

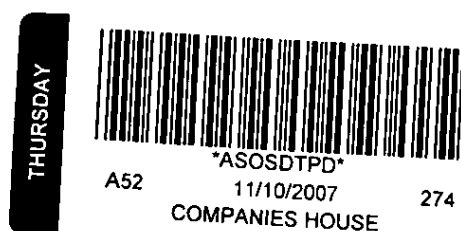
Company registration number: 3637423

## **Bernasco Underwriting Limited**

### **Report and financial statements 31 December 2006**

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# **Bernasco Underwriting Limited**

## **Company information**

### **Directors**

J G Bernasconi  
Nomina plc

### **Company Secretary**

Hampden Legal PLC

### **Registered Office**

85, Gracechurch Street  
London  
EC3V 0AA

### **Auditors**

CLB Littlejohn Frazer  
Chartered Accountants  
and Registered Auditors  
1 Park Place  
Canary Wharf  
London  
E14 4HJ

### **Accountants**

Axiom Consulting Limited  
Lloyds Chambers  
1 Portsoken Street  
London E1 8DF

### **Solicitors**

Jones Day  
21, Tudor Street  
London  
EC4Y 0DJ

# **Bernasco Underwriting Limited**

## **Report of the Directors**

The Directors submit their Report together with the Financial Statements of the Company for the year ended 31 December 2006

### **Principal Activities and Business Review**

The principal activity of the Company is that of trading as a Lloyd's corporate capital member. The Company continues to trade in 2007 and the Directors expect this year's result to be better than years currently being reported.

The Financial Statements incorporate the annual accounting results of the syndicates on which the Company participates for the 2004, 2005 and 2006 years of account, as well as any 2003 and prior run-off years.

The 2004 year closed at 31 December 2006 with a result of £38,075 (2003 - £62,318). The 2005 and 2006 open underwriting account will normally close at 31 December 2007 and 2008.

Certain syndicates on which the Company participates have for a variety of reasons been unable to close. There is a greater than usual degree of uncertainty as to the eventual outcome of these accounts.

### **Results and Dividends**

The results for the year are set out on pages 9 to 10 of the Financial Statements. Dividends totalling £- were paid in the year (2005 £-).

### **Future Developments**

The Company continues to write insurance business in the Lloyd's insurance market as a corporate underwriting member of Lloyd's.

# **Bernasco Underwriting Limited**

## **Report of the Directors (continued)**

### **Key Performance Indicators**

The directors consider the following to be the key performance indicators of the Company

	<b>2006</b>	<b>2005</b>
Capacity (youngest underwriting year)	356,672	338,070
Gross premium written as a % of capacity	110.5%	111.7%
Underwriting profit of latest closed year		
as a % of capacity	11.6%	22.2%
Run-off years of account movement	2,972	(3,615)

### **Other Performance Indicators**

As a result of the nature of this Company as a Lloyd's Corporate Member the majority of its activities are carried out by the syndicates in which it participates. The Company is not involved directly in the management of the syndicate's activities, including employment of syndicate staff, as these are the responsibility of the relevant Managing Agent. Each Managing Agent will also have responsibility for the environmental activities of each syndicate, although by their nature insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

### **Risk Management**

As a corporate member of Lloyd's the majority of the risks to this Company's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed below, these risks are mostly managed by the Managing Agent of the syndicate. This Company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates.

### **Syndicate risks**

The syndicate's activities expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the Managing Agent prepares an Individual Capital Assessment (ICA) for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the ICA, and typically the majority of the total assessed value of the risks concerned is attributable to Insurance Risk.

## **Bernasco Underwriting Limited**

### **Report of the Directors (continued)**

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Financial Services Authority provide additional controls over the syndicate's management of risks.

