

## 1. ACCOUNTING POLICIES

Chaucer Holdings PLC, the ultimate holding company of the Group, is a public limited company registered in England and Wales, whose subsidiaries are private limited companies.

### Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial assets held at fair value through profit and loss, long term assets and liabilities at amortised cost using the effective interest rate method and pension liabilities which are determined by actuarial analysis.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new standards or interpretations as of 1 January 2009, which have not had any effect on the financial position or performance of the Group:

#### IAS 1 (Revised) Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The Group has introduced a 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, this standard introduces a Consolidated Statement of Comprehensive Income, which 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.

#### IFRS 7 (Amended) Financial Instruments: Disclosures

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are 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.

#### 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. The Group has determined that the operating segments are the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 4.

#### IAS 23 (Revised) Borrowing Costs

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.

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 impact on the financial statements of the Group:

- Amendment to IFRS 2 Share-based Payment (1 January 2009)
- Amendment to IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (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)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (1 July 2009)
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives (30 June 2009)
- IFRIC 13 Customer Loyalty Programmes (1 July 2008)
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (1 January 2011)
- IFRIC 15 Agreements for the Construction of Real Estate (1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (1 October 2008)
- IFRIC 17 Distributions of Non-cash Assets to Owners (1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (1 July 2009)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)

There are a number of new standards, interpretations and changes in existing standards issued by the IASB, which are not yet effective (and in some cases had not yet been endorsed by the EU), that have not been adopted by the Group. The impact of the adoption of these standards and interpretations is not expected to be material on the financial statements of the Group.

The consolidated financial statements include the accounts of the parent and each subsidiary where the parent owns, directly or indirectly, over 50% of the voting rights, or over which it has control of their operating and financial policies.

Consolidation includes elimination of all inter-company transactions and balances.

#### Business combinations

Acquisitions of businesses are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the assets acquired the difference is recognised directly in the income statement.

#### Foreign currency translation

The consolidated financial statements are presented in sterling, which is the functional currency of most companies within the Group, being the currency of the primary economic environment of those companies.

Monetary items are translated at year-end rates and any exchange differences arising from the change in rates of exchange are recognised in the income statement.

Translation differences arising on non-monetary investments held at fair value through profit or loss are reported as part of the fair value gain or loss on those investments.

Transactions and non-monetary assets and liabilities in foreign currencies, including deferred acquisition costs and unearned premiums, are recorded in sterling at monthly average rates prevailing at the time of the transaction.

The averages of the monthly average rates during each financial year were as follows:

	2009	2008
US Dollars	1.57	1.85
Canadian Dollars	1.78	1.96
Euros	1.12	1.26

The rates of exchange used to translate monetary balances at the year-end in foreign currencies into sterling are as follows:

	2009	2008
US Dollars	1.61	1.44
Canadian Dollars	1.69	1.77
Euros	1.13	1.03

#### Underwriting transactions

The results for all classes of business in respect of participations on syndicates managed by the Group are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium, net of reinsurance as follows:

- (i) Premiums written comprise the premiums on contracts incepting in the financial year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less allowance for cancellations.
- (ii) Reinsurance premiums and any related reinsurance recoveries are accounted for in the same accounting period as the premiums and claims for the related direct or inwards reinsurance business.
- (iii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.
- (iv) Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related policies are earned.
- (v) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from prior years. Where applicable, deductions are made for salvage and other recoveries.
- (vi) Outstanding claims represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not reported, less any amounts paid in respect of those claims. Outstanding claims are reduced by anticipated salvage and other recoveries. The ultimate cost of outstanding claims is estimated by using a range of actuarial projection methods. The primary sensitivity in these methods is the assumption that experience is indicative of the outcome of current business and, where past experience is insufficient, that market benchmarks are representative of the relevant syndicate's own underwriting. Significant delays can be experienced in the notification and settlement of certain claims and, accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. In particular, estimates of technical

provisions inevitably contain inherent uncertainties because significant periods of time may elapse between the occurrence of an insured loss, the reporting of that claim to the Syndicate and the Syndicate's payment of the claim and the receipt of reinsurance recoveries. While the Directors consider that the estimate of outstanding claims is fairly calculated, on the basis of the information currently available to them, the ultimate liability remains inherently uncertain and may change as a result of subsequent information and events which may result in the eventual cost of settling these liabilities being higher or lower than the amount calculated.

- (vii) Reserves are set based upon an expectation that there will not be a subsequent release or deficit. In arriving at this estimate, allowance is made for the inherent uncertainty involved in the setting of reserves.
- (viii) Liability adequacy test: at each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the income statement via the provision of an unexpired risk reserve. The provision for unexpired risks is included within technical provisions in the balance sheet.

#### **Participation in Nuclear Pools**

The Group, through its interests in Syndicate 1176, participates on business underwritten by Nuclear Risk Insurers Limited (NRI). In addition to insuring UK based nuclear risks, NRI participates on reinsurance programmes of similar overseas nuclear pools. As part of these arrangements, NRI reinsures a portion of its business with the overseas pools and accepts inwards reinsurance on a reciprocal basis. NRI accounts to its members on a basis net of the inter-pool reciprocal reinsurance recoveries.

NRI maintains its underwriting accounts on a three-year basis and, on closure of an account after three years, it transfers the liabilities to the next open year of account by means of a portfolio transfer. Syndicate 1176 pays and receives a proportion of this portfolio transfer between its closing and next open year of account. The difference to the Syndicate between the amount paid to close one year of account and that received by the following year of account is due to the different proportions of the NRI pool written by the Syndicate for each year of account and is treated as an additional or return premium. The consolidated financial statements include the Group's share of these transactions, on an annually accounted basis.

#### **Investment return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management fees. Dividend income is recognised when the shareholder's right to receive payment is established. Interest income is recognised as it accrues and is calculated by using the effective interest rate method.

#### **Other operating income**

Other operating income comprises retained underwriting agency fees, management fees and underwriting profit commissions. Underwriting agency fees are brought into account in the year to which they relate. Profit commissions expected to arise on the closure of a Lloyd's year of account in respect of the managed syndicates are recognised as earned on an annual basis to match the related underwriting profits. Profit commissions due after more than one year are held at fair value, which is the discounted present value of the nominal amount expected to be received.

#### **Net expenses incurred in insurance activities**

Expenses incurred in insurance activities are recognised on an accruals basis. These comprise the Group's share of syndicate operating expenses, acquisition costs and the costs of membership of Lloyd's and other expenses attributable to the Group's underwriting, stated net of contributions from quota share reinsurers.

#### **Other operating expenses**

Operating expenses are recognised on an accruals basis. They comprise Group operating expenses such as remuneration, office and administrative costs.

#### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, form part of the cost of that asset and are therefore capitalised.

#### **Taxation**

The tax expense represents the sum of the tax currently payable and the movement in deferred tax.

The tax currently payable is based on taxable income for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates applicable at the balance sheet date.

Deferred income tax is generally provided in full, on temporary differences arising between the tax bases of assets and liabilities and the carrying value in the consolidated financial statements. However, if deferred income tax arises from the initial recognition of goodwill for which amortisation is not deductible for tax purposes, or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted, or substantively enacted, at the balance sheet date and expected to apply when the related tax is affected.

The deferred tax resulting from the recognition of actuarial losses for the year on the defined benefit pension scheme is recorded in the Statement of Comprehensive Income.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used.

Deferred income tax is provided on the temporary differences arising on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset only where there is a legal right of offset and the deferred taxes relate to the same fiscal authority.

#### **Leases**

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset has been purchased outright. The assets are included in tangible assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied to reduce the outstanding obligations and the interest element charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term and their useful life.

#### **Dividends**

Dividends are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are paid. Dividends declared after the balance sheet date but before the financial statements are authorised are not recognised but are disclosed in the notes to the financial statements.

#### **Syndicate participations**

Syndicate participations represent an aggregation of the proportion of assets and liabilities of each syndicate in which the Group participates. Those assets are held subject to the individual syndicate trust funds and the Group cannot obtain or use them until such time as each syndicate underwriting year is closed and profits are distributed, or an advance profit release is made.

#### **Cash and cash equivalents**

Cash and cash equivalents represent cash balances and money market deposits lodged with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Investments with an original maturity date of less than three months are treated as cash equivalents.

#### **Financial assets**

All investments are classified as fair value through profit and loss and are measured at fair value. The fair value of quoted financial investments is based on current bid prices. Unquoted equity investments are initially carried at cost as the best estimate of fair value and are adjusted thereafter whenever events or changes in circumstances indicate that the carrying amount may not approximate to fair value. The fair value of an unquoted equity is calculated using the most appropriate valuation technique, such as reference to current fair values of another instrument that is substantially the same, discounted cash flow analysis or option pricing models.

The fair value of unquoted hedge fund investments is determined from net asset values provided by independent third-party fund administrators. Whilst many hedge funds operate in specialist markets, the securities in which they invest are predominantly listed or exchange traded; such securities can therefore be priced consistently with normal market practices for the valuation of listed securities.

If funds hold unquoted assets they are typically valued with reference to listed securities of a similar nature or by using pricing models that are reviewed and approved by an independent pricing specialist. The value of underlying assets valued in such a way is relatively small and the potential impact on Group results that could arise from pricing errors is considered to be immaterial in the context of the total investment portfolio.

The Directors consider the fair value through profit and loss option to be appropriate as financial assets are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to key management personnel. In addition, investment risk is assessed on a total return basis that is consistent with the adoption of fair value through profit and loss.

All purchases and sales of financial assets are accounted for on the trade date. Investments are initially recognised at fair value and derecognised when sold. Realised and unrealised gains and losses arising from the change in fair value are included in the income statement in the period in which they arise.

#### **Derivative financial instruments**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to manage these exposures. The Group does not use derivative financial instruments for speculative purposes.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

### Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment. Depreciation is calculated to write off the cost of tangible fixed assets over the estimated useful lives as follows:

Buildings	25 years	straight line
Lease improvements	20%	per annum
Furniture, office fixtures and fittings	8-20%	per annum
Computer equipment	33%	per annum

### Intangible assets

Intangible assets comprise goodwill and auction costs arising on the purchase of syndicate capacity.

Goodwill is the excess of the cost of acquired businesses over the fair value of the net assets acquired and is deemed to have an indefinite useful life, since, in the current business strategy, the Group will benefit from the activities of the Managing Agent for as long as it carries on doing business.

Auction costs are the costs incurred in purchasing additional capacity on the Syndicates currently managed by Chaucer Syndicates Limited. The capacity purchased is deemed to have an indefinite useful economic life represented by participation rights to membership on each syndicate, since it is deemed that the benefits from that capacity have no foreseeable limit.

Both goodwill and auction costs are recognised on the balance sheet at cost less any impairment.

Both goodwill and auction costs are tested annually for impairment. Where there is any reduction in the carrying amount for either, this would be recognised in the income statement during the period in which the reduction is determined.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date.

### Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite life is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

Except for goodwill, where impairment losses cannot be reversed, where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of the impairment loss is recognised in the income statement immediately.

### Long term assets and liabilities

Where assets and liabilities are payable or recoverable in more than one year, they are initially recognised at their fair value, which is the discounted nominal value of the asset or liability. The unwinding of the related discount is subsequently recognised in the income statement.

### Convertible loan stock

The convertible loan is split on initial recognition into financial liability and equity components. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows, discounted at the rate of interest applied at the time by the market to instruments of comparable credit status and providing substantially the same cash flows on the same terms, but without the conversion option. The equity component on initial recognition is the difference between the original proceeds of the convertible loan and the present value of the liability component and is recognised in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative fair values at the date of issue.

The financial liability component is subsequently recognised at amortised cost over the life of the liability.

The interest expense on the liability component recognised in the income statement is calculated by applying the prevailing market

interest rate for similar non-convertible debt at the time the instrument was issued to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

#### **Provisions and contingencies**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where a reimbursement is expected, this is recognised only when it is virtually certain that the reimbursement will take place, and of the amount to be reimbursed.

Contingent liabilities are liabilities that represent a possible obligation arising from a past event whose existence is dependent on one or more uncertain future events not within the control of the Group, or a present obligation where it is not probable that an outflow will be required for settlement of the obligation.

Contingent liabilities are not disclosed where the likelihood of the uncertain future event is remote, unless the disclosure of the contingent liability adds clarity to the financial statements.

Contingent assets, which relate to possible assets and depend on the outcome of uncertain future events, are not recognised. Such an asset is disclosed only where the inflow of economic benefit is probable.

#### **Employee benefits: pensions**

The Group operates a single pension scheme with both a defined benefits and, from December 2001, a defined contribution section.

Payments to the defined contribution section are charged as expenses as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Contributions in respect of the defined benefits section are paid in accordance with the recommendations of independent actuaries. The costs of providing benefits under this section are determined using the projected unit credit method, with full actuarial valuations being carried out at least every three years (or sooner if significant changes in the assumptions surrounding the valuation of the scheme's assets and liabilities require it) and updates being carried out every six months. These costs are recognised in the income statement based on the valuation prepared by independent actuaries.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the Statement of Comprehensive Income. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations and is reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### **Employee benefits: shares**

The Group grants shares to its employees under a number of share schemes. The shares granted are measured at fair value at the date of the grant and are expensed on a straight-line basis over the vesting period, based on the terms of the share schemes. The expense is recorded against a bonus reserve in equity.

When the shares necessary to satisfy the benefit are purchased, they are recorded as own shares within equity, at their acquisition cost. These shares are held in a separately administered trust fund and deducted from equity.

If the vesting options are exercised by the employee and the shares leave the trust, own shares and the bonus reserve are reduced by the number of vesting shares valued at acquisition cost. If there is any difference between the acquisition cost and the fair value used at the date of setting the bonus reserve, it will be adjusted to retained earnings.

In accordance with the rules of the schemes, certain shares attract matching shares, if certain performance conditions are met. The number of matching shares and the fair values are determined through stochastic models that estimate the probabilities of the performance conditions being met. The cost of matching shares is amortised over the same period of time as the original shares. The assumptions behind the determination of matching shares and their fair values are reassessed, when applicable, at the end of each accounting period and the impact of any change is recorded in the income statement.

#### **Employee benefits: share options**

The Group grants share options to its employees under a number of option schemes. The share options granted are measured at fair value at the date of the grant and are expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

IFRS 2 Share-based Payment does not require share options granted before 7 November 2002 to be fair-valued, or those granted after 7 November 2002 that had vested as at 1 January 2005 to be expensed. Therefore, the costs recognised in the income statement reflect only the share grants made after 7 November 2002 that had not vested before 1 January 2005.

At each balance sheet date, the Group revises its estimate of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period. The proceeds received, net of any directly attributable transaction costs, are credited either to share capital (nominal value) and share premium, if shares are issued, or to investment in own shares, if shares are purchased, when the share options are exercised. If shares are purchased in the market to settle the share options then any difference between the

exercise price, the fair value of the share options and the cost of the shares issued, is taken to retained earnings.

No expense is recognised for share options that do not ultimately vest, except for share options where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of a share option are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee, as measured at the date of modification.

Where a share option is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new share option is substituted for the cancelled share option, and designated as a replacement share option on the date that it is granted, the cancelled and new share options are treated as if they were a modification of the original share option, as described in the above paragraph.

#### Subordinated debt

The long-term loans are recognised initially at fair value, net of transaction costs incurred. The loans are subsequently stated at amortised cost; any difference between the initial carrying amount and the redemption value is recognised in the income statement over the expected period of the borrowings using the effective interest rate method.

#### Critical accounting estimates and judgements in applying accounting policies

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The most critical accounting estimate made by the Group is the estimate of the ultimate claims liability under insurance contracts underwritten. The estimation of the liability considers historical data, with most relevance given to recent data, of claims experience in each particular account.

