

Company registration number: 3637423

Bernasco Underwriting Limited

**Report and financial statements
31 December 2011**



Bernasco Underwriting Limited

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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	Littlejohn LLP Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD
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 2011

Principal Activities, Business Review and Future Developments

The principal activity of the Company is that of trading as a Lloyd's corporate capital member. The Company continues to trade in 2012 and the Directors expect this year's result to be profitable.

The financial statements incorporate the annual accounting results of the syndicates on which the Company participates for the 2009, 2010 and 2011 years of account, as well as any prior run-off years. The 2009 year closed at 31 December 2011 with a result of £62,370 (2008: £40,377). The 2010 and 2011 open underwriting accounts will normally close at 31 December 2012 and 2013.

Results and Dividends

The results for the year are set out on pages 8 to 9 of the Financial Statements. Dividends totalling £26,331 were paid in the year (2010: £38,729).

Key Performance Indicators

The directors monitor the performance of the Company by reference to the following key performance indicators:

	2011	2010
Capacity (youngest underwriting year)	346,523	361,823
Gross premium written as a % of capacity	86.8%	87.9%
Underwriting profit of latest closed year		
as a % of capacity	20.9%	11.9%
Run-off years of account movement	(550)	1,836

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.

Bernasco Underwriting Limited

Report of the Directors (continued)

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.

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, with 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. The company relies on advice provided by the Members' Agent which acts for it, who are specialists in assessing the performance and risk profiles of syndicates.

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. 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 short term cash deposits.

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.

Bernasco Underwriting Limited

Report of the Directors (continued)

Operational Risks

As there are 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.

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 year which 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 year, in accordance with United Kingdom Accounting Standards and applicable law (UK and Generally Accepted Accounting Practice). In preparing those Financial Statements the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting 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 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 to enable them to ensure that the Financial Statements comply with the Companies Act. 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.

Auditors

Littlejohn LLP has signified its willingness to continue in office as auditors.

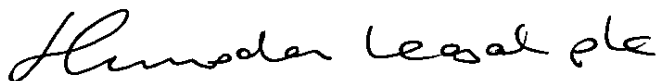
Bernasco Underwriting Limited

Report of the Directors (continued)

In the case of each of the persons who are Directors 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

Approved by the Board on 9 August 2012
and signed on its behalf by

A handwritten signature in black ink that reads "Hampden Legal plc". The signature is written in a cursive, flowing style.

Hampden Legal Plc
Secretary

Bernasco Underwriting Limited

Report of the Auditors

Independent Auditor's report to the members of Bernasco Underwriting Limited

We have audited the Financial Statements of Bernasco Underwriting Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and the related notes. 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 Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances, and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Carmine Papa (Senior statutory auditor)
For and on behalf of Littlejohn LLP
Statutory auditor
9 August 2012

1 Westferry Circus
Canary Wharf
London E14 4HD

Bernasco Underwriting Limited

Profit and loss account Technical account – general business for the year ended 31 December 2011

	Note	2011 £	2010 £
Premiums Written			
Gross premiums written	1	300,819	317,908
Outward reinsurance premiums		(57,729)	(60,430)
Net Premiums Written		<u>243,090</u>	<u>257,478</u>
Change in the provision for Unearned premiums			
Gross Provision		7,744	11,354
Reinsurers' share		(107)	(5,028)
Earned Premiums, Net of Reinsurance		<u>250,727</u>	<u>263,804</u>
Allocated Investment Return Transferred from the Non-Technical Account		7,647	12,125
Other technical income, net of reinsurance		-	254
Claims Paid			
Gross Amount		(171,147)	(188,275)
Reinsurers' share		30,172	30,152
Net claims paid		<u>(140,975)</u>	<u>(158,123)</u>
Change in Provision for Claims			
Gross amount		(35,728)	8,544
Reinsurers' share		21,200	(3,182)
Change in net provision for claims		<u>(14,528)</u>	<u>5,362</u>
Claims Incurred, Net of Reinsurance		(155,503)	(152,761)
Changes in other technical provisions, net of reinsurance		-	-
Net operating expenses	3	(96,411)	(100,706)
Other technical charges, net of reinsurance		-	-
Balance on the Technical Account for General Business		<u>6,460</u>	<u>22,716</u>

The accounting policies and notes on pages 13 to 25 form part of these Financial Statements

Bernasco Underwriting Limited

Profit and loss account Non - technical account for the year ended 31 December 2011

