Chaucer

forward thinking

Forward thinking and building for the future underpin the way we manage our business. With a tradition in insurance dating back to 1922, Chaucer today has the underwriting capability to write over £600 million of premium income and is one of the ten largest managing agents at Lloyd's.

2008 was a year of mixed fortunes for us. Looking at the positives, even allowing for major market catastrophe losses such as Hurricanes Ike and Gustav, our underwriting performed well and generated £33 million profit. Our gross written premiums increased by 27% to £741 million and our net earned premiums by 23% to £547 million.

how we're doing

In the past five years, we have produced an average annual return on equity of 18.7%. Our total dividend of 5.5p for 2008 reflects the Board's on-going commitment to deliver optimum shareholder value across the insurance cycle.

However, there was also a significant downside to the year. The global economic upheaval badly affected the investment part of our business, which made a loss of £71 million. This resulted in Chaucer presenting a loss before tax of £26 million. We have subsequently de-risked our investment portfolio by exiting from equities and absolute return bond funds and by submitting redemptions for all our hedge fund investments.

Whilst acknowledging the impact of our investment performance, the strength of Chaucer as an underwriter provides a solid foundation for continued implementation of our plan to become one of the leading Lloyd's insurers.

The Chaucer business plan focuses on organic growth. Our underwriting business has developed consistently and profitably in recent years and, looking forward, we anticipate increasing our underwriting capacity to more than £1 billion by 2012.

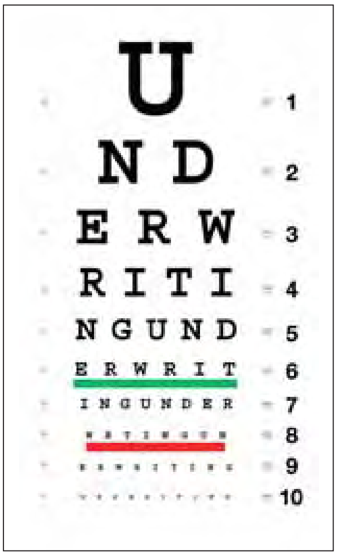
Chaucer's reputation and strength is firmly anchored in the ability of our underwriting to focus business in those areas offering attractive returns on capital. Equally, we are very selective about our involvement where rates are under pressure.

strategic planning

Whilst maintaining the pragmatism of our approach, our policy for growth is to continue enhancing our team of top class underwriters while also expanding our range of insurance products. It is our intention to be the lead insurer on more business in the future.

Chaucer undoubtedly benefits from the success of the Lloyd's franchise and the unparalleled access it offers to specialist business worldwide. Responding to this, we will enter new markets and establish further overseas offices as opportunities arise.

There is a general recognition that the market is beginning to harden and that the prospects for the general insurance industry as a whole are healthy. We believe the steps we are taking to develop our business are well considered and appropriate. We shall continue to respond to market opportunities as they develop.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Our strategy for growth is well defined. We know what we want to achieve as a business and the steps we need to take. These include key initiatives to reinforce our market position and help prepare us to take advantage of the hardening market.

Most noticeably, we raised £75 million of new capital to strengthen our balance sheet and support expansion of our underwriting capacity. Reassuringly, existing shareholders took up more than 60% of the open offer ordinary shares. The funds are already at work, helping us to generate growth through an increase in our Syndicate 1084 underwriting capacity.

focus on underwriting

Similarly, maintaining our focus on underwriting, we made a series of senior appointments during the year. The recruitment of 20 new underwriters across the Group will increase the depth and breadth of our talent and enhance business development activities.

We recruited an International Casualty Treaty Team, which will focus on building our lead capability outside the USA and developing new casualty products.

We also established a dedicated Energy Division to build on the strength of this account and to consolidate our leadership position in the international energy market.

Chaucer now employs specialist underwriters in 28 major classes of business. We write risks globally through our offices in the UK, Denmark and Singapore. Continued enhancement of both our product range and geographic reach are central to Chaucer's strategic plan.

Reflecting this, we expanded the product lines offered from our Singapore office to include offshore energy, financial lines, power and utilities and engineering. These new lines are a direct response to growing demand in the Asian market.

growing and developing

We developed our UK motor market distribution model by launching Chaucer*Direct*, our own 'buy online' motor product on the Confused.com motor aggregator website, and Richard Egger Insurance, to broker specialist motorsport products.

The strength and inherent qualities of the Chaucer brand will play a major role in our development. We will continue to build brand awareness to help increase our profile in the marketplace and to contribute to the ongoing success of our business.

Underpinning all activities are our people and our business values of enthusiasm, expertise, integrity, teamwork, aspiration and inclusiveness. Throughout the business, we employ those who have the experience, qualifications and drive to be the best at what they do.

In the years since our formation as Chaucer Holdings PLC in 1998, we have worked assiduously to build what is now a very strong Lloyd's underwriting franchise. Our business today is well diversified and has the underwriting capability to write over £600m of premium income.

Looking forward, we believe the market offers considerable potential and we expect to benefit from attractive underwriting conditions during 2009 and 2010. The marine and non-marine rating environment is improving, particularly in the catastrophe exposed US property, energy and marine classes and also in the UK motor market.

eagerly anticipating

Rates are beginning to rise again in aviation and, within specialist lines, financial institutions present opportunities because of reaction to the sub-prime situation. Equally, with the troubles experienced by some major insurers it is likely that commercial clients will seek greater diversification of cover, which favours the Lloyd's subscription market model.

Considering all these factors, the hardening market should gather pace through to 2011. In the immediate future, we anticipate that premium rates will rise by over 5% in 2009.

Chaucer is in a good position to take advantage of the favourable market conditions. Our business is well structured and the steps we have taken as part of our strategic plan mean that we now have an excellent underwriting team in place to drive business development. We believe the future for Chaucer is very positive.

Good underwriting performance affected by difficult financial climate

Gross written premiums up 26.9% to £741.0m (2007 £584.1m)

Net earned premiums up 23.1% to £547.2m (2007 £444.5m)

Underwriting profit before investment income of £33.0m (2007 £75.5m)

Combined ratio of 93.9% (2007 82.6%)

Investment losses of £71.0m (2007 profit £41.7m)

Loss before tax of £26.2m (2007 profit £89.4m)

Total dividend of 5.5p, an increase of 10% from the 2007 dividend

Very encouraging underwriting outlook

Rates improving in the catastrophe-exposed property, energy and marine markets and the UK motor market

The hardening market should gather pace through 2009 and 2010

Targeting a 5.4% rate increase across Group underwriting portfolio for 2009

£75m capital raising to strengthen balance sheet and support additional underwriting opportunities

Further increase in Syndicate 1084 capacity to at least £545m for 2009

Group underwriting interests increase to at least £546.1m (2008 £519.8m)

Underwriting recruitment to deliver growth plans largely complete

Contents

2008 was challenging in the extreme. Our underwriting proved robust and contributed £33 million profit. However, because of investment losses caused by turmoil in the financial markets, the Group reported a loss, our first since 2001. Nevertheless, Chaucer is an excellent business and remains well placed for 2009 and beyond.

This has been a challenging period for the insurance industry, with record losses worldwide and unprecedented levels of financial turmoil, which have hit both investment returns and underwriting alike. While these have affected our 2008 results, we believe the outlook for the business is very positive following steps taken to strengthen our capital position and to de-risk our investment portfolio substantially.

We have raised £75m (after expenses) of new capital to strengthen the balance sheet and to support the growth of the business. The funds will immediately go to work and we intend to increase the underwriting capacity of Syndicate 1084 to at least £545m for 2009 (from our initial plan of £480m). We would like to take this opportunity to thank shareholders for their support.

We paid a second interim dividend of 3.7p on 13 March 2009, giving a total dividend of 5.5p per share for 2008, an increase of 10% on the total dividend of 5.0p paid for 2007. We anticipate that, in the absence of unforeseen circumstances, we will declare a total dividend of no less than 4.0p per share for each of 2009 and 2010.

As previously announced, Chaucer has received a number of take-over approaches. All of the approaches received are subject to due diligence and pre-conditions and it will take time to ascertain whether an offer for the business may be forthcoming. We continue to hold discussions with interested parties with a view to maximising value for shareholders.

2008 was a difficult year

There is no disguising the fact that our 2008 results are unsatisfactory; investment losses arising following the turmoil in the financial markets in September and October, in particular, have resulted in Chaucer reporting a loss in 2008, our first since 2001.

Investment performance was poor, with our £1.2bn cash and investment portfolio losing £71m in the year. Equity and hedge fund holdings lost significant value in the final months of 2008 as fears of a global financial collapse and world recession triggered a flight to safety among investors. We have taken significant steps to de-risk the portfolio, exiting equities and absolute return bond funds and submitting redemptions for all our remaining hedge fund investments. The sale of absolute return bond funds produced good profits in January 2009 and the overall return on investments for that month was £15.3m. With a substantially de-risked portfolio, we are unlikely to generate a similar level of returns in future months. We have reinvested the proceeds in cash and short-term instruments.

The underwriting outlook for Chaucer is very positive

We expect rates to continue their rise throughout 2009 and 2010 as capital losses and reduced investment income take their toll, causing the industry to focus even more closely on gross underwriting profit. Less capital generally means less competition for underwriting and higher rates. The credit crunch has taken a significant bite (probably around US$100bn) out of the investments held by insurers, and the further loss of capital caused by major insured losses should reinforce the rise in prices. In addition, Lloyd's should also benefit from increased business this year as clients, having witnessed the troubles of major insurers, place their risks across a larger number of carriers.

Looking further ahead, we remain confident of our ability to grow the business profitably as the market hardens toward 2011. We will benefit from our underwriter recruitment programme that is now largely completed, which aims to provide us with the depth of underwriting talent required to achieve our long-term plans. We have recruited 20

> *Chaucer is an excellent business, which, with its strong underwriting focus, diverse business mix and healthy prospects, remains well placed for 2009 and beyond.*

underwriters throughout our international marine and non-marine offices in London, Singapore and at Chaucer Insurance, our motor division. Our plans also include further distribution channel development to complement the Lloyd's presence in both major and growing markets with our own presence, as we have done successfully in Singapore.

Nevertheless, our underwriting operations proved robust, contributing £33m, and recording a combined ratio of 93.9%, despite 2008 being the second costliest year ever in terms of major insured losses (with an estimated total market cost of US$50bn). There was an unprecedented spate of high value single risk losses in the first half of the year. Hurricanes Gustav and Ike then followed. Together, these events caused heavy marine, energy and property losses, although the cost remains broadly in line with our catastrophe budget. There were also significant losses in the financial and professional liability markets as the effects of the 2007 credit crunch began to widen in 2008, which have particularly affected Syndicate 4000, although the Syndicate's substantial risk loadings have largely absorbed the impact of these losses.

A great business and a great team

Since our creation and listing on the London Stock Exchange in 1998, we have worked diligently and tirelessly to create a first-class Lloyd's business, recruiting and retaining talented individuals, providing the resources, management support and leadership required to build the unique culture that makes Chaucer the professional and highly respected underwriting business that it is today. We wish to thank the management team and staff for their continued dedication.

On a personal note, we would like to take this opportunity to pay tribute to Bob Deutsch who resigned from the Board at the end of 2008. Bob has played an important role in the development of Chaucer since he joined the Board in 2002 and we would like to express our sincere thanks for his dedication and his wise counsel on the Board.

We believe that we should meet the challenge of 2009 with confidence; drawing on the skill and commitment that has been the hallmark of all of our achievements to date. Chaucer is an excellent business, which, with its strong underwriting focus, diverse business mix and healthy prospects, remains well placed for 2009 and beyond.

Martin Gilbert
Chairman

Ewen Gilmour
Chief Executive

8 April 2009

The prospects are positive for 2009. We anticipate increased underwriting opportunities, a hardening of pricing and an improvement in the terms and conditions of our major marine and non-marine lines of business. On average, premium rates are forecast to increase by over 5% during the year.

The Group believes that the prospects are positive for Syndicate 1084 in 2009, which should include increased underwriting opportunities, a hardening of pricing and an improvement in the terms and conditions of the Syndicate's major marine and non-marine lines of business.

The Group expects to benefit from improved market conditions in the catastrophe-exposed property, energy and marine markets because of the insured losses incurred in 2008. Further impetus should come from hardening reinsurance prices, which will cause primary insurers to increase rates and to retain more of their risk.

Because of the global financial crisis, many insurance and reinsurance companies have experienced significant losses on their investment portfolios over the course of 2008, as asset prices have fallen heavily and credit spreads have widened significantly. The availability of equity and debt finance to provide additional underwriting capital has also diminished significantly, further exacerbating the capacity shortage in the market.

More generally, the Group expects that Lloyd's will also benefit from an increased showing of business in many classes as the purchasers of insurance and reinsurance respond to the problems of a number of major financial companies in 2008 and seek more subscription market solutions to their protection requirements. This should encourage the participation of a larger number of insurers on each risk in order to reduce the concentration of risk with individual insurance and reinsurance companies.

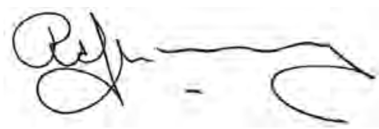
In addition, the Group believes that the UK motor market will continue to improve in 2009 as premium rates continue to climb away from the cycle trough of 2006/7.

As the index shows, the Group currently forecasts premium rates to increase by approximately 5% in 2009 across Syndicate 1084 divisions.

In response to this positive rating environment, the Group intends to increase the capacity of Syndicate 1084 to at least £545m for 2009, an increase of at least £100m or 22.5% on the 2008 capacity of £445m.

The capacity of Syndicate 1176 is £31.5m, of which the Group underwriting interest is £17.4m. The Group also has an underwriting interest of £11.3m on managed Syndicate 4242. The Group's total underwriting interests will be at least £546.1m for 2009, an increase of at least £26.3m or 5.1% on the 2008 total of £519.8m.

The current underwriting year also started positively, with premium income ahead of budget.



Robert Stuchbery
Chief Underwriting Officer

In response to this positive rating environment, the Group intends to increase the capacity of Syndicate 1084 to at least £545m for 2009.

Premium Rating Index	2003	2004	2005	2006	2007	2008	2009E	2009 Change
Marine	167	171	175	187	184	183	190	+3.8%
Energy	327	310	347	486	445	407	454	+11.5%
Aviation	171	168	164	160	148	146	153	+4.8%
International Property	166	154	148	155	148	139	147	+5.8%
North American Property	165	163	171	232	234	214	226	+5.6%
Specialist Lines	174	187	184	179	171	165	163	-1.2%
Combined (excluding Motor)	182	182	185	204	197	186	196	+5.4%
Motor	130	132	130	130	132	140	148	+5.7%
Combined	156	157	158	181	175	168	177	+5.4%

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

The diversity of our business combined with the professionalism of our underwriting teams provided a solid foundation for Chaucer during the challenging times of 2008. Looking forward, these same attributes will enable us to prosper as the market hardens.

The strength of Chaucer lies in our diversified book of business, which balances marine and non-marine classes along with UK motor and nuclear insurance. In total, we have specialist underwriters in 28 major classes of business. Our two main syndicates, Chaucer Syndicate 1084 and Nuclear Syndicate 1176, have between them an underwriting capability exceeding £600m for 2009.

Our underwriting operations proved their resilience during 2008 and contributed a profit of £33m. Throughout the year, our underwriting teams performed well in difficult conditions and worked hard with brokers seeking to place or renew business. Equally, our claims teams continued to provide highly efficient support.

In addition to our own underwriting, Chaucer is also the market leader in syndicate management. Through this service, we provide a practical solution for those investors seeking a Lloyd's presence, but without having a standalone managing agent.

Looking forward, we have increased our underwriting capacity premiums for 2009 to take advantage of the hardening market. Chaucer is a strong and well-balanced underwriting business and we believe that our prospects for the coming years are very encouraging.

Bruce Bartell
Active Underwriter, Chaucer Syndicate 1084

Table 1 provides a summary of divisional level underwriting performance.

Table 2 provides a summary of divisional level claims, expense and combined ratios. The claims ratio shown comprises four components, all calculated in relation to net premiums earned in the current reporting period:

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

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

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

Table 1 - Divisional underwriting performance	Motor £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	In-house total £m	Syndicate participations[1] £m£m	Run Off[2] £m	Total
2008											
Gross written premiums[3]	132.2	121.2	116.3	26.9	157.5	46.3	14.7	615.1	74.5	0.3	**689.9**
Net earned premiums[3]	118.1	94.9	79.1	23.3	122.0	41.4	12.0	490.8	48.0	(0.4)	**538.4**
Underwriting profit/(loss)[4, 5]	(3.0)	9.3	(10.5)	2.7	8.9	7.5	9.1	24.0	(0.1)	9.1	**33.0**
2007											
Gross written premiums	118.9	86.1	88.0	27.1	158.8	47.5	11.9	583.3	11.1	0.1	**549.5**
Net earned premiums	107.3	65.8	63.2	23.5	117.1	42.8	10.3	430.0	4.1	0.3	**434.4**
Underwriting profit/(loss)	6.6	9.4	(2.4)	4.8	29.2	14.4	5.9	67.9	(0.6)	8.2	**75.5**

1 Syndicate participations comprises the results of Chaucer participations on Syndicates 4000 and 4242
2 Run Off comprises the results of Syndicates 1229, 1204, and 1224 and 1245 (excluding the initial impact of the reinsurance to close) which have reinsured to close into Syndicate 1084
3 See note 4 to the financial statements for reconciliation of gross written premium and net earned premium to the Income Statement
4 Net earned premiums and underwriting profit/(loss) exclude the impact of foreign exchange on non-monetary items
5 Underwriting (loss)/profit is the sum of net earned premium, net incurred claims, and net expenses incurred in insurance activities

Table 2 - Divisional ratio analysis	Motor %	Marine %	Energy %	Aviation %	Property %	Specialist Lines %	Nuclear %	In-house total[5] %	Total[6] %
2008									
Claims ratio[1]	74.4	61.6	74.8	53.6	60.0	48.1	20.0	63.9	62.2
Best estimate (current year)	78.1	64.0	66.6	62.1	68.5	81.8	24.6	69.4	72.3
Best estimate (prior years)	(1.0)	(3.2)	16.9	(8.5)	(0.8)	(23.8)	(3.1)	(0.8)	(2.9)
Reserve risk loading (current year)	0.8	1.1	3.2	-	2.0	4.5	8.4	2.0	2.7
Reserve risk loading (prior years)	(3.5)	(0.3)	(11.9)	-	(9.7)	(14.4)	(9.9)	(6.7)	(9.9)
Expense ratio[2]	28.1	28.6	38.4	34.8	32.7	33.8	4.2	31.2	31.7
Acquisition costs[3]	20.8	27.4	34.9	27.2	27.7	25.0	3.5	26.1	26.2
Other expenses[4]	7.3	1.2	3.5	7.6	5.0	8.8	0.7	5.1	5.5
Combined ratio	102.5	90.2	113.2	88.4	92.7	81.9	24.2	95.1	93.9
Combined ratio (excluding prior years)	107.0	93.7	108.2	96.9	103.2	120.1	37.2	102.6	106.7
2007									
Claims ratio[1]	65.1	52.3	65.5	43.8	40.2	33.6	31.1	51.3	49.6
Best estimate (current year)	78.9	53.4	50.0	69.8	44.8	73.7	17.1	59.1	58.9
Best estimate (prior years)	(12.7)	1.7	3.5	(21.3)	(6.5)	(34.7)	13.4	(8.5)	(10.0)
Reserve risk loading (current year)	2.3	0.2	7.7	-	5.8	6.0	9.5	4.1	4.2
Reserve risk loading (prior years)	(3.4)	(3.0)	4.3	(4.7)	(3.9)	(11.4)	(8.9)	(3.4)	(3.5)
Expense ratio[2]	28.7	33.4	38.3	35.8	34.9	32.8	11.6	32.9	33.0
Acquisition costs[3]	20.2	27.2	33.0	29.2	28.0	25.0	3.4	26.1	26.1
Other expenses[4]	8.5	6.2	5.3	6.6	6.9	7.8	8.2	6.8	6.9
Combined ratio	93.8	85.7	103.8	79.6	75.1	66.4	42.7	84.2	82.6
Combined ratio (excluding prior years)	109.9	87.0	96.0	105.6	85.5	112.5	38.2	96.1	96.1

1 The claims ratio comprises net claims incurred as a proportion of net earned premiums for the period
2 The expense ratio comprises net expenses incurred in insurance activities divided by net earned premiums. This ratio includes consolidation adjustments and reclassifications but excludes both finance costs and expenses that are not attributable to underwriting. This is in line with the policy adopted by the Group in previous years
3 Acquisition costs includes commission paid to brokers and other expenses related to obtaining insurance business
4 Other expenses includes all expenses incurred in insurance activities that are not acquisition costs
5 The in-house total includes all of the divisions listed in the table, and therefore excludes the impact of Syndicates 4000 and 4242 participations and run-off
6 The divisional analysis excludes the effect of premiums and reserves relating to the reinsurance to close (RITC) of third party syndicates into Syndicate 1084 and the Group's increased ownership of the RITC of Syndicates 1084 and 1176 following the closure of their 2005 years of accounts. The total ratios include the run-off movement in the year of third party syndicates reinsured to close into Syndicate 1084 in the past, and participations on syndicates 4000 and 4242

Motor

2008's tough trading conditions created an underwriting loss of £3 million for the Motor Division. However, recognising the positive underlying trend, we allocated additional underwriting capacity and took steps to develop our distribution capabilities by launching the specialist Richard Egger Insurance brand and Chaucer*Direct* on Confused.com.

Tough trading conditions in certain areas of the motor market continued to affect the performance of Chaucer Insurance, our motor division, which recorded an underwriting loss before investment return of £3m in 2008 (2007 profit £6.6m). However, the underlying trend in performance was more positive and supported the decision to allocate additional underwriting capacity to this business in 2008 as the UK motor market improved. The Division recorded a current year best estimate claims ratio of 78.1% (2007 78.9%) and a combined ratio of 102.5% (2007 93.8%). The reported combined ratio of 93.8% for 2007 included an exceptional release of previously established reserves following an actuarial review of the underlying development of reserves.

The motor portfolio is all UK based and has two main components: personal lines and fleet. There are eight main personal lines motor products, including private car, motorcycle, motor trade, commercial vehicle and taxi. We write our fleet account through the Lloyd's broker market. The portfolio comprises mainly medium and small fleets, where price competition is less intense. Our fleets contain a mix of vehicles including private car, commercial vehicles, haulage and coaches.

We aim to write a broad range of UK motor insurance products and to support this with efficient administrative and claims services for customers. Although each product generally follows the insurance cycle, competitive pressures vary across products, supporting rate increases for individual products, without harming premium volumes. Chaucer Insurance uses sophisticated capital allocation, premium pricing and performance monitoring techniques to manage the business. Accurate and swift management information remains fundamental to our underwriting success.

Major changes continue to reshape the motor market, with aggregators taking a significant share of the distribution of private motor products in the UK. This enables smaller insurers to compete on a more level playing field with larger players, with customers buying mainly on price. Our private car products are currently available directly on one aggregator site and via intermediaries on the major aggregator sites as well as through our Chaucer*Direct* web site, which we launched in August 2008. We have plans to increase both the number of products distributed and the aggregator sites employed in 2009.

We further enhanced our electronic trading capabilities in 2008, launching an extranet-based employers and public liability product with our Specialist Lines Division, which is available as a standalone product or as part of our motor trade policy.

For more niche products, broker skills remain central to successful distribution. In January 2008, we launched a specialist motor broker, Richard Egger Insurance, to provide specialist vehicle and other niche motor business to Chaucer Insurance. Income in the first year of trading has exceeded target despite difficult trading conditions for the sport and pleasure vehicle market. We will continue to develop Richard Egger Insurance in 2009.

While the private car market has seen improvement over the past 30 months, including sustained premium rate increases during the past year, the fleet and commercial markets have remained weak. We continued to apply rate increases of inflation or above across most portfolio classes during 2008. While

We forecast an increase of 5.7% in UK motor premium rates in 2009, with standard private car prices expected to benefit most.

private car volumes remained healthy, this tactic reduced demand for our commercial vehicle and motor trade products.

We forecast an increase of 5.7% in UK motor premium rates in 2009, with standard private car prices expected to benefit most. In response to the improving market conditions, we have increased underwriting capacity in 2009, and shall support this with new product launches and further distribution developments.

We believe that fleet prices will begin to recover in 2009, following five years of decline. The Division, which significantly reduced the size of the account during this period, strengthened the underwriting team in 2008 in preparation for this.

Our distribution plans for 2009 include the launch of a new commercial vehicle product and an extranet facility for the fleet account to improve the service to brokers.

Key figures		2008 £m	2007 £m
Gross written premiums		132.2	118.9
Gross written premiums by major class	Fleet	24.5	27.2
	Private car	80.0	69.1
	Specialist motor	27.7	22.6
Net earned premiums		118.1	107.3
Underwriting (loss)/profit before investment return		(3.0)	6.6

	%	%
Claims ratio	74.4	65.1
Expense ratio	28.1	28.7
Combined ratio	**102.5**	93.8
Number of risks/programmes written by YOA	407,104	359,015
Percentage of lead business	100.0	100.0
Rate increase	6.1	1.5
Percentage of gross written premiums renewed for 2008 (2007) YOA	39.4	36.9

See 'Divisional Performance' (page 17) for definitions of the terms used in this table

Marine

Marine recorded an underwriting profit of £9.3 million for 2008. This is despite the market being hit by a number of high value single risk losses in addition to Hurricanes Ike and Gustav. Importantly, we enter 2009 in a stronger position having helped lead changes in the marketplace to restore discipline in key business areas.

The Division enters 2009 stronger, having responded positively to the many underwriting challenges faced in 2008. Discipline has now returned to key business areas in the market with, wherever possible, the Division leading this change.

Despite the market suffering from an unprecedented spate of high value single risk losses and Hurricanes Ike and Gustav, the Division recorded an underwriting profit of £9.3m (2007 £9.4m). Premium income rose to £121.2m (2007 £86.1m) while the combined ratio was 90.2% (2007 85.7%).

Hull

This account grew profitably in 2008.

A long overdue market correction began in 2008, reversing the effect in London of under-pricing and over capacity in the Scandinavian markets. With Bluewater ceasing to underwrite hull, and the position of the specialist Norwegian insurer NEMI being uncertain, the remaining regional markets have typically sought significant rate increases to address recent poor results and major pricing differentials. London market hull rates increased significantly in the final quarter of 2008 and we expect this momentum to continue in 2009.

The shipping market provides an important barometer of the state of the world economy, carrying more than 90% of global traded goods by volume. As the global economic performance and outlook deteriorated in 2008, so charter rates and then hull values followed suit. Our focus on established owner operator fleets with newer tonnage fixed on longer-term charters has lessened the impact of this change on our business. For the most part, our owners have strong balance sheets and some view the current trading environment as providing an opportunity to invest in their fleets for the long-term and to strengthen their crewing quality and retention.

In this challenging economic environment, it is important that we remain close to clients and respond to their business needs. We successfully broadened our distribution network in 2008 through our offices in Copenhagen and Singapore. With a profitable core hull book and an improving rating environment, we look forward to meeting the challenges of the shipping market in 2009.

Marine excess of loss

This was another good year for our marine excess of loss account, despite a number of major losses, including Hurricane Ike and the ACL Mississippi oil spill, which at US$135m, was the largest US marine market loss in several years.

These events, coupled with the continuing damaging effects of the global financial and economic crisis, brought the softening market to an abrupt halt in the second half of 2008.

The current year has started positively, with all January targets achieved in what was a very positive trading environment for excess of loss first tier underwriters. The decision to write a small energy excess of loss account for Gulf of Mexico exposures in 2008 means that the account is now favourably positioned to take advantage of improving trading conditions in 2009.

Political risk

The banking crisis has had a marked effect on our political risk account. From a positive standpoint, demand for our products has risen substantially as banking sector problems have forced exporters and traders to turn to the insurance market to secure

> *The Division enters 2009 stronger, having responded positively to the many underwriting challenges faced in 2008.*

cover and trade finance banks have had to purchase more coverage than usual to maintain sufficient free capacity to continue trading emerging market contracts. The heightened awareness of emerging market risk has also caused buyers to contemplate purchasing coverage for those countries previously considered as low risk.

However, the downside to this unusual set of circumstances is an increased risk of potential claims on live policies, and in response, we have raised our expected loss ratios for the 2006, 2007 and 2008 years of account. The dramatic fall in a wide range of commodity prices hit producer and supplier cash flows extremely hard in the second half of 2008, causing their short and medium term cash flow projections to worsen significantly.

While certain countries, such as Bolivia, Ecuador and the Ukraine, continue to concern us, the broad geographic spread and high quality of the risks now presented, combined with rate increases achieved, means that the prospects for 2009 and 2010 are very positive. It was also another eventful year in the terrorism and political violence market, with major upheavals in countries including the Lebanon, Bolivia, Pakistan and India.

Chaucer Singapore: *Growing business in a dynamic market*

Lloyd's has enjoyed a productive relationship with the Asian market for well over 100 years. When it established an official platform in the region in 1999, Chaucer immediately became involved in underwriting regional risks from our London office.

It soon became clear that clients had a desire to access Lloyd's expertise locally. Recognising this potential, we launched Chaucer Singapore Pte Limited in 2007 to focus primarily on upstream energy and marine lines.

The move enabled us to extend the Chaucer brand and Syndicate 1084 capacity into the region, to generate new opportunities for existing business classes and to add further diversity.

Today we are one of 15 Lloyd's managing agents operating in Singapore.

Having started with a small team, Chaucer Singapore has grown and expanded its capabilities to support additional lines of business including offshore energy, financial lines, power and utilities and engineering. The types of business it writes range from a US$900 million Australian construction risk through to conventional cargo and property risks that would not normally come into the London market.

The future looks promising. Since establishing bases in the region, both Lloyd's Asia and Chaucer Singapore have capitalised on the opportunities presented by this dynamic marketplace.

Cargo and specie

The cargo market remains soft, with a continued surplus of capacity worldwide, and syndicates have begun to reduce capacity in an attempt to stabilise prices. The London market share of our cargo book continued to reduce in 2008; replaced with an increased volume of better quality business from the Middle East and China. We continued to grow the project cargo book and increased our maximum line for this profitable class of business. Rates continued to hold firm in this class.

The specie account continued to be profitable. Risks with very large limits, which require London market placement, saw rises. We were cautious with cash in transit and jewellers block risks and fortunately missed most of the larger losses in 2008. For those losses where we did participate, significant rate increases then followed.

We will maintain underwriting caution until the current period of financial and economic turbulence abates. We expect cash and jewellery thefts to become more common and will continue to minimise our exposure to these risks in response.

Chaucer Singapore

The primary focus remained the development of the upstream energy account, which outperformed expectations in 2008, gaining lead positions on Asia Pacific risks. We also wrote a limited amount of hull and cargo business and introduced a terrorism facility with Amlin and Travellers, which saw healthy premium volumes and should provide further growth in 2009.

We continue to support the Lloyd's Asia platform, which saw further development in 2008. The broking fraternity has followed suit and we have benefitted from the influx of both London and local broking talent to Singapore.

The addition of new lines of business, supported by the appointment of a specialist lines underwriter and a property and power team, should support further development of Chaucer Singapore in 2009.

Key figures		2008 £m	2007 £m
Gross written premiums		121.2	86.1
Gross written premiums by major class	XL	21.1	15.9
	Hull	15.2	10.4
	Liability	9.8	7.8
	War	3.0	2.2
	Cargo	16.9	14.8
	Specie	15.5	14.4
	Satellite	2.4	3.1
	Political risk	37.3	17.5
Net earned premiums		94.9	65.8
Underwriting profit before investment return		9.3	9.4

	%	%
Claims ratio	61.6	52.3
Expense ratio	28.6	33.4
Combined ratio	90.2	85.7
Number of risks/programmes written by YOA	3,988	2,921
Percentage of lead business	22.7	18.3
Rate decrease	(0.5)	(1.6)
Percentage of gross written premiums renewed for 2008 (2007) YOA	70.2	73.7

See 'Divisional Performance' (page 17) for definitions of the terms used in this table

Energy

Establishing a dedicated Energy Division in 2008 recognises our leadership position in the international energy market and the importance of this business to the Group. Claims activity was high during the year and we recorded a loss of £10.5 million. However, future prospects are encouraging and we enter 2009 with confidence.

In 2008, we created the Energy Division in recognition of the importance of this business to the Group, in particular our dedicated specialist resources and our leadership position within the international energy market.

The period has proved challenging for the Division, with pressure on pricing and increased claims. Premium income was £116.3m (2007 £88m). The combined ratio increased to 113.2% (2007 103.8%). This included an increase of prior year best estimate ultimate claims reserves of 16.9%, primarily in relation to the energy construction account, which has suffered from reporting delays on pipeline losses and the increased length of time taken to quantify claim amounts.

Following two quiet Gulf of Mexico hurricane seasons, Hurricanes Gustav and Ike in the second half of 2008 have prompted a hardening of the market for operational energy risks. The total energy market insured loss estimates for these hurricanes is in excess of US$2.5bn.

The Division forecasts a total energy offshore loss from Gustav and Ike of US$24.6m, net of reinsurance recoveries and reinstatement premiums. Following Hurricane Ivan in 2004, we reduced Gulf of Mexico windstorm exposures within the energy portfolio, which has significantly contained our losses from these events.

Exploration and production business rates weakened during the first half of 2008, but then strengthened in the final quarter, following Hurricane Ike. We expect this trend to continue in 2009, although the market is now less buoyant, as the shrinking crude oil price shows. However, premium income levels should remain stable as operators continue to purchase increased limits.

