

DRUID UNDERWRITING LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2012

Company No. 3436688

TUESDAY



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Moore Stephens LLP

DRUID UNDERWRITING LIMITED

COMPANY INFORMATION

Director	D J Harden
Secretary	Argenta Secretariat Ltd
Company Number	3436688
Registered Office	Fountain House 130 Fenchurch Street London EC3M 5DJ
Auditors	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB

DRUID UNDERWRITING LIMITED

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DRUID UNDERWRITING LIMITED

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

The Director has pleasure in presenting his report, together with the audited financial statements for the year ended 31 December 2012

Principal activity and review

The principal activity of the company is that of trading as a Lloyd's corporate capital member. The company continues to trade in 2013 and the Director expects this year's results to be profitable.

The underwriting strategy is to participate on carefully selected syndicates in order to achieve above average underwriting returns.

Results and Dividend

The financial statements incorporate the annual accounting results of the syndicates on which the company participates for the 2010, 2009 and 2012 years of account, as well as any 2009 and prior run-off years. The 2010 year closed at 31 December 2012 with a result of £774,379 (2009 £1,435,717). The 2011 and 2012 open underwriting accounts will normally close at 31 December 2013 and 2014.

The results for the year are set out on pages 5 and 6 of the financial statements. No dividends were paid in the year (2011 - £nil).

Key Performance Indicators

The Director monitors the performance of the company by reference to the following key performance indicators:

	2012	2011
Capacity (youngest underwriting year)	10,881,493	7,710,940
Gross premium written as a % of capacity	97.7%	121.3%
Underwriting profit of latest closed year		
as a % of capacity	7.1%	18.6%
Run-off years of account movement	-	(7,954)

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 Director of the company does 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.

DRUID UNDERWRITING LIMITED

DIRECTOR'S REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

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.

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 the Director 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.

Director

The Director who held office throughout the year was D J Harden

DRUID UNDERWRITING LIMITED

DIRECTOR'S REPORT CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

Auditors

A resolution to reappoint Moore Stephens LLP as the company's auditor will be put to the members at the forthcoming Annual General Meeting in accordance with Section 487(2) of the Companies Act 2006

Director's Responsibilities

The Director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations

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

- ☐ select suitable accounting policies and then apply them consistently,
- ☐ make judgements and estimates that are reasonable and prudent,
- ☐ state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- ☐ prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business

The director is 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 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

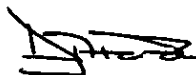
Directors

In the case of each of the persons who are Directors at the time this report is approved, the following applies

- ☐ so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- ☐ the Director have taken all steps that they ought to have taken 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 of Directors and signed on behalf of the Board on 20 September 2013

D J Harden



Director

DRUID UNDERWRITING LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

DRUID UNDERWRITING LIMITED

We have audited the financial statements of Druid Underwriting Limited for the year ended 31 December 2012 which are set out on pages 5 to 19. 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 Director's Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB'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 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter(s) prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

George Luck, *Senior Statutory Auditor*
For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB
21 September 2013

DRUID UNDERWRITING LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2012****TECHNICAL ACCOUNT – General Business**

	Notes	2012	2011
		£	£
Earned Premiums, Net of Insurance			
Gross premiums written	18	10,630,312	9,354,931
Outward reinsurance premiums		<u>(1,978,704)</u>	<u>(1,726,238)</u>
		8,651,608	7,628,693
Change in the gross provision for unearned premiums		(505,766)	(249,337)
Change in the provision for unearned premiums, reinsurers' share		<u>52,875</u>	<u>42,737</u>
Earned Premiums Net of Reinsurance		8,198,717	7,422,093
Allocated investment return		270,912	178,412
Claims Incurred, Net of Reinsurance			
Claims paid			
Gross amount		(4,756,263)	(4,604,754)
Reinsurers' share		<u>922,444</u>	<u>781,010</u>
Net claims paid		<u>(3,833,819)</u>	<u>(3,823,744)</u>
Change in the provision for claims			
Gross amount		(1,036,620)	(2,035,409)
Reinsurers' share		<u>228,396</u>	<u>678,661</u>
Change in the Net Provision for Claims		(808,224)	(1,356,748)
Claims Incurred, Net of Reinsurance		(4,642,043)	(5,180,492)
Net operating expenses	2	(3,057,293)	(2,657,061)
Investment expenses and charges		(16,465)	(14,802)
Balance on the General Technical Account		<u>753,828</u>	<u>(251,850)</u>