	Note	2011 £	2010 £
Balance on Technical Account for General Business		6,460	22,716
Investment income	4	12,902	18,840
Unrealised gains on investments		8,189	5,176
Investment expenses and charges	5	(4,346)	(6,743)
Unrealised losses on investments		(9,041)	(5,027)
Allocated investment return transferred to the general business technical account		(7,647)	(12,125)
Other income		63	437
Other charges		(7,845)	(2,525)
Profit/(loss) on ordinary activities before taxation	6	(1,265)	20,749
Tax on profit/(loss) on ordinary activities	7	(1,507)	(348)
Profit/(loss) for the financial year	14	(2,772)	20,401

All amounts relate to continuing operations

The company had no recognised gains and losses in the year other than the result above

The accounting policies and notes on pages 13 to 25 form part of these Financial Statements

Bernasco Underwriting Limited

Balance sheet as at 31 December 2011

		31 December 2011			31 December 2010		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Assets							
Intangible assets	9	-	777	777	-	287	287
Investments							
Financial investments	10	418,101	-	418,101	444,293	-	444,293
Deposits with ceding undertakings		153	-	153	142	-	142
		418,254	-	418,254	444,435	-	444,435
Reinsurers' share of technical provisions							
Provision for unearned premiums		17,474	-	17,474	17,541	-	17,541
Claims outstanding		123,567	-	123,567	110,085	-	110,085
Other technical provisions		-	-	-	-	-	-
		141,041	-	141,041	127,626	-	127,626
Debtors							
Arising out of direct insurance operations		73,404	-	73,404	80,664	-	80,664
Arising out of reinsurance operations		49,971	-	49,971	52,940	-	52,940
Other debtors	11	47,776	21,322	69,098	41,812	15,455	57,267
		171,151	21,322	192,473	175,416	15,455	190,871
Other assets							
Cash at bank and in hand		23,288	21,886	45,174	20,237	27,980	48,217
Other		42,859	-	42,859	39,748	-	39,748
		66,147	21,886	88,033	59,985	27,980	87,965
Prepayments and accrued income							
Accrued interest		1,027	-	1,027	1,051	-	1,051
Deferred acquisitions costs		28,746	-	28,746	30,753	-	30,753
Other prepayments and accrued income		1,716	-	1,716	1,402	-	1,402
		31,489	-	31,489	33,206	-	33,206
Total assets		828,082	43,985	872,067	840,668	43,722	884,390

The accounting policies and notes on pages 13 to 25 form part of these Financial Statements

Bernasco Underwriting Limited

Balance sheet as at 31 December 2011

		31 December 2011			31 December 2010		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Liabilities and shareholders' funds							
Capital and reserves							
Called up share capital	12	-	290	290	-	290	290
Share premium account		-	-	-	-	-	-
Profit and loss account	13	46,080	(5,932)	40,148	73,200	(3,949)	69,251
Shareholders' funds – attributable to equity interests							
	14	46,080	(5,642)	40,438	73,200	(3,659)	69,541
Technical provisions							
Provision for unearned premiums		124,756	-	124,756	131,503	-	131,503
Claims outstanding – gross amount		559,610	-	559,610	531,847	-	531,847
Other technical provisions		-	-	-	-	-	-
Provisions for other risks and charges							
Deferred taxation	15	-	19,096	19,096	-	22,718	22,718
Other		-	-	-	-	-	-
Deposit received from reinsurers							
		102	-	102	161	-	161
Creditors							
Arising out of direct insurance operations		20,002	-	20,002	21,551	-	21,551
Arising out of reinsurance operations		39,482	-	39,482	42,185	-	42,185
Amounts owed to credit institutions		-	-	-	-	-	-
Other creditors including taxation and social security	16	52,098	6,072	58,170	50,581	2,965	53,546
		796,050	25,168	821,218	777,828	25,683	803,511
Accruals and deferred income							
		(14,048)	24,459	10,411	(10,360)	21,698	11,338
Total liabilities							
		828,082	43,985	872,067	840,668	43,722	884,390

Approved and authorised for issue by the Board of Directors on 9 August 2012
and signed on its behalf by

Nomina Plc

Director
NOMINA PLC

Company registration number 3637423

The accounting policies and notes on pages 13 to 25 form part of these Financial Statements