After a period of low non-catastrophe losses, claims activity was more severe in 2008, with several very large losses. These included pipeline losses recorded by the London Construction account and Chaucer Singapore.

With an industry operating at full capacity and a high oil price, energy claims costs increased significantly during 2007 and 2008. In response, energy underwriters have tightened terms and conditions, notably for claim deductibles.

Energy construction rates should remain firm in 2009, with there being less market capacity available and underwriters recognising the long-tail nature of this business.

The 2009 renewal season was very positive, with rates increasing for all classes and opportunities arising to increase participation on certain accounts. Following the recruitment of specialist underwriters in 2008, the launch of our new onshore and casualty accounts was promising.

We expect the Energy Division to continue to develop as an important lead market, both at Lloyd's and at our overseas offices in Copenhagen and Singapore, during 2009.

We expect the Energy Division to continue to develop as an important lead market, both at Lloyd's and at our overseas offices in Copenhagen and Singapore during 2009.

Key figures		2008 £m	2007 £m
Gross written premiums		116.3	88.0
Gross written premiums by major class	Energy construction	36.5	19.1
	Energy liability	4.2	3.8
	Exploration and production	71.9	64.0
	Other	3.7	1.1
Net earned premiums		79.1	63.2
Underwriting loss before investment return		(10.5)	(2.4)
		%	%
Claims ratio		74.8	65.5
Expense ratio		38.4	38.3
Combined ratio		113.2	103.8
Number of risks/programmes written by YOA		1,284	1,093
Percentage of lead business		20.0	21.9
Rate decrease		(8.5)	(8.4)
Percentage of gross written premiums renewed for 2008 (2007) YOA		67.9	70.9

See 'Divisional Performance' (page 17) for definitions of the terms used in this table

Aviation

In 2008, Aviation recorded a profit of £2.7 million despite reducing income to £26.9 million in response to the continued soft market. The outlook for 2009 is more positive though with new opportunities reaching the Lloyd's market and premium rates starting to increase.

In response to continued soft market conditions, the Division has again reduced income, with written premiums for the period down to £26.9m (2007 £27.1m). The combined ratio remained low at 88.4% (2007 79.6%).

The outlook for the aviation market is more positive for 2009, following several years of declining rates. After four years of low claims, beginning with 2003, which attracted significant insurance capacity to the airline market as global underwriters sought to diversify their portfolios, market analysts believe that the airline insurance market has recorded losses in 2007 and 2008. These losses were attritional in nature rather than a single large claim, despite the catastrophic nature of the aviation market.

Premium rates have now begun to strengthen, with modest increases becoming the norm except in those geographical markets that have suffered most losses and where rises are more substantial. We have expanded our small airline target portfolio in response and we expect to write a larger account in 2009. We do not expect to write the major airline groups, given their continued substantial purchasing power.

Rates for other hull and liability business were flat in 2008, with rate increases for accounts with poor loss records offset by rate reductions for those with better records.

Airports and product related business continued to obtain modest rate reductions.

The overall direction of the aviation market remains unclear. While certain significant aviation insurers have notable problems and the continued global financial and economic turbulence will reduce fleet values and passenger numbers, continued overcapacity restricts the ability of the market to increase rates substantially. However, the Lloyd's picture is more positive, with new opportunities beginning to reach the market. This trend should benefit our Aviation Division, which has increased underwriting capacity for 2009.

The outlook for the aviation market is more positive for 2009, following several years of declining rates.

Key figures		2008 £m	2007 £m
Gross written premiums		26.9	27.1
Gross written premiums by major class	Refuellers and products	5.5	8.3
	Hull and liability	21.4	18.8
Net earned premiums		23.3	23.5
Underwriting profit before investment return		2.7	4.8
		%	%
Claims ratio		53.6	43.8
Expense ratio		34.8	35.8
Combined ratio		**88.4**	79.6
Number of risks/programmes written by YOA		1,845	1,671
Percentage of lead business		12.7	9.8
Rate decrease		(1.4)	(7.5)
Percentage of gross written premiums renewed for 2008 (2007) YOA		84.0	75.9

See 'Divisional Performance' (page 17) for definitions of the terms used in this table

Property

In 2008 we witnessed an unprecedented level of large single risk losses worldwide, significant weather related losses in the US and then Hurricanes Ike and Gustav. Despite the challenges, our Property Division performed satisfactorily recording income of £157.5 million and profits of £8.9 million.

This was a challenging year for the property market, with an unprecedented level of large single risk losses worldwide and significant weather-related losses in the United States during the first half of 2008 and then an active North American hurricane season, dominated by Gustav and Ike.

Despite these demanding conditions, the Property Division performed satisfactorily, recording a combined ratio of 92.7% (2007 75.1%). Income was little changed at £157.5m (2007 £158.8m). Our determination to reduce aggregate exposures as the market cycle weakened and to decline business that does not meet our required underwriting standards helped us to avoid the majority of large single risk losses or, where exposed, to hold claims at a manageable level.

These losses, combined with the impact of the continuing global financial crisis on capacity availability, caused rates to stabilise at the end of 2008, after three quarters of softening across all areas of our business. Rates should continue to firm for most property classes in 2009. US catastrophe excess of loss and international treaty rates, should lead the increase.

The US treaty account continued to soften from the highs of 2006 and 2007, with modest rate reductions on certain programmes. The year was unprofitable, with unprecedented localised tornado catastrophe losses adding to the damage caused by Hurricane Ike.

Despite falling rates, the international treaty account had another successful year, benefiting from a widely diversified portfolio.

As forecast, the worldwide facultative book saw rates continue to fall. However, in light of the high frequency and severity of individual risk losses and Hurricane Ike, we believe that 2008 will mark the cycle trough.

Our worldwide binding authority book has managed the down cycle successfully, reducing US hurricane exposures as rates became less adequate. To enhance diversification of the book, we continue to seek opportunities in those areas of the world with limited catastrophe exposure.

The engineering team achieved another good result after adopting a cautious approach to underwriting. Rates continued to decline, as there was an influx of new players in both the treaty and facultative arenas. Our Singapore office has appointed an engineering underwriter to focus on Asian business not traditionally offered to London. We will seek to expand our underwriting into other property classes as soon as the Asian market shows signs of firming.

During the year, we devoted considerable effort to planning our response to the next market upturn, including the integration of catastrophe aggregate modellers into specific underwriting teams.

“Rates should continue to firm for most property classes in 2009. US catastrophe excess of loss and international treaty rates should lead the increase.”

Having remained in profit through the last cycle, we believe that the Property Division has the resources and skill required to take full advantage of the next cycle upturn. This is a tribute to the continuing strength and loyalty of the underwriting team.

In 2009, the Division will continue to focus on the balance and diversification of the property account, re-assessing our US wind exposures and developing opportunities arising from non-core territories.

Chaucer Underwriting A/S: *10 years of success in Europe*

In July 2009, Chaucer Underwriting A/S of Copenhagen, Denmark, will celebrate 10 years as a successful part of the Chaucer business and business evolution since being launched in 1999. To mark the occasion, clients will join the team for a special anniversary dinner on the eve of the company's annual business seminar.

The seminars have become a highlight in the business calendar, providing brokers and reinsurers from across Europe with the opportunity to meet and discuss key issues affecting the industry. 55 invited delegates attended last year, when the theme was modelling natural perils, transportation and terrorism within the life, accident and health sectors. This year we expect the attendance to increase to around 100 and the focus will be on major European catastrophes and the new Danish terrorism pool.

Industry seminars are just one example of the way that Chaucer Underwriting A/S has grown. When we acquired the operation in 1999 it mainly wrote property reinsurance in Northern Europe. However, Chaucer recognised the potential of having an office in Copenhagen that offered good access to European risks not typically presented to the Lloyd's market.

Over the years, the team has built on that potential and strategically expanded its reach. The team has developed a worldwide accident and health portfolio and has moved into markets that are more diverse. Today they write business across Europe in terrorism, marine, energy, engineering and specialist lines.

Chaucer Underwriting A/S has grown from strength to strength and created a solid foundation for continued success. Since 1999, premium income has increased from £3.1 million to £19.7 million in 2008.

Chaucer Underwriting A/S

Despite winter windstorms Emma and Paula in Germany and Austria and summer storms in Slovenia, our European property account remained profitable. In 2009, we expect the account to benefit from a security flight to quality, following many high profile downgrades, and the increasing profile of Lloyd's and Chaucer in Europe.

Our European property catastrophe rates increased by an average 5% during the 1 January renewal season and, if financial and economic turbulence continues, we expect prices to harden further. However, prices within our per risk portfolio remain weak because of increasing competition.

The worldwide life, accident and health catastrophe account continues to develop successfully. We continue to build a diversified book of international risks, where we actively quote and lead new risks to improve those presented for selection. The market remains profitable but competitive following an eight-year absence of major losses.

Engineering: *Underwriting iconic developments*

Our Engineering team, which writes construction and engineering on an excess of loss, proportional treaty, direct and facultative basis, began underwriting for Syndicate 1084 in 2007.

Two key business classes, Contractors All Risks (CAR) and Erections All Risks (EAR), are focused on leading edge engineering projects. CAR relates chiefly to building and civil works and EAR to power, oil and gas and industrial projects with a focus on the installation and testing of plant and machinery.

A recent undertaking for CAR is the **'Shard of Glass' London Bridge Tower**. The 310m tall skyscraper has 72 floors which integrate residential, office, hotel and restaurant facilities. It is due for completion in 2012 and when completed will be the tallest building in the UK, and one of the tallest in Europe.

A notable EAR example is the **'Pearl' Qatar Shell Project**. This is a multi-billion US$ gas to liquids construction development in Qatar's Ras Laffan industrial city.

With a site almost equal in size to New York's Central Park, Pearl is one of the world's largest gas to liquids plants and represents a huge step forward in the development of cleaner energy.

The engineering team's strong technical approach combines with the high standards it sets for pricing, scope of coverage, deductibles and risk management.

These qualities underpin its ambition to grow and develop a lead market position. The long-term prospects are good and the team expects to win involvement in many more iconic developments in the future.

Key figures		2008 £m	2007 £m
Gross written premiums		157.5	158.8
Gross written premiums by major class	Delegated authorities	32.1	37.4
	Facultative property	32.7	38.7
	Property treaty	64.2	54.3
	Miscellaneous short tail	18.1	13.2
	Engineering	10.4	15.2
Net earned premiums		122.0	117.1
Underwriting profit (before investment return)		8.9	29.2
		%	%
Claims ratio		60.0	40.2
Expense ratio		32.7	34.9
Combined ratio		**92.7**	75.1
Number of risks/programmes written by YOA		3,356	3,529
Percentage of lead business		21.4	29.0
Rate decrease		(7.0)	(1.6)
Percentage of gross written premiums renewed for 2008 (2007) YOA		75.2	78.2

See 'Divisional Performance' (page 17) for definitions of the terms used in this table

Specialist Lines

We entered 2008 knowing that our disciplined approach to underwriting would help maximise long-term opportunities, while also minimising the impacts of the global financial and economic crisis. In such a fraught environment, our income of £46.3 million and profit of £7.5 million represents a commendable performance.

Our Specialist Lines Division focuses on medical malpractice (including hospitals), professional liability, financial crime, workers compensation and general casualty treaty business.

Since conditions peaked in 2004, we have gradually reduced income in response to the softening market, decreasing gross premium income to £46.3m (2007 £47.5m). We recorded an underwriting profit before investment income of £7.5m (2007 £14.4m). The combined ratio is 81.9% (2007 66.4%), benefitting from favourable run off of prior year best estimate ultimate claims reserves, primarily from the institutional healthcare account.

We entered 2008 knowing that our disciplined underwriting approach would maximise long-term opportunities and minimise, as much as possible, the losses that will inevitably arise from the continuing global financial and economic crisis. Two main factors continue to drive the market.

Firstly, the losses suffered by the financial institutions market will inevitably begin to spread to the commercial errors and omissions market. In general, we avoid exposure to US public company directors and officers' liability. More specifically, the financial institutions account has only a very limited appetite for major commercial banks and their professional advisers.

Secondly, the problems surrounding AIG and concerns over the security of other carriers have caused clients to consider diversifying their insurance security across a broader group of carriers. Lloyd's and Syndicate 1084 are beginning to benefit from this trend, with increased demand for medical malpractice and treaty business.

The financial turbulence of 2008 has arrested the general rate of decline that has taken place in the specialist lines market since 2004. It has also created opportunities for some specific accounts, notably financial institutions, where we expect to benefit from improving rates. We recruited two experienced underwriters in 2009 to strengthen our financial institutions team.

Plans for 2009 also include development of our international casualty treaty account, having appointed a new market leading team at the end of 2008 to provide new territorial and jurisdictional expertise to our existing accounts at a time when our security is in demand.

Our plans for 2009 include the development of our international casualty treaty account, having appointed a new market leading team at the end of 2008.

Key figures		2008 £m	2007 £m
Gross written premiums		46.3	47.5
Gross written premiums by major class	Medical	15.1	14.6
	Financial institutions	14.4	12.6
	Directors and officers/Errors and omissions	8.9	11.6
	Occurrence	7.5	6.4
	Other	0.4	2.3
Net earned premiums		41.4	42.8
Underwriting profit (before investment return)		7.5	14.4

	%	%
Claims ratio	48.1	33.6
Expense ratio	33.8	32.8
Combined ratio	**81.9**	66.4
Number of risks/programmes written by YOA	1,244	1,197
Percentage of lead business	21.0	27.6
Rate decrease	(3.5)	(4.5)
Percentage of gross written premiums renewed for 2008 (2007) YOA	85.9	78.8

See 'Divisional Performance' (page 17) for definitions of the terms used in this table

Nuclear

Our Nuclear Syndicate 1176 is consistently one of the most profitable syndicates at Lloyd's and is recognised as a leading insurer of nuclear risk. In 2008, we generated income of £14.7 million and profits of £9.1 million.

Nuclear Syndicate 1176 provides coverage across the nuclear fuel cycle, from raw uranium and nuclear fuel to the shipment and storage of waste, although most of the Syndicate's insurance exposures relate to power generation.

The Syndicate also issues a limited liability policy with proven strict terms and restrictions. The Syndicate purchases excess of loss reinsurance to limit maximum exposure to a major incident to 200% of capacity. The loss record remained favourable in 2008, supporting broadly stable rates across the portfolio. The combined ratio was 24.2% (2007 42.7%).

The Syndicate, which has an underwriting capacity of £31.5m (2008 £27.5m), expects little change in net income in 2009.

Key figures	2008 £m	2007 £m
Gross written premiums	14.7	11.9
Net earned premiums	12.0	10.3
Underwriting profit (before investment return)	9.1	5.9
	%	%
Claims ratio	20.0	31.1
Expense ratio	4.2	11.6
Combined ratio	**24.2**	42.7
Number of risks/programmes written by YOA	19	18
Percentage of lead business	91.7	93.8
Percentage of gross written premiums renewed for 2008 (2007) YOA	100.0	100.0

As nuclear insurance has historically been a non-cyclical business, there is no maintenance of an index

See 'Divisional Performance' (page 17) for definitions of the terms used in this table

Third Party Syndicate Management

We are market leaders in syndicate management. In 2008, we managed capacity of £319.7m for third party capital providers, generating an income of £4.4 million.

Of the Group's total syndicate capacity under management of £839.5m (2007 £741.1m) at the end of 2008, some £319.7m (2007 £260.2m) was for third party capital providers. This generated a total income of £4.4m from syndicate management in the period (2007 £7.5m), which we include within 'Other Operating Income' of £9.2m (2007 £10.3m).

Syndicate 4000

In February 2008, we purchased the remaining outside interests in Syndicate 4000 for a nominal consideration and hence we now provide the capital to support the entire underwriting capacity (£73.0m) of Syndicate 4000 for the 2008 and prior open years of account (2007 £73.0m and 2006 £82.0m).

We provide Funds at Lloyd's to support their underwriting and, in the normal course of events, intend to close the final open year into Syndicate 1084. We completed the sale of Pembroke Managing Agency for £15.3m in September 2008, realising a net gain (after expenses) of £7m, and do not participate on Syndicate 4000 for the 2009 year of account.

We completed the acquisition of Syndicate 4000 after considerable actuarial and expert due diligence, in the knowledge that, whilst there was significant risk to the 2007 and prior reserves arising from US sub-prime problems, the Syndicate held substantial reserve loadings to offset this risk. The prior years have developed well since completion, giving rise to £24.5m of reserve releases in 2008.

For 2008, we have adopted a more pessimistic view of emerging claims experience following the intensification of financial market turbulence, triggered by the Lehman Brothers collapse and subsequent distress of major financial institutions worldwide and the collapse of funds managed by the Bernard L Madoff Investment Securities LLC.

These events have led to best estimate reserves for 2008 being worse than projected on completion. However, reserve risk loadings, including those released on prior years, have absorbed the majority of this deterioration. Consequently, the syndicate has made a small positive contribution to the 2008 underwriting result.

While the ultimate loss resulting from the global financial crisis cannot yet accurately be determined, we believe the levels of technical provisions held for anticipated claims to be adequate. Syndicate 4000's net IBNR provisions amounted to £82.0m as at 31 December 2008, which includes significant loadings retained by us as a buffer against possible future best estimate reserve deterioration.

Table 3 provides a summary of the underwriting performance of Syndicate 4000.

Syndicate 4242

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

Our share of the Syndicate's underwriting loss of £0.9m (2007 £0.5m profit) reflects significant weather-related losses in the United States during the first half of 2008 and then an active North American hurricane season, dominated by Gustav and Ike.

We have an underwriting interest of £11.3m for the 2009 year of account (2008 £11.3m).

Table 4 provides a summary of our share of the underwriting performance of Syndicate 4242.

Syndicate 1274

The Group underwrites on Syndicate 1274 through a £17.0m investment in Antares Holdings Limited, a Bermudian-based holding company established by industry investors to provide capital for the Syndicate.

The Syndicate has completed a satisfactory first year of trading, having commenced underwriting for the 2008 year of account with a capacity of £135.4m. The Syndicate has maintained this capacity for 2009.

Syndicate closure

On 3 March 2008, we announced agreement with Heritage Managing Agency Limited to close Syndicate 1245 into Chaucer

Table 3 - Syndicate 4000	2008 £m	2007[1] £m
Gross written premiums	65.9	59.3
Net earned premiums[2]	42.9	39.7
Underwriting profit/(loss)[2]	0.8	(6.7)
	%	%
Claims ratio	58.8	83.9
Best estimate (current year)	104.1	90.8
Best estimate (prior years)	(22.3)	(27.6)
Reserve risk loading (current year)	10.8	20.9
Reserve risk loading (prior years)	(33.8)	(0.2)
Expense ratio	39.3	39.2
Acquisition costs	26.4	20.5
Other expenses	12.9	18.7
Combined ratio	98.1	123.1
Combined ratio (excluding prior years)	154.2	150.9

1 These figures are restated as if the Group owned 100% of the syndicate, to aid comparability of the results
2 Net earned premiums and underwriting profit/(loss) exclude the impact of foreign exchange on non-monetary items

See 'Divisional Performance' (pages 16 and 17) for definitions of the terms used in this table

The skills and infrastructure that support our own underwriting also provide the platform for our strategy of developing additional income streams from syndicate management.

Syndicate 1084. With effect from 1 January 2008, Syndicate 1084 assumed the reinsurance to close of the open 2002, 2003 and 2004 years of account of Syndicate 1245, which ceased underwriting in 2004. The premium for the reinsurance to close was £44.4m. The business has run off satisfactorily since closure.

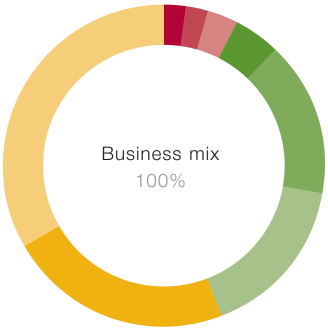
The transaction incorporated a departure from standard RITC practice in that it included provision for the reinsured members of Syndicate 1245 to benefit from a premium refund in the event of the favourable run-off of the outstanding liabilities assumed by Syndicate 1084.

We believe that this provides an innovative closure solution for capital providers seeking an efficient exit from Lloyd's syndicates faced with a potentially volatile run off.

Table 4 - Syndicate 4242	2008 £m	2007 £m
Gross written premiums	8.6	5.1
Net earned premiums[1]	5.1	1.9
Underwriting (loss)/profit[1]	(0.9)	0.5
	%	%
Claims ratio	67.1	14.5
Best estimate (current year)	65.3	6.5
Best estimate (prior years)	(1.5)	-
Reserve risk loading (current year)	6.6	8.0
Reserve risk loading (prior years)	(3.3)	-
Expense ratio	51.0	57.4
Acquisition costs	43.5	37.4
Other expenses	7.5	20.0
Combined ratio	118.1	71.9
Combined ratio (excluding prior years)	122.9	71.9

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

See 'Divisional Performance' (pages 16 and 17) for definitions of the terms used in this table



- Syndicate 4242 2.1%
- Specialist Lines 2.2%
- Nuclear 3.2%
- Aviation 4.6%
- Energy 15.6%
- Marine 16.3%
- Motor 22.5%
- Property 33.5%

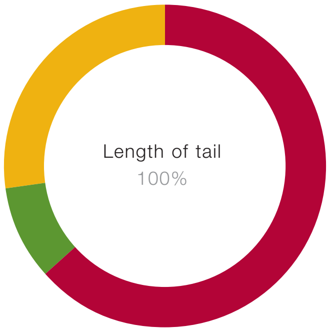
Forecast business split based on Chaucer's economic interest of £546.1m (2008 £519.8m) of underwriting capacity

Performance indicators	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m
Gross premiums written	391.1	484.2	594.0	584.1	741.0
Reserve release	12.2	17.2	24.4	45.8	74.1
Profit/(loss) before tax	33.0	11.9	86.0	89.4	(26.2)
Shareholder equity	153.9	156.0	216.5	282.2	225.5

	%	%	%	%	%
Investment return	4.8	5.0	5.7	4.7	(6.8)
Post-tax return on equity	23.7	7.4	37.7	31.7	(7.0)
Gross gearing[1]	37.2	36.0	44.5	23.8	42.6
Combined ratio[2]	90.1	104.5	84.7	81.6	90.8

Per share amounts	p	p	p	p	p
Net tangible assets	42.9	42.4	60.7	75.8	62.5
Basic earnings/(loss)	10.7	3.9	20.1	22.3	(6.0)
Annual dividend	2.8	3.1	4.0	5.0	5.5

1 Gross gearing represents the sum of on and off balance sheet debt as a percentage of shareholders' funds
2 The presentation of combined ratios is without any adjustments for foreign exchange on non-monetary items or inwards reinsurance to close premiums



- 63.5% **Short:** Over 75% of gross ultimate claims developed at 24 months
- 9.3% **Medium:** Between 50% and 75% of gross ultimate claims developed at 24 months
- 27.2% **Long:** Below 50% of gross ultimate claims developed at 24 months

Based on Chaucer's underwriting interests for the 2008 year of account

Business type	2008 £m	2008 %	2007 £m	2007 %
Delegated authorities	143.5	20.8	132.6	24.1
Direct	318.4	46.2	235.7	42.9
Facultative	112.7	16.3	79.5	14.5
Treaty	115.0	16.7	101.6	18.5
Run off	0.3	-	0.1	-
	689.9	100.0	549.5	100.0

Table based on adjusted gross premiums. Please see note 4 to the financial statements for reconciliation of gross written premiums to the Income Statement

Currency split	2008 £m	2008 %	2007 £m	2007 %
Sterling	313.9	45.5	242.0	44.1
US Dollar	357.4	51.8	293.6	53.4
Canadian Dollar	18.6	2.7	13.9	2.5
	689.9	100.0	549.5	100.0

Table based on adjusted gross premiums. Please see note 4 to the financial statements for reconciliation of gross written premiums to the Income Statement

Leading indicators	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m
Total investments and cash	536.8	668.1	829.0	957.8	1,219.5
Net unearned premium reserve	132.4	171.2	187.9	217.4	296.3

Premium Rating Index	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E
Combined total	100	118	152	156	157	158	181	175	168	177

For the third consecutive year, we conducted an employee survey. The results show that 98% of Chaucer staff are willing to go the extra mile, 93% enjoy the work they do and 96% get personal satisfaction from doing their job well.

2008 highlights

- Integration and expansion of the London Human Resource team and Learning and Development function to Human Capital
- Positive results gained in the 2008 Employee Survey. An external provider conducted the survey, which received a 68% response rate across the Group. Significant improvements have been made in areas including teamwork and in management
- Benefits review and subsequent revision, including enhancement and introduction of new policies in relation to maternity and sabbaticals
- Successfully moved the Performance Reviews on line
- Introduction of ability testing to enhance the selection process

Working at Chaucer

We place great value on employing the right people and seek to ensure that Chaucer attracts and retains the highest calibre of employee. We operate first class employment practices and have an employment policy in place to encourage, develop and retain staff.

For the third consecutive year, we conducted an employee survey to assess the integration of our corporate values within our culture and working environment. We expanded the scope of the survey to allow us to benchmark our performance as an employer, identify and share good practice, and focus our efforts on issues that mean the most to our employees.

- **98% of Chaucer staff** are willing to go the extra mile
- **93% of Chaucer staff** enjoy the work they do
- **96% of Chaucer Staff** get personal satisfaction for doing a job well

Our current turnover rate is below the Market average and we benefit from exceptional levels of expertise and commitment from our underwriters.

Graduate Scheme

We offer a structured twenty-four month rotational programme, which exposes individuals to all areas of the business, developing technical skills and personal development competencies. Professional study is also a key component of the programme. We place graduates permanently within a business area on completion of the programme, based on requirements of both the individual and the business.

Learning, development and continued improvement

Our London and Whitstable offices have dedicated in-house learning and development teams so all employees have access to high quality initiatives. Our teams have responsibility for the co-ordination of training company-wide and seek to deliver the majority of courses in-house.

- **85% of Chaucer staff** agree that they are encouraged to learn new skills

Both our Learning and Development Teams have a wealth of technical and management experience and our technical trainers and programmes are accredited by the Chartered Insurance Institute and the Financial Services Skills Council.

All employees receive semi-annual performance reviews linked to personal performance to competency frameworks. These operate in support of individual development programmes, which we deliver as part of our group-wide training plans.

Professional studies and qualifications

We strongly support professional studies. We provide financial assistance, study leave, and offer financial rewards as a means for achieving professional status.

Management development

During the last two years, managers and supervisors have undertaken a skills development programme to help them apply management tools and techniques to their roles in the business.

- **83% of Chaucer staff** have confidence in the leadership of Senior Management

This programme enabled participants to share their knowledge and experiences and to build support-networks around them to improve their performance and move our business forwards.

We are in the process of gaining formal accreditation with the Institute of Leadership and Management.

Coaching and mentoring

A number of our people benefit from an internal or external mentor. The Group has supported these relationships to enhance career and personal development.

Our mentoring charter and guidelines underpin our internal scheme.

Looking forward to the year ahead

Our priority is to integrate and enhance the initiatives currently underway to support our robust people strategy, which will provide us with the resources to deliver a superior performance.

This includes:

- Development and implementation of a Chaucer specific leadership programme
- Comprehensive talent management and succession planning
- Integration and harmonisation of people practices across the Group
- Further utilisation of Human Capital systems to enhance and automate processes
- Increased transparency and integration with relation to grading, competency frameworks and performance management systems

Jonathan Powell - *Graduate Trainee*

"I am currently in my second year of Chaucer's Graduate Scheme.

The Scheme provides graduates with good experience of all the main areas of the business, helping me to understand how underwriting works and where my skills are best suited. My experience to date has focused on the essential business management and processing areas including Management Information, Actuarial, Finance, Operations and Risk Management.

Chaucer organises regular sports and social events, including annual football, rugby and cricket tournaments. These events have helped me to get to know my colleagues outside of work.

Chaucer is an excellent company to work at. It has a friendly culture in which people are willing to share knowledge and support each other; combine this with an excellent remuneration package and you have a great place to work."

Oliver Howard - *Graduate Trainee*

"I joined Chaucer's graduate scheme in September 2007.

The highlight to date was my seven months spent with the Hull and Liability Underwriting Team, learning about the marine business, supporting both the Class and Assistant Underwriters and making invaluable contacts within the Lloyd's market. The role has given me a good insight into the marine market, in particular, how we model and underwrite risks.

The graduate scheme provides great scope for personal development, and Chaucer has helped me work towards my Chartered Insurance Institute qualification, offering both time out of the office for study and training sessions to support coursework material.

I have been at Chaucer for 18 months now and am sure that the skills I have gained will be a big help to me in my professional career. While I'm still finding my feet, Chaucer provides a good mix of experience, career progression support and personal development and in an enthusiastic environment to work in."

CSR is firmly embedded in the Chaucer business. It influences on the way we encourage our people to develop professionally and personally. It is evidenced by the time we dedicate to charitable work and it is measured by our adherence to the ClimateWise principles.

The primary aim of our Corporate Social Responsibility (CSR) programme is to consider the effect that our work has on our employees, society and our environment and as such, implement activities that have a positive impact on our community.

Our corporate responsibility

Our people are the driving force behind the success of our business and as such, we place a high value on "investment in people".

Our role as a responsible employer is to operate first class employment practices and promote equal opportunities. Through providing support to our staff, we have built a culture of trust, loyalty and mutual respect. This has allowed us to attract highly qualified and knowledgeable individuals and to create and retain what we believe to be one of the best teams in our industry.

We are proud of our culture. We believe that in order to succeed, our people must have common goals and objectives. The Chaucer Values of enthusiasm, expertise, integrity, teamwork, aspiration and inclusiveness, show the way for how we work together as Chaucer and how we conduct business with our clients, our investors and suppliers.

Our values also provide a framework for the schemes that we operate to develop, both the professional and personal skills of our employees, including a mentoring scheme and numerous volunteering schemes in which we participate.

Our social responsibility

We encourage employees to participate in community programmes by providing each individual with two days a year, which they can dedicate to volunteering activity.

Our London projects

- Lloyd's launched its Charity Challenge, a month long programme of challenges created in the style of the BBC's Apprentice. The goal was to raise as much money as possible for Lloyd's Charities Trust's three partner charities; Coram, FARM-Africa and Samaritans. Our team, along with ten other companies from the Lloyd's market, raised a combined total of £250,000
- 12 employees participated in the Reading Partners Scheme, managed by Tower Hamlets Business Partnership, dedicating over 150 hours to help 40 children at Cayley School in Limehouse develop their literary and communication skills
- We donated an engine to AHOY (Adventure, Help and Opportunities for Youth), based in Deptford, south east London, for their new safety boat, which they named 'The Chaucer'
- Other organisations supported throughout the year included the Royal National Lifeboat Institution, City Gateway, which provide education, skills and training to young people and Movers and Shakers, which supports the Cure Parkinson's Trust
- We also supported individual employees in their personal charitable achievements, which included an 875-mile cycle ride, marathons and a sky dive

Our Whitstable projects

- In our Whitstable office, the home of our Motor Division Chaucer Insurance, staff dedicated over 480 hours to voluntary projects and made donations to 33 charitable organisations
- Six members of staff took a group of 20 young carers for a day out at Port Lympne to give them a much-needed break from the responsibility for caring for a family member
- In July, ten employees took part in a 7 km wheelchair push along the seafront on behalf of the Strode Park Foundation, Kent's premier charity for people with disabilities
- We provided funding for staff blood tests to identify suitable bone marrow donors for the Anthony Nolan Trust
- Through the Make-A-Wish foundation, we provided funds for four-year-old kidney patient, Lauren from Hampshire, to received the royal treatment when she was given a princess bedroom makeover
- We supported the elderly residents in Whitstable at Christmas by delivering hampers and hosting Christmas lunch on behalf of Age Concern

Our environmental responsibility

Although the very nature of our business only produces a small impact on our carbon footprint, we are nevertheless very conscious of our responsibility and the positive impact it delivers on both our working and personal environment.

- We have recycling projects in place across the Group including paper, cardboard, plastic cups, printer and toner cartridges and mobile phones
- We purchase environmentally friendly stationery materials, where appropriate
- In our Whitstable office, we run a scheme to conserve water and save 8,000 litres of water a month
- 18 employees took half a day each to help preserve the fence posts surrounding the 40-acre ancient Wildwood Trust in Herne Bay, Kent
- We adopted a 100m stretch of beach close to the harbour in Whitstable and took part in four beach cleaning sessions in 2008

We continue to work with other Lloyd's market agencies to mitigate climate change, supporting the ClimateWise principles, a framework for insurance companies worldwide to set out how they will build climate change into their business operations.

Our progress against the six key ClimateWise principles and details of our other CSR related activity is shown in the CSR section of our website at www.chaucerplc.com.

Chaucer Values *in action*

Enthusiasm: We are passionate about building our business and in 2008, we recruited 20 underwriters to take advantage of the hardening market.

Aspiration: We have increased our capacity of Syndicate 1084 to £545m for 2009 to support our aim to become a leading Lloyd's insurer.

Expertise: We are proud of our high level of underwriting expertise. Our underwriters represent us on over 35 committees in the Lloyd's and London Market.

Integrity: We aim to be open and honest in our communication. In our annual employee survey, 88% believed that a climate of trust exists within the organisation.

Teamwork: We work to support community-based projects. In 2008, we helped raise over £250,000 in the Lloyd's Charity Challenge.

Inclusiveness: We listen to our employees and respect their opinions. In our annual employee survey, over 90% enjoyed their work and are positive about working for Chaucer.

The financial performance of the Group was disappointing in 2008, with a loss before tax of £26.2m (2007 profit £89.4m).