The Company manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, of a review of the business plan prepared for each syndicate by its Managing Agent. In addition quarterly reports and annual accounts together with any other information made available by the Managing Agent are monitored and if necessary enquired into. If the Company considers that the risks being run by the syndicate are excessive it will seek confirmation from the Managing Agent that adequate management of the risk is in place and if considered appropriate will withdraw support from the next underwriting year.

#### **Investment and currency risks**

The other significant risks faced by the Company are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, liquidity risk, currency risk and interest rate risk. To mitigate this, the surplus company funds are invested in the Money Market with triple A rated banks. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the company to meet the claim. In order to minimise investment, credit and liquidity risk the Company's funds are invested in readily realisable money market deposits. The Company's money market deposits are held approximately equally in Sterling and US dollars, which is similar to the balance of the underlying currencies in which the supported syndicates trade. This aims to mitigate the currency exposure risk that may arise if syndicates require funding for losses and also to ensure that any changes to capital requirements arising from currency movements are mitigated by similar changes in the value of Company funds.

#### **Regulatory risks**

The Company is subject to continuing approval by Lloyd's and the Financial Services Authority to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Company is able to support.

#### **Operational risks**

As there are a relatively few transactions actually undertaken by the Company there are only limited systems and staffing requirements of the Company and therefore operational risks are not considered to be significant. Close involvement of all directors in the Company's key decision making and the fact that the majority of the Company's operations are conducted by syndicates provides control over any remaining operational risks.

# **Bernasco Underwriting Limited**

## **Report of the Directors (continued)**

### **Directors**

The Directors who served at any time during the year were as follows.

J G Bernasconi  
Nomina plc

### **Directors' Responsibilities**

Company law requires the Directors to prepare Financial Statements for each financial period which give a true and fair view of the 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 accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping 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 1985. 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. The Directors are responsible for ensuring that the Report of the Directors is prepared in accordance with company law in the United Kingdom.

# **Bernasco Underwriting Limited**

## **Report of the Directors (continued)**

### **Auditors**

A resolution to reappoint CLB Littlejohn Frazer will be proposed at the next Annual General Meeting

**In the case of each of the persons who are Director's at the time this report is approved, the following applies:**

- (a) So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By Order of the Board



Hampden Legal PLC  
Secretary

18th July 2007

# **Bernasco Underwriting Limited**

## **Independent Auditors' report**

### **Independent Auditor's report to the shareholders of Bernasco Underwriting Limited**

We have audited the Financial Statements of Bernasco Underwriting Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and the related notes 1 to 21. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of Directors and Auditors**

As described by the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the Accounting Policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.



# **Bernasco Underwriting Limited**

## **Independent Auditors' report (continued)**

### **Opinion**

In our opinion

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its result for the year then ended,
- and have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the Financial Statements

CLB Littlejohn 

**CLB Littlejohn Frazer**

Chartered Accountants  
and Registered Auditors

20th July 2007

1 Park Place  
Canary Wharf  
London E14 4HJ

# Bernasco Underwriting Limited

## Profit and loss account

### Technical account – general business

For the year ended 31 December 2006

	Note	2006 £	2005 £
<b>Premiums Written</b>			
Gross premiums written	1	394,149	377,771
Outward reinsurance premiums		(65,423)	(70,723)
<b>Net Premiums Written</b>		<u>328,726</u>	<u>307,048</u>
<b>Change in the provision for Unearned premiums</b>			
Gross Provision		(6,986)	(13,842)
Reinsurers' share		2,369	(262)
<b>Earned Premiums, Net of Reinsurance Allocated Investment Return Transferred from the Non-Technical Account</b>		<u>324,109</u>	<u>292,944</u>
<b>Claims Paid</b>			
Gross Amount		(254,186)	(196,191)
Reinsurers' share		109,625	61,107
<b>Net claims paid</b>		<u>(144,561)</u>	<u>(135,084)</u>
<b>Change in Provision for Claims</b>			
Gross amount		74,185	(189,836)
Reinsurers' share		(85,847)	101,102
<b>Change in net provision for claims</b>		<u>(11,662)</u>	<u>(88,734)</u>
<b>Claims Incurred, Net of Reinsurance</b>		<u>(156,223)</u>	<u>(223,818)</u>
<b>Changes in other technical provisions, net of reinsurance</b>			
Net operating expenses	3	(117,391)	(106,854)
Other technical charges, net of reinsurance		-	-
<b>Balance on the Technical Account for General Business</b>		<u>73,069</u>	<u>(22,439)</u>

