



opportunities realised



Our performance in growing income and profitability during the first six months of 2009 shows both the strength of Chaucer as an underwriting business and the effectiveness of our ability to take full advantage of market opportunities.

In the period to 30 June 2009, we generated a profit on underwriting operations of £28.6 million. Within this, gross written premiums increased by 38.2% to £491 million and our net earned premiums increased by 37.9% to £330.2 million. Along with a return of £34.6 million on investments, we generated a Group profit before tax and foreign exchange adjustments on non-monetary items of £52.6 million.

This good progress highlights the success of Chaucer's commitment to profitable growth. Through the continuous enhancement of our team of top class underwriters and expansion of our insurance product range, we aim to build a well diversified and a high-quality underwriting business.

plans progressed

In the past 18 months, we have increased the size of our underwriting team by a fifth. Today, with dedicated teams in seven major markets – marine, energy, aviation, motor, property, nuclear and specialist lines – we are well positioned to meet the needs of brokers and clients. Equally, with our underwriting business spanning 28 major classes, and with each class being a distinct area of expertise, we have the flexibility required to manage the insurance cycle and to respond quickly to market opportunities.

The prospects for the insurance industry are healthy, with rates continuing to harden in most major markets. Our confidence is such that we have increased Syndicate 1084's underwriting capacity by over 40% to £634 million. Looking further forward, we anticipate increasing our overall underwriting capacity to more than £1 billion by 2012.

We believe that the steps we are taking are well-founded. Through the strength of our underwriting, we have created a growing and profitable business with the capacity and capability to drive on-going development.

Excellent start to 2009

“I am pleased to report an excellent start to 2009. The £52.6m profit generated in the first half, before foreign exchange adjustments on non-monetary items, was largely the function of an excellent underwriting result and a healthy contribution from our investments as the defensive repositioning of our portfolio realised significant gains.

The outlook for the second half of the year and 2010 is also positive, with conditions improving in the majority of our markets. We are well-placed, with our strong underwriting focus and diverse business mix, to benefit from this.”

Ewen Gilmour, Chief Executive Officer

Financial highlights

Profit before tax and foreign exchange adjustments on non-monetary items¹
of £52.6m (30 June 2008 £3.4m)

Profit before tax of £17m (30 June 2008 £3.9m)

Gross written premiums up 38.2% to £491m² (30 June 2008 £355.3m)

On a constant currency basis, gross written premiums up 18.4%

Successful defensive rebalancing of the investment portfolio, generating return of £34.6m
(30 June 2008 £1.5m), a return on average funds of 2.7% (30 June 2008 0.2%)

Interim dividend of 1.3p declared (30 June 2008 1.8p)

Post-tax annualised return on equity of 8.6% (30 June 2008 1.9%)

Underwriting highlights

Profit before investment income and the impact of foreign exchange on non-monetary items¹
of £28.6m (30 June 2008 £6.6m)

Average premium rate increase of 5.9% achieved across underwriting portfolio

Combined ratio improved to 91.3%² (30 June 2008 97.2%)
supported by more stable claims environment

Syndicate 1084 capacity increased by 42.5% to £634m for 2009 (2008 £445m)

Contribution of £2.6m from syndicate participation and management activities (30 June 2008 £2.4m)

¹ Under International Financial Reporting Standards, unearned premiums and deferred acquisition costs are carried at historic exchange rates, while the corresponding monetary items are translated at closing rates.

² Excluding consolidation adjustments, premiums written to reinsure to close non-Chaucer syndicates into Syndicate 1084 and the impact of the increased ownership of in-house syndicates, following the reinsurance to close of third-party participations in the year in which the closure occurred. The adjustments mainly impact 2008 (June and December) figures.

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Chaucer has a tradition in insurance dating back to 1922. Today we have the underwriting capacity to write over £650 million of premium income and are one of the ten largest managing agents at Lloyd's.



We have a well-diversified book of business balancing global marine and non-marine classes with a UK motor business and nuclear insurance.

At the heart of our business are Chaucer Syndicate 1084 and Nuclear Syndicate 1176, which together have an underwriting capacity of over £650 million for 2009. Across both our syndicates, we employ specialist underwriters in 28 major classes of business.

UK

We provide motor insurance to the UK private car and fleet markets. We operate through intermediaries, aggregator sites, our own *ChaucerDirect* website and via our specialist broker Richard Egger Insurance.

Marine

We write all major classes of business, including political risk and satellite, exclusively through Lloyd's brokers.

Energy

We established our Energy Division to consolidate our leadership position in the international energy market, providing upstream energy, midstream, downstream and renewables and energy casualty.

Aviation

We are a leading provider of specialist aviation insurance to the Lloyd's market. Our underwriters are recognised for their industry knowledge and experience.

Property

Our dedicated team specialises in world-wide property risks, written on a direct, facultative or treaty basis through binding authorities and on an open market basis at Lloyd's.



Across both our syndicates, we employ specialist underwriters in 28 major classes of business.



Specialist Lines

Our Specialist Lines Division underwrites a full range of casualty exposures including financial institutions' crime and professional liability, general professional indemnity, medical malpractice, public, products and employers liability. We offer lead terms and claims expertise on both an insurance and reinsurance basis for business from around the globe.

Nuclear

The Chaucer Nuclear Syndicate 1176 is recognised as a leading insurer of nuclear risk and is consistently one of the most profitable syndicates at Lloyd's.

Overseas

Enhancement of our geographic reach is central to the Chaucer strategic plan. Reflecting this, Chaucer Underwriting A/S in Denmark provides us with good access to European property and accident and health risks not typically presented to the Lloyd's market, while Chaucer Singapore offers offshore energy, marine, financial risk, power and utilities and engineering risks through international and local brokers.

Claims

We support our underwriting with a highly qualified and professional claims team with extensive Lloyd's marine and non-marine claims management experience.

Syndicate Management

We are market leaders in syndicate management and provide a practical solution for those investors seeking a Lloyd's presence without the additional cost and management strain of a standalone managing agent.

Strong underwriting and a positive contribution from investments combined in our half year profit before tax of £52.6 million, before foreign exchange adjustments on non-monetary items. With market conditions continuing to improve, we move forward as a business with increased confidence.

We continued to make good progress in the first six months of 2009. Our profit before tax of £17m (30 June 2008 £3.9m) provides a firm foundation for the full year result. Underpinning this, there is a healthy underlying profit of £52.6m (30 June 2008 £3.4m), before the IFRS accounting treatment of foreign exchange on non-monetary items.

Both underwriting and investments made positive contributions to profits. Underwriting contributed £28.6m (30 June 2008 £6.6m) before the impact of foreign exchange on non-monetary items and investments a further £34.6m (30 June 2008 £1.5m).

Underwriting performance and outlook

Our performance reflected strengthening underwriting conditions, a more stable claims environment and further releases from our technical reserves.

Gross written premiums increased by 38.2% to £491m (30 June 2008 £355.3m) and net earned premiums increased by 37.9% to £330.2m (30 June 2008 £239.5m) as we grew income to take advantage of the good underwriting conditions. For better consistency, these figures exclude RITC premiums, the impact of foreign exchange on non-monetary items and consolidation adjustments.

The combined ratio improved by 5.9% to 91.3% (30 June 2008 97.2%). Prior year reserve releases reduced the combined ratio by 4.8% (30 June 2008 5.6%) as we released net reserves of £22.2m (30 June 2008 £12.6m). The bulk of the releases were from the Energy and Specialist Lines Divisions.

Market conditions should improve further in the second half of the year and we forecast premium rates to increase by approximately 5.9% for 2009 across Syndicate 1084. Assuming an average annual catastrophe frequency in 2009, looking further ahead, we would expect rates in most major classes to continue rising in 2010.

We have a strong and well-diversified underwriting business, which balances marine and non-marine classes along with UK motor and nuclear insurance. In total, we have specialist underwriters in 28 major classes of business.

We remain confident of our ability to grow the business profitably in these market conditions.

Investment performance

Investment performance was excellent in demanding circumstances, with our £1.3bn (30 June 2008 £1.1bn) cash and investment portfolio achieving a return of 2.7% for the period (30 June 2008 0.2%). As previously announced, we have significantly de-risked our investment portfolio, realising healthy gains from the disposal of hedge fund and absolute bond portfolio participations during the period.

Our hedge funds generated a total return of £10.7m or 10.7%, while we reduced the portfolio by more than half to £64.7m at 30 June 2009 (31 December 2008 £154.7m). Further hedge fund disposals are due in this year and we forecast that our holdings at the end of 2009 will represent less than 4% of the Group's investment portfolio. The disposal of our absolute return bond fund holding realised a further £9.5m profit.

In order to take full advantage of increasing underwriting opportunities in 2009 and 2010, the focus of our investment strategy is one of capital maintenance rather than earnings enhancement. Because of this, the Group will continue to invest positive cash flows generated and the redemption proceeds from the sale of investments cautiously, with the majority of funds invested in short-duration money market funds and investment grade corporate bonds.

Given this strategy, the Group anticipates that investment returns will be modest during the remainder of 2009.

Dividends

At the time of our capital raising, we announced a revised dividend policy of 4.0 pence per ordinary share for each of 2009 and 2010, in the absence of unforeseen circumstances. In accordance with this policy, our interim dividend is 1.3p per share (2008 interim dividend 1.8p), which is payable on 1 October 2009 to shareholders on the register on 11 September 2009. We intend to pay a final dividend of 2.7p (2008 second interim dividend 3.7p), making a total annual distribution of 4.0p (2008 5.5p), in the absence of unforeseen circumstances.

Capital raising

In February 2009, we raised £74.9m, net of expenses, through a firm placing and a placing and open offer, to support the development of the business and to strengthen the balance sheet. We deposited the proceeds as additional Funds at Lloyd's to grow the underwriting capacity of Syndicate 1084 to £634m, an increase of £189m or 42.5% on the 2008 capacity of £445m, to

take advantage of favourable underwriting conditions. The funds raised have also supported Syndicate 1084's increased capital requirements for 2009, which arose from the steep depreciation in sterling against the US dollar, and 2008 solvency deficits.

To support underwriting, we have concluded a reinsurance agreement that provides for £50m of underwriting capacity on Syndicate 1084 for the 2009 and 2010 years of account.

The capacity of Syndicate 1176 is £31.5m, of which our underwriting interest is £17.4m. We also have an interest of £11.3m on managed Syndicate 4242. Our total underwriting interests are £580.6m for 2009, an increase of £60.8m or 11.7% on the 2008 total of £519.8m.

The Board

Ewen Gilmour has decided to retire by December 2009 after seven years as Chief Executive Officer. In thanking him for his contribution over the years, we wish him well for the future. Ewen will retire from the Board before the end of the year once we have appointed his successor and have completed an orderly transition. This process is well underway.

Mark Graham, Chief Financial Officer, has stepped down from the Board and left the Group to pursue other opportunities. The process to appoint a new Chief Financial Officer is also underway. Ken Curtis, who has been Finance Director of Chaucer Syndicates Limited since July 2003, is Interim Chief Financial Officer in the intervening period.

Chris Forbes, Senior Independent Director, who has been a member of the Board since 2001, has also stepped down. We have appointed Richard Scholes as the Senior Independent Director.

I would like to take this opportunity to pay tribute to Ewen, Mark and Chris, all of whom have played important roles in the development of the business.


I am pleased to welcome Bruce Bartell, Active Underwriter of Syndicate 1084, to the Board. Bruce brings extensive expertise and experience from his leadership of the Syndicate during the last three years and will prove invaluable in developing the Group's business strategy going forward.

I am also delighted to welcome Bob Deutsch back to the Board. Bob's contribution to the Board has always been outstanding, having served as a non-executive director between January 2002 and December 2008 and only stepping down following the sale of Pembroke Managing Agency by the Group to Ironshore Inc., where he was the then Chief Executive.

Finally, Bob Stuchbery, Chief Underwriting Officer, has assumed responsibility as Chief Executive Officer of Chaucer Syndicates Limited, which is our managing agency and main operating subsidiary.

The Chaucer Team

These results, produced during what was a period of significant uncertainty, emphasise the strengths of Chaucer's business. I commend all employees for their sterling efforts and look forward to a similar commitment in the second half of the year. We have a talented team, intent on building a leading Lloyd's business.



Martin Gilbert
Chairman

27 August 2009

Our financial results for the first half of 2009 are very positive. The Group profit before tax of £52.6 million, before foreign exchange adjustments on non-monetary items, included profits of £28.6 million from underwriting operations and a return of £34.6 million from our investments.

The profit before tax of £17m (30 June 2008 £3.9m) reflects a promising start for the first half of 2009; the result of a good contribution from both underwriting and investments. The underlying profit, excluding the impact of foreign exchange adjustments on non-monetary items, increases to £52.6m (30 June 2008 £3.4m). The profit before tax was also impacted by £2.6m in respect of bid defence fees.

Gross written premiums, excluding reinsurance to close (RITC) premiums and consolidation adjustments, increased by 38.2% to £491m (30 June 2008 £355.3m), the result of premium income increases in all underwriting Divisions.

Net earned premiums increased by 37.9% to £330.2m (30 June 2008 £239.5m) excluding RITC premiums and the impact of

foreign exchange on non-monetary items.

The Group's underwriting operations contributed a profit before investment income of £28.6m (30 June 2008 £6.6m), before the impact of foreign exchange on non-monetary items. The combined ratio improved by 5.9% to 91.3% (30 June 2008 97.2%), supported by a more stable claims environment.