The notes on pages 10 to 19 form part of these financial statements

DRUID UNDERWRITING LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2012

NON-TECHNICAL ACCOUNT

		2012	2011
		£	£
Balance on the general business account		753,828	(251,850)
Investment income	3	94,429	11,944
Other income/(losses)	4	634,191	(147,863)
Other charges	5	(176,779)	(102,900)
Profit/(Loss) on Ordinary Activities Before Taxation		1,305,669	(490,669)
Taxation on profit on ordinary activities	7	(110,638)	233,972
Profit/(Loss) on Ordinary Activities After Taxation		1,195,031	(256,697)

All activities are continuing

The company has no recognised gains or losses other than the profit or loss for the period

The notes on pages 10 to 19 form part of these financial statements

DRUID UNDERWRITING LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2012

	Notes	2012			2011		
		Assets at Lloyd's			Assets at Lloyd's		
		£	Corporate £	2012 £	£	Corporate £	2011 £
Assets							
Investments							
Intangible assets	13	-	66,679	66,679	-	96,943	96,943
Financial investments	8	8,545,956	3,018,766	11,564,722	8,455,685	2,142,175	10,597,860
Deposits with ceding undertakings		2,154	-	2,154	3,112	-	3,112
		<u>8,548,110</u>	<u>3,085,445</u>	<u>11,633,555</u>	<u>8,458,797</u>	<u>2,239,118</u>	<u>10,697,915</u>
Reinsurers' Share of Technical Provisions							
Claims outstanding		<u>3,398,077</u>	-	<u>3,398,077</u>	<u>3,256,882</u>	-	<u>3,256,882</u>
Debtors							
Arising out of direct insurance operations	9	2,846,316	-	2,846,316	1,984,348	-	1,984,348
Arising out of reinsurance operations		219,402	-	219,402	218,696	-	218,696
Amounts due from parent undertaking		-	995,109	995,109	-	744,389	744,389
Other debtors		<u>2,422,577</u>	<u>49,121</u>	<u>2,471,698</u>	<u>2,907,307</u>	<u>85,300</u>	<u>2,992,607</u>
		<u>5,488,295</u>	<u>1,044,230</u>	<u>6,532,525</u>	<u>5,110,351</u>	<u>829,689</u>	<u>5,940,040</u>
Other Assets							
Cash at bank and in hand		1,421,747	1,435	1,423,182	1,503,374	2,417	1,505,791
Other		<u>1,266,325</u>	<u>387,734</u>	<u>1,654,059</u>	<u>749,185</u>	<u>404,587</u>	<u>1,153,772</u>
		<u>2,688,072</u>	<u>389,169</u>	<u>3,077,241</u>	<u>2,252,559</u>	<u>407,004</u>	<u>2,659,563</u>
Prepayments and Accrued Income							
		<u>1,039,590</u>	-	<u>1,039,590</u>	<u>951,331</u>	-	<u>951,331</u>
Total Assets		<u>21,162,144</u>	<u>4,518,844</u>	<u>25,680,988</u>	<u>20,029,920</u>	<u>3,475,811</u>	<u>23,505,731</u>

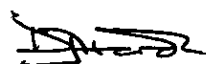
DRUID UNDERWRITING LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2012