Despite record catastrophe and other major losses worldwide, the Group's underwriting operations proved robust, contributing a profit before investment income of £33.0m (2007 £75.5m), before the impact of foreign exchange on non monetary items. However, the Group's investment portfolio performed poorly, recording a loss of £71.0m (2007 profit £41.7m), with equity and hedge fund holdings losing significant value in September and October 2008 as fears of a global financial collapse and world recession triggered a flight to safety among investors. The Group has taken significant steps to de-risk the portfolio.

Gross written premiums, excluding RITC premiums and consolidation adjustments, increased by 25.6% to £689.9m (2007 £549.5m), the result of premium income increases in the Motor, Marine and Energy Divisions, and the Group's purchase of the remaining outside interests in Syndicate 4000 in February 2008.

Net earned premiums, excluding RITC premiums, the impact of foreign exchange on non-monetary items, and consolidation adjustments, increased by 23.9% to £538.4m in 2008 (2007 £434.4m).

The Group combined ratio rose to 93.9% (2007 82.6%) as record catastrophe losses worldwide held back performance. The current year element of the claims ratio increased to 106.7% (2007 96.1%). Prior year reserve releases reduced the combined ratio by 12.8% (2007 13.5%). During 2008, the Group released net reserves of £74.1m relating to prior periods. The bulk of the releases were from the Property, Specialist Lines and Marine Divisions and from Syndicate 4000. This follows a net release of £45.8m in 2007.

The expense ratio decreased to 31.7% (2007 33.0%), although this benefited from a foreign exchange gain of £8.4m (2007 £1.8m).

Following the significant strengthening of the US dollar against sterling in the second half of 2008, the treatment under IFRS of non-monetary assets and liabilities (converting them at historic rather than closing foreign exchange rates) has affected the results of the Group. This has improved the results for the year ended 31 December 2008 by £33.3m and, in the absence of further exchange rate movements, will adversely affect the results for the year ending 31 December 2009 by approximately £29.0m and the balance in 2010 and later years.

Table 5 summarises the result for the year.

Capital raising

On 13 February 2009, shareholders voted to approve the raising of £75.0m, net of expenses, through a firm placing and a placing and open offer, to strengthen the balance sheet and support the development of the business.

The Group will deposit at least £67.0m of the proceeds as Funds at Lloyd's (FAL) to support the growth of the business and take advantage of favourable underwriting conditions anticipated in 2009 and 2010. The funds will also support Syndicate 1084's increased capital requirements for 2009, arising from changes in the exchange rate between sterling and the US dollar, and cover 2008 solvency deficits. The underwriting capacity of Syndicate 1084 will increase to at least £545.0m.

The Group will also retain approximately £8.0m for general working capital purposes.

Dividends

The Group declared a second interim dividend of 3.7p per share in lieu of a final dividend for 2008, resulting in a total dividend of 5.5p per share for 2008 (2007 5.0p). The Group paid this dividend of 3.7p on 13 March 2009 to shareholders on the register on 6 February 2009.

The new shares issued through the Placing and Open Offer rank pari passu in all respects with the existing shares as at the date of issue. However since the Group issued the new shares after 6 February 2009, they did not qualify for the second interim dividend.

The Group anticipates that, in the absence of unforeseen circumstances, it will declare a total dividend of no less than 4.0p per share for each of 2009 and 2010.

2008 events

With an estimated total cost of US$50bn, 2008 was the second costliest year ever in terms of insured losses. The marine, energy and property markets suffered from an unprecedented spate of high value single risk losses in the first half of the year, followed by Hurricanes Ike and Gustav, while the international financial and professional liability markets saw losses increase significantly as the effects of the 2007 credit crunch began to widen in 2008.

HURRICANE LOSSES

The estimate of market-insured losses for Hurricane Ike range from US$15bn to US$25bn, making it the third costliest US Hurricane on record, while those for Hurricane Gustav are close to US$5bn. At 31 December 2008, the Group's estimate of losses from Hurricanes Gustav and Ike is US$67.7m, net of reinsurance recoveries and reinstatement premiums. The loss falls principally on the Marine (excess of loss), Energy and Property Divisions.

The Marine Division also experienced three major energy losses during the first half of the year; two pipeline construction claims and an exploration and construction loss. With an industry operating at full capacity and until recently a high oil price, energy claims costs have increased significantly during the last two years. The Property Division also saw an unprecedented level of large losses worldwide and high storm-related losses in the United States during the first half of 2008.

FINANCIAL CRISIS

Problems caused by the US sub-prime mortgage sector in 2007, escalated into a full-blown crisis in 2008 as the failure of Lehman Brothers on 15 September triggered fears of financial sector collapse and a global recession. While the eventual outcomes and associated losses of these events remain highly uncertain, the current market estimates for total D&O and E&O losses coming from these events form a broad range, from

US$6.8bn up to US$12.1bn, and include securities class action lawsuits, derivative lawsuits, government investigations and defence costs incurred on dismissed claims. Aon Benfield estimates that the collapse of funds managed by the Bernard L Madoff Investment Securities LLC (Madoff) may cause direct insured market losses of between US$760m and US$3.8bn.

Table 6 summarises the Group's estimated ultimate loss, net of reinsurance, arising from Syndicates 1084 and 4000 for these events.

Chaucer Syndicate 1084 has always actively avoided exposure to US public company D&O liability, both generally, and specifically within the financial institutions account. In addition, the financial institutions and professional liability accounts focus away from 'money centric' institutions and their professional advisers. However, the Syndicate has a more marked Madoff exposure because of the disproportionate level of non-US losses expected from the collapse.

As a leading Lloyd's underwriter of financial institutions and professional lines classes of business, Syndicate 4000 has more exposure to potential claims arising from these types of event. In February 2008, the Group purchased the remaining outside interests in Syndicate 4000 for a nominal consideration and hence the Group now provides the capital to support the entire underwriting capacity (£73.0m) of Syndicate 4000 for the 2008 and prior open years of account (2007 £73.0m and 2006 £82.0m). The Group intends to close the final open year into Syndicate 1084.

The Group completed the sale of Pembroke Managing Agency for £15.3m in September 2008, realising a net gain (after expenses) of £7.0m, and does not participate on Syndicate 4000 for the 2009 year of account.

Underwriting capital

The Group's total underwriting interests are expected to be at least £546.1m for 2009 (2008 £519.8m). Lloyd's set the Group's 2009 Economic Capital Ratio (ECA) in November 2008 to determine the capital required to support underwriting interests of £484.4m, based on the Group's 2009 plan submitted to Lloyd's. The ECA was 57.9% of total capacity (2008 47.3%), against a Lloyd's minimum of 40.0%. Solvency requirements have increased primarily because of the additional reserving risk assumed following the purchase of Quanta's capacity on Syndicate 4000, in February 2008. The

Table 5 - Key financial data	2008 £m	2007 £m
Gross written premiums[1]	741.0	584.1
Net premiums earned[1]	547.2	444.5
Total revenue from operations	485.4	496.5
Total operating charges	(515.4)	(399.8)
(Loss)/profit from operations	(30.0)	96.7
(Loss)/profit before tax and foreign exchange adjustments on non-monetary items	(59.5)	84.1
Foreign exchange gain on non-monetary items	33.3	5.7
(Loss)/profit before tax	(26.2)	89.4
(Loss)/profit after tax attributable to equity holders	(19.0)	68.8
Per share amounts	p	p
Basic (loss)/earnings per share	(6.0)	22.3
Interim dividend (paid)	1.8	1.5
Second interim or final dividend (paid)	3.7	3.5
Key business ratios	%	%
Combined ratio[2]	93.9	82.6

1 This includes the initial impacts of both the reinsurance to close of run off Syndicates 1229, 1204, 1224, and 1245, and of the increased ownership of in-house syndicates following the reinsurance to close of third-party participations, in the year in which the closure occurs

2 Combined ratios exclude the initial impacts of both the reinsurance to close of run off Syndicates 1229, 1204, 1224, and 1245 and of the increased ownership of in-house syndicates following the reinsurance to close of third-party participations, in the year in which the closure occurs. The ratios also exclude the impact of foreign exchange on non-monetary items

Table 6 - Major financial market events	Syndicate 1084 £m	Syndicate 4000 £m
2007 sub-prime events	4.7	23.3
2008 financial collapse events	3.8	16.9
Bernard L Madoff Investment Securities	4.0	10.0

Syndicate, which writes predominantly US-based casualty business, had an ECA of 82.7% for 2008. The Group anticipates an ECA of approximately 53.6% when it submits an updated plan to Lloyd's with the revised underwriting interests of at least £546.1m.

The Group deposits the capital as Funds at Lloyd's (FAL). Table 7 shows the FAL composition for 2009, including the proposed increase in capacity of Syndicate 1084 to £545m from £480m.

The Group underwrites on Syndicate 1274 through a £17.0m investment in Antares Holdings Limited. This is included as part of 'financial assets' in the Group balance sheet.

Gearing

In addition to equity, the Group has debt capital of £45.1m and a £56.0m letter of credit facility deposited as FAL to support the underwriting capital. The Group has collateralised £5.0m of the letter of credit.

The Group's debt capital comprises a £12.0m (£11.3m) 30 year loan note issued in 2004 and US$50.0m (£33.8m) of 30 year subordinated debt raised in September 2006 (sterling equivalents are on an amortised cost basis). The remainder of the Group's unsecured convertible loan stock converted into ordinary shares during 2008. These arrangements provide the Group with balance sheet gearing to enhance returns for shareholders. The total financial gearing including loan notes, uncollateralised letters of credit and subordinated debt was £96.1m (2007 £67.3m) or 42.6% of shareholders' funds (2007 23.8%).

At 31 December 2008, the Group held cash resources outside of syndicates and FAL of £37.5m, including £5.0m of collateral (2007 £89.3m, including £23.0m of collateral) producing net debt of £63.6m (2007 £1.0m) and gearing of 28.2% (2007 0.4%).

Table 8 provides a gearing summary.

Table 7 - Composition of Funds at Lloyd's	2009 estimate[1] £m	Year of account 2009 £m	2008 £m
Chaucer underwriting interests	546.1	484.4	519.8
Quota share	-	-	25.0
Overall premium limit	**546.1**	**484.4**	544.8
FAL ratio (average)	53.6%	57.9%	47.3%
FAL requirement	292.7	280.5	257.7
Funding of open year of account losses	114.7	58.6	38.4
Total FAL requirement	**407.4**	**339.1**	296.1
FAL requirement satisfied by:			
Investments	172.8	172.8	118.8
Personal reserves	158.1	90.9	80.2
Letters of credit			
Group economic interest	56.0	56.0	56.0
Capital provision quota share reinsurer	15.6	15.6	15.6
Credits from Lloyd's for undistributed profits	4.9	4.9	27.5
	407.4	**340.2[2]**	298.1[2]

1 This represents the Group's current estimate of the requirements to support increased underwriting interests assuming an increase in the capacity of Syndicate 1084 to £545m, following the £75m fund raising approved by shareholders on 13 February 2009

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

Table 8 - Gearing	2008 £m	2007 £m
Debt		
On balance sheet	45.1	34.3
Off balance sheet (letters of credit)	56.0	56.0
Cash held outside Lloyd's	(5.0)	(23.0)
Free cash resources	(32.5)	(66.3)
Total net debt	**63.6**	1.0
Shareholder equity	225.5	282.2
	%	%
Gross gearing	42.6	23.8
Net gearing	28.2	0.4

The Group's net gearing decreases to 18.8%, on a pro forma basis, after including receipt of the £75.0m of net proceeds from the firm placing and the placing and open offer approved by shareholders on 13 February 2009.

Investment portfolio performance

The Group held financial investments (excluding the investment in Antares), cash and deposits of £1,202.5m at 31 December 2008 (2007 £940.8m). These assets support Funds at Lloyd's of £263.7m (2007 £141.1m) and syndicate technical reserves of £899.0m (2007 £708.3m). The remainder comprises £5.0m of collateral for the LOC (2003 £23.0m) and working capital of £34.8m (2007 £68.4m). Table 9 provides an analysis of investments, cash and deposits held at 31 December 2008 and the net investment return for the period.

The investment portfolio performed extremely poorly in the second half of 2008, as the failure of Lehman Brothers on 15 September triggered fears of financial sector collapse and a global recession. The ensuing flight to safety out of risky assets saw equity markets collapse, debt credit spreads widen to unprecedented levels and hedge funds suffer their heaviest annual losses on record.

The investment portfolio lost £71.0m during 2008, representing a total negative return on average funds of 6.8% (2007 gain of £41.7m, equivalent to a 4.7% return on average funds). The loss in the second half of the year was £72.5m, including losses of £73.1m arising in September and October.

None of the investment portfolio was invested in funds managed by Bernard L Madoff Investment Securities LLC or associated companies.

EQUITIES

The value of sterling equity funds fell by 28.2%, based on the value of funds held at the start of the year, against a fall in the FTSE All Share of 29.3%. The value of US equities fell by 40.2%, based on the funds held at the start of the year, against a fall in the S&P500 of 36.6%. An allocation to the Alliance Bernstein Global Equity Blend Fund, which had an overweight allocation to financial stocks, caused the underperformance against benchmark. The Group redeemed this investment in October 2008.

During the year, the Group took significant steps to de-risk the investment portfolio exposure to equities. At the end of 2008, equities comprised 0.5% of the portfolio, down from 11.0% at 31 December 2007.

HEDGE FUNDS

During the first half of 2008, the Group appointed hedge fund managers to take advantage of perceived opportunities in the fixed income sector as credit spreads widened significantly. This approach to obtaining an attractive risk adjusted return proved unsuccessful as credit spreads continued to widen and the credit default swaps employed by funds to hedge cash credit positions failed to compensate and, in certain cases, were detrimental, resulting in significant losses and triggering margin calls for settlement.

As investors sought to liquidate their hedge fund holdings, managers had to sell large holdings of securities at distressed levels to meet redemption requests. This precipitated a collapse in securities and falling valuations forced many funds to collapse, wind up or gate investors to ensure orderly management of redemptions and to minimise any further destruction of investor capital.

Table 9 - Investment portfolio	Value £m	Return £m	Return 31 December 2008 %	Value £m	Return £m	Return 31 December 2007 %
Equities	6.0	(31.9)	(38.7)	98.9	3.5	3.9
Hedge funds	154.7	(30.4)	(27.0)	83.9	4.6	6.4
Absolute return bond funds	332.6	(17.3)	(4.5)	401.1	3.6	2.1
High yield bonds	-	-	-	-	0.8	6.3
Bonds	248.1	(3.5)	(2.0)	156.3	13.6	4.4
Cash and deposits	461.1	12.4	4.3	200.6	15.8	5.4
	1,202.5	(70.7)	(6.8)	940.8	41.9	4.7
Investment expenses		(0.3)			(0.2)	
Net investment return		(71.0)			41.7	

Asset allocation	%	%
Equities	-	11
Hedge funds	13	9
Absolute return bond funds	28	42
Bonds	21	17
Cash and deposits	38	21
	100	100

As **Table 10** shows, the Group recorded significant losses on fixed interest hedge fund participations during the year, in addition to losses on fund of hedge fund and equity long short hedge fund participations. The Group has now filed redemptions for all hedge fund investments to de-risk the investment portfolio significantly.

Table 11 provides a summary of hedge fund investments including strategy, expected redemption dates and valuations at 31 December 2008. We received proceeds of £57.5m on the hedge funds redeemed to date, a gain of £2.6m on year-end values.

ABSOLUTE RETURN BOND FUNDS

The Group entered 2008 invested in two absolute return bond funds, £298.9m in the Crédit Agricole VaR2 fund and US$203.5m in the Alliance Bernstein Diversified Yield Fund. Both funds performed poorly during 2008, losing a total of £17.3m, with their respective exposures to corporate bonds and asset-backed and structured securities being the primary cause.

The Group, which had significantly reduced exposure to the Alliance Bernstein Diversified Yield Fund during the first half of the year, took the decision to exit the Fund in November, following a period of excessive volatility and poor performance from the Fund's large exposure to structured securities.

Since 31 December 2008, the Group has fully disposed of the holdings in Crédit Agricole and Alliance Bernstein absolute return bond funds, realising gains of £9.3m and £0.5m respectively since the end of 2008.

BONDS

Bond returns were also disappointing in 2008 because of a severe markdown of asset-backed securities during the year, which priced in worst-case economic scenarios. As **table 12** shows, at 31 December 2008, the majority of Group holdings were in investment grade bonds. The average duration of the bond portfolio at 31 December 2008 was 1.0 year (2007 0.9 years)

Structured securities breakdown further as shown in **table 13**.

Table 10 - Hedge fund performance	Loss £m	31 December 2008 Return %
Fund of funds	(5.5)	(13.8)
Equity long short	(6.9)	(13.0)
Fixed income	(18.0)	(31.3)
	(30.4)	(27.0)

Table 11 - Hedge fund redemption profile	Actual/expected final redemption date(s)	31 December 2008 Value £m
Redeemed		
European equity long short	23 January 2009	11.8
UK equity long short	28 February 2009	9.0
Global macro	28 February 2009	14.1
US equity long short	31 March 2009	7.4
Global equity long short	31 March 2009	12.6
		54.9
Normal redemption		
Japan equity long short	30 June 2009	10.7
Fund of funds	30 September 2009	24.9
Fund of funds	31 March 2010	23.5
		59.1
Restricted redemption		
Fixed income	30 June 2009 – 31 March 2010	20.2
Fixed income	31 December 2009 – 31 March 2011	8.2
Emerging market debt	30 June 2009 – 31 December 2011	4.8
Distressed debt	30 September 2010 – 31 March 2011	7.5
		40.7
		154.7

Investment portfolio outlook

The Group intends to de-risk the investment portfolio further as soon as commercially practicable through the disposal of the remaining hedge fund investments.

In the short-term, the Group will invest positive cash flows generated and the redemption proceeds from the sale of investments on a safety first basis, with the majority of funds invested in short-duration money market funds, highly rated corporate bonds and government guaranteed bonds. In January 2009, the investment portfolio generated income of £15.3m.

While credit has long-term attractions, the Group believes that poor liquidity, high volatility and an increasing risk of default limit the appetite for investing in this sector at present.

Given the further realignment of the investment portfolio into lower risk investment classes in early 2009, the Group anticipates that investment returns will be more modest going forward; the focus being on maintaining sufficient capital to take advantage of increasing underwriting opportunities in 2009 and 2010.

Foreign currency management

With approximately a fifth of premium income currently generated from UK motor insurance, the Group has less gross foreign currency exposures than many Lloyd's entities, although it still writes substantial amounts of business in foreign currency, the majority of which is in US Dollars. US and Canadian dollar insurance liabilities are matched by assets held in the same currencies, while exposures arising from retained profits and losses in major foreign currencies are monitored quarterly and managed with currency purchases and sales as appropriate.

The Group holds two foreign currency denominated debt instruments. First, a US$50m subordinated debt issue with a natural hedge provided by the future receipt of US dollar profits and second, a €12m loan note issue.

Taxation

The Group's tax credit is £7.3m (2007 charge £20.3m). This is broadly in line with the standard rate of corporation tax of 28.5% (2007 30.0%).

Technical reserves

The Group entered 2009 with a net unearned premium reserve of £296.3m, an increase of £78.9m on the previous year, the majority of which the Group will earn this year. Both gross and net loss reserves, as a proportion of shareholders' funds, increased in 2008.

This was due to increased loss activity during the year, notably Hurricane Ike and losses arising from the continued global financial and economic crisis, which resulted in a higher level of unsettled claim amounts at the balance sheet date.

The share of loss reserves due from reinsurers increased during 2008 to £299.8m (2007 £191.7m). This amount represents 25.6% of gross loss reserves at 31 December 2008 (2007 26.3%).

Table 12 - Composition of bond holdings	AAA[1] £m	A £m	AA £m	BBB £m	Other[2] £m	Credit rating Total £m
Governments	97.5	-	-	-	-	**97.5**
Structured securities (see following table)	84.2	9.2	5.5	1.1	0.9	**100.9**
Corporate	23.7	2.4	6.0	1.5	0.1	**33.7**
Municipals	16.0	-	-	-	-	**16.0**
	221.4	11.6	11.5	2.6	1.0	248.1

1 AAA rated corporate comprise government guaranteed bank debt
2 'Other' comprises BAFC 06-07 A1 (£0.9m; rating B) and Lehman Brothers Holdings (£0.1m; not rated)

Table 13 - Composition of structured securities		AAA £m	A £m	AA £m	BBB £m	Other[1] £m	Credit rating Total £m
Asset backed securities	Auto	23.0	5.3	3.9	1.1	-	**33.3**
	Home equity	8.2	0.8	-	-	-	**9.0**
	Alt-A	-	-	1.1	-	-	**1.1**
	Other	3.0	-	-	-	-	**3.0**
		34.2	**6.1**	**5.0**	**1.1**	**-**	**46.4**
Mortgage backed securities		24.3	1.5	0.5	-	0.9	**27.2**
Commercial mortgage backed securities		25.7	1.6	-	-	-	**27.3**
		84.2	**9.2**	**5.5**	**1.1**	**0.9**	**100.9**

1 'Other' comprises BAFC 06-07 A1 (£0.9m; rating B)

Table 14 provides analysis of year-end reinsurance debtor security.

The Group undertakes continual review of its exposure to reinsurance companies, with particular attention given to commutation opportunities in appropriate circumstances. The Group carried provisions for bad and doubtful reinsurance debts totalling 1.9% of the reinsurers' share of technical reserves due at 31 December 2008 (2007 2.0%).

The Group released £74.1m of reserves created in 2007 and prior years from technical provisions in 2008 (2007 £45.8m). Since the Group created many of these reserves in US Dollars, their release at the end of 2008 benefitted from the deterioration of sterling against the US dollar during the year. **Table 15** provides a breakdown of reserve releases by division.

The 2008 reserve releases reflect a one-off benefit of £11.8m from the removal of experience adjustment cap loadings. The Group previously set these loadings formulaically by limiting the credit taken for better than expected claims development in booked reserves but has now ceased to apply this loading because, in practice, it was concentrated on short-tail business classes and, thus, represented a poor match to the underlying reserving risk.

The release of Syndicate 4000 reserves relate mainly to 2006 and prior years, which continue to run-off ahead of budget.

Table 14 - Reinsurance rating bands (Standard & Poor's or equivalent)[1]	2008 Debt %	2007 Debt %
Lloyd's Syndicates (A+)	15.9	15.9
AAA	4.7	0.9
AA	45.8	55.6
A	31.1	23.2
BBB	0.3	0.2
Collateralised	1.6	1.2
Other[2]	0.6	3.0
	100.0	100.0

1 Ratings as at 31 December 2008 and 2007 respectively
2 'Other' is net of offset (where appropriate) or post year-end commutations

Table 15 - Reserve releases	2008 £m	2007 £m
Motor	4.8	16.6
Marine	7.7	1.6
Energy	(6.7)	(11.4)
Aviation	1.7	5.7
Property	15.1	10.7
Specialist Lines	18.3	17.3
Nuclear	3.4	0.3
Syndicate 4000	24.5	-
Run Off	8.6	8.1
Quota-share provider's portion	(3.3)	(3.1)
	74.1	45.8

At Chaucer, we are committed to a direct and open communication process with all of our stakeholders. We aim to provide current and future investors and analysts with timely, accurate and broad-ranging operational and financial information about our business to support their investment decisions.

We listen and aim to respond to the views of our shareholders.

Our shareholder base

We provide a list of shareholders holding 3 per cent or more of the Group's issued ordinary share capital in the Directors' Report.

An estimated 95% of Chaucer employees are shareholders through either direct holdings or our All Employee Share Ownership Plan (SIP).

The Financial Times, The Times, The Daily Telegraph and Evening Standard list the share price of Chaucer Holdings PLC. Our website also shows our latest share price.

Shareholder and broker analyst contact

During 2008, our Chief Executive Officer, Chief Underwriting Officer and Chief Financial Officer held meetings with some 50 existing or potential institutional investors and 20 UK private client brokers.

Further meetings were held in 2009 with investors specifically in respect of the Firm Placing and Placing and Open Offer.

We held presentations for broker analysts on the days of the release of our annual and interim results statements, copies of which are available on our website.

2009 Annual General Meeting (AGM)

We shall hold our 2009 AGM at our London Headquarters at noon on 21 May 2009 and will provide an update on our progress during the year. All our shareholders are welcome to attend and will have the opportunity to ask our directors questions. Alternatively, shareholders may ask questions informally after the meeting.

Annual report and other company information

Our Annual Report and Accounts are central to maintaining good communication with our shareholders, which we seek to improve each year.

Our website includes downloadable copies of our annual and interim reports and presentations to investment analysts. There is also a press release archive. Our email alert service automatically notifies interested parties of each new press release issued.

Shareholder contacts

Visit our website at www.chaucerplc.com for an up-to-date section on the shareholder services we offer and an extensive FAQ section

Email us at investor.relations@chaucerplc.com

Call our Company Secretarial Team on
020 7397 9700

For enquiries regarding share registration
you may wish to contact our Registrar, Equiniti, on 0871 384 2079

(Calls to this number are charged at 8p per minute from a BT landline. Other telephone provider costs may vary)

Financial calendar

Results

19 May 2009
Interim Management Statement for the quarter ended 31 March 2009

28 August 2009
Announcement of Interim Results for the six months ended 30 June 2009

19 November 2009
Interim Management Statement for the quarter ended 30 September 2009

Dividends

13 March 2009
A second interim dividend for 2008 of 3.7p was paid in lieu of a 2008 final dividend that would have been paid in June 2009

1 October 2009
Payment of interim dividend for the year ended 31 December 2009 (Ex-dividend 9 September and record date 11 September 2009)

June 2010
Approximate payment date of 2009 final dividend

General Meeting

21 May 2009
Annual General Meeting to be held at noon at Plantation Place, 30 Fenchurch Street, London EC3M 3AD



Executive Directors

Ewen Gilmour

Chief Executive

Ewen Gilmour (age 55), has been a director of Chaucer Holdings PLC since July 1998. Ewen is a chartered accountant and joined the Chaucer Group in 1998.

Ewen's main responsibilities include the general oversight and management of both Chaucer Syndicates Limited and the Chaucer Holdings Group. He is responsible for developing, promoting and implementing the strategy agreed by the respective boards as well as his normal duties, both as a director of a managing agency and of a listed company. He is also Deputy Chairman of Lloyd's and a member of the Council of Lloyd's.

Before joining Chaucer, Ewen was a corporate financier with Charterhouse Bank from 1980 to 1993. In 1993, he joined the Corporation of Lloyd's to help facilitate the introduction of corporate capital into the Lloyd's market.

Mark Graham

Chief Financial Officer

Mark Graham (age 45), has been a director of Chaucer Holdings PLC since September 2002. Mark is a Fellow of the Institute of Actuaries and joined the Chaucer Group in January 1999.

Mark's main responsibility is the overall direction of the financial and operational health of the Chaucer Group. He sits on the Lloyd's Investment Committee, is a member of the Lloyd's Market Association Finance Committee and chairs the Lloyd's Market Association Solvency II Working Group. He is a former Chairman of the Committee of Actuaries in the Lloyd's Market.

Prior to his appointment as Chief Financial Officer in July 2006, Mark was Group Actuary and a director of Chaucer Syndicates Limited (which appointment continues).

Before joining Chaucer, Mark was Company Actuary with Ashley Palmer Limited from 1997 to 1998, becoming a director in 1998. Prior to that, he was a Commercial Lines Actuary with London & Edinburgh Insurance Group.

Robert Stuchbery

Chief Underwriting Officer

Robert Stuchbery (age 52), has been a director of Chaucer Holdings PLC since July 1998. Robert is a Fellow of the Chartered Insurance Institute and joined the Chaucer Group in 1988.

His main responsibilities include managing all underwriting functions within the Chaucer Group and the services provided to Third Party Syndicates. Robert is also a member of the Lloyds' Market Association Board and is currently the Chairman of its Underwriting Committee.

Prior to his appointment as Chief Underwriting Officer in October 2005, Robert was the Active Underwriter of Lloyd's Syndicate 1096.

Before joining Chaucer, Robert was with the UK subsidiary of a large US insurance company from 1977 to 1987, working in London and the USA.

Non-executive Directors

Martin Gilbert
Chairman

Martin Gilbert (age 53), has been a director of Chaucer Holdings PLC since October 1993 and Chairman since 1998. Martin is a chartered accountant and is Chairman of the Company's Nomination Committee.

Martin is currently the Chief Executive of Aberdeen Asset Management PLC and is Chairman of FirstGroup Plc. He is also a director of a number of listed investment trusts managed by Aberdeen Asset Management, and of Aberdeen Football Club plc and Primary Health Properties Plc.

Christopher Forbes
Senior Independent Director

Christopher Forbes, Senior Independent Director (age 55), has been a director of Chaucer Holdings PLC since September 2001.

Christopher is a barrister and a chartered accountant. He is Chairman of the Remuneration Committee and a member of both the Audit and Nomination Committees and is the non-executive Chairman of Chaucer Syndicates Limited.

Christopher is also a director of Aegis Managing Agency Limited.

Christopher's involvement in the Lloyd's market began in 1981. In 1991, he was appointed Finance Director of Charman Underwriting. He joined DP Mann (now Faraday) Underwriting as Finance Director in 1992 and was appointed Managing Director in 1996.

During his time in Lloyd's he has served on a number of boards and committees, including the Board of Additional Securities Limited and the Lloyd's North American Board.

Richard Scholes

Richard Scholes (age 63), has been a director of Chaucer Holdings PLC since March 2003. Richard is a chartered accountant, is Chairman of the Audit Committee and a member of both the Remuneration and Nomination Committees.

Richard is also currently a non-executive director of Marshalls Plc and Keller Group Plc, for both of which he chairs the Audit Committee.

From 1986 to 2001, Richard was a director at what was Dresdner Kleinwort, Investment Bankers, and has served as a non-executive director of British Vita Plc, RCO Holdings Plc, Bodycote International Plc and Crest Nicholson PLC.

The Directors present their report and the audited accounts for the year ended 31 December 2008.

Principal activities

The Group is a specialist insurance and reinsurance underwriter. It provides the management skills, expertise and capital required to underwrite insurance business at Lloyd's, the world's leading insurance market.

Review of the business and future developments

The Joint Chairman and Chief Executive's Statement, Underwriting Outlook, Divisional Performance and Financial Report sections report on the business of the Group during the financial year and outline future developments. The results for the year are set out in the Consolidated Income Statement and commented upon in the Joint Chairman and Chief Executive's Statement, Underwriting Outlook, Divisional Performance and Financial Report sections.

The Corporate Governance Report, and notes 2 and 3 to the financial statements describe the principal risks and uncertainties facing the Group.

Dividends

On 1 October 2008, the Company paid shareholders the first interim dividend for 2008 of 1.8p per share, and on 13 March 2009 the second interim dividend for 2008 of 3.7p per share. The second 2008 interim dividend replaced the final 2008 dividend, therefore total cash dividends declared for 2008 totalled 5.5p per share (5p 2007). It was announced in the Prospectus dated 28 January 2009 relating to the Firm Placing and Placing and Open Offer that, in absence of unforeseen circumstances, the Company expects to declare a total dividend of not less than 4p per share for each of 2009 and 2010 and that the new shares created by the Firm Placing and Placing and Open Offer would not receive a dividend related to 2008.

Share capital

At the AGM held on 22 May 2008, the Directors were authorised to make market purchases of ordinary shares up to a maximum number of 17.3 million shares (5% of the issued share capital). The Company will put a similar authority to the AGM on 21 May 2009. For the year ended 31 December 2008, the Directors did not acquire any of its listed shares under that authority.

At the AGM held on 22 May 2008, the Directors were authorised to allot up to 110.7 million shares (32% of the issued share capital) of which the Company can allot some 17.3 million shares (5% of the issued share capital) without the application of pre-emption rights. The Company will put similar authorities to the AGM on 21 May 2009. For the year ended 31 December 2008, the Directors did not allot any shares under those authorities. A General Meeting was held on 13 February 2009, to provide the necessary authority for the raising of £80 million gross (£75 million net of expenses) of capital, pursuant to the Firm Placing and Placing and Open Offer announced on 28 January 2009. Accordingly, Resolutions were passed to increase the authorised share capital of the Company from £114 million to £175 million, by the creation of 244 million ordinary shares of 25p each, to authorise the directors to allot 200 million shares and to issue shares at 40p, a discount greater than 10% to the prevailing market price. In accordance with the terms of Firm Placing and Placing and Open Offer 199,999,606 shares were allotted, 17,251,680 of which were allotted without the application of pre-emption rights (under the authority granted at the 2008 AGM) on 23 February 2009.

Notes 20 and 31 of the financial statements provide details of the Company's share capital and of options outstanding at 31 December 2008 under the Company's Share Option Schemes. These include options granted to directors as detailed in the audited section of the Directors' Remuneration Report.

Rights attached to shares issued under share schemes

Under the Deferred Share Bonus Plan, the participants do not have the right to vote directly at General Meetings of the Company. The Trustees can vote, if they choose, on behalf of the participants.

Under the All Employee Share Ownership Plan, the participants cannot vote directly at General Meetings of the Company, the Trustees will contact them for their opinions and then vote on their behalf.

Directors and their interests

The current Directors are listed on pages 52 and 53 all of whom held office throughout the year and continue to serve. Bob Deutsch also served as a Director throughout the year until he retired from the Board on 31 December 2008.

At the AGM, Messrs Gilmour, Graham and Scholes will retire and offer themselves for re-election in accordance with the Company's Articles of Association and the Combined Code.