The Group's investment portfolio contributed £34.6m (30 June 2008 £1.5m), a return of 2.7% for the period (30 June 2008 0.2%). Performance benefitted from the successful defensive rebalancing of the portfolio, realising healthy gains on the redemption of hedge funds and absolute return bond funds.

Table 1 summarises our results.

	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m	31 December 2008 (audited) £m
Table 1 - Key Financial Data			
Gross written premiums ¹	491.0	355.3	689.9
Net earned premiums ¹	330.2	239.5	538.4
Net investment return	34.6	1.5	(71.0)
Total revenue from operations	331.3	277.8	485.4
Total operating charges	(312.4)	(272.2)	(515.4)
Profit/(loss) from operations	18.9	5.6	(30.0)
Profit/(loss) before tax and foreign exchange adjustments on non-monetary items	52.6	3.4	(59.5)
Foreign exchange (loss)/gain on non-monetary items	(35.6)	0.5	33.3
Profit/(loss) before tax	17.0	3.9	(26.2)
Profit/(loss) after tax attributable to equity holders	11.9	2.7	(19.0)
Per share amounts			
	p	p	p
Basic earnings/(loss) per share	2.7	0.8	(6.0)
Net tangible assets per share	53.0	69.7	62.5
Interim dividend (proposed or paid)	1.3	1.8	1.8
Second interim dividend (paid)	-	-	3.7
Key business ratios			
	%	%	%
Combined ratio ²	91.3	97.2	93.9
Return on equity	8.6	1.9	(7.0)

1 This excludes the initial impacts of both the reinsurance to close of run off Syndicate 1245, and of the increased ownership of in-house syndicates following the reinsurance to close of third-party participations, in the year in which the closure occurs. It also excludes the impact of foreign exchange on non-monetary items and consolidation adjustments.

2 Combined ratios exclude the initial impacts of both the reinsurance to close of run off Syndicate 1245 and of the increased ownership of in-house syndicates following the reinsurance to close of third-party participations, in the year in which the closure occurs. The ratios also exclude the impact of foreign exchange on non-monetary items and consolidation adjustments.

Following the significant strengthening of the US dollar against sterling in the second half of 2008, the treatment under IFRS of non-monetary assets and liabilities (converting them at historic rather than closing foreign exchange rates) has adversely affected the results of the Group for the six months ended 30 June 2009 by £35.6m (30 June 2008 £0.5m). If exchange rates remain unchanged then the Group expects the impact of the treatment of non-monetary items in foreign currencies to affect adversely the results for the second half of the year by approximately £2m.

Underwriting performance

Underwriting made a healthy contribution to profit of £28.6m (30 June 2008 £6.6m), before the impact of foreign exchange on non-monetary items, in the first half of 2009. The performance benefited from strengthening underwriting conditions, an absence of major catastrophe events and a lower frequency of high value single risk losses in comparison to the same period last year and further releases from our technical reserves.

Gross written premiums increased by 38.2% to £491m (30 June 2008 £355.3m) and net earned premiums increased by 37.9% to £330.2m (30 June 2008 £239.5m) as the Group grew income to take advantage of the good underwriting conditions.

The combined ratio improved by 5.9% to 91.3% (30 June 2008 97.2%). The current year element of the claims ratio decreased to 61.5% (30 June 2008 67.7%). Prior year reserve releases reduced the combined ratio by 4.8% (30 June 2008 5.6%) as the Group released net reserves of £22.2m. The bulk of the releases were from the Energy and Specialist Lines Divisions. This follows a net release of £12.6m in the first half of 2008.

The expense ratio remained broadly constant at 34.6% (30 June 2008 35.1%).

Table 2 provides a summary of divisional level underwriting performance.

Table 2 - Divisional Level Underwriting Performance	UK	Marine	Energy	Aviation	Property	Specialist Lines	Nuclear	In-house total	Syndicate Participations ¹	Run Off ²	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
30 June 2009 (unaudited)											
Gross written premiums ³	82.9	99.0	94.6	21.4	136.2	35.6	11.7	481.4	9.6	-	491.0
Net earned premiums ^{3, 4}	66.2	64.7	57.7	15.1	72.4	26.2	6.9	309.2	20.7	0.3	330.2
Underwriting (loss)/profit ^{4, 5}	(5.0)	1.4	12.5	2.1	12.3	3.1	4.7	31.1	(2.8)	0.3	28.6
30 June 2008 (unaudited)											
Gross written premiums	66.0	58.1	58.8	14.3	97.0	19.5	10.8	324.5	31.4	(0.6)	355.3
Net earned premiums	61.2	36.0	31.1	11.7	53.3	17.9	6.5	217.7	22.1	(0.3)	239.5
Underwriting (loss)/profit	(10.4)	9.1	(8.0)	0.9	1.7	2.8	4.1	0.2	4.9	1.5	6.6

1 Syndicate participations comprises the results of Chaucer Participations on Syndicates 4000 and 4242.

2 Run Off comprises the results of Syndicates 1229, 1204, 1224 and 1245 (excluding the initial impact of the reinsurance to close) which have reinsured to close into Syndicate 1084.

3 See note 3 to the financial statements for reconciliation of gross written premium and net earned premium to the Income Statement.

4 Net earned premiums and underwriting (loss)/profit exclude the impact of foreign exchange on non-monetary items.

5 Underwriting (loss)/profit is the sum of net earned premium, net incurred claims, and net expenses incurred in insurance activities.

Business outlook

As anticipated, the Group benefited from improved market conditions in the period, achieving an average rate increase in excess of 6%, which is ahead of the Syndicate 1084 business plan of 5.9% as shown in table 3. Looking further ahead, the Group forecasts that rates in most major classes will continue their rise in 2010.

In general, markets have responded positively to capital pressures caused by the global economic turbulence in 2008. In addition, Lloyd's has benefitted from an increased showing of business in many classes as the purchasers of insurance have responded to the market uncertainties by seeking more subscription market solutions to their protection requirements. This has encouraged the participation of a larger number of insurers on each risk in order to reduce the concentration of risk.

The Group has a net unearned premium reserve of £360.1m (30 June 2008 £290.5m), the majority of which the Group wrote at healthy rates during the first half of the year.

The Group will finalise underwriting plans for 2010 towards the end of the current hurricane season.

Divisional performance

Table 4 provides a summary of divisional level claims, expense and combined ratios.

The claims ratio shown comprises four components, all calculated in relation to net premiums earned in the current reporting period:

1. 'Best estimate (current year)', which is based on the best estimate of ultimate net claims in respect of net premium earned during the period;
2. 'Best estimate (prior years)', which is based on the movement in the best estimate of ultimate claims booked at the end of the previous reporting period;
3. 'Reserve risk loading (current year)', which is based on the movement in the current year net reserve risk loadings; and
4. 'Reserve risk loading (prior years)', which is based on the movement in the prior years' net reserve risk loadings.

Best estimate reserves represent the Group's estimate of the expected value of claims reserves.

The Group includes reserve risk loadings where it believes there is a particularly high uncertainty inherent in the best estimate reserve.

Table 3 - Premium Rating Index	2003	2004	2005	2006	2007	2008	2009E	2009 Change %
Marine	167	171	175	187	184	183	193	+5.5
Energy	327	310	347	486	445	408	452	+10.8
Aviation	171	168	164	160	148	146	153	+4.8
International Property	166	154	148	155	148	139	147	+5.8
North American Property	165	163	171	232	234	215	236	+9.8
Specialist Lines	174	187	184	179	171	166	169	+1.8
Combined (excluding UK)	182	182	185	204	197	187	198	+5.9
UK	130	132	130	130	132	140	149	+6.4
Combined	156	157	158	181	175	169	179	+5.9

The index, which provides an overall measure of the financial terms of a policy, is based on Chaucer's internal assessment by reference not only to headline premium rates, but also to other financial aspects of cover, including policy deductibles, commissions and other relevant coverage amendments. The index for 2000 was 100. The 2009E index values are estimates. As nuclear insurance has historically been a non-cyclical business, there is no maintenance of an index.

Table 4 - Divisional Level Claims, Expense and Combined Ratios

	UK %	Marine %	Energy %	Aviation %	Property %	Specialist Lines %	Nuclear %	In-house total ⁵ %	Total ⁶ %
30 June 2009 (unaudited)									
Claims ratio ¹	80.3	66.1	35.3	45.7	45.0	56.1	15.9	55.5	56.7
Best estimate (current year)	77.7	61.8	44.1	62.9	42.7	87.0	14.5	58.6	60.1
Best estimate (prior years)	2.3	0.9	(9.7)	(17.2)	2.5	(35.9)	(1.5)	(4.5)	(6.7)
Reserve risk loading (current year)	0.3	0.3	1.9	-	(2.8)	2.7	8.7	0.3	1.4
Reserve risk loading (prior years)	-	3.1	(1.0)	-	2.6	2.3	(5.8)	1.1	1.9
Expense ratio ²	27.3	31.7	43.0	40.4	38.0	32.1	16.0	34.5	34.6
Acquisition costs ³	20.8	27.8	38.7	27.1	26.4	23.3	4.4	27.1	27.2
Other expenses ⁴	6.5	3.9	4.3	13.3	11.6	8.8	11.6	7.4	7.4
Combined ratio	107.6	97.8	78.3	86.1	83.0	88.2	31.9	90.0	91.3
Combined ratio (excluding prior years)	105.3	93.8	89.0	103.3	77.9	121.8	39.2	93.4	96.1
30 June 2008 (unaudited)									
Claims ratio ¹	89.9	42.2	79.7	59.0	56.7	43.6	26.2	65.0	62.1
Best estimate (current year)	83.2	60.3	51.8	66.7	62.5	82.7	15.4	66.9	64.4
Best estimate (prior years)	3.0	(14.4)	58.8	(10.3)	6.9	(43.0)	10.8	4.7	4.1
Reserve risk loading (current year)	5.7	(3.6)	(2.9)	0.9	-	7.3	6.2	1.4	3.3
Reserve risk loading (prior years)	(2.0)	(0.1)	(28.0)	1.7	(12.7)	(3.4)	(6.2)	(8.0)	(9.7)
Expense ratio ²	27.1	32.5	46.0	33.3	40.1	40.8	10.7	35.0	35.1
Acquisition costs ³	20.0	25.8	38.3	23.9	28.1	27.4	3.0	25.9	25.7
Other expenses ⁴	7.1	6.7	7.7	9.4	12.0	13.4	7.7	9.1	9.4
Combined ratio	117.0	74.7	125.7	92.3	96.8	84.4	36.9	100.0	97.2
Combined ratio (excluding prior years)	116.0	89.2	94.9	100.9	102.6	130.8	32.3	103.3	102.8

Note: Due to rounding, the above ratios may not exactly match the information contained in note 3 to the Interim Financial Statements.

- 1 The claims ratio comprises net claims incurred as a proportion of net earned premiums for the period.
- 2 The expense ratio comprises net expenses incurred in insurance activities divided by net earned premiums. This ratio includes consolidation adjustments and reclassifications but excludes both finance costs and expenses that are not attributable to underwriting. This is in line with the policy adopted by the Group in previous years.
- 3 Acquisition costs includes commission paid to brokers and other expenses related to obtaining insurance business.
- 4 Other expenses includes all expenses incurred in insurance activities that are not acquisition costs.
- 5 The in-house total includes all of the divisions listed in the table, and therefore excludes the impact of Syndicates 4000 and 4242 participations and run-off.
- 6 The divisional analysis excludes the effect of premiums and reserves relating to the reinsurance to close (RITC) of third party syndicates into Syndicate 1084 and the Group's increased ownership of the RITC of Syndicates 1084 and 1176 following the closure of their 2006 years of account. The total ratios include the run-off movement in the year of third party syndicates reinsured to close into Syndicate 1084 in the past, and participations on syndicates 4000 and 4242.

UK



Key Figures		30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Gross written premiums		82.9	66.0
Gross written premiums by major class	Fleet	14.4	12.2
	Private car	52.4	40.0
	Specialist motor	16.1	13.8
Net earned premiums		66.2	61.2
Underwriting loss before investment return		(5.0)	(10.4)
		%	%
Claims ratio		80.3	89.9
Expense ratio		27.3	27.1
Combined ratio		107.6	117.0

Improving trading conditions, particularly in the private car market, have benefited the performance of the UK Division, which recorded a reduced underwriting loss before investment return of £5m (30 June 2008 loss £10.4m), a current year best estimate claims ratio of 77.7% (30 June 2008 83.2%) and a combined ratio of 107.6% (30 June 2008 117%).

A comparison of the combined ratio for business written in the first half of this year with that written in the same period of last year shows the positive impact of the current strengthening of the UK motor market. The pure year combined ratio for 2009 written business is expected to show an improvement of over 10% on 2008 to below 106%. Claims ratios have improved because of above inflation premium rate increases and expense ratios have reduced because of economies of scale due to growth. The earned results should therefore continue to improve into 2010.

Gross premium income increased by 25.6% in comparison to the first half of 2008 as business volumes increased, despite the continued application of monthly rate increases at inflation or above across the main product areas of the market.

The UK Division's main area of growth was the standard private car market, where it has applied rate increases for a third consecutive year. Since the launch of the Division's Auto-Marque private car product in 2007, it has developed into the largest segment of the private car product range, accounting for £27.3m of gross premium income (30 June 2008 £13.4m). Auto-Marque has out-performed its business plan in volume and loss ratio terms consistently over the past 18 months as improvements to market conditions have exceeded our forecast assumptions.

Aggregators continue to reshape the motor market, increasing their share of the distribution of private motor insurance in the UK. This trend has enabled smaller insurers to compete on a more level playing field with larger players, with consumer purchase decisions increasingly driven by price.