	Notes	Liabilities at Lloyd's	2012 Corporate	2012	Liabilities at Lloyd's	2011 Corporate	2011
		£	£	£	£	£	£
Liabilities							
Capital and Reserves							
Called up share capital	10	-	3,000	3,000	-	3,000	3,000
Profit and loss account	11	799,223	3,788,367	4,587,590	598,372	2,794,187	3,392,559
Equity Shareholders' Funds	12	799,223	3,791,367	4,590,590	598,372	2,797,187	3,395,559
Technical Provisions							
Claims outstanding		17,978,634	-	17,978,634	17,152,288	-	17,152,288
Provisions for other charges							
Deferred taxation	14	-	149,873	149,873	-	277,478	277,478
Deposits Received from Insurers		1,753	-	1,753	1,908	-	1,908
Creditors							
Creditors arising from direct insurance operations		200,978	-	200,978	380,417	-	380,417
Creditors arising from reinsurance operations		935,756	-	935,756	861,517	-	861,517
Amounts owed to credit institutions		-	-	-	-	-	-
Amount due to parent undertaking		-	-	-	-	-	-
Other creditors including taxation and social security		1,148,896	119,444	1,268,340	914,517	-	914,517
		2,285,630	119,444	2,405,074	2,156,451	-	2,156,451
Accruals and Deferred Income		96,904	458,160	555,064	120,901	401,146	522,047
Total Liabilities		21,162,144	4,518,844	25,680,988	20,029,920	3,475,811	23,505,731

These financial statements were approved and authorised for issue by the Director on 20 September 2013



D J Harden

Director

Company registration number 03436688

The notes on pages 10 to 19 form part of these financial statements

DRUID UNDERWRITING LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£	£
Net cash flow from operating activities		
Operating profit/(loss)	1,305,669	(490,669)
Amortisation and impairment of capacity	30,264	31,653
(Increase)/Decrease in debtors	(913,268)	1,429,325
(Decrease)/Increase in creditors	(438,958)	(81,996)
Unrealised (loss)/surplus on investments	403,138	(158,658)
	<u>386,845</u>	<u>729,655</u>
Return on investment and servicing of finance		
Investment income	42,970	11,944
Taxation	-	(154,152)
Capital expenditure		
Purchase of Investments	(714,228)	(1,356,621)
Purchase of intangible assets	-	-
Sale of Investments	305,827	483,968
Realised gains on disposal of investments	<u>(39,248)</u>	<u>(10,795)</u>
Increase/(decrease) in cash at bank	<u>(17,834)</u>	<u>(296,001)</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.

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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 members 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.

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.

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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.

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

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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.

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

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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.

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.

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.

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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 crystallize based on current tax rates and law

Deferred tax assets are recognized 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 amortized 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

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2	Net Operating Expenses	2012	2011
		£	£
	Syndicate operating expenses	(5,818,841)	(4,835,842)
	Exchange adjustment	100,561	(14,591)
	Commission/brokerage	2,150,501	1,964,766
	Lloyd's Members' personal expenses and charges	510,486	228,606
		<u>(3,507,293)</u>	<u>(2,657,061)</u>
3	Investment Income	2012	2011
		£	£
	Bank interest	1,679	1,227
	Investment income	86,879	8,361
	Dividend income	5,871	2,356
		<u>94,429</u>	<u>11,944</u>
4	Other Income/(Losses)	2012	2011
		£	£
	Unrealised income/(losses) on investments	359,424	(158,658)
	Realised gains on disposal	274,767	10,795
		<u>634,191</u>	<u>(147,863)</u>
5	Other Charges	2012	2011
		£	£
	The following amounts are included in other charges		
	Auditors' remuneration – non audit	2,750	3,750
	Auditors' remuneration	2,500	2,500
	Amortisation	30,264	31,653
		<u></u>	<u></u>
6	Directors remuneration		
	The Director received no fees or other emoluments as a director of the company		
	The company has no other employees		

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

7 Tax on Profit on Ordinary Activities	2012	2011
	£	£
Current tax		
UK corporation tax on profits for the period	238,243	122,565
Adjustment in respect of prior periods	-	(163,248)
	238,243	(40,683)
Foreign tax	-	14,540
	238,243	(26,143)
Deferred tax		
Origination and reversal of timing differences	(127,605)	(207,829)
	110,638	(233,972)
Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before taxation	1,195,031	(490,669)
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 25% (2011 -26.5%)	298,758	(130,027)
Effects of		
Other timing differences	(60,515)	267,132
Prior period adjustment	-	(163,248)
Current tax charge	238,243	(26,143)

The results of the company's participation on the 2011, 2012 and 2013 years of account will not be assessed to tax until the year ended 31 December 2014, 2015 and 2016 respectively being the year after the normal date of closure of each year of account