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

## **Bernasco Underwriting Limited**

### **Profit and loss account**

#### **Non - technical account**

**For the year ended 31 December 2006**

	<b>Note</b>	<b>2006 £</b>	<b>2005 £</b>
<b>Balance on Technical Account for General Business</b>		73,069	(22,439)
Investment income	4	23,598	18,799
Unrealised gains on investments		3,268	2,136
Investment expenses and charges	5	(3,070)	(2,413)
Unrealised losses on investments		(1,222)	(3,233)
Allocated investment return transferred to the general business technical account		(22,574)	(15,289)
Other income		22,516	-
Other charges		(8,267)	(6,177)
<b>Profit/(loss) on ordinary activities before taxation</b>	6	87,318	(28,616)
Tax on profit/(loss) on ordinary activities	7	(305)	(385)
<b>Profit/(loss) for the financial year</b>	14	87,013	(29,001)

All amounts relate to continuing operations

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

# Bernasco Underwriting Limited

## Balance sheet

As at 31 December 2006

		31 December 2006			31 December 2005		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
<b>Assets</b>							
<b>Intangible assets</b>	9	-	933	933	-	2,457	2,457
<b>Investments</b>							
Financial investments	10	438,130	488	438,618	409,755	368	410,123
Deposits with ceding undertakings		332	-	332	269	-	269
		438,462	488	438,950	410,024	368	410,392
<b>Reinsurers' share of technical provisions</b>							
Provision for unearned premiums		-	-	-	16,830	-	16,830
Claims outstanding		173,958	-	173,958	261,910	-	261,910
Other technical provisions		-	-	-	-	-	-
		173,958	-	173,958	278,740	-	278,740
<b>Debtors</b>							
Arising out of direct insurance operations	11	82,141	-	82,141	100,010	-	100,010
Arising out of reinsurance operations	11	64,526	-	64,526	62,601	-	62,601
Other debtors	12	36,150	38,005	74,155	37,642	1,320	38,962
		182,817	38,005	220,822	200,253	1,320	201,573
<b>Other assets</b>							
Cash at bank and in hand		43,370	21,076	64,446	56,881	1,953	58,834
Other		29,551	-	29,551	34,028	-	34,028
		72,921	21,076	93,997	90,909	1,953	92,862
<b>Prepayments and accrued income</b>							
Accrued interest		1,935	-	1,935	1,668	-	1,668
Deferred acquisitions costs		35,242	-	35,242	36,351	-	36,351
Other prepayments and accrued income		1,917	-	1,917	1,543	-	1,543
		39,094	-	39,094	39,562	-	39,562
<b>Total assets</b>		907,252	60,502	967,754	1,019,488	6,098	1,025,586