In 2004, the Company entered into a Deed of Indemnity with Mark Graham in respect of claims which may be faced in a personal capacity as a Fellow of the Institute of Actuaries from statutory actuarial opinions on reserving for insurance claims provided to Lloyd's and the FSA in relation to risks underwritten by syndicates managed by the Group.

In August 2006, the Company provided a qualifying third party indemnity to each Director, as permitted under the Companies Act.

Details of Directors' interests in shares and share options are disclosed in the Remuneration Report.

Appointment and replacement of directors

The Company's Articles of Association govern the rules relating to the appointment and replacement of directors. They provide that the Directors have the power to appoint new directors up to the next AGM, when such a director must retire and if he wishes to continue, offer himself for re-election. If at the start of an AGM, three years have passed since a director was last elected, he must retire and shall be eligible for re-election. Directors may be removed by an ordinary resolution of the Company in a general meeting.

Amendments to Articles

The Articles of Association may only be amended by a special resolution of the Company in a general meeting. It is proposed that the Articles are changed at the AGM on 21 May 2009, to update them as provisions of the Companies Act 2006 that are due to come in to force, The provisions noted in the above paragraph relating to appointments and removal of directors will not be changed. Further details are contained in the AGM Notice.

Donations

During the year ended 31 December 2008 the Group made charitable donations of £29,857 (2007 £11,708) and made no political donations (2007 £Nil).

Corporate social responsibility

The Group adopts a responsible attitude to social, environmental and ethical (SEE) issues in its business conduct generally and in its support of the local communities in which it has its principal business establishments, particularly as an active supporter of the Lloyd's Community Programme.

The Group regularly reviews its SEE policies and disclosures in accordance with the guidelines published by the Association of British Insurers. The Company has adopted an Environmental Policy. For more information, please see the report on page 43.

Subsequent events

On 28 January 2009, the Company announced a Firm Placing of 17,251,680 shares and Placing and Open Offer of up to 182,748,320 shares in each case at 40p per share. More information on this capital raising is set out in the share capital paragraph above and in the Financial Report on page 44.

Table 16 - Substantial interests	Percentage of issued capital
BlackRock Group	7.5
JP Morgan Asset Management	7.4
Lloyds Banking Group plc[1]	6.5
Aberforth Partners LLP	6.3
Moore Europe Capital Management, LLP	5.0
Axa S.A	5.0
Legal & General Group Plc	4.5
OZ Management LP	3.6
Credit Suisse Securities (Europe) Limited	3.1

1 Of the 6.5% held by Lloyds Banking Group plc, 5.3% is in respect of the Chaucer Holdings PLC Employee Benefit Trust

Substantial interests

According to notifications received, at 30 March 2009 the Company believed that the following shareholders held three per cent or more of the issued ordinary share capital of the Company (see table 16).

Supplier payment policy

The Group agrees terms and conditions with suppliers before transactions take place. The Group's policy is to pay agreed invoices in accordance with the terms of payment. The amounts due to the Group's trade creditors at 31 December 2008 represented approximately 33 days (2007 31 days) of average daily purchases throughout the year. Chaucer Holdings PLC is a holding company and has no trade creditors.

Employee involvement

The Group has a policy of providing employees with information about the Group, its activities and performance, and of taking into account the views and recommendations of employees. A Group-wide intranet supports this policy. All stock exchange announcements are available on the Intranet and key announcements, such as the annual and half-year results, are sent to all staff by e-mail. New employees attend induction courses on all aspects of the Business. The Directors hold meetings with staff on a regular basis, including monthly briefings, to which employees can submit anonymous questions. The Group has undertaken a staff survey in each of the last three years.

Two share schemes are available to all employees: a Savings Related Share Option Scheme (SAYE scheme) which has been in place since 1998 and an All Employee Share Ownership Plan or Share Incentive Plan (SIP), which was introduced in 2001. The Company has awarded employees two Matching shares for each Partnership share purchased under the SIP to encourage participation and ownership of shares. The Company has also awarded free shares under the SIP as a tax efficient mechanism to deliver annual bonus awards and to support staff retention.

Employment of disabled persons

The Group gives every possible consideration to applications for employment from disabled persons with regard to their particular aptitudes and abilities. The Group would continue the employment wherever possible of any person that became disabled during their employment with the organisation. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees. The Group is an equal opportunities employer.

Disclosure of relevant audit information

The Directors each confirm that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The Notice of Annual General Meeting, to be held at Plantation Place, 30 Fenchurch Street, London EC3M 3AD at noon on 21 May 2009, is contained in a separate circular to shareholders that is being mailed with this report. Shareholders wishing to exercise their voting rights through the appointment of a proxy must lodge the Form of Proxy at least 48 hours before the start of the AGM.

Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for the re-appointment of Ernst & Young LLP as auditors to the Company and to authorise the Directors to fix their remuneration.

Approved by the Board of Directors on 8 April 2009 and signed on its behalf by

David Turner
Company Secretary

Contents

Set out below are statements on how the Company (Chaucer Holdings PLC or CHP) has applied the Main and Supporting Principles of the Combined Code (which is available at www.frc.org.uk). The Company complied with the provisions of the Code throughout the year, except as indicated below.

The principal structure of the Group consists of a listed holding company (the Company) and one main trading subsidiary, Chaucer Syndicates Limited (CSL), a regulated Lloyd's managing agency first incorporated in 1922. As outlined below, the Company's Board determines major strategic and Group management decisions, while the CSL Board determines matters regarding Lloyd's and FSA regulation and day-to-day operations.

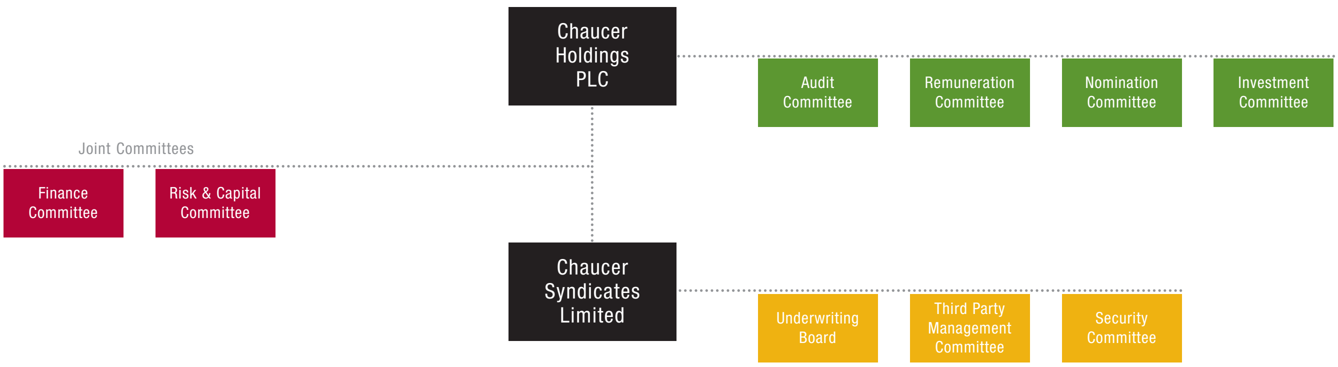
To assist it in the discharge of its responsibilities, the Company's Board has established three Committees, Audit, Remuneration and Nomination and the Investment Committee now reports solely to the CHP Board. The Terms of Reference of those Committees (except for the Investment Committee) are available on the Company's website and on request from the Secretary, and their operation is set out below. The Executive Directors meet on a weekly basis as the Management Committee to discuss key issues affecting the Group.

During the year, the Directors have considered the Group's Governance arrangements and the following actions have resulted:

- Richard Scholes was appointed a director of Chaucer Syndicates Limited, the Group's significant operating company, with effect from 1 January 2009. It is expected that any replacement to Bob Deutsch would also be so appointed. The intention is to further strengthen the non-executive director (NED) presence on that board, and to increase the degree of NED overlap between the CSL and CHP boards;
- The timing of the CSL board meetings has been adjusted to coincide with the technical Expert Review meetings, which are already attended by the CSL NEDs;
- The formally constituted committees of the CSL Board are being reviewed, in particular to consider function, membership and purpose. To date, the Operations Board has been disbanded as a formal Committee to improve focus on individual executive responsibility. Any further results of that review will be disclosed in the 2009 Report. The description below sets out the current position; and
- Governance and controls around investment management have been considered and various actions implemented. Further details are on page 59.

The main executive committees are the Underwriting Board, Investment Committee, Finance Committee, Risk & Capital Committee, Third Party Management Committee and Security Committee. Pages 59 to 63 outline the structure and responsibilities of those committees.

Board and Committee structure



The Board, Directors and Independence

The Board of Directors comprises the Chairman, three executive and two non-executive directors (NEDs). The Nomination Committee considered in November 2008 the number of directors and their breadth of business experience and skills and concluded that they were appropriate for the Group's operations, subject to the appointment of a replacement independent NED consequent to the planned resignation of Bob Deutsch on 31 December 2008. The balance and experience of the Directors ensure that no individual or small group of individuals are in a position to dominate the Board's decisions.

The Chairman is mainly responsible for the running of the Board; he ensures that all directors receive sufficient and timely relevant information on financial, business and corporate issues which is circulated a week in advance of meetings. The Chief Executive's responsibilities focus on co-ordinating the Company's business and implementing Group strategy. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board met 8 times in 2008. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It approves the Group Risk Policy for development and implementation by the Risk & Capital Committee, which monitors the exposure to key business risks and the systems in place to achieve this in accordance with The Turnbull Guidance. The Board reviews the strategic direction of individual trading subsidiaries, their annual budgets, current trading, progress towards achievement of those budgets and capital expenditure programmes. The Board also considers environmental and employee issues and key appointments. In accordance with the Code, all directors submit themselves for re-election at least once every three years.

The table below shows the members of the Board as at 31 December 2008, the number of meetings held and individual member attendance during the year.

Board member	Number of Board meetings attended (total 8)
M J Gilbert (Chairman)	7
R V Deutsch (resigned 31/12/08)	6
C D Forbes	8
E H Gilmour	8
M C Graham	8
R T Scholes	8
R A Stuchbery	8

In addition to these meetings, an executive committee of the Board held a number of meetings to deal largely with matters delegated to it regarding the operation of the Company's share schemes and conversion of loan stock.

The Board of Directors considers that Messrs Forbes and Scholes are independent of management, as was Mr Deutsch until his resignation. The Company therefore met the Small Company requirement to have at least two independent non-executive directors. The Company was elected into the FTSE 250 on 22 December 2008, thereby losing Small Company status, and Mr Deutsch resigned on 31 December 2008. Consequently, from 1 January 2009, the Company has been one independent NED short of the number required under the Code. The announcement on 27 January 2009 that the Company was in an offer period has stayed the hand of the Directors in rectifying that position until the future of the Company has been determined.

Mr Forbes is the Senior Independent Director.

The Board considers that the requirement of the Combined Code to evaluate the Board, all Committees and all directors every year to be too onerous for a Company the size of Chaucer. Nonetheless, during the year Executive Directors were subject to individual performance evaluations and a short self assessment questionnaire was completed regarding performance evaluation of each of the Board as a whole and the Audit and Remuneration Committees. Performance Evaluations were not concluded in 2008 for the Nomination Committee or the Non-executive directors.

Audit Committee

The Audit Committee Report, which follows this report, includes details of its membership, activities and responsibilities.

Nomination Committee

During the year, the Committee considered and made recommendations to the Board in a number of areas. These included the re-election of Messrs Gilmour, Graham and Scholes as directors due to retire at the 2009 AGM, the independence of the NEDs, the time requirements of NEDs (concluding that they continue to devote sufficient time to their duties) and reviewed the size, structure and composition of the Board.

In November 2008, the Committee considered and recommended to the Board the extension by three years of Richard Scholes' letter of appointment to the AGM in 2012. The Board accepted and approved those recommendations.

The Nomination Committee has access to independent professional advice and is entitled to seek any information it requires from any employee.

Details of Committee members and the number of meetings attended in 2008 are as follows:

Committee member	Number of Committee meetings attended (total 3)
M J Gilbert (Chairman)	2
R V Deutsch (resigned 31/12/08)	2
C D Forbes	3
R T Scholes	3

In addition to the formal meetings held, members of the Nomination Committee discussed the matters delegated to it by the Board on other occasions during the year.

Remuneration Committee

Details of the Remuneration Committee are included in the Directors' Remuneration Report.

Investment Committee

The Committee was a joint committee of the CHP and CSL Boards, met approximately five times a year and during 2008 had responsibility for the formation and implementation of investment strategy and tactics in respect of both corporate and syndicate investment funds and dealt with various administrative matters.

Since the year end, the Terms of Reference, membership and reporting lines of the Investment Committee have been reviewed and various actions implemented. The thrust of those changes is that all CHP directors will become members of the Committee which will be responsible for the determination of investment strategy and tactics, leaving the executive with responsibility for implementation and administration. New investment advisers have been appointed and will attend Committee meetings. The Committee will now report solely to the CHP board.

Accountability and Audit

FINANCIAL REPORTING

The Company presented its financial position and prospects during the year in a number of ways to ensure shareholders and potential shareholders could make a balanced and understandable assessment. This included:

- Annual Report and Accounts, prepared in accordance with International Financial Reporting Standards, which include an operating and financial review, and statements on directors' responsibilities and going concern
- Interim Report and Accounts
- Interim Management Statements
- Announcements regarding developments which may affect the share price of the company are made as and when necessary and
- Syndicate accounts filed with Lloyd's, which are also public documents

The Board approved these reports before publication, following their review and recommendation by the appropriate Board Committees including the Audit Committee and Finance Committee.

INTERNAL CONTROLS AND RISK MANAGEMENT

Chaucer is committed to high standards of corporate governance and has complied throughout the year with the principles set out in the Turnbull guidance for Internal Control.

The CHP Board acknowledges that the Risk Management Framework (RMF, which is described in detail below) and other internal controls can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The CHP Board has conducted an annual review of the effectiveness of the Group's systems of internal controls (including the RMF) in addition to other reviews and procedures that are ongoing throughout the year. The annual review was conducted by the Risk Officer and reported to the board of CSL, and the Audit Committee on behalf of CHP. An Internal Audit was conducted on the work of the Risk Assurance Group to provide further comfort.

Following the significant investment losses incurred largely during September and October 2008, the Risk Officer was commissioned to review the operations of both the Investment Committee and Risk & Capital Committee and the related components of the risk management framework. The Risk Officer's recommendations have been considered by the CHP and CSL Boards and the Audit, Investment and Risk & Capital Committees. Whilst it was recognised that the events in the global financial markets were exceptional, a number of the Risk Officer's recommendations have been accepted and have been or are in the process of being implemented. These include the appointment as investment advisers to the CHP Board of Mercer Investment Consulting and Paul Berriman. Mr Berriman is currently an Executive Director of Oxford Investment Partners, a fund management company set up to manage the investment portfolios of a number of Oxford colleges. Prior to this he was the Chief Executive of Deutsche Asset Management in the UK, with responsibility for over £50bn of assets managed on behalf of pension funds, insurance companies and high net worth individuals, and was formerly Global Head of Fixed Income at the same organisation.

Furthermore, the investment portfolio has been substantially de-risked, a process that continues. Current financial markets support, at least in the short term, significant holdings of cash, cash equivalents, government bonds and government guaranteed bonds. Asset allocation benchmarks shall continue to be reviewed regularly.

Risk governance

Risk governance operated through the following structure of Boards, Committees and Departments:

Chaucer Holdings PLC

The Chaucer Holdings PLC Board is ultimately responsible for setting risk strategy, for overseeing the management of risk and for ensuring the adequacy and efficacy of capital to support the risks across the business.

Chaucer Syndicates Limited

The Board of Chaucer Syndicates is responsible for supporting the Chaucer Holdings PLC Board in the management of risk to defined risk appetite or risk tolerance levels and is primarily focused on the management of risks faced by our Lloyd's managing agency and all managed syndicates, including third-party management syndicates.

Risk & Capital Committee

To fulfil these risk governance roles effectively, the Boards of Chaucer Holdings PLC and Chaucer Syndicates Limited have delegated the oversight of the management of risks to a Risk & Capital Committee (RCC), which is responsible for the implementation of risk policy across the business.

The RCC oversees the development of on-going risk identification, risk assessment and mitigation strategies and the overall operation of the RMF.

The membership of the Committee and its work regarding capital management are described on page 63.

The Risk Assurance Group

The Risk Assurance Group, headed by the Risk Officer, supports the Boards and the RCC by working in partnership with the business to build effective risk management processes.

The Risk Assurance Group comprises Risk Management, Internal Audit and Compliance teams, which, together, provide guidance, support and monitoring of risk management effectiveness across the business.

The main objectives of the Risk Assurance Group are as follows:

- Instil a culture of risk awareness and controlled risk taking throughout the business
- Ensure internal and external risks to the Group are identified, consistently evaluated and clearly communicated
- Act as a link between the risk management framework and optimal capital utilisation
- Provide independent control environment assurance and advice
- Facilitate positive regulatory relationships
- Ensure regulatory compliance requirements are met

Risk Management

The Risk Management team focuses primarily on the threat to the achievement of our stated business objectives through the operation of the RMF. Risk Management work in partnership with the business to identify and assess key risks and ensure that appropriate mitigations and controls are in place and are operating effectively.

Risk Management provides monthly reports to the RCC on risk exposure areas, performance of mitigations and controls and the overall development of the RMF.

Internal Audit

Reporting to the Audit Committee, the objective of our Internal Audit team is to provide independent and objective assurance of business processes, procedures and governance through the evaluation of adequacy and effectiveness of controls. Our Internal Audit team applies a targeted risk-based audit approach, focusing on those internal controls that most mitigate the risks faced by the business. The Audit Committee reviews and approves the annual internal audit plan. The Internal Audit team works closely with the Risk Management team to coordinate audit activity.

Compliance

The Compliance function monitors regulatory compliance with Lloyd's, FSA and international requirements and manages our exposure to regulatory risks. Compliance works in partnership with the business through a Compliance Committee, whose members include appointed representatives from key areas of the business.

The Risk Management Framework

A risk management framework has been developed to ensure that risks are identified, assessed, managed and monitored.

Risk ownership

Responsibility for the day-to-day management of risks and the design and operation of risk mitigations and internal controls is assigned to an individual risk owner (usually a Director) but with the support of operational boards and committees across the business. The table below summarises the key risks arising from business activities, identifies the relevant risk-owning committee(s) and references where the Annual Report provides further discussion on the management of these risks.

FSA classification	Risks	Risk owning Board or Committee	Risk discussion (Page)
Insurance	Underwriting	Underwriting Board	88
	Claims		90
	Reserving	Finance Committee	93
	Reinsurance	Underwriting Board	91
Credit	Reinsurers	Security Committee	100
	Intermediaries		100
	Investments	Investment Committee	96
Financial Market	Interest rate fluctuations	Investment Committee	97
	Currency fluctuations		98
	Investment fluctuations		97
Liquidity	Insurance calls on cash	Finance Committee	99
	Non-insurance calls on cash		99
Operational	People	Risk & Capital Committee	40
	Systems and processes		60
Group	Capital adequacy	Risk & Capital Committee	45
	Financial strength		45

Risk identification and risk assessment

Each risk owner is responsible for the identification of risk, with support from the Risk Management team and the framework of risk owning committees.

Business risks are analysed in accordance with the principal risk categories defined by the FSA, and each risk owner is responsible for the evaluation of risk in terms of impact and probability. Risk Management assists and challenges the risk owners in the assessment of risk.

The following table summarises the main risk categories facing the business.

Risk category	Risk objective	Comments
Insurance	Optimise risk returns within appetite	Insurance risk is the dominant risk faced by the business as our core business activity is the evaluation and acceptance of underwriting risk for return
Credit	Minimise risk exposure while achieving optimal trade-off with insurance risk	We only use internally approved brokers and reinsurers that meet our quality assessment criteria
Financial Market	Optimise risk returns within appetite	Our portfolio comprises assets that are well diversified and liquid[1]. We determine asset allocations, according to set risk constraints
Liquidity	Minimise risk exposure	We maintain a strong cash flow position and highly liquid[1] investments
Operational (including legal and regulatory risk)	Minimise risk exposure	We are committed to high standards of internal control that are regularly monitored and tested
Group	Minimise risk exposure	The risks associated with being part of a group are generally low, although the activities of managed syndicates and our overseas offices create exposure

1 The remaining hedge funds are not as liquid as other investment classes due to the existence of various redemption restrictions

Risk monitoring and reporting

Risks are monitored through a combination of risk or control indicators, self-certification procedures and regular meetings between business representatives and Risk Management. Risk Management maintains a risk register and a log of issues, control failures or near misses, which encompasses existing, emerging and future risks, and includes a materiality assessment of each item's potential exposure to the business.

Risk Management reports to the RCC and both Risk Management and the risk-owning committees report to the Chaucer Syndicates Board. The Risk Officer also provides reports to the Audit Committee, including an annual review of the effectiveness of the RMF.

Risk information produced for the syndicate Individual Capital Assessment process also provides a key source of risk reporting for the Boards.

Managing the risk

Each risk owner is responsible for the effective operation of key controls and management of the risk, with support from the Risk Management team.

Risk Management works with the risk owner to develop commercially focussed action plans to achieve the required level of risk or control according to risk appetite. Risk Management also monitors actions taken, to ensure that the management of risk remains within the risk appetite or tolerance levels set, and reports progress to the RCC.

The Scheme of Delegation, which sets out the decision-making authority levels for individuals, committees and boards across the business, determines where and at what commercial decisions are taken.

Relations with shareholders

The Company encourages two-way communications with its institutional and private investors and responds quickly to all queries received. The Chief Executive Officer, the Chief Underwriting Officer, and the Chief Financial Officer attended numerous meetings and maintained contact with analysts, brokers and institutional shareholders during the year. Subsequent to the announcement in March 2008 of the Company's 2007 results, the Company's stockbroker, Numis, canvassed the views of shareholders and reported to the Directors. All the Directors (except for the Chairman who was unwell) attended the Annual General Meeting and the chairs of the Board Committees were available for questions. While the Chairman, Senior Independent Director and other NEDs do not have regular meetings with shareholders, they have expressed their willingness to do so if the shareholders so desire.

The Firm Placing and Placing and Open Offer sent to shareholders on 28 January 2009 has occasioned significant discussion between shareholders and directors, in particular the Chairman, Chief Executive and Chief Underwriting Officer.

Going concern basis

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Forward Thinking, Joint Chairman and Chief Executive's Statement, Underwriting Outlook and Divisional Performance on pages 1 to 37. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Report on pages 44 to 50. In addition the Corporate Governance Report and notes 2 and 3 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with contracts with a number of customers and suppliers across different geographic areas and industries. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have formed a judgment at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

CSL Board and Joint Committees

The FSA, which is responsible for the prudential regulation of the UK insurance industry (including Lloyd's managing agents) and Lloyd's, which is responsible for risk management within the market, regulate CSL. CSL is therefore obliged to comply with the extensive regulations and detailed codes of practice imposed by the FSA and Lloyd's. Consequently, it has developed a comprehensive system of monitoring, compliance, regulation, risk assessment and overseeing the management of the major risks faced by the business. The governance structure is regularly reviewed and adjusted to ensure a continued fit to business needs.

The following paragraphs outline the roles and responsibilities of individual boards and committees within the governance structure.

Underwriting Board

The Underwriting Board is chaired by the Chief Underwriting Officer; other members include the Active Underwriter of Syndicate 1084 and the heads of each underwriting division. It meets approximately monthly and reports to the CSL Board.

It has specific responsibility for setting and ensuring delivery of the underwriting strategy for Syndicates 1084 and 1176, and for monitoring all aspects of their underwriting performance. This includes reviewing and recommending the syndicates' annual business plans to the CSL Board, and monitoring actual performance against those plans. Its objective is to approve capital allocations for individual business classes and to optimise their return on capital employed.

Finance Committee

The Finance Committee is chaired by the Chief Financial Officer; other members include the Chief Executive Officer, the CSL Finance Director, and the Group Actuary. It meets approximately monthly and is a joint Committee of both the CHP and CSL Boards.

It has responsibility for monitoring the financial health of the Group. It also provides advice and commentary on all relevant material financial matters, including reserves and dividends. In particular, it has responsibility for the timely and accurate delivery of all financial reporting; developing and implementing policy in respect of cash flow management, credit control, expenses, tax, foreign exchange and capital management; assisting the Risk & Capital Committee in the identification and control of credit, liquidity and financial market, reserving and capital risks.

Risk & Capital Committee

The Risk & Capital Committee is chaired by the Chief Executive Officer, other members include the Chief Underwriting Officer, the Chief Financial Officer, the CSL Risk Officer, and the Active Underwriter of Syndicate 1084. It meets approximately monthly and is a joint Committee of both the CHP and CSL Boards

It has responsibility for the development and implementation of Group risk policy, and for ensuring that the risk policy is consistent with the expectations of capital providers and the limitations imposed by the Society of Lloyd's and the FSA. It also has responsibility for the oversight of risk management throughout the Group, and for ensuring that the risk management framework and capital assessments are consistent with the requirements of the Society of Lloyd's and the FSA.

Third Party Management Committee

The Third Party Management Committee is chaired by the Chief Underwriting Officer, other members include, the CSL Director for Third Party Syndicates. It meets approximately monthly and reports to the CSL Board, and where appropriate, to capital providers.

It has responsibility for monitoring all aspects of the underwriting performance of each of the Third Party managed syndicates (TPS). This includes reviewing and recommending the syndicates' annual business plans to the Expert Review Committee; setting business class capital allocations; ensuring the efficient operational management of each TPS and run-off syndicate; ensuring that the risks to Chaucer of managing and being associated with TPS are being identified, assessed and appropriately managed.

Security Committee

The Security Committee is chaired by the CSL Finance Director, other members include representatives from underwriting, reinsurance, actuarial, and finance. It meets approximately monthly and reports to the CSL Board. External consultants assist the Committee.

It has responsibility for managing the exposure to credit risk from reinsurers, brokers, coverholders and other intermediary counterparties for the Group and managed syndicates.

Approved by the Board of Directors on 8 April 2009 and signed on its behalf by

D Turner

David Turner
Company Secretary

Introduction

The members of the Audit Committee, who are both independent non-executive directors of the Company, are Richard Scholes (Chairman) and Christopher Forbes. The Chief Executive Officer, the Chief Financial Officer, CSL's Finance Director, the Group Actuary, the Internal Audit Manager, the Independent Reviewer (Malcolm Cox, who is also a non-executive director of CSL) and the external auditors attend most Committee meetings. Other individuals, in particular the Risk Officer, attend as required.

Robert Deutsch also served as an Audit Committee member until his resignation on 31 December 2008.

The Board is satisfied that, during 2008 and since, the Audit Committee had at least two members with recent and relevant financial experience.

Terms of reference

The Committee's terms of reference include the requirement to review, and challenge where necessary, the Company's financial statements, to monitor compliance with accounting standards, to oversee the Company's relationship with the external auditor and to review their terms of engagement and fees and to review reports received from the internal auditor. The Committee must also satisfy itself that proper systems of control and risk management are in place. The Committee's terms of reference (which are available on the Company's website and on request from the Secretary) comply with the Combined Code and its operations follow the Smith Guidelines.

Meetings

The Audit Committee, whose terms of reference require it to meet a minimum of 4 times a year, met 5 times in 2008 with attendance as follows:

Committee member	Number of meetings attended (total 5)
R T Scholes (Chairman)	5
R V Deutsch (resigned 31/12/08)	4
C D Forbes	5

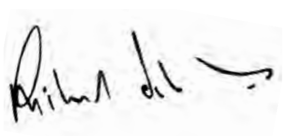
Activities in 2008

During 2008, the Committee undertook a number of activities to discharge its responsibilities, which included:

- Review of the Group's interim and annual reports and accompanying London Stock Exchange announcements. The review included consideration of the external auditor reports thereon, which highlighted the key audit issues and recommended management action. The Committee also reviewed management's response to those recommendations. Consequent to that review, those accounts were recommended to the Board for approval;
- Approval of the external auditor's terms of engagement and audit plans and the acceptance of the continuing independence and objectivity of the external auditor. The Committee also considered the performance of the external auditor and recommended its reappointment at the AGM;
- Approval of the Internal Audit plan for 2009;
- Review of Internal Audit reports, including those on Richard Egger Insurance, Chaucer*Direct*, Individual Capital Assessment calculation and reporting, investment management, risk management and company secretariat. The Committee also considered the performance of the internal audit function;
- Review of the Group risk management framework and implementation of certain adjustments in particular around investment management, see page 59;
- Review of regular reports from the Group Actuary, Independent Reviewer and Risk Officer (the latter of which included compliance matters);
- The review of the Committee's Terms of Reference, and policies regarding anti-fraud and inducements ('whistle blowing') and the provision by the external auditor of non-audit services; and
- The Committee held meetings with each of the external auditor, Internal Audit Manager and Group Actuary in the absence of executive management.

Issues and actions arising from both external and internal audits are logged and followed to resolution by either this Committee or an appropriate executive committee. In addition to the formal meetings, the Committee Chairman maintains contact with executives and the Internal Audit Manager as required.

This report was approved by the Board of Directors on 8 April 2009 and was signed on its behalf by



Richard Scholes
Chairman, Audit Committee

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the Regulations). The report also meets the relevant requirement of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Corporate Governance set out in The Combined Code appended to the Listing Rules relating to directors' remuneration. As required by the Regulations, the Company will propose a resolution to approve the Report at the Annual General Meeting.

The Report contains separate sections for unaudited and audited information as the Regulations require the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the Report has been properly prepared in accordance with the Regulations.

Unaudited information

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee, constituted in accordance with the recommendations of The Combined Code. The members of the Committee are Christopher Forbes (Chairman) and Richard Scholes, who are independent Non-executive Directors. Robert Deutsch also served as a Remuneration Committee member until his resignation on 31 December 2008. The Committee met on 4 occasions during the year and attendance by members was as follows:

Committee member	Number of meetings attended (total 4)
C D Forbes (Chairman)	4
R V Deutsch (resigned 31/12/08)	3
R T Scholes	4

None of the members of the Committee has any personal financial interest in the Company (other than as shareholders), conflicts of interest arising from cross-directorships, or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Executive Director plays a part in any discussion about his own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted Ewen Gilmour (Chief Executive Officer) about its proposals.

REMUNERATION POLICY

The Group designs executive remuneration packages to attract, motivate and retain directors and employees of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders. The Committee undertakes the performance measurement of the Executive Directors and the determination of their annual remuneration package. The Executive Directors of the Board determine the remuneration of the Chairman and Non-executive Directors within limits set out in the Articles of Association.

The Company operates in a market where earnings can be cyclical and extremely volatile depending on the mixture of premium rates, claims made and investment returns. Consequently, remuneration policy is designed so that a substantial proportion of the remuneration of the Executive Directors is performance related and therefore very variable.

The remuneration package for executive directors and senior management can be divided between fixed and variable elements:

1. Fixed elements

- Basic annual salary and benefits
- Pension arrangements

Basic annual salary and benefits

The Committee determines an executive director's basic salary prior to the beginning of each year or when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on research that gives up-to-date information on a comparator group of companies, comprising 10 companies within the sector.

Executive Directors are entitled to accept appointments outside the Company with the Chairman's permission and providing that directors account for all fees from all such appointments to the Company.

In addition to basic salary, the Executive Directors receive certain benefits-in-kind, principally a car allowance and private medical insurance. For 2009, cash benefits (for example car allowance) have been added to basic salary, as they have for all employees, in order to simplify remuneration structure.

Executive Directors are also eligible to participate in both the SAYE and the SIP Schemes, which are open to all employees.

Pension arrangements

All the Executive Directors are members of the defined benefits section of the Chaucer Pension Scheme. Their dependants are eligible for pensions of 50 per cent of the member's prospective entitlement and, in the event of death in service, the payment of a lump sum of 4 x basic salary. The pension arrangements provide for a pension on retirement of 2/3 capped salary after 30 years' eligible service, except that R A Stuchbery's entitlement was uncapped until 'A-Day', 6 April 2006. Executive Directors' pension entitlements are disclosed on page 74. No other payments to directors are pensionable. All members of the defined benefit section contribute 4% of basic salary up to the salary cap for the time being.

There are no unfunded pension promises or similar arrangements for directors.

2. Variable elements

- Annual Bonus Scheme
- Deferred Share Bonus Plan (DSBP) and other Long Term Incentive Plans

The Annual Bonus Scheme and DSBP act closely together to:

- act as a significant retention mechanism, through the deferral for 3 years of any bonus in excess of 150% of salary and at least 25% of bonus below that amount;
- provide material alignment between director (and senior executive) and shareholder interests as the whole value of deferred bonus is converted into Chaucer shares. Alignment is further enhanced though the award of dividend shares and matching shares dependent on performance criteria; and
- reduce the amplitude of individual earnings variability. The Annual Bonus Scheme provides for 15% of the bonus pool created in any year to be deferred thereby reducing annual bonuses in very good years and providing a pool of cash to augment annual bonuses in poor years. This process also supports retention.

The significant fall in Chaucer's share price over the last year has been mirrored by the fall in value of deferred shares in which directors and senior executives are interested. Clear and strong alignment with shareholder interests has thereby been demonstrated.

Both schemes are described in detail below.

Annual Bonus Scheme

This Scheme operates by creating a 'bonus pool', based on Company operating profit relative to return on net asset value (NAV), which is then divided into two sections, one to be distributed amongst some 55 senior executives and one amongst all other employees. Since 2006, the Annual Bonus Scheme has operated in conjunction with the Deferred Share Bonus Plan (see page opposite).

Annual bonuses are calculated in accordance with the following paragraphs.