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

8 Investments	2012 Market value £	2012 Historic cost £	2011 Market value £	2011 Historic Cost £
<u>Assets held at Lloyd's</u>				
Shares and other variable yield securities	1,116,874	1,109,737	1,232,072	1,227,087
Debt securities and other fixed income securities	6,707,902	6,625,673	6,773,356	6,819,018
Participation in investment pools	404,779	483,743	298,988	295,194
Loans guaranteed by mortgage	60,869	60,016	56,742	56,797
Other loans	39,225	39,214	40,816	40,561
Deposits with credit institutions	99,351	99,169	51,696	51,696
Overseas deposits as investments	116,397	111,725	-	-
Other	559	307	2,015	1,820
	8,545,956	8,529,584	8,455,685	8,492,173
<u>Assets held by the company</u>				
Listed investments	3,018,766	2,660,991	2,142,175	2,014,942

9 Debtors Arising Out of Direct Insurance Operations	2012 £	2011 £
Amounts owed by policyholders	12,408	14,495
Amounts owed by intermediaries	2,833,908	1,969,853
	2846,316	1,984,348

10 Called Up Share Capital	2012 £	2011 £
Allotted, Called Up and Fully Paid		
12,000 Ordinary shares of 25p each	3,000	3,000

11 Profit and loss account	2012			2011		
	Syndicate participation	Corporate	Total	Syndicate Participation	Corporate	Total
At 1st January	598,372	2,794,187	3,392,559	1,571,595	2,077,661	3,649,256
Profit/(loss) for year	753,828	441,203	1,195,031	(251,850)	(4,847)	(256,697)
Reallocate distribution	(552,977)	552,977	-	(721,373)	721,373	-
At 31st December	799,223	3,788,367	4,587,590	598,372	2,794,187	3,392,559

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

12 Reconciliation of Movement in Equity Shareholders' Funds

	2012	2011
	Total £	Total £
At 1 January	3,395,559	3,652,256
Profit/ (loss) for the year	1,195,031	(256,697)
At 31 December	4,590,590	3,395,559

13 Intangible Assets

	Cost £	Amortisation £	Net Book Value £
Capacity Rights			
At 1 January 2012	264,060	(167,117)	96,943
Additions	-	(30,264)	
Disposals	-	-	
At 31 December 2012	264,060	(197,381)	66,679

14 Deferred taxation

	2012 £	2011 £
Balance as at 1 January	277,478	485,307
Deferred tax charge for the year	(127,605)	(207,829)
Balance as at 31 December	149,873	277,478
Deferred tax consists of the following items		
Tax on profits assessable in future years	149,873	277,478

15 Capital and Other Commitments

There were no capital or other commitments at 31 December 2012 (2011 £nil)

16 Underwriting Funds at Lloyd's

The shareholders of the company have made available Lloyd's assets amounting to £3,000,000, which are also used by the company to support its Lloyd's underwriting and these funds are also available to Lloyd's to meet the personal underwriting liabilities of the shareholders for underwriting years commencing prior to 1 January 1998. In addition to this the company's underwriting at Lloyd's is partially secured on a bank guarantee given HSBC Bank plc and by investments lodged with Lloyd's by the shareholders.

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

17 Parent Undertaking & Related Party Transactions

The parent undertaking is Sickle Holdings Limited and the controlling party of the group is Mr D J Harden

At the balance sheet date the amount owed from Sickle Holdings Limited was £995,109 (2011 £744,389)

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

18 Segmental Information – Class of Business

	Gross Premium Written £	Gross Premiums Earned £	Gross Claims Incurred £	Gross Operating Expenses £	Reinsurance Balance £	Total £
Year to 31 December 2012						
Direct Business						
Accident and health	338,068	344,328	(173,616)	(145,653)	(9,918)	15,141
Motor – third party liability	19,105	24,717	(5,567)	(8,698)	(980)	9,472
Motor – other class	543,559	553,702	(427,966)	(187,189)	20,537	(40,916)
Marine, aviation and transport	1,121,896	1,122,580	(608,082)	(345,852)	559	169,205
Fire and other damage to property	2,847,098	2,734,195	(1,639,437)	(892,496)	(171,713)	30,549
Third party liability	1,074,306	1,074,383	(644,560)	(373,500)	(59,302)	(2,979)
Credit and suretyship	167,962	162,622	(57,704)	(49,220)	(29,295)	26,403
Legal expenses	26,330	22,548	(9,499)	(11,465)	(53)	1,532
Other	402,698	396,476	(214,681)	(169,285)	(41,374)	(28,864)
Total Direct	6,541,022	6,435,551	(3,781,112)	(2,183,358)	(291,539)	179,543
Reinsurance acceptances	4,089,290	3,688,994	(2,011,772)	(831,546)	(483,447)	362,229
Total	10,630,312	10,124,545	(5,792,884)	(3,014,904)	(774,986)	541,772