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

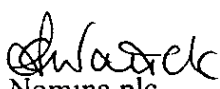
# Bernasco Underwriting Limited

## Balance sheet

As at 31 December 2006

		31 December 2006			31 December 2005		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
<b>Liabilities and shareholders' funds</b>							
<b>Capital and reserves</b>							
Called up share capital	13	-	290	290	-	290	290
Share premium account		-	-	-	-	-	-
Profit and loss account	14	51,300	(62,744)	(11,444)	33,449	(131,906)	(98,457)
<b>Shareholders' funds – attributable to equity interests</b>							
	15	51,300	(62,454)	(11,154)	33,449	(131,616)	(98,167)
<b>Technical provisions</b>							
Provision for unearned premiums		159,257	-	159,257	162,484	-	162,484
Claims outstanding – gross amount		604,152	-	604,152	740,648	-	740,648
Other technical provisions		-	-	-	-	-	-
<b>Provisions for other risks and charges</b>							
Deferred taxation	16	-	-	-	-	-	-
Other		-	-	-	-	-	-
<b>Deposit received from reinsurers</b>		3,725	-	3,725	6,753	-	6,753
<b>Creditors</b>							
Arising out of direct insurance operations		22,647	-	22,647	12,483	-	12,483
Arising out of reinsurance operations		28,098	-	28,098	42,039	-	42,039
Amounts owed to credit Institutions		37	-	37	73	-	73
Other creditors including taxation and social security	17	48,606	106,464	155,070	41,247	108,084	149,331
		866,522	106,464	972,986	1,005,727	108,084	1,113,811
<b>Accruals and deferred income</b>		(10,570)	16,492	5,922	(19,688)	29,630	9,942
<b>Total liabilities</b>		907,252	60,502	967,754	1,019,488	6,098	1,025,586

Approved by the Board of Directors on 18th July 2007  
and signed on its behalf by

  
Nomina plc  
Director

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

# Bernasco Underwriting Limited

## Cash flow statement

For the year ended 31 December 2006

	Note	2006 £	2005 £
<b>Operating activities</b>			
Net cash inflow/(outflow) from operating activities	18	(867)	3,133
<b>Returns on investments and servicing of finance</b>		-	-
<b>Capital expenditure</b>			
Purchase of syndicate capacity		(917)	(803)
Proceeds from sale of syndicate capacity		21,212	-
<b>Taxation</b>			
Corporation tax (paid)/refunded		(305)	(385)
<b>Equity dividends paid</b>		-	-
<b>Financing</b>			
Issue of shares		-	-
Share issue expenses		-	-
Net cash inflow/(outflow) for the year	18	<u>19,123</u>	<u>1,945</u>
<b>Cash flows were invested as follows:</b>			
Increase/(decrease) in cash holdings	18	19,123	1,945
Purchase of financial investments		-	-
Sale of financial investments		-	-
Net investment of cash flows		<u>19,123</u>	<u>1,945</u>

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the cash flow statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from the syndicates at Lloyd's.

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

# **Bernasco Underwriting Limited**

## **Accounting Policies**

**For the year ended 31 December 2006**

### **Basis of Preparation**

The Financial Statements are prepared under the historical cost basis of accounting modified to include the revaluation of investments and comply with applicable Accounting Standards

The Company participates in insurance business as an underwriting member of various syndicates at Lloyd's

The Financial Statements have been prepared in accordance with Section 255 of, and Schedule 9A of the Companies Act 1985 and the recommendations of 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, except that exchange differences arising on syndicate assets and liabilities are dealt with in the technical account as all of these differences arise from technical account transactions

Accounting information in respect of the syndicate participations has been provided by the Syndicate's managing agent and has been reported upon by the syndicate auditors

### **Basis of Accounting**

The Financial Statements are 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

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the syndicates on which the Company participates

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the syndicates' managing agents Accordingly, these assets and liabilities have been shown separately in the balance sheet as "Syndicate Participation" Other assets and liabilities are shown as "Corporate" The syndicate assets are held subject to trust deeds for the benefit of the syndicates' insurance creditors

# **Bernasco Underwriting Limited**

## **Accounting Policies**

**For the year ended 31 December 2006**

### **General Business**

#### **1 Premiums**

Premiums written comprise the total premiums receivable in respect of business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

#### **11 Unearned Premiums**

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the Balance Sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant Managing Agent.

#### **111 Deferred Acquisition Costs**

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

#### **1V Reinsurance Premiums**

Reinsurance premium costs are allocated by the Managing Agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

#### **v Claims Incurred and Reinsurers' Share**

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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.