No value accrues to the bonus pool until operating profit exceeds a 9% return on NAV; thereafter the Scheme allocates profit into the pool in accordance with agreed return bands. 15% of the bonus pool is deferred to facilitate bonus payments in years of poorer performance. The proportion of profit allocation and the amount of the pool allocated to senior executives increases with increased returns, except for the highest return band where the proportion of profit allocation falls. The pattern of profit allocation operates to create an expectation of lower bonus payments to individuals in years of poor or average performance and higher ones in years of exceptional performance. There is no bonus ceiling compared to base salary. The intention is to drive performance and therefore shareholder value.

The mathematical operation of the Scheme determines half of the amount of an individual's bonus based on profit and personal performance determines the other half. Bonuses for all the Executive Directors are determined by the Remuneration Committee and for other senior executives by the Executive Directors.

Payment of the cash element of executive bonuses is split between April and the following January to provide a retention mechanism. The operation of the DSBP further enhances the retention.

The 2008 results produced a loss, and therefore no contribution into the bonus pool. The Remuneration Committee at its meeting on 4 March 2009 approved a release of £2.3 million from the deferred bonus pool for distribution amongst senior executives but excluding the Executive Directors. That distribution was in accordance with the stated objective of reducing the amplitude of individuals' earnings variability.

Deferred Share Bonus Plan (DSBP)

Shareholders approved the DSBP at the AGM held on 25 May 2006. Broadly, it aims to provide both an incentive over the long term and a retention mechanism. Watson Wyatt provided assistance in the design of the Scheme, which operates in conjunction with the Annual Bonus Scheme. Under the DSBP, there is deferral of a proportion of the Annual Bonus for a period of 3 years. Certain elements of the deferred proportion are eligible for an award of Matching Shares, subject to the attainment of defined performance criteria. The DSBP facilitates the build up by senior executives of holdings in Chaucer shares, which are significant relative to base salary, thereby creating very strong alignment with shareholder interests and a significant retention incentive, as demonstrated by the tables of directors' interests.

The DSBP operates as follows. First, the Scheme compulsorily defers any bonus in excess of 150% of salary into Chaucer shares. These deferred shares, which are not eligible for Matching Shares, vest after three years unless the recipient leaves Chaucer during this period, in which case, subject to good leaver provisions and Remuneration Committee discretion, the recipient forfeits the shares. Of the bonus of up to 150% of salary, the recipient must compulsorily defer 25% and may elect to defer up to another 25%, into Chaucer shares. All of these shares are eligible for Matching Shares, which are awarded at the end of the 3-year retention period depending on performance against two performance criteria. All deferred shares (but not Matching Shares) are eligible for dividend shares, which also vest at the end of the retention period.

Matching Shares may be awarded up to a maximum ratio to eligible deferred shares of 2 for 1. The number of Matching Shares for any award divides equally between two performance criteria measured over three years.

1. Total Shareholder Return (TSR) performance criteria

Degree of Chaucer's TSR outperformance against index comprising basket of ILVs weighted for market capitalisation at the start of the period	Number of Matching Shares awarded for each deferred share subject to this TSR test
Below 15% above the index	No match
From 15% above but less than 45% above the index	0.5-2:1 (match is on a straight line basis between these figures)
Equal to or above 45% above of the index	2:1

The Scheme measures TSR from the date of award to the third anniversary of the date of award. The Company chose this performance measure since it provides a comparison of Chaucer's performance relative to an index of a peer group of listed specialist insurers. This comprised the following companies for the 2008 awards: Advent Capital (Holdings) PLC, Amlin plc, Beazley Group plc, Brit Insurance Holdings plc, Catlin Group Limited, Hardy Underwriting Group plc, Heritage Underwriting Agency plc, Highway Insurance Holdings Plc, Hiscox Limited, Omega Insurance Holdings Limited and Novae Group plc.

An external advisor with experience in such calculations will be engaged to assess actual TSR against the index.

2. Net Asset Value (NAV) performance criteria

The increase in Chaucer's NAV per share compared with the Retail Price Index over 3 years	Number of Matching Shares awarded for each deferred share subject to this NAV
Less than RPI +15%	No match
From RPI +15% to RPI +45%	0.5-2:1 (match is on a straight line basis between these figures)
In excess of RPI +45%	2:1

The scheme measures NAV per share from the end of the accounting period prior to the award of the grant to the end of the accounting period before the award is due to vest. The Company chose this performance measure as it indicates the success of management in growing the assets of the company. It is expected that this performance criteria will be reviewed by the external auditors.

The Scheme does not allow retesting. Leavers lose all rights to deferred shares, except if they fall under the good leaver provisions or the Remuneration Committee exercises its discretion.

On a takeover or winding-up of the Company, all Deferred Bonus Shares and Dividend Awards will vest in full. All Matching Shares will vest to an extent (if any) and at such time as the Remuneration Committee determines, provided that the Remuneration Committee will take into account the extent that the performance conditions imposed have been satisfied at that date and the foreshortened performance period, and the number of Matching Shares which shall vest shall be reduced on a time-apportioned basis.

Executive Share Option Scheme (ESOS)

Following the adoption of the DSBP, the Committee has made no further awards under the ESOS, although unexercised options remain.

CHAUCER HOLDINGS PLC UNAPPROVED SHARE OPTION SCHEME

Options currently outstanding and granted between the start of the Scheme in July 1998 and May 2003 are subject to a performance target as described under the Chaucer Holdings PLC Approved Share Option Scheme below.

Options granted under this Scheme after May 2003 are subject to revised performance targets. For example, the first £20,000 of options are only exercisable if the total shareholder return (that is to say, share price growth plus reinvested dividends) on Chaucer shares exceeds that of the FTSE All Share Index by more than 2% per annum over the three years from grant. If the total shareholder return misses this target, options are only exercisable if total shareholder return from grant of the option exceeds the RPI by more than 3% over the same or a longer period. These test levels increase by 1% for the next £20,000 of options granted to an individual and by a further 1% for any additional options.

Introduction of these revised targets reflected the volatility of the insurance market, so that the benefits available under the Scheme should not be too easily achieved in buoyant market conditions and not impossible to attain during quieter periods of the market cycle.

CHAUCER HOLDINGS PLC APPROVED SHARE OPTION SCHEME

This share option scheme, approved by shareholders in 2001, operates in conjunction with the Unapproved Share Option Scheme described above. It allows the Company the ability to grant options over shares up to a value of £30,000 to any individual employee in a more tax efficient manner than under the Unapproved Performance-Related Share Option Scheme. On 17 May 2001, the Company made an initial grant of options under the Scheme. The options are exercisable at any time between three and ten years of the date of grant, subject to total shareholder return of the Company over any consecutive three-year period after grant of the options exceeding the average total shareholder return of the companies in the FTSE All Share Index over the same period.

Share usage

Overall usage of new issue shares for all share schemes remains well within ABI limits to prevent excessive dilution. The rules of each share scheme replicate those limits.

Typically, SAYE maturities have historically been satisfied through a mixture of new issue shares and market purchase shares, either directly or from the Employee Benefit Trust.

Partnership, Matching, Free and Dividend Shares under the SIP have all very largely been met through market purchase shares either directly or through the Employee Benefit Trust. Occasionally, as for example in 2006, new issue shares have been used to satisfy part of the Free Share awards where it was not possible to satisfy the whole award through market purchases.

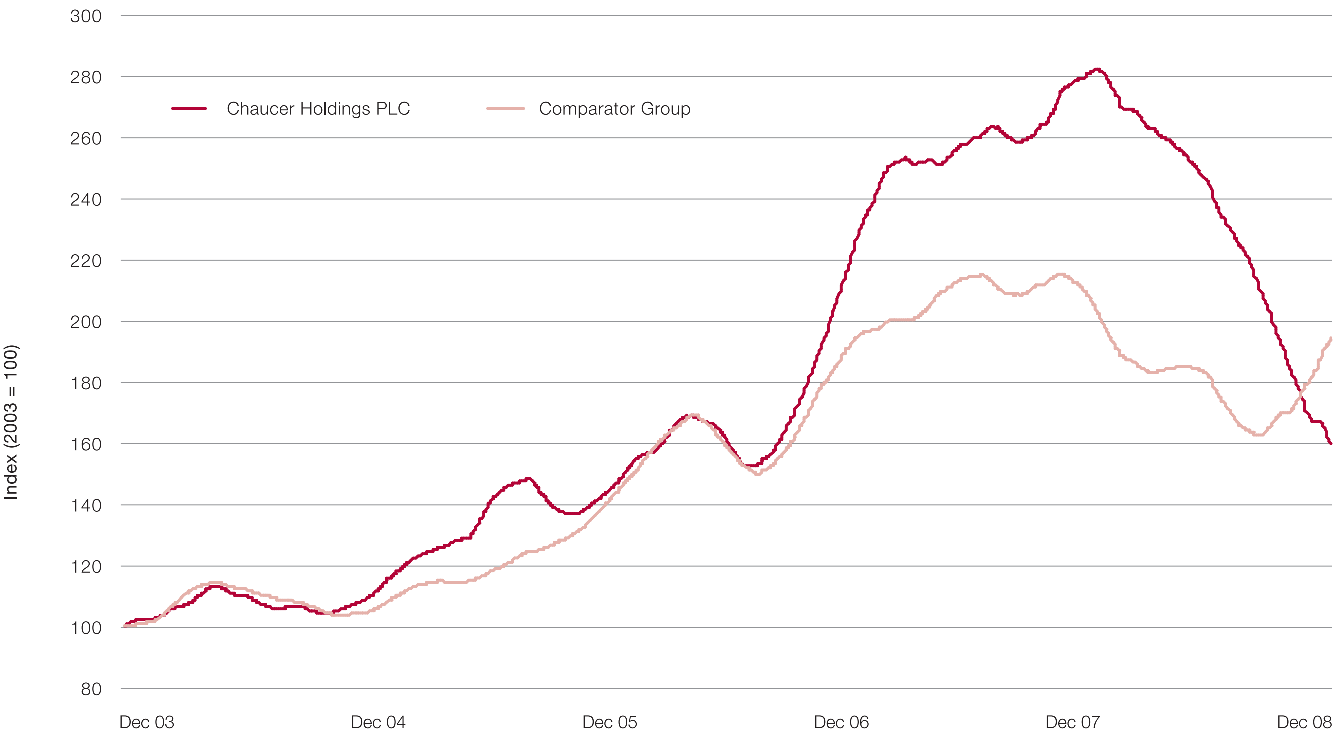
Historically, the Group has met the exercise of ESOS awards through market purchase shares, although more recently, many have been cash settled based on closing market price on day of exercise to avoid dealing and spread costs to both Company and participant.

The Group has established an Employee Benefit Trust to hedge the cost of DSBP awards against share price increases and to facilitate vesting administration. At 31 December 2008, the Trust held some 29.5 million shares to satisfy awards under any share scheme. Those shares have been entirely purchased in the market.

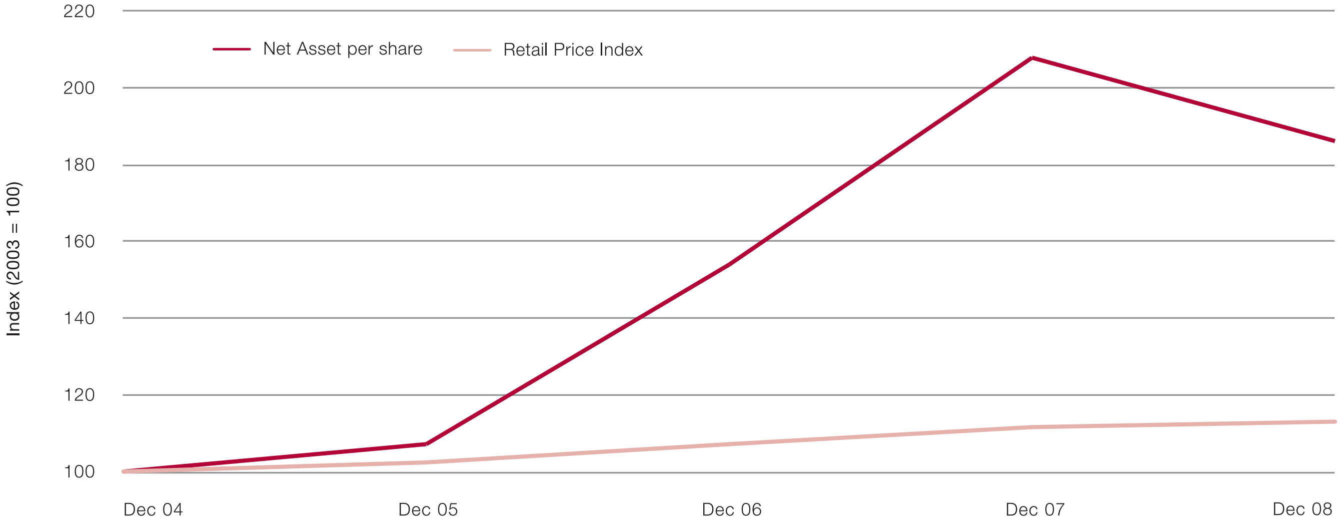
Performance graphs

The following graph shows the Group's performance, measured by total shareholder return, compared with total shareholder return of the FTSE All Share Index (the performance measure for options granted under the executive share option schemes).

The following graph shows the Group's performance, measured by total shareholder return, compared with total shareholder return of the comparator group, for the determination of 50% of the matching shares under the DSBP.



The following graph shows the Group's performance, measured by the change in net asset value per share compared with the retail price index for the determination of 50% of the matching shares under the DSBP.



Note that net assets per share is calculated on a fully diluted basis, after adding cumulative dividends paid since 1 January 2005.

Directors' contracts

All Executive Directors have contracts that expire at the normal retirement age of 60 and provide for 12 months notice.

The details of the Executive Directors' contracts are summarised in the table below:

	Date of contract	Notice period
E H Gilmour	23/07/98	12 months
M C Graham	02/01/99	12 months
R A Stuchbery	23/07/98	12 months

In the event of early termination, the Executive Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

The Chairman and all Non-executive Directors are appointed under letters of appointment that are subject to a mutual notice period of 6 months. Their current terms of appointment are as follows:

	Date first appointed to the Board	Expiry date of letter of appointment
M J Gilbert	27/10/93	AGM 2011
C D Forbes	19/09/01	19/09/10
R T Scholes	11/03/03	AGM 2012

The Executive Directors of the Board determine the remuneration of the Non-executive Directors, within the limits set by the Articles of Association, from independent surveys of fees paid to non-executive directors of similar companies. The Chairman and Non-executive Directors receive fees for their work as members of the Board and Board Committees. Additionally Christopher Forbes acts as Non-executive Chairman of CSL, the Company's main operating subsidiary.

The Non-executive Directors do not participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme.

Audited information

Directors' emoluments	Fees/ basic salary £000	Benefits in kind £000	Share Incentive Plan £000	Annual cash bonus £000	Value of deferred shares awarded £000	2008 Total £000	2008 Total excluding value of deferred shares awarded £000	2007 Total £000	2007 Total excluding value of deferred shares awarded £000
Executive									
E H Gilmour	262	14	6	-	-	282	282	1,303	468
M C Graham	226	14	6	-	-	246	246	1,124	407
R A Stuchbery	288	17	6	-	-	311	310	1,483	514
Non-executive									
M J Gilbert	54	-	-	-	-	54	54	52	52
R V Deutsch (resigned 31/12/08)	86	-	-	-	-	87	87	84	84
C D Forbes	64	1	-	-	-	64	64	62	62
R T Scholes	61	-	-	-	-	61	61	57	57
Aggregate emoluments	1,041	46	18	-	-	1,105	1,104	4,165	1,644

The Company paid emoluments in respect of Martin Gilbert to Aberdeen Asset Management PLC. As detailed in the Director Biographies on page 52, Ewen Gilmour, Mark Graham and Robert Stuchbery hold various appointments connected to Lloyd's. At the behest of Chaucer, Robert Stuchbery is also a non-executive director of Antares Holdings Limited, in which Chaucer has a minority shareholding. These Directors do not receive any remuneration for these appointments.

The Share Incentive Plan column shows, for awards arising in 2008, the aggregate cash value of both matching and free shares, for which no consideration is payable, at the dates of award.

The Remuneration Committee determined that the Executive Directors received no basic salary increase from 1 January 2009. The Board, excluding the Non-executive Directors, determined that the Non-executive Directors received no fee increase from 1 January 2009, except that the fee payable to Richard Scholes increased by £15,000 to £76,000 consequent to his appointment as a director of Chaucer Syndicates limited.

	Shares (direct holdings)	DSBP[1] Deferred Shares	SIP[2] Available and Conditional	SIP[3] Locked-In	Total shares	Warrants
Directors' interests at 31 December 2008						
M J Gilbert	125,000	-	-	-	125,000	-
R V Deutsch (resigned 31/12/08)	150,000	-	-	-	150,000	-
C D Forbes	100,000	-	-	-	100,000	-
E H Gilmour	584,839	2,139,385	66,349	28,217	2,818,790	-
M C Graham	159,931	1,823,266	66,349	22,319	2,071,865	-
R T Scholes	30,000	-	-	-	30,000	-
R A Stuchbery	1,107,291	2,491,416	66,349	28,217	3,693,273	-
Directors' interests at 31 December 2007						
M J Gilbert	95,000	-	-	-	95,000	2,172
R V Deutsch	100,000	-	-	-	100,000	-
C D Forbes	100,000	-	-	-	100,000	-
E H Gilmour	563,492	1,256,302	53,928	29,624	1,903,346	15,513
M C Graham	173,931	1,064,675	53,928	25,624	1,318,158	-
R T Scholes	20,000	-	-	-	20,000	-
R A Stuchbery	1,107,291	1,466,395	53,928	29,624	2,657,238	160,799

1 DSBP Deferred Shares; these are awards of Deferred Shares under the Deferred Share Bonus Scheme. Ewen Gilmour was awarded 883,083 Deferred Shares, Mark Graham 758,591 Deferred Shares and Robert Stuchbery 1,025,021 Deferred Shares all on 13 March 2008, in respect of foregone bonus for the year ended 31 December 2007. The average middle market quotation on the three days preceding the award was 95.25p

2 SIP Available and Conditional Shares; these are shares held in the SIP that the Director may sell and may be subject to PAYE and NIC

3 SIP Locked In; these are shares held in the SIP that would be forfeited if the Director left the Company except under the 'good leaver' provisions

Matching Shares under Deferred Share Bonus Plan

The matching share element of the DSBP is a long-term incentive scheme and is therefore disclosed separately. The release of matching shares is subject to the achievement of performance conditions outlined on pages 66 to 68.

Maximum contingent interest in matching shares under the DSBP is set out in the table below:

	Date of award	Number of shares at 1 January 2008	Allocated in year	Vested in year	Lapsed in year	Number of shares at 31 December 2008	Release date
E H Gilmour	31/05/06	178,012	-	-	-	178,012	31/05/09
	22/03/07	378,540	-	-	-	378,540	22/03/10
	13/03/08	-	401,232	-	-	401,232	13/03/11
M C Graham	31/05/06	138,276	-	-	-	138,276	31/05/09
	22/03/07	299,744	-	-	-	299,744	22/03/10
	13/03/08	-	345,728	-	-	345,728	13/03/11
R A Stuchbery	31/05/06	193,906	-	-	-	193,906	31/05/09
	22/03/07	417,168	-	-	-	417,168	22/03/10
	13/03/08	-	440,880	-	-	440,880	13/03/11

All holdings shown in the above tables are in ordinary shares in the Company.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Executive Directors.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

The performance criteria that must be met for the Unapproved and Approved Share Option Schemes are outlined on page 68.

The closing price for the last trading day of the year was 50.0p on 31 December 2008 and the range during the year was 102.46p to 42.22p.

The Executive Directors held the following unexercised options over ordinary shares under one or more of the share schemes as at the date below.

	Options outstanding 31 December 2007	Options granted	Options lapsed	Options exercised	Market price on date of exercise Pence	Options outstanding 31 December 2008	Weighted average exercise price Pence	Exercise period MM/YY
ESOS								
E H Gilmour	575,000	-	-	-	-	575,000	45.9	05/04-09/12
M C Graham	400,000	-	-	-	-	400,000	43.6	05/04-10/14
R A Stuchbery	225,000	-	-	-	-	225,000	64.5	05/04-05/11
SAYE								
E H Gilmour	21,347	19,591	-	21,347	60.0	21,347	49.0	12/11-05/12
M C Graham	21,265	34,183	21,265	-	-	34,183	49.0	12/13-05/14
R A Stuchbery	21,265	34,183	21,265	-	-	34,183	49.0	12/13-05/14

On 1 December 2008, 21,347 options held by Ewen Gilmour vested and he exercised his option over these shares. The market price on the day of exercise was 60p, realising a notional gain of 16.2p per share.

Changes since 31 December 2008

There have been no changes to the interests of directors in the shares or share options of the Company since 31 December 2008, except for the following:

1. SIP Shares

SIP Partnership (P) and Matching (M) Shares	12 January 2009 P	12 January 2009 M	10 February 2009 P	10 February 2009 M	10 March 2009 P	10 March 2009 M
E H Gilmour	214	428	278	556	317	634
M C Graham	214	428	278	556	317	634
R A Stuchbery	214	428	278	556	316	632

2. Placing and Open Offer

In accordance with the Prospectus dated 28 January 2009, on 25 February 2009, C D Forbes acquired 52,000 shares, M J Gilbert 65,625, E H Gilmour 250,000, M C Graham 50,000, R T Scholes 15,750, and R A Stuchbery 250,000 pursuant to subscriptions at 40p per share, within their entitlements.

Further, consequent to the dilutive effect of the Placing and Open Offer, all previously existing SAYE and ESOS options and DSBP share awards are to be adjusted by increasing the number of shares by 5.4044% and decreasing (for options) the option price by 5.1277%. The above tables have not been so adjusted.

Chaucer Pension Scheme

PENSION ARRANGEMENTS

The following Directors were members of the defined benefit scheme provided by the Company during the year.

Pension entitlements and corresponding transfer values increased as follows during the year:

	Gross increase in accrued pension (a)	Increase in accrued pension net of inflation (b)	Total accrued pension at 31 December 2008 (c)	Value of net increase accrual over period (d)	Total change in value during period (e)	Value of accrued pension at 31 December 2008 (f)	Value of accrued pension at 31 December 2007 (g)
E H Gilmour	3,653	2,431	28,093	37,951	163,321	536,719	368,742
M C Graham	3,573	2,445	26,133	24,617	122,379	344,736	217,701
R A Stuchbery	6,991	887	129,080	9,273	689,195	2,346,178	1,652,327

This table should be read in conjunction with the following notes:

1. Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year, ignoring future salary growth or benefit revaluation
2. Transfer values have been calculated in line with the relevant UK regulations.
3. The value of net increase (d) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based on the accrued pension increase (b) after deducting the director's contribution.
4. The change in the transfer value (e) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stock market movements. It is calculated after deducting the director's contribution.
5. Voluntary contributions paid by directors and resulting benefits are not shown.

This Report was approved by the Board of Directors on 8 April 2009 and signed on its behalf by

Chris Forbes

Christopher Forbes
Chairman, Remuneration Committee

The Directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985, the Companies Act 2006 (where applicable) and of the International Financial Accounting Standards (IFRS) as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Group at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- Select suitable accounting policies and verify they are applied consistently in preparing the financial statements, on a going concern basis unless it is inappropriate to presume the Group will continue in business;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- State that the Group has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for maintaining proper accounting records that are intended to disclose with reasonable accuracy, at any time, the financial position of the Group. They are also responsible for ensuring the Annual Report and Accounts includes information required by the Listing Rules of the Financial Services Authority. The Directors are also ultimately responsible for the systems of internal controls maintained by the Group for safeguarding the assets of the Group and for the prevention and detection of fraud and other irregularities. Further details of the systems of internal controls maintained by the Group are more fully described in the Corporate Governance Report.

a) The financial statements, prepared in accordance with the relevant provisions of the Companies Act 1985 and IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and

b) The management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors on 8 April 2009 and signed on its behalf by

David Turner
Company Secretary

We have audited the group financial statements of Chaucer Holdings PLC for the year ended 31 December 2008 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 37. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Chaucer Holdings PLC for the year ended 31 December 2008 and on the information in the Directors’ Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors’ Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Joint Chairman and Chief Executive’s Statement, Underwriting Outlook, Divisional Performance and Financial Report that is cross referred from the review of business and future developments section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director’s remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company’s compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group’s corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Joint Chairman and Chief Executive’s Statement, the Business and Divisional Reviews, the Directors’ Report, the Corporate Governance Report, the non-audited section of the Director’s Remuneration Report, and the sections of the Annual Report denominated Forward Thinking, Underwriting Outlook, Divisional Performance, Business Statistics, Our People, Corporate Social Responsibility, Financial Report, Investor Relations, Board of Directors, Audit Committee Report and the Statement of Directors’ Responsibilities in Relation to the Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group’s affairs as at 31 December 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.

Ernst & Young LLP
Registered auditor
London, 8 April 2009

Contents

Consolidated Income Statement for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Gross written premiums	4	741.0	584.1
Change in provision for gross unearned premiums	24	(57.8)	(33.1)
Gross premiums earned	4	**683.2**	551.0
Outward reinsurance premiums		(137.8)	(110.1)
Change in provision for unearned premiums – reinsurers' share	24	1.8	3.6
Net premiums earned	4	**547.2**	444.5
Net investment return	5	(71.0)	41.7
Other operating income	6	9.2	10.3
Total revenue from operations		**485.4**	496.5
Gross claims paid	24	(324.4)	(264.1)
Movement in gross technical provisions		(158.3)	(26.7)
Gross claims incurred		**(482.7)**	(290.8)
Reinsurers' share of gross claims paid	24	71.9	84.4
Movement in reinsurers' share of technical provisions		46.4	(25.9)
Reinsurers' share of claims incurred		**118.3**	58.5
Net claims incurred		**(364.4)**	(232.3)
Expenses incurred in insurance activities	7	(132.6)	(132.6)
Other operating expenses	8	(18.4)	(34.9)
Total operating charges		**(515.4)**	(399.8)
(Loss)/profit from operations		**(30.0)**	96.7
Finance costs	11	(4.0)	(5.0)
Other income from sale of subsidiary		14.7	-
Goodwill written off	14	(6.9)	(2.3)
(Loss)/profit before tax		**(26.2)**	89.4
Income tax credit/(expense)	12	7.3	(20.3)
(Loss)/profit for the year		**(18.9)**	69.1
Attributable to:			
Equity holders of the Company		(19.0)	68.8
Minority interest		0.1	0.3
		(18.9)	69.1
(Losses)/earnings per share	13		
Basic		(6.0)p	22.3p
Diluted		(6.0)p	19.8p

All of the operations of the Group are continuing.

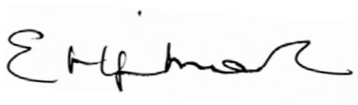
Consolidated Statement of Recognised Income and Expense for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Defined benefit pension scheme: actuarial losses for the year	23	(8.6)	(1.4)
Tax effect on actuarial losses	16	2.4	0.4
Net expense recognised directly in equity		**(6.2)**	(1.0)
(Loss)/profit for the year		(18.9)	69.1
Total recognised income and expense for the year	21	**(25.1)**	68.1
Attributable to:			
Equity holders of the Parent Company		(25.2)	67.8
Minority interest		0.1	0.3
		(25.1)	68.1

Consolidated Balance Sheet at 31 December 2008

	Notes	2008 £m	2007 £m
Assets			
Intangible assets	14	32.1	32.1
Tangible fixed assets	15	8.7	9.7
Reinsurers' share of technical provisions	24	339.7	223.7
Deferred income tax	16	21.3	-
Deferred acquisition costs	17	76.5	56.1
Prepayments and accrued income		3.5	6.0
Trade and other receivables	18	259.1	182.5
Financial assets	3	798.7	778.8
Cash and cash equivalents	19	420.8	179.0
Total assets		1,960.4	1,467.9
Equity			
Share capital	20	87.0	86.3
Own shares	21	(31.5)	(11.8)
Share premium account	21	66.0	65.7
Equity element of convertible loan	21	-	0.1
Bonus reserve	21	20.8	16.0
Warrant reserve	21	-	1.9
Retained earnings	21	83.2	124.0
Total equity attributable to equity holders		225.5	282.2
Minority interest	21	-	0.4
Total equity	21	225.5	282.6
Liabilities			
Subordinated debt	22	45.1	33.2
Employee benefits provision	23	9.4	2.1
Technical provisions	24	1,508.9	978.4
Convertible loan stock	25	-	1.1
Deferred income tax	16	-	6.4
Current tax liability	26	4.8	9.6
Accruals and deferred income		12.7	15.4
Trade and other payables	27	154.0	139.1
Total liabilities		1,734.9	1,185.3
Total liabilities and shareholders' funds		1,960.4	1,467.9
Net asset value per ordinary share	28	72.9p	85.5p
Net tangible asset value per ordinary share	28	62.5p	75.8p

The financial statements were approved by the Board of Directors on 8 April 2009 and signed on its behalf by



E H Gilmour
Chief Executive

Consolidated Cash Flow Statement for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	29	328.2	141.8
Interest paid		(4.1)	(4.2)
Return on financial assets		(53.5)	40.7
Tax paid	26	(19.9)	(15.0)
Net cash from operating activities		**250.7**	163.3
Cash flows from investing activities			
Net cash acquired upon acquisition of subsidiary		16.6	-
Purchases less sales of financial assets		9.6	(134.5)
Purchase of tangible fixed assets	15	(1.0)	(5.2)
Purchase of own shares	21	(20.1)	(7.9)
Sale of subsidiary	14	15.3	-
Purchase of syndicate capacity	14	-	(0.7)
Net cash from investing activities		**20.4**	(148.3)
Cash flows from financing activities			
Shares issued		-	0.3
Dividends paid	30	(17.3)	(13.9)
Net cash from financing activities		**(17.3)**	(13.6)
Net increase in cash and cash equivalents		**253.8**	1.4
Cash and cash equivalents at period beginning		179.0	185.7
Effect of changes in rates of exchange		(12.0)	(8.1)
Cash and cash equivalents at period end	19	**420.8**	179.0

1. Accounting policies

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

BASIS OF PREPARATION

The consolidated financial statements are 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). They have been prepared under the historical cost convention, as modified by the revaluation of financial assets held at fair value through profit and loss, convertible loans and long term assets and liabilities at amortised cost using the effective interest method, and pension liabilities which are determined by actuarial analysis.

The following standards, amendments to standards and interpretations have been issued and are effective for periods starting on or after the dates below:

- IFRS 8, Operating segments (1 January 2009)
- IFRS 3 (Revised), Business Combinations (1 July 2009)
- IAS 27 (Revised), Consolidated and Separate Financial Statements (1 July 2009)
- Amendment to IFRS 2 Share–based payment (1 January 2009)
- IAS 1 (Revised), Presentation of financial statements (1 January 2009)
- IAS 23 (Revised), Borrowing costs (1 January 2009)
- Amendments to IAS 32, Financial instruments – Classification of instruments as debt or equity (1 January 2009)

The Group has not adopted these standards and interpretations in the preparation of the 2008 financial statements as the standards are not yet effective. The Directors anticipate that the adoption of these standards in future periods will have no material impact in the financial statements of the Group except for additional segmental information disclosures required by IFRS 8.

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.

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 period end rates, 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:

	2008	2007
US Dollars	1.85	2.00
Canadian Dollars	1.96	2.15
Euros	1.26	1.46

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

	2008	2007
US Dollars	1.44	1.99
Canadian Dollars	1.77	1.96
Euros	1.03	1.36

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) Claims outstanding 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. Claims outstanding 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 claims outstanding 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 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 Group's financial statements include its 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 the payment is established. Investment income comprises interest receivable, which is valued using the effective interest 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 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 are recognised in the income statement in the period in which they are incurred, and are recognised under the effective interest rate method.

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 the deferred income tax arises from the initial recognition of goodwill, 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 Recognised Income and Expense (SORIE).

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 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 on the balance sheet 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.

Management considers 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 at trade date. Investments are initially recognised at fair value and derecognised when they have been 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.

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 agency 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 cost 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 expense 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.

In accordance with the standard, actuarial gains and losses are recognised in full in the period in which they occur and are recognised outside profit or loss, in the statement of recognised income and expense. 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 amended 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 shares 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 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 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 the share capital (nominal value) and share premium, if shares are issued, or to investments in own shares, if shares are purchased, when the options are exercised. If shares are purchased in the market to settle the options then any difference between the exercise price, the fair value of the options, and the cost of the shares issued, is taken to retained earnings.

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 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. Note 2 describes the process to estimate the ultimate claims liability in more detail.

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

- The decision to value the financial assets at fair value though profit and loss, based on the considerations described in the relevant accounting policy above, has impacted the final determination of the profit 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

The Group separately defines underwriting risk appetite for market losses and Group-specific losses, with appetite for the former being greater. Underwriting is the Group's core competence and hence it is the area of greatest risk appetite.

The Group expresses the underwriting risk appetite is expressed at the highest level, as a maximum event-specific net underwriting loss as a percentage of syndicate capacity for an event of defined probability. 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.

The Group has adopted a sliding scale based on exceedance probabilities. Risk appetite for Syndicate 1084 ranges from 14% (2007 10%) of capacity for 10 to 50 year return periods through to a maximum of 30% (2007 25%) of capacity for greater than 1000 year return periods. For Syndicate 1176 (the nuclear syndicate), its risk appetite is set at approximately 220% of capacity (2007 220%) on a first loss basis. For Syndicate 4000 the risk appetite is for a net loss from any one event not to exceed 14% of capacity on a 1 in 2000 year basis.