	Gross Premium Written £	Gross Premiums Earned £	Gross Claims Incurred £	Gross Operating Expenses £	Reinsurance Balance £	Total £
Year to 31 December 2011						
Direct Business						
Accident and health	531,877	585,711	(270,048)	(315,323)	(6,827)	(6,487)
Motor – third party liability	33,946	32,217	(16,501)	(10,989)	(1,787)	2,940
Motor – other class	582,919	515,934	(425,841)	(179,339)	38,393	(50,853)
Marine, aviation and transport	1,198,321	1,182,664	(470,756)	(349,106)	(70,799)	292,003
Fire and other damage to property	2,470,501	2,392,371	(1,496,014)	(785,693)	(219,834)	(109,170)
Third party liability	1,074,899	1,073,826	(619,399)	(369,209)	(47,793)	37,425
Credit and suretyship	179,229	178,660	(105,273)	(48,905)	(16,346)	8,136
Legal expenses	18,698	13,588	(4,648)	(8,352)	(797)	(209)
Other	273,223	157,421	(100,487)	(79,445)	(16,760)	(39,271)
Total Direct	6,363,613	6,132,392	(3,508,967)	(2,146,361)	(342,550)	134,514
Reinsurance acceptances	2,991,318	2,973,201	(3,131,197)	(554,024)	118,722	(593,298)
Total	9,354,931	9,105,593	(6,640,164)	(2,700,385)	(223,828)	(458,784)

DRUID UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

19 Cash at Bank and in Hand

The Lloyd's deposit represents monies deposited with the Corporation of 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 right to apply these monies in settlement of any claims arising from the company's participation on Lloyd's 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.

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	Managing Agent	2012	2011	2010	2009	2008
MAPA		Allocated	Allocated	Allocated	Allocated	Allocated
Number		Capacity	Capacity	Capacity	capacity	Capacity
		£	£	£	£	£
33	Hiscox	921,819	873,303	870,336	652,754	609,237
218	Equity	498,501	553,890	377,126	350,815	326,340
318	Beaufort	583,281	583,281	383,821	343,750	343,750
386	QBE	385,621	340,803	340,803	317,360	317,360
510	Kiln	1,782,092	1,628,008	1,628,008	914,815	753,795
557	Kiln	100,358	100,358	200,000	661,946	661,946
570	Atrium	-	111,285	111,285	96,252	96,252
609	Atrium	237,271	125,986	125,986	91,517	98,717
623	Beazley	642,175	642,175	642,175	427,052	451,643
727	Meacock	189,649	189,649	189,649	175,000	175,000
779	Jubilee	400,000	400,000	-	-	-
958	Omega	759,282	759,282	759,282	676,391	676,391
1969	ANV*	450,000	433,737	350,000	-	-
2010	Cathedral	416,187	416,187	416,187	356,722	356,722
2121	Argenta	857,145	857,145	750,000	974,976	843,734
2791	MAP	931,533	931,533	731,533	491,038	491,038
3334	Sportscover	-	-	222,050	177,640	133,231
4020	Ark	500,000	500,000	-	-	-
6102	Argenta	-	-	-	-	979,536
6103	MAP SPS	100,000	50,000	50,000	140,979	100,000
6104	Hiscox SPS	150,000	100,000	100,000	150,000	100,000
6105	Ark SPS	-	-	500,000	500,000	500,000
6106	Amlin SPS	267,300	267,300	267,300	211,933	-
6107	Beazley SPS	100,000	100,000	-	-	-
6111	Catlin SPS	609,279	-	-	-	-
	Total	10,881,493	9,963,922	9,015,541	7,710,940	8,014,692

* "ANV" was formerly known as "Flagstone"