# **Bernasco Underwriting Limited**

## **Accounting Policies**

### **For the year ended 31 December 2006**

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to each syndicate's 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. Each syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions made by each syndicates Managing Agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

#### **v1 Unexpired Risks Provision**

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the balance sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant Managing Agent.

#### **v11 Closed Years of Account**

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs.

# **Bernasco Underwriting Limited**

## **Accounting Policies**

### **For the year ended 31 December 2006**

Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account

#### **viii Run-off Years of Account**

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close

#### **ix Net Operating Expenses (including Acquisition Costs)**

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Company participates

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

#### **x Distribution of Profits and Collection of Losses**

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements

# **Bernasco Underwriting Limited**

## **Accounting Policies**

**For the year ended 31 December 2006**

### **x1 Investments**

Investments are stated at current value, including accrued interest at the Balance Sheet date

### **x11 Investment Return**

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

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the current value at that date

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business

### **x111 Basis of Currency Translation**

Syndicates maintain separate funds in Sterling, United States dollars, Canadian dollars and Euros

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed

Assets and liabilities are translated into Sterling at the rates of exchange at the Balance Sheet date

Differences arising on translation of foreign currency amounts in syndicates are included in the technical account

### **x1V. Debtors/Creditors arising from Insurance/Reinsurance Operations**

The amounts shown in the Balance Sheet include the totals of all the Syndicates outstanding debit and credit transactions as processed by the Lloyd's central facility, no account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate

# **Bernasco Underwriting Limited**

## **Accounting Policies**

**For the year ended 31 December 2006**

### **Taxation**

The Company is taxed on its results including its share of underwriting results declared by the syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these Financial Statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

HM Revenue & Customs agrees the taxable results of the syndicates at a syndicate level on the basis of computations submitted by the managing agent. At the date of the approval of these Financial Statements the syndicate taxable results of years of account closed at this and at previous year ends may not have been fully agreed with HM Revenue & Customs. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of HM Revenue & Customs agreement of syndicate results, will be reflected in the Financial Statements of subsequent periods.

### **Deferred Taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

### **Intangible Assets**

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' underwriting years are included within intangible fixed assets and amortised over a 5 year period beginning in the year following the purchase of the syndicate participation.

### **Cash Flow Statement**

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Cash Flow Statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from syndicates at Lloyd's.

# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

1. Class of Business	Gross Written Premiums £	Gross Premiums Earned £	Gross Claims Incurred £	Net Operating Expenses £	Reinsurance Balance £	Total £
<b>2006</b>						
<b>Direct Insurance</b>						
Accident and health	10,667	11,104	(3,433)	(5,246)	(179)	2,246
Motor – third party liability	2,033	1,725	(779)	(540)	61	467
Motor – other classes	27,457	26,128	(15,773)	(8,367)	(1,979)	9
Marine, aviation and transport	46,654	43,639	(19,967)	(13,147)	(6,886)	3,639
Fire and other damage to property	82,382	80,900	(30,476)	(27,912)	(10,449)	12,063
Third party liability	83,882	85,715	(46,406)	(24,931)	(8,836)	5,542
Credit and suretyship	3,900	4,238	(751)	(1,392)	(224)	1,871
Legal expenses	208	210	(44)	(88)	(37)	41
Assistance	-	-	-	-	-	-
Miscellaneous	742	715	(303)	(320)	(11)	81
	257,925	254,374	(117,932)	(81,943)	(28,540)	25,959
Reinsurance	136,224	132,789	(62,069)	(35,448)	(10,736)	24,536
<b>Total</b>	<b>394,149</b>	<b>387,163</b>	<b>(180,001)</b>	<b>(117,391)</b>	<b>(39,276)</b>	<b>50,495</b>
<b>2005</b>						
<b>Direct Insurance</b>						
Accident and health	11,274	11,406	(4,527)	(4,775)	(957)	1,147
Motor – third party liability	1,307	1,363	(492)	(800)	(481)	(410)
Motor – other classes	24,460	25,620	(16,834)	(8,270)	(88)	428
Marine, aviation and transport	39,562	35,675	(55,560)	(10,766)	26,772	(3,879)
Fire and other damage to property	77,124	75,420	(76,271)	(23,573)	15,387	(9,037)
Third party liability	91,593	88,240	(56,953)	(24,790)	(2,912)	3,585
Credit and suretyship	3,393	3,660	(4,801)	(1,485)	640	(1,986)
Legal expenses	373	265	(565)	(180)	37	(443)
Assistance	1	1	-	-	(135)	(134)
Miscellaneous	1,367	1,170	(558)	(86)	(41)	485
	250,454	242,820	(216,561)	(74,725)	38,222	(10,244)
Reinsurance	127,317	121,109	(169,466)	(32,129)	53,002	(27,484)
<b>Total</b>	<b>377,771</b>	<b>363,929</b>	<b>(386,027)</b>	<b>(106,854)</b>	<b>91,224</b>	<b>(37,728)</b>

# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

<b>2. Geographical Analysis</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Direct Gross Premium Written in:</b>		
United Kingdom	257,925	250,453
Other EU Member States	-	-
Rest of the World	-	1
	<hr/>	<hr/>
	257,925	250,454
	<hr/>	<hr/>
<b>3. Net Operating Expenses</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Acquisition costs	80,763	76,059
Change in deferred acquisition costs	(2,196)	(4,021)
Administrative expenses	34,426	37,799
Loss/(Profit) on exchange	4,398	(2,983)
	<hr/>	<hr/>
	117,391	106,854
	<hr/>	<hr/>
<b>4. Investment Income</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Income from investments	21,340	16,922
Gains on the realisation of investments	1,858	1,722
Bank deposit interest	400	155
	<hr/>	<hr/>
	23,598	18,799
	<hr/>	<hr/>
<b>5. Investment Expenses and Charges</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Investment management expenses, including interest	468	417
Losses on the realisation of investments	2,602	1,996
	<hr/>	<hr/>
	3,070	2,413
	<hr/>	<hr/>
<b>6. Profit/(Loss) on Ordinary Activities before Taxation</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
This is stated after charging		
Directors remuneration	-	-
Auditors' remuneration - audit	120	120
Auditors' remuneration - taxation	-	-
Amortisation of syndicate capacity	2,437	1,884
Interest on bank loan and overdrafts	-	-
Interest on other loans	-	-
	<hr/>	<hr/>
The Company has no employees		

# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

### 7. Taxation

#### Analysis of Charge in Period

##### Current tax

UK corporation tax on profit/(loss) of the period

Adjustment in respect of previous period

Foreign tax

Total current tax

Deferred tax

Origination and reversal of timing differences

	2006 £	2005 £
	-	-
	-	-
	-	-
	305	385
	305	385
	-	-
	-	-
	305	385

#### Factors affecting tax charge for period

The tax assessed for the period is different to the standard rate of corporation tax in the UK (19% (19% 2005)) The differences are explained below

Profit/(loss) on ordinary activities before tax

Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2005 – 19%)

Effects of

Underwriting results subject to timing differences for taxation

Utilisation of tax losses

Foreign tax

Amortisation and other corporation computation adjustments

Marginal or starting rates of taxation and prior period adjustment

Current tax charge for the period

	87,318	(28,616)
	16,590	(5,437)
	(16,509)	33,086
	-	(27,553)
	305	385
	(81)	(96)
	-	-
	305	385

The results of the Company's participation on the 2004, 2005 and 2006 years of account and the calendar year movement on 2003 and prior run-offs, will not be assessed to tax until the year ended 31 December 2007, 2008 and 2009 respectively being the year after the calendar year result of each run-off year or the normal date of closure of each year of account

# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

<b>8. Dividends</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Equity dividends declared and paid	-	-
<b>9. Intangible Assets</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Purchased syndicate capacity</b>		
<b>Cost</b>		
At 1 January 2006	15,088	14,285
Additions	917	803
Disposals	(1,198)	-
At 31 December 2006	14,807	15,088
<b>Amortisation</b>		
At 1 January 2006	12,631	10,747
Provided during the year	2,436	1,884
Disposals	(1,193)	-
At 31 December 2006	13,874	12,631
<b>Net Book Value</b>		
At 31 December 2006	933	2,457
At 31 December 2005	2,457	3,538



# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

### 10. Investments

#### Other Financial Investments - Syndicate

	2006		2005	
	Market Value £	Cost £	Market Value £	Cost £
Shares and other variable yield securities and units in unit trusts	59,771	57,245	36,123	34,142
Debt securities and other fixed income securities	344,743	344,683	343,326	344,916
Participation in investment pools	7,524	6,915	6,227	6,090
Loans secured by mortgages	397	405	486	497
Other loans	8,422	8,419	2,646	1,578
Deposits with credit institutions	12,992	13,008	20,831	20,736
Other	4,281	4,281	116	179
	<u>438,130</u>	<u>434,956</u>	<u>409,755</u>	<u>408,138</u>
Listed investments included within the above	412,038	408,843	385,676	385,148

#### Other Financial Investments - Corporate

Shares and other variable yield securities	488	245	368	245
Debt securities and other fixed income securities	-	-	-	-
Participation in investment pools	-	-	-	-
Loans guaranteed by mortgage	-	-	-	-
Other loans	-	-	-	-
Deposits with credit institutions	-	-	-	-
Other	-	-	-	-
	<u>488</u>	<u>245</u>	<u>368</u>	<u>245</u>
Listed investments included within the above	488	245	368	245

### 11. Debtors arising out of Direct Insurance and Reinsurance Operations

	Syndicate Participation £	Corporate £	2006 Total £	Syndicate Participation £	Corporate £	2005 Total £
The following amounts due after one year						
Direct insurance operations	172	-	172	175	-	175
Reinsurance operations	108	-	108	437	-	437
	<u>280</u>	<u>-</u>	<u>280</u>	<u>612</u>	<u>-</u>	<u>612</u>

# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

### 12. Other Debtors

	Syndicate Participation £	Corporate £	2006 Total £	Syndicate Participation £	Corporate £	2005 Total £
Amounts due from group undertakings	-	-	-	-	-	-
Funds at Lloyd's	-	21,016	21,016	-	6	6
Other	36,150	16,989	53,139	37,642	1,314	38,956
	<u>36,150</u>	<u>38,005</u>	<u>74,155</u>	<u>37,642</u>	<u>1,320</u>	<u>38,962</u>

Funds at Lloyd's represents assets deposited with the Corporation of Lloyd's (Lloyd's) to support the Company's underwriting activities as described in the Accounting Policies. The Company has entered into a Lloyd's Deposit Trust Deed which gives the Corporation the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Company's liabilities in respect of its underwriting.

### 13. Called-up Share Capital

	2006 Authorised	2006 Allotted, called-up and fully paid	2005 Authorised	2005 Allotted, called-up and fully paid
Ordinary £1 shares	100,000	290	100,000	290

### 14. Profit and Loss Account

	Syndicate Participation £	Corporate £	2006 Total £	Syndicate Participation £	Corporate £	2005 Total £
Retained profit/(loss) brought forward	33,449	(131,906)	(98,457)	80,016	(149,472)	(69,456)
Reallocate distribution	(60,303)	60,303	-	(35,734)	35,734	-
Profit/(loss) for the financial year	78,154	8,859	87,013	(10,833)	(18,168)	(29,001)
Equity dividends	-	-	-	-	-	-
Retained profit/(loss) carried forward	<u>51,300</u>	<u>(62,744)</u>	<u>(11,444)</u>	<u>33,449</u>	<u>(131,906)</u>	<u>(98,457)</u>