Based upon current estimates the ultimate costs (net of reinsurance) of the largest 2008 insured losses to which Syndicates 1084 and 4000 had exposures as a percentage of their capacity were as follows:

				Cost as % of capacity	
		Syndicate 1084	Syndicate 4000	Syndicate 1084	Syndicate 4000
Year of account	Event	£m	£m	%	%
2007	Sub-prime	5.0	23.3	1.1	31.9
2008	Hurricane Ike	45.8	-	10.3	-
2008	Madoff	4.2	10.0	0.9	13.7
2008	Financial turmoil[1]	4.0	16.9	0.9	23.2

The table shows each syndicate's total cost at 31 December 2008 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 % 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

1 The financial turmoil reserves are deemed to cover many losses, including general economic downturn, the Lehman Brothers collapse and the Icelandic banking crisis. It also includes an allowance for the knock-on recessionary impact of the credit crunch and the increased claims notification activity that the Group has seen on 2008 compared to previous years

The Board of Chaucer Holdings PLC approves the risk appetite limit, considering the relativity between 'willing to lose' and potential forecast profitability for each year of account. The risk appetite will therefore reflect the view of forecast profitability, utilising the Syndicates' latest business plan assumptions.

The Group manages underwriting risk through monthly divisional reporting utilising centrally prepared detailed underwriting management information packs. The divisions report to the Underwriting Board who in turn report to the Board of Chaucer Syndicates Limited. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, experience variations, cycle management, risk aggregation, reinsurance protection and catastrophe modelling.

Underwriting authorities, underwriting peer reviews of all risks, independent review and expert review committee procedures and the audit and review of delegated arrangements, all contribute to the strength of the underwriting control environment.

The independent review process is a key control for this risk area. The process involves detailed reviews of individual underwriting risks and supporting documentation on a monthly basis. Reputable expert underwriting practitioners that are independent of the syndicate or division perform the reviews.

Group Internal Audit provides assurance over the performance of the controls.

Underwriting exposure is controlled via risk policy coding systems, setting of maximum lines, setting of jurisdiction limits, strict underwriter authority limits, Realistic Disaster Scenario modelling, reinsurance programme design, policy limitations and exclusions, imposed deductibles and standard policy wording and coverage clauses.

The Group records individual risk exposures and monitors on a regular basis to ensure they remain within the policies and guidelines set. Aggregations of risk are monitored using specialist software tools.

The seven divisions within the Group undertake an extensive annual underwriting planning process in order to determine the Group's targets for premiums written and profitability for the coming year. Factors taken into account in determining the targets include the risk appetite set by the Group's Risk & Capital Committee, anticipated policy pricing, terms and conditions, expected claims frequency and cost and the reinsurance cost and efficacy.

The Group's diversification of business by division and by geographical location is set out in the segmental information note.

CONCENTRATIONS OF RISK

The Group has exposure to losses arising through 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 underwriting risk appetite. The tables below show 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 1 January 2008. The Group updates the RDS scenarios are updated 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.

	Estimated occurrence Years	Total insured loss £bn	Syndicate gross loss £m	Syndicate gross loss %[1]	Syndicate final net loss £m	Syndicate final net loss %[1]	Group final net loss £m[2]
1 January 2009							
Syndicate 1084 scenario							
California earthquake (Los Angeles)	223	54.2	207.6	38.1	97.0	17.8	92.1
Gulf of Mexico windstorm	1,932	78.5	183.7	33.7	96.1	17.6	91.2
California earthquake (San Francisco)	169	54.2	176.4	32.4	82.2	15.1	78.0
Two events: North East windstorm	340	54.2	161.3	29.6	92.6	17.0	87.9
New Madrid earthquake (extreme stress scenario)	579	74.3	155.8	28.6	79.0	14.5	75.0
Florida windstorm: Pinellas County	155	86.8	146.8	26.9	73.7	13.5	70.0
European windstorm	162	21.5	146.3	26.8	62.5	11.5	59.3
Japanese earthquake	637	35.4	130.7	24.0	77.1	14.1	73.2
Florida windstorm: Miami-Dade	147	86.8	121.3	22.3	54.5	10.0	51.7
New Madrid earthquake	334	32.6	91.3	16.8	54.8	10.1	52.0
Terrorism: Exchange Place[3]	n/a	9.1	77.8	14.3	68.7	12.6	65.2
Terrorism: Rockefeller Center[3]	n/a	8.5	71.6	13.1	62.5	11.5	59.3
Syndicate 1176 scenario							
Major loss scenario: Sweden	52,600	2.0	194.5	617.5	68.6	217.8	37.8
Core melt event at US nuclear power station	40,000	2.0	70.8	224.8	63.9	202.9	35.2
Terrorist event (non-TRIA)	4,600	0.1	25.9	82.2	25.9	82.2	14.3
1 January 2008							
Syndicate 1084 scenario							
Japanese earthquake	638	25.6	102.9	23.1	57.3	12.9	54.2
Gulf of Mexico windstorm	1,929	56.8	114.5	25.7	56.9	12.8	53.8
Californian earthquake (Los Angeles)	222	37.2	139.9	31.4	55.9	12.6	52.9
Two events: North East windstorm	344	37.2	100.9	22.7	51.5	11.6	48.7
Californian earthquake (San Francisco)	172	37.2	115.8	26.0	46.8	10.5	44.2
Syndicate 1176 scenario							
Major loss scenario: Sweden	52,600	1.7	18.6	660.4	60.5	220.6	32.4
Core melt event at US nuclear power station	40,000	1.7	42.3	153.8	42.3	153.8	22.6
Terrorist event (non-TRIA)	4,600	0.1	26.6	96.7	26.6	96.7	14.2

1 Based on a 2009 premium capacity of £545.0m (the minimum expected following the February 2009 capital raising) (2008 £445.0m) for Syndicate 1084 and £31.5m (2008 £27.5m) for Syndicate 1176

2 Based on an economic 2009 group share of 94.9% (2008 94.6%) for Syndicate 1084 and 55.1% (2008 53.5%) for Syndicate 1176

3 As these events are non-natural perils, return periods are not a relevant measure

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 2008 and 2007 by class of business.

			Maximum line (Gross)	
			2008	2007
Division	Class of business	Currency	Millions	Millions
Marine	Marine hull	USD	20.0	15.0
	Marine liability	USD	60.0	60.0
	Marine war	USD	40.0	40.0
	Cargo	USD	25.0	20.0
	Specie	USD	75.0	70.0
	Satellite	USD	6.0	6.0
	Political risks	USD	20.0	15.0
	Excess of loss	USD	5.0	5.0
Energy	Exploration and production	USD	125.0	85.0
	Physical damage	USD	85.0	55.0
	Control of well	USD	45.0	30.0
	Liabilities	USD	50.0	20.0
	Construction	USD	85.0	50.0
	Midstream	USD	45.0	25.0
	Downstream, power and utilities	USD	7.5	-
Aviation	Hull	USD	4.5	4.5
	Liability	USD	50.0	50.0
	Airport refuellers and products	USD	50.0	50.0
Property	Facultative: USA/Canada	USD	40.0	40.0
	Facultative: International	USD	40.0	40.0
	Treaty: Catastrophe	USD	10.0	10.0
	Treaty: Risk excess of loss	USD	5.0	5.0
	Treaty: Other reinsurance	USD	5.0	3.0
	Delegated authority: USA/Canada	USD	6.0	2.5
	Delegated authority: International	GBP	4.0	4.0
	Engineering	USD	50.0	45.0
Specialist Lines	Financial institutions	GBP	5.0	5.0
	Medical	USD	15.0	15.0
	Directors and officers/Errors and omissions	USD	2.0	2.0
	Other claims made	USD	2.0	2.0
	General casualty direct	USD	2.0	2.0
	General casualty treaty	USD	3.0	3.0
	UK and international general liability	GBP	10.0	10.0
Europe	Treaty catastrophe	EUR	7.5	7.5
	Treaty risk excess of loss	EUR	5.0	5.0
	Facultative international	EUR	25.0	17.5
	Accident and health	EUR	16.3	16.3
Nuclear	Property	GBP	185.0	180.0
	Liability	GBP	46.3	36.0

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 adjustors 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 finally approved by the Board of Chaucer Syndicates Limited. The Actuarial Department provides supporting analysis utilising stochastic modelling techniques. The Underwriting Board also monitors erosion of cover.

The cost of the 2008 reinsurance programme, including outstanding cost and expected reinstatement premiums on the marine and non-marine sectors, on a 100% basis, was:

					2008				2007
		£m	US$m	Can$m	Converted £m	£m	US$m	Can$m	Converted £m
Non-marine	Facultative	0.0	1.6	-	0.9	0.1	2.1	-	1.2
	Proportional	5.2	14.2	-	12.9	3.8	16.7	0.8	12.6
	Excess of loss	9.0	37.2	-	29.1	9.3	38.4	-	28.6
		14.2	53.0	-	42.9	13.2	57.2	0.8	42.4
Marine	Facultative	0.8	11.6	-	7.1	0.2	7.0	-	3.7
	Proportional	1.9	13.3	0.1	9.1	2.0	9.2	-	6.6
	Excess of loss	4.5	27.1	0.2	19.3	4.4	25.0	0.3	17.1
		7.2	52.0	0.3	35.5	6.6	41.2	0.3	27.4
Nuclear	Excess of loss	3.8	-	-	3.8	4.1	-	-	4.1
Motor	Excess of loss	7.5	-	-	7.5	7.0	-	-	7.0
Syndicate 4000[1]	Facultative	-	0.1	-	0.1	0.1	0.2	-	0.2
	Proportional	0.8	1.3	-	1.5	-	0.2	-	0.1
	Excess of loss	13.8	6.2	-	17.2	8.6	11.6	-	14.4
		14.6	7.6	-	18.8	8.7	12.0	-	14.7
		47.3	112.6	0.3	108.5	39.6	110.4	1.1	95.6

1 The 2007 figures are included for comparison purposes only. The Group only purchased the majority of the underwriting interest in Syndicate 4000 in 2008

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 2008 was US$50m and is unchanged for 2009. The per risk retention for 2009 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 motor book has protection from a reinsurance programme placed on a 'losses occurring' basis, which is unlimited, both in terms of the amount and in terms of the number of losses sustained. For 2008 the retention was £1m for 'each and every loss'. The 2009 programme attaches at £1m.

Losses to date have resulted in some recoveries for Hurricane Ike against 2007 and 2008 reinsurance protections.

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 2008,

- 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 insurer 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

Maximum exposure thresholds are set per reinsurer as a reflection of Chaucer'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).

		1 January 2009			1 January 2008	
	Short-tail	Medium-tail	Long-tail	Short-tail	Medium-tail	Long-tail
Syndicate 1084	US$m	US$m	US$m	US$m	US$m	US$m
Highest	500.0	250.0	167.0	500.0	250.0	167.0
Lowest	50.0	25.0	-	50.0	25.0	-

The Group has applied an uplift of 10% in overall threshold for 2009 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 for 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 2009 general reinsurance programme security (on a 100% basis).

	First loss exposure	
	2009	2008
Syndicate 1084	%	%
Reinsurance rating bands (Standard & Poor's or equivalent)[1]		
Lloyd's (A+)	37.1	30.4
AAA	1.5	3.9
AA	30.7	37.3
A	30.7	28.4
	100.0	100.0

1 Ratings as at 5 February 2009 and 29 January 2008 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 2008 (2007 2.3%). There was no material exposure arising from reinsurance failure in 2008 or 2007.

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)[1]	2009 Debt %	2008 Debt %
Lloyd's syndicates (A+)	15.9	15.9
AAA	4.7	0.9
AA	45.8	55.6
A	31.1	23.2
BBB	0.3	0.2
Other[2]	2.2	4.2
	100.0	100.0

1 Ratings as at 31 December 2008 and 2007 respectively

2 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 0.6% of collateralised security (2007 1.2%)

Broker credit risk limits for Syndicate 1084 are also determined depending on the grading of the relevant broker. The 2008 credit thresholds ranged from £1m to £40m (2007 from £1m to £40m). The Security Committee monitors exposure against these tolerance thresholds on a monthly basis.

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 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 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 with a binomial distribution
- 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. There is adjustment of the formulaic risk loadings where 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 Board of Chaucer Syndicates Limited, 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 reserves.

The Finance Committee, subject to approval by the Board of Chaucer Holdings PLC, determines risk loadings within Group 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 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 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 them. 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 financial turmoil (excluding sub-prime)

Test: 100% increase of explicit allowances for financial turmoil losses. Gross ultimate Madoff exposures at upper end of current market estimates

SCENARIO 3

Risk: Under provision for reinsurance bad debt

Test: Failure of the Group's largest reinsurer with credit rating A or below. The Group has assumed a recovery rate of 40%.

SCENARIO 4

Risk: Underestimation of sub-prime losses

Test: Doubling of loss probabilities on all Syndicate 4000 sub-prime losses (maximum 100%), 100% increase in estimated total gross claims in Syndicate 1084.

SCENARIO 5

Risk: Underestimation of losses from Hurricane Ike

Test: Losses assumed to follow most pessimistic development from other recent hurricane losses (subject to limits)

RESULTS

Scenario	Risk	Net loss to Group £m
1	Underestimation of loss ratio on new classes of business	(15.5)
2	Underestimation of loss ratios in classes affected by financial turmoil	(24.7)
3	Underestimation of our bad debt provision	(7.0)
4	Underestimation of sub-prime losses	(6.8)
5	Underestimation of losses from Hurricane Ike	(6.6)

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 has changed at successive year-ends.

Estimated gross ultimate claims[1, 2] (All figures in £m)	2001 & prior	2002	2003	2004	2005	2006	2007[3]	2008	Corporate and other adjusments[4]	Total
At end of year	1,932.5	248.9	272.2	338.3	606.5	368.3	472.9	718.2		
One year later	1,927.2	209.2	288.1	393.8	606.4	357.7	461.5			
Two years later	1,948.8	195.7	261.3	373.3	578.0	318.9				
Three years later	1,890.4	193.3	245.2	364.8	551.5					
Four years later	1,985.7	187.1	241.6	348.6						
Five years later	1,963.3	182.1	242.8							
Six years later	1,941.4	179.9								
Seven years later	1,939.1									
Total ultimate losses at 31 December 2008	1,939.1	179.9	242.8	348.6	551.5	318.9	461.5	718.2	-	4,760.5
Less accumulated payments	(1,824.0)	(158.8)	(199.0)	(275.1)	(430.8)	(166.3)	(137.1)	(76.7)	-	(3,267.8)
Unearned portion of ultimate losses	-	-	-	-	-	(2.0)	(21.6)	(269.2)	-	(292.8)
Claims handling provision	0.7	0.1	0.3	0.8	1.3	2.1	3.9	6.4	-	15.6
Total outstanding claims at 31 December 2008 on a 100% basis	115.8	21.2	44.1	74.3	122.0	152.7	306.7	378.7	-	1,215.5
Less unaligned share	(0.5)	(0.2)	(0.5)	(3.6)	(0.7)	(1.1)	(5.1)	(33.8)	-	(45.5)
Other corporate adjustments	-	-	-	-	-	-	-	-	2.7	2.7
Total outstanding claims at 31 December 2008	115.3	21.0	43.6	70.7	121.3	151.6	301.6	344.9	2.7	1,172.7

Estimated net ultimate claims[1, 2] (All figures in £m)	2001 & prior	2002	2003	2004	2005	2006	2007	2008	Corporate and other adjusments[4]	Total
At end of year	1,221.4	210.6	233.8	264.8	386.4	330.3	414.7	583.4		
One year later	1,211.5	179.1	218.8	259.7	372.6	318.3	393.9			
Two years later	1,215.5	163.2	197.8	246.5	347.5	282.6				
Three years later	1,158.7	162.0	182.7	231.4	325.5					
Four years later	1,218.7	157.7	179.4	225.3						
Five years later	1,217.7	154.1	179.7							
Six years later	1,202.2	150.8								
Seven years later	1,202.8									
Total ultimate losses at 31 December 2008	1,202.8	150.8	179.7	225.3	325.5	282.6	393.9	583.4	-	3,344.0
Less accumulated payments	(1,131.6)	(139.4)	(149.2)	(180.5)	(228.0)	(153.9)	(125.8)	(69.7)	-	(2,178.1)
Unearned portion of ultimate losses	-	-	-	-	-	(1.9)	(20.2)	(240.4)	-	(262.5)
Claims handling provision	0.7	0.1	0.3	0.8	1.3	2.1	3.9	6.4	-	15.6
Bad debt provision	3.2	0.1	0.1	0.3	0.2	0.2	0.5	1.1	-	5.7
Total outstanding claims at 31 December 2008 on a 100% basis	75.1	11.6	30.9	45.9	99.0	129.1	252.3	280.8	-	924.7
Less unaligned share	(0.5)	(0.2)	(0.5)	(3.6)	(0.7)	(1.1)	(4.0)	(20.4)	-	(31.0)
Less quota share reinsurance	-	-	-	-	-	-	-	-	(20.3)	(20.3)
Other corporate adjustments	-	-	-	-	-	-	-	-	(0.5)	(0.5)
Total outstanding claims at 31 December 2008	74.6	11.4	30.4	42.3	98.3	128.0	248.3	260.4	(20.8)	872.9

1 Ultimate claims and accumulated claims payments as at each year-end converted at 31 December 2008 exchange rates for this analysis
2 The figures above include ultimate claims and accumulated payments for Syndicates 15, 17, 396, 587, 1096, 1229, 1204, 1224, 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 now include the impact of claims reserves of Syndicate 4000 and Syndicate 4242. The Group initially includes these at 100% level before their removal on the 'unaligned share' line
4 'Corporate and other adjustments' include the effect of quota share agreements held at corporate level

The total provision releases from prior years on which the Group participated on a 100% basis amounted to £81.0m (2007 £56.7m) 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 2008 and 2007, mainly arose in the Motor, Property and Specialist Lines Divisions and Syndicate 4000.

The Group's share of the releases above is £74.1m (2007 £45.8m), 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

	2008 Cost £m	2008 Fair value £m	2007 Cost £m	2007 Fair value £m
Funds at Lloyd's and other corporate funds				
Equities	3.2	2.5	3.2	3.6
Hedge funds	-	-	-	-
Absolute return bond funds	172.3	168.7	114.4	115.2
Bonds	1.6	1.6	-	-
Other[1]	17.0	17.0	17.0	17.0
	194.1	189.8	134.6	135.8
Syndicate participations				
Equities	5.9	3.5	69.9	95.3
Hedge funds[2]	192.9	154.7	80.8	83.9
Absolute return bond funds	170.8	163.9	283.0	284.7
Bonds	255.0	246.5	154.8	157.5
Overseas deposits[3]	40.3	40.3	21.6	21.6
	664.9	608.9	610.1	643.0
	859.0	798.7	744.7	778.8

1 In October 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 (Lightyear), 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 agency 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, manages the Syndicate

At the end of 2008 the investment in Antares remains in an active market. Accordingly, the group has valued it by reference to the Group's share of NAV and future income discounted at an appropriate rate of return

2 At the end of 2008, hedge funds with a total value of £32.2m 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 are 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 Board of Directors of Chaucer Holdings PLC 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 that can be assigned to each asset class.

During the year, the Group changed constraints to an absolute return basis as follows:

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 charged the risk constraints in November 2008 to:

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

The constraints maintained in 2007, which were defined in terms of the probability of a given adverse result in a 12-month period, were as follows:

2007

- No more than a 2.0% probability of an investment return of less than £Nil, and
- No more than a 0.2% probability of an investment return of less than -5.0%

The Group's Investment Committee, which meets at least quarterly, is responsible for reviewing and amending asset allocations in accordance with investment risk constraints. Due regard is given to the outlook for each asset class as a result of changes in market conditions and investment returns and proposed asset allocations are tested using stochastic modelling techniques prior to formal approval by the Investment Committee.

The Investment Committee is also responsible 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 during the year of each portfolio manager against the chosen benchmark (BM) set.

	UK Sterling returns		US Dollar returns		Euro returns		Canadian Dollar returns	
	Manager %	BM %	Manager %	BM %	Manager %	BM %	Manager %	BM %
2008								
GRNEAM	-	-	(1.36)	2.54	-	-	-	-
Aberdeen Asset Management	-	-	(6.95)	2.54	-	-	-	-
Crédit Agricole	(2.37)	5.74	-	-	-	-	-	-
Alliance Bernstein	-	-	(14.80)	5.54	-	-	-	-
2007 (to 30 June)								
Alliance Bernstein	2.29	1.97	2.51	2.33	1.77	1.72	-	-
Crédit Agricole	2.08	1.97	2.39	2.33	-	-	1.68	1.57
2007 (to 31 December)								
GRNEAM	-	-	4.03	2.59	-	-	-	-
Aberdeen Asset Management	-	-	3.26	2.59	-	-	-	-

The 2008 returns on US Situs bond portfolios managed by Aberdeen Asset Management and GenRe New England Asset Management (GRNEAM) were very disappointing.

Aberdeen underperformance resulted mainly from the widespread markdown of asset-backed securities that, at the end of the year, priced the securities of values well below recovery rates anticipated in the worst of modelled economic scenarios.

A US$1.7m exposure to Lehman Brothers which the Group wrote down to US$0.1m as at 31 December 2008, adversely affected the GRNEAM performance.

Alliance Bernstein performance was particularly poor due to large exposures to investment grade corporate bonds and mortgage backed securities that were marked down significantly as credit spreads widened and market liquidity deteriorated forcing asset prices down.

Absolute return bond funds also performed poorly because of exposures to credit and asset backed securities. The higher than expected levels of volatility in these funds resulted in the decision by the Group to exit all absolute return bond funds which was completed in January 2009.

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.

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

	Change in interest rates %	Impact on capital £m
31 December 2008		
	+2.0	(5.0)
	+1.0	(2.5)
	-1.0	2.5
	-2.0	5.0
31 December 2007		
	+2.0	0.4
	+1.0	0.2
	-1.0	(0.2)
	-2.0	(0.4)

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 charges in interest rates.

					Maturity bands (Years)[1]	
	<1	1-2	2-3	3-4	4+	Total
	£m	£m	£m	£m	£m	£m
31 December 2008						
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**
B	-	1.0	-	-	-	**1.0**
	141.2	62.8	36.7	6.6	0.8	248.1
31 December 2007						
Government	22.4	9.2	3.1	-	-	34.7
AAA	51.4	27.0	12.7	-	-	91.1
AA	19.4	-	1.5	-	-	20.9
A	6.2	-	3.1	-	-	9.3
BBB	1.5	-	-	-	-	1.5
	100.9	36.2	20.4	-	-	157.5

1 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 a potential 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 31 December, the portion of financial assets, cash and deposits by currency was as follows:

	2008	2007
	%	%
UK Sterling	47.4	55.0
US Dollar	48.3	43.0
Other	4.3	2.0
	100.0	100.0

If Syndicate 1084 holds a material surplus of non-sterling assets attributable to the Group because of accumulated profits, the Group hedges the excess using forward currency contracts until such time that it is expected to be distributed.

There were no open forward currency contracts at the balance sheet date (2007 £Nil).

The foreign exchange management policy adopted by the Group ensures that there is no material net economic sensitivity or exposure to changes in exchange rates.

Equity risk

The Group reviews the allocation to equities in the context of the risk budget with a view to optimising total returns and diversifies risk accordingly.

The Group reduced the investment risk budget in November 2008 and a quantitative assessment of investment risk has determined that a maximum investment of up to 2% of total Group funds may be allocated to equities (2007 14%).

The actual allocation made at any point in time is determined and reviewed by the Investment Committee on a quarterly basis with due regard given to current market conditions and investment opportunities.

The Investment Committee takes professional advice in relation to the outlook for investment markets and will reduce equity exposure if risk adjusted returns appear unfavourable relative to other asset classes.

Having considered all these factors the Investment Committee took action to reduce equity exposure as soon as practicably possible and reduced exposures to less than 1% of Group investments by the end of the year.

It is estimated that a 10% change in the FTSE All Share or MSCI World Indices would result in a £0.6m (2007 £9.9m) change in the value of equity investments at 31 December 2008. A more severe scenario based on a fall of 25% would result in expected losses of £1.5m (2007 £24.8m).

Hedge funds

During the first half of 2008, credit spreads widened significantly and management considered that skilled hedge fund managers could extract on attractive risk adjusted return from the fixed income sector.

Credit spreads continued to widen and credit default swaps used by funds to hedge cash credit positions failed to compensate, or even proved detrimental to funds resulting in huge losses and triggering margin calls for settlement.

As investors fled risk assets, this forced managers to sell further large holdings of securities at distressed levels to meet redemption requests. This precipitated a collapse in bid prices of securities as sellers exceeded buyers and falling valuations forced many funds to collapse, wind up or gate investors to mange redemptions in an orderly fashion without further destroying investor's capital.

During the year Group losses from hedge funds amounted to £30.4m representing a 27.0% loss on weighted average funds and a 20.2% loss on funds invested at the start of the year plus new funds invested during the year.

In 2008, hedge fund losses comprised:

	Loss £m	Return on average funds %	Absolute return %
Fund of funds	(5.5)	(13.8)	(13.8)
Equity long short	(6.9)	(16.4)	(13.0)
Fixed income	(18.0)	(58.7)	(31.3)
	(30.4)	(27.0)	(27.0)

The Group has decided to exit all hedge fund investments at the earliest opportunity although it does not anticipated that this exercise will complete until 2010.

The Directors consider that 2008 hedge fund losses of 20% represent a realistic stress test on a forward looking basis which would result in losses of £30.9m based on holdings at 31 December 2008 (2007 £16.8m).

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 2008 is as follows:

		Maturity bands (Years)					
	Balance sheet £m	<1 £m	1-2 £m	2-5 £m	5-10 £m	>10 £m	Total £m
31 December 2008							
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
	1,708.0	786.4	296.1	365.2	138.3	187.9	1,773.9
31 December 2007							
Subordinated debt	33.2	2.7	2.7	8.2	13.7	84.0	111.3
Technical provisions	978.4	515.4	178.7	196.8	72.9	14.6	978.4
Convertible loan stock	1.1	1.1	-	-	-	-	1.1
Trade and other payables	139.1	126.6	3.3	4.8	4.4	-	139.1
	1,151.8	645.8	184.7	209.8	91.0	98.6	1,229.9

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, cash and deposits are liquid or capable of liquidation at very short notice. At 31 December 2008, approximately 90% (2007 91%) of such assets were capable of liquidation within 3 working days, 2% (2007 9%) within 120 days, and 8% (2007 £Nil) later than 120 days.

Credit risk

Investments

The Group invests the majority of funds in high-quality investment grade securities and absolute return bond funds. 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 comprise in absolute return bond funds and hedge 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 end of the period on a 100% basis.

	2008 £m	2007 £m
0-3 months past due	0.1	0.8
4-9 months past due	-	0.3
More than 9 months past due	-	-
	0.1	1.1

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

Broker	2008 £m	2007 £m
Marsh	28.1	16.2
Aon	28.7	17.1
Willis	26.7	16.9
Thompson Heath & Bond	10.8	10.2
BMS Group	14.9	2.1
	109.2	62.5

4. Segmental information

The Group's share of the technical result of the continuing managed syndicates in which it participates, analysed by Division, is as follows:

Year ended 31 December 2008	Motor £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate participations[1] £m	Run Off[2] £m	Total (excluding Eliminations and Other) £m	Eliminations £m	Other[3] £m	Total £m
Adjusted gross written premiums[5]	132.2	121.2	116.3	26.9	157.5	46.3	14.7	74.5	0.3	689.9	1.4	-	**691.3**
RITC	0.9	1.1	0.4	0.2	0.7	1.4	(0.1)	-	45.1	49.7	-	-	**49.7**
Unadjusted gross written premiums[5]	**133.1**	**122.3**	**116.7**	**27.1**	**158.2**	**47.7**	**14.6**	**74.5**	**45.4**	**739.6**	**1.4**	**-**	**741.0**
Adjusted gross earned premiums[5]	125.6	110.2	91.5	26.9	156.7	47.9	14.1	70.6	0.3	643.8	1.4	-	**645.2**
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[5]	-	(2.2)	(2.4)	(0.7)	(2.7)	(1.7)	-	(2.0)	-	(11.7)	-	-	**(11.7)**
Unadjusted gross earned premiums[5]	**126.5**	**109.1**	**89.5**	**26.4**	**154.7**	**47.6**	**14.0**	**68.6**	**45.4**	**681.8**	**1.4**	**-**	**683.2**
Adjusted net earned premiums[5]	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 premium[5]	**119.0**	**93.8**	**77.1**	**22.8**	**120.2**	**41.2**	**11.9**	**46.2**	**44.7**	**576.9**	**1.4**	**(31.1)**	**547.2**
Net investment return	(12.0)	(12.0)	(13.2)	(4.2)	(14.6)	(15.2)	1.5	3.5	(10.5)	(76.7)	-	5.7	**(71.0)**
Other operating income	-	-	-	-	-	-	-	-	-	-	(18.0)	27.2	**9.2**
Total revenue from operations	**107.0**	**81.8**	**63.9**	**18.6**	**105.6**	**26.0**	**13.4**	**49.7**	**34.2**	**500.2**	**(16.6)**	**1.8**	**485.4**
							-						
Adjusted net incurred claims[5]	(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	**(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[5]	(33.2)	(27.1)	(30.4)	(8.1)	(39.9)	(14.0)	(0.5)	(19.5)	2.1	(170.6)	2.4	(8.2)	**(176.4)**
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[5]	**(33.3)**	**(18.0)**	**(16.3)**	**(5.7)**	**(28.7)**	**(9.5)**	**(0.5)**	**(14.4)**	**2.1**	**(124.3)**	**2.4**	**(10.7)**	**(132.6)**
Recharges from managing agency[4]	(3.3)	(2.0)	(2.0)	(0.5)	(2.9)	(0.9)	(2.2)	(1.4)	-	(15.2)	15.2	-	**-**
Actual expenses transferred from managing agency[4]	0.9	0.7	0.5	0.3	1.0	0.4	0.8	1.2	-	5.8	(5.8)	-	**-**
Other operating expenses	-	-	-	-	-	-	-	-	-	-	4.8	(23.2)	**(18.4)**
Total operating charges	**(124.5)**	**(78.9)**	**(77.4)**	**(18.6)**	**(104.5)**	**(31.3)**	**(4.2)**	**(43.2)**	**(35.6)**	**(518.2)**	**16.6**	**(13.8)**	**(515.4)**
(Loss)/profit from operations	**(17.5)**	**2.9**	**(13.5)**	**-**	**1.1**	**(5.3)**	**9.2**	**6.5**	**(1.4)**	**(18.0)**	**-**	**(12.0)**	**(30.0)**

Year ended 31 December 2007	Motor £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate participations[1] £m	Run Off[2] £m	Total (excluding Eliminations and Other) £m	Eliminations £m	Other[3] £m	Total £m
Adjusted gross written premiums[5]	118.9	86.1	88.0	27.1	158.8	47.5	11.9	11.1	0.1	549.5	0.4	-	549.9
RITC	6.8	4.6	1.0	1.2	3.8	10.4	0.5	-	5.9	34.2	-	-	34.2
Unadjusted gross written premiums[5]	**125.7**	**90.7**	**89.0**	**28.3**	**162.6**	**57.9**	**12.4**	**11.1**	**6.0**	**583.7**	**0.4**	**-**	**584.1**
Adjusted gross earned premiums[5]	114.2	75.4	71.0	27.7	148.7	52.6	11.9	5.7	0.1	507.3	0.4	-	507.7
RITC	6.8	4.6	1.0	1.2	3.8	10.4	0.5	-	5.9	34.2	-	-	34.2
Foreign exchange on non monetary items[5]	-	1.7	1.8	0.8	2.9	1.9	-	-	-	9.1	-	-	9.1
Unadjusted gross earned premiums[5]	**121.0**	**81.7**	**73.8**	**29.7**	**155.4**	**64.9**	**12.4**	**5.7**	**6.0**	**550.6**	**0.4**	**-**	**551.0**
Adjusted net earned premiums[5]	107.3	65.8	63.2	23.5	117.1	42.8	10.3	4.1	0.3	434.4	0.4	(32.3)	402.5
RITC	6.8	4.6	1.0	1.2	3.8	10.4	0.5	-	5.9	34.2	-	-	34.2
Foreign exchange on non monetary items	-	1.6	1.8	0.7	2.7	1.6	-	-	-	8.4	-	(0.6)	7.8
Unadjusted net earned premium[5]	**114.1**	**72.0**	**66.0**	**25.4**	**123.6**	**54.8**	**10.8**	**4.1**	**6.2**	**477.0**	**0.4**	**(32.9)**	**444.5**
Net investment return	4.3	4.5	4.4	1.8	6.2	6.8	1.3	-	2.1	31.4	-	10.3	41.7
Other operating income	-	-	-	-	-	-	-	-	-	-	(27.0)	37.3	10.3
Total revenue from operations	**118.4**	**76.5**	**70.4**	**27.2**	**129.8**	**61.6**	**12.1**	**4.1**	**8.3**	**508.4**	**(26.6)**	**14.7**	**496.5**
Adjusted Net incurred claims	(69.9)	(34.4)	(41.4)	(10.3)	(47.0)	(14.4)	(3.2)	(2.7)	7.8	(215.5)	-	17.4	(198.1)
RITC	(6.8)	(4.6)	(1.0)	(1.2)	(3.8)	(10.4)	(0.5)	-	(5.9)	(34.2)	-	-	(34.2)
Net incurred claims including RITC	**(76.7)**	**(39.0)**	**(42.4)**	**(11.5)**	**(50.8)**	**(24.8)**	**(3.7)**	**(2.7)**	**1.9**	**(249.7)**	**-**	**17.4**	**(232.3)**
Adjusted net expenses incurred in insurance activities[5]	(30.8)	(22.0)	(24.2)	(8.4)	(40.9)	(14.0)	(1.2)	(2.0)	0.1	(143.4)	3.4	9.5	(130.5)
Foreign exchange on non monetary items	-	(0.3)	(0.9)	-	(0.5)	(0.6)	-	-	-	(2.3)	-	0.2	(2.1)
Unadjusted net expenses incurred in insurance activities[5]	**(30.8)**	**(22.3)**	**(25.1)**	**(8.4)**	**(41.4)**	**(14.6)**	**(1.2)**	**(2.0)**	**0.1**	**(145.7)**	**3.4**	**9.7**	**(132.6)**
Recharges from managing agency[5]	(6.8)	(2.3)	(2.0)	(0.7)	(4.8)	(5.0)	(1.6)	(0.4)	-	(23.6)	23.6	-	-
Actual expenses transferred from managing agency[4]	0.6	0.5	0.3	0.2	0.8	0.3	0.6	-	-	3.3	(3.3)	-	-
Other operating expenses	-	-	-	-	-	-	-	-	-	-	2.9	(37.8)	(34.9)
Total operating charges	**(113.7)**	**(63.1)**	**(69.2)**	**(20.4)**	**(96.2)**	**(44.1)**	**(5.9)**	**(5.1)**	**2.0**	**(415.7)**	**26.6**	**(10.7)**	**(399.8)**
Profit/(loss) from operations	**4.7**	**13.4**	**1.2**	**6.8**	**33.6**	**17.5**	**6.2**	**(1.0)**	**10.3**	**92.7**	**-**	**4.0**	**96.7**

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

2 'Run Off' comprises the results of Syndicates 1229, 1204 and 1224 that have closed into Syndicate 1084. With effect from 1 January 2008, Syndicate 1084 assumed the reinsurance to close of the unnaturally open 2002, 2003 and 2004 years of account of Syndicate 1245, which ceased underwriting in 2004, for a reinsurance to close premium of £44.4m

3 'Other' represents other corporate income and expense items and a capital provision quota share in two of Chaucer's corporate members.