Other areas where the Directors have applied significant judgement are as follows:

- The decision to value the financial assets at fair value through profit and loss, based on the considerations described in the relevant accounting policy above, has impacted the final determination of the profit/(loss) for the year, as the methods and assumptions required by this classification differ substantially from other options available to the Directors.
- In valuing the tax charge for the year and in particular the deferred tax asset associated to losses available to the Group, the Directors have taken into consideration the changes to tax regulations during the year and the availability of potential future profits.
- The bonus payable to staff and Directors is based on a formulaic approach applicable to the profit before tax for the year. As a consequence, the uncertainties and assumptions affecting the valuation of insurance liabilities and investments, described above, have a material impact on the calculation of the bonus. In addition, the Directors have applied judgement in areas that have a significant impact on the recognition and deferral of the bonus charge, such as the estimate of when the long term elements of the bonus will be paid and an estimate of whether the conditions affecting the allocation of matching shares will be met.

The income statement adjusts and recognises any subsequent adjustments for inadequacies or surpluses.

## 2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

### Underwriting risk

Each division within the Group undertakes an extensive annual underwriting planning process in order to determine its targets for premium income and return on capital. The maximum level of risk acceptable to the Group in achieving the plan is determined by the Risk & Capital Committee and approved by the CHP Board. This underwriting risk appetite, together with Group strategy and forecast pricing levels, loss ratios and reinsurance costs are the primary drivers to the plan.

Underwriting risk appetite defines acceptable probability of different levels of net underwriting loss, expressed as a percentage of the Group's net tangible assets (NTA) for both a single event and accumulated events over a year.

Probability return period	Probability %	Single event % of NTA	Aggregated events % of NTA
25	4	18.6	36.4
50	2	26.0	43.4
100	1	30.4	50.9
200	0.5	38.0	60.3
500	0.2	51.0	73.1

The detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques, assists with the setting and management of risk appetite.

Catastrophe risk is the main component of underwriting risk and the Group uses Exceedance Probability (EP) curves as the primary tool for managing this risk. For a defined underwriting portfolio, an EP curve plots expected probability against loss size. This represents a sliding scale of risk appetite against associated exceedance probabilities.

**Managing risk aggregation**

The aggregation of underwriting exposure is monitored using specialist modelling software tools. Syndicate 1084 monitors its loss exposure to a suite of natural catastrophe events (including the prescribed Lloyd's Realistic Disaster Scenarios) on a monthly basis. Modelled loss caps are set at an underwriting business unit level for each event; this provides the underwriters with a practical tool for managing their exposures.

**Monitoring performance against plan**

The Group manages its performance against plan through monthly divisional reporting, utilising centrally prepared underwriting management information packs. The divisions report to the Group's Underwriting Board which in turn reports to the CSL Board. This control process ensures several layers of review for underwriting risks, with particular focus on pricing, loss ratio forecasts, reserving adequacy, risk aggregation, catastrophe modelling and reinsurance protection.

**Underwriting controls**

The Group operates a number of underwriting controls, details of which are set out below.

**Peer and independent reviews**

Peer review is performed on a risk-based sample of business by a fellow underwriter to ensure that sound underwriting practices are being adhered to. In addition to this, an independent review is performed by reputable expert underwriting practitioners who are independent of the Syndicate. The process involves detailed reviews of individual underwriting risks and supporting documentation on a monthly basis.

**Underwriting risk review**

Themed underwriting reviews are conducted by the underwriting risk review department to ensure that underwriting procedures and discipline are being followed.

**Internal audit**

Group internal audit provides assurance over the performance of the underwriting controls.

**Emerging risks**

An emerging risk is an issue that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting. An Emerging Risk Group has been established to identify and assess the potential impact of such risks.

Based upon current estimates, the ultimate costs (net of reinsurance) of the largest insured losses to which Syndicates 1084 and 4000 had exposures at 31 December 2009, as a percentage of their capacity, were as follows:

Year of account	Event	Syndicate 1084 £m	Syndicate 4000 £m	Cost as % of capacity	
				Syndicate 1084 %	Syndicate 4000 %
2008	Madoff	5.3	15.9	1.2	21.8
2008	Political Risk Trade Credit (Specific losses)	33.9	-	7.5	-
2007	West Atlas Rig	12.2	-	3.1	-

The table shows each syndicate's total cost at 31 December 2009 for each event against a single year of account's capacity for ease of comparability, although, for internal purposes, the Syndicates allocate risk to years of account on an inception basis and consequently, the losses actually straddle years of account. The ratios of cost as a percentage of capacity show the ratio of net ultimate costs at the end of the year to the capacity of the relevant year of account at the left

Other significant 2008 loss events, including Hurricane Ike, sub-prime losses and financial turmoil reserves, are not included in the above table as their development during 2009 has been in line with expectations.

**Concentrations of risk**

The Group has exposure to losses arising through the aggregation of risks in geographical sectors. This mainly affects the property, marine and energy portfolios. Events giving rise to such aggregations are typically natural disasters such as earthquakes or weather-related disasters such as hurricanes, windstorms and typhoons. Other examples are major terrorism events.

As part of its risk management process, the Group models Realistic Disaster Scenarios (RDS). An RDS exercise is undertaken every quarter and enables the Group to monitor potential accumulations of underwriting exposure against a pre-determined suite of catastrophic events and to confirm no breach of the Group's underwriting risk appetite. The table below shows the largest net RDS exposures, with an indicative estimate of the likely gross and final net loss incurred from each scenario at 1 January 2009 and 2010. The Group updates the RDS scenarios every year, based on Lloyd's requirements and an internal assessment of the Group's main exposures. The Group does not maintain an RDS for Syndicate 4000 since it does not participate on the Syndicate for the 2009 year of account.

	Total insured loss £bn		Syndicate gross loss £m	% <sup>1</sup>	Syndicate final net loss £m	% <sup>1</sup>	Group final net loss £m <sup>2</sup>
<b>1 January 2010</b>							
<b>Syndicate 1084 scenario</b>							
California earthquake (Los Angeles)	47.3	153.1	21.7	61.2	8.7	51.3	
Gulf of Mexico windstorm	67.3	128.7	18.2	63.1	8.9	52.9	
California earthquake (San Francisco)	47.3	168.9	23.9	64.5	9.1	54.1	
Two events: North East windstorm	47.3	124.2	17.6	68.4	9.7	57.4	
New Madrid earthquake (extreme stress scenario)	64.8	123.2	17.4	61.9	8.8	51.9	
Florida windstorm: Pinellas County	75.8	121.1	17.1	53.9	7.6	45.2	
European windstorm	18.8	105.4	14.9	46.4	6.6	38.9	
Japanese earthquake	30.9	102.0	14.4	55.1	7.8	46.2	
Florida windstorm: Miami-Dade	75.8	114.6	16.2	51.5	7.3	43.2	
New Madrid earthquake	28.5	65.4	9.2	51.0	7.2	42.8	
Terrorism: Exchange Place	9.1	50.2	7.1	40.1	5.7	33.6	
Terrorism: Rockefeller Center	8.5	39.6	5.6	28.3	4.0	23.7	
Professional Lines: UK pensions mis-selling	n/a	29.0	4.1	19.2	2.7	16.1	
Political Risk: South East Asia crisis	n/a	57.4	8.1	34.9	4.9	29.3	
Loss of major energy complex	n/a	104.7	14.8	33.1	4.7	27.8	
<b>Syndicate 1176 scenario</b>							
Core melt event at a single Canadian nuclear power station	2.0	194.8	614.5	64.1	202.2	35.1	
Core melt event at a single US nuclear power station	2.0	76.1	240.1	60.0	189.3	32.9	
Terrorist event (non-TRIPRA): Non-core melt	0.2	32.7	103.2	32.7	103.2	17.9	
<b>1 January 2009</b>							
<b>Syndicate 1084 scenario</b>							
California earthquake (Los Angeles)	54.2	207.6	38.1	97.0	17.8	84.4	
Gulf of Mexico windstorm	78.5	183.7	33.7	96.1	17.6	83.6	
California earthquake (San Francisco)	54.2	176.4	32.4	82.2	15.1	71.5	
Two events: North East windstorm	54.2	161.3	29.6	92.6	17.0	80.5	
New Madrid earthquake (extreme stress scenario)	74.3	155.8	28.6	79.0	14.5	68.7	
Florida windstorm: Pinellas County	86.8	146.8	26.9	73.7	13.5	64.1	
European windstorm	21.5	146.3	26.8	62.5	11.5	54.4	
Japanese earthquake	35.4	130.7	24.0	77.1	14.1	67.0	
Florida windstorm: Miami-Dade	86.8	121.3	22.3	54.5	10.0	47.4	
New Madrid earthquake	32.6	91.3	16.8	54.8	10.1	47.7	
Terrorism: Exchange Place	9.1	77.8	14.3	68.7	12.6	59.7	
Terrorism: Rockefeller Center	8.5	71.6	13.1	62.5	11.5	54.4	
<b>Syndicate 1176 scenario</b>							
Core melt event at a single Swedish nuclear power station	2.0	194.5	617.5	68.6	217.8	37.8	
Core melt event at a single US nuclear power station	2.0	70.8	224.8	63.9	202.9	35.2	
Terrorist event (non-TRIPRA)	0.1	25.9	82.2	25.9	82.2	14.3	

1 Based on a 2010 premium capacity of £707.0m (2009 £634.0m) for Syndicate 1084 and £31.7m (2009 £31.5m) for Syndicate 1176

2 Based on an economic 2010 Group share of 83.9% (2009 87.0%) for Syndicate 1084 and 54.8% (2009 55.1%) for Syndicate 1176

**Maximum Lines**

Underwriters manage individual risks through adherence to set maximum line sizes. The following table details the maximum gross line sizes that were in place for 2009 and 2008 by class of business.

Division	Class of business	Currency	Maximum line (Gross)	
			2009 Millions	2008 Millions
Marine	Specie	USD	72.5	75.0
	Liability	USD	60.0	60.0
	Cargo	USD	50.0	25.0
	War	USD	30.0	40.0
	Hull	USD	30.0	20.0
	Political risk	USD	20.0	20.0
	Satellite	USD	7.0	6.0
	Excess of loss	USD	2.5	5.0
Energy	Exploration and production	USD	125.0	125.0
	Construction	USD	85.0	85.0
	Physical damage	USD	85.0	85.0
	Liability	USD	50.0	50.0
	Control of well	USD	45.0	45.0
	Midstream	USD	45.0	45.0
	Downstream, power and utilities	USD	7.5	7.5
Aviation	Liability	USD	60.0	50.0
	Refuellers and products	USD	50.0	50.0
	Hull	USD	5.5	4.5
Property	Engineering	USD	50.0	50.0
	Facultative: USA/Canada	USD	30.0	40.0
	Facultative: International	USD	30.0	40.0
	Delegated authority: USA/Canada	USD	17.5	6.0
	Delegated authority: International	GBP	4.0	4.0
	Treaty: Catastrophe	USD	15.0	10.0
	Treaty: Risk excess of loss	USD	7.0	5.0
	Treaty: Other reinsurance	USD	7.0	5.0
Specialist Lines	Medical	USD	25.0	15.0
	Accident & Health	EUR	14.3	16.3
	UK and international general liability	GBP	10.0	10.0
	Financial institutions	GBP	7.5	5.0
	General casualty treaty	USD	7.5	3.0
	General casualty direct	USD	2.0	2.0
	Directors & Officers/Errors & Omissions	USD	2.0	2.0
	Other claims made	USD	2.0	2.0
Nuclear	Property	GBP	200.0	185.0
	Liability	GBP	60.0	46.3

**Terms and conditions of contracts**

Other than UK motor insurance, all of the policies underwritten have maximum indemnity limits per insured event. In addition, the number of reinstatements per policy is limited and deductibles and policy exclusions limit risk further.

UK motor insurance is unlimited by statute but the Group buys reinsurance to limit any potential maximum loss arising from any one assured.

**Claims**

Claims events are inherently uncertain and volatile.

The Group manages claims related risks by way of reinsurance and by a similar monitoring process to underwriting. The Group has strict claims handling authority limits and standard claims reports such as the non-moving claims report. Only approved third party adjusters and surveyors are used.

### Reinsurance

Reinsurance purchase limits the Group's exposure to individual risks and aggregations of risks. The Group purchases a number of different types of reinsurance, including:

- Facultative (to limit the exposure on a specified contract)
- Specific excess and proportional treaty (to limit exposure to individual contracts or risks within specified classes of business)
- Catastrophe excess of loss (to limit exposure to any one event that might impact more than one individual contract)

The reinsurance programme is reviewed by the Group's Underwriting Board, peer reviewed and approved by the CSL Board. The actuarial department provides supporting analysis utilising stochastic modelling techniques. The Underwriting Board also monitors erosion of cover.

The cost of the 2009 reinsurance programme, including outstanding cost and expected reinstatement premiums on the marine and non-marine sectors, on a 100% basis was:

		£m	US\$m	Can\$m	2009 Converted £m	£m	US\$m	Can\$m	2008 Converted £m
Non-marine	Facultative	-	1.5	-	0.9	-	1.6	-	0.9
	Proportional	4.8	17.3	-	15.8	5.2	14.2	-	12.9
	Excess of loss	10.1	39.1	-	35.1	9.0	37.2	-	29.1
		<b>14.9</b>	<b>57.9</b>	<b>-</b>	<b>51.8</b>	<b>14.2</b>	<b>53.0</b>	<b>-</b>	<b>42.9</b>
Marine	Facultative	0.4	2.6	-	2.0	0.8	11.6	-	7.1
	Proportional	1.8	15.4	0.1	11.7	1.9	13.3	0.1	9.1
	Excess of loss	5.1	34.0	0.1	26.8	4.5	27.1	0.2	19.3
		<b>7.3</b>	<b>52.0</b>	<b>0.2</b>	<b>40.5</b>	<b>7.2</b>	<b>52.0</b>	<b>0.3</b>	<b>35.5</b>
Nuclear	Excess of loss	4.1	-	-	4.1	3.8	-	-	3.8
UK Motor	Excess of loss	7.4	-	-	7.4	7.5	-	-	7.5
Syndicate 4000	Facultative	-	-	-	-	-	0.1	-	0.1
	Proportional	-	-	-	-	0.8	1.3	-	1.5
	Excess of loss	-	-	-	-	13.8	6.2	-	17.2
		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14.6</b>	<b>7.6</b>	<b>-</b>	<b>18.8</b>
		<b>33.7</b>	<b>109.9</b>	<b>0.2</b>	<b>103.8</b>	<b>47.3</b>	<b>112.6</b>	<b>0.3</b>	<b>108.5</b>

The previous RDS section illustrates the effects of the reinsurance programme against a series of potential major loss events.

For the non-marine book (property and specialist lines), reinsurance of a proportional and non-proportional nature was purchased in order to provide sufficient line capacity to control business and to protect against severity and frequency of losses. The retention following a catastrophic event for 2009 was US\$50m and is unchanged for 2010. The per risk retention for 2010 after application of the core risk-excess programme is US\$7.5m on a first loss basis, reducing to US\$5m for the second loss.

The marine and energy accounts purchase extensive protections to provide cover to minimise the effect of any major loss or series of losses. For most marine classes the retention was at least US\$5m and US\$12.5m for energy.

The UK motor account has protection from a reinsurance programme placed on a 'losses occurring' basis, which is unlimited, both in terms of the amount and the number of losses sustained. For 2009, the retention was £1m for 'each and every loss'. The 2010 programme attaches at £1m, with the first layer, which provides £1m of cover, being placed with a 50% order.

### Credit

The Group's Security Committee reviews all reinsurer counterparties with whom it wishes to conduct business and sets credit thresholds for the total potential recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, management of reinsurer credit risk follows active and regular review, with the assistance of outside expertise, of the credit rating and financial exposure to all approved reinsurers.