### 15. Reconciliation of Movements in Shareholders' Funds

	2006 £	2005 £
Opening shareholders funds	(98,167)	(69,166)
Profit/(loss) for the financial year	87,013	(29,001)
Equity dividends	-	-
Proceeds from issue of shares	-	-
Closing shareholders' funds	<u>(11,154)</u>	<u>(98,167)</u>

# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

16. Deferred Taxation	2006	2005
	£	£
Opening balance	-	-
Profit and loss account charge	-	-
Closing balance	-	-

## 17. Other Creditors including Taxation and Social Security

	Syndicate Participation	Corporate	2006 Total	Syndicate Participation	Corporate	2005 Total
	£	£	£	£	£	£
Corporation tax	-	-	-	-	-	-
Proprietors' loan accounts	-	96,167	96,167	-	99,178	99,178
Third Party Funds	-	-	-	-	-	-
Other creditors	48,606	10,297	58,903	41,247	8,906	50,153
Amount due to group undertakings	-	-	-	-	-	-
	48,606	106,464	155,070	41,247	108,084	149,331

18. Reconciliation of Operating Profit to Net Cash Inflow/(Outflow) from Operating Activities	2006	2005
	£	£
Profit or loss on ordinary activities before tax	87,318	(28,616)
(Profit)/loss attributable to syndicate transactions	(17,851)	46,567
Profit or loss – excluding syndicate transactions	69,467	17,951
(Increase)/decrease in debtors	(36,685)	5,371
Increase/(decrease) in creditors	(14,758)	(21,950)
(Profit)/loss on disposal of intangible assets	(21,208)	-
Amortisation of syndicate capacity	2,437	2,857
Impairment of syndicate capacity	-	(973)
Unrealised (gain)/loss on revaluation of investments	(120)	(123)
Net cash inflow/(outflow) from operating activities	(867)	3,133
<b>Movement in cash</b>		
Opening cash	1,953	8
Movement in cash	19,123	1,945
Closing cash	21,076	1,953

## **Bernasco Underwriting Limited**

### **Notes to the Financial Statements For the year ended 31 December 2006**

#### **19. Related party disclosure**

The company's underwriting is supported by the assets of or guarantees made interavailable to it by J G Bernasconi. These assets or guarantees are also available to Lloyd's to meet the personal underwriting liabilities of J G Bernasconi for underwriting years commencing prior to 1 January 1999, where applicable.

Nomina plc, a director of the company, administers the conversion scheme in which the company participates. Nomina plc charges a fixed management fee of £2,500 (2005 £2,500) to cover all the costs of basic administration of the company.

#### **20. Ultimate Controlling Party**

The Company is controlled by J G Bernasconi.

# Bernasco Underwriting Limited

## Notes to the Financial Statements For the year ended 31 December 2006

### 21 Syndicate Participation

The principal syndicates or members' agent pooling arrangements ("MAPA") in which the Company participates as an underwriting member are as follows

Syndicate or MAPA Number:	Managing Agent	2006 Allocated Capacity £	2005 Allocated Capacity £	2004 Allocated capacity £	2003 Allocated Capacity £
218	Cox Syndicate Management Ltd	9,583	10,360	10,360	10,360
2020	Wellington U/W Agencies Ltd	19,041	17,375	17,375	16,661
2791	Managing Agency Partners Ltd	28,231	23,000	-	-
4040	Illium Managing Agency Ltd	10,000	10,000	15,000	-
7200	Members' Agents Pooling Arrangement	33,616	33,616	33,616	31,743
7201	Members' Agents Pooling Arrangement	178,353	178,353	178,353	156,176
7202	Members' Agents Pooling Arrangement	65,366	65,366	72,628	66,025
7203	Members' Agents Pooling Arrangement	12,482	-	-	-