Bernasco Underwriting Limited

Cash flow statement for the year ended 31 December 2011

	Note	2011 £	2010 £
Operating activities			
Net cash inflow/(outflow) from operating activities	17	26,603	62,367
Returns on investments and servicing of finance		-	-
Capital expenditure			
Purchase of syndicate capacity		(777)	(237)
Proceeds from sale of syndicate capacity		-	437
Taxation			
Corporation and overseas taxes (paid)/refunded		(5,589)	(11,441)
Equity dividends paid		(26,331)	(38,729)
Financing			
Issue of shares		-	-
Share issue expenses		-	-
Net cash inflow/(outflow) for the year	17	<u>(6,094)</u>	<u>12,397</u>
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	17	(6,094)	12,397
Purchase of financial investments		-	-
Sale of financial investments		-	-
Net investment of cash flows		<u>(6,094)</u>	<u>12,397</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 13 to 25 form part of these Financial Statements

Bernasco Underwriting Limited

Accounting Policies for the year ended 31 December 2011

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 396(3) of the Companies Act 2006, Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 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

Going Concern

The company participates as an underwriting member of Lloyd's. Its underwriting is supported by Funds at Lloyd's either made available by the company directly or by its members. The Directors are of the opinion that the company has adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Accordingly, the going concern concept has been adopted in preparation of the financial statements

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

The information included in these Financial Statements in respect of the syndicates has been supplied by Managing Agents based upon the various accounting policies they have adopted. The following describes the policies they have adopted

Bernasco Underwriting Limited

Accounting Policies

for the year ended 31 December 2011

General Business

i 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.

ii 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.

iii Deferred Acquisition Costs

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

iv 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.

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 syndicate's 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.

Bernasco Underwriting Limited

Accounting Policies for the year ended 31 December 2011

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.

vi 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.

vii 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.

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.

Bernasco Underwriting Limited

Accounting Policies for the year ended 31 December 2011

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.

xi Investments

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

xii 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.

xiii 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.

xiv 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 2011

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 2011

1. Class of Business

2011	Gross Written Premiums £	Gross Premiums Earned £	Gross Claims Incurred £	Net Operating Expenses £	Reinsurance Balance £	Total £
Direct Insurance						
Accident and health	11,148	10,741	(5,571)	(4,566)	(420)	184
Motor – third party liability	1,000	1,180	(693)	(412)	(3)	72
Motor – other classes	24,419	27,282	(22,434)	(9,866)	3,009	(2,009)
Marine, aviation and transport	44,169	44,022	(17,705)	(14,271)	(1,860)	10,186
Fire and other damage to property	70,223	71,737	(42,261)	(24,390)	(7,119)	(2,033)
Third party liability	57,045	56,439	(27,739)	(19,783)	(3,847)	5,070
Credit and suretyship	6,509	6,174	(3,832)	(1,765)	(218)	359
Legal expenses	710	557	(169)	(351)	(23)	14
Assistance	-	-	-	-	-	-
Miscellaneous	996	1,092	(507)	(752)	(14)	(181)
Total direct	216,219	219,224	(120,911)	(76,156)	(10,495)	11,662
Reinsurance	84,600	89,339	(85,964)	(20,255)	4,031	(12,849)
Total	300,819	308,563	(206,875)	(96,411)	(6,464)	(1,187)

2010						
Direct Insurance						
Accident and health	15,117	15,600	(6,579)	(6,856)	(903)	1,262
Motor – third party liability	1,958	1,926	(1,338)	(680)	(20)	(112)
Motor – other classes	29,046	29,398	(43,057)	(10,169)	(972)	(24,800)
Marine, aviation and transport	36,205	36,492	(16,508)	(10,775)	(2,234)	6,975
Fire and other damage to property	60,175	62,993	(27,506)	(21,930)	(8,557)	5,000
Third party liability	53,879	53,443	(25,888)	(15,926)	(4,777)	6,852
Credit and suretyship	23,228	25,242	(12,840)	(7,369)	(3,732)	1,301
Legal expenses	2,408	2,786	(1,897)	(1,022)	(12)	(145)
Assistance	-	-	-	-	-	-
Miscellaneous	870	1,075	(559)	(587)	8	(63)
Total direct	222,886	228,955	(136,172)	(75,314)	(21,199)	(3,730)
Reinsurance	95,022	100,307	(43,559)	(25,392)	(17,289)	14,067
Total	317,908	329,262	(179,731)	(100,706)	(38,488)	10,337