4 The elimination of net expenses incurred in insurance activities in 2008 includes mainly recharges of a portion of the defined benefit pension scheme deficit from the managing agency to Syndicate 1084. The portion recharged represents the contributions. The recharges from managing agency include the profit commissions, managing agency fees and rent invoiced by the managing agency to Syndicates 1084 and 1176 during 2008 and 2007. Consolidation eliminates the Group's share of the related income and expenses. In addition, the actual expenses incurred by the managing agency (shown as actual expenses transferred from managing agency above) in managing the syndicates are reclassified as net expenses incurred in insurance activities from other operating expenses in each division. The segmental information note shows these inter-segment transactions separately, in accordance with requirements of IAS 14 Segmental reporting. The eliminations column eradicates these transactions. The Group calculates expenses ratios on the net expenses incurred in insurance activities figure above, which includes the consolidation adjustments and reclassifications explained above. This is in line with previous years' practices.

5 The adjusted items in the divisional analysis exclude the effect of premiums and reserves relating to the reinsurance to close (RITC) of third party syndicates into Syndicate 1084 and Chaucer's increased ownership of the RITC of Syndicates 1084 and 1176 following the closure of their 2005 years of account into their 2006 years.

The adjusted net earned premiums and the expenses incurred in insurance activities also reverse the mismatch caused by IFRS, which accounts for unearned premium reserves and deferred acquisition costs as non-monetary items and claims reserves as monetary items. This adjustment provides a fairer representation of the underlying position.

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

The allocation of asset and liabilities across business segments is as follows:

	Motor £m	Marine £m	Energy £m	Aviation £m	Property £m	Specialist Lines £m	Nuclear £m	Syndicate participations £m	Run Off £m	Other £m	Total £m
31 December 2008											
Total assets	190.4	233.4	235.1	86.7	258.9	163.2	29.4	213.6	121.4	428.3	**1,960.4**
Total liabilities	190.4	233.4	235.1	86.7	258.9	163.2	29.4	213.6	121.4	202.8	**1,734.9**
31 December 2007											
Total assets	226.7	175.5	123.4	75.6	245.2	191.5	23.7	7.9	59.6	338.8	1,467.9
Total liabilities	226.7	175.5	123.4	75.6	245.2	191.5	23.7	7.9	59.6	56.2	1,185.3

Lloyd's syndicates show profits/losses on open years of account embedded in liabilities/assets rather than separately as equity. Profits and losses relating to each business segment are therefore included as part of the other category.

The tangible fixed assets acquired during the year, as detailed in note 15, which are all expected to be used during more than one period, are all allocated to segment 'Other' above.

The Group allocates depreciation of fixed assets, also detailed in note 15, to 'Other' above. There were no other significant non-cash expenses at the end of 2008 or 2007.

The geographical analysis of revenue, based on the location of the policyholder, and, for total assets, on the location of the assets, is as follows.

	Americas £m	Asia Pacific £m	Europe £m	Middle East and Africa £m	Worldwide £m	Total £m
31 December 2008						
Gross written premium	161.3	35.7	200.1	24.8	319.1	**741.0**
Segment assets	607.3	13.4	1,335.6	4.1	-	**1,960.4**
31 December 2007						
Gross written premium	169.0	24.4	159.5	18.7	212.5	584.1
Segment assets	411.8	5.5	1,048.2	2.4	-	1,467.9

The geographical location of tangible and intangible fixed assets acquired during the year is as follows:

	Asia Pacific £m	Europe £m	Total £m
31 December 2008			
Tangible fixed assets (see note 15)	-	1.0	**1.0**
Intangible assets (see note 14)	-	6.9	**6.9**
31 December 2007			
Tangible fixed assets (see note 15)	0.1	5.1	5.2
Intangible assets (see note 14)	-	3.0	3.0

5. Net investment return

	2008 £m	2007 £m
Investment return by type of fund		
Funds at Lloyd's and other corporate funds	(0.4)	12.1
Syndicate funds	(70.3)	29.8
Investment expenses	(0.3)	(0.2)
	(71.0)	41.7
Net investment return is further analysed as follows:		
Funds at Lloyd's and other corporate funds		
Interest income	4.6	12.0
Dividend income	0.6	0.3
Movement in unrealised gains less losses	(5.6)	(0.2)
	(0.4)	12.1
Syndicate funds		
Interest income	15.6	18.1
Dividend income	0.3	0.5
Realised and unrealised gains and losses	(86.2)	11.2
	(70.3)	29.8
Investment expenses	(0.3)	(0.2)
	(70.6)	29.6
	(71.0)	41.7

6. Other operating income

	2008 £m	2007 £m
Managing agency fees and profit commissions	6.8	9.1
Other income (including rental income and commissions earned by overseas subsidiary)	2.4	1.2
	9.2	10.3
Analysis of managing agency fees and profit commissions		
Managing agency fees	4.6	7.4
Profit commission	2.2	1.7
	6.8	9.1
Analysis of managing agency fees and profit commissions by source of the income		
In-house syndicates (non-aligned share)	2.4	1.6
Run off syndicates	0.1	0.2
Third party syndicates	4.3	7.3
	6.8	9.1

7. Expenses incurred in insurance activities

	2008 £m	2007 £m
Gross acquisition costs	155.6	122.4
Change in gross deferred acquisition costs	(15.9)	(9.2)
	139.7	113.2
Syndicate operating expenses	29.6	22.9
Foreign exchange gains	(35.9)	(0.7)
Personal expenses	6.0	7.9
Gross operating expenses	139.4	143.3
Net contribution from quota share reinsurers	(6.8)	(10.7)
	132.6	132.6

8. Other operating expenses

	2008 £m	2007 £m
Other operating expenses includes:		
Bonus payable to directors and managers	7.4	20.6
Depreciation of owned assets	1.9	1.1
Operating leases	3.1	2.3
Auditor's remuneration		
Parent Company	0.2	0.1
Other Group companies	0.1	0.1
Syndicates	0.2	0.2
Other non-audit services to the Group	-	-

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 27 to the financial statements, other corporate undertakings creditors, reports the outstanding bonus payable.

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 551 (2007 479), comprising:

	2008 Number	2007 Number
Management	88	77
Underwriting	150	133
Claims handling	117	96
Administration	196	173
	551	479

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

	2008 £m	2007 £m
Wages and salaries	30.7	24.9
Social security costs	4.4	5.2
Profit related remuneration (excluding social security costs)	8.6	18.3
Other pension costs	2.3	2.6
	46.1	51.0
Less recharged to third party capital providers in managed syndicates	(3.5)	(5.4)
	42.6	45.6

11. Finance costs

	2008 £m	2007 £m
Interest expense	2.7	4.2
Other	1.3	0.8
	4.0	5.0

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

12. Income tax (credit)/expense

	2008 £m	2007 £m
UK corporation tax at 28.5% (2007 30%)	13.8	18.7
Adjustment in respect of prior years	1.5	(0.6)
Current tax	**15.3**	18.1
Deferred tax movement	(22.6)	3.5
Adjustment to deferred tax in respect of prior years	-	(1.1)
Adjustment to deferred tax due to change in tax rates	-	(0.2)
Total deferred tax	**(22.6)**	2.2
Income tax (credit)/expense	**(7.3)**	20.3

The tax credit for the year is lower (2007 charge is lower) than that resulting from application of the standard rate of corporation tax in the UK of 28.5% (2007 30%). The following table reconciles the tax (credit)/tax expense for the year to the (loss)/profit per the Income Statement.

	2008 £m	2007 £m
(Loss)/profit before tax	(26.2)	89.4
UK Corporation Tax at 28.5% (2007 30%)	(7.5)	26.8
Effects of:		
(Income)/expense not (taxable)/deductible for tax purposes	(2.0)	0.3
Utilisation of previously unrecognised tax losses	(0.4)	(5.0)
Unrealised loss on revaluation of investment	0.3	0.1
Other temporary differences	0.8	-
Adjustment in respect of prior years	1.5	(0.6)
Adjustments in respect of prior periods: deferred taxation	-	(1.1)
Adjustment to deferred tax due to change in tax rates	-	(0.2)
Total income tax (credit)/expense	**(7.3)**	20.3

13. (Losses)/earnings per share

	Loss £m	Number of shares Million	Loss per share Pence
Year ended 31 December 2008			
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)[1]

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

	Earnings £m	Number of shares Million	Earnings per share Pence
Year ended 31 December 2007			
Basic, based on net profit for the period	68.8	308.2	22.3
Diluted, based on net profit for the period	69.8	352.5	19.8

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

	2008 £m	2007 £m
Net (loss)/profit for the period	(19.0)	68.8
Add interest on convertible loan stock net of tax	0.1	1.0
	(18.9)	69.8

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

	2008 Million	2007 Million
Unadjusted weighted average for period	346.1	318.4
Elimination of own shares held	(28.8)	(10.2)
Adjusted basic weighted average	**317.3**	308.2
Potentially dilutive shares from convertible debt	1.8	29.6
Potentially dilutive shares from share options	7.7	9.0
Potentially dilutive shares from warrants	-	5.7
	326.8	352.5

Total potential shares outstanding for the period that were not dilutive, as vesting conditions in regards to price and vesting period have not been met yet, but could potentially dilute earnings per share in the future, were 4.1m (2007 2.8m).

14. Intangible assets

	Auction costs £m	Goodwill £m	Total £m
Cost at 1 January 2008	13.3	18.8	32.1
Additions (1)	-	6.9	6.9
Write off (2)	-	(6.9)	(6.9)
At 31 December 2008	**13.3**	**18.8**	**32.1**
Cost at 1 January 2007	12.6	18.8	31.4
Additions	0.7	2.3	3.0
Write off (2)	-	(2.3)	(2.3)
At 31 December 2007	13.3	18.8	32.1
Net book amount at 31 December 2008	**13.3**	**18.8**	**32.1**
Net book amount at 31 December 2007	13.3	18.8	32.1

The goodwill arose prior to 1 January 2007 on the acquisition of Chaucer Syndicates Limited, a managing agency, 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 agency up to 2013. The Group's long-term business forecast provides estimates of syndicate capacity from which the managing agency will earn fees.

The discount rate applied was 13.4% (2007 12.7%), 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 agency 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 2008 and 2007, 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 2011 year of account, discounted at a rate of 13.4% (2007 12.7%). The projections of syndicate cash flows represent management's 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 actions cost impairment tests.

(1) On 7 February 2008, Chaucer Holdings PLC reached the following agreements with its business partner Quanta Capital Holdings Ltd (Quanta):

PEMBROKE JV LIMITED

In February 2008, Chaucer purchased Quanta's 15% shareholding in Pembroke JV Limited (Pembroke JV) for a consideration of £1.

Pembroke Managing Agency Limited (Pembroke), the wholly owned subsidiary of Pembroke JV, was the managing agent of Lloyd's Syndicate 4000 ('the Syndicate'), in which Chaucer had open year participations of £7.3m for the 2007 year of account and £14.6m for the 2008 year of account.

Pursuant to the transaction, Chaucer agreed to cede a 4% shareholding in Pembroke JV to Pembroke's management in exchange for waiving their rights to future performance related share increases under the current shareholders' agreement. Following the transaction and a management subscription for an additional 2%, Chaucer and Pembroke's management owned 74% and 26% of Pembroke JV respectively.

Pembroke JV reported an unaudited pre-tax profit of £1.1m for the year ended 31 December 2007 and gross assets of £1.6m at 31 December 2007.

PEMBROKE 4000 LIMITED (SUBSEQUENTLY RENAMED CHAUCER CORPORATE CAPITAL (NO. 3) LIMITED)

In February 2008 Chaucer also purchased the entire issued share capital of Lloyd's corporate member, Pembroke 4000 Limited (Pembroke 4000, previously called Quanta 4000 Limited), in exchange for a consideration of £1. Chaucer also discharged, on behalf of Pembroke 4000, £0.7m of inter group debt then owed to Quanta by Pembroke 4000. Quanta also received the return of its Funds at Lloyd's.

Pembroke 4000 owns the right to Quanta's underwriting participation in the Syndicate. Under the terms of the transaction, Chaucer assumed the economic interest of Pembroke 4000's open year underwriting participations on the Syndicate, comprising £80.0m for the 2005 year of account, £82.0m for 2006, £65.7m for 2007 and £58.4m for 2008.

At 31 December 2007, the unaudited aggregate deficit on the open year participations was £10.0m, representing the actuarial best estimate of claims reserves plus prudential loadings for Pembroke 4000's participations on the 2005, 2006 and 2007 open years. The deficit excludes any credit for future investment income earned on assets that Pembroke 4000 holds to support claims reserves before settlement.

Pembroke 4000 reported an unaudited loss of £1.4m for the year ended 31 December 2007 and gross assets of £112.8m at 31 December 2007.

On completion of the transaction, Chaucer owned 100% (£73.0m) of the underwriting capacity on Syndicate 4000 for the 2008 year of account and for each prior open year of account.

FUNDS AT LLOYD'S

As a condition of the transaction, Chaucer provided £57.9m from internal resources to replace the Funds at Lloyd's previously provided by Quanta to support underwriting for open years of account on the Syndicate.

OTHER COSTS

Other costs associated with the transaction, including professional fees, incurred by Chaucer Holdings PLC were £0.1m.

NET ASSETS ACQUIRED IN PEMBROKE 4000

	Carrying value £m	Fair value adjustments £m	Fair value £m
Financial investments	43.5		43.5
Reinsurers' share of technical provisions	20.8		20.8
Debtors arising out of insurance and reinsurance operations	16.2		16.2
Cash at bank and in hand	16.6		16.6
Overseas deposits	3.5		3.5
Deferred acquisition costs, prepayments and accrued income	4.5	1.1	5.6
Total assets	**105.1**	**1.1**	**106.2**
Gross technical provisions	114.2		114.2
Creditors arising out of insurance and reinsurance operations	0.6		0.6
Other creditors	0.7		0.7
Accruals and deferred income	0.3		0.3
Total liabilities	**115.8**		**115.8**
Total net liabilities acquired	**10.7**	**(1.1)**	**9.6**
Subsequent deferred tax asset recognised by the Group			2.7
Less consideration paid			
Goodwill arising on acquisition			**6.9**

The most important factor contributing to the recognition of goodwill was the Directors' expectation to realise the significant development potential of the Pembroke business by securing the capacity of Syndicate 4000 and simplifying the ownership structure of the managing agency.

(2) On September 2008, the Group completed the sale of its shareholding in Pembroke JV Limited to Ironshore Inc (Ironshore). The cash consideration was approximately £15.3m resulting in a net gain to the Group of £14.7m before transaction costs and goodwill write off and £7.0m including both those items.

Pembroke JV owns Pembroke Managing Agency Limited (Pembroke), which is the managing agent of Lloyd's Syndicate 4000 ('the Syndicate'). As part of the transaction the Group now manages the 2008 and prior years of account. From 1 January 2009, Pembroke manages the 2009 year of account.

The Group's right to participate on the Syndicate for the 2009 and subsequent years of account passed to an Ironshore corporate member. The Group retained its participation on the Syndicate for the 2008 and prior open years of account, continuing to provide Funds at Lloyd's to support the Syndicate's underwriting.

Following the sale of Pembroke JV Limited, the Group wrote off the £6.9m goodwill generated by the acquisition of Pembroke at the beginning of the year.

15. Tangible fixed assets

	Land and buildings £m	Lease improvements £m	Furniture, office fixtures, fittings and computer equipment £m	Total £m
Cost				
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
At 1 January 2007	6.0	1.4	2.1	9.5
Additions	-	3.2	2.0	5.2
Disposals	-	(0.9)	(1.5)	(2.4)
At 31 December 2007	6.0	3.7	2.6	12.3
Accumulated depreciation				
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
At 1 January 2007	1.5	0.9	1.6	4.0
Charge for the year	0.2	0.5	0.4	1.1
Disposals	-	(1.0)	(1.5)	(2.5)
At 31 December 2007	1.7	0.4	0.5	2.6
Net book amount at 31 December 2008	4.1	2.9	1.7	8.7
Net book amount at 31 December 2007	4.3	3.3	2.1	9.7

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 £56.0m letter of credit (2007 £56.0m) provided, by the Bank as part of the Groups' Funds at Lloyds.

16. Deferred income tax

	2008 £m	2007 £m
The movement in the deferred tax asset/(liability) comprises:		
At 1 January	(6.4)	(4.6)
Adjustments in respect of prior years	-	1.1
Credited/charged in respect of revenue (see note 12)	22.6	(3.5)
Tax credited to equity in relation to pension cost deficit	2.4	0.4
Acquisition of subsidiary	2.7	-
Adjustments due to change in tax rates	-	0.2
At 31 December	21.3	(6.4)
The deferred tax asset/(liability) at 31 December comprises:		
Underwriting results	4.9	(19.3)
Other tax losses carried forward	5.9	5.9
Deferred bonus payment	8.2	6.9
Temporary differences	2.6	0.6
Capital allowances greater than depreciation	(0.3)	(0.5)
	21.3	(6.4)

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 year-end (2007 £Nil).

17. Deferred acquisition costs

	2008 £m	2007 £m
At 1 January	56.1	46.9
Acquisition costs paid in the year (see note 7)	155.6	122.4
Acquisition costs recognised in the Income Statement (see note 7)	(139.7)	(113.2)
Other adjustments	4.5	-
At 31 December	**76.5**	56.1

The 'Other adjustments' represent the deferred acquisition costs arising on the Group purchase of Pembroke 4000 (see note 14).

18. Trade and other receivables

	2008 £m	2007 £m
Debtors arising out of direct insurance operations	125.8	70.0
Debtors arising out of reinsurance operations	122.4	108.0
Cash calls	-	1.9
Other corporate undertakings debtors	4.3	1.0
Other syndicate debtors	6.6	1.6
	259.1	182.5
Current	257.0	182.3
Non-current	2.1	0.2
	259.1	182.5

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

	2008 £m	2007 £m
Balance at the beginning of year	3.0	3.1
Release for the year	(1.2)	(0.6)
Foreign exchange and other adjustments	0.5	0.5
Balance at the end of the year	**2.3**	3.0

The Group expects to recover all current balances within 12 months, and all non-current balances between 12 months and 5 years, of the balance sheet date.

19. Cash and cash equivalents

	2008 £m	2007 £m
Funds at Lloyd's	90.9	22.3
Other funds		
Corporate	39.8	91.4
Syndicate	290.1	65.3
	420.8	179.0

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

	2008 Shares Million	2008 Value £m	2007 Shares Million	2007 Value £m
Authorised				
Ordinary shares of 25p each	456.0	114.0	456.0	114.0
Called-up, allotted and fully paid				
Ordinary shares of 25p each	348.1	87.0	345.2	86.3

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 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
At 1 January 2007			312,463,997	78.1	61.3
Shares issued in respect of:					
Conversion of Convertible Unsecured Subordinated Loan Stock	05/07/07	37.5	4,297,013	1.1	0.6
	17/07/07	37.5	1,418	-	-
	14/11/07	37.5	28,119,853	7.0	3.5
Conversion of share warrants	08/06/07	92.0	1,519	-	-
	19/06/07	92.0	321,706	0.1	0.3
	09/11/07	92.0	21,738	-	-
At 31 December 2007			345,227,244	86.3	65.7

At 31 December 2008, there were no warrants (2007 9,274,942) in issue. The warrants reported at the end of 2007 (6,172,120 1993 warrants and 3,102,822 1998 warrants, with subscription prices of 92p and 124p respectively) expired in November 2008.

Subsequent to years end, both the authorised and called up, allocated and fully paid shares were increased after a firm placing and placing an open offer. For further information, see note 37 Post balance sheet events.

21. Movements in equity

	Called up share capital £m	Own shares £m	Share premium account £m	Equity element of convertible loan £m	Bonus reserve £m	Warrant reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
At 1 January 2008	86.3	(11.8)	65.7	0.1	16.0	1.9	124.0	0.4	**282.6**
Total recognised income and expenditure	-	-	-	-	-	-	(25.2)	0.1	**(25.1)**
Shares issued	0.7	-	0.3	-	-	-	-	-	**1.0**
Dividends paid or declared	-	-	-	-	-	-	(17.2)	-	**(17.2)**
Investments in own shares	-	(20.6)	-	-	0.5	-	-	-	**(20.1)**
Share option costs	-	-	-	-	0.1	-	-	-	**0.1**
Share incentive plan costs	-	-	-	-	0.4	-	-	-	**0.4**
Cost of shares and share options exercise	-	0.9	-	-	(0.8)	-	(0.4)	-	**(0.3)**
Bonus costs deferred share bonus plan	-	-	-	-	4.6	-	-	-	**4.6**
Minority interest of dividends declared in the year	-	-	-	-	-	-	-	(0.2)	**(0.2)**
Sale of subsidiary	-	-	-	-	-	-	-	(0.3)	**(0.3)**
Warrant expiration	-	-	-	-	-	(1.9)	1.9	-	**-**
Conversion of loan stock	-	-	-	(0.1)	-	-	0.1	-	**-**
At 31 December 2008	**87.0**	**(31.5)**	**66.0**	**-**	**20.8**	**-**	**83.2**	**-**	**225.5**
At 1 January 2007	78.1	(3.9)	61.3	1.2	6.5	2.0	71.3	-	216.5
Total recognised income and expenditure	-	-	-	-	-	-	67.8	0.3	68.1
Shares issued	8.2	-	4.4	-	-	(0.1)	-	-	12.5
Dividends paid or declared	-	-	-	-	-	-	(13.9)	-	(13.9)
Investments in own shares	-	(7.9)	-	-	0.2	-	-	-	(7.7)
Share option costs	-	-	-	-	0.1	-	-	-	0.1
Share incentive plan costs	-	-	-	-	0.2	-	-	-	0.2
Cost of share options exercise	-	-	-	-	-	-	(2.3)	-	(2.3)
Bonus costs deferred share bonus plan	-	-	-	-	8.5	-	-	-	8.5
Adjustments to bonus cost	-	-	-	-	0.5	-	-	-	0.5
Minority investment in subsidiary	-	-	-	-	-	-	-	0.1	0.1
Conversion of loan stock	-	-	-	(1.1)	-	-	1.1	-	-
At 31 December 2007	86.3	(11.8)	65.7	0.1	16.0	1.9	124.0	0.4	282.6

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 Group for settlement of share awards. The number of shares held by the trust schemes at the end of 2008 was 38,913,554 (2007 15,224,037).

Bonus reserve contains the element of the bonus that is payable in shares or share options to senior members of staff (see note 27) 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 share options exercise represents the sum of the market value of the granted shares when employees excercise share options, less both the exercise price and the fair value of the option previously expensed in accordance with IFRS 2.

Warrant reserves represent the proportion of proceeds, from the issue of ordinary shares with warrants attached, attributable to the warrants. The Group transfers the amount previously recognised in the warrant reserve to share premium on the exercise of the warrants. The warrants reported at the end of 2007 expired in November 2008.

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 £19.7m (2007 £11.1m) 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 Company (2008 £36.7m; 2007 £52.1m).

22. Subordinated debt

	2008 £m	2007 £m
Debt in Euros	11.3	8.6
Debt in US Dollars	33.8	24.6
	45.1	33.2

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 its interest payment date in November 2009 or on any following 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 these notes in accordance with the requirements of IAS 39 Financial instruments: disclosure and presentation at amortised cost using an effective interest rate of 6.8% (2007 8.5%) as follows:

	£m
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
Balance at 1 January 2007	7.9
Interest charges in the year	0.6
Interest paid during the year	(0.6)
Foreign exchange adjustments	0.7
Balance at 31 December 2007	8.6

As the notes are not traded on an active market, and due to current economic conditions, the fair value of the notes is difficult to determine. Based on similar instruments the fair value of the notes is estimated to be approximately £2.6m.

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

The Group reports the financial liability of these notes in accordance with the requirements of IAS 39 Financial instruments: disclosure and presentation at amortised cost using an effective interest rate of 4.7% (2007 8.0%), as follows:

	£m
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
Balance at 1 January 2007	25.0
Interest charges in the year	2.2
Interest paid during the year	(2.2)
Foreign exchange adjustments	(0.4)
Balance at 31 December 2007	24.6

As the notes are not traded on an active market, and due to current economic conditions, the fair value of the notes is difficult to determine. Based on similar instruments the fair value of the notes 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 schemes 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 the 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 2008 the Group contributed 27.6% (2007 25.7%) of the members' pensionable salaries. In 2007, the Group also contributed an additional £2.5m. In 2009, contributions will remain at 27.6% of the members' pensionable salaries, with the Group not expecting to pay any additional lump sums.

The total pension contributions in respect of the scheme for the year, including £2.4m (2007 £1.4m) in respect of defined contribution pension arrangements, were £4.3m (2007 £6.4m).

The calculations use the following actuarial assumptions:

	2008 %	2007 %
Weighted average assumptions used to determine benefit obligations		
Rate of increase in salaries	6.00	5.40
Discount rates	5.10	5.50
Weighted average assumptions used to determine net pension costs for year ended		
Rate of increase in salaries	5.40	5.00
Expected long-term return on plan assets	7.70	7.25
Discount rate	5.50	5.00

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 2008 & 2007, the mortality tables used were PA92 (YOB) adjusted by a one year downwards age rating, which meant the scheme was 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 2007):

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)

The assets in the scheme and the expected rate of return were:

	2008 %	2008 £m	2007 %	2007 £m	2006 %	2006 £m	2005 %	2005 £m	2004 %	2004 £m
Equities	7.9	25.7	8.0	36.6	7.6	30.8	6.7	27.0	7.0	20.4
Bonds	6.6	4.1	6.1	4.2	5.3	3.7	4.4	2.8	4.9	2.7
Property	6.4	3.1	7.0	4.1	6.6	3.9	6.2	0.1	6.5	0.1
Cash	2.0	-	5.5	-	5.0	0.5	4.5	2.0	4.3	1.7
Other assets	-	0.2	-	0.2	-	-	4.5	0.8	-	-
Total market value of assets		33.1		45.1		38.9		32.7		24.9
Actuarial value of liabilities		(42.5)		(47.2)		(43.7)		(40.2)		(31.7)
Scheme deficit		(9.4)		(2.1)		(4.8)		(7.5)		(6.8)

The Group bases the assumptions used in deriving the expected return on the scheme assets on market conditions at the period end. The weighted average of the expected returns for the principal asset allocation for the scheme at the end of the year was:

	2008 %	2007 %
Equities	78	81
Bonds	12	9
Property	9	9
Cash	1	1
Other	-	-
Total market value of assets	100	100

The actual return on plan assets during the year was a loss of £13.1m (2007 gain of £1.8m).

The movement during the period of the actuarial value of the assets and liabilities were as follows:

	2008 £m	2007 £m
Scheme liabilities		
Liability at beginning of year	47.2	43.7
Movement in year		
Current service cost	1.5	1.8
Interest cost	2.6	2.2
Plan participants' contributions	0.2	0.3
Benefits paid	(1.0)	(0.9)
Actuarial (gain)/loss	(8.0)	0.1
Scheme liability at end of year	42.5	47.2
Plan assets		
Fair value of plan assets at beginning of year	45.1	38.9
Movement in year		
Expected return on plan assets	3.5	3.1
Employer contribution	1.9	5.0
Plan participants' contributions	0.2	0.3
Benefits paid	(1.0)	(0.9)
Actuarial loss	(16.6)	(1.3)
Fair value of plan assets at end of year	33.1	45.1

The movement during the period of the actuarial value of the assets and liabilities were as follows:

	2008 £m	2007 £m
Fair value of plan assets	33.1	45.1
Scheme liability	(42.5)	(47.2)
Net pension scheme liability	**(9.4)**	(2.1)

There are no past service costs which have not been recognised in the balance sheet.

The amounts recognised in the income statement, split between net expenses incurred in insurance activities and other operating expenses, depending on the allocation of costs to Group syndicates or corporate entities are:

	2008 £m	2007 £m
Current service cost	1.5	1.8
Interest cost	2.6	2.2
Expected return on plan assets	(3.5)	(3.1)
	0.6	0.9

The actuarial loss recognised in the Statement Of Recognised Income and Expense for the year was:

	2008 £m	2007 £m
Actuarial gain/(loss) on scheme liabilities in the year	8.0	(0.1)
Actuarial loss in value of plan assets	(16.6)	(1.3)
Total actuarial cost	**(8.6)**	(1.4)

The cumulative actuarial losses recognised in retained earnings are £19.7m (2007 £11.1m).

The Group expects to contribute approximately £1.8m to the scheme in 2009 in respect of defined benefit members. In addition, the Group expects to pay approximately £2.1m in respect of defined contribution members.

The actuarial valuation at 31 December 2008 showed an increase in the deficit from £2.1m to £9.4m, (£4.8m to £2.1m in 2007). Based on active members as at 1 January 2008, this is equivalent to a total employer contribution rate of approximately 27.6% (40.0% at 1 January 2006) of pensionable salaries per annum. The rates will be subject to possible amendment at subsequent funding reviews.

History of actuarial gains and losses	2008	2007	2006	2005	2004
Difference between expected and actual return on scheme assets					
Amount (£m)	(16.6)	(1.3)	0.6	3.6	0.8
Percentage of scheme assets	(50)	(3)	2	11	3
Changes in assumptions in respect of scheme liabilities					
Amount (£m)	(8.0)	(0.1)	(1.2)	(5.4)	(1.6)
Percentage of scheme liabilities	19	-	3	13	5
Total losses					
Amount (£m)	(8.6)	(1.4)	(0.6)	(1.8)	(0.8)
Percentage of scheme liabilities	20	3	1	4	2

24. Technical provisions

	Provision for unearned premiums £m	Outstanding claims £m	Total £m
Gross			
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	282.4	314.4
At 31 December 2008	336.2	1,172.7	1,508.9
Gross			
At 1 January 2007	216.3	701.0	917.3
Claims paid in the year	-	(264.1)	(264.1)
Net movement in the year	33.1	290.8	323.9
Exchange and other adjustments	-	1.3	1.3
At 31 December 2007	249.4	729.0	978.4
Reinsurance			
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
At 1 January 2007	28.4	225.3	253.7
Reinsurance recoveries in the year	-	(84.4)	(84.4)
Net movement in the year	3.6	58.5	62.1
Exchange and other adjustments	-	(7.7)	(7.7)
At 31 December 2007	32.0	191.7	223.7
Net at 31 December 2008	296.3	872.9	1,169.2
Net at 31 December 2007	217.4	537.3	754.7
Current: 2008	255.9	266.5	522.4
Non-current: 2008	40.4	606.4	646.8
Current: 2007	200.4	202.4	402.8
Non-current: 2007	17.0	334.9	351.9
Movement in the year: gross	57.8	158.3	216.1
Movement in the year: reinsurance	1.8	46.4	48.2
Net movement to 31 December 2008	56.0	111.9	167.9
Net movement to 31 December 2007	29.5	52.6	82.1

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

	2008 £m	2007 £m
Balance at the beginning of year	3.8	5.7
Charge/(release) for the year	0.5	(2.6)
Foreign exchange and other adjustments	1.4	0.7
Balance at the end of the year	5.7	3.8

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

The balance of gross outstanding claims above comprises of outstanding claims £675.9m (2007 £427.8m) and claims incurred but not reported of £496.8m (2007 £301.2m).

During the year, movements in the reserves in respect of prior periods amounted to a release of £74.1m (2007 £45.8m). The release in the year includes £10.3m associated with variations in rates of exchange during the year.

2008 EVENTS

Included within technical provisions are reserves for 2008 Hurricane Ike, Sub-prime losses, the fraud perpetrated by Madoff and other losses associated with the financial turmoil crisis in 2008.