The UK Division's Auto-Marque product is available directly from our "in-house" broker on two aggregator sites and all private car products are available via intermediaries on all of the major aggregator sites. The ChaucerDirect web site, launched in August 2008, has also begun to receive direct business. There are plans

for *ChaucerDirect* to increase both the number of products distributed and the aggregator sites used in the second half of 2009.

The UK Division forecasts a 6.4% increase in UK motor premium rates in 2009, with standard private car prices expected to benefit most. In response to the improving market conditions, underwriting capacity has increased in 2009, and the Division will support this increase with new product launches and further distribution developments.

In contrast to the private car market, the commercial and fleet markets have remained weak. In response, the UK Division's underwriters have continued to apply rate increases of inflation or above across most portfolio classes. This tactic, while reducing the demand for commercial vehicle and motor trade products in 2008, has now produced some recovery of volumes in 2009. The Division introduced a new commercial vehicle product in early 2009 and initial sales volumes and achieved loss ratios are on plan. Volumes should increase as the market improves.

The UK Division's fleet account has reduced significantly since 2005, although the Division now believes that fleet prices will start to recover in 2009. Steps were taken in 2008 to strengthen the underwriting team in preparation for this. Current plans include the launch of a new commercial vehicle product and an extranet facility for the fleet account to improve the service to brokers.

From the start of 2009, management of all non-motor UK business transferred from the Group's London headquarters to the UK Division's operations in Whitstable. The Division enhanced its electronic trading capabilities in 2009, launching an extranet-based employers and public liability product, which is available as a standalone product or as part of the Division's motor trade policy. During the period, premium income from employers and public liability was £1.5m, which is slightly ahead of plan. The Division is currently building a number of other UK small commercial products for launch on a new IT platform in 2010.

Marine



Key Figures		30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Gross written premiums		99.0	58.1
Gross written premiums by major class			
	XL	21.4	10.1
	Hull	15.1	7.3
	Liability	6.6	4.7
	War	3.2	1.4
	Cargo	10.5	8.1
	Specie	13.9	7.4
	Satellite	2.4	1.2
	Political risk	25.9	17.9
Net earned premiums		64.7	36.0
Underwriting profit (before investment return)		1.4	9.1
		%	%
Claims ratio		66.1	42.2
Expense ratio		31.7	32.5
Combined ratio		97.8	74.7

The Marine Division recorded a reduced underwriting profit of £1.4m in the first half of 2009 (30 June 2008 £9.1m). The combined ratio increased to 97.8% (30 June 2008 74.7%).

Total gross written premiums rose by 70.4% to £99.0m (30 June 2008 £58.1m) as the Division responded to increasing underwriting opportunities.

Marine excess of loss

The year began positively with achievement of the January and April renewal income targets. The US account renewed with rate rises triggered by the ACL Mississippi loss in 2008, while the Japanese account renewed as forecast. This is a successful account, which the Division plans to grow in 2010.

The July renewal season was more challenging, with increased competition from Continental Europe for the foreign account. The Division has reduced related aggregate exposures to retain relative pricing adequacy. Rating levels for the London Market and global accounts remain firm despite reduced writing of Gulf of Mexico energy layers.

Hull/War

The hull market has strengthened during the period and the Division envisages that this will continue into 2010. By adopting a selective underwriting growth strategy, it is able to capitalise on and enhance an existing profitable portfolio.

The shipping market is generally suffering tough trading conditions, which is maintaining pressure on charter rates. Vessel exposures have continued to fall throughout the first half of 2009 and, while there are signs of a very modest recovery, it is too early to forecast the start of an upward trend.

The first half of 2009 has also seen a dramatic increase in vessels being laid up from charter and a continued trend of older tonnage going for scrap. This has had a limited impact on our portfolio, which focuses on newer and more commercially viable tonnage. Where there are exposures to laid-up tonnage, underwriters are working with marine surveyors to ensure that the vessels have adequate protection from natural and physical perils.

The risk of piracy is still prevalent, with increasing naval resources deployed to protect the assets and crews. However, the current international rules of engagement still restrain meaningful prevention and allow only very limited successful intervention. Hull policies now generally exclude piracy, with war policies providing coverage where adequate premium for the exposure exists.

Cargo and specie

The cargo market remains soft, with competition for American business being especially strong. The Division has continued to grow its more profitable Middle East and Chinese accounts while reducing London Market exposures.

A review of the cargo account at the beginning of 2009 has triggered expansion in some of the more profitable sub classes of business and geographic areas and a trimming of the binder and treaty accounts.

The specie account continues to trade successfully. The Division has increased its market share on certain classes of business, while remaining wary of cash in transit and jeweller's block risks. These classes have lower profitability and are more prone to theft claims in a recession. The aim for the second half of 2009 and for 2010 is to continue development of the fine art and US Securities Investor Protection Corporation books of business.

The plan is also to increase the aquaculture account, which although small, has performed well.

Political risk

After 10 profitable years, this was a challenging period for political risk underwriters with the impact of the continued global economic turmoil on developing countries producing significant losses in emerging economies such as the Ukraine, Bahrain and Kazakhstan as payment defaults increased.

However, the economic downturn is now generating opportunities for the political risk sector, with far more business reaching the market. Limited liquidity within the trade finance banking community is forcing exporters to insure transactions that they previously protected through banks. It is also causing banks, being unable to retain such volumes of risk on their balance sheets, to lay off more of their own risk into the insurance community. Banks are also syndicating more risk with the insurance community, as conventional syndications between banks are now more difficult to achieve.

The Division saw a dramatic improvement in the quality of business shown during the period. Bank credit committee processes are approving only the most high calibre transactions. Insurance wordings for this type of risk have also tightened significantly and premium rates are beginning to increase, with rate increases of up to three or four hundred per cent being observed for some types of risk.

Despite the growth in business volumes, there remain areas of global concern, notably South America where there have been government-led expropriations of business assets in Venezuela and Bolivia and soft commodity losses in Brazil. The Ukraine has also produced a number of banking defaults, which will take many months to resolve.

The improving underwriting conditions mean that the Division is optimistic about political risks written in 2009 and 2010. This will also facilitate a reduction in aggregate exposures in certain peak countries, such as the Russian Federation, without a reduction in income.

Chaucer Singapore

Chaucer Singapore provides dedicated capacity and local representation for the Asian market, offering tailored insurance solutions for regional clients, with the security of Chaucer and Lloyd's.

The energy account has focused on the renewal of existing accounts at favourable rates and the development of new business opportunities. Renewal business has proved challenging, but Chaucer Singapore has achieved rate rises on the majority of business and the account continues to outperform expectations.

Chaucer Singapore wrote a limited amount of hull and cargo business at the start of 2009, including renewals. As forecast, the current economic climate has reduced the number of construction risks.

Chaucer Singapore continues to support the Lloyd's Asia platform, with representation on the regional Oil and Gas Committee, which reports into the Lloyd's Rig Committee in London.

The Engineering/Power Specialist team, launched in the first quarter, has gained wide support from major markets such as Hong Kong, Thailand, Australia and Korea. However, the global economy slowdown has significantly reduced project developments throughout the region. This has provided the opportunity for the Singapore team to selectively take over an engineering run-off portfolio on preferential terms, providing balance to the Group's engineering portfolio. The Singapore team is on target for the 2009 plan.

Asia has not seen the rate rises experienced in Europe and the United States for financial institutions business and hence establishing Chaucer Singapore as a preferred destination for regional clients, while maintaining terms and conditions, has proved challenging. However, the Singapore team continue to see accounts from the region, with particular support in Malaysia, Hong Kong, South Korea and Singapore. The second quarter saw many more submissions that fitted the target portfolio and with signs of improving conditions in some territories, Chaucer Singapore expects business volumes to improve significantly in the second half of 2009.

Energy



Key Figures	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Gross written premiums	94.6	58.8
Gross written premiums by major class		
Energy construction	29.7	18.5
Energy liability	3.4	2.1
Exploration and production	58.5	36.3
Other	3.0	1.9
Net earned premiums	57.7	31.1
Underwriting profit/(loss) (before investment return)	12.5	(8.0)
	%	%
Claims ratio	35.3	79.7
Expense ratio	43.0	46.0
Combined ratio	78.3	125.7

The performance of the Energy Division improved considerably during the first half of 2009, with rate increases and reduced claims activity. Premium income was £94.6m (30 June 2008 £58.8m). The combined ratio decreased to 78.3% (30 June 2008 125.7%). This included a release of prior year best estimate ultimate claims reserves of 9.7%, primarily in relation to the energy construction account, where claims provisions have settled significantly under budget.

The period posed two specific challenges for the Division: the de-risking of its Gulf of Mexico windstorm exposures and the establishment of the casualty class in a lead capacity.

The Division has successfully reduced hurricane exposures while maintaining close relationships with key clients and broking houses. The new casualty account has performed well, with the quality of business offered and the income achieved exceeding original expectations. Being able to offer a technical lead in this challenging sector has placed the Energy team at the forefront in the Lloyd's market.

All lines of business showed good rate increases through to the important 1 July renewal portfolio, with Chaucer Singapore continuing to demonstrate the importance of a leadership position in a developing market.

With the price of crude oil recovering during the period, the decline in drilling and construction activity has slowed less than forecast at the end of 2008. This has helped maintain asset values and allowed the Division to improve the price of static, rather than falling, production schedules, generating significantly better premium volumes than originally planned.

In July 2009, the Division launched a new venture in Houston for the dedicated underwriting of selected operators' extra expense policies. This will enable the Energy team to compete for attractive low limit/low loss frequency policies, which the US domestic market usually retains.

Aviation



Key Figures		30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Gross written premiums		21.4	14.3
Gross written premiums by major class	Refuellers and products	4.3	2.9
	Hull and liability	17.1	11.4
Net earned premiums		15.1	11.7
Underwriting profit (before investment return)		2.1	0.9
		%	%
Claims ratio		45.7	59.0
Expense ratio		40.4	33.3
Combined ratio		86.1	92.3

Aviation Division income increased to £21.4m (30 June 2008 £14.3m) in response to improving market conditions. The combined ratio remained low at 86.1% (30 June 2008 92.3%).

After two years of gross losses for the airline market, the outlook for 2009 is more positive. In response, the Division has broadened its participations in this area following modest improvements in the rating environment. This process will continue, with rates now strengthening following market losses, notably the Air France Airbus. The underwriting risk profile will change little in this area, continuing to avoid the majority of the major carriers or groups because of their significant insurance purchasing power.

Elsewhere, the general aviation account remains stable, with the majority of rate increases on loss making accounts. There is significant downward pressure on corporate craft rates, although the Division has only a limited involvement in this area, believing that the potential returns from this business do not match the inherent risks.

Airports and products business continues to be under pressure as overcapacity continues to drive rates downward.

Overall, while rating improvements will continue, the Division expects over-capacity and the threat of new entrants to the aviation market to limit the benefits of this.

Property



Key Figures		30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Gross written premiums		136.2	97.0
Gross written premiums by major class			
	Delegated authorities	21.5	19.8
	Facultative property	26.3	20.1
	Property treaty	73.3	39.6
	Miscellaneous short tail	7.8	11.1
	Engineering	7.3	6.4
Net earned premiums		72.4	53.3
Underwriting profit (before investment return)		12.3	1.7
		%	%
Claims ratio		45.0	56.7
Expense ratio		38.0	40.1
Combined ratio		83.0	96.8

The Property Division had a positive start to 2009, with increased income, further geographical diversification of the portfolio and both low loss frequency and severity. Gross written premium income rose to £136.2m (June 2008 £97m), while the combined ratio fell to 83% (30 June 2008 96.8%). The underwriting profit increased significantly to £12.3m (30 June 2008 £1.7m).

Forecasts that 2008 would mark the trough of the market cycle have proved accurate and the Division has achieved modest improvements in terms and conditions in most classes, with no business units showing reductions. As 2009 has progressed, rates have continued to rise.

The weakness of sterling against the dollar has had a significant impact on the Division's 2009 business plan, with capacity constraints leading a drive to improve the quality and diversity of the underwriting portfolio. The Division believes that the current balance between US and international business is acceptable, but continues to build towards a portfolio where US catastrophe activity has a limited impact on overall results.

The US Treaty team has reassessed further risk attachment points and has sought to move further up catastrophe-exposed programmes where possible. The International Treaty team's portfolio continues to grow successfully as new opportunities in areas including Africa and Australia emerge.

In April 2009, a senior underwriter, Andrew Richardson, joined the Division to head the US Facultative team, leading to a re-writing of the account to direct greater focus on the avoidance of catastrophe losses, raised attachment points and a more selective renewal policy. The International Facultative team continues to produce excellent results. While rate improvements have been slow to materialise, brokers have only rarely sought significant term reductions.

The London Engineering team, both treaty and facultative, continues to perform well and is growing its reputation as a leading and quoting market for excess of loss treaty placements. The recruitment of a new Engineering/Operational Power underwriter at Chaucer Singapore, Margaret To, has both diversified the engineering account and the Division's underwriting portfolio as a whole by introducing business from non-catastrophe exposed Asian territories.

The Division's binding authority account provides underwriting diversification. The focus remains on profitable international opportunities to offset the developed North American account. Original terms in the US have been slow to change, but the Division remains confident that as 2009 develops, rates will begin to increase as capacity restrictions begin to affect the market.

The Division has made a good start and, buoyed by an excellent business balance, enters the 2009 hurricane season confident of further good progress.

