either by dividend or other distribution.

Upon wind-up of the Company and a return of assets, the 'A' ordinary share holders will be paid the amounts paid up on each 'A' ordinary share, after repayment of the amount paid up on the ordinary shares plus the payment of £1m per ordinary share.

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	\$'000
2010	
Balance at 1 January 2010	16,347
Profit for the financial year	18,403
Dividends	(4,600)
	<u>30,150</u>
Balance at 31 December 2010	
2009	
At 1 January 2009	11,319
Profit for the financial year	20,728
Dividends	(15,700)
	<u>16,347</u>

14. CREDITORS

	2010 \$'000	2009 \$'000
Amounts falling due within one year		
Arising out of direct insurance operations	30,729	4,068
Arising out of reinsurance operations	145,382	123,002
Other creditors including taxation and social security	19,512	11,928
	<u>195,623</u>	<u>138,998</u>
Amounts falling due after one year		
Arising out of direct insurance operations	18	-
Arising out of reinsurance operations	4,963	5,442
Other creditors including taxation and social security	68	2,144
	<u>5,049</u>	<u>7,586</u>
	<u>200,672</u>	<u>146,584</u>

Atrium 5 Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

15. CONTINGENT LIABILITIES

Charge over assets

On 28 November 2007, the company and its fellow underwriting subsidiaries, entered into an interavailable Lloyd's Security and Trust Deed securing all monies due and to become due from the company and its fellow underwriting subsidiaries to the Society of Lloyd's. On the same day Atrium Underwriting Group Limited ('AUGL') created a floating charge over all its assets to secure all monies due and to become due from AUGL to Lloyd's under the terms of the Deed of Indemnity provided by AUGL to Lloyd's in connection with the foregoing.

Under the terms of the interavailable Lloyd's Security and Trust Deed, the company and its fellow underwriting subsidiaries have given undertakings to the Society of Lloyd's, supported by a commitment from AUGL, that if one of them fails to meet any of its obligations to Lloyd's the others will assign to Lloyd's on demand their rights to current and future profits held in their Premium Trust Funds or contribute profits received out of their Trust Funds to the Central Fund of Lloyd's in each case until the amounts owed by the defaulting subsidiary has been paid in full.

On 23 March 2010 the Company and its fellow underwriting subsidiaries signed Deeds of Transition and new Trust Deeds to facilitate the implementation by the Society of Lloyd's of a new Trust Deed architecture. The changes made to the documentation relate to streamlining and simplifying the administration of Funds at Lloyd's and do not have any financial impact on the Company.

16. RELATED PARTY TRANSACTIONS

As allowed under Financial Reporting Standard No 8 the company has not disclosed related party transactions with group undertakings on the basis that the company is a subsidiary undertaking with 100% of voting rights controlled within a group which produces publicly available consolidated financial statements in which the company is included.

17. ULTIMATE PARENT COMPANY

The company's immediate parent undertaking is Atrium Underwriting Holdings Limited, which does not prepare group financial statements.

The ultimate holding company of Atrium 5 Limited is Ariel Holdings Ltd, registered in Bermuda number 37470. The consolidated financial statements of Ariel Holdings Limited, within which this company is included, can be obtained from that company's offices at 5th Floor, Victoria Place, 31 Victoria Street, Hamilton HM 10, Bermuda.