Bernasco Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2011

2. Geographical Analysis	2011	2010
	£	£
Direct Gross Premium Written in		
United Kingdom	171,272	175,154
Other EU Member States	3,234	7,777
Rest of the World	41,713	39,955
	<hr/>	<hr/>
	216,219	222,886
	<hr/>	<hr/>
3. Net Operating Expenses	2011	2010
	£	£
Acquisition costs	65,128	64,852
Change in deferred acquisition costs	1,721	2,406
Administrative expenses	30,026	38,587
Loss/(Profit) on exchange	(464)	(5,139)
	<hr/>	<hr/>
	96,411	100,706
	<hr/>	<hr/>
4. Investment Income	2011	2010
	£	£
Income from investments	9,931	11,917
Gains on the realisation of investments	2,946	6,802
Bank deposit interest	25	121
	<hr/>	<hr/>
	12,902	18,840
	<hr/>	<hr/>
5. Investment Expenses and Charges	2011	2010
	£	£
Investment management expenses, including interest	886	1,078
Losses on the realisation of investments	3,460	5,665
	<hr/>	<hr/>
	4,346	6,743
	<hr/>	<hr/>
6. Profit/(Loss) on Ordinary Activities before Taxation	2011	2010
	£	£
This is stated after charging		
Directors remuneration	-	-
Amortisation of syndicate capacity	287	165
Interest on bank loan and overdrafts	-	-
Interest on other loans	-	-
	<hr/>	<hr/>
The Company has no employees		

The auditors, Littlejohn LLP, charge a fixed fee to Nomina PLC for the provision of the audit of the company. This fee is included within the service fee charged to the company by Nomina PLC and equates to approximately £95 (2010 £95)

Bernasco Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2011

7. Taxation

	2011 £	2010 £
Analysis of Charge in Period		
Current tax		
UK corporation tax on profit/(loss) of the period	1,805	10,715
Adjustment in respect of previous period	2,250	(9,916)
	4,055	799
Foreign tax	1,074	912
Total current tax	5,129	1,711
Deferred tax		
Origination and reversal of timing differences	(4,431)	(2,630)
Change in tax rate	809	1,267
	1,507	348

Factors affecting tax charge for period

The tax assessed for the period is different to the standard rate of corporation tax in the UK of 20.25% (2010 21.00%). The differences are explained below

Profit/(loss) on ordinary activities before tax	(1,265)	20,749
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2010 21.00%)	(256)	4,357
Effects of		
Underwriting results subject to timing differences for taxation	2,784	6,140
Utilisation of tax losses	-	-
Foreign tax	1,074	720
Other corporation computation adjustments	(723)	409
Marginal rates of taxation and prior period adjustment	2,250	(9,915)
Current tax charge for the period	5,129	1,711

The results of the Company's participation on the 2009, 2010 and 2011 years of account and the calendar year movement on 2008 and prior run-offs, will not be assessed to tax until the year ended 31 December 2012, 2013 and 2014 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

8. Dividends

	2011 £	2010 £
Equity dividends declared and paid	26,331	38,729

Bernasco Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2011

9. Intangible Assets	2011	2010
	£	£
Purchased syndicate capacity		
Cost		
At 01 January 2011	15,777	15,922
Additions	777	237
Disposals	-	(382)
At 31 December 2011	<u>16,554</u>	<u>15,777</u>
Amortisation		
At 01 January 2011	15,490	15,707
Provided during the year	287	165
Disposals	-	(382)
At 31 December 2011	<u>15,777</u>	<u>15,490</u>
Net Book Value		
At 31 December 2011	<u>777</u>	<u>287</u>
At 31 December 2010	<u>287</u>	<u>215</u>

Bernasco Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2011

10. Investments

Other Financial Investments - Syndicate

	2011		2010	
	Market Value £	Cost £	Market Value £	Cost £
Shares and other variable yield securities and units in unit trusts	38,966	38,426	40,401	38,229
Debt securities and other fixed income securities	346,043	347,063	368,674	369,378
Participation in investment pools	24,722	24,370	26,844	25,318
Loans secured by mortgages	2,881	2,900	2,906	2,938
Other loans	4,322	4,295	4,240	4,240
Deposits with credit institutions	1,158	1,158	1,205	1,205
Other	9	106	23	158
	<u>418,101</u>	<u>418,318</u>	<u>444,293</u>	<u>441,466</u>
Listed investments included within the above	409,731	409,859	435,919	432,925

Other Financial Investments - Corporate

Shares and other variable yield securities	-	-	-	-
Debt securities and other fixed income securities	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Listed investments included within the above	-	-	-	-

11. Other Debtors

	2011			2010		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Amounts due from group undertakings	-	-	-	-	-	-
Funds at Lloyd's	-	14,066	14,066	-	14,024	14,024
Other	47,776	7,256	55,032	41,812	1,431	43,243
	<u>47,776</u>	<u>21,322</u>	<u>69,098</u>	<u>41,812</u>	<u>15,455</u>	<u>57,267</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. The Company's underwriting is supported by assets made available to it by the shareholders of the company.