Chaucer Underwriting A/S

Because of an underwriting philosophy that avoids frequency-prone lower layers, the European property account performed well, avoiding the majority of the period's large European market losses, notably winter windstorm Klaus in France and the summer floods in Austria, Czech Republic and Poland.

In response to the financial markets turmoil, Chaucer Underwriting A/S has witnessed an increased focus on technical pricing, especially on catastrophe lines. In 2010, the European property account should benefit from both general rate strengthening and further security flight to quality, following many company downgrades, and the increasing profile of Lloyd's and Chaucer in Europe.

Net of currency fluctuations, property catastrophe rates in Europe increased by an average 5% during the 1 January renewal season and should continue to strengthen into 2010. Prices within the per-risk portfolio remain weak but should tighten for the 2010 renewal season.

The worldwide life, accident and health catastrophe account continues to develop successfully. Chaucer Underwriting A/S is building a diversified book of international risks, actively quoting and leading new risks to improve those presented for selection. The market remains profitable but competitive following an eight-year absence of major losses.

Specialist Lines



Key Figures		30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Gross written premiums		35.6	19.5
Gross written premiums by major class	Medical	8.8	6.3
	Financial institutions	9.9	6.1
	D&O/E&O	5.0	3.7
	Occurrence	11.7	3.2
	Other	0.2	0.2
Net earned premiums		26.2	17.9
Underwriting profit (before investment return)		3.1	2.8
		%	%
Claims ratio		56.1	43.6
Expense ratio		32.1	40.8
Combined ratio		88.2	84.4

The Specialist Lines Division continues to focus on five core classes: medical malpractice (including hospitals), professional liability, financial crime, workers compensation and general casualty treaty business.

Income increased to £35.6m (30 June 2008 £19.5m) and the Division recorded an increased underwriting profit before investment income of £3.1m (30 June 2008 £2.8m). The combined ratio was 88.2% (30 June 2008 84.4%), benefitting from the continued favourable run off of prior year best estimate ultimate claims reserves.

There are two key drivers behind the income growth. First, the Division's ability to take advantage of the positive market conditions within the financial institutions classes. The losses arising from the global financial market turbulence have adversely affected this market. Second, the successful implementation of a plan to diversify business overseas and the recruitment of additional market leading underwriters as part of this. Because of the diligent progress made by the new international casualty treaty underwriting team, the Division forecasts income and ultimate loss ratios for this class to develop as planned.

Away from these specific growth areas, terms and conditions continue to deteriorate, with further rate decreases in medical malpractice and sub-inflationary increases in the majority of other areas. In line with the Division's commitment to underwriting discipline and pricing integrity, original currency volumes are decreasing in those areas where underwriting margins are eroding. However, the impact of a weaker pound will mitigate this effect of reduced volumes in reported results. The Division continues to track price adequacy on a contract by contract basis.

Across the entire portfolio, the Division continues to encounter a discernible increase in demand for Lloyd's and Chaucer security. Concerns over the security of other underwriters, coupled with Lloyd's stability and Chaucer's reputation, and the Division's increased profile within its chosen classes has prompted both an increased flow of enquiries and preferential signings. As competition begins to recede because of market losses and capital constraints, the Division is well-positioned to take advantage and believes that the prospects are good for the remainder of 2009 and into 2010 as income volumes and underwriting returns continue to build.

Nuclear



Key Figures	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Gross written premiums	11.7	10.8
Net earned premiums	6.9	6.5
Underwriting profit (before investment return)	4.7	4.1
	%	%
Claims ratio	15.9	26.2
Expense ratio	16.0	10.7
Combined ratio	31.9	36.9

Nuclear Syndicate 1176 provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation. The Syndicate also issues a limited liability policy with proven strict terms and restrictions. The Syndicate purchases excess of loss reinsurance to limit maximum exposure to a major incident to 200% of capacity.

The Syndicate, which has an underwriting capacity of £31.5m (2008 £27.5m), saw little change in net income during the period. The loss record remained favourable, supporting broadly stable rates across the portfolio. The combined ratio was 31.9% (30 June 2008 36.9%).

Third Party Syndicate Management



The Group's third party syndicate management service provides a practical solution for investors that want a Lloyd's syndicate but do not wish to incur the additional costs of a standalone managing agency. This allows the new syndicate to focus on building the underwriting business.

The Group works closely with the investor and the new syndicate team to prepare the application to conduct business at Lloyd's and then to support the launch of the syndicate. The Group also provides the syndicate with managing agency and other services. Once the syndicate is live, the Group closely monitors its underwriting performance for investors.

Of the Group's total syndicate capacity under management of £1,009.3m (2008 £839.5m) at the end of the period, some £428.7m (2008 £319.7m) was for third party capital providers on five syndicates. This generated a total income of £2.6m from

syndicate management in the period (30 June 2008 £2.4m), included within Other Operating Income of £5.5m (30 June 2008 £4.3m).

Syndicate 4242

In addition to management services, the Group provides capital to support the underwriting capacity on US property catastrophe ICM Syndicate 4242.

The Group's share of the Syndicate's underwriting profit of £0.7m (30 June 2008 £0.1m loss) reflects significantly reduced weather-related losses in the United States during the first half of 2009. The Group has an underwriting interest of £11.3m for the 2009 year of account (2008 £11.3m).

Table 5 provides a summary of the Group's share of the underwriting performance of Syndicate 4242.

	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Table 5 - Syndicate 4242		
Gross written premiums	5.9	4.5
Net earned premiums ¹	1.1	0.8
Underwriting profit/(loss) (before investment return) ¹	0.7	(0.1)
	%	%
Claims ratio	(45.5)	40.6
Best estimate (current year)	30.6	32.4
Best estimate (prior years)	(57.9)	(2.9)
Reserve risk loading (current year)	8.8	16.3
Reserve risk loading (prior years)	(27.0)	(5.2)
Expense ratio	81.9	75.4
Acquisition costs	52.8	50.8
Other expenses	29.1	24.6
Combined ratio	36.4	116.0
Combined ratio (excluding prior years)	121.3	124.1

¹ Net earned premiums and underwriting profit/(loss) exclude the impact of foreign exchange on non-monetary items.

Syndicate 1274

The Group underwrites on Syndicate 1274 through a £17m investment in Antares Holdings Limited, a Bermudian-based holding company established by industry investors, to provide capital for the Syndicate. The Syndicate, which has an underwriting capacity of £165.2m for 2009 (2008 £135.4m), has completed a satisfactory six months.

Syndicate 4000

Following the purchase of the remaining outside interests in Syndicate 4000 for a nominal consideration in 2008, the Group provides the capital to support the entire underwriting capacity (£73m) of Syndicate 4000 for the 2008 and 2007 open years of account. In the normal course of events, the Group intends to close the final open year into Syndicate 1084.

Table 6 provides a summary of the Group's share of the underwriting performance of Syndicate 4000.

The 2005 and 2006 years have developed well since completion, giving rise to £5.5m of net reserve releases in the first half of 2009. However, the Group continues to adopt a more pessimistic view of emerging claims experience for the 2007 and 2008 years of account, following the intensification of financial market turbulence in 2008. Reserve risk loadings, including those released on prior years, have continued to absorb the majority of this experience and, consequently, the Syndicate has made a small negative contribution to the 30 June 2009 underwriting result.

While the ultimate loss resulting from the global financial crisis cannot yet accurately be determined, the Group believes the levels of technical provisions held for anticipated claims to be adequate. Syndicate 4000's net IBNR provisions amounted to £79m as at 30 June 2009 (31 December 2008 £81.1m), which includes significant loadings retained by the Group as a buffer against possible future best estimate reserve deterioration.

	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Table 6 - Syndicate 4000		
Gross written premiums	3.7	26.9
Net earned premiums ¹	19.6	21.3
Underwriting (loss)/profit (before investment return) ¹	(3.5)	5.0
	%	%
Claims ratio	80.6	40.4
Best estimate (current year)	86.2	39.4
Best estimate (prior years)	(33.9)	(2.1)
Reserve risk loading (current year)	19.0	22.2
Reserve risk loading (prior years)	9.3	(19.1)
Expense ratio	37.3	35.2
Acquisition costs	28.9	21.8
Other expenses	8.4	13.4
Combined ratio	117.9	75.6
Combined ratio (excluding prior years)	142.5	96.8

¹ Net earned premiums and underwriting profit/(loss) exclude the impact of foreign exchange on non-monetary items.

Investment performance and outlook

As previously announced, the Group significantly de-risked its investment portfolio during the period, realising healthy gains from the disposal of hedge fund and absolute bond portfolio participations. The Group achieved a net investment return of £34.6m (a 2.7% return on average funds) for the first half of 2009 (30 June 2008 £1.5m; 0.2%). The return for July 2009 was also positive at 0.4%. The return for the first seven months of the year was £39.3m or 3.1%.

Table 7 summarises the performance of the current portfolio and of liquidated assets for the period.

The Group held total financial investments (excluding the investment in Antares), cash and deposits of £1,269.8m at 30 June 2009 (31 December 2008 £1,202.5m). These assets support Funds at Lloyd's of £359.2m (31 December 2008 £263.7m) and syndicate technical reserves of £886.5m (31 December 2008 £899m). The remainder comprises £5m of collateral for an LOC (31 December 2008 £5m) and working capital of £19.1m (31 December 2008 £34.8m).

Table 8 provides an analysis of investments, cash and deposits held at 30 June 2009 and of the net investment return for the period.

	Value £m	30 June 2009 (unaudited) Income £m
Table 7 - Investment Performance		
Current portfolio		
Equities	4.5	-
Hedge funds	64.7	4.2
Bonds	386.5	11.5
Cash and deposits	814.1	3.3
	1,269.8	19.0
Liquidated assets		
Equities		(0.1)
Hedge funds		6.5
Absolute return bond funds		9.5
		15.9
Investment expenses		(0.3)
Net investment return		34.6

	30 June 2009 (unaudited)			30 June 2008 (unaudited)			31 December 2008 (audited)		
	Value £m	Income £m	Return %	Value £m	Income £m	Return %	Value £m	Income £m	Return %
Table 8 - Investment Portfolio									
Equities	4.5	(0.1)	(2.4)	73.1	(11.1)	(12.4)	6.0	(31.9)	(38.7)
Hedge funds	64.7	10.7	10.7	122.9	(0.7)	(0.9)	154.7	(30.4)	(27.0)
Absolute return bond funds	-	9.5	2.9	384.6	5.9	1.9	332.6	(17.3)	(4.5)
Bonds	386.5	11.5	2.4	179.1	2.5	2.0	248.1	(3.5)	-
Cash and deposits	814.1	3.3	0.5	282.0	5.2	2.6	461.1	12.4	4.3
	1,269.8	34.9	2.7	1,041.7	1.8	0.2	1,202.5	(70.7)	(6.8)
Investment expenses		(0.3)			(0.3)			(0.3)	
Net investment return		34.6			1.5			(71.0)	
Asset allocation	%			%			%		
Equities	-			7			-		
Hedge funds	5			12			13		
Absolute return bond funds	-			37			28		
Bonds	31			17			21		
Cash and deposits	64			27			38		
	100			100			100		

Absolute return bond funds

As previously announced, in January 2009, the Group disposed of its remaining holdings of absolute return bond funds, realising a total gain of £9.5m.

Hedge funds

Hedge fund holdings generated a total return of £10.7m or 10.7% during the first half of 2009.

Hedge fund performance improved during the period as financial market volatility reduced, liquidity improved and investors placed greater emphasis on the fundamental value of underlying securities. Table 9 summarises performance for hedge fund holdings by investment strategy.

As previously announced, the Group has now filed redemptions for all hedge fund participations to de-risk the investment portfolio.

The Group realised hedge funds with a value of £88.3m during the period, producing a gain of £6.5m on 2008 year-end values, and held funds with a value of £64.7m at 30 June 2009, of which £29.6m should redeem during the next six months. The remaining hedge fund holdings of £35.1m are subject to restricted or longer redemption terms, but all holdings should redeem during 2010 and 2011.

Table 10 provides a summary of hedge fund participations held at 30 June 2009.

Table 9 - Hedge Fund Income	£m	30 June 2009 (unaudited) Return %
Fund of funds	2.2	5.1
Equity long short	1.7	7.8
Fixed income	6.8	18.8
	10.7	10.7

Table 10 - Hedge Fund Redemption	Expected final redemption date	30 June 2009 (unaudited) Value £m
Normal redemption		
Fund of funds	30 September 2009	22.6
Fund of funds	31 March 2010	21.4
		44.0
Restricted redemption		
Fixed income	31 March 2010	8.6
Fixed income	31 March 2011	1.4
Emerging market debt	31 December 2011	4.6
Distressed debt	31 March 2011	6.1
		20.7
		64.7

Bonds

The portfolio performed satisfactorily during the period recording a positive return of 2.4%.

As **table 11** shows, at 30 June 2009, the majority of holdings were in investment grade bonds.

The average duration of the bond portfolio at 30 June 2009 was 1.1 years (31 December 2008 1 year). The weighted average yield to maturity of the bond portfolio was 3% (31 December 2008 4.3%).

Cash and deposits

Returns remain more certain than for other asset classes but poor because of low interest rates in the United Kingdom and United States.

Equities

This comprises three listed, but relatively illiquid small cap securities, which will redeem over the next two years. The performance of these securities has been broadly consistent with that of equity markets in general.

Investment outlook

In order to take advantage of increasing underwriting opportunities in 2009 and 2010, the focus of the investment strategy is one of capital maintenance rather than earnings enhancement. In accordance with this, the Group continues to invest positive cash flows generated and the redemption proceeds from the sale of investments cautiously, with the majority of funds invested in short-duration money market funds, investment grade corporate bonds and government guaranteed bonds.