The financial turmoil reserves are deemed to cover many losses, including general economic downturn, the Lehman Brothers collapse and the Icelandic banking crisis. It also includes an allowance for the knock-on recessionary impact of the credit crunch and the increased claims notification activity that the Group has seen on 2008 compared to previous years.

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

	Syndicate 1084 £m	Syndicate 4000 £m	2008 Total £m
Estimated ultimate gross loss			
Hurricane Ike	65.2	-	65.2
Madoff	6.5	29.3	35.8
Sub-prime	8.6	40.9	49.5
Financial turmoil	4.5	18.9	23.4
	84.8	89.1	173.9
Estimated ultimate net loss (after reinstatement premiums and reinsurance)			
Hurricane Ike	45.8	-	45.8
Madoff	4.2	10.0	14.2
Sub-prime	5.0	23.3	28.3
Financial turmoil	4.0	16.9	20.9
	59.0	50.2	109.2
Group share of estimated ultimate net loss (after reinstatement premiums and reinsurance)			
Hurricane Ike	43.3	-	43.3
Madoff	4.0	10.0	14.0
Sub-prime	4.7	23.3	28.0
Financial turmoil	3.8	16.9	20.7
	55.8	50.2	106.0

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

HURRICANE IKE

Syndicate 1084's Marine Division has exposure through its excess of loss account by way of reinsurance acceptances of other insurers' exposures and its Energy Division has exposure to offshore oil rigs and platforms. In addition to known case ultimate losses, the Group has referred to the following data in arriving at its estimated marine exposures:

- For the excess of loss account: realistic disaster scenario information extracted from cedant questionnaires and aggregate recording schedules.
- For the offshore energy account: listings of damaged rigs and output from local regulatory bodies; maps of the platforms and mobile rigs in the path of the hurricanes and reports from purpose-built exposure recording software.

Syndicate 1084's Property Division has exposures through its US direct and facultative accounts (including binding authorities) and its property treaty account. In addition to known case ultimate losses, the Group has referred to the following data in arriving at its estimated property exposures:

- A list of all US zip codes within the footprints of the hurricanes downloaded from the Risk Management Solutions website taking damage factors assigned for physical damage and business interruption.

The key uncertainties, which the Group faces, stem from increases to losses on previously reported risks (especially if previously reported to be below attachment levels) and new loss advices.

The Group's reinsurance policies protecting the 2008 hurricane losses are predominantly with reinsurers rated A (strong) or better by Standard & Poor's, as analysed below:

Ratings bands (as at 28 January 2009)	%
Lloyd's syndicates (A+)	12.4
AA	13.9
A (excluding Lloyd's syndicates)	73.7
Total	100.0

Limited reinsurance cover remains in respect of potential additional exposures arising from these catastrophes depending upon class of business written and from which event.

SUB-PRIME, MADOFF AND FINANCIAL TURMOIL

Syndicate 4000 and, to a lesser extent, Syndicate 1084, have significant exposure to financial institutions business, and in particular to potential claims arising from recent dislocations in the financial markets and from the alleged fraud relating to Bernard L Madoff Investment Securities LLC.

For the 2007 and prior years of account, the Group has referred to the following information in arriving at its estimated exposures on notified claims:

- Current case reserves
- Levels of coverage offered and extent of loss
- Expert view on ultimate likelihood of success of each claim
- An allowance for further claims on 'unexpired' cover

For the 2008 year of account, the Group has made additional allowances over and above 'normal' reserves in the following areas:

1. Potential Madoff-related claims, where the Group has analysed:
   - Publicly available information on those entities believed to have lost money, in conjunction with a full portfolio review and expert view on the likelihood of success of each potential claim given current information (a 'bottom-up' approach).
   - The Group's share of total insured losses (a 'top-down' approach)
2. More general claims expected to arise from market dislocation and financial turmoil, where the Group has:
   - Reviewed claim number activity
   - Sought expert views of the likely impact of financial turmoil on the balance of the book
   - Sought expert views on claims arising from the collapse of Lehman Brothers and Icelandic banks

The reinsurance policies protecting the Madoff, financial turmoil and sub-prime losses of Syndicates 1084 and 4000 are with reinsurers rated A (strong) or better by Standard & Poor's, as analysed below:

Ratings bands (as at 28 January 2009)	%
Syndicate 1084	
Lloyd's syndicates (A+)	10.0
AA	83.0
A (excluding Lloyd's syndicates)	7.0
	100.0
Syndicate 4000	
Lloyd's syndicates (A+)	16.3
AA	44.0
A (excluding Lloyd's syndicates)	39.7
	100.0

25. Convertible loan stock

On 14 August 2002, the Group issued 20,007,569 units of 8.5% convertible unsecured subordinated loan stock 2008 at 100p per unit. The loan stock was convertible into ordinary shares at the rate of 266.666 (recurring) ordinary shares for every 100 stock units. During 2008, stockholders converted the remaining 2.8m units into ordinary shares, generating an increase of share capital of £0.7m and share premium of £0.3m.

26. Current tax liability

	2008 £m	2007 £m
Potential US liability	0.2	0.2
UK tax liability	4.6	9.4
	4.8	9.6
The movement of the UK tax liability was as follows:		
At 1 January	9.4	6.3
Prior year adjustments	1.5	(0.6)
Tax payments on account	(19.9)	(15.0)
Tax charge for the year (see note 12)	13.8	18.7
Disposal of subsidiary	(0.2)	-
	4.6	9.4

27. Trade and other payables

	2008 £m	2007 £m
Creditors arising out of direct insurance operations	41.8	40.1
Creditors arising out of reinsurance operations	86.6	68.7
Other corporate undertakings creditors	19.1	24.0
Other syndicate creditors	6.5	6.3
At 31 December	154.0	139.1
Current	143.7	126.6
Non-current	10.3	12.5
	154.0	139.1

The Group expects to pay all current balances within 12 months and non-current payables within 5 years of the balance sheet date.

Other corporate undertakings creditors include £12.2m in respect of performance bonuses payable to directors and certain group employees (2007 £16.8m).

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 2 instalments, 4 months and 13 months after the end of the year that generated the bonus.

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 starts 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, 3 years after grant. The amortisation charge starts 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 in the Income Statement of the bonuses declared, is as follows:

	Year of recognition in Income Statement						
	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £m
Bonus declared for 2006	14.5	7.0	5.7	4.2	0.7	-	32.1
Bonus declared for 2007	-	13.6	4.3	4.3	3.2	1.1	26.5
Bonus declared for 2008	-	-	-	-	-	-	-
Accounting adjustment to bonus declared in 2006 and 2007	-	-	(2.8)	(2.0)	(1.2)	(0.3)	(6.3)
	14.5	20.6	7.2	6.5	2.7	0.8	52.3

The Directors decided not to declare any bonus during 2008. The bonus costs recognised in the year represent the accounting amortisation of bonuses declared in previous years.

During 2008, the Directors revisited the assumptions behind the calculation of the cost of matching bonus shares declared in 2007 and 2006 (2007 revisited 2006 assumptions). This led to an accounting reduction of the cost of £2.8m (2007 increase of £2.9m). The Group will recognise similar adjustments each year to reflect the changing assumptions behind the calculations of matching shares. See note 32 for details about matching shares.

In accordance with IFRS 2 Share-based payment, the Group recognised the costs in 2007 and 2008 as follows:

	Other creditors £m	Bonus reserve £m	Total cost recognised £m
Bonus recognised in 2008	2.6	4.6	7.2
Bonus recognised in 2007	12.1	8.5	20.6

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 has been settled in shares. The cash element includes the social security costs associated with the share element within bonus.

Other corporate undertakings creditors include £3.0m (2007 £3.5m) 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 a liability that the Group is expects to settle in future years when profits on the taxation of the relevant years of account.

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.

28. Net asset value per ordinary share

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

	2008	2007
Equity funds	£225.5m	£282.2m
Number of adjusted shares	309.2m	330.0m
Net asset value per ordinary share	72.9p	85.5p
Equity funds less intangible assets	£193.4m	£250.1m
Number of adjusted shares	309.2m	330.0m
Net tangible asset value per ordinary share	62.5p	75.8p
Number of shares in issue	348.1m	345.2m
Less own shares held	(38.9)m	(15.2)m
Number of adjusted shares	309.2m	330.0m

29. Reconciliation of (loss)/profit on ordinary activities before tax to net cash inflow from operating activities

	2008 £m	2007 £m
(Loss)/profit before taxation	(26.2)	89.4
Net investment return less finance costs	75.0	(36.7)
Depreciation of tangible fixed assets	1.9	1.0
Increase/(decrease) of technical provisions	415.9	61.1
(Decrease)/increase of reinsurers' share of technical provisions	(95.2)	30.0
Increase in other debtors	(60.4)	(6.6)
Increase/(decrease) in other creditors	13.5	(3.5)
(Decrease)/increase in accruals	(3.6)	2.2
Increase in deferred acquisition costs	(14.8)	(9.2)
Decrease in prepayments	2.5	4.1
(Decrease)/increase in other provisions	-	(1.5)
Decrease in employee benefits provision	(1.3)	(4.1)
Foreign exchange adjustment	12.0	8.1
Foreign exchange in subordinated debt	11.9	0.3
Increase in bonus provisions: charge to Income Statement	4.8	9.5
Sale of subsidiary	(14.7)	-
Goodwill written off	6.9	-
Executive option exercise	-	(2.3)
Net cash inflow from operating activities	328.2	141.8

30. Dividends paid or declared

	2008 £m	2007 £m
Final dividend paid or declared for the year ended		
31 December 2007: 3.5p per ordinary share, paid on 27 June 2008	11.6	-
31 December 2006: 2.9p per ordinary share, paid on 4 July 2007	-	9.1
Interim dividend paid or declared for the year ended		
31 December 2008: 1.8p per ordinary share, paid on 1 October 2008	5.7	-
31 December 2007: 1.5p per ordinary share, paid on 12 October 2007	-	4.8
	17.3	13.9

In January 2009, the Group announced a second interim dividend in respect of the 2008 financial year of 3.7p per share, amounting to a total of £11.8m. These financial statements do not recognise the second interim dividend for 2008. The Directors do not recommend the payment of a final dividend for the 2008 financial year (2007 3.5p per share amounting to £11.6m).

The total dividends in respect of the 2008 financial year, including the first and second interim dividends declared are 5.5p per share (2007 5.0p).

31. Share options

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

	2008 Weighted average exercise price Pence per share	2008 Options Thousands	2007 Weighted average exercise price Pence per share	2007 Options Thousands
Outstanding at 1 January	49.3	7,567	43.8	10,095
Options granted	49.0	3,163	79.0	856
Options exercised	42.4	(874)	39.9	(3,160)
Forfeited	70.7	(1,079)	39.3	(139)
Expired	51.0	(246)	50.3	(85)
Outstanding at 31 December	47.2	8,531	49.3	7,567
Exercisable at 31 December	45.7	4,455	46.0	4.726

The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 3.7 years (2007 4.1 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 options granted during the year, are as follows:

	2008	2007
Weighted average share price	58.0p	105.5p
Weighted average exercise price	49.0p	79.0p
Volatility	42.96%	33.48%
Weighted average expected life	4.0 years	4.0 years
Risk free rate	4.68%	4.84%
Dividend yield	9.14%	4.17%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years on a weighted average basis. The expected life used in the 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 £0.1m (2007 £0.1m) relating to options granted.

All existing 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.

Share options outstanding at 31 December 2008 have the following expiry dates and exercise prices.

	Date of grant	Exercise price Pence	Exercise period	2008	2007
Chaucer Holdings PLC Approved Savings	10-02	27.2	11/07-05/08	-	60,868
Related Share Option Scheme	10-02	27.2	11/09-05/10	88,748	88,748
	10-03	33.0	11/08-05/09	93,178	198,842
	10-03	33.0	11/10-05/11	25,416	25,416
	10-04	36.6	11/07-05/08	-	52,810
	10-04	36.6	11/09-05/10	218,526	218,526
	10-05	43.8	11/08-05/09	198,261	696,563
	10-05	43.8	11/10-05/11	181,576	215,391
	10-06	57.7	11/09-05/10	231,560	340,105
	10-06	57.7	11/11-05/12	145,293	223,613
	10-07	79.0	11/10-05/11	43,254	390,030
	10-07	79.0	11/12-05/13	21,688	443,411
	10-08	49.0	11/11-05/12	1,582,699	-
	10-08	49.0	11/13-05/14	1,536,855	-
				4,367,054	2,954,323
Chaucer Holdings PLC Share Option Scheme	07-00	58.0	07/03-07/10	105,000	125,000
(Performance-related)	09-00	64.5	09/03-09/10	120,000	150,000
	05-01	64.5	05/04-05/11	512,500	563,000
	10-02	34.0	10/05-10/12	1,221,467	1,294,467
	10-03	44.7	10/06-10/13	170,294	178,882
	10-04	41.7	10/07-10/14	923,299	969,959
				3,052,560	3,281,308
Chaucer Holdings PLC Approved Share Option Scheme	05-01	64.5	05/04-05/11	472,500	564,000
(Performance-related)	10-01	52.5	10/04-10/11	65,000	65,000
	10-02	34.0	10/05-10/12	87,000	165,700
	05-03	33.7	05/06-05/13	50,000	50,000
	10-03	44.7	10/06-10/13	194,697	194,697
	10-04	41.7	10/07-10/14	241,713	291,713
				1,110,910	1,331,110
				8,530,524	7,566,741

The number of share options that were exercisable at the end of the year was 4,454,909 (2007 4,726,096).

32. 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 £4.6m (2007 £8.5m).

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 total shareholder return to the growth in an index of comparator companies; and
- Up to one matching share on satisfaction of non-market condition tests, which compare 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 2008. Costs associated with matching shares have also been amortised over the same period. Each individual Group company that contributes to the consolidated profit for the year recognises its share of the cost of the shares awarded.

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 2008 £m	Cost recognised in 2007 £m
Shares granted in 2008	-	-	-
Shares granted in 2007			
Attracting matching shares	3.1	0.5	1.4
Not attracting matching shares	7.1	1.6	1.6
Matching shares: market conditions	0.8	0.2	0.2
Matching shares: non-market conditions	2.1	0.5	0.5
Adjustment to 2007 declared bonus[1]	(3.0)	(1.5)	-
	10.1	1.3	3.7
Shares granted in 2006			
Attracting matching shares	1.9	0.4	0.4
Not attracting matching shares	11.2	2.7	2.8
Matching shares: market conditions	0.6	0.1	0.1
Matching shares: non-market conditions	2.6	0.6	1.2
2005 matching shares: market conditions	0.4	0.1	-
2005 matching shares: non-market conditions	0.5	0.1	0.3
Adjustment to 2007 declared bonus[1]	(2.3)	(0.7)	-
	14.9	3.3	4.8
	25.0	4.6	8.5

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

33. 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 Financial Service Authority's Individual Capital Assessment (ICA) regulatory regime.

Each managed syndicate is required to produce an ICA that represents the managing agency'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 agency 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 use these 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 Funds at Lloyd's to cover both the ECA and any share of solvency deficits on open years of account, and the Group's corporate members complied with these requirements throughout the year.

The Group currently underwrites at Lloyd's for the 2009 year of account at an ECA of 57.9% (2008 year of account 47.3%) whereby it must deposit Funds at Lloyd's to this proportion of the Group's Overall Premium Limit (OPL) for that year. Solvency requirements have increased primarily because of the additional reserving risk assumed following the purchase of Quanta's capacity on Syndicate 4000, in February 2008. The Syndicate, which writes predominantly US-based casualty business, had an ECA of 82.7% for 2008.

The table below shows the Group's OPL for the 2009 and 2008 years of account and the composition of assets deposited to meet the associated FAL requirements, including the estimate for 2009 based on the updated plan.

		Year of account	
	2009 estimate[1] £m	2009 £m	2008 £m
Group underwriting interests	546.1	484.4	519.8
Quota share	-	-	25.0
Overall premium limit	**546.1**	**484.4**	544.8
FAL ratio (average)	53.6%	57.9%	47.3%
FAL requirement	292.7	280.5	257.7
Funding of open year of account losses	114.7	58.6	38.4
Total FAL requirement	**407.4**	**339.1**	296.1
FAL requirement satisfied by:			
Investments	172.8	172.8	118.8
Personal reserves	158.1	90.9	80.2
Letters of credit			
Group economic interest	56.0	56.0	56.0
Capital provision quota share reinsurer	15.6	15.6	15.6
Credits from Lloyd's for undistributed profits	4.9	4.9	27.5
	407.4	340.2[2]	298.1[2]

1 This represents the Group's current estimate of the requirements to support the revised underwriting interests, following fundraising of £75.0m approved by shareholders on 13 February 2009

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

Subsequent to the initial provision of capital, as detailed above, the Group reached an agreement with Lloyd's in regards to the use of funds held by the Group at Lloyd's to support the run-off of the Group's liabilities in Syndicate 4000. As a result, the FAL requirement reduced to £266.8m. Lloyd's will release the excess of £14.8m over the set requirement to the Group in June 2009, subject to the impact on capital requirements of changes in underwriting plans and movements in rates of exchange.

34. 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 as detailed above. 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 Funds at Lloyd's than that corporate member's assets represent as a proportion of the Group's overall premium limit.

There is no mechanism for the Group to quantify its exposure in this regard and the Directors consider that the possibility of having this appropriation is remote.

Where the Group reduces its participation on a syndicate, it pays a reinsurance to close premium to other Lloyd's Names 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 Names 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.

35. Commitments

OPERATING LEASES

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

	2008 Land and buildings £m	2007 Land and buildings £m
Not later than one year	3.2	2.6
Later than one year and not later than five years	11.8	11.6
Later than five years	6.9	9.7
Total future minimum lease payments	**21.9**	23.9

The Group occupied premises in Devonshire Square until June 2007, when it moved to premises in Plantation Place, Fenchurch Street, London EC3. 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.

In 2008, the Group sublet a portion of the Plantation Place premises, for which it expects to receive the following future income:

	2008 Land and buildings £m	2007 Land and buildings £m
Not later than one year	0.8	-
Later than one year and not later than five years	2.3	-
Later than five years	-	-
Total future minimum lease receipts	**3.1**	-

36. Related party transactions

The remuneration of the key management personnel of the Group, including all the Directors of the Parent Company, 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 Company. The table below shows benefits payable on an accruals basis with the granting of shares to Directors happening early the following year.

	2008 £000	2007 £000
Short term employment benefits	1,087	1,486
Post-employment benefits	96	124
Other long-term benefits	-	140
Shared based payment	18	2,539
Total compensation to 31 December	**1,201**	4,289

The only other related party transaction completed by the Group during the year with a Director of the Parent Company was with Mr Martin J Gilbert, a director of Aberdeen Asset Managers Limited (Aberdeen). The Group receives a rebate from Aberdeen, to the extent that any investment management fees in Aberdeen unit trusts in which the Group invests exceed 0.6%. Rebates received in 2008 amounted to £0.1m (2007 £0.1m). Fees paid to Aberdeen during the year were £0.2m (2007 £0.2m).

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

	Syndicate 1084 £m	Syndicate 1176 £m	Syndicate 1274 £m	Syndicate 4000* £m	Syndicate 4242 £m	Syndicate 1301 £m
31 December 2008						
Managing agent's fees	11.1	1.0	1.6	2.3	1.0	1.5
Profit commission	-	3.0	-	0.1	0.9	-
Expense recharge	35.4	-	0.4	3.0	0.1	3.8
Balance owed to Chaucer Syndicates Limited	2.0	-	-	-	-	0.2
31 December 2007						
Managing agent's fees	12.1	1.0	1.0	1.6	0.8	0.8
Profit commission	9.2	2.6	-	-	-	0.3
Expense recharge	21.2	-	-	2.3	0.1	3.3
Balance owed to Chaucer Syndicates Limited	2.0	-	-	-	-	0.2

Pembroke was part of the Group until it was sold in July 2008 and the table above includes only the managing agency fee paid by Syndicate 4000 up to that date. Syndicate 4000's managing agent's fees above also include £0.6m in 2008 (£0.6m 2007) paid to CSL for certain services Pembroke subcontracted to CSL.

As explained in note 14, the Group sold its shareholding in Pembroke JV Limited (parent company of Pembroke) to Ironshore Inc. Mr Robert Deutsch, CEO of Ironshore, was a non-executive director of the Group until 31 December 2008. Mr Deutsch took no part in the Group deliberations relating to the sale of Pembroke to Ironshore.

37. Post balance sheet events

On 28 January 2009 the Group announced a firm placing and placing and open offer to raise £75m (net of expenses), subject to approval at a General Meeting to be held on 13 February 2009. The General Meeting approved the increase in the authorised share capital to £175.0m from £114.0m and the planned share issue. The firm placing of 17,251,680 new ordinary shares and the open offer of up to 182,748,320 new ordinary shares is now 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.

Capacity under management

		2009[1] £m	2008 £m	2007 £m	2006 £m	2005 £m
In-house syndicates						
1084	Composite	545.0	445.0	485.0	450.0	400.2
1176	Nuclear	31.5	27.5	27.5	22.4	18.1
		576.5	472.5	512.5	472.4	418.3
Third party syndicates						
1274	Composite	135.4	135.4	-	-	-
1301	Non-marine	75.0	75.0	72.0	65.0	55.0
3210[2]	Non-marine	-	-	-	300.0	300.0
4000[2]	Specialist lines	-	73.0	73.0	82.0	80.0
4242	US property catastrophe	83.6	83.6	83.6	-	-
		294.0	367.0	228.6	447.0	435.0
Total capacity under management		870.5	839.5	741.1	919.4	853.3
Chaucer economic interests (see table below)		(546.1)	(519.8)	(546.6)	(509.4)	(452.0)
Capacity managed for third parties		324.4	319.7	194.5	410.0	401.3

Economic interests in underwriting capacity

	2009[1] £m	2008 £m	2007 £m	2006 £m	2005 £m
In-house syndicates					
1084	517.4	445.0	485.0	450.0	392.3
1176	17.4	15.5	14.9	12.1	9.7
	534.8	460.5	499.9	462.1	402.0
Participations by quota share reinsurer	-	(25.0)	(37.6)	(34.7)	(30.0)
	534.8	435.5	462.3	427.4	372.0
Third party syndicates					
4000[3]	-	73.0	73.0	82.0	80.0
4242	11.3	11.3	11.3	-	-
Total economic interests	546.1	519.8	546.6	509.4	452.0

1 This assumes an increase in the capacity of Syndicate 1084 to £545.0m following the fund raising of £75.0m approved by shareholders on 13 February 2009
2 Mitsui Sumitomo now manages Syndicate 3210; Pembroke now manages Syndicate 4000 for the 2009 and subsequent years of account
3 After the acquisition of Quanta 4000 Ltd from Quanta Capital Holdings Ltd in February 2008, the Group now has 100% of the economic interest in Syndicate 4000 for the 2008 and prior years of account. Before the acquisition, the Group participated on the 2007 (£7.3m) and 2008 (£14.6m) years of account only

In addition, the Group has an indirect underwriting interest through a £17.0m investment in Antares Holdings Limited, which provides capital to Antares Syndicate 1274.

Contents

As at 31 December 2008 - Prepared in accordance with UK GAAP

Statement of Directors' Responsibilities in Relation to Chaucer Holdings PLC's Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for ensuring the annual report includes information required by the Listing Rules of the Financial Services Authority.

Approved by the Board of Directors on 8 April 2009 and signed on its behalf by

David Turner
Company Secretary

We have audited the parent company financial statements of Chaucer Holdings PLC for the year ended 31 December 2008, which comprise the Balance Sheet, and the related notes 1 to 22. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors’ Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Chaucer Holdings PLC for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the Annual Report, the Directors’ Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors’ Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information in the Directors’ Report is consistent with the financial statements. The information given in the Directors’ Report includes that specific information presented in the Joint Chairman’s and Chief Executive’s Statement, the Underwriting Outlook and Divisional Performance and Financial Report that is cross-referred from the review of the business and future developments section of the Directors’ Report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Joint Chairman’s and Chief Executive’s Statement, the Underwriting Outlook and Divisional Performance, Financial Report, the Directors’ Report, the Corporate Governance Report, the non audited section of the Directors’ Remuneration Report, and the sections of the Annual Report denominated Forward Thinking, Underwriting Outlook, Divisional Performance, Business Statistics, Our People, Corporate Social Responsibility, Financial Report, Investor Relations, Board of Directors, Audit Committee Report and Statement of Directors’ Responsibilities in relation to the Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors’ Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors’ Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors’ Remuneration Report to be audited.

Opinion

In our opinion:

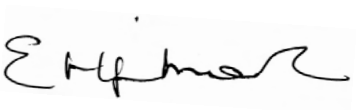
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors’ Report is consistent with the parent company financial statements

Ernst & Young LLP
Registered auditor
London, 8 April 2009

Balance Sheet at 31 December 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Tangible fixed assets	8	4.1	4.3
Investments in subsidiary undertakings	9	39.4	39.7
Financial assets	10	189.8	135.8
		233.3	179.8
Current assets			
Debtors: amounts falling due within one year	11	48.7	72.4
Debtors: amounts falling due after more than one year	11	2.3	2.1
Cash at bank and in hand	12	103.2	75.9
		154.2	150.4
Creditors: amounts falling due within one year	13	(160.5)	(82.7)
Net current (liabilities)/assets		(6.3)	67.7
Total assets less current liabilities		227.0	247.5
Creditors: amounts falling due after more than one year			
Other creditors	13	(2.9)	(2.9)
Convertible loan stock	14	-	(1.1)
Subordinated debt	15	(45.1)	(33.2)
Net assets		179.0	210.3
Capital and reserves			
Called up share capital	19	87.0	86.3
Own shares	20	(31.5)	(11.8)
Share premium account	20	66.0	65.7
Equity element of convertible loan	20	-	0.1
Bonus reserve	20	20.8	16.0
Warrant reserve	20	-	1.9
Profit and loss account	20	36.7	52.1
Total equity shareholders' funds	20	179.0	210.3

The financial statements were approved by the Board of Directors on 8 April 2009 and signed on its behalf by



E H Gilmour
Chief Executive

1. Accounting policies

BASIS OF ACCOUNTING

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with applicable United Kingdom law and accounting standards. The balance sheet has been prepared in accordance with Schedule 4 of the Companies Act 1985. No profit or loss account is presented for the Company as permitted by Section 230 of the Companies Act. The profit dealt with in the accounts of the parent company was £0.2m (2007 £52.3m). The Company has taken advantage of the exemption available under FRS 1 (revised) and not prepared a cash flow statement. The Company has taken advantage of the exemption available under FRS 29 Financial instruments: Disclosure and presentation to not disclose certain information on the Company's financial instruments as this information is incorporated within the Group accounts that include the relevant disclosures.

FINANCIAL ASSETS

All investments (excluding investments in subsidiary undertakings) are classified as fair value through profit and loss and are measured at fair value. Fair value is determined using published bid price quotations of each security. 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.

Management considers 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, which is consistent with the adoption of fair value through profit and loss.

All purchases and sales of investments are accounted for at trade date. Investments are initially recognised at fair value and derecognised when they have been sold. Realised and unrealised gains and losses arising from the change in fair value are included in the profit and loss account in the period in which they arise.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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 profit and loss account.

OTHER INCOME

Other income comprises rental income and management rebate fees receivable from investment managers. Income is booked when the Company's right to receive payment is established.

INVESTMENT INCOME

Investment income comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management fees. The Company recognises dividend income on establishment of the shareholders' right to receive the payment. Investment income comprises interest receivable, which is valued using the effective interest method.

EXPENSES

Expenses, including administrative expenses and interest charges, are accounted for on an accruals basis and charged to the profit and loss account as incurred except as follows:

- Expenses that are incidental to the acquisition of an investment are included within the cost of investments
- Expenses that are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment

TAXATION

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

The tax currently payable is based on taxable income for the year. Taxable profits differs from net profit as reported in the profit and loss account 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 Company's liability for current tax is calculated using tax rates applicable at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on un-remitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

DIVIDENDS

Dividends are recognised as a liability and deducted from equity when they are approved by the Company'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 disclosed in the notes to the financial statements.

TANGIBLE FIXED ASSETS AND DEPRECIATION

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

Buildings	25 years	Straight line

Foreign currency translation

The functional currency used in the financial statements is sterling, being the currency of the primary economic environment of the Company. The financial statements are presented in sterling being the presentation currency for the Company.

Monetary items are translated at period end rates, any exchange differences arising from the change in rates of exchange are recognised in the profit and loss account.

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 are recorded in sterling at monthly average rates prevailing at the time of the transaction.

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

	2008	2007
US Dollars	1.44	1.99
Canadian Dollars	1.77	1.96
Euros	1.03	1.36

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 profit and loss account.

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

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 profit and loss account 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

The Company recognises provisions when it has a present legal or constructive obligation because 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 Company, 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: SHARES

The Company grants shares to its subsidiaries' employees under a number of shares 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 profit and loss account.

EMPLOYEE BENEFITS: SHARE OPTIONS

The Company grants share options to its subsidiaries' 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 Company's estimate of shares that will eventually vest.

FRS 20 Share-based payment does not require 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 profit and loss account reflect only the share grants made after 7 November 2002 that had not vested before 1 January 2005.

At each balance sheet date, the Company revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, 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 the share capital (nominal value) and share premium, if shares are issued, or to investments in own shares, if shares are purchased, when the options are exercised. If shares are purchased in the market to settle the options then any difference between the exercise price, the fair value of the options, and the cost of the shares issued, is taken to retained earnings.

SUBORDINATED DEBT

The long-term loan is recognised initially at fair value, net of transaction costs incurred. The loan is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

2. Administrative expenses

	2008 £m	2007 £m
Depreciation of owned assets	0.2	0.1
Fees payable to Company auditor for the audit of the Company's annual accounts	0.2	0.1

3. Net investment return

	2008 £m	2007 £m
Funds at Lloyd's and other corporate funds		
Investment income	3.6	10.4
Movement in unrealised gains less losses	(5.6)	0.5
	(2.0)	10.9

4. Directors' remuneration

The Directors' Remuneration Report provides details of directors' remuneration, pensions, interests in shares and share options for the year.

5. Staff costs

There were no staff costs incurred by the Company during the year ended 31 December 2008 (2007 £Nil). The Company has no employees.

6. Taxation

	2008 £m	2007 £m
UK Corporation tax at 28.5% (2007 30%)	-	0.6
Current tax	-	0.6

	2008 £m	2007 £m
Profit on ordinary activities before tax	0.2	54.3
UK Corporation Tax at 28.5% (2007 30%)	0.1	16.3
Effects of:		
Expenses not allowable for tax purposes	0.4	0.1
Income not taxable for tax purposes	(4.5)	(15.8)
Group relief provided for no consideration	4.0	-
Current tax charge for the year	-	0.6

The Group, headed by Chaucer Holdings PLC, has had significant tax losses available to offset taxation on profit generated by different companies across the Group. The amount of available losses at the end of each reporting period, combined with the taxable profit generated by the Group entities, might affect the Company's future tax position, through group relief operations.

7. Dividends paid or declared

	2008 £m	2007 £m
Final dividend paid or declared for the year ended		
31 December 2007: 3.5p per ordinary share, paid on 27 June 2008	11.6	-
31 December 2006: 2.9p per ordinary share, paid on 4 July 2007	-	9.1
Interim dividend paid or declared for the year ended		
31 December 2008: 1.8p per ordinary share, paid on 1 October 2008	5.7	-
31 December 2007: 1.5p per ordinary share, paid on 12 October 2007	-	4.8
	17.3	13.9

The Company has announced a second interim dividend in respect of the 2008 financial year of 3.7p per share amounting to a total of £11.8m. These financial statements do not recognise the second interim dividend for 2008. The Directors do not recommend the payment of a final dividend for the 2008 financial year (2007 3.5p per share amounting to £11.6m).

The total dividends in respect of the 2008 financial year, including the first and second interim dividends declared are 5.5p per share (2007 5.0p).

8. Tangible fixed assets

	Land and buildings £m
Cost	
At 1 January and 31 December 2008	5.9
Accumulated depreciation	
At 1 January 2008	(1.6)
Charge	(0.2)
At 31 December 2008	(1.8)
Net book amount at 31 December 2008	4.1
Net book amount at 31 December 2007	4.3

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 £56.0m letter of credit (2007 £56.0m) provided by the Bank as part of the Group's Funds at Lloyd's.

9. Investments in subsidiary undertakings

	2008 £m	2007 £m
At 1 January	39.7	37.2
Additions	-	2.5
Disposals	(0.3)	-
At 31 December	39.4	39.7

The following were the main subsidiary undertakings at 31 December 2008 (unless otherwise stated):

Company	Activity	Class of share held	Proportion of shares and voting rights held (%)
Aberdeen Underwriting Advisers Limited	Dormant subsidiary	Ordinary	100
ALIT Insurance Holdings Limited	Holding company[1]	Ordinary	100
ALIT Underwriting Limited	Holding company	Ordinary	100
ALIT (No. 1) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 2) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 3) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 4) Limited	Corporate member of Lloyd's	Ordinary	100
ALIT (No. 5) Limited	Corporate member of Lloyd's	Ordinary	100
CH 1997 Limited	Holding company	Ordinary	100
Chaucer Consortium Underwriting Limited	Insurance intermediary	Ordinary	100
Chaucer Corporate Capital Limited	Corporate member of Lloyd's[1]	Ordinary	100
Chaucer Dedicated Limited	Corporate member of Lloyd's	Ordinary	100
Chaucer Freeholds Limited	Property company[1]	Ordinary	100
Chaucer GmbH	Service company	Ordinary	90
Chaucer Insurance Services Limited	Insurance intermediary	Ordinary	100
Chaucer Singapore PTE Limited	Service company	Ordinary	100
Chaucer Syndicates Limited	Lloyd's managing