The method of setting credit thresholds was largely unchanged in 2009:

- Restriction thresholds are set at the total level for a reinsurer and exposures are also monitored at a Group level
- There is a differentiation between short, medium and long tail covers reflecting the longer time for payment of longer-tail business and hence greater reinsurer default risk
- Explicit allowance is made for reinstatements when determining exposures
- For each syndicate, risk and capital implications are the key drivers in setting reinsurer exposure thresholds
- Monitoring identifies all in-force contracts

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009 .....

Maximum exposure thresholds are set per reinsurer as a reflection of the Group's risk appetite. The table below presents the aggregate maximum exposures usually applied for the highest rated reinsurers (Highest) and for the lowest acceptably rated ones (Lowest).

Syndicate 1084	1 January 2010			1 January 2009		
	Short-tail US\$m	Medium-tail US\$m	Long-tail US\$m	Short-tail US\$m	Medium-tail US\$m	Long-tail US\$m
Highest	550	275	183	500	250	167
Lowest	55	27	-	50	25	-

The Group has applied an uplift of 10% in the overall threshold for 2009 and 2010 to account for diversification where a reinsurer has exposure to more than one tail length.

Syndicates 1176 and 4242 have different thresholds, recognising the different nature of those syndicates' accounts and, in particular, the unique nature of Syndicate 1176 and the need to have high levels of reinsurance protection relative to its size. Syndicate 4000 is not shown as the Group does not participate on the 2009 year of account.

The Group predominantly buys reinsurance from reinsurers rated A (strong) or better by Standard & Poor's (or equivalent). The table below provides an analysis of the 2010 general reinsurance programme security (on a 100% basis).

Syndicate 1084	First loss exposure	
	2010 %	2009 %
<b>Reinsurance rating bands (Standard &amp; Poor's or equivalent)<sup>1</sup></b>		
Lloyd's Syndicates (A+)	35.6	37.1
AAA	1.0	1.5
AA	16.8	30.7
A	46.6	30.7
	100.0	100.0

<sup>1</sup> Ratings as at 5 February 2010 and 5 February 2009 respectively

In order to quantify the cost of potential reinsurance failure, the Group carries bad and doubtful debt provisions based on an individual assessment of each reinsurer. Provisions for bad and doubtful reinsurance debts totalled 1.9% of reinsurance recoveries due at the end of 2009 (2008 1.9%). There was no material exposure arising from reinsurance failure in 2009 or 2008.

The following table provides analysis of the Group's reinsurance debtor security (including reinsurers' share of technical provisions), net of bad debt provisions.

Reinsurance rating bands (Standard & Poor's or equivalent) <sup>1</sup>	2010	2009
	Debt %	Debt %
Lloyd's syndicates (A+)	17.1	15.9
AAA	3.5	4.7
AA	26.9	45.8
A	50.8	31.1
BBB	0.3	0.3
Other <sup>2</sup>	1.4	2.2
	100.0	100.0

<sup>1</sup> Ratings as at 31 December 2009 and 2008 respectively

<sup>2</sup> Other is reinsurers not rated by major rating agencies and is net of offset where appropriate or of post-balance sheet date commutation. The figure includes 0.1% of collateralised security (2008 1.6%)

Broker credit risk limits for Syndicate 1084 are also determined depending on the grading of the relevant broker. The 2009 credit thresholds ranged from £1m to £40m (2008 from £1m to £40m). The Security Committee monitors exposure against these tolerance thresholds on a monthly basis.

UK Motor non-fleet (personal lines) business has limited credit risk due to the utilisation of intermediary guaranteeing brokers and credit thresholds are not set for the value of business processed through these brokers, although the Group monitors exposure against these tolerance thresholds on a monthly basis.

## Reserving

The Group's reserving policy seeks to ensure appropriate allowance for reserving risk, consistency in reserving from year to year and the equitable treatment of capital providers on the closure of a year of account.

Reserves are set on a hierarchical basis, there being three tiers to the hierarchy.

### TIER 1: ACTUARIAL BEST ESTIMATE RESERVES

Actuarial best estimate reserves are prepared on an underwriting year basis and are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The actuarial best estimate reserves are the responsibility of the Group Actuary. The in-house Actuarial Team calculates the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance staff.

### TIER 2: SYNDICATE RESERVES

Syndicate reserves are the level of reserves booked at a syndicate level. Determination of syndicate reserves is a two-stage process: first, they are determined on an underwriting year basis and then they are converted to an annually accounted basis.

#### (a) Underwriting year syndicate reserves

Underwriting year syndicate reserves are prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings. The intention of such risk loadings is to match areas within each syndicate where the perception is that there is a particularly high risk that the best estimate reserve may be inadequate. Such areas include, but are not limited to, the following:

- New classes of business
- Classes where early development is materially better or worse than expected
- Classes or events with abnormally skew claim distributions
- Claim events or reserving categories with a poorly understood distribution

To ensure consistency in the application of risk loadings, the starting point in their assessment is, where possible, formulaic. The formulaic risk loadings are adjusted wherever considered either excessive or understated. There may also be additional risk loadings in respect of risks not covered by the formulaic basis.

The underwriting year syndicate reserves provide the basis for all syndicate results and forecasts.

#### (b) Annually accounted syndicate reserves

Annually accounted syndicate reserves are the underwriting year syndicate reserves converted to an annually accounted basis, plus additional loadings to take account of any deficiencies in the conversion process. The loadings applied are entirely formulaic.

The Group's Finance Committee, subject to approval by the CSL Board, determines all risk loadings within syndicate reserves.

### TIER 3: GROUP RESERVES

Where appropriate, there are further additional risk loadings in respect of the Group's share of the annually accounted syndicate reserves. These only relate to material information that has emerged in the period between finalisation of the Syndicates' reserves and the finalisation of the Group's reserves.

The Finance Committee, subject to approval by the CHP Board, determines the risk loadings within the Group's reserves.

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical data supports the estimation of ultimate loss ratios. The analysis also draws on external data or market data or non-standard methodologies where appropriate. Whenever actual development of premiums or claims within a reserving category during a quarter is materially different from expected development based on the existing methodology, then that methodology is reassessed and, where appropriate, amended. The analysis takes credit for reinsurance recoveries and provides for the possibility of reinsurer failure.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners and access to a history of loss data. Finally, explicit risk loadings are applied in respect of the areas of greatest risk within the reserve assessment.

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences (e.g. the legal environment) and the quantum of reserves relative to net tangible assets, mean that reserving remains a significant source of risk to the Group. The following reserve scenarios tests illustrate the scale of this exposure.

The scenarios selected are illustrative of the main inherent risks in setting technical provisions for insurance liabilities. In each case, the Group believes the event tested to have a low likelihood but no specific probability assigned to it. The stress tests apply at syndicate level, while the results shown reflect the Group's share. Where appropriate, the results include credit for reinsurance recoveries and utilisation of reserve risk loadings.

#### Scenario 1

Risk: Underestimation of loss ratios on new classes of business.

Test: 40% increase in estimated ultimate gross loss ratios on the non-marine hospitals account. This class is a recent addition to the business and has the longest claim development period.

#### Scenario 2

Risk: Underestimation of loss ratios in classes of business affected by non-specific financial turmoil claims (excluding sub-prime, Madoff etc).

Test: Double the general IBNR provision in Syndicate 1084 and 4000 classes with exposure to Financial Institutions claims in the 2007 and 2008 underwriting years.

#### Scenario 3

Risk: Underestimation of Madoff losses.

Test: Double the probabilities of a total indemnity loss for each and every assured with potential exposure (or claims notified) to Madoff.

#### Scenario 4

Risk: Under provision for reinsurance bad debt.

Test: Failure of the Group's largest non-Lloyd's reinsurer, with a credit rating lower than AA. The Group has assumed a recovery rate of 40%.

#### Scenario 5

Risk: Further political risk/credit losses emerge from a new country.

Test: Double the ultimate claims provision relating to specific countries: Bahrain, Brazil, Kazakhstan, Mexico, Peru, Russia and Ukraine.

#### Scenario 6

Risk: Underestimation of motor third-party bodily injury claims in the most recent underwriting year.

Test: Increase the ultimate loss ratio in respect of third-party bodily injury claims by an additive 5% in the 2009 underwriting year.

#### RESULTS

Scenario	Risk	Net loss to Group £m
1	Underestimation of loss ratios on new classes of business	18.6
2	Underestimation of loss ratios in classes of business affected by non-specific financial turmoil claims	28.7
3	Underestimation of Madoff losses	30.7
4	Under provision for reinsurance bad debt	19.7
5	Further political risk/credit losses emerge from a new country	16.1
6	Underestimation of motor third-party bodily injury claims in the most recent underwriting year	3.2

The development of projections of insurance liabilities over time provides a measure of the Group's ability to estimate the ultimate value of claims. The following tables illustrate how the Group's share of total gross and net ultimate claims for each underwriting year have changed at successive year-ends.

Notes to the Consolidated Financial Statements for the year ended 31 December 2009

Estimated gross ultimate claims <sup>1,2</sup> (All figures in £m)	2001 & prior	2002	2003	2004	2005	2006	2007 <sup>3</sup>	2008	2009	Corporate and other adjustments <sup>4</sup>	Total
At end of year	1,811.7	232.7	262.7	314.5	508.3	308.5	444.2	662.0	460.0		
One year later	1,807.4	195.8	267.8	366.5	523.1	339.0	432.3	714.1			
Two years later	1,842.0	188.2	238.0	345.7	533.8	303.1	441.1				
Three years later	1,844.4	186.2	227.0	342.1	508.8	291.0					
Four years later	1,848.8	179.2	227.3	326.2	491.1						
Five years later	1,831.8	174.4	228.4	318.2							
Six years later	1,825.3	172.6	226.2								
Seven years later	1,823.1	174.0									
Eight years later	1,822.5										
<b>Total ultimate claims at 31 December 2009</b>	<b>1,822.5</b>	<b>174.0</b>	<b>226.2</b>	<b>318.2</b>	<b>491.1</b>	<b>291.0</b>	<b>441.1</b>	<b>714.1</b>	<b>460.0</b>	<b>-</b>	<b>4,938.2</b>
Less accumulated payments	(1,732.8)	(158.2)	(200.3)	(270.3)	(425.9)	(194.4)	(203.5)	(255.3)	(44.8)		(3,485.5)
Unearned portion of ultimate claims	-	-	-	-	-	(0.5)	(5.5)	(28.8)	(233.9)		(268.7)
Claims handling provision	0.4	0.2	0.2	0.7	1.0	1.7	2.4	6.4	4.7		17.7
<b>Total outstanding claims at 31 December 2009 on a 100% basis</b>	<b>90.1</b>	<b>16.0</b>	<b>26.1</b>	<b>48.6</b>	<b>66.2</b>	<b>97.8</b>	<b>234.5</b>	<b>436.4</b>	<b>186.0</b>	<b>-</b>	<b>1,201.7</b>
Less unaligned share	(0.3)	(0.2)	(0.4)	(3.5)	(0.8)	(0.8)	(2.4)	(11.1)	(13.4)		(32.9)
Other corporate adjustments	-	-	-	-	-	-	-	-	-	(0.1)	(0.1)
<b>Total outstanding claims at 31 December 2009</b>	<b>89.8</b>	<b>15.8</b>	<b>25.7</b>	<b>45.1</b>	<b>65.4</b>	<b>97.0</b>	<b>232.1</b>	<b>425.3</b>	<b>172.6</b>	<b>(0.1)</b>	<b>1,168.7</b>

Estimated net ultimate claims <sup>1,2</sup> (All figures in £m)	2001 & prior	2002	2003	2004	2005	2006	2007 <sup>3</sup>	2008	2009	Corporate and other adjustments <sup>4</sup>	Total
At end of year	1,175.3	191.6	224.3	247.9	318.3	282.7	390.4	532.3	414.0		
One year later	1,161.4	162.5	204.1	243.2	315.1	302.3	370.0	557.6			
Two years later	1,156.8	155.8	180.4	229.7	326.3	269.5	373.3				
Three years later	1,156.3	154.9	170.2	219.3	305.7	260.1					
Four years later	1,141.8	150.2	169.8	213.6	291.8						
Five years later	1,140.9	147.5	170.2	209.7							
Six years later	1,139.1	144.4	168.4								
Seven years later	1,139.5	144.2									
Eight years later	1,139.0										
<b>Total ultimate claims at 31 December 2009</b>	<b>1,139.0</b>	<b>144.2</b>	<b>168.4</b>	<b>209.7</b>	<b>291.8</b>	<b>260.1</b>	<b>373.3</b>	<b>557.6</b>	<b>414.0</b>	<b>-</b>	<b>3,558.1</b>
Less accumulated payments	(1,084.2)	(134.6)	(152.4)	(180.2)	(235.7)	(179.4)	(187.5)	(219.3)	(40.8)		(2,414.1)
Unearned portion of ultimate claims	-	-	-	-	-	(0.5)	(5.3)	(25.7)	(210.3)		(241.8)
Claims handling provision	0.4	0.1	0.2	0.6	1.0	1.7	2.4	6.4	4.7		17.5
Bad debt provision	2.6	0.4	0.2	0.4	0.1	0.2	0.6	1.4	0.2		6.1
<b>Total outstanding claims at 31 December 2009 on a 100% basis</b>	<b>57.8</b>	<b>10.1</b>	<b>16.4</b>	<b>30.5</b>	<b>57.2</b>	<b>82.1</b>	<b>183.5</b>	<b>320.4</b>	<b>167.8</b>	<b>-</b>	<b>925.8</b>
Less unaligned share	(0.3)	(0.2)	(0.4)	(3.5)	(0.8)	(0.8)	(2.0)	(2.9)	(12.3)		(23.2)
Less quota share reinsurance	-	-	-	-	-	-	-	-	-	(26.7)	(26.7)
<b>Total outstanding claims at 31 December 2009</b>	<b>57.5</b>	<b>9.9</b>	<b>16.0</b>	<b>27.0</b>	<b>56.4</b>	<b>81.3</b>	<b>181.5</b>	<b>317.5</b>	<b>155.5</b>	<b>(26.7)</b>	<b>875.9</b>

1 Ultimate claims and accumulated payments as at each year-end converted at 31 December 2009 exchange rates for this analysis

2 The figures above include ultimate claims and accumulated payments for Syndicates 15, 17, 396, 587, 1096, 1204, 1224, 1229 and 1245, which closed into Syndicate 1084 at various points in time. The Group typically strengthens reserves on closure, although for the purposes of this analysis, deems this strengthening to have occurred when these syndicates commenced operations

3 From 2007, the results include the impact of claims reserves of Syndicate 4000 and Syndicate 4242. The Group initially includes these at a 100% level before their removal on the 'unaligned share' line

4 Corporate and other adjustments include the effect of quota share agreements held at the corporate level

The total provision releases from prior years on which the Group participated on a 100% basis amounted to £39.0m (2008 £81.0m) net of reinsurance in the table above. This largely arises because of the Group's reserving philosophy, which may include the addition of risk loadings to actuarial best estimate reserves where sufficient uncertainty exists, especially in the earlier years of an underwriting year's development. This practice gives rise to the potential for subsequent releases, which, in 2009, mainly arose in the Marine, Energy, Aviation, Property and Specialist Lines Divisions (2008 Motor, Property and Specialist Lines Divisions and Syndicate 4000).

The Group's share of the releases above is £31.8m (2008 £74.1m), after taking into account the change in participation in different years of account, the impact of foreign exchange and the application of earning patterns.