Bernasco Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2011

12. Called-up Share Capital

	2011 Allotted, called-up and fully paid	2010 Allotted, called-up and fully paid
Ordinary £1 shares	290	290

13. Profit and Loss Account

	Syndicate Participation £	Corporate £	2011 Total £	Syndicate Participation £	Corporate £	2010 Total £
Retained profit/(loss) brought forward	73,200	(3,949)	69,251	114,673	(27,094)	87,579
Reallocate distribution	(40,371)	40,371	-	(72,852)	72,852	-
Profit/(loss) for the financial year	13,251	(16,023)	(2,772)	31,379	(10,978)	20,401
Equity dividends	-	(26,331)	(26,331)	-	(38,729)	(38,729)
Retained profit/(loss) carried forward	46,080	(5,932)	40,148	73,200	(3,949)	69,251

14. Reconciliation of Movements in Shareholders' Funds

	2011 £	2010 £
Opening shareholders funds	69,541	87,869
Profit/(loss) for the financial year	(2,772)	20,401
Equity dividends	(26,331)	(38,729)
Proceeds from issue of shares	-	-
Closing shareholders' funds	40,438	69,541

15. Deferred Taxation

	2011 £	2010 £
Opening balance	22,718	24,081
Profit and loss account charge	(3,622)	(1,363)
Closing balance	19,096	22,718

The deferred tax balance consists of timing differences relating to the taxation of underwriting results

Bernasco Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2011

16. Other Creditors including Taxation and Social Security

	2011			2010		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Corporation tax	-	1,614	1,614	-	2,074	2,074
Proprietors' loan accounts	-	-	-	-	-	-
Third Party Funds	-	-	-	-	-	-
Other creditors	52,098	4,458	56,556	50,581	891	51,472
Amount due to group undertakings	-	-	-	-	-	-
	<u>52,098</u>	<u>6,072</u>	<u>58,170</u>	<u>50,581</u>	<u>2,965</u>	<u>53,546</u>

17. (a) Reconciliation of Operating Profit to Net Cash Inflow/(Outflow) from Operating Activities

	2011 £	2010 £
Profit or loss on ordinary activities before tax	(1,265)	20,749
(Profit)/loss attributable to syndicate transactions	27,120	41,473
Profit or loss – excluding syndicate transactions	<u>25,855</u>	<u>62,222</u>
(Increase)/decrease in debtors	(5,867)	(126)
Increase/(decrease) in creditors	6,328	543
(Profit)/loss on disposal of intangible assets	-	(437)
Amortisation of syndicate capacity	287	165
Impairment of syndicate capacity	-	-
Realised/unrealised (gains)/losses on investments	-	-
Net cash inflow/(outflow) from operating activities	<u>26,603</u>	<u>62,367</u>

(b) Movement in Cash, Portfolio Investments and Financing

	At 1 January 2011 £	Cashflow £	Changes to Market Value £	At 31 December 2011 £
Cash	27,980	(6,094)	-	21,886
Other financial investments	-	-	-	-
	<u>27,980</u>	<u>(6,094)</u>	<u>-</u>	<u>21,886</u>

Bernasco Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2011

18. Related Party Disclosure

Nomina plc, a director of the company, provides administration services to the company. Nomina plc charged a management fee of £2,750 (2010 £2,625) to cover all the costs of basic administration of the company.

19. Ultimate Controlling Party

The Company is controlled by J G Bernasconi.

20. 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	2011 Allocated Capacity £	2010 Allocated Capacity £	2009 Allocated capacity £	2008 Allocated Capacity £
218	Equity Syndicate Management Limited	7,500	11,627	10,816	10,062
2791	Managing Agency Partners Limited	22,000	22,000	21,741	21,741
6101	Argenta Syndicate Management Limited	-	-	-	20,231
6103	Managing Agency Partners Limited	5,001	5,001	5,000	5,000
7200	Members' Agents Pooling Arrangement	37,351	38,616	30,598	33,202
7201	Members' Agents Pooling Arrangement	195,190	201,129	161,822	176,104
7202	Members' Agents Pooling Arrangement	68,473	72,076	58,679	63,650
7203	Members' Agents Pooling Arrangement	11,008	11,374	9,159	10,071