

ATRIUM

ATRIUM UNDERWRITERS LIMITED

SYNDICATES 570 & 609 ANNUAL ACCOUNTS 2011

ATRIUM SYNDICATES 570 & 609 – ANNUAL ACCOUNTS

SYNDICATE 570

SYNDICATE 609

DIRECTORS

George Rivaz Non-Executive Chairman
Andrew Baddeley Finance Director
Steve Cook Managing Director
Simon Cooper Executive Director
Toby Drysdale Executive Director
Ann Godbehere Non-Executive Director
Richard Harries Executive Director
James Lee Compliance Director
Richard Lutenski Non-Executive Director
Nick Marsh Executive Director
Scott Moser Non-Executive Director
Samit Shah Executive Director
Kevin Wilkins Executive Director
Andrew Winyard Executive Director

ADVISORS

Auditor
Ernst & Young LLP
Solicitors
Clyde & Co LLP
Linklaters
Bankers
Lloyds TSB Bank plc
Investment Managers
GR-New England Asset Management
Company Secretary
Martha Bruce
David Venus & Company Limited

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent present their report for the year ended 31 December 2011.

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('Lloyd's Regulations 2008').

Separate underwriting year accounts for the closed 2009 account will be made available to the syndicate members.

RESULTS

The Syndicate 570 result for calendar year 2011, a profit of £0.2m (2010 – profit of £20.4m), was negatively affected by the large number of natural catastrophes during the year. The result included £10.6m of profit from favourable development on back years. The Syndicate 609 result for calendar year 2011 is a profit of £28.0m (2010 – profit of £51.1m). Similarly, Syndicate 609 benefitted from favourable development on the back years that contributed £18.3m to the result. Profits will be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The syndicates' principal activity during the year continued to be the transaction of general insurance and reinsurance business at Lloyd's.

RISK STRATEGY

Understanding its Risk Universe, the range of risks to which it is exposed, quantification and management of those risks enable the syndicate to determine the capital required to provide suitable security to its policyholders and to ensure that syndicate capital providers are delivered returns appropriate for the risk they assume. Management of risk, return and capital is the core discipline of Atrium's business, against which all significant strategic and operational decisions are evaluated.

The Directors are responsible for setting the Risk Strategy for each syndicate and for oversight of its implementation. The syndicates' Risk Strategies are to assume underwriting risks in a number of classes of business where management believe that the risks and expected margins can be evaluated, and that the underwriting teams, supported by other Agency functions can operate with competitive advantages.

As part of the annual business planning process, the Board determines a Risk Policy Statement, which sets out the levels of planned risk taking, sometimes referred to as Risk Appetite, the basis on which these risk levels will be monitored, and the actions to be taken in the event of deviations from the planned levels. The Agency has a comprehensive governance framework within which the syndicates' exposures to these risks are managed. The Governance framework is discussed further below.

BUSINESS AND PERFORMANCE EVALUATION

Syndicate 570 primarily underwrites a book of US Professional Liability, Property and Casualty insurance and reinsurance, and Accident & Health business. Syndicate 609 specialises in Marine and Aviation insurance and reinsurance, Non-marine Property, Energy, War and Terrorism insurance.

In underwriting these diversified classes, using their skill, knowledge and historic claims data to evaluate the potential claims costs and to determine the appropriate premium, and also by taking a limited amount of market and credit risk in investing the cash-flows generated by this activity, each syndicate aims to reward its capital providers with results that are considered attractive relative to the risks assumed.

The key performance measure for each syndicate is Return on Capital, determined by comparing the Profit for the Financial Year to the Syndicate's Economic Capital Assessment ('ECA') set by the Corporation of Lloyd's on agreement of the Syndicate's Individual Capital Assessment ('ICA'). Return on Capital and the following Key Performance Indicators for each syndicate are monitored regularly by the Directors.

SYNDICATE 570	2011 £m	2010 £m
Gross premiums written	**144.3**	133.0
Profit for the Financial Year	**0.2**	20.4
Loss ratio	**61%**	45%
Combined ratio	**103%**	88%
Investment return	**3.6**	5.1
ECA	**71.9**	70.0
Return on ECA	**0%**	29%

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

There has been favourable run off of business written in prior years partly offsetting losses incurred on the earthquakes in New Zealand and Japan, the US tornadoes, the floods in Thailand and the deteriorated underwriting environment, which have driven the combined ratio for the year and the return on ECA. This performance is disappointing compared to the previous year but reflects the higher incidence of loss activity in the period.

SYNDICATE 609

	2011 £m	2010 £m
Gross premiums written	**238.4**	230.3
Profit for the Financial Year	**28.0**	51.1
Loss ratio	**53%**	43%
Combined ratio	**89%**	77%
Investment return	**5.6**	6.2
ECA	**127.3**	123.0
Return on ECA	**22%**	42%

The loss ratio includes the impact of the number of large loss events during 2011 among which were events such as the earthquakes in New Zealand and Japan, a satellite loss, Maersk Gryphon, and the floods in Thailand. These losses, which exceeded the expected levels of natural catastrophe losses and other large losses for the year, were offset by favourable run off of business written in prior years. While the performance was not as good as 2010, the combined ratio of 89% represents strong underwriting performance during a year in which the market recorded a high level of major losses. This underwriting performance drove the strong return on the syndicate's ECA for 2011.

INVESTMENT PERFORMANCE

In a challenging investment environment, both syndicates have adopted a defensive investment strategy investing in short-dated instruments taking exposure only to highly rated debt. These portfolios have performed adequately during 2011 compared to the benchmark but, particularly in the case of the US Dollar denominated portfolio which comprises the major part of the portfolios, due to the current low interest rate environment have generated poor absolute returns.

Investment Return	Benchmark	570	609
US Dollar	1.5%	1.6%	1.7%
Canadian Dollar	3.1%	2.8%	2.2%
Euro	2.6%	2.9%	2.7%

The benchmarks for 2011 were based on the performance of 1-3 year government and high quality corporate credit in US Dollar, Canadian Dollar and Euro markets. The Board has been monitoring exposures to the Eurozone crisis and believes that it has taken appropriate measures to mitigate the risks that arise from uncertainty over the values of certain EU sovereign debt. The syndicates have Euro denominated investments but under the terms of the investment guidelines the territories are restricted to Austria, Finland, France, Germany and the Netherlands. The Euro denominated investments amount to less than 20% of the total investment portfolio.

FOREIGN EXCHANGE

The effects of exchange rate movements are recorded in two elements. Transactions during the year, translated at the average rate for the year, gave rise to exchange losses which are identified within the analysis of Operating Expenses, note 3. Revaluation of all balances at the closing rate of exchange on 31 December 2011 resulted in a foreign exchange gain for both Syndicate 570 and Syndicate 609 and is included within the Statement of Total Recognised Gains and Losses.

The rates of exchange used in preparing the financial statements were as follows:

	2011 Average	2011 Closing	2010 Average	2010 Closing
US Dollar: £ Sterling	**1.60**	**1.55**	1.54	1.57
Euro: £ Sterling	**1.16**	**1.20**	1.16	1.17
Canadian Dollar: £ Sterling	**1.59**	**1.58**	1.60	1.56

PRINCIPAL RISKS AND UNCERTAINTIES

Governance

The Board recognises the critical importance of having efficient and effective risk management systems in place but also recognises that it can only mitigate risks, and not eliminate them entirely. In preparation for the proposed Solvency II regime, the Board has developed its Own Risk and Solvency Assessment ('ORSA'), comprising the entirety of the processes that it uses to identify, assess, monitor and report the risks faced by its managed syndicates and to determine the capital necessary to mitigate retained risks. Critical to the efficacy of the ORSA are the effective operation of the Risk Management Framework ('RMF') and the Governance Structure. The RMF comprises the so-called "Three lines of Defence" approach to risk management and reporting.