**3. FINANCIAL ASSETS AND INVESTMENT RISK****Financial assets at fair value through profit and loss**

	2009		2008	
	Cost £m	Fair value £m	Cost £m	Fair value £m
<b>Funds at Lloyd's and other corporate funds</b>				
Equities	3.2	2.1	3.2	2.5
Absolute return bond funds	-	-	172.3	168.7
Bonds	225.5	216.7	1.6	1.6
	<b>228.7</b>	<b>218.8</b>	<b>177.1</b>	<b>172.8</b>
Other <sup>1</sup>	17.0	17.0	17.0	17.0
	<b>245.7</b>	<b>235.8</b>	<b>194.1</b>	<b>189.8</b>
<b>Syndicate participations</b>				
Equities	4.5	2.5	5.9	3.5
Hedge funds <sup>2</sup>	32.5	37.5	192.9	154.7
Absolute return bond funds	-	-	170.8	163.9
Bonds	528.0	532.9	255.0	246.5
Overseas deposits <sup>3</sup>	43.1	43.1	40.3	40.3
	<b>608.1</b>	<b>616.0</b>	<b>664.9</b>	<b>608.9</b>
	<b>853.8</b>	<b>851.8</b>	<b>859.0</b>	<b>798.7</b>

1 In 2007, the Group invested £15m for a 13.7% shareholding of Antares Holdings Limited (Antares), a Bermudian based holding company established by Lightyear Capital LLC, a private equity firm focused on financial services investments. In November 2007, Antares issued the Group with an additional £2m shares in exchange for the provision of Managing Agent services in 2008 and 2009

Antares sponsors Antares Syndicate 1274, which began underwriting for the 2008 year of account with an underwriting capacity of £135m. Chaucer Syndicates Limited, a Group company, managed the Syndicate until 31 December 2009

At the end of 2009, the investment in Antares remained unlisted on an active market. Accordingly, the Group has valued it by reference to the Group's share of net assets and future income discounted at an appropriate rate of return

2 At the end of 2009, hedge funds with a total value of £37.5m remained unlisted on an active market. In accordance with stated accounting policies, the Group valued these based on net asset values provided by independent third party fund administrators, by reference to listed securities of a similar nature or by using pricing models which are reviewed and approved by an independent pricing specialist (as applicable)

3 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

**Investment strategy and risk management**

The Group philosophy is that investment activities are complementary to the primary underwriting activities of the business and should not, therefore, divert or utilise financial resources otherwise available for insurance operations.

The maintenance of sufficient capital and liquidity to support the business is at the heart of the Group's financial market risk policies, together with the aim for long-run enhancement of investment returns, within a set of defined risk constraints, through the efficient diversification of investments across a range of asset classes. These asset classes include cash and deposits, investment grade and high yield bonds, equities and hedge funds.

The CHP Board approves the investment risk constraints, which quantify the maximum amount of investment risk permitted over a one-year time horizon, on an annual basis. These establish the risk budget used to derive the maximum allocation assignable to each asset class.

During the year, the Group maintained the risk constraints as follows:

**2009**

- No more than a 5% probability of underperforming cash by more than 2.5% on a rolling one-year basis

**2008**

- No more than a 20% probability of underperforming cash by more than 1.0%
- No more than a 10% probability of underperforming cash by more than 2.5%

The Group changed the risk constraints in November 2008 to an absolute return basis as follows:

- No more than a 5% probability of underperforming cash by more than 2.5% on a rolling one-year basis

During the year the CHP Board assumed the responsibilities of the Group's Investment Committee, including the responsibility for reviewing and amending asset allocations in accordance with investment risk constraints and appetite.

Due regard is given to the outlook for each asset class because of changes in market conditions and investment returns. The Group tests proposed asset allocations using stochastic modelling techniques prior to formal approval by the CHP Board.

The CHP Board also assumed responsibility for selecting investment managers and funds for each asset class allocation.

**Investment managers**

The Group invests a significant proportion of funds in fixed income securities managed by professional portfolio managers. Each manager operates within a defined set of investment guidelines that comprise details of the investment universe from which managers may select securities and any exposure limits applied to asset classes and counterparties within that universe.

The Group measures the performance of each manager against an appropriate benchmark for each asset class under management.

The following table summarises the performance of each portfolio manager against the chosen benchmark (BM) set for all portfolios held throughout the year.

	UK Sterling returns		US Dollar returns	
	Manager %	BM %	Manager %	BM %
<b>2009</b>				
GRNEAM	-	-	7.4	1.6
Aberdeen Asset Management	-	-	10.4	1.6
Crédit Agricole	2.0	2.1	1.3	0.5
<b>2008</b>				
GRNEAM	-	-	(1.4)	2.5
Aberdeen Asset Management	-	-	(6.9)	2.5
Crédit Agricole	(2.4)	5.7	-	-
Alliance Bernstein	-	-	(14.8)	5.5

The strong performance of GRNEAM and Aberdeen Asset Management reflect the recovery seen across risk assets in the fixed income space. The performance of Crédit Agricole was good given the defensive guidelines set for the investment portfolio.

**RISK POLICIES****Market risk****Interest rate risk**

Traditionally the most material element of risk within fixed income portfolios is interest rate risk, with risk increasing as durations get longer and returns being largely dependent on the direction of interest rates in domestic markets.

Given record low interest rates, the sensitivity analysis does not consider lower short-term rates in 2010.

The sensitivities shown in the table below assume that underlying fixed income securities have a 100% correlation to changes in interest rates.

	Change in interest rates %	Impact on capital £m
31 December 2009	+2.0	(27.1)
	+1.0	(13.6)
31 December 2008	+2.0	(5.0)
	+1.0	(2.5)
	-1.0	2.5
	-2.0	5.0

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009 .....

The table below shows the maturity profile of bonds at the balance sheet date.

Absolute return bond funds are excluded from the analysis as the funds are not directly correlated with changes in interest rates.

	Maturity bands (Years) <sup>1</sup>					
	<1 £m	1-2 £m	2-3 £m	3-4 £m	4+ £m	Total £m
<b>31 December 2009</b>						
Government	45.3	17.7	23.8	-	-	86.8
AAA	92.0	147.2	70.9	14.8	27.2	352.1
AA	47.1	30.5	19.6	5.8	11.5	114.5
A	28.8	11.3	14.9	10.2	57.2	122.4
BBB	0.7	1.8	3.5	-	59.5	65.5
Other	-	-	-	0.5	7.8	8.3
	<b>213.9</b>	<b>208.5</b>	<b>132.7</b>	<b>31.3</b>	<b>163.2</b>	<b>749.6</b>
<b>31 December 2008</b>						
Government	77.3	15.1	4.2	0.9	-	97.5
AAA	54.2	35.2	28.0	5.7	0.8	123.9
AA	6.3	4.2	1.1	-	-	11.6
A	2.3	6.1	3.1	-	-	11.5
BBB	1.1	1.2	0.3	-	-	2.6
Other	-	1.0	-	-	-	1.0
	<b>141.2</b>	<b>62.8</b>	<b>36.7</b>	<b>6.6</b>	<b>0.8</b>	<b>248.1</b>

<sup>1</sup> Maturity assumes the earlier of the next contractual re-pricing date and maturity

### Currency risk

The Group writes a significant proportion of insurance business in currencies other than sterling which gives rise to an exposure to currency risk and mitigates this risk by adopting a policy of matching assets and liabilities, by currency, for all exposures representing more than 5% of the assets of the business.

At the year-end, the total of financial assets and cash and cash equivalents by currency was as follows:

	2009 %	2008 %
UK Sterling	51	48
US Dollar	45	48
Other	4	4
	<b>100</b>	<b>100</b>

If Syndicate 1084 holds a material surplus or deficit of non-sterling denominated assets, attributable to the Group because of accumulated profits or losses, the Group manages the exposure with currency purchases and sales as appropriate.

There were no open forward currency contracts at the balance sheet date (2008 nil).

The foreign exchange management policy adopted by the Group decreases the exposure to changes in exchange rates. However, each one cent movement in the US dollar year-end exchange rate will impact the reported profit before tax by less than £1m.

### Equity risk

The Group significantly reduced its exposure to equities in 2008 with residual holdings representing less than 0.5% of total financial assets and cash.

The remaining holdings are in three relatively illiquid closed-ended listed securities which mature in 2011.

The securities are currently trading at significant discounts to their net asset values and future performance is expected to be less correlated with the equity market given the close proximity of their maturity dates.

Assuming their performance is fully correlated with equity markets, a 20% fall in value would result in a loss of £0.9m.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009

### Hedge funds

During 2009 hedge fund performance recovered in line with global markets with some managers producing record returns.

The Group decided to exit all hedge fund investments at the start of the year and held residual investments at the end of the year totalling £37.5m, of which a £26.1m investment in a fund of hedge funds was redeemed on 31 March 2010.

In 2009, hedge fund returns comprised:

	Return £m	Absolute return %
Fund of hedge funds	5.0	13.9
Equity long short	1.8	15.8
Fixed income	7.9	33.9
	<b>14.7</b>	<b>20.9</b>

The Directors consider that a loss scenario of 25% represents a realistic stress test on a forward looking basis which would result in losses of £9.4m based on holdings at 31 December 2009 (2008 £30.9m) although this sensitivity reduced to £2.7m when the £26.1m fund of hedge funds holding was redeemed.

### Liquidity risk

The Group is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. The Group operates and maintains a Liquidity Risk Policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The expected payment profile of undiscounted liabilities at 31 December 2009 is as follows:

	Balance sheet £m	Maturity bands (Years)					Total £m
		<1 £m	1-2 £m	2-5 £m	5-10 £m	>10 £m	
<b>31 December 2009</b>							
Subordinated debt	40.3	1.6	1.6	4.7	7.8	66.9	82.6
Technical provisions	1,532.3	540.5	350.7	405.1	142.5	93.5	1,532.3
Trade and other payables	140.6	129.8	2.3	3.2	5.3	-	140.6
	<b>1,713.2</b>	<b>671.9</b>	<b>354.6</b>	<b>413.0</b>	<b>155.6</b>	<b>160.4</b>	<b>1,755.5</b>
<b>31 December 2008</b>							
Subordinated debt	45.1	2.4	2.4	7.1	11.9	87.2	111.0
Technical provisions	1,508.9	640.3	290.9	354.9	122.1	100.7	1,508.9
Trade and other payables	154.0	143.7	2.8	3.2	4.3	-	154.0
	<b>1,708.0</b>	<b>786.4</b>	<b>296.1</b>	<b>365.2</b>	<b>138.3</b>	<b>187.9</b>	<b>1,773.8</b>

The Liquidity Risk Policy, which is subject to review and approval by the Risk & Capital Committee on an annual basis, sets limits for cash required to meet expected cash flows and includes a Contingency Funding Plan, which details the process and provisions for liquidating assets and/or raising additional funds required to meet liabilities in extreme circumstances.

The majority of financial assets and cash and cash equivalents are liquid or capable of liquidation at very short notice. At 31 December 2009, approximately 88% (2008 90%) of such assets were capable of liquidation within three working days, 1% (2008 2%) within 120 days, and 11% (2008 8%) later than 120 days, of which 83% are in fixed term deposits where funds can be withdrawn subject to potential penalties depending on interest rates prevailing at the time they are withdrawn.

**CREDIT RISK****Investments**

The Group invests the majority of funds in high-quality investment grade securities, money market funds and cash deposits. Managers may take credit risk within the constraints of investment guidelines set by the Investment Committee for segregated fixed income mandates or within the constraints set by the fund rules where investments have been made in funds.

**Insurance and reinsurance debtors**

The business has credit risk exposures from insurance and reinsurance debtors and operates an internal credit rating policy and limit setting process (see Note 2).

The following table shows the amount of reinsurance receivables that were past due (outside standard trading terms) but not impaired at the year-end on a 100% basis.

	2009 £m	2008 £m
0-3 months past due	1.2	0.1
4-9 months past due	0.6	-
	<b>1.8</b>	<b>0.1</b>

The following table shows the five largest gross counterparty exposures in respect of insurance brokers (on a 100% basis). The Group does not hold collateral in respect of any of these counterparties.

Broker	2009 £m	2008 £m
Marsh	32.7	28.1
Willis	26.0	26.7
Aon	21.1	28.7
Miller Insurance Services	8.1	10.2
Thompson Heath & Bond	6.4	10.8
	<b>94.3</b>	<b>104.5</b>

**Determination of fair value and fair value hierarchy**

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
<b>Financial assets at fair value through profit or loss</b>				
<b>Funds at Lloyd's and other corporate funds</b>				
Equities	2.1	-	-	2.1
Hedge funds	-	-	-	-
Absolute return bond funds	-	-	-	-
Bonds	22.2	194.5	-	216.7
Other	-	-	17.0	17.0
	<b>24.3</b>	<b>194.5</b>	<b>17.0</b>	<b>235.8</b>
<b>Syndicate participations</b>				
Equities	2.5	-	-	2.5
Hedge funds	-	37.5	-	37.5
Bonds	64.6	468.3	-	532.9
Overseas deposits	43.1	-	-	43.1
	<b>110.2</b>	<b>505.8</b>	<b>-</b>	<b>616.0</b>
<b>At 31 December 2009</b>	<b>134.5</b>	<b>700.3</b>	<b>17.0</b>	<b>851.8</b>

Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the Level 2 category are:

- financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, for which pricing is obtained via pricing services, but where prices have not been determined in an active market;
- financial assets with fair values based on broker quotes;
- investments in private equity funds with fair values obtained via fund managers; and
- assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

The only financial asset included in the Level 3 category is the Group's investment in Antares. Level 3 fair value measurements are those derived from valuation techniques that include inputs for a financial asset that are not based on observable data. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

There were no transfers between Level 1 and Level 2 during the year.

There was no movement in the opening and closing recorded amount of Level 3 financial assets which are recorded at fair value.

#### Sensitivity of Level 3 financial assets measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of Level 3 assets to changes in key assumptions, by class of instrument:

	Carrying amount £m	31 December 2009 Effect of reasonably possible alternative assumptions (+/-) £m
Investment in Antares	17.0	0.2

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable inputs. For the investment in Antares, the Group adjusted the assumed net asset multiple. The adjustment made was to increase and decrease the assumed net asset multiple by 1.0%, which is considered by the Group to be within a range of reasonably possible alternatives based on net asset multiples of companies with similar industry and risk profiles.

#### 4. SEGMENTAL INFORMATION

The CHP Board, 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 the Group's 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 any change in the Group's ownership of the RITC of Syndicates 1084 and 1176 following the closure of their previously open 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 and 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009 .....

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.
- **Syndicate Participations** – This represents the Group's underwriting interests in Syndicates 4000 and 4242.