In light of this continued switch to lower risk investment classes, the Group anticipates that investment returns will be modest during the remainder of 2009.

Taxation

The Group's tax payments should reduce considerably in 2009 and 2010 because of the utilisation of tax losses arising in 2008.

The Group expects its effective tax rate to remain at or close to the current standard UK corporation tax rate of 28% for the foreseeable future, although the availability for tax purposes of equalisation reserves, as announced in the Finance Act 2009, should also reduce our tax payments in the future. However, until the publication of detailed proposals by HMRC, the Group remains unable to determine the full impact.

	Credit rating					Total £m
	AAA ¹ £m	AA £m	A £m	BBB £m	Other ² £m	
Government	130.3	-	-	-	-	130.3
Supranational	6.4	-	-	-	-	6.4
Agency	11.8	10.0	-	-	-	21.8
Corporate	62.1	58.3	33.8	0.6	1.0	155.8
Commercial mortgage backed securities	24.7	-	-	-	-	24.7
Asset backed securities	22.4	2.3	1.8	1.2	-	27.7
Retail mortgage backed securities	14.3	2.1	0.5	1.9	1.0	19.8
	272.0	72.7	36.1	3.7	2.0	386.5

1 AAA rated corporate include government guaranteed bank debt.

2 Other comprises BAFC 06-07 A1 (£0.8m; rating B), Lehman Brothers Holdings (£0.2m; not rated), UBS PFD (£0.8m; rating BB) and Washington Mutual Pass Thru (£0.2m; rating BB).

Underwriting capital

The Group's total underwriting interests, including those on Syndicate 4242, are £580.6m for 2009 (2008 £519.8m). Solvency capital at an economic ratio of 48.1% supports this capacity (2008 47.3%), against a Lloyd's minimum of 40%.

The Group deposits the capital as Funds at Lloyd's (FAL). Table 12 shows the FAL composition for 2009.

The Group's solvency capital is a mix of equities, bonds, cash and deposits, plus a £56m letter of credit (LOC) facility provided by Lloyds TSB Bank plc. At 30 June 2009, £5m of the LOC facility

was collateralised (31 December 2008 £5m). As mentioned in note 15 to the Interim Financial Statements, during 2009 the Group signed a reinsurance agreement, the impact of which is reflected in these interim statements. Under the terms of the agreement a US\$28.8m letter of credit was made available to support the Group's FAL position.

After provision of £139.5m for open year losses, at 30 June 2009 the Group held total cash and investments in Funds at Lloyd's of £359.2m to support the 2009 year of account. This represents a solvency surplus of £55.9m over the 2009 requirements of £303.3m.

Table 12 - FAL Composition	Year of account	
	2009 £m	2008 £m
Chaucer underwriting interests	580.6	519.8
Reinsurance	50.0	25.0
Overall premium limit	630.6	544.8
FAL ratio (average)	48.1%	47.3%
FAL requirement	303.3	257.7
Funding of open year of account losses	139.5	38.4
Total FAL requirement	442.8	296.1
FAL requirement satisfied by:		
Investments	138.4	118.8
Personal reserves	220.8	80.2
Letters of credit:		
Group economic interest	56.0	56.0
Capital provision reinsurers	35.6	15.6
Credit from Lloyd's for undistributed profits	-	27.5
	450.8¹	298.1¹

¹ The excess over the FAL requirements in respect of the 2008 and 2009 years of account is due to revaluation of investments at the end of the period subsequent to meeting the FAL requirements.

Gearing

The Group's debt capital comprises a €12m (£9.9m) 30 year loan note issued in 2004 and US\$50m (£29.4m) of 30 year subordinated debt raised in September 2006 (sterling equivalents are on an amortised cost basis). These arrangements provide the Group with balance sheet gearing to enhance returns for shareholders while maintaining the current risk profile. The total financial gearing including loan notes, uncollateralised letters of credit and subordinated debt was £90.3m (30 June 2008 £85.2m) or 29.9% of shareholders' funds (30 June 2008 32.6%).

At 30 June 2009, the Group held cash resources outside of syndicates and FAL of £20.5m, including £5m of collateral (30 June 2008 £82.6m, including £5m of collateral) producing net debt of £74.8m (30 June 2008 £7.6m) and gearing of 24.8% (30 June 2008 2.9%).

Table 13 provides a gearing summary.

	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m
Table 13 - Gearing Analysis		
Debt		
On balance sheet	39.3	34.2
Off balance sheet (letters of credit)	56.0	56.0
Cash held outside Lloyd's	(5.0)	(5.0)
Free cash resources	(15.5)	(77.6)
Total net debt	74.8	7.6
Shareholders' equity	302.1	261.0
	%	%
Gross gearing (debt minus cash held outside Lloyd's, as a share of shareholders' equity)	29.9	32.6
Net gearing (net debt as a share of shareholders' equity)	24.8	2.9

The Directors confirm that to the best of our knowledge:

- The condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting;
- The Interim Report includes a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By Order of the Board



Ewen Gilmour
Chief Executive Officer



Ken Curtis
Interim Chief Financial Officer

27 August 2009

Interim Condensed Consolidated Income Statement for the six months ended 30 June 2009

		Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
	Notes			
Gross written premiums		491.1	404.0	741.0
Change in provision for gross unearned premiums		(117.4)	(70.5)	(57.8)
Gross earned premiums		373.7	333.5	683.2
Outward reinsurance premiums		(139.0)	(91.0)	(137.8)
Change in provision for unearned premiums – reinsurers' share		56.5	29.5	1.8
Net earned premiums	3	291.2	272.0	547.2
Net investment return	4	34.6	1.5	(71.0)
Other operating income	5	5.5	4.3	9.2
Total revenue from operations	3	331.3	277.8	485.4
Gross claims paid		(189.3)	(146.9)	(324.4)
Movement in gross technical provisions		(31.0)	(95.7)	(158.3)
Gross claims incurred		(220.3)	(242.6)	(482.7)
Reinsurers' share of gross claims paid		34.5	33.5	71.9
Movement in reinsurers' share of technical provisions		9.0	22.8	46.4
Reinsurers' share of claims incurred		43.5	56.3	118.3
Net claims incurred	3	(176.8)	(186.3)	(364.4)
Expenses incurred in insurance activities	6	(118.6)	(75.4)	(132.6)
Other operating expenses	3	(17.0)	(10.5)	(18.4)
Total operating charges		(312.4)	(272.2)	(515.4)
Profit/(loss) from operations	3	18.9	5.6	(30.0)
Finance costs		(1.9)	(1.7)	(4.0)
Other income from sale of subsidiary		-	-	14.7
Goodwill write-off		-	-	(6.9)
Profit/(loss) before tax		17.0	3.9	(26.2)
Income tax (expense)/credit	7	(5.1)	(1.1)	7.3
Profit/(loss) for the period		11.9	2.8	(18.9)
Attributable to:				
Equity holders of the company		11.9	2.7	(19.0)
Minority interests		-	0.1	0.1
		11.9	2.8	(18.9)
Dividends paid or declared	14	11.8	11.6	17.3
Earnings per share				
Basic	8	2.7p	0.8p	(6.0)p
Diluted	8	2.6p	0.8p	(6.0)p

All operations are continuing.

Interim Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2009

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Defined benefit pension scheme-actuarial losses for the period	(3.1)	(6.5)	(8.6)
Deferred tax credit on actuarial losses	0.9	1.8	2.4
Net expense recognised directly in other comprehensive income	(2.2)	(4.7)	(6.2)
Profit/(loss) for the period	11.9	2.8	(18.9)
Total comprehensive income for the period	9.7	(1.9)	(25.1)
Attributable to:			
Equity holders of the parent company	9.7	(2.0)	(25.2)
Minority interests	-	0.1	0.1
	9.7	(1.9)	(25.1)

Interim Condensed Consolidated Statement of Changes of Equity for the six months ended 30 June 2009

	Called up share capital £m	Own shares £m	Share premium account £m	Equity element of convertible loan £m	Bonus reserve £m	Warrant reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
At 1 January 2009	87.0	(31.5)	66.0	-	20.8	-	83.2	-	225.5
Total comprehensive income	-	-	-	-	-	-	9.7	-	9.7
Shares issued	50.0	-	24.9	-	-	-	-	-	74.9
Dividends paid or declared	-	-	-	-	-	-	(11.8)	-	(11.8)
Investments in own shares	-	(0.2)	-	-	0.2	-	-	-	-
Share option costs	-	-	-	-	0.1	-	-	-	0.1
Cost of shares and share options exercise	-	0.4	-	-	(0.3)	-	-	-	0.1
Bonus costs deferred share bonus plan	-	-	-	-	3.6	-	-	-	3.6
At 30 June 2009 (unaudited)	137.0	(31.3)	90.9	-	24.4	-	81.1	-	302.1
At 1 January 2008	86.3	(11.8)	65.7	0.1	16.0	1.9	124.0	0.4	282.6
Total comprehensive income	-	-	-	-	-	-	(2.0)	0.1	(1.9)
Shares issued	0.4	-	0.1	-	-	-	-	-	0.5
Dividends paid or declared	-	-	-	-	-	-	(11.6)	-	(11.6)
Investments in own shares	-	(11.5)	-	-	-	-	-	-	(11.5)
Cost of share options exercise	-	-	-	-	-	-	(0.2)	-	(0.2)
Bonus share cost	-	-	-	-	3.6	-	-	-	3.6
Minority interest in dividends declared by subsidiary	-	-	-	-	-	-	-	(0.2)	(0.2)
Conversion of loan stock	-	-	-	(0.1)	-	-	0.1	-	-
At 30 June 2008 (unaudited)	86.7	(23.3)	65.8	-	19.6	1.9	110.3	0.3	261.3
At 1 January 2008	86.3	(11.8)	65.7	0.1	16.0	1.9	124.0	0.4	282.6
Total comprehensive income	-	-	-	-	-	-	(25.2)	0.1	(25.1)
Shares issued	0.7	-	0.3	-	-	-	-	-	1.0
Dividends paid or declared	-	-	-	-	-	-	(17.2)	-	(17.2)
Investments in own shares	-	(20.6)	-	-	0.5	-	-	-	(20.1)
Share option costs	-	-	-	-	0.1	-	-	-	0.1
Share incentive plan costs	-	-	-	-	0.4	-	-	-	0.4
Cost of shares and share options exercise	-	0.9	-	-	(0.8)	-	(0.4)	-	(0.3)
Bonus costs deferred share bonus plan	-	-	-	-	4.6	-	-	-	4.6
Minority interest in dividends declared by subsidiary	-	-	-	-	-	-	-	(0.2)	(0.2)
Sale of subsidiary	-	-	-	-	-	-	-	(0.3)	(0.3)
Warrant expiration	-	-	-	-	-	(1.9)	1.9	-	-
Conversion of loan stock	-	-	-	(0.1)	-	-	0.1	-	-
At 31 December 2008 (audited)	87.0	(31.5)	66.0	-	20.8	-	83.2	-	225.5

Interim Condensed Consolidated Balance Sheet at 30 June 2009

		30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m	31 December 2008 (audited) £m
	Notes			
Assets				
Intangible assets		32.1	39.0	32.1
Tangible fixed assets		8.6	9.1	8.7
Reinsurers' share of technical provisions		378.5	285.4	339.7
Deferred income tax		36.5	17.7	21.3
Deferred acquisition costs		99.3	77.9	76.5
Prepayments and accrued income		7.1	2.8	3.5
Trade and other receivables		241.8	220.3	259.1
Financial investments	9	515.9	804.8	798.7
Cash and cash equivalents	10	770.9	253.9	420.8
Total assets		2,090.7	1,710.9	1,960.4
Equity				
Share capital	11	137.0	86.7	87.0
Own shares		(31.3)	(23.3)	(31.5)
Share premium account		90.9	65.8	66.0
Bonus reserve		24.4	19.6	20.8
Warrant reserves		-	1.9	-
Retained earnings		81.1	110.3	83.2
Total equity attributable to equity holders		302.1	261.0	225.5
Minority interests		-	0.3	-
Total equity		302.1	261.3	225.5
Liabilities				
Subordinated debt		39.3	33.7	45.1
Employee benefits provision		12.5	8.1	9.4
Technical provisions		1,562.3	1,228.4	1,508.9
Convertible loan stock		-	0.5	-
Current tax liability		17.5	19.6	4.8
Accruals and deferred income		13.4	10.4	12.7
Trade and other payables		143.6	148.9	154.0
Total liabilities		1,788.6	1,449.6	1,734.9
Total liabilities and shareholders' funds		2,090.7	1,710.9	1,960.4
Net asset value per ordinary share	12	59.3p	81.9p	72.9p
Net tangible asset value per ordinary share	12	53.0p	69.7p	62.5p

Interim Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Cash flows from operating activities				
Cash generated from operations	13	(54.5)	71.2	328.2
Interest paid		(2.1)	(1.8)	(4.1)
Return on financial investments		3.7	10.0	(53.5)
Tax paid		(6.7)	(10.6)	(19.9)
Net cash from operating activities		(59.6)	68.8	250.7
Cash flows from investing activities				
Net cash acquired upon acquisition of subsidiary		-	16.6	16.6
Purchases less sales of financial investments		313.7	12.5	9.6
Purchase of tangible fixed assets		(0.7)	(0.3)	(1.0)
Purchase of own shares		-	(11.5)	(20.1)
Sale of subsidiary		-	-	15.3
Net cash from investing activities		313.0	17.3	20.4
Cash flows from financing activities				
Shares issued, net of expenses		74.9	-	-
Dividends paid to minority interests of subsidiary		-	(0.1)	-
Dividends paid		(11.8)	(11.6)	(17.3)
Net cash from financing activities		63.1	(11.7)	(17.3)
Net increase in cash and cash equivalents		316.5	74.4	253.8
Cash and cash equivalents at period beginning		420.8	179.0	179.0
Changes due to changes in rates of exchange		33.6	0.5	(12.0)
Cash and cash equivalents at period end	10	770.9	253.9	420.8

1. Basis of preparation

(A) ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2008.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Group prepares annual financial statements in accordance with International Financial Reporting Standards adopted for use by the EU. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of new standards or interpretations as of 1 January 2009, noted below:

- IFRS 8 Operating Segments – This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in note 3.
- IAS 1 Revised Presentation of Financial Statements – The revised standard separates owner and non-owner changes to equity. The Group has introduced an Interim Condensed Consolidated Statement of Changes in Equity, which includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the Statement of Comprehensive Income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.
- IAS 23 Borrowing Costs (Revised) – The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the standard, this has been adopted as a prospective change. Therefore borrowing costs will be capitalised on qualifying assets with a commencement date on or after 1 January 2009. No such borrowing costs have been incurred to date and no changes have been made for borrowing costs incurred prior to this date.
- IFRS 7 Financial Instruments: Disclosures – The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Group will provide full disclosures for the first time in its year-end financial statements.

The Group has also adopted the following standards, amendments to standards and interpretations, which are effective for periods starting on or after the dates below, with no significant implications in the Financial Statements:

- Amendments to IFRS 2 Share-based Payment (1 January 2009)
- Amendments to IAS 32 Financial Instruments – Presentation and IAS 1 Presentation of financial statements - Puttable Financial Instruments and Obligations Arising on Liquidation (1 January 2009)
- IFRIC 13 Customer Loyalty Programmes (1 July 2008)
- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and measurement (30 June 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (1 October 2008)

In May 2008, the International Accounting Standards Board (IASB) issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 23 Borrowing Costs

- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities
- IFRS 5 Non-current Assets held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance
- IAS 28 Investments and Associates
- IAS 31 Interest in Joint Ventures
- IAS 36 Impairment of Assets
- IAS 39 Financial Instruments: Recognition and Measurement

(B) STATUS OF THE INTERIM STATEMENT

The Group's Auditors, Ernst & Young LLP, reviewed the interim condensed financial statements for the six month periods ended 30 June 2009 and 30 June 2008 and this document includes their report on the statements for the six months to 30 June 2009. The interim condensed consolidated statement does not constitute statutory financial statements as defined in section 240 of the Companies Act 1985 or section 435 of the Companies Act 2006. Ernst & Young LLP have not audited the statements for the two interim periods.

The results for the year ended 31 December 2008 are based on the statutory group financial statements which received an unqualified audit opinion under section 235 and did not contain a statement under section 237 (2) or (3) of the Act. The Group delivered the 2008 consolidated financial statements to the Registrar of Companies on 28 April 2009.

The Board of Directors approved the unaudited interim condensed consolidated financial statements on 26 August 2009.

(C) SEASONALITY OF RESULTS

The Group operates in various geographical locations and underwrites in a diverse range of underwriting classes. As a result, the Group may be exposed to a seasonal pattern in the incidence of claims. This is more evident in the risks underwritten in the North American region, where, historically, the Group's exposure to losses resulting from major windstorms has been greater during the second half of the year. Consequently, there is potential for greater volatility in the Group's returns during the second half of 2009.

2. Principal risks and uncertainties

The risks and uncertainties affecting the Group's operations in 2009 are largely consistent with those disclosed in notes 2 and 3 to the 2008 consolidated financial statements. These risks are summarised as follows:

- Underwriting risk
- Reinsurance risk
- Credit risk
- Reserving risk
- Interest rate risk
- Currency risk
- Equity risk
- Liquidity risk

3. Segmental information

The Board of Directors, the Chief Decision Maker, monitors the operating results of each of the divisions below for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is measured differently from operating profit or loss in the consolidated financial statements, as a result of the exclusion from divisional results of the foreign exchange impact on non monetary assets and liabilities. The exclusion is necessary in order to eliminate the volatility in our results created by the imbalance in the valuation of non-monetary balance sheet items (translated at historic rates) and the translation of monetary balances at closing rates.

In addition, the divisional analysis excludes the effect of premiums and reserves relating to the reinsurance to close (RITC) of third party syndicates into Syndicate 1084 and the Group's increased ownership of the RITC of Syndicates 1084 and 1176 following the closure of their 2006 years of accounts.

Details about the divisions referred to below are as follows:

- UK – The division specialises in the private car and fleet market, supplying high quality and flexible motor insurance solutions to policyholders countrywide. Both standard and non-standard private car business is available from a source of approximately 3,000 non-Lloyd's brokers and intermediaries. In addition, the division writes specialist classes including commercial vehicle, taxi, motorcycle, motor trade and classic/specialist vehicles, along with other UK small commercial products.
- Marine – The division underwrites a conventional marine account that encompasses hull, excess of loss, liability, cargo and specie. It also underwrites political risk, war and satellite business.
- Energy – The division underwrites a broad energy portfolio encompassing exploration & production, construction, liabilities, downstream and renewables. The coverage offered includes physical damage, business interruption, control of well, seepage and pollution and liabilities. The division also writes energy insurance through the Group's offices in Singapore and Denmark.
- Aviation – The division underwrites a worldwide aviation account including coverage in the following areas: aircraft (including airline), hull and liability, aircraft hull deductible, contingent hull and liability for banks and leasing companies, products liability, airport liability and non-owned aircraft liability.
- Property – The division underwrites a worldwide direct, facultative and treaty property account, which incorporates homeowners, commercial, auto and industrial business. The division writes this through binding authorities and on an open market basis at the Box at Lloyd's.

The property treaty account comprises mainly catastrophe and per risk excess acceptances, with a small amount of proportional treaty and reinsurance assumed business. The account primarily protects indigenous writers but also contains a worldwide element.

In addition, the division includes a non-marine reinsurance book through Chaucer Underwriting A/S, based in Copenhagen, Denmark.

- Specialist Lines – The division comprises financial institutions and professional indemnity, institutional healthcare, miscellaneous short tail and general casualty and claims made. The financial institutions and professional indemnity account focuses on small to medium sized institutions worldwide, with business domiciled in the United Kingdom and Europe providing 40% of forecast premium income. The division also has a leading position in the underwriting of liability exposures for healthcare institutions.
- Nuclear – The division, which underwrites through Nuclear Syndicate 1176, is a leading insurer of nuclear risk. The Syndicate provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation at nuclear power stations. In addition to providing coverage for physical damage loss to civil nuclear power stations, the Syndicate provides a limited liability policy with proven strict terms and restrictions.

The following table is used to calculate the loss ratios disclosed in the 'Divisional performance' section of this Report.

Six months ended 30 June 2009 (unaudited)	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist		Syndicate	Run Off ² £m	Total (excluding Other and Eliminations) £m	Eliminations £m	Other ³ £m	Total £m
						Lines £m	Nuclear £m	Participations ¹ £m					
Adjusted gross written premiums	82.9	99.0	94.6	21.4	136.2	35.6	11.7	9.6	-	491.0	-	-	491.0
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Unadjusted gross written premiums⁵	82.9	99.0	94.6	21.4	136.2	35.6	11.8	9.6	-	491.1	-	-	491.1
Adjusted net earned premiums	66.2	64.7	57.7	15.1	72.4	26.2	6.9	20.7	0.3	330.2	-	(19.5)	310.7
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Foreign exchange on non-monetary items	-	(4.5)	(5.9)	(1.3)	(5.2)	(1.6)	-	(2.1)	-	(20.6)	-	1.0	(19.6)
Unadjusted net earned premiums⁵	66.2	60.2	51.8	13.8	67.2	24.6	7.0	18.6	0.3	309.7	-	(18.5)	291.2
Net investment return	4.3	4.1	5.7	1.3	6.5	2.9	0.2	0.6	4.1	29.7	-	4.9	34.6
Other operating income	-	-	-	-	-	-	-	-	-	-	(6.4)	11.9	5.5
Total revenue from operations	70.5	64.3	57.5	15.1	73.7	27.5	7.2	19.2	4.4	339.4	(6.4)	(1.7)	331.3
Adjusted net incurred claims													
Best estimate (current year) ⁶	(51.4)	(40.0)	(25.5)	(9.5)	(30.9)	(22.8)	(1.0)	(17.2)	-	(198.3)	-	11.4	(186.9)
Best estimate (prior years) ⁶	(1.5)	(0.6)	5.6	2.6	(1.8)	9.4	0.1	7.2	1.2	22.2	-	(1.1)	21.1
Loadings (current year) ⁶	(0.2)	(0.2)	(1.1)	-	2.0	(0.7)	(0.6)	(3.8)	-	(4.6)	-	(0.1)	(4.7)
Loadings (prior years) ⁶	-	(2.0)	0.6	-	(1.9)	(0.6)	0.4	(1.5)	(1.4)	(6.4)	-	0.2	(6.2)
RITC	-	-	-	-	-	-	(0.1)	-	-	(0.1)	-	-	(0.1)
Unadjusted net incurred claims⁵	(53.1)	(42.8)	(20.4)	(6.9)	(32.6)	(14.7)	(1.2)	(15.3)	(0.2)	(187.2)	-	10.4	(176.8)
Adjusted net expenses incurred in insurance activities													
Acquisition costs	(13.8)	(18.0)	(22.3)	(4.1)	(19.1)	(6.1)	(0.3)	(6.3)	-	(90.0)	-	5.5	(84.5)
Other expenses	(4.3)	(2.5)	(2.5)	(2.0)	(8.4)	(2.3)	(0.8)	(1.9)	0.2	(24.5)	2.7	3.7	(18.1)
Foreign exchange on non-monetary items	-	(4.2)	(4.9)	(0.9)	(4.3)	(2.1)	(0.1)	(0.7)	-	(17.2)	-	1.2	(16.0)
Unadjusted net expenses incurred in insurance activities	(18.1)	(24.7)	(29.7)	(7.0)	(31.8)	(10.5)	(1.2)	(8.9)	0.2	(131.7)	2.7	10.4	(118.6)
Recharges from managing agency ⁴	(0.9)	(0.5)	(0.6)	(0.1)	(0.9)	(0.2)	(0.9)	-	-	(4.1)	4.1	-	-
Actual expenses transferred from managing agency	0.6	0.5	0.3	0.2	0.7	0.3	0.4	-	-	3.0	(3.0)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	2.6	(19.6)	(17.0)
Total operating charges	(71.5)	(67.5)	(50.4)	(13.8)	(64.6)	(25.1)	(2.9)	(24.2)	-	(320.0)	6.4	1.2	(312.4)
(Loss)/profit from operations	(1.0)	(3.2)	7.1	1.3	9.1	2.4	4.3	(5.0)	4.4	19.4	-	(0.5)	18.9
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(1.9)	(1.9)
Profit before tax	(1.0)	(3.2)	7.1	1.3	9.1	2.4	4.3	(5.0)	4.4	19.4	-	(2.4)	17.0

1 'Syndicate Participations' comprises the results of Group participations on Syndicates 4000 and 4242.

2 'Run Off' comprises the results of Syndicates 1229, 1204, 1224 and 1245 that have closed into Syndicate 1084.

3 'Other' represents other corporate income and expense items, and the capital provision reinsurance contracts in two of Chaucer's corporate members, plus bid defence fees of £2.6m.

4 The elimination of net expenses incurred in insurance activities includes mainly recharges of a portion of the defined benefit pension scheme deficit from the managing agency to Syndicate 1084. The portion recharged represents the contributions. The recharges from managing agency include the profit commissions, managing agency fees and rent invoiced by the managing agency to Syndicates 1084 and 1176 during 2009 and 2008. Consolidation eliminates the Group's share of the related income and expenses. In addition, the actual expenses incurred by the managing agency (shown as actual expenses transferred from managing agency above) in managing the syndicates are reclassified as net expenses incurred in insurance activities from other operating expenses in each division. The eliminations column eradicates these transactions. The Group calculates expense ratios on the net expenses incurred in insurance activities figure above, which includes the consolidation adjustments and reclassifications explained above. This is in line with previous years' practices.