The RMF is the mechanism through which Atrium ensures it is implementing effective and enterprise wide risk management practices across its business. Key to Atrium's business is the management of risk, return and capital, against which all significant strategic and operational business decisions are evaluated. Over many years Atrium has established systems of governance and risk management that enable it to manage its business prudently. The RMF is the articulation of these systems of risk management and governance and how the various elements interact.

The RMF encompasses the broad range of activities undertaken across the organisational hierarchy to ensure that risks are managed appropriately, spanning from the high level strategy set by the Board to the day to day underwriting decisions being made by syndicate staff and the controls in place to govern these. The RMF comprises the following categories:

Strategy: This describes the Atrium strategy setting process and explains how this filters down through the organisation; incorporating the Syndicate's Business Strategy, Risk Strategy, Business Plan, Risk Policy Statement and Risk Policies.

Business Activities: The individual syndicate and agency business units are responsible for implementing the strategy and business plans in accordance with the framework set out in the risk policies. The people, controls, management information, processes and senior management oversight in place across the business units serve as the "First Line of Defence" in the RMF.

Risk Governance Structure: The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the RMF is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee, which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees, discussed further below.

Independent Assurance: Atrium has in place a Compliance Function and an Actuarial Function in addition to the Risk Management Function (fulfilled by the Executive Risk Committee as referenced in the previous paragraph). Each of these functions has specific responsibilities documented in its terms of reference and is fulfilled by fit and proper individuals with suitable qualifications, expertise and experience. The activities of these functions seek to provide the Board with assurance as to the appropriateness and effectiveness of the various elements of the RMF, the internal control environment, and the calculation of capital. There are a number of risk management tools (such as the Risk Register, Controls Register and Loss Log) which support independent assessment and reporting of risk. Taken together this Independent Assurance comprises the "Second line of Defence".

Independent Oversight: The RMF provides for independent oversight and challenge via the operation of the Internal Audit Function, the External Auditors, as well as the Audit Committee and Risk Committee, both of which are Committees of the Board with membership comprised of Non Executive Directors. Together these four groups provide the "Third line of Defence". The Risk Committee is charged with providing independent oversight and review of Atrium's RMF and its constituent parts whilst the Audit Committee, along with its broader responsibilities for the financial statements and financial reporting process, has oversight of internal controls and the Internal Audit process.

Risk governance is comprised of the Executive Risk Committee and its three risk sub-committees.

The Executive Risk Committee fulfils the Risk Management Function, and coordinates the risk management activities conducted for the Agency's managed syndicates. It is responsible for ensuring that the RMF operates effectively, and for maintaining an aggregated and holistic view of risks to the syndicates and reporting on them to the Board, Committees and management as appropriate.

To support delivery of the Executive Risk Committee's responsibilities, three Sub-Committees have been established, each being responsible for oversight, review and challenge of the activities of the syndicates and in particular ensuring that activities are within risk policies, that risks are suitably identified, monitored and reported, and that appropriate contingency plans are in place.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The principal risks to which the syndicates are exposed are discussed below together with the mitigation techniques adopted. For clarity, the risks are analysed by reference to the Sub-Committees that have responsibility for the relevant risk area.

Insurance Risks Sub-Committee (IRSC)

The IRSC is responsible for oversight of insurance risk which includes underwriting, claims, reserving, and reinsurance. Insurance risk includes the risks that the policy might be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events might be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk).

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

Claims risk is mitigated where possible by using catastrophe modelling software to model maximum probable losses from catastrophe-exposed business. The syndicates have a defined risk appetite which determines the net loss that each intends to retain for major catastrophe events and where deemed appropriate reinsurance is purchased to limit the impact of losses. Although the likelihood of occurrence is considered to be remote, there may be circumstances where the loss from a particular catastrophe event exceeds the net risk appetite perhaps due to the occurrence of a loss that has not been modelled or where the reinsurance purchased proves to be insufficient.

Reserving risk is mitigated by the robust reserve adequacy exercise that is performed on a quarterly basis by the Head Actuary and approved by the Board. The quarterly exercise involves a review of the paid and outstanding claims and an assessment of the appropriate provision for incurred but not reported (IBNR) claims. The reserves are considered by the IRSC and approved by the Board. The reserving is carried out based on historical development data, the claims environment and information provided by lawyers and third party claims adjusters. Although a thorough review is carried out the reserves carried may be more or less than adequate to meet the final cost of claims.

The IRSC also reviews the syndicates' proposed reinsurance programmes that are used to protect capital from frequency and severity of losses that may be sustained through underwriting the varied lines of business written by the syndicates. The review includes analysis of the reinsurance cover being purchased and assessment of the proposed counterparties.

Financial Risks Sub-Committee (FRSC)

The FRSC is responsible for the oversight of the syndicates' financial risks and the steps taken to mitigate them as they arise from investments, asset/liability management, credit, liquidity and concentration risks. These risks are discussed further below.

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

Asset/liability mis-match is the risk that the syndicate could incur a loss though inadequate matching of its investments with its liabilities. Due to the short-tail nature of the liabilities, the syndicates do not seek to achieve a precise matching with the investment portfolio, instead developing an investment duration guideline that is broadly in line with the average payment profile of the liabilities. However, the syndicates substantially mitigate exposure to currency mis-match by investing premiums in the currency in which subsequent claims are most likely to be incurred. The majority of the syndicates' business is denominated in US dollars and accordingly the substantial part of the investment portfolio is in US dollar denominated investments.

The key aspect of credit risk is the risk of default by one or more of the syndicates' reinsurers, their investment counterparties, or insurance intermediaries. Reinsurance is placed with those reinsurers that comply with the Atrium reinsurance policy. The exposure to credit risk in the investment portfolio is mitigated through adherence to the investment guidelines which require the syndicates' investment portfolios to be held in government and corporate debt with a high credit quality rating and with a relatively short duration , thus substantially mitigating the risk of sustaining losses from default. Exposure to intermediaries is mitigated by rigorous review of new intermediaries, contractual terms of business, regulated or segregated client accounts, monitoring of balances and credit control procedures.

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

Concentration risk is the exposure to loss that could arise if the bulk of the amounts recoverable by the syndicates was dependent on a limited number of reinsurers, or if investments were restricted to limited numbers of counterparties or sectors. The risk is mitigated by restricting the permitted cessions to individual reinsurers for any one underwriting year and through the investment guidelines which limit exposure to individual investment counterparties and sectors.

Operational Risks Sub-Committee (ORSC)

The ORSC is responsible for oversight of the syndicates' exposures to operational, group and regulatory risks.

Operational risk includes exposure to loss from errors caused by people, processes or systems, group risk and emerging risks. The agency seeks to manage these risks by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review. Regular reviews are performed by the internal audit department to ensure that any deviations from the agency's policies are identified and reported to the appropriate level of management when considered necessary.

The Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a Compliance Officer and team who monitor regulatory developments and assess the impact on agency policy. They also carry out a compliance monitoring programme.

Solvency II

During the last year considerable progress has been made by the Agency on its Solvency II project. Specifically, Atrium has met all the requirements of the 2011 Dry Run and submitted a Final Application Pack, ORSA Report and Validation Report as required and has also addressed the impact of the syndicate merger (see below) on the Internal Model. There is a clear action plan for the activities required in 2012 and the Agency will continue to work closely with the Corporation of Lloyd's to ensure that Atrium remains on track to meet the demands of the Solvency II regime.

FUTURE DEVELOPMENTS – SYNDICATE MERGER

On 28 April 2011 the Company wrote to the Council of Lloyd's giving notice of the Agency Board's intention to merge Syndicate 570 and Syndicate 609 with effect from the commencement of the 2012 year of account. Copies of the notification were sent to the syndicates' capital providers and, as required, a ballot of both syndicates' members was conducted. The ballot resulted in more than 99% of the votes (by capacity, of each syndicate) being recorded in support of the merger and on 19 July 2011 the Council of Lloyd's granted consent to the Company to implement the merger with effect from the 2012 year of account.

The two syndicates have written complementary books of business with limited commonality and Syndicate 609's business plan for the 2012 year of account, which was approved by Lloyd's in October 2011, reflected the expectation that all existing lines of business written by Syndicate 570 and Syndicate 609 will continue to be written in Syndicate 609. Syndicate 570 will run-off its 2010 and 2011 years of account. It is anticipated that, in accordance with usual market practice, the 2010 year of account of Syndicate 570 will be reinsured to close into the 2011 year of account of Syndicate 570, and that the 2011 year of account will be reinsured to close into the 2012 year of account of Syndicate 609.

Richard Harries the Active Underwriter of Syndicate 609 has been appointed as Active Underwriter of Syndicate 570 with effect from 1 January 2012.

The Agency Board believes that the larger and more diverse underwriting unit that results on implementation of the merger will be better positioned to meet the demands of the future market. Syndicate 609 will continue to transact the current classes of general insurance and reinsurance business previously underwriten by both syndicates. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

DIRECTORS & OFFICERS

The Directors & Officers of the managing agent who served during the year ended 31 December 2011 were as follows:

Andrew Baddeley
Martha Bruce, David Venus & Company Limited (Company Secretary)
Steve Cook
Simon Cooper
Toby Drysdale
Richard Harries (Active Underwriter 570 & 609)
Ann Godbehere
James Lee
Richard Lutenski
Nick Marsh
Scott Moser
George Rivaz
Kevin Wilkins (resigned effective 13 March 2012)
Andrew Winyard

The following Director was appointed after the end of the year but before the date of this report:

Samit Shah (appointed effective 4 January 2012)

DIRECTORS' INTERESTS

Details of Directors' interests may be found in note 14 to the accounts.

RE-APPOINTMENT OF AUDITORS

It is the intention of the Directors to re-appoint Ernst & Young LLP as the syndicates' auditors for the year ending 31 December 2012. Ernst & Young LLP have indicated their willingness to continue in office as the syndicates' auditors.

SYNDICATE ANNUAL GENERAL MEETING

As permitted under the Syndicate Meetings (Amendment No.1) Byelaw (No.18 of 2000) Atrium Underwriters Limited does not propose to hold a Syndicate Annual General Meeting of the members of either Syndicate 570 or 609. Members may object to this proposal or the intention to reappoint auditors within 21 days of the issue of these financial statements. Any such objection should be addressed to James Lee, Compliance Director, at the registered office.

DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a Director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the agency and the syndicates' auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the Board

Andrew Baddeley
Finance Director
12 March 2012

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the syndicates' annual report and annual accounts in accordance with applicable laws and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the annual accounts; and
4. prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SYNDICATES 570 AND 609

We have audited the syndicates' annual accounts for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 15. 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 syndicates' members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicates' members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicates' members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND THE AUDITOR

As explained more fully in the Statement of managing agent's responsibilities set out on page 7, the managing agent is responsible for the preparation of the syndicates' annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicates' annual accounts 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 SYNDICATES' ANNUAL ACCOUNTS

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

OPINION ON SYNDICATES' ANNUAL ACCOUNTS

In our opinion the annual accounts:

- give a true and fair view of the syndicates' affairs as at 31 December 2011 and of their respective profits 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

OPINION ON OTHER MATTER PRESCRIBED BY THE INSURANCE ACCOUNTS DIRECTIVE (LLOYD'S SYNDICATE AND AGGREGATE ACCOUNTS) REGULATION 2008

In our opinion the information given in the Managing Agents' Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicates' annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Angus Millar (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
13 March 2012

PRINCIPAL ACCOUNTING POLICIES

SYNDICATES 570 AND 609 – 31 DECEMBER 2011

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted, except that exchange differences are dealt with in the technical account and statement of total recognised gains and losses.

2. ACCOUNTING POLICIES

Premiums Written

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

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

Unearned Premiums

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of the risk. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date.

Reinsurance Premium Ceded

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

Claims Provisions and Related Recoveries

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

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Acquisition Costs

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

Unexpired Risks Provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to the classes of business which are managed together, after taking into account relevant investment returns.

Investment Return

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

PRINCIPAL ACCOUNTING POLICIES

SYNDICATES 570 AND 609 – 31 DECEMBER 2011

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Investments

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

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

Foreign Currencies

Transactions in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. 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 denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising from the retranslation of opening balances in US dollars, Canadian dollars and Euros are recorded in the statement of total recognised gains and losses. The difference between the profit and loss account translated at the average rate and at the rate of exchange at the balance sheet date is recorded in the statement of total recognised gains and losses.

All other exchange differences are included in the technical account.

Pension Costs

Atrium Underwriters Limited operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Profit Commission

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Where profit commission is charged it is included within members' standard personal expenses within administrative expenses.

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Earned premiums, net of reinsurance					
Gross premiums written	1		**144,296**		132,950
Outward reinsurance premiums			**(7,884)**		(11,628)
Net premiums written			**136,412**		121,322
Change in the provision for unearned premiums:					
Gross amount		**(2,210)**		2,207	
Reinsurers' share		**984**		(571)	
Change in the net provision for unearned premiums			**(1,226)**		1,636
Earned premiums, net of reinsurance			**135,186**		122,958
Allocated investment return transferred from the non-technical account			**3,612**		5,051
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		**69,076**		65,670	
Reinsurers' share		**(3,779)**		(4,217)	
Net claims paid			**65,297**		61,453
Change in the provision for claims:					
Gross amount		**12,265**		(4,266)	
Reinsurers' share		**4,700**		(1,499)	
Change in the net provision for claims			**16,965**		(5,765)
Claims incurred, net of reinsurance			**82,262**		55,688
Net operating expenses	3		**57,382**		52,368
Balance on the technical account for general business			**(846)**		19,953

All operations are continuing.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
Balance on the general business technical account		**(846)**	19,953
Investment income	6	**4,750**	7,686
Unrealised gains/(losses) on investments		**116**	(1,060)
Investment expenses and charges	6	**(1,254)**	(1,575)
Allocated investment return transferred to general business technical account		**(3,612)**	(5,051)
(Loss)/profit for the financial year		**(846)**	19,953

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2011 £'000	2010 £'000
(Loss)/profit for the financial year	**(846)**	19,953
Currency translation differences	**1,000**	415
Total recognised gains and losses since last annual report	**154**	20,368

BALANCE SHEET: ASSETS

AT 31 DECEMBER 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Investments					
Financial investments	7		**184,312**		207,165
Deposits with ceding undertakings			**158**		192
Reinsurers' share of technical provisions					
Provision for unearned premiums		**2,998**		1,987	
Claims outstanding	2	**11,957**		16,645	
			14,955		18,632
Debtors					
Debtors arising out of direct insurance operations	8	**44,277**		46,892	
Debtors arising out of reinsurance operations		**10,369**		8,477	
Other debtors		**1,482**		692	
			56,128		56,061
Other assets					
Cash at bank and in hand			**10,216**		5,717
Overseas deposits			**41,316**		42,188
Prepayments and accrued income					
Accrued interest		**290**		957	
Deferred acquisition costs		**21,085**		19,095	
Other prepayments and accrued income		**-**		182	
			21,375		20,234
Total assets			**328,460**		350,189

BALANCE SHEET: LIABILITIES

AT 31 DECEMBER 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Capital and reserves					
Members' balances	9,15		**(8,088)**		16,042
Technical provisions					
Provision for unearned premiums		**57,068**		54,420	
Claims outstanding	2	**248,944**		235,256	
			306,012		289,676
Creditors					
Creditors arising out of direct insurance operations	10	**20,232**		27,584	
Creditors arising out of reinsurance operations		**5,036**		7,064	
Other creditors		**3,658**		6,940	
			28,926		41,588
Accruals and deferred income			**1,610**		2,883
Total liabilities			**328,460**		350,189

The Annual Report and Accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 12 March 2012 and were signed on its behalf by:

Andrew Baddeley
Finance Director
12 March 2012

Richard Harries
Active Underwriter
12 March 2012

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
Net cash inflow from operating activities	11	**5,258**	16,838
Transfer to members in respect of underwriting participations		**(23,841)**	(21,289)
Financing:			
Members' agents' fees		**(909)**	(880)
Other		**485**	(1,642)
	12	**(19,007)**	(6,973)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	12	**4,666**	(3,008)
Decrease in Overseas Deposits	12	**(1,258)**	(3,159)
Net portfolio investment	12,13	**(22,415)**	(806)
Net investment of cash flows		**(19,007)**	(6,973)

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2011

1. Segmental Analysis

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

2011	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance:							
Accident and health	28,273	27,873	9,086	13,217	(2,944)	**2,626**	29,359
Motor (third party liability)	336	309	40	68	(42)	**159**	122
Motor (other classes)	3,517	3,646	3,045	1,289	23	**(665)**	5,456
Marine, aviation and transport	16,914	16,186	2,927	6,607	734	**7,386**	19,545
Fire and other damage to property	33,629	31,583	20,190	14,340	(775)	**(3,722)**	36,396
Third party liability	38,258	39,049	23,267	17,109	(1,699)	**(3,026)**	124,150
Credit and suretyship	1,393	1,563	1,349	507	(58)	**(351)**	5,637
Legal expenses	2,002	1,364	543	640	6	**187**	2,281
	124,322	121,573	60,447	53,777	(4,755)	**2,594**	222,946
Reinsurance	19,974	20,513	20,894	5,855	(816)	**(7,052)**	68,111
Total	**144,296**	**142,086**	**81,341**	**59,632**	**(5,571)**	**(4,458)**	**291,057**

2010	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance:							
Accident and health	28,495	28,352	14,493	12,639	(175)	**1,045**	25,422
Motor (third party liability)	93	103	128	(19)	134	**128**	(76)
Motor (other classes)	3,907	3,726	1,594	1,743	689	**1,078**	3,644
Marine, aviation and transport	12,456	13,832	8,244	5,501	(1,533)	**(1,446)**	21,191
Fire and other damage to property	26,933	26,519	10,512	12,257	(1,287)	**2,463**	29,161
Third party liability	38,780	37,777	17,739	14,759	(1,077)	**4,202**	118,660
Credit and suretyship	1,772	1,873	178	849	(357)	**489**	5,959
Legal expenses	375	424	32	190	(24)	**178**	1,001
	112,811	112,606	52,920	47,919	(3,630)	**8,137**	204,962
Reinsurance	20,139	22,551	8,484	6,538	(764)	**6,765**	66,082
Total	**132,950**	**135,157**	**61,404**	**54,457**	**(4,394)**	**14,902**	**271,044**

Commission on direct insurance gross premiums earned during 2011 were £39,809,000 (2010 - £34,428,000).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2011 %	2010 %
UK	**9.8**	10.5
Other EU countries	**6.8**	7.0
US	**65.3**	64.3
Other	**18.1**	18.2
Total	**100.0**	100.0

2. Claims Outstanding

Reassessment of claims outstanding on underwriting years 2008 & prior (2010 - 2007 & prior) resulted in an improvement of £9.3m (2010 - £13.6m).

3. Net Operating Expenses

	2011 £'000	2010 £'000
Acquisition costs	**50,282**	42,554
Change in deferred acquisition costs	**(1,827)**	242
Administrative expenses	**10,616**	13,754
Loss/(profit) on exchange	**561**	(2,093)
	59,632	54,457
Reinsurance commissions receivable	**(2,250)**	(2,089)
	57,382	52,368

Administrative expenses include:

	2011 £'000	2010 £'000
Auditors' remuneration:		
Audit services	**110**	96
Other services	**3**	4
	113	100

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, managing agent's fees and profit commission) are included within administrative expenses and amount to £4,769,000 (2010 - £8,181,000).

4. Staff Numbers and Costs

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of staff costs:

	2011 £'000	2010 £'000
Wages and salaries	**4,897**	4,822
Social security costs	**553**	537
Other pension costs	**603**	534
	6,053	5,893

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the year, was as follows:

	2011 Number	2010 Number
Management	**3**	4
Underwriting	**21**	21
Claims	**5**	5
Administration	**17**	16
	46	46

5. Emoluments of the Directors of Atrium Underwriters Limited

The thirteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2011 £'000	2010 £'000
Salary	**692**	599
Pension	**122**	113
	814	**712**

5. Emoluments of the Directors of Atrium Underwriters Limited continued

The Active Underwriter received the following remuneration charged as a syndicate expense:

	2011 £'000	2010 £'000
Salary	184	183
Pension	37	39
	221	222

6. Investment Return

	2011 £'000	2010 £'000
Investment income:		
Income from investments	4,714	6,835
Gains on the realisation of investments	36	851
	4,750	7,686
Investment expenses and charges:		
Investment management expenses, including interest	(222)	(221)
Losses on the realisation of investments	(1,032)	(1,354)
	(1,254)	(1,575)

Calendar Year Investment Return

	2011 £'000	2010 £'000
Average syndicate funds available for investment during the year		
Sterling	-	-
US dollars	132,187	148,873
Canadian dollars	21,126	26,086
Euro	13,461	13,885
Combined	166,774	188,844
Aggregate gross investment return for the year	3,075	3,569
Gross calendar year investment return:	%	%
Sterling	-	-
US dollars	1.6	1.9
Canadian dollars	2.8	1.4
Euro	2.9	2.6
Combined	1.9	1.9

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of investments. The syndicate's portfolio consists of high quality investments which are held on a short duration basis.

7. Financial Investments

	Market value		Cost	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Shares and other variable yield securities and units in unit trusts	**12,457**	25,461	**12,457**	25,461
Debt securities and other fixed income securities	**166,851**	176,409	**166,458**	176,462
Loans secured by mortgage	**4,952**	5,243	**4,988**	5,306
Deposits with credit institutions	**52**	52	**52**	52
	184,312	207,165	**183,955**	207,281

Shares and other variable yield securities and units in unit trusts represents the syndicate's holdings in collective investment schemes, comprising money market funds.

Debt securities and other fixed income securities and loans secured by mortgage are all listed on recognised stock exchanges. Using Standard & Poor's and Moody's as rating sources, the credit ratings of the debt and other fixed income securities are set out below:

	2011 £'000	2011 %	2010 £'000	2010 %
Government/Government Agency	**119,712**	**71.7**	151,083	85.6
AAA/Aaa	**21,535**	**12.9**	5,532	3.1
AA/Aa	**15,141**	**9.1**	12,275	7.0
A	**9,510**	**5.7**	7,519	4.3
BBB	**953**	**0.6**	-	-
	166,851	**100.0**	176,409	100.0

The syndicate's fund manager throughout 2010 and up to 28 February 2011 was Amundi (UK) Limited. On 1 March 2011 the syndicate changed fund manager to GR-New England Asset Management (GR-NEAM). The US dollar and Canadian dollar investments are managed by GR-NEAM Inc, based in Farmington, US and the Euro portfolio is managed by GR-NEAM Limited, a sister company based in Dublin, Ireland.

8. Debtors Arising out of Direct Insurance Operations

	2011 £'000	2010 £'000
Due from Intermediaries	**44,277**	46,892

9. Reconciliation of Members' Balances

	2011 £'000	2010 £'000
Members' balances brought forward at 1 January	**16,042**	19,495
(Loss)/profit for the financial year	**(846)**	19,953
Currency translation differences	**1,000**	415
Payments of profit to members' personal reserve funds	**(24,284)**	(23,821)
Members' balances carried forward at 31 December	**(8,088)**	16,042

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

10. Creditors Arising out of Direct Insurance Operations

	2011 £'000	2010 £'000
Due to Intermediaries	**20,232**	27,584

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2011

11. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2011 £'000	2010 £'000
Operating profit on ordinary activities	**(846)**	19,953
Realised and unrealised investment losses/(gains)	**253**	(5,136)
Increase/(decrease) in net technical provisions	**20,013**	(1,079)
Increase in debtors	**(1,208)**	(6,882)
(Decrease)/increase in creditors	**(13,935)**	9,577
Foreign exchange on balance due to members	**(19)**	(10)
Currency translation differences	**1,000**	415
Net cash inflow from operating activities	**5,258**	16,838

12. Movement in Opening and Closing Portfolio Investments Net of Financing

	2011 £'000	2010 £'000
Net cash inflow/(outflow) for the year	**4,666**	(3,008)
Cash flow		
Decrease in deposits	**(1,258)**	(3,159)
Portfolio investments	**(22,415)**	(806)
Movement arising from cash flows	**(19,007)**	(6,973)
Changes in market value and exchange rates	**(253)**	5,136
Total movement in portfolio investments	**(19,260)**	(1,837)
Portfolio at 1 January	**255,262**	257,099
Portfolio at 31 December	**236,002**	255,262

Movement in Cash, Portfolio Investments and Financing

	At 1 Jan 2011 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 Dec 2011 £'000
Cash at bank and in hand	**5,717**	4,666	(167)	**10,216**
Overseas deposits	**42,188**	(1,258)	386	**41,316**
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	**25,461**	(12,647)	(357)	**12,457**
Debt securities and other fixed income securities	**176,409**	(9,389)	(169)	**166,851**
Loans secured by mortgage	**5,243**	(345)	54	**4,952**
Deposits with credit institutions	**52**	(1)	1	**52**
Deposits with ceding undertakings	**192**	(33)	(1)	**158**
Total portfolio investments	**207,357**	(22,415)	(472)	**184,470**
Total cash, portfolio investments and financing	**255,262**	(19,007)	(253)	**236,002**

The changes to market values and currencies include £1.0m relating to currency revaluation of non-Sterling denominated investments and deposits.

13. Net cash inflow on portfolio investments

	2011 £'000	2010 £'000
Sale/(purchase) of shares and other variable yield securities	**12,647**	(17,643)
Purchase of debt securities and other fixed income securities	**(97,872)**	(134,058)
Sale/(Purchase) of loans secured by mortgage	**345**	(4,567)
Sale of deposits with credit institutions	**1**	47
Deposits with ceding undertakings	**33**	74
Sale of debt securities and other fixed income securities	**107,261**	156,953
Net cash inflow on net portfolio investments	**22,415**	806

14. Disclosures of Interest

Ariel Holdings Limited (AHL), a company incorporated under the laws of Bermuda, is the ultimate holding company of Atrium Underwriting Group Limited (AUGL).

AUGL is the holding company of the following wholly owned susidiaries; Atrium Underwriters Limited (AUL), Atrium 5 Limited, Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte.Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS) and Atrium Risk Management Services (British Columbia) Ltd (ARMSBC). AUL is the managing agent of Syndicates 570 and 609 (the 'managed syndicates'). AUHL is the holding company of ten non-continuing corporate members of Lloyd's.

AUGL participates on the managed syndicates through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

	2009 Capacity £m	2010 Capacity £m	2011 Capacity £m	2012 Capacity £m
Syndicate 570	31.0	35.9	**35.9**	-
Syndicate 609	51.5	70.9	**70.9**	106.8

Atrium 5 Limited's participation on the managed syndicates as % of syndicate capacity:

	Year of account			
	2009 %	2010 %	2011 %	2012 %
Syndicate 570	24.8	24.8	**24.8**	-
Syndicate 609	25.8	25.8	**25.8**	25.4

On 28 April 2011, Atrium wrote to the Council of Lloyd's with a notice of the intention to merge Syndicate 570 and Syndicate 609 with effect from the commencement of the 2012 year of account. Consent to the merger was granted on 19 July. Richard Harries was appointed Underwriter of Syndicate 570 with effect from 1 January 2012. In order to service the run-off and merged syndicate, underwriters have authorities that enable them to underwrite on behalf of both managed syndicates.

AHL is the ultimate holding company of Ariel Reinsurance Company Ltd (Ariel Re). On 1 March 2012 it was announced that Goldman Sachs intended to acquire Ariel Reinsurance's Bermuda-based insurance and reinsurance operations, with an expected completion date of 1 April 2012. On 3 March 2012 it was announced that Arch Capital Group Ltd intended to acquire Ariel Reinsurance's Switzerland-based reinsurance operations, with an expected completion date of 1 April 2012, subject to regulatory approval.

AIAL is a registered Lloyd's UK coverholder and authorised and regulated by the Financial Services Authority. Both managed syndicates participate on a binding authority granted to AIAL to underwrite Space business. The binding authority is led by Syndicate 609. Under the terms of the binding authority, fees and profit commission are payable to AIAL. Fee income of $52,000 (2010 - $64,000) is payable by the syndicate to AIAL in relation to premium earned in calendar year 2011. Profit commission of $41,000 has been incurred by the syndicate (2010 - $88,000) during the calendar year 2011.

14. Disclosures of Interest continued

AGSL is a group service company. All employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) as a service company coverholder. Under the terms of the arrangement ASIA charges fees to Syndicate 609 equal to its operating costs plus a small margin for tax reasons. Fees of S$2,076,000 were paid by Syndicate 609 in calendar year 2011 (2010 - S$1,539,000).

ARMS is incorporated in Washington and supports the Syndicates' strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the Syndicates equal to its operating costs plus a small margin for tax reasons. Fees of US$698,000 were paid by Syndicate 570 in the calendar year 2011 (2010 - US$349,000).

ARMSBC is incorporated in British Columbia and supports the Syndicates' strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the Syndicates equal to its operating costs plus a small margin for tax reasons. Fees of C$886,000 were paid by Syndicate 570 in the calendar year 2011 (2010 - C$596,000).

AUL manages four underwriting consortia. The Atrium Aviation Consortium is an internal consortium arrangement between Syndicate 570 & 609 on a 40%/60% split basis. Lloyd's approval was given on 21st July 2003 for this arrangement. An overrider is charged by Syndicate 609 to Syndicate 570. The Atrium Airline Hull War and Allied Perils Consortium and the two Atrium Aviation Reinsurance Consortia are led by Syndicate 609 and supported by various other Lloyd's syndicates, including Syndicate 570. Lloyd's approval is not required under the Multiple Syndicates Byelaw for these consortia. Fees and profit commission are payable by all consortium members including Syndicate 570. AUL processes the fees and profit commission on behalf of Syndicate 609 but currently retains no remuneration in its role as manager of these consortia. Two Aviation Reinsurance quota share treaties are in place that replicate the Atrium Reinsurance Consortia. Profit commissions and overriders are payable by Syndicate 570 to Syndicate 609 under this arrangement.

Syndicate 609 has entered into a quota share contract of their Space account for the 2009, 2010 and 2011 years of account with Ariel Re. Permission was given by Lloyd's on 30 December 2008. Earned income ceded under this arrangement in 2011 was US$2.7m (2010 - US$2.6m). Earned income expected to be ceded in 2012 is US$1.4m.

A quota share of Syndicate 609 by Syndicate 570 was entered into in relation to Aviation business underwritten on behalf of Syndicate 609 by ASIA. Under the terms of the quota share an overriding commission is payable by Syndicate 570 to Syndicate 609. The terms were set and agreed by the respective Active Underwriters. Lloyd's gave consent of a waiver under the Multiple Syndicates Byelaw on 9 November 2009. No overriding commission has been paid by Syndicate 570 in calendar year 2011.

The impact of the syndicate merger has resulted in the related party transactions between the two managed syndicates ceasing with effect from the 2012 year of account.

It is possible that further transactions may be entered into between the managed syndicates and Ariel Re.

With effect from 2012 certain reinsurances purchased will be for the benefit of both Syndicates 570 and 609. The board determined that this was the most efficient process to protect both the ongoing and run-off business. There is the possibility of one or other syndicate exhausting the available coverage, in which case we would consider the purchase of back-up coverage. Costs will be charged on an equitable basis determined by the board.

The Directors' participations on Syndicates 570 & 609 via Nomina No. 207 LLP are as follows:

	Syndicate 570				Syndicate 609			
	2009yoa £	2010 yoa £	2011 yoa £	2012 yoa £	2009 yoa £	2010 yoa £	2011 yoa £	2012 yoa £
Andrew Baddeley	-	7,534	7,534	-	-	14,289	14,289	**28,793**
Steve Cook	9,641	11,213	11,213	-	15,359	21,266	21,266	**37,438**
Simon Cooper	34,752	40,788	40,788	-	55,367	77,357	77,357	**135,145**
Toby Drysdale	4,820	9,212	9,212	-	7,680	17,472	17,472	**29,173**
Richard Harries	35,893	52,242	52,242	-	57,185	99,079	99,079	**199,973**
Nick Marsh	91,292	37,671	37,671	-	145,445	71,444	71,444	**109,115**
Samit Shah	8,688	10,197	10,197	-	13,842	19,339	19,339	**36,500**

14. Disclosures of Interest continued

AUL has made a loan to a director of the company during 2011. The loan is an interest-free travel season ticket loan that is repayable in monthly instalments.

	Amount outstanding at 1 January 2011 £	Amount outstanding at 31 December 2011 £	Maximum amount outstanding during the year £
T D Drysdale	3,715	-	3,715

Managing agency fees of £1,014,000 (2010 - £997,000) were paid by the syndicate to AUL. Profit commission of £2,738,000 (2010 - £6,249,000) is payable by the syndicate to AUL in relation to the 2011 calendar year result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. A payment of £1,505,000 (2010 - £nil) was made in 2011. Included within creditors is £2,739,000 (2010 - £4,859,000) in respect of profit commission payable to AUL on the 2009 year of account. No amounts (2010 - £1,505,000) are included in accruals and payable after 12 months.

15. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Earned premiums, net of reinsurance					
Gross premiums written	1		**238,394**		230,279
Outward reinsurance premiums			**(35,974)**		(40,139)
Net premiums written			**202,420**		190,140
Change in the provision for unearned premiums:					
Gross amount		**(517)**		4,925	
Reinsurers' share		**(2,466)**		(2,579)	
Change in the net provision for unearned premiums			**(2,983)**		2,346
Earned premiums, net of reinsurance			**199,437**		192,486
Allocated investment return transferred from the non-technical account			**5,587**		6,186
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		**79,904**		95,296	
Reinsurers' share		**(12,724)**		(18,365)	
Net claims paid			**67,180**		76,931
Change in the provision for claims:					
Gross amount		**29,933**		17,800	
Reinsurers' share		**8,821**		(11,882)	
Change in the net provision for claims			**38,754**		5,918
Claims incurred, net of reinsurance			**105,934**		82,849
Net operating expenses	3		**72,872**		62,962
Balance on the technical account for general business			**26,218**		52,861

All operations are continuing.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
Balance on the general business technical account		**26,218**	52,861
Investment income	6	**7,646**	10,074
Unrealised gains/(losses) on investments		**233**	(1,853)
Investment expenses and charges	6	**(2,292)**	(2,035)
Allocated investment return transferred to general business technical account		**(5,587)**	(6,186)
Profit for the financial year		**26,218**	52,861

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2011 £'000	2010 £'000
Profit for the financial year	**26,218**	52,861
Currency translation differences	**1,819**	(1,778)
Total recognised gains and losses since last annual report	**28,037**	51,083

BALANCE SHEET: ASSETS

AT 31 DECEMBER 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Investments					
Financial investments	7		**336,865**		349,672
Deposits with ceding undertakings			**860**		792
Reinsurers' share of technical provisions					
Provision for unearned premiums		**7,042**		9,534	
Claims outstanding	2	**75,896**		84,077	
			82,938		93,611
Debtors					
Debtors arising out of direct insurance operations	8	**85,762**		87,839	
Debtors arising out of reinsurance operations		**16,029**		16,142	
Other debtors		**323**		1,456	
			102,114		105,437
Other assets					
Cash at bank and in hand			**28,112**		8,502
Overseas deposits			**9,942**		11,629
Prepayments and accrued income					
Accrued interest		**54**		65	
Deferred acquisition costs		**21,458**		20,200	
Other prepayments and accrued income		**1**		138	
			21,513		20,403
Total assets			**582,344**		590,046

BALANCE SHEET: LIABILITIES

AT 31 DECEMBER 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Capital and reserves					
Members' balances	9,15		**24,930**		52,569
Technical provisions					
Provision for unearned premiums		**94,790**		93,393	
Claims outstanding	2	**392,748**		359,596	
			487,538		452,989
Deposits received from reinsurers			**390**		399
Creditors					
Creditors arising out of direct insurance operations	10	**41,887**		50,022	
Creditors arising out of reinsurance operations		**13,100**		15,163	
Other creditors		**7,958**		7,454	
			62,945		72,639
Accruals and deferred income			**6,541**		11,450
Total liabilities			**582,344**		590,046

The Annual Report and Accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 12 March 2012 and were signed on its behalf by:

Andrew Baddeley
Finance Director
12 March 2012

Richard Harries
Active Underwriter
12 March 2012

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
Net cash inflow from operating activities	11	**62,434**	65,616
Transfer to members in respect of underwriting participations		**(54,368)**	(32,246)
Financing:			
Members' agents' fees		**(1,705)**	(1,644)
Other		**403**	(969)
	12	**6,764**	30,757
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	12	**20,099**	(130)
(Decrease)/increase in overseas deposits	12	**(1,710)**	1,393
Net portfolio investment	12,13	**(11,625)**	29,494
Net investment of cash flows		**6,764**	30,757

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2011

1. Segmental Analysis

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

2011	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net Technical provisions £'000
Direct insurance:							
Accident and health	51	41	(122)	133	8	**38**	519
Motor (third party liability)	-	-	-	-	-	**-**	120
Motor (other classes)	(33)	(33)	(43)	(8)	2	**20**	104
Marine, aviation and transport	143,863	141,539	54,363	52,745	(6,653)	**27,778**	165,187
Fire and other damage to property	52,296	53,511	20,370	16,745	(12,551)	**3,845**	101,139
Third party liability	24,041	24,764	6,654	8,561	(6,276)	**3,273**	91,121
Credit and suretyship	595	598	(17)	123	95	**587**	7,887
Legal expenses	-	-	-	-	-	**-**	-
	220,813	220,420	81,205	78,299	(25,375)	**35,541**	366,077
Reinsurance	**17,581**	**17,457**	**28,632**	**3,687**	**(48)**	**(14,910)**	**38,523**
Total	**238,394**	**237,877**	**109,837**	**81,986**	**(25,423)**	**20,631**	**404,600**

2010	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net Technical provisions £'000
Direct insurance:							
Accident and health	19	33	572	81	7	**(613)**	2,230
Motor (third party liability)	-	-	-	-	-	**-**	111
Motor (other classes)	(39)	(27)	26	(7)	-	**(46)**	(13)
Marine, aviation and transport	131,700	135,084	55,406	41,205	(6,940)	**31,533**	153,896
Fire and other damage to property	57,727	59,039	31,160	19,105	2,357	**11,131**	84,015
Third party liability	24,242	25,027	15,987	8,184	2,401	**3,257**	84,645
Credit and suretyship	(44)	214	1,419	26	(743)	**(1,974)**	10,167
Legal expenses	-	-	-	-	-	**-**	810
	213,605	219,370	104,570	68,594	(2,918)	**43,288**	335,861
Reinsurance	**16,674**	**15,834**	**8,526**	**3,531**	**(390)**	**3,387**	**23,517**
Total	**230,279**	**235,204**	**113,096**	**72,125**	**(3,308)**	**46,675**	**359,378**

Commission on direct insurance gross premiums earned during 2011 were £46,599,000 (2010 - £43,334,000).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2011 %	2010 %
UK	**4.4**	5.4
Other EU countries	**14.7**	15.4
US	**46.3**	49.1
Other	**34.6**	30.1
Total	**100.0**	100.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2011

2. Claims Outstanding

Reassessment of claims outstanding on underwriting years 2008 & prior (2010 - 2007 & prior) resulted in an improvement of £13.7m (2010 - £13.6m).

3. Net Operating Expenses

	2011 £'000	2010 £'000
Acquisition costs	**55,882**	50,507
Change in deferred acquisition costs	**(1,071)**	386
Administrative expenses	**23,820**	24,020
Loss/(profit) on exchange	**3,355**	(2,788)
	81,986	72,125
Reinsurance commissions receivable	**(9,114)**	(9,163)
	72,872	62,962

Administrative expenses include:

	2011 £'000	2010 £'000
Auditors' remuneration:		
Audit services	**110**	96
Other services	**3**	4
	113	100

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, managing agent's fees and profit commission) are included within administrative expenses and amount to £13,451,000 (2010 - £16,406,000).

4. Staff Numbers and Costs

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of salary costs:

	2011 £'000	2010 £'000
Wages and salaries	**6,642**	6,532
Social security costs	**824**	779
Other pension costs	**846**	770
	8,312	8,081

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the year, was as follows:

	2011 Number	2010 Number
Management	**4**	4
Underwriting	**35**	36
Claims	**3**	4
Administration	**24**	21
	66	65

5. Emoluments of the Directors of Atrium Underwriters Limited

The thirteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2011 £'000	2010 £'000
Salary	**872**	665
Pension	**158**	126
	1,030	791

5. Emoluments of the Directors of Atrium Underwriters Limited continued

The Active Underwriter received the following remuneration charged as a syndicate expense:

	2011 £'000	2010 £'000
Salary	203	193
Pension	41	39
	244	232

6. Investment Return

	2011 £'000	2010 £'000
Investment income:		
Income from investments	7,562	8,655
Gains on the realisation of investments	84	1,419
	7,646	10,074
Investment expenses and charges:		
Investment management expenses, including interest	(372)	(347)
Losses on the realisation of investments	(1,920)	(1,688)
	(2,292)	(2,035)

Calendar Year Investment Return

	2011 £'000	2010 £'000
Average syndicate funds available for investment during the year		
Sterling	-	-
US dollars	210,973	230,861
Canadian dollars	12,456	12,673
Euro	58,526	55,963
Combined	281,955	299,497
Aggregate gross investment return for the year	5,388	6,004
Gross calendar year investment return:	%	%
Sterling	-	-
US dollars	1.7	2.0
Canadian dollars	2.2	1.4
Euro	2.7	2.3
Combined	1.9	2.0

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of investments.

The syndicate's portfolio consists of high quality investments which are held on a short duration basis.

7. Financial Investments

	Market value		Cost	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Shares and other variable yield securities and units in unit trusts	**41,510**	60,490	**41,510**	60,490
Debt securities and other fixed income securities	**270,978**	264,841	**270,096**	265,148
Loans secured by mortgage	**24,377**	24,341	**24,533**	24,597
	336,865	349,672	**336,139**	350,235

Shares and other variable yield securities and units in unit trusts represents the syndicate's holdings in collective investment schemes, comprising money market funds.

Debt securities and other fixed income securities and loans secured by mortgage are all listed on recognised stock exchanges.

Using Standard & Poor's and Moody's as rating sources, the credit ratings of the debt and other fixed income securities are set out below:

	2011 £'000	2011 %	2010 £'000	2010 %
Government/Government Agency	**185,866**	**68.7**	189,500	71.6
AAA/Aaa	**36,695**	**13.5**	36,894	13.9
AA/Aa	**27,435**	**10.1**	20,049	7.6
A	**18,812**	**6.9**	18,398	6.9
BBB	**2,170**	**0.8**	-	-
	270,978	**100.0**	264,841	100.0

The syndicate's fund manager throughout 2010 and up to 28 February 2011 was Amundi (UK) Limited. On 1 March 2011 the syndicate changed fund manager to GR-New England Asset Management (GR-NEAM). The US dollar and Canadian dollar investments are managed by GR-NEAM Inc, based in Farmington, US and the Euro portfolio is managed by GR-NEAM Limited, a sister company based in Dublin, Ireland.

8. Debtors Arising out of Direct Insurance Operations

	2011 £'000	2010 £'000
Due from Intermediaries	**85,762**	87,839

9. Reconciliation of Members' Balances

	2011 £'000	2010 £'000
Members' balances brought forward at 1 January	**52,569**	36,349
Profit for the financial year	**26,218**	52,861
Currency translation differences	**1,819**	(1,778)
Payments of profit to members' personal reserve funds	**(55,676)**	(34,863)
Members' balances carried forward at 31 December	**24,930**	52,569

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

10. Creditors Arising out of Direct Insurance Operations

	2011 £'000	2010 £'000
Due to Intermediaries	**41,887**	50,022

11. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2011 £'000	2010 £'000
Operating profit on ordinary activities	**26,218**	52,861
Realised and unrealised investment losses/(gains)	**1,571**	(1,738)
Increase in net technical provisions	**45,222**	9,539
Decrease/(increase) in debtors	**2,213**	(9,427)
(Decrease)/increase in creditors	**(14,603)**	16,163
Foreign exchange on balance due to members	**(6)**	(4)
Currency translation differences	**1,819**	(1,778)
Net cash inflow from operating activities	**62,434**	65,616

12. Movement in Opening and Closing Portfolio Investments Net of Financing

	2011 £'000	2010 £'000
Net cash inflow/(outflow) for the year	**20,099**	(130)
Cash flow		
(Decrease)/increase in deposits	**(1,710)**	1,393
Portfolio investments	**(11,625)**	29,494
Movement arising from cash flows	**6,764**	30,757
Changes in market value and exchange rates	**(1,571)**	1,738
Total movement in portfolio investments	**5,193**	32,495
Portfolio at 1 January	**370,196**	337,701
Portfolio at 31 December	**375,389**	370,196

Movement in Cash, Portfolio Investments and Financing

	At 1 Jan 2011 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 Dec 2011 £'000
Cash at bank and in hand	**8,502**	20,099	(489)	**28,112**
Overseas deposits	**11,629**	(1,710)	23	**9,942**
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	**60,490**	(18,556)	(424)	**41,510**
Debt securities and other fixed income securities	**264,841**	7,042	(905)	**270,978**
Loans secured by mortgage	**24,341**	(184)	220	**24,377**
Deposits with ceding undertakings	**792**	62	6	**860**
Deposits received from reinsurers	**(399)**	11	(2)	**(390)**
Total portfolio investments	**350,065**	(11,625)	(1,105)	**337,335**
Total cash, portfolio investments and financing	**370,196**	6,764	(1,571)	**375,389**

The changes to market values and currencies include £1.0m relating to currency revaluation of non-Sterling denominated investments and deposits.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2010

13. Net Cash Inflow/(Outflow) on Portfolio Investments

	2011 £'000	2010 £'000
Sale/(purchase) of shares and other variable yield securities and units in unit trusts	**18,556**	(45,718)
Purchase of debt securities and other fixed income securities	**(170,428)**	(134,588)
Sale/(purchase) of loans secured by mortgage	**184**	(18,504)
Deposits with ceding undertakings	**(62)**	(150)
Sale of debt securities and other fixed income securities	**163,386**	169,428
Net cash inflow/(outflow) on portfolio investments	**11,636**	(29,532)
Deposits received from Reinsurers	**(11)**	38
Net cash inflow/(outflow) on net portfolio investments	**11,625**	(29,494)

14. Disclosures of Interest

Ariel Holdings Limited (AHL), a company incorporated under the laws of Bermuda, is the ultimate holding company of Atrium Underwriting Group Limited (AUGL).

AUGL is the holding company of the following wholly owned susidiaries; Atrium Underwriters Limited (AUL), Atrium 5 Limited, Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte.Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS) and Atrium Risk Management Services (British Columbia) Ltd (ARMSBC). AUL is the managing agent of Syndicates 570 and 609 (the 'managed syndicates'). AUHL is the holding company of ten non-continuing corporate members of Lloyd's.

AUGL participates on the managed syndicates through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

	2009 Capacity £m	2010 Capacity £m	2011 Capacity £m	2012 Capacity £m
Syndicate 570	31.0	35.9	**35.9**	-
Syndicate 609	51.5	70.9	**70.9**	106.8

Atrium 5 Limited's participation on the managed syndicates as % of syndicate capacity:

	Year of account			
	2009 %	2010 %	2011 %	2012 %
Syndicate 570	24.8	24.8	**24.8**	-
Syndicate 609	25.8	25.8	**25.8**	25.4

On 28 April 2011, Atrium wrote to the Council of Lloyd's with a notice of the intention to merge Syndicate 570 and Syndicate 609 with effect from the commencement of the 2012 year of account. Consent to the merger was granted on 19 July. Richard Harries was appointed Underwriter of Syndicate 570 with effect from 1 January 2012. In order to service the run-off and merged syndicate, underwriters have authorities that enable them to underwrite on behalf of both managed syndicates.

AHL is the ultimate holding company of Ariel Reinsurance Company Ltd (Ariel Re). On 1 March 2012 it was announced that Goldman Sachs intended to acquire Ariel Reinsurance's Bermuda-based insurance and reinsurance operations, with an expected completion date of 1 April 2012. On 3 March 2012 it was announced that Arch Capital Group Ltd intended to acquire Ariel Reinsurance's Switzerland-based reinsurance operations, with an expected completion date of 1 April 2012, subject to regulatory approval.

14. Disclosures of Interest continued

AIAL is a registered Lloyd's UK coverholder and authorised and regulated by the Financial Services Authority. Both managed syndicates participate on a binding authority granted to AIAL to underwrite Space business. The binding authority is led by Syndicate 609. Under the terms of the binding authority, fees and profit commission are payable to AIAL. Fee income of $811,000 (2010 - $951,000) is payable by the syndicate to AIAL in relation to premium earned in calendar year 2011. Profit commission of $700,000 has been incurred by the syndicate (2010 - $1,384,000) during the calendar year 2011.

AGSL is a group service company. All employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) as a service company coverholder. Under the terms of the arrangement ASIA charges fees to Syndicate 609 equal to its operating costs plus a small margin for tax reasons. Fees of S$2,076,000 were paid by Syndicate 609 in calendar year 2011 (2010 - S$1,539,000).

ARMS is incorporated in Washington and supports the Syndicates' strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the Syndicates equal to its operating costs plus a small margin for tax reasons. Fees of US$698,000 were paid by Syndicate 570 in the calendar year 2011 (2010 - US$349,000).

ARMSBC is incorporated in British Columbia and supports the Syndicates' strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the Syndicates equal to its operating costs plus a small margin for tax reasons. Fees of C$886,000 were paid by Syndicate 570 in the calendar year 2011 (2010 - C$596,000).

AUL manages four underwriting consortia. The Atrium Aviation Consortium is an internal consortium arrangement between Syndicate 570 & 609 on a 40%/60% split basis. Lloyd's approval was given on 21st July 2003 for this arrangement. An overrider is charged by Syndicate 609 to Syndicate 570. The Atrium Airline Hull War and Allied Perils Consortium and the two Atrium Aviation Reinsurance Consortia are led by Syndicate 609 and supported by various other Lloyd's syndicates, including Syndicate 570. Lloyd's approval is not required under the Multiple Syndicates Byelaw for these consortia. Fees and profit commission are payable by all consortium members including Syndicate 570. AUL processes the fees and profit commission on behalf of Syndicate 609 but currently retains no remuneration in its role as manager of these consortia. Two Aviation Reinsurance quota share treaties are in place that replicate the Atrium Reinsurance Consortia. Profit commissions and overriders are payable by Syndicate 570 to Syndicate 609 under this arrangement.

Syndicate 609 has entered into a quota share contract of their Space account for the 2009, 2010 and 2011 years of account with Ariel Re. Permission was given by Lloyd's on 30 December 2008. Earned income ceded under this arrangement in 2011 was US$2.7m (2010 - US$2.6m). Earned income expected to be ceded in 2012 is US$1.4m.

A quota share of Syndicate 609 by Syndicate 570 was entered into in relation to Aviation business underwritten on behalf of Syndicate 609 by ASIA. Under the terms of the quota share an overriding commission is payable by Syndicate 570 to Syndicate 609. The terms were set and agreed by the respective Active Underwriters. Lloyd's gave consent of a waiver under the Multiple Syndicates Byelaw on 9 November 2009. No overriding commission has been paid by Syndicate 570 in calendar year 2011.

The impact of the syndicate merger has resulted in the related party transactions between the two managed syndicates ceasing with effect from the 2012 year of account.

It is possible that further transactions may be entered into between the managed syndicates and Ariel Re.

With effect from 2012 certain reinsurances purchased will be for the benefit of both Syndicates 570 and 609. The board determined that this was the most efficient process to protect both the ongoing and run-off business. There is the possibility of one or other syndicate exhausting the available coverage, in which case we would consider the purchase of back-up coverage. Costs will be charged on an equitable basis determined by the board.

14. Disclosures of Interest continued

The Directors' participations on Syndicates 570 & 609 via Nomina No. 207 LLP are as follows:

	Syndicate 570				Syndicate 609			
	2009 yoa £	2010 yoa £	2011 yoa £	2012 yoa £	2009 yoa £	2010 yoa £	2011 yoa £	2012 yoa £
Andrew Baddeley	-	7,534	7,534	**-**	-	14,289	14,289	**28,793**
Steve Cook	9,641	11,213	11,213	**-**	15,359	21,266	21,266	**34,438**
Simon Cooper	34,752	40,788	40,788	**-**	55,367	77,357	77,357	**135,145**
Toby Drysdale	4,820	9,212	9,212	**-**	7,680	17,472	17,472	**29,173**
Richard Harries	35,893	52,242	52,242	**-**	57,185	99,079	99,079	**199,973**
Nick Marsh	91,292	37,671	37,671	**-**	145,445	71,444	71,444	**109,115**
Samit Shah	8,688	10,197	10,197	-	13,842	19,339	19,339	**36,500**

AUL has made a loan to a director of the company during 2011. The loan is an interest-free travel season ticket loan that is repayable in monthly instalments.

	Amount outstanding at 1 January 2011 £	Amount outstanding at 31 December 2011 £	Maximum amount outstanding during the year £
T D Drysdale	3,715	-	3,715

Managing agency fees of £1,926,000 (2010 - £1,899,000) were paid by the syndicate to AUL. Profit commission of £9,527,080 (2010 - £12,699,000) is payable by the syndicate to AUL in relation to the 2011 calendar year result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. A payment of £8,185,000 (2010 - £4,696,000) was made in 2011. Included within creditors is £6,186,000 (2010 - £6,396,000) in respect of profit commission payable to AUL on the 2009 year of account. £3,396,000 (2010 - £8,240,000) is included in accruals and payable after 12 months.

15. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

Designed & printed by Perivan 224259

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