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

Year ended											Total (excluding Eliminations		Total £m
	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate Participations <sup>1</sup> £m	Run off <sup>2</sup> £m	and Other) £m	Eliminations £m	Other <sup>3</sup> £m	
<b>31 December 2009</b>													
Adjusted gross written premiums	158.6	152.7	150.6	42.2	183.8	72.8	15.7	18.7	0.5	795.6	0.6	-	796.2
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
<b>Unadjusted gross written premiums<sup>5</sup></b>	<b>158.6</b>	<b>152.7</b>	<b>150.6</b>	<b>42.2</b>	<b>183.8</b>	<b>72.8</b>	<b>15.8</b>	<b>18.7</b>	<b>0.5</b>	<b>795.7</b>	<b>0.6</b>	<b>-</b>	<b>796.3</b>
Adjusted net earned premiums	139.8	125.7	119.8	30.9	151.6	54.4	13.5	36.3	0.6	672.6	0.6	(43.5)	629.7
RITC	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.1
Foreign exchange on non-monetary items	-	(5.2)	(7.4)	(1.1)	(6.8)	(1.8)	-	(2.4)	-	(24.7)	-	1.2	(23.5)
<b>Unadjusted net earned premiums<sup>5</sup></b>	<b>139.8</b>	<b>120.5</b>	<b>112.4</b>	<b>29.8</b>	<b>144.8</b>	<b>52.6</b>	<b>13.6</b>	<b>33.9</b>	<b>0.6</b>	<b>648.0</b>	<b>0.6</b>	<b>(42.3)</b>	<b>606.3</b>
Net investment return	4.8	6.5	8.9	2.1	10.4	4.6	0.4	1.1	6.9	45.7	-	7.6	53.3
Other operating income	-	-	-	-	-	-	-	-	-	-	(13.1)	24.3	11.2
<b>Total revenue from operations</b>	<b>144.6</b>	<b>127.0</b>	<b>121.3</b>	<b>31.9</b>	<b>155.2</b>	<b>57.2</b>	<b>14.0</b>	<b>35.0</b>	<b>7.5</b>	<b>693.7</b>	<b>(12.5)</b>	<b>(10.4)</b>	<b>670.8</b>
Adjusted net incurred claims	(116.4)	(87.9)	(61.1)	(12.0)	(69.2)	(36.9)	(2.0)	(34.0)	2.6	(416.9)	-	27.3	(389.6)
RITC	-	-	-	-	-	-	(0.1)	-	-	(0.1)	-	-	(0.1)
<b>Unadjusted net incurred claims<sup>5</sup></b>	<b>(116.4)</b>	<b>(87.9)</b>	<b>(61.1)</b>	<b>(12.0)</b>	<b>(69.2)</b>	<b>(36.9)</b>	<b>(2.1)</b>	<b>(34.0)</b>	<b>2.6</b>	<b>(417.0)</b>	<b>-</b>	<b>27.3</b>	<b>(389.7)</b>
<b>Adjusted net expenses incurred in insurance activities</b>													
Acquisition costs	(27.4)	(34.8)	(44.6)	(8.3)	(36.9)	(13.0)	(0.4)	(11.1)	-	(176.5)	-	11.8	(164.7)
Other expenses	(8.2)	(3.9)	(3.1)	(2.1)	(9.7)	(3.8)	(1.1)	(1.5)	-	(33.4)	3.9	5.7	(23.8)
Foreign exchange on non-monetary items	-	(3.0)	(2.5)	(0.9)	(1.5)	(2.0)	-	(0.6)	-	(10.5)	-	0.7	(9.8)
<b>Unadjusted net expenses incurred in insurance activities</b>	<b>(35.6)</b>	<b>(41.7)</b>	<b>(50.2)</b>	<b>(11.3)</b>	<b>(48.1)</b>	<b>(18.8)</b>	<b>(1.5)</b>	<b>(13.2)</b>	<b>-</b>	<b>(220.4)</b>	<b>3.9</b>	<b>18.2</b>	<b>(198.3)</b>
Recharges from Managing Agent <sup>4</sup>	(2.0)	(1.0)	(1.1)	(0.3)	(1.5)	(0.6)	(2.2)	(0.2)	-	(8.9)	8.3	0.6	-
Actual expenses transferred from Managing Agent	1.0	0.8	0.8	0.3	1.2	0.5	0.7	-	-	5.3	(5.3)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	5.6	(42.3)	(36.7)
<b>Total operating charges</b>	<b>(153.0)</b>	<b>(129.8)</b>	<b>(111.6)</b>	<b>(23.3)</b>	<b>(117.6)</b>	<b>(55.8)</b>	<b>(5.1)</b>	<b>(47.4)</b>	<b>2.6</b>	<b>(641.0)</b>	<b>12.5</b>	<b>3.8</b>	<b>(624.7)</b>
<b>Profit/(loss) from operations</b>	<b>(8.4)</b>	<b>(2.8)</b>	<b>9.7</b>	<b>8.6</b>	<b>37.6</b>	<b>1.4</b>	<b>8.9</b>	<b>(12.4)</b>	<b>10.1</b>	<b>52.7</b>	<b>-</b>	<b>(6.6)</b>	<b>46.1</b>
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(4.1)	(4.1)
<b>Profit/(loss) before tax</b>	<b>(8.4)</b>	<b>(2.8)</b>	<b>9.7</b>	<b>8.6</b>	<b>37.6</b>	<b>1.4</b>	<b>8.9</b>	<b>(12.4)</b>	<b>10.1</b>	<b>52.7</b>	<b>-</b>	<b>(10.7)</b>	<b>42.0</b>

Notes to the Consolidated Financial Statements for the year ended 31 December 2009

Year ended										Total	Eliminations	Other <sup>2</sup>	Total
	UK	Marine	Energy	Aviation	Property	Specialist	Nuclear	Syndicate	Participations <sup>1</sup>	Run off <sup>2</sup>			
31 December 2008	£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	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 <sup>5</sup>	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	(87.9)	(58.5)	(59.2)	(12.5)	(73.2)	(19.9)	(2.4)	(28.6)	7.4	(334.8)	-	20.1	(314.7)
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 <sup>5</sup>	(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 Agent <sup>4</sup>	(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 Agent	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)
Profit/(loss) 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)
Profit/(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)

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

2 'Run off' comprises the results of Syndicates 1204, 1224, 1229 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

4 The elimination of net expenses incurred in insurance activities includes fees and profit commissions charged by the Managing Agent to overseas operations and a portion of the defined benefit pension scheme deficit from the Managing Agent to Syndicate 1084. The portion recharged represents the contributions. The recharges from Managing Agent include the profit commissions, Managing Agent fees and rent invoiced by the Managing Agent 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 Agent (shown as actual expenses transferred from Managing Agent above) in managing the Syndicates are reclassified as net expenses incurred in insurance activities from other operating expenses in each division. The eliminations column removes these transactions. The Group calculates expense ratios on the net expenses incurred in insurance activities figure including the consolidation adjustments and reclassifications explained above. This is in line with previous years' practices

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009 .....

No impairment losses in respect of goodwill and other intangibles have been recognised during the year.

For the purposes of monitoring segment performance and allocating resources between segments, the Chief Decision Maker monitors the allocation of the Group's FAL requirement attributable to each segment, along with the gross ultimate claims across those segments.

	UK £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate participations <sup>1</sup> £m	Run off £m	Total £m
<b>31 December 2009</b>										
FAL requirement <sup>2</sup>	32.4	43.1	51.8	17.7	64.7	31.7	40.3	54.8	-	336.5
Ultimate claims	1,154.8	943.4	439.0	165.3	1,026.2	530.4	40.1	287.3	351.7	4,938.2
Accumulated payments	(925.4)	(708.0)	(231.5)	(102.4)	(846.2)	(319.0)	(8.3)	(66.9)	(277.8)	(3,485.5)
	229.4	235.4	207.5	62.9	180.0	211.4	31.8	220.4	73.9	1,452.7
Corporate adjustments <sup>3</sup>										(284.0)
Outstanding claims <sup>4</sup>										1,168.7
<b>31 December 2008</b>										
FAL requirement <sup>2</sup>	25.9	37.4	45.0	11.2	58.6	26.8	38.6	59.7	-	303.2
Ultimate claims	1,027.4	906.9	403.8	159.5	1,023.6	526.2	36.6	282.4	394.0	4,760.4
Accumulated payments	(830.5)	(680.6)	(192.5)	(92.3)	(827.3)	(318.6)	(7.8)	(25.6)	(292.7)	(3,267.9)
	196.9	226.3	211.3	67.2	196.3	207.6	28.8	256.8	101.3	1,492.5
Corporate adjustments <sup>3</sup>										(319.8)
Outstanding claims <sup>4</sup>										1,172.7

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

2 The 'FAL requirement' is reconciled to the consolidated balance sheet in Note 32

3 'Corporate adjustments' include the removal of the unaligned share from the 100% syndicate level claims and the effect of quota share agreements held at the corporate level

4 The 'Outstanding claims' total is reconciled to the consolidated balance sheet in Note 24

### Geographical information

	Americas £m	Asia Pacific £m	Europe £m	Middle East and Africa £m	Worldwide £m	Total £m
<b>31 December 2009</b>						
Total revenue from external customers						
Gross written premiums	191.4	45.0	216.2	33.7	310.0	796.3
Total assets	647.7	19.2	1,386.8	2.4	-	2,056.1
<b>31 December 2008</b>						
Total revenue from external customers						
Gross written premiums	161.3	35.7	200.1	24.8	319.1	741.0
Total assets	607.3	13.4	1,335.6	4.1	-	1,960.4

The revenue information is based on the location of risk. No revenue transactions from an individual policyholder or intermediary amount to more than 10% of the Group's total revenue.

**5. NET INVESTMENT RETURN**

	2009 £m	2008 £m
<b>Investment return by type of fund</b>		
Funds at Lloyd's and other corporate funds	10.7	(0.4)
Syndicate funds	43.1	(70.3)
Investment expenses	(0.5)	(0.3)
	<b>53.3</b>	<b>(71.0)</b>
Net investment return is further analysed as follows:		
<b>Funds at Lloyd's and other corporate funds</b>		
Interest income	8.5	4.6
Dividend income	0.3	0.6
Movement in unrealised gains less losses	1.9	(5.6)
	<b>10.7</b>	<b>(0.4)</b>
<b>Syndicate funds</b>		
Interest income	16.8	15.6
Dividend income	0.3	0.3
Realised and unrealised gains and losses	26.0	(86.2)
	<b>43.1</b>	<b>(70.3)</b>
Investment expenses	(0.5)	(0.3)
	<b>42.6</b>	<b>(70.6)</b>
	<b>53.3</b>	<b>(71.0)</b>

**6. OTHER OPERATING INCOME**

	2009 £m	2008 £m
Managing Agent fees and profit commissions	8.7	6.8
Other income (including rental income and commissions earned by overseas subsidiary)	2.5	2.4
	<b>11.2</b>	<b>9.2</b>
<b>Analysis of Managing Agent fees and profit commissions</b>		
Managing Agent fees	6.7	4.6
Profit commission	2.0	2.2
	<b>8.7</b>	<b>6.8</b>
<b>Analysis of Managing Agent fees and profit commissions by source of the income</b>		
In-house syndicates (unaligned share)	2.8	2.4
Third party syndicates	5.8	4.3
Run off syndicates	0.1	0.1
	<b>8.7</b>	<b>6.8</b>

**7. EXPENSES INCURRED IN INSURANCE ACTIVITIES**

	2009 £m	2008 £m
Gross acquisition costs	173.6	155.6
Change in gross deferred acquisition costs	(5.6)	(15.9)
	<b>168.0</b>	<b>139.7</b>
Syndicate operating expenses	26.3	29.6
Foreign exchange losses/(gains)	12.6	(35.9)
Personal expenses	5.8	6.0
<b>Gross operating expenses</b>	<b>212.7</b>	<b>139.4</b>
Net contribution from quota share reinsurers	(14.4)	(6.8)
	<b>198.3</b>	<b>132.6</b>

**8. OTHER OPERATING EXPENSES**

	2009 £m	2008 £m
Other operating expenses includes:		
Bonus payable to directors and managers	14.2	7.4
Depreciation of owned assets	1.9	1.9
Operating leases	3.2	3.1
Professional fees	2.8	-
<b>Auditor's remuneration</b>		
Parent Company	0.2	0.2
Other Group companies	0.1	0.1
Syndicates	0.2	0.2
Other non-audit services to the Group	0.4	-

The bonus payable to executive directors and certain other senior staff links to the profits of the Group. The Directors' Remuneration Report describes the bases of determination of the bonus and Note 26 to the consolidated financial statements, other corporate undertakings creditors, reports the outstanding bonus payable. Professional fees relate to corporate finance costs in the first half of 2009.

**9. DIRECTORS' REMUNERATION**

The audited part of the Directors' Remuneration Report contains details of directors' remuneration, pensions and share options for the year.

**10. STAFF COSTS**

The average monthly number of Group employees, including executive directors, during the year was 619 (2008 551), comprising:

	2009 Number	2008 Number
Management	74	88
Underwriting	172	150
Claims handling	149	117
Administration	224	196
	<b>619</b>	<b>551</b>

Staff costs incurred during the year in respect of these employees was:

	2009 £m	2008 £m
Wages and salaries	34.1	30.8
Social security costs	5.0	4.4
Profit related remuneration (excluding social security costs)	13.8	8.6
Other pension costs	3.7	2.3
	<b>56.6</b>	<b>46.1</b>
Less recharged to third party capital providers in managed syndicates	(6.7)	(3.5)
	<b>49.9</b>	<b>42.6</b>

**11. FINANCE COSTS**

	2009 £m	2008 £m
Interest expense	1.9	2.7
Other	2.2	1.3
	<b>4.1</b>	<b>4.0</b>

Interest expense represents interest charges on the subordinated loan notes and the convertible loan. The charges are estimated at amortised cost.

**12. INCOME TAX EXPENSE/(CREDIT)**

	2009 £m	2008 £m
UK corporation tax at 28% (2008 28.5%)	9.8	13.8
Adjustment in respect of prior years	(1.6)	1.5
<b>Current tax</b>	<b>8.2</b>	<b>15.3</b>
Deferred tax movement (Note 16)	5.7	(22.6)
<b>Total deferred tax</b>	<b>5.7</b>	<b>(22.6)</b>
<b>Income tax expense/(credit)</b>	<b>13.9</b>	<b>(7.3)</b>

The tax charge for the year is higher (2008 credit is lower) than that resulting from the application of the standard rate of corporation tax in the UK of 28% (2008 28.5%). The following table reconciles the tax expense/(credit) for the year to the profit/(loss) per the Income Statement.

	2009 £m	2008 £m
Profit/(loss) before tax	42.0	(26.2)
Tax at 28% (2008 28.5%)	11.8	(7.5)
Effects of:		
Expense/(income) not deductible/(taxable) for tax purposes	0.9	(2.0)
Impact of share price reduction in deferred tax assets	3.0	-
Other temporary differences	(0.3)	0.8
Adjustment in respect of prior years	(1.6)	1.5
Unrealised loss on revaluation of investment	0.1	0.3
Utilisation of previously unrecognised tax losses	-	(0.4)
<b>Total income tax expense/(credit)</b>	<b>13.9</b>	<b>(7.3)</b>

Reductions in the share price in late 2008 and 2009 caused a reduction in the deferred tax asset arising from the amortisation of the cost of the deferred bonus scheme. The scheme includes an element that is payable in shares, which vest three years after the date of grant. The associated cost of those shares is amortised in the Income Statement until the vesting date and is valued at the grant value of those shares. For tax purposes, the deductible expense is calculated using the share price at the vesting date. This has resulted in an additional tax charge in the year of £3m (or 7% in relation to the profit before tax).

**13. EARNINGS/LOSSES PER SHARE**

	Earnings £m	Number of shares Million	Earnings per share Pence
<b>Year ended 31 December 2009</b>			
Basic, based on net profit for year	28.1	480.4	5.8
Diluted, based on net profit for the year	28.1	484.7	5.8
	Loss £m	Number of shares Million	Loss per share Pence
<b>Year ended 31 December 2008</b>			
Basic, based on net loss for period	(19.0)	317.3	(6.0)
Diluted, based on net loss for the period	(18.9)	326.8	(6.0) <sup>1</sup>

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

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

	2009 £m	2008 £m
Net profit/(loss) for the year	28.1	(19.0)
Add interest on convertible loan stock net of tax	-	0.1
	<b>28.1</b>	<b>(18.9)</b>

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

	2009 Million	2008 Million
Unadjusted weighted average for year	517.4	346.1
Elimination of own shares held	(37.0)	(28.8)
<b>Adjusted basic weighted average</b>	<b>480.4</b>	<b>317.3</b>
Potentially dilutive shares from convertible debt	-	1.8
Potentially dilutive shares from share options	4.3	7.7
	<b>484.7</b>	<b>326.8</b>

Total potential shares outstanding at the balance sheet date that were not dilutive, as vesting conditions with regards to price have not been met yet, but could potentially dilute earnings per share in the future, were 2.7m (2008 1.7m).

#### 14. INTANGIBLE ASSETS

	Auction costs £m	Goodwill £m	Total £m
Cost at 1 January and 31 December 2009	13.3	18.8	32.1
Cost at 1 January 2008	13.3	18.8	32.1
Additions <sup>1</sup>	-	6.9	6.9
Write off <sup>1</sup>	-	(6.9)	(6.9)
<b>At 31 December 2008</b>	<b>13.3</b>	<b>18.8</b>	<b>32.1</b>
<b>Net book amount at 31 December 2008 and 2009</b>	<b>13.3</b>	<b>18.8</b>	<b>32.1</b>

<sup>1</sup> The additions and write off that took place in 2008 relate to the Group's purchase and subsequent sale of Pembroke JV Limited. Full details of these transactions were disclosed in the 2008 Annual Report

The key assumptions for the values in use calculations are those regarding the discount rate and expected life.