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Six months ended 30 June 2008 (unaudited)	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist		Nuclear £m	Syndicate Participations ¹ £m	Run Off ² £m	Total (excluding Other and Eliminations) £m	Eliminations £m	Other ³ £m	Total £m
						Lines £m	£m							
Adjusted gross written premiums	66.0	58.1	58.8	14.3	97.0	19.5	10.8	31.4	(0.6)	355.3	0.7	-	356.0	
RITC	0.9	0.8	0.8	0.1	1.6	0.5	(0.1)	-	43.4	48.0	-	-	48.0	
Unadjusted gross written premiums ⁵	66.9	58.9	59.6	14.4	98.6	20.0	10.7	31.4	42.8	403.3	0.7	-	404.0	
Adjusted net earned premiums	61.2	36.0	31.1	11.7	53.3	17.9	6.5	22.1	(0.3)	239.5	0.7	(15.4)	224.8	
RITC	0.9	0.8	0.8	0.1	1.6	0.5	(0.1)	-	43.4	48.0	-	-	48.0	
Foreign exchange on non-monetary items	-	-	-	(0.1)	(0.6)	(0.2)	-	0.1	-	(0.8)	-	-	(0.8)	
Unadjusted net earned premiums ⁵	62.1	36.8	31.9	11.7	54.3	18.2	6.4	22.2	43.1	286.7	0.7	(15.4)	272.0	
Net investment return	(1.6)	(1.2)	(1.2)	(0.5)	(0.5)	(0.1)	0.5	1.0	-	(3.6)	-	5.1	1.5	
Other operating income	-	-	-	-	-	-	-	-	-	-	(12.3)	16.6	4.3	
Total revenue from operations	60.5	35.6	30.7	11.2	53.8	18.1	6.9	23.2	43.1	283.1	(11.6)	6.3	277.8	
Adjusted net incurred claims														
Best estimate (current year) ⁶	(50.9)	(21.7)	(16.1)	(7.8)	(33.3)	(14.8)	(1.0)	(8.7)	0.1	(154.2)	-	10.7	(143.5)	
Best estimate (prior years) ⁶	(1.8)	5.2	(18.3)	1.2	(3.7)	7.7	(0.7)	0.5	0.1	(9.8)	-	0.7	(9.1)	
Loadings (current year) ⁶	(3.5)	1.3	0.9	(0.1)	-	(1.3)	(0.4)	(4.8)	-	(7.9)	-	0.3	(7.6)	
Loadings (prior years) ⁶	1.2	-	8.7	(0.2)	6.8	0.6	0.4	4.0	1.6	23.1	-	(1.2)	21.9	
RITC	(0.9)	(0.8)	(0.8)	(0.1)	(1.6)	(0.5)	0.1	-	(43.4)	(48.0)	-	-	(48.0)	
Unadjusted net incurred claims ⁵	(55.9)	(16.0)	(25.6)	(7.0)	(31.8)	(8.3)	(1.6)	(9.0)	(41.6)	(196.8)	-	10.5	(186.3)	
Adjusted net expenses incurred in insurance activities														
Acquisition costs	(12.3)	(9.3)	(11.9)	(2.8)	(15.0)	(4.9)	(0.2)	(5.1)	-	(61.5)	-	3.7	(57.8)	
Other expenses	(4.3)	(2.4)	(2.4)	(1.1)	(6.4)	(2.4)	(0.5)	(3.1)	-	(22.6)	1.4	2.3	(18.9)	
Foreign exchange on non-monetary items	-	-	-	-	1.4	-	-	(0.1)	-	1.3	-	-	1.3	
Unadjusted net expenses incurred in insurance activities	(16.6)	(11.7)	(14.3)	(3.9)	(20.0)	(7.3)	(0.7)	(8.3)	-	(82.8)	1.4	6.0	(75.4)	
Recharges from managing agency ⁴	(1.6)	(1.0)	(1.0)	(0.2)	(1.7)	(0.3)	(0.9)	(1.0)	-	(7.7)	7.7	-	-	
Actual expenses transferred from managing agency	0.2	0.2	0.1	0.1	0.2	0.1	0.4	0.8	-	2.1	(2.1)	-	-	
Other operating expenses	-	-	-	-	-	-	-	-	-	-	4.6	(15.1)	(10.5)	
Total operating charges	(73.9)	(28.5)	(40.8)	(11.0)	(53.3)	(15.8)	(2.8)	(17.5)	(41.6)	(285.2)	11.6	1.4	(272.2)	
(Loss)/profit from operations	(13.4)	7.1	(10.1)	0.2	0.5	2.3	4.1	5.7	1.5	(2.1)	-	7.7	5.6	
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(1.7)	(1.7)	
Profit before tax	(13.4)	7.1	(10.1)	0.2	0.5	2.3	4.1	5.7	1.5	(2.1)	-	6.0	3.9	

5 The unadjusted items in the divisional analysis represent the items calculated in accordance with IFRS.

6 Best estimate reserves represent the Group's estimate of the expected value of claims reserves.

The Group includes reserve risk loadings where it believes that there is a particularly high uncertainty inherent in the best estimate reserve.

'Best estimate (current year)' is based on the best estimate of ultimate net claims in respect of net premium earned during the period.

'Best estimate (prior years)', is based on the movement in the best estimate of ultimate claims booked at the end of the previous reporting period.

'Reserve risk loading (current year)', is based on the movement in the current year net reserve risk loadings.

'Reserve risk loading (prior year)', is based on the movement in the prior years' net reserve risk loadings.

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Year ended	UK	Marine	Energy	Aviation	Property	Specialist		Syndicate	Run	Total (excluding Other and Eliminations)	Eliminations	Other ³	Total
						Lines	Nuclear						
31 December 2008 (audited)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Adjusted gross written premiums	132.2	121.2	116.3	26.9	157.5	46.3	14.7	74.5	0.3	689.9	1.4	-	691.3
RITC	0.9	1.1	0.4	0.2	0.7	1.4	(0.1)	-	45.1	49.7	-	-	49.7
Unadjusted gross written premiums ⁵	133.1	122.3	116.7	27.1	158.2	47.7	14.6	74.5	45.4	739.6	1.4	-	741.0
Adjusted net earned premiums	118.1	94.9	79.1	23.3	122.0	41.4	12.0	48.0	(0.4)	538.4	1.4	(31.8)	508.0
RITC	0.9	1.1	0.4	0.2	0.7	1.4	(0.1)	-	45.1	49.7	-	-	49.7
Foreign exchange on non-monetary items	-	(2.2)	(2.4)	(0.7)	(2.5)	(1.6)	-	(1.8)	-	(11.2)	-	0.7	(10.5)
Unadjusted net earned premiums ⁵	119.0	93.8	77.1	22.8	120.2	41.2	11.9	46.2	44.7	576.9	1.4	(31.1)	547.2
Net investment return	(12.0)	(12.0)	(13.2)	(4.2)	(14.6)	(15.2)	1.5	3.5	(10.5)	(76.7)	-	5.7	(71.0)
Other operating income	-	-	-	-	-	-	-	-	-	-	(18.0)	27.2	9.2
Total revenue from operations	107.0	81.8	63.9	18.6	105.6	26.0	13.4	49.7	34.2	500.2	(16.6)	1.8	485.4
Adjusted net incurred claims													
Best estimate (current year) ⁵	(92.3)	(60.8)	(52.8)	(14.5)	(83.6)	(33.9)	(3.0)	(48.1)	-	(389.0)	-	21.6	(367.4)
Best estimate (prior years) ⁵	1.2	3.1	(13.3)	2.0	1.0	9.8	0.4	9.7	1.7	15.6	-	0.4	16.0
Loadings (current year) ⁵	(0.9)	(1.0)	(2.5)	-	(2.4)	(1.8)	(1.0)	(4.9)	-	(14.5)	-	0.6	(13.9)
Loadings (prior years) ⁵	4.1	0.2	9.4	-	11.8	6.0	1.2	14.7	5.7	53.1	-	(2.5)	50.6
RITC	(0.9)	(1.1)	(0.4)	(0.2)	(0.7)	(1.4)	0.1	-	(45.1)	(49.7)	-	-	(49.7)
Unadjusted net incurred claims ⁵	(88.8)	(59.6)	(59.6)	(12.7)	(73.9)	(21.3)	(2.3)	(28.6)	(37.7)	(384.5)	-	20.1	(364.4)
Adjusted net expenses incurred in insurance activities													
Acquisition costs	(24.6)	(26.0)	(27.6)	(6.3)	(33.8)	(10.4)	(0.4)	(13.6)	-	(142.7)	1.1	7.8	(133.8)
Other expenses	(8.6)	(1.1)	(2.8)	(1.8)	(6.1)	(3.6)	(0.1)	(5.9)	2.1	(27.9)	1.3	(16.0)	(42.6)
Foreign exchange on non-monetary items	(0.1)	9.1	14.1	2.4	11.2	4.5	-	5.1	-	46.3	-	(2.5)	43.8
Unadjusted net expenses incurred in insurance activities	(33.3)	(18.0)	(16.3)	(5.7)	(28.7)	(9.5)	(0.5)	(14.4)	2.1	(124.3)	2.4	(10.7)	(132.6)
Recharges from managing agency ⁴	(3.3)	(2.0)	(2.0)	(0.5)	(2.9)	(0.9)	(2.2)	(1.4)	-	(15.2)	15.2	-	-
Actual expenses transferred from managing agency	0.9	0.7	0.5	0.3	1.0	0.4	0.8	1.2	-	5.8	(5.8)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	4.8	(23.2)	(18.4)
Total operating charges	(124.5)	(78.9)	(77.4)	(18.6)	(104.5)	(31.3)	(4.2)	(43.2)	(35.6)	(518.2)	16.6	(13.8)	(515.4)
(Loss)/profit from operations	(17.5)	2.9	(13.5)	-	1.1	(5.3)	9.2	6.5	(1.4)	(18.0)	-	(12.0)	(30.0)
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(4.0)	(4.0)
Other income from sale of subsidiary	-	-	-	-	-	-	-	-	-	-	-	14.7	14.7
Goodwill write-off	-	-	-	-	-	-	-	-	-	-	-	(6.9)	(6.9)
Loss before tax	(17.5)	2.9	(13.5)	-	1.1	(5.3)	9.2	6.5	(1.4)	(18.0)	-	(8.2)	(26.2)

The profit from operations for the six months ended 30 June 2009 includes releases relating to prior periods of £22.2m (June 2008 £12.6m and December 2008 £74.1m).

4. Net investment return

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Funds at Lloyd's and other corporate funds			
Interest income	3.7	2.2	4.6
Dividend income	0.2	0.1	0.6
Realised and unrealised gains and losses	2.9	2.4	(5.6)
	6.8	4.7	(0.4)
Syndicate funds			
Interest income	8.4	7.0	15.6
Dividend income	0.1	0.4	0.3
Realised and unrealised gains and losses	19.6	(10.3)	(86.2)
	28.1	(2.9)	(70.3)
Investment expenses	(0.3)	(0.3)	(0.3)
	27.8	(3.2)	(70.6)
Total investment return	34.6	1.5	(71.0)

5. Other operating income

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Managing agency fees and profit commissions	3.8	3.0	6.8
Other income (including rental income and commissions earned by overseas subsidiary)	1.7	1.3	2.4
	5.5	4.3	9.2
Analysis of managing agency fees and profit commissions			
Managing agency fees	3.3	2.5	4.6
Profit commission	0.5	0.5	2.2
	3.8	3.0	6.8
Analysis of managing agency fees and profit commissions by source of the income			
In-house syndicates (non-aligned share)	1.2	0.6	2.4
Run-off syndicates	0.1	0.1	0.1
Third party syndicates	2.5	2.3	4.3
	3.8	3.0	6.8

6. Expenses incurred in insurance activities

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Gross acquisition costs	106.5	78.9	155.6
Change in gross deferred acquisition costs	(22.5)	(17.3)	(15.9)
	84.0	61.6	139.7
Syndicate operating expenses	13.3	14.8	29.6
Foreign exchange losses/(gains)	26.4	1.3	(35.9)
Other personal expenses	3.1	2.8	6.0
Gross operating expenses	126.8	80.5	139.4
Net contribution from reinsurers	(8.2)	(5.1)	(6.8)
	118.6	75.4	132.6

7. Income tax expense/(credit)

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
UK corporation tax at 28.0% (2008 28.5%)	19.4	20.7	13.8
Adjustment in respect of prior years	-	-	1.5
Current tax	19.4	20.7	15.3
Deferred tax			
Current	(14.3)	(19.6)	(22.6)
Total deferred tax	(14.3)	(19.6)	(22.6)
	5.1	1.1	(7.3)

The effective tax rate of the period is 30.2%. This is higher than the standard rate of UK corporation tax mainly due to expenses not allowable for tax purposes being incurred by the Group.

8. Earnings per share

	Earnings £m	Number of shares Million	Earnings per share Pence
Six months ended 30 June 2009 (unaudited)			
Basic, based on net profit for the period	11.9	447.6	2.7
Diluted, based on net profit for the period	11.9	450.5	2.6
Six months ended 30 June 2008 (unaudited)			
Basic, based on net profit for the period	2.7	326.7	0.8
Diluted, based on net profit for the period	2.8	342.6	0.8
Year ended 31 December 2008 (audited)			
Basic, based on net loss for the period	(19.0)	317.3	(6.0)
Diluted, based on net loss for the period	(18.9)	326.8	(6.0) ¹

1 In accordance with IAS 33 Earnings per share the dilutive impact on shares is excluded when it decreases the loss per share.

The calculation of the profit/(loss) for the period for diluted earnings per share is as follows:

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Net profit/(loss) for the period	11.9	2.7	(19.0)
Add interest on convertible loan, net of tax	-	0.1	0.1
	11.9	2.8	(18.9)

The calculation of the weighted average number of shares outstanding for basic and diluted earnings per share is as follows:

	30 June 2009 (unaudited) Million	30 June 2008 (unaudited) Million	31 December 2008 (audited) Million
Unadjusted weighted average for period	486.2	345.2	346.1
Elimination of own shares held	(38.6)	(18.5)	(28.8)
Adjusted basic weighted average	447.6	326.7	317.3
Potentially dilutive shares from convertible debt	-	2.9	1.8
Potentially dilutive shares from share options	2.9	7.3	7.7
Potentially dilutive shares from warrants	-	5.7	-
	450.5	342.6	326.8

9. Financial assets

	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m	31 December 2008 (audited) £m
Funds at Lloyd's (FAL) and other corporate funds¹			
Equities	2.1	0.6	2.5
Hedge funds	-	-	-
Absolute return bond funds	-	175.8	168.7
Bonds	136.3	2.7	1.6
Other	17.0	17.0	17.0
	155.4	196.1	189.8
Syndicate participations			
Equities	2.4	72.5	3.5
Hedge funds	64.7	122.9	154.7
Absolute return bond funds	-	208.8	163.9
Bonds	250.2	176.4	246.5
Overseas deposits ²	43.2	28.1	40.3
	360.5	608.7	608.9
	515.9	804.8	798.7

1 FAL represents funds that the Group must deposit with Lloyd's in order to support underwriting activities. Lloyd's determines the quantum of the funds, based on solvency tests applied to the Group. Access to these funds is restricted.