The goodwill arose prior to 1 January 2007 on the acquisition of Chaucer Syndicates Limited, a Managing Agent, by Aberdeen Lloyd's Insurance Trust plc, which subsequently became Chaucer Holdings PLC on 23 July 1998. The Group has tested this goodwill for impairment by determining its value in use, considering the cash flows arising to the Managing Agent up to 2015. The Group's long-term business forecast provides estimates of syndicate capacity from which the Managing Agent will earn fees.

The discount rate applied was 11.2% (2008 13.4%), which is based on a combination of factors including the Group's expected return on equity and costs of borrowing. The Group deems the economic gains accruing from ownership of the Managing Agent as indefinite since, under the current business strategy, the Group will continue to benefit from these activities for as long as it carries on undertaking business.

The auction costs arose in purchasing additional capacity in the managed syndicates for the Group's corporate members. The Group has deemed the income streams from this capacity as indefinite. Auction costs have been tested for impairment at the end of 2009 and 2008, based on the value in use of the Group's interest in the Syndicates, by considering the future cash flows of each syndicate up to the 2012 year of account, discounted at a rate of 11.2% (2008 13.4%). The projections of syndicate cash flows represent the Directors' best estimate of future underwriting profits, based on an analysis of current market conditions, the position of the insurance cycle, expected underwriting capacity and actuarial estimations of loss ratios. These estimates are management's best knowledge of current actions and events, although actual outcomes may differ from these estimates.

There is significant headroom on both the goodwill and auction cost impairment tests.

**15. TANGIBLE FIXED ASSETS**

	Land and buildings £m	Lease improvements £m	Furniture, office fixtures, fittings and computer equipment £m	Total £m
<b>Cost</b>				
At 1 January 2009	6.0	4.2	2.9	13.1
Additions	-	-	1.1	1.1
Disposals	-	-	(0.1)	(0.1)
<b>At 31 December 2009</b>	<b>6.0</b>	<b>4.2</b>	<b>3.9</b>	<b>14.1</b>
At 1 January 2008	6.0	3.7	2.6	12.3
Additions	-	0.5	0.5	1.0
Disposals	-	-	(0.2)	(0.2)
At 31 December 2008	6.0	4.2	2.9	13.1
<b>Accumulated depreciation</b>				
At 1 January 2009	1.9	1.3	1.2	4.4
Charge for the year	0.2	0.8	0.9	1.9
Disposals	-	-	(0.1)	(0.1)
<b>At 31 December 2009</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>6.2</b>
At 1 January 2008	1.7	0.4	0.5	2.6
Charge for the year	0.2	0.9	0.8	1.9
Disposals	-	-	(0.1)	(0.1)
At 31 December 2008	1.9	1.3	1.2	4.4
<b>Net book amount at 31 December 2009</b>	<b>3.9</b>	<b>2.1</b>	<b>1.9</b>	<b>7.9</b>
Net book amount at 31 December 2008	4.1	2.9	1.7	8.7

The property included under land and buildings is subject to a first and only legal charge to Lloyds TSB Bank plc (the Bank) in respect of a £51.0m letter of credit (2008 £56.0m) provided by the Bank as part of the Group's Funds at Lloyd's.

**16. DEFERRED INCOME TAX**

	2009 £m	2008 £m
The movement in the deferred tax asset/(liability) comprises:		
At 1 January	21.3	(6.4)
(Charged)/credited in respect of revenue	(5.7)	22.6
Tax credited to equity	1.4	2.4
Acquisition of subsidiary	-	2.7
<b>At 31 December</b>	<b>17.0</b>	<b>21.3</b>
The deferred tax asset at 31 December comprises:		
Underwriting results	11.4	4.9
Other tax losses carried forward	5.3	5.9
Deferred bonus payment	6.2	8.2
Other temporary differences	4.0	2.6
Claims equalisation reserve	(9.8)	-
Capital allowances greater than depreciation	(0.1)	(0.3)
	<b>17.0</b>	<b>21.3</b>

The deferred tax liability relating to claims equalisation reserves arises for the first time this year as a result of a change in legislation under the Finance Act 2009. For Lloyd's corporate members, the calculation of a claims equalisation reserve is purely a tax adjustment and has no impact on reserving for accounts purposes or for capital setting.

The introduction of claims equalisation reserves will enable the Group to defer corporation tax due on profits generated from certain classes of business, including property, marine, aviation and nuclear. This will reduce the corporation tax payable over the coming years. The Group estimates a reduction in the tax payable in 2010 of £9.8m. This represents a timing difference and might reverse in the future. The benefit of claims equalisation reserves will fall if the Group chooses to redomicile.

The Directors believe that there will be sufficient future taxable profits in order to utilise the above tax losses, based on the Group's forecasts. There were no unrecognised tax losses at the year-end (2008 £nil).

**17. DEFERRED ACQUISITION COSTS**

	2009 £m	2008 £m
At 1 January	76.5	56.1
Acquisition costs paid in the year (Note 7)	173.6	155.6
Acquisition costs recognised in the Income Statement (Note 7)	(168.0)	(139.7)
Other adjustments	0.2	4.5
<b>At 31 December</b>	<b>82.3</b>	<b>76.5</b>

The 'Other adjustments' in 2008 represent the deferred acquisition costs arising on the Group's purchase of Pembroke 4000 Limited. Full details of this transaction were disclosed in the 2008 Annual Report.

**18. TRADE AND OTHER RECEIVABLES**

	2009 £m	2008 £m
Debtors arising out of direct insurance operations	80.2	125.8
Debtors arising out of reinsurance operations	113.7	122.4
Other corporate undertakings debtors	1.8	4.3
Other syndicate debtors	11.3	6.6
	<b>207.0</b>	<b>259.1</b>
Current	204.0	257.0
Non-current	3.0	2.1
	<b>207.0</b>	<b>259.1</b>

The Group expects to recover all current balances within 12 months and all non-current balances between 12 months and five years of the balance sheet date.

The movement in the bad debt provision in respect of debtors arising from direct insurance and reinsurance operations was as follows:

	2009 £m	2008
Balance at the beginning of year	2.3	3.0
Release for the year	(0.3)	(1.2)
Foreign exchange and other adjustments	(0.1)	0.5
<b>Balance at the end of the year</b>	<b>1.9</b>	<b>2.3</b>

**19. CASH AND CASH EQUIVALENTS**

	2009 £m	2008 £m
Funds at Lloyd's	87.9	90.9
<b>Other funds</b>		
Corporate	55.3	39.8
Syndicate	358.5	290.1
	<b>501.7</b>	<b>420.8</b>

The balances above represent cash.

The Group deposits Funds at Lloyd's to support underwriting operations, based on the assessment of risk associated with those operations. Lloyd's restricts access to those funds, preventing their use for any other purpose.

**20. SHARE CAPITAL**

	2009 Shares Million	2009 Value £m	2008 Shares Million	2008 Value £m
<b>Authorised</b>				
Ordinary shares of 25p each	700.0	175.0	456.0	114.0
<b>Called-up, allotted and fully paid</b>				
Ordinary shares of 25p each	548.1	137.0	348.1	87.0

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

	Date	Share price Pence	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 Placing and Open offer	25/02/09	40.0	199,999,606	50.0	24.9
<b>At 31 December 2009</b>			<b>548,091,645</b>	<b>137.0</b>	<b>90.9</b>
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	0.2
	14/11/08	37.5	1,320,295	0.3	0.1
	26/12/08	37.5	102,768	-	-
Conversion of share warrants	02/06/08	92.0	4,346	-	-
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 placing and 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.

**21. MOVEMENTS IN EQUITY**

Share capital and share premium reflect the nominal value and premium elements of any issue of equity shares.

The own shares represent the shares held by employee trust schemes, of which the sole purpose is to hold shares of the Company for settlement of share awards. The number of shares held by the trust schemes at the end of 2009 was 35,133,044 (2008 38,913,554).

The bonus reserve contains the element of the bonus that is payable in shares or share options to senior members of staff in accordance with the terms of the deferred share benefit plan. The reserve mainly increases with the charge for the year for those elements and decreases when the shares or share options vest.

The reserve also contains an element of shares granted to employees in accordance with the terms of the Share Incentive Plan (SIP). The SIP represents an incentive of two free shares granted to employees who decided to buy one share. The movement in the year for SIP costs represents the cost of granting free shares to employees that purchase shares.

The cost of shares and share options exercise represents the cost of the granted shares when employees exercise share options, less both the exercise price and the fair value of the share options previously expensed in accordance with IFRS 2 Share-based Payment.

Retained earnings represent the accumulation of profits and losses up to the balance sheet date, after the distribution of dividends and other adjustments. The balance includes £24.7m (2008 £19.7m) of accumulated actuarial losses resulting from the valuation of the pension scheme liability. Retained earnings can be distributed up to the level of realised retained earnings of the parent (2009 £38.7m; 2008 £36.7m).

**22. SUBORDINATED DEBT**

	2009 £m	2008 £m
Debt in Euros	10.2	11.3
Debt in US Dollars	30.1	33.8
	<b>40.3</b>	<b>45.1</b>

On 16 November 2004, the Group issued a €12m floating rate subordinated 30-year note. The Group, subject to meeting certain conditions, has the option to full or partial redemption of the note on any future interest payment date at its principal amount plus any accrued interest.

Interest is paid semi-annually each year up to the date of redemption and the cost of borrowing is tied to the European Inter bank offer rate (Euribor) plus an agreed margin of 3.75%.

The Group reports the financial liability of this note at amortised cost using an effective interest rate of 4.9% (2008 6.8%) as follows:

	£m
Balance at 1 January 2009	11.3
Interest charges in the year	0.6
Interest paid during the year	(0.7)
Foreign exchange adjustments	(1.0)
<b>Balance at 31 December 2009</b>	<b>10.2</b>
Balance at 1 January 2008	8.6
Interest charges in the year	0.8
Interest paid during the year	(0.9)
Foreign exchange adjustments	2.8
Balance at 31 December 2008	11.3

As the note is not traded on an active market, and due to current economic conditions, the fair value of the note is difficult to determine. Based on similar instruments, the fair value of the note is estimated to be approximately £3.2m.

On 21 September 2006, the Group issued a US\$50m floating rate unsecured subordinated 30-year note, which pays interest quarterly in arrears up to the date of redemption and the cost of borrowing is tied to the US Dollar 3-month LIBOR plus an agreed margin of 3.1%. There is the option for full or partial redemption of the note on any interest payment date on or after the relevant date falling in December 2011.

The Group reports the financial liability of this note at amortised cost using an effective interest rate of 3.5% (2008 4.7%), as follows:

	£m
Balance at 1 January 2009	33.8
Interest charges in the year	1.3
Interest paid during the year	(1.4)
Foreign exchange adjustments	(3.6)
<b>Balance at 31 December 2009</b>	<b>30.1</b>
Balance at 1 January 2008	24.6
Interest charges in the year	1.7
Interest paid during the year	(1.8)
Foreign exchange adjustments	9.3
Balance at 31 December 2008	33.8

As the note is not traded on an active market, and due to current economic conditions, the fair value of the note is difficult to determine. Based on similar instruments, the fair value of the note is estimated to be approximately £7.8m.

**23. EMPLOYEE BENEFITS PROVISION**

The Group's subsidiary, Chaucer Syndicates Limited (CSL), operates a pension scheme (the scheme), administered by Mercer Human Resource Consulting Limited, comprising a funded defined benefits section providing benefits based on final pensionable salary and, from December 2001, a defined contributions section. Trustees hold and control the funds of the scheme. CSL closed the defined benefits section to new members after setting up the new defined contributions section to the scheme in 2001.

The scheme's actuary determined contributions to the defined benefits section on 30 April 2007 using the attained age method when the value of the scheme's assets was £43.8m. It was assumed that the investment return will average 6.4% before retirement and 4.9% after retirement, salary increases would average 6.1% per annum, inflation will average 3.1% and future pensions will increase at a rate of 3.0% or 2.3% per annum (depending on the period of service). The actuarial value of these assets, expressed as a percentage of the liability for benefits accruing to date calculated on an actuarial basis, was 101%, which represented a surplus of £0.3m.

In 2009 the Group contributed 27.6% (2008 27.6%) of the members' pensionable salaries. In 2010, contributions will increase to 32.4% of the members' pensionable salaries, with the Group not expecting to pay any additional lump sums.

The principal actuarial assumptions used are as follows:

	2009 %	2008 %
Used to determine defined benefit obligations at 31 December:		
Discount rate	5.7	6.0
Rate of salary increases	5.7	5.1
Used to determine net pension costs for the year ended 31 December:		
Discount rate	6.0	5.5
Expected long-term return on scheme assets	7.6	7.7
Rate of salary increases	5.1	5.4

PA92 tables are mortality tables produced by The Continuous Mortality Investigation Bureau (CMIB) every twelve years, based on experience of people who have bought life assurance or annuities through insurance companies. The most recent twelve-yearly CMIB investigation centred on data collected between 1991 and 1994. From this data, the CMIB produced its '92 series' of tables, which are so called because the data related to the period during or around 1992. However, recent experience shows that mortality has been improving at a faster rate than that allowed for in the standard projections model associated with the PA92 tables. As a result, the CMIB has produced new sets of tables, which take into account the faster rates of improvements associated with particular generations. One of these tables assumes an accelerated improvement until 2020 ('the medium cohort').

As at both 31 December 2009 and 2008, the mortality tables used were PA92 (YOB) adjusted by a one-year downwards age rating, which meant that the scheme assumed that pensioners would have a one-year longer life expectancy than statistics in the standard PA92 tables, which the Directors believe to be a better interpretation.

All demographic assumptions are those used at the 30 April 2007 valuation.

The current life expectancies (in years) underlying the value of the accrued liabilities for the scheme are as follows (figures in brackets refer to the assumption at 31 December 2008):

Life expectancy at age 60	Male	Female
Member currently aged 60	27.6 (27.6)	30.5 (30.5)
Member currently aged 40	28.8 (28.8)	31.7 (31.7)

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009 .....

The amounts recognised in the Income Statement in respect of defined benefit pension arrangements, split between expenses incurred in insurance activities and other operating expenses, depending on the allocation of costs to Group syndicates or corporate entities, are as follows:

	2009 £m	2008 £m
Current service cost	1.3	1.5
Interest cost	2.6	2.6
Expected return on scheme assets	(2.6)	(3.5)
	<b>1.3</b>	<b>0.6</b>

The total pension contributions in respect of the scheme for the year, including £2.3m (2008 £1.8m) in respect of defined contribution pension arrangements, were £3.8m (2008 £3.7m).

The actual return on scheme assets was £8.2m (2008 £13.1m loss).

The net actuarial loss recognised in the Statement of Comprehensive Income is as follows:

	2009 £m	2008 £m
Actuarial (losses)/gains on scheme liabilities	(10.6)	8.0
Actuarial gains/(losses) in the fair value of scheme assets	5.6	(16.6)
<b>Net actuarial loss</b>	<b>(5.0)</b>	<b>(8.6)</b>

The cumulative amount of actuarial losses recognised in retained earnings is £24.7m (2008 £19.7m).

The amounts recognised in the consolidated balance sheet are as follows:

	2009 £m	2008 £m
Present value of defined benefit obligations	(56.3)	(42.5)
Fair value of scheme assets	42.1	33.1
<b>Scheme deficit</b>	<b>(14.2)</b>	<b>(9.4)</b>

The movements in the present value of defined benefit obligations were as follows:

	2009 £m	2008 £m
At 1 January	42.5	47.2
Current service cost	1.3	1.5
Interest cost	2.6	2.6
Contributions by scheme members	0.2	0.2
Benefits paid	(0.9)	(1.0)
Actuarial losses/(gains)	10.6	(8.0)
<b>At 31 December</b>	<b>56.3</b>	<b>42.5</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009

The movements in the fair value of scheme assets were as follows:

	2009 £m	2008 £m
At 1 January	33.1	45.1
Expected return on scheme assets	2.6	3.5
Contributions by employer	1.5	1.9
Contributions by scheme members	0.2	0.2
Benefits paid	(0.9)	(1.0)
Actuarial gains/(losses)	5.6	(16.6)
<b>At 31 December</b>	<b>42.1</b>	<b>33.1</b>

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	2009 %	2009 £m	2008 %	2008 £m	2007 %	2007 £m	2006 %	2006 £m	2005 %	2005 £m
Equities	8.0	33.8	7.9	25.7	8.0	36.6	7.6	30.8	6.7	27.0
Bonds	5.7	4.7	6.6	4.1	6.1	4.2	5.3	3.7	4.4	2.8
Property	7.0	3.4	6.4	3.1	7.0	4.1	6.6	3.9	6.2	0.1
Cash	0.5	-	2.0	-	5.5	-	5.0	0.5	4.5	2.0
Other assets	-	0.2	-	0.2	-	0.2	-	-	4.5	0.8
<b>Total scheme assets</b>		<b>42.1</b>		<b>33.1</b>		<b>45.1</b>		<b>38.9</b>		<b>32.7</b>

The Group bases the assumptions used in deriving the expected return on the scheme assets on market conditions at the period end.

The Group expects to contribute approximately £1.6m to the scheme in 2010 in respect of defined benefit members. In addition, the Group expects to pay approximately £1.9m in respect of defined contribution members.

The actuarial valuation at 31 December 2009 showed an increase in the scheme deficit from £9.4m to £14.2m, (£2.1m to £9.4m in 2008). Based on active scheme members as at 1 January 2009, this is equivalent to a total employer contribution rate of approximately 27.6% (27.6% at 1 January 2008) of pensionable salaries per annum. The rates will be subject to possible amendment at subsequent funding reviews.

### History of actuarial gains and losses

	2009	2008	2007	2006	2005
<b>Difference between expected and actual return on plan assets</b>					
Amount (£m)	5.6	(16.6)	(1.3)	0.6	3.6
Percentage of plan assets	13	(50)	(3)	2	11
<b>Changes in assumptions in respect of scheme liabilities</b>					
Amount (£m)	(10.6)	8.0	(0.1)	(1.2)	(5.4)
Percentage of scheme liabilities	(19)	19	-	(3)	(13)
<b>Total losses</b>					
Amount (£m)	(5.0)	(8.6)	(1.4)	(0.6)	(1.8)
Percentage of scheme liabilities	(9)	(20)	(3)	(1)	(4)

**24. TECHNICAL PROVISIONS**

	Provision for unearned premiums £m	Outstanding claims £m	Total £m
<b>Gross</b>			
At 1 January 2009	336.2	1,172.7	1,508.9
Claims paid in the year	-	(416.8)	(416.8)
Net movement in the year	27.0	491.1	518.1
Exchange and other adjustments	0.4	(78.3)	(77.9)
<b>At 31 December 2009</b>	<b>363.6</b>	<b>1,168.7</b>	<b>1,532.3</b>
At 1 January 2008	249.4	729.0	978.4
Claims paid in the year	-	(324.4)	(324.4)
Net movement in the year	57.8	482.7	540.5
Exchange and other adjustments	29.0	285.4	314.4
At 31 December 2008	336.2	1,172.7	1,508.9
<b>Reinsurance</b>			
At 1 January 2009	39.9	299.8	339.7
Reinsurance recoveries in the year	-	(86.3)	(86.3)
Net movement in the year	7.8	101.4	109.2
Exchange and other adjustments	-	(22.1)	(22.1)
<b>At 31 December 2009</b>	<b>47.7</b>	<b>292.8</b>	<b>340.5</b>
At 1 January 2008	32.0	191.7	223.7
Reinsurance recoveries in the year	-	(71.9)	(71.9)
Net movement in the year	1.8	118.3	120.1
Exchange and other adjustments	6.1	61.7	67.8
At 31 December 2008	39.9	299.8	339.7
<b>Net at 31 December 2009</b>	<b>315.9</b>	<b>875.9</b>	<b>1,191.8</b>
Net at 31 December 2008	296.3	872.9	1,169.2
Current: 2009	270.2	171.5	441.7
Non-current: 2009	45.7	704.4	750.1
Current: 2008	255.9	266.5	522.4
Non-current: 2008	40.4	606.4	646.8
Movement in the year: gross	27.0	74.3	101.3
Movement in the year: reinsurance	7.8	15.1	22.9
<b>Net movement to 31 December 2009</b>	<b>19.2</b>	<b>59.2</b>	<b>78.4</b>
Net movement to 31 December 2008	56.0	111.9	167.9

The movement in the bad debt provision in respect of reinsurers' share of technical provisions was as follows:

	2009 £m	2008 £m
Balance at the beginning of year	5.7	3.8
Charge for the year	0.4	0.5
Foreign exchange and other adjustments	(0.4)	1.4
<b>Balance at the end of the year</b>	<b>5.7</b>	<b>5.7</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009

There was no significant deterioration during the year of the bad debt provision on the reinsurers' share of technical provisions.

The balance of gross outstanding claims above comprises outstanding claims of £701.4m (2008 £675.9m) and claims incurred but not reported of £467.3m (2008 £496.8m).

During the year, movements in the reserves in respect of prior periods amounted to a release of £31.8m (2008 £74.1m). This release includes £0.6m (2008 £10.3m) associated with variations in rates of exchange during the year.

### 2009 events

Included within the technical provisions as at 31 December 2009 are reserves for:

- The fraud relating to Bernard L Madoff Investment Securities LLC ("Madoff");
- Specific losses on the Political Risk Trade Credit account; and
- The West Atlas Rig loss

### Madoff

Syndicate 4000 and, to a lesser extent, Syndicate 1084 have significant exposure to Madoff related losses. During 2009, several new claims notifications were received and changes to previous assumptions have been made, with a comprehensive "bottom-up" analysis being carried out on individual notifications and loss probabilities on a gross basis, along with an in-depth review of the reinsurance available by year of account and currency.

The events surrounding these claims are complex and require the involvement of legal advisers to evaluate the validity and quantum of claims. The advice that the market is receiving from this evaluation process is causing it to adopt a more pessimistic view of emerging claims. At this stage the ultimate loss resulting from these events cannot yet be accurately determined.

### Political Risk Trade Credit account ("PRTC")

During the year the Group was notified of significant claims associated with the default of banking credit contracts as a consequence of the worldwide banking credit crisis. The claims generally related to private banks not honouring their letter of credit (LOC) agreements or banks acting as obligor to an insured that was unable to deliver on their obligations.

There is uncertainty surrounding the quantum of future claims in respect of the worldwide credit crisis. The Group has performed extensive analysis of the exposures and the level of salvage resulting from expected recovery actions. In addition, economic depression allowances have been introduced in the reserving methodology. Based on the information available to date, the Group believes that the level of reserves is appropriate.

### West Atlas Rig loss

This loss relates to a fire at the West Atlas Rig in the Timor Sea and is estimated at a total cost of US\$700m.

Syndicates 1084 and 4000 have exposures to the losses above, as summarised below:

	Syndicate 1084 £m	Syndicate 4000 £m	2009 Total £m
<b>Estimated ultimate gross loss</b>			
Madoff	11.3	47.9	59.2
PRTC (Specific losses)	49.4	-	49.4
West Atlas Rig	21.0	-	21.0
	<b>81.7</b>	<b>47.9</b>	<b>129.6</b>
<b>Estimated ultimate net loss (after reinstatement premiums and reinsurance)</b>			
Madoff	5.3	15.9	21.2
PRTC (Specific losses)	33.9	-	33.9
West Atlas Rig	12.2	-	12.2
	<b>51.4</b>	<b>15.9</b>	<b>67.3</b>
<b>Group share of estimated ultimate net loss (after reinstatement premiums and reinsurance)</b>			
Madoff	5.0	15.9	20.9
PRTC (Specific losses)	32.1	-	32.1
West Atlas Rig	11.3	-	11.3
	<b>48.4</b>	<b>15.9</b>	<b>64.3</b>

Figures are prepared at rates of exchange in place at the end of the year.

Other significant 2008 loss events reported last year, including Hurricane Ike, sub-prime losses and financial turmoil reserves, are not included in the above table as their development during 2009 has been in line with expectations.

**REINSURANCE**

The Group's reinsurance policies protecting the losses in the above table are predominantly with reinsurers rated A (strong) or better by Standard & Poor's, as analysed below:

Rating bands (as at 12 February 2010)	Madoff %	PRTC %	West Atlas Rig %
<b>Syndicate 1084</b>			
Lloyd's syndicates (A+)	24.8	9.8	16.7
AA	55.0	45.0	41.1
A (excluding Lloyd's syndicates)	20.2	45.2	42.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Syndicate 4000</b>			
Lloyd's syndicates (A+)	16.2	-	-
AA	32.8	-	-
A (excluding Lloyd's syndicates)	51.0	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**25. CURRENT TAX**

	2009 £m	2008 £m
Potential US liability	0.2	0.2
UK tax	(0.6)	4.6
	<b>(0.4)</b>	<b>4.8</b>
<b>The movement in the UK tax position was as follows:</b>		
At 1 January	4.6	9.4
Prior year adjustments	(1.6)	1.5
Tax payments on account	(13.4)	(19.9)
Tax charge for the year (Note 12)	9.8	13.8
Disposal of subsidiary	-	(0.2)
	<b>(0.6)</b>	<b>4.6</b>

**26. TRADE AND OTHER PAYABLES**

	2009 £m	2008 £m
Creditors arising out of direct insurance operations	3.6	41.8
Creditors arising out of reinsurance operations	117.5	86.6
Other corporate undertakings creditors	16.8	19.1
Other syndicate creditors	2.7	6.5
<b>At 31 December</b>	<b>140.6</b>	<b>154.0</b>
Current	129.8	143.7
Non-current	10.8	10.3
	<b>140.6</b>	<b>154.0</b>

The Group expects to pay all current balances within 12 months and all non-current payables within five years of the balance sheet date.

Other corporate undertakings creditors includes £12.1m in respect of performance bonuses payable to directors and certain group employees (2008 £12.2m).

The Group's Deferred Share Benefit Plan (DSBP) contains provisions for the calculation of a bonus based on the annual profit. The total charge comprises a current portion, allocated to individual employees, and a long-term portion, carried forward in a pool for future distribution at management's discretion.

The current portion includes an element that is payable in cash and an element that is payable in shares, in accordance with guidelines approved by the Remuneration Committee. The cash element is payable in two instalments, four months and 13 months after the end of the year that generated the bonus.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009

The application of IAS 19 Employee Benefits and IFRS 2 Share-based Payment has resulted in the application of the following accounting treatment for the bonus:

- The long-term portion is amortised over a period of three years, which represents the Directors' best estimate for the allocation of the long-term bonus to individual employees. The amortisation charge begins in the year that generated the bonus.
- Other corporate undertakings creditors contains full recognition of the cash element.
- The element payable in shares is amortised over 52 months, which represents the period from the beginning of the year that generated the bonus until the vesting date of the shares, three years after grant. The amortisation charge begins during the year that generated the bonus. Shareholders' equity funds present the liability resulting from the recognition of this expense as the bonus reserve.

A summary of the recognition of the bonuses declared in the Income Statement is as follows:

	Year of recognition in the Income Statement								
	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	Total £m
Bonus declared for 2006	14.5	7.0	5.7	4.3	0.6	-	-	-	32.1
Bonus declared for 2007	-	13.6	4.3	4.3	3.2	1.1	-	-	26.5
Bonus declared for 2008	-	-	-	-	-	-	-	-	-
Bonus declared for 2009	-	-	-	4.3	1.0	1.0	0.9	0.2	7.4
Accounting adjustment to bonus declared in 2006	-	-	(1.6)	1.1	0.5	-	-	-	-
Accounting adjustment to bonus declared in 2007	-	-	(1.2)	(0.1)	(0.9)	(0.3)	-	-	(2.5)
Accounting adjustment to bonus declared in 2008	-	-	-	0.3	0.2	0.2	-	-	0.7
	14.5	20.6	7.2	14.2	4.6	2.0	0.9	0.2	64.2

The bonus costs recognised in the year represent the accounting amortisation of bonuses declared in previous years.

During 2008 and 2009, the Directors revisited the assumptions behind the calculation of the cost of matching bonus shares declared in previous years. This led to an accounting increase of the cost of £1.3m (2008 reduction of £2.8m). The Group will recognise similar adjustments each year to reflect the changing assumptions behind the calculations of matching shares. See note 31 for details about matching shares.

The Group recognised the following bonus costs in accordance with IFRS 2 Share-based Payment:

	2009 £m	2008 £m
Other creditors	5.5	2.6
Bonus reserve	8.7	4.6
<b>Total cost recognised</b>	<b>14.2</b>	<b>7.2</b>

The other creditors element of the bonus payable represents the element that will be payable in cash, whereas the bonus reserve represents the element that will be settled in shares. The cash element includes the social security costs associated with the share element within the bonus.

Other corporate undertakings creditors also includes £2.6m (2008 £3.0m) payable to PXRE Holdings Limited (PXRE), resulting from the expected utilisation of tax losses purchased as part of the acquisition in 2005 of Chaucer Corporate Capital (No. 2) Limited (CCC2L, previously PXRE Limited). The liability with PXRE represents the net present value of the amount that the Group expects to settle in future years, when the profits of the relevant years of account are taxed.

Other trade and other payables do not attract any significant discount and as a result, the carrying value of those liabilities materially equates to their fair value.

**27. NET ASSET VALUE PER ORDINARY SHARE**

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

	2009	2008
Equity funds	£316.7m	£225.5m
Number of adjusted shares	513.0m	309.2m
<b>Net asset value per ordinary share</b>	<b>61.7p</b>	<b>72.9p</b>
Equity funds less intangible assets	£284.6m	£193.4m
Number of adjusted shares	513.0m	309.2m
<b>Net tangible asset value per ordinary share</b>	<b>55.5p</b>	<b>62.5p</b>
Number of shares in issue	548.1m	348.1m
Less own shares held	(35.1)m	(38.9)m
<b>Number of adjusted shares</b>	<b>513.0m</b>	<b>309.2m</b>

**28. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAX TO CASH GENERATED FROM OPERATIONS**

	2009 £m	2008 £m
Profit/(loss) before tax	42.0	(26.2)
Net investment return less finance costs	(49.2)	75.0
Depreciation of tangible fixed assets	1.9	1.9
Increase in technical provisions	23.4	415.9
Increase in reinsurers' share of technical provisions	(0.8)	(95.2)
Decrease/(increase) in trade and other receivables	52.1	(60.4)
(Decrease)/increase in trade and other payables	(13.4)	13.5
Decrease in accruals and deferred income	(0.7)	(3.6)
Increase in deferred acquisition costs	(5.8)	(14.8)
(Increase)/decrease in prepayments and accrued income	(11.9)	2.5
Decrease in employee benefits provision	(0.2)	(1.3)
Unrealised foreign exchange on cash and cash equivalents	11.9	12.0
Unrealised foreign exchange on subordinated debt	(4.8)	11.9
Increase in bonus costs deferred share bonus plan	9.4	4.8
Sale of subsidiary	-	(14.7)
Goodwill written off	-	6.9
Share options cost	0.6	-
<b>Cash generated from operations</b>	<b>54.5</b>	<b>328.2</b>

**29. DIVIDENDS**

	2009 £m	2008 £m
<b>Final dividend for the year ended</b>		
31 December 2007: 3.5p per ordinary share, paid on 27 June 2008	-	11.6
<b>Interim dividends for the year ended</b>		
31 December 2009: 1.3p per ordinary share, paid on 1 October 2009	6.8	-
31 December 2008: 3.7p per ordinary share, paid on 13 March 2009	11.8	-
31 December 2008: 1.8p per ordinary share, paid on 1 October 2008	-	5.7
	<b>18.6</b>	<b>17.3</b>

A final dividend in respect of the 2009 financial year of 2.7p per share, amounting to a total of £14.6m is to be proposed at the Annual General Meeting on 19 May 2010. These consolidated financial statements do not recognise the 2009 final dividend.

The total dividend in respect of the 2009 financial year, including the interim dividend paid and the final dividend recommended, is 4.0p per share (2008 5.5p).

**30. SHARE OPTIONS**

The Group grants share options to directors and employees in accordance with the terms of the various share option schemes, as described in the Directors' Remuneration Report. The share options are exercisable three, five, seven or ten years from grant date or on satisfaction of the conditions of the share option grant. The movements in the number of share options outstanding and the weighted average exercise price are as follows:

	2009 Weighted average exercise price Pence per share	2009 Share options Thousands	2008 Weighted average exercise price Pence per share	2008 Share options Thousands
Outstanding at 1 January	47.2	8,531	49.3	7,567
Share options granted	39.1	4,671	49.0	3,163
Share options exercised	32.5	(813)	42.4	(874)
Forfeited	46.8	(2,538)	70.7	(1,079)
Expired	46.2	(182)	51.0	(246)
Outstanding at 31 December	42.5	9,669	47.2	8,531
Exercisable at 31 December	45.1	4,234	45.7	4,455

The share options outstanding at 31 December 2009 had a weighted average remaining contractual life of 3.4 years (2008 3.7 years).

The Group used the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant.

The inputs into the Black-Scholes model, for valuing the share options granted during the year, are as follows:

	2009	2008
Weighted average share price	50.0p	58.0p
Weighted average exercise price	39.0p	49.0p
Volatility	46.38%	42.96%
Weighted average expected life	4.0years	4.0years
Risk free rate	3.90%	4.68%
Dividend yield	9.95%	9.14%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years on a weighted average basis. The expected life used in the Black-Scholes model is the Group's current best estimate of the effects of non-transferability, exercise restrictions, future market conditions and behavioural considerations.

During the year the Group recognised total expenses of £0.7m (2008 £0.1m) relating to share options granted.

All existing share options issued after 7 November 2002 and not vested at 1 January 2005 have been valued as required by IFRS 2 Share-based Payment.

The share option schemes, other than the Save As You Earn scheme, were discontinued in 2006 and were replaced by a new share-based incentive scheme, which is described in the Directors' Remuneration Report.

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 .....

Share options outstanding at 31 December 2009 have the following expiry dates and exercise prices:

	Date of grant	Exercise price Pence <sup>1</sup>	Exercise period	2009	2008
Chaucer Holdings PLC Approved Savings Related Share Option Scheme	10-02	25.8	11/09-05/10	16,507	88,748
	10-03	31.3	11/08-05/09	-	93,178
	10-03	31.3	11/10-05/11	26,789	25,416
	10-04	34.7	11/09-05/10	47,590	218,526
	10-05	41.6	11/08-05/09	-	198,261
	10-05	41.6	11/10-05/11	146,441	181,576
	10-06	54.7	11/09-05/10	204,363	231,560
	10-06	54.7	11/11-05-12	69,389	145,293
	10-07	74.9	11/10-05/11	27,400	43,254
	10-07	74.9	11/12-05/13	12,998	21,688
	10-08	46.5	11/11-05/12	510,573	1,582,699
	10-08	46.5	11/13-05/14	439,553	1,536,855
	10-09	38.5	11/12-05/13	2,460,684	-
10-09	38.5	11/14-05/15	1,741,556	-	
			<b>5,703,843</b>	<b>4,367,054</b>	
Chaucer Holdings PLC Share Option Scheme (Performance related)	07-00	55.0	07/03-07/10	110,674	105,000
	09-00	61.2	09/03-09/10	84,321	120,000
	05-01	61.2	05/04-05/11	564,967	512,500
	10-02	32.3	10/05-10/12	1,106,922	1,221,467
	10-03	42.4	10/06-10/13	148,895	170,294
	10-04	39.6	10/07-10/14	782,002	923,299
			<b>2,797,781</b>	<b>3,052,560</b>	
Chaucer Holdings PLC Approved Share Option Scheme (Performance related)	05-01	61.2	05/04-05/11	547,049	472,500
	10-01	49.8	10/04-10/11	68,513	65,000
	10-02	32.3	10/05-10/12	91,702	87,000
	05-03	32.0	05/06-05/13	-	50,000
	10-03	42.4	10/06-10/13	205,219	194,697
	10-04	39.6	10/07-10/14	254,776	241,713
			<b>1,167,259</b>	<b>1,110,910</b>	
			<b>9,668,883</b>	<b>8,530,524</b>	

<sup>1</sup> As a result of the firm placing and placing and open offer in February 2009, the Group increased the number of existing share options by 5.4% and decreased the exercise price of all outstanding share options by 5.1%. The incremental fair value granted has no material impact on the results of the Group

The number of share options that were exercisable at the end of the year was 4,233,500 (2008 4,454,909).

**31. SHARE-BASED PAYMENT**

The Group implemented a long-term incentive scheme in 2006. The scheme includes an element payable in shares, which has resulted in expenses during the year of £8.7m (2008 £4.6m). In accordance with the requirements of IFRS 2 Share-based Payment, the recognition of those share related expenses resulted in the creation of a bonus reserve within equity.

The scheme will result in the grant of shares, some of which will attract matching shares if the Group's performance meets certain conditions in the future. For each share that attracts matching shares, the scheme allows the Group to grant:

- Up to one matching share on satisfaction of a market condition test, which compares the Group's growth in TSR to the growth in an index of comparator companies; and
- Up to one matching share on satisfaction of a non-market condition test, which compares the growth of net asset value per share with that of the UK retail price index.

The Group may grant proportional numbers of shares on partial satisfaction of the performance conditions.

The Group used an actuarial model to estimate the number of shares required to match the market condition related shares. The model looked at the historic out-performance of the group of comparator companies to determine the distribution of probabilities of out-performance and applied a stochastic analysis to determine the expected number of matching shares.

The Group estimated the number of non-market condition related matching shares by comparing the internal and market growth forecasts for net assets per share to the UK retail price index at relevant future balance sheet dates. The Group bases the fair value of all the shares on estimated market values at the date of grant.

The Group grants shares issued under the scheme four months after the end of the year and the shares then vest three years after the grant date. Accordingly, the total cost of the shares will be amortised over a period of 52 months, which is the period from the beginning of the service period until the end of the vesting period. The Group has recognised twelve months' worth of costs in 2009. Costs associated with matching shares have also been amortised over the same period.

The estimated value of shares that the Group will grant and the associated costs (excluding national insurance costs) are as follows:

	Total cost £m	Cost recognised in 2009 £m	Cost recognised in 2008 £m
<b>Shares granted in 2009</b>			
Attracting matching shares	1.2	0.5	-
Not attracting matching shares	0.7	0.2	-
Matching shares: market condition	0.3	0.1	-
Matching shares: non-market condition	1.0	0.2	-
	<b>3.2</b>	<b>1.0</b>	<b>-</b>
<b>Shares granted in 2008</b>			
Adjustment to 2008 declared bonus <sup>1</sup>	0.6	0.3	-
<b>Shares granted in 2007</b>			
Attracting matching shares	3.1	0.5	0.5
Not attracting matching shares	7.1	1.6	1.6
Matching shares: market condition	0.8	0.2	0.2
Matching shares: non-market condition	2.1	0.5	0.5
Adjustment to 2007 declared bonus <sup>1</sup>	(2.2)	(0.1)	(0.7)
	<b>10.9</b>	<b>2.7</b>	<b>2.1</b>
<b>Shares granted in 2006</b>			
Attracting matching shares	1.9	0.4	0.4
Not attracting matching shares	11.2	2.5	2.7
Matching shares: market condition	0.6	0.2	0.1
Matching shares: non-market condition	2.6	0.6	0.6
2005 matching shares: market condition	0.4	-	0.1
2005 matching shares: non market condition	0.5	-	0.1
Adjustment to 2005/06 declared bonus <sup>1</sup>	(0.1)	1.0	(1.5)
	<b>17.1</b>	<b>4.7</b>	<b>2.5</b>
	<b>31.8</b>	<b>8.7</b>	<b>4.6</b>

<sup>1</sup> The adjustments to previous year's bonuses refer to adjustments to the cost of matching shares previously calculated, due to the yearly update of the assumptions behind the calculations, such as the number of shares in circulation and profit forecasts

**32. CAPITAL**

The main component of capital held by the Group is the Funds at Lloyd's (FAL) held by the Group's various corporate members and supporting the Group's underwriting interests. The FAL requirements are determined through Lloyd's implementation of the FSA's Individual Capital Assessment (ICA) regulatory regime.

Each managed syndicate is required to produce an ICA that represents the Managing Agent's view of the level of capital required by the Syndicate at the 99.5% confidence level to meet all its ultimate liabilities as they fall due. The ICA considers all existing liabilities, plus those incurred by one year of new business; as such, it encompasses the volatility of future underwriting results, potential reserve deteriorations on prior years and other risks such as financial market volatility, credit risk and operational risk. ICAs are reviewed annually by Lloyd's, although the Managing Agent is required to continually monitor the risk profiles of its managed syndicates to ensure that the current agreed ICAs are appropriate.

For each syndicate, the ICA is uplifted by 35% to determine its Economic Capital Assessment (ECA). Lloyd's then uses this to determine an ECA for each corporate member, taking account of the corresponding underwriting interests in each syndicate. The final ECA for each corporate member is subject to a minimum of 40% of the corporate member's agreed premium capacity. Corporate members are required to hold sufficient FAL to cover both the ECA and any share of solvency deficits on open years of account. The Group's corporate members complied with these requirements throughout the year.

The Group currently underwrites at Lloyd's for the 2010 year of account at an ECA of 47.7% (2009 year of account 48.1%) whereby it must deposit FAL to this proportion of the Group's Overall Premium Limit (OPL) for that year. The table below shows the Group's OPL for the 2010 and 2009 years of account and the composition of assets deposited to meet the associated FAL requirements, including the estimate for 2010 based on the updated plan.

	2010	Year of account 2009 <sup>3</sup>
	£m	£m
Group underwriting interests	623.3	580.0
Quota share	82.1	50.6
<b>Overall premium limit</b>	<b>705.4</b>	<b>630.6</b>
FAL ratio (average)	47.7%	48.1%
FAL requirement	336.5	303.2
Funding of open year of account losses	143.6	149.0
<b>Total FAL requirement</b>	<b>480.1</b>	<b>452.2</b>
FAL requirement satisfied by:		
Investments	218.8	243.2
Personal reserves	87.9	115.8
<b>Letters of credit<sup>2</sup></b>		
Group economic interest	51.0	56.0
Capital provision quota share reinsurer	55.9	35.6
Credits from Lloyd's for undistributed profits	61.7	-
	<b>475.3<sup>1</sup></b>	<b>450.6<sup>1</sup></b>

1 The difference between the FAL requirement and the assets held is due to the revaluation of the US dollar denominated assets at the balance sheet date. The Group's FAL requirement will be revalued by Lloyd's in April 2010 reflecting the year-end exchange rate, at which point an overall surplus is expected

2 The letters of credit include one for US\$60.4m (2009 US\$28.8m) provided by Flagstone Reassurance Suisse SA, a company registered in Switzerland, under the terms of a reinsurance agreement entered into by the Group and Flagstone in June 2009

3 The underwriting interests reported at 31 December 2008 were £484.4m. Subsequently the Group increased its interests in the 2009 underwriting year to £580m. The figures in the table above have been updated to reflect the increased underwriting interests

**33. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Group has entered into a deed of covenant in respect of certain of the corporate member subsidiaries to meet each subsidiary's obligations to Lloyd's. A fixed and floating charge over the investments and other assets of the Group in favour of Lloyd's secures the total guarantee given by the Group under those deeds of covenant (subject to limited exceptions).

Lloyd's has the right to retain income on charged investments, although it is not expected that Lloyd's would exercise the right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

The liability under each deed of covenant is limited to a fixed monetary amount. However, Lloyd's may enforce a deed of covenant default by a corporate member if the total value of investments held falls below that covenanted. In doing so, this may result in the appropriation by Lloyd's of a greater amount of the Group's total FAL than that corporate member's assets represent as a proportion of the Group's OPL.

Where the Group reduces its participation on a syndicate, it pays a reinsurance to close premium to other Lloyd's Members to assume its ongoing liabilities. The nature of this arrangement is that of reinsurance such that the Group retains liability in the event of failure of these Lloyd's Members and the Lloyd's chain of security. There is no mechanism for the Group to quantify its exposure in this regard and the Directors consider that the possibility of having to assume these liabilities is remote.

**34. COMMITMENTS****Operating leases**

The Group is due to make future payments under operating leases over the periods stated as follows:

	2009	2008
	£m	£m
<b>Land and buildings</b>		
Not later than one year	3.2	3.2
Later than one year and not later than five years	11.5	11.8
Later than five years	4.1	6.9
<b>Total future minimum lease payments</b>	<b>18.8</b>	<b>21.9</b>

The Group moved to its current premises at Plantation Place, Fenchurch Street, London EC3M 3AD in June 2007. The Group signed the Plantation Place lease in August 2006 for a period of approximately ten years. Costs, which have accrued since the date of the lease agreement, include a rent-free period of 21 months, the value of which extends across the term of the contract.

The Group sublets a portion of the Plantation Place premises, for which it expects to receive the following future income:

	2009	2008
	£m	£m
<b>Land and buildings</b>		
Not later than one year	0.8	0.8
Later than one year and not later than five years	1.4	2.3
<b>Total future minimum lease receipts</b>	<b>2.2</b>	<b>3.1</b>

**35. RELATED PARTY TRANSACTIONS**

The remuneration of the key management personnel of the Group, including all the Directors of the parent, is set out below in aggregate for each of the categories specified in IAS 24 Related party disclosures. The audited part of the Directors' Remuneration Report contains further information about the remuneration of individual Directors of the parent. The table below shows benefits payable on an accruals basis, with the granting of shares to Directors happening early in the following year.

	2009	2008
	£000	£000
Short term employment benefits	1,041	1,087
Post-employment benefits	323	96
Other long-term benefits	531	-
Termination payments	469	-
Shared-based payment	14	18
<b>Total compensation to 31 December</b>	<b>2,378</b>	<b>1,201</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2009 .....

Mark Graham left the Group in June 2009 to pursue other opportunities. The shares awarded to Mr Graham in previous years as part of his remuneration package vested immediately after his departure. Details of those shares can be found in the Group's 2008 Annual Report. A termination payment of £290k represents the Company's contractual notice obligations to Mr Graham.

Pembroke Managing Agency Limited (Pembroke) acted as the Managing Agent of Syndicate 4000 and Chaucer Syndicates Limited acted as the Managing Agent of the other syndicates. The two companies received the following amounts during the year for services provided:

	Syndicate 1084 £m	Syndicate 1176 £m	Syndicate 1274 £m	Syndicate 4000 £m	Syndicate 4242 £m	Syndicate 1301 £m
<b>31 December 2009</b>						
Managing agent's fees	6.3	1.3	1.6	-	1.3	1.8
Profit commission	-	2.8	-	-	0.4	0.2
Expense recharge	36.0	-	0.4	0.7	0.2	5.0
Balance owed to Chaucer Syndicates Limited	1.0	-	0.1	0.4	-	0.1
<b>31 December 2008</b>						
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 Agent fee paid by Syndicate 4000 up to that date. This amount also includes £0.6m paid to Chaucer Syndicates Limited in 2008 only for certain services Pembroke subcontracted to it.