2 Overseas deposits represent monies kept in overseas funds managed by Lloyd's. The funds are required in order to protect policyholders in overseas markets and enable the Group to operate in those markets. The access to those funds is restricted and the Group cannot influence the investment strategy.

10. Cash and cash equivalents

	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m	31 December 2008 (audited) £m
Funds at Lloyd's (FAL)	220.8	54.2	90.9
Other funds	550.1	199.7	329.9
	770.9	253.9	420.8

FAL represents funds that the Group must deposit with Lloyd's in order to support underwriting activities. Lloyd's determines the quantum of the funds, based on solvency tests applied to the Group. Access to these funds is restricted.

11. Share capital

	30 June 2009		30 June 2008		31 December 2008	
	Shares Million	Value £m	Shares Million	Value £m	Shares Million	Value £m
Authorised						
Ordinary shares of 25p each	700.0	175.0	456.0	114.0	456.0	114.0
Called-up, allotted and fully paid						
Ordinary shares of 25p each	548.1	137.0	346.7	86.7	348.1	87.0

The number of 25p ordinary shares called up, allotted and fully paid were:

	Date	Share price Pence	Issued Number	Ordinary share capital £m	Share premium £m
At 1 January 2009			348,092,039	87.0	66.0
Shares issued in respect of:					
Firm placing and open offer	25/02/09		199,999,606	50.0	24.9
At 30 June 2009			548,091,645	137.0	90.9
At 1 January 2008			345,227,244	86.3	65.7
Shares issued in respect of:					
Conversion of Convertible Unsecured Subordinated Loan Stock	30/06/08	37.5	1,437,386	0.4	0.1
Conversion of share warrants	02/06/08	92.0	4,346	-	-
At 30 June 2008			346,668,976	86.7	65.8
Shares issued in respect of:					
Conversion of Convertible Unsecured Subordinated Loan Stock	14/11/08	37.5	1,320,295	0.3	0.2
	26/12/08	37.5	102,768	-	-
At 31 December 2008			348,092,039	87.0	66.0

On 28 January 2009 the Group announced a firm placing and placing and open offer to raise £74.9m (net of £5.1m expenses), subject to approval at a General Meeting to be held on 13 February 2009. The General Meeting approved the increase in the authorised share capital to £175.0m from £114.0m and the planned share issue. The firm placing of 17,251,680 new ordinary shares and the open offer of up to 182,748,320 new ordinary shares was completed and the Group issued 199,999,606 new ordinary shares at 40 pence each. The total issued share capital of the Group is now 548,091,645 ordinary shares.

12. Net asset value per ordinary share

The net asset value per ordinary share and net tangible asset value per ordinary share have been calculated on the equity balance and equity less intangible assets, respectively, and using the number of ordinary shares in issue at the period end, adjusted by own shares held, as shown below:

	30 June 2009 (unaudited)	30 June 2008 (unaudited)	31 December 2008 (audited)
Equity funds	£302.1m	£261.0m	£225.5m
Number of adjusted shares	509.7m	318.6m	309.2m
Net asset value per ordinary share	59.3p	81.9p	72.9p
Equity funds less intangible assets	£270.0m	£222.0m	£193.4m
Number of adjusted shares	509.7m	318.6m	309.2m
Net tangible asset value per ordinary share	53.0p	69.7p	62.5p
Number of shares in issue	548.1m	346.7m	348.1m
Own shares held	(38.4)m	(28.1)m	(38.9)m
Number of adjusted shares	509.7m	318.6m	309.2m

13. Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Profit/(loss) before taxation	17.0	3.9	(26.2)
Net investment return less finance costs	(32.7)	0.2	75.0
Depreciation of tangible fixed assets	0.7	0.9	1.9
Increase of technical provisions	53.9	135.4	415.9
Increase of reinsurers' share of technical provisions	(38.8)	(40.9)	(95.2)
Decrease/(increase) in other debtors	17.3	(21.6)	(60.4)
(Decrease)/increase in other creditors	(10.4)	8.4	13.5
Increase /(decrease) in accruals	0.7	(5.2)	(3.6)
Increase in deferred acquisition costs	(22.8)	(16.2)	(14.8)
(Increase)/decrease in prepayments	(3.6)	3.2	2.5
Change in employee benefits provision	-	(0.5)	(1.3)
Foreign exchange adjustment	(33.6)	(0.5)	12.0
Foreign exchange in subordinated debt	(5.8)	0.5	11.9
Change in bonus provisions	3.6	3.6	4.8
Sale of subsidiary	-	-	(14.7)
Goodwill written off	-	-	6.9
Cash generated from operations	(54.5)	71.2	328.2

14. Dividends paid or declared

	Six months ended 30 June 2009 (unaudited) £m	Six months ended 30 June 2008 (unaudited) £m	Year ended 31 December 2008 (audited) £m
Second interim 2008 dividend paid: 3.7p per ordinary share	11.8	-	-
First interim 2008 dividend paid: 1.8p per ordinary share	-	-	5.7
Final 2007 dividend paid: 3.5p per ordinary share	-	11.6	11.6
	11.8	11.6	17.3

The Group has announced an interim dividend in respect of the 2009 financial year of 1.3p per share, amounting to a total of £6.8m, for payment on 1 October 2009. These interim statements do not include a provision for this dividend.

15. Capital

The table below shows the Group's Overall Premium Limit for the 2008 and 2009 years of account and the composition of assets deposited to meet the associated FAL requirements as at 30 June 2009, date of the latest Lloyd's Coming into Line exercise.

	Year of account	
	2009 £m	2008 £m
Group underwriting interests	580.6	519.8
Reinsurance	50.0	25.0
Overall Premium Limit	630.6	544.8
FAL ratio (average)	48.1%	47.3%
FAL requirement	303.3	257.7
Funding of open year of account losses	139.5	38.4
Total FAL requirement	442.8	296.1
FAL requirement satisfied by:		
Investments	138.4	118.8
Personal reserves	220.8	80.2
Letters of credit:		
Group economic interest	56.0	56.0
Capital provision reinsurers	35.6	15.6
Credit from Lloyd's for undistributed profits	-	27.5
	450.8¹	298.1¹

¹ The excess over the FAL requirements in respect of the 2008 and 2009 years of account is due to revaluation of investments at the end of the period, subsequent to meeting the FAL requirements.

The letters of credit above include a US\$28.8m letter of credit provided by Flagstone Reassurance Suisse SA, a company registered in Switzerland, under the terms of a reinsurance agreement entered by the Group and Flagstone during the period.

16. Related party transactions

Transactions with related parties during the period are consistent in nature and scope with those disclosed in note 36 of the Group's 2008 Consolidated Financial Statements.

Pembroke Managing Agency Limited acted as the managing agency of Syndicate 4000 until 31 December 2008, and Chaucer Syndicates Limited acted as the managing agency of the other syndicates. The two companies received the following amounts during the periods for the services provided:

	Syndicate 1084 £m	Syndicate 1176 £m	Syndicate 1274 £m	Syndicate 4000 £m	Syndicate 4242 £m	Syndicate 1301 £m
30 June 2009						
Managing agent's fees	3.1	0.6	0.8	-	0.6	0.9
Profit commission	-	1.4	-	-	(0.2)	-
Expense recharge	18.3	-	0.3	0.5	0.2	3.2
Balance owed to Chaucer Syndicates Limited	0.7	-	-	-	-	0.1
30 June 2008						
Managing agent's fees	5.6	0.5	0.8	1.0	0.5	0.8
Profit commission	-	1.3	-	-	0.1	-
Expense recharge	17.7	-	0.3	2.3	0.1	2.2
Balance owed to Chaucer Syndicates Limited	4.0	-	-	-	-	-
31 December 2008						
Managing agent's fees	11.1	1.0	1.6	2.3	1.0	1.5
Profit commission	-	3.0	-	0.1	0.9	-
Expense recharge	35.4	-	0.4	3.0	0.1	3.8
Balance owed to Chaucer Syndicates Limited	2.0	-	-	-	-	0.2

Pembroke was part of the Group until its sale in July 2008 and the table above includes only the managing agency fee paid by Syndicate 4000 up to that date.

Mark Graham, Chief Financial Officer, decided to leave the Company to pursue other opportunities. The shares awarded to Mr Graham in previous years as part of his remuneration package vested immediately after his departure from the Board. Details of those shares can be found in the 2008 consolidated financial statements.

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Interim Condensed Consolidated Income Statement, Interim Condensed Consolidated Statement of Comprehensive Income, Interim Condensed Consolidated Statement of Changes of Equity, Interim Condensed Consolidated Balance Sheet, Interim Condensed Consolidated Cash Flow Statement and the related notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

London

27 August 2009

Results

Interim management statement for the quarter ending 30 September 2009	19 November 2009
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Announcement of results for the year ending 31 December 2009	8 March 2010
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Dividends

2009 interim dividend for the six months ended 30 June 2009	Ex-dividend	9 September 2009
	Record date	11 September 2009
	Payable	1 October 2009

Annual General Meeting

	19 May 2010
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We provide a number of shareholder services on our website, including an extensive FAQ section. We welcome queries from current and potential shareholders, via either email at investor.relations@chaucerplc.com or our Company Secretarial Team on 020 7397 9700.

For enquiries regarding share registration you may wish to contact our Registrar, Equiniti Limited, on 0871 384 2079. (Calls to this number are charged at 8p per minute from a BT landline. Other telephone provider costs may vary).

Directors

Martin Gilbert, Chairman

Richard Scholes, Non-executive Director

Bob Deutsch, Non-executive Director

Ewen Gilmour, Chief Executive Officer

Bruce Bartell, Active Underwriter Syndicate 1084

Robert Stuchbery, Chief Underwriting Officer

Registered office

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Advisers

Auditors

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1 More London Place
London SE1 2AF

Stockbrokers

Numis Securities Limited
Cheapside House
138 Cheapside
London EC2V 6LH

Principal bankers

Lloyds TSB Bank plc
25 Gresham Street
London EC2V 7HN

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Glossary of Terms

Acquisition costs	The costs of obtaining the insurance business, including broker's commission and other related expenses.
Capacity	The maximum amount of business that may be accepted by a syndicate or a corporate member on a syndicate as expressed in terms of gross premium income net of commission.
Claims ratio	Net incurred claims shown as a percentage of net earned premiums.
Claims incurred	All claims payments, the adjustment in provision for outstanding claims in a business year and claim adjustment expenses.
Combined ratio	The sum of the claims ratio and the expense ratio.
Corporate member	A company incorporated with limited or unlimited liability which is admitted to membership of Lloyd's.
Expense ratio	Net expenses incurred in insurance activities as a percentage of net earned premiums.
Exposure	The maximum value of claims that an insurer could face from an event or events that would result in the total exhaustion of the protection offered by the insurance policies affected.
Funds at Lloyd's (FAL)	Funds lodged and held in trust at Lloyd's as security for policyholders and to support a corporate member's overall underwriting activities.
Return on equity	Profit for the period after taxation attributable to equity holders of the company as a percentage of total equity attributable to equity holders at the commencement of the period adjusted for share capital issues.
Reinsurance to close (RITC)	The transfer, in consideration for a premium, of the net outstanding liabilities and benefits of a year of account so that the year may be closed and the result ascertained. The transfer is usually effected once the year has been open for three calendar years and with the subsequent open year of the same syndicate.

Lloyd's is the world's leading specialist insurance and reinsurance market.

Lloyd's reputation is founded on its 300 year history, its flexibility and the unrivalled expertise of its underwriters. The market's unique structure means that clients encounter a flexible and responsive approach.

As at 31 December 2008 78 businesses operate in Lloyd's, each with its own specialties and areas of expertise. Together they interact with thousands of brokers daily to create insurance solutions for businesses around the world. Lloyd's, as at 30 November 2008, insures 88% of FTSE 100 and 97% of Dow Jones industrial average companies. Lloyd's capital base is diverse and today 85% of Lloyd's capital comes from corporate bodies – primarily the international insurance industry. Lloyd's enjoys strong financial security and every policy is supported by an A (excellent) rating from the rating agency A.M. Best, A+ (strong) rating from Standard & Poor's and A+ (strong) rating from Fitch ratings .

Lloyd's is regulated by the Financial Services Authority.

This report contains certain forward-looking statements regarding Chaucer Holdings, its corporate plans, future financial condition, future results of operations, future business plans and strategies. Statements containing the words 'believes', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Chaucer Holdings' control. These include, among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally, the policies and actions of regulatory authorities, the impact of competition, inflation and deflation, experience in particular with regard to policy prices, renewal rates and loss experience. As a result, Chaucer Holdings' actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Chaucer Holdings' forward-looking statements. Chaucer Holdings undertakes no obligation to update the forward-looking statements contained in this report or any other forward-looking statements it may make.

Chaucer Holdings PLC

Motor, marine, energy, aviation,
property, specialist lines
and nuclear insurance

Specialist vehicle broking

Syndicate management
and other services

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Registered number: 2847982

Chaucer Holdings PLC is a holding company,
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by the Financial Services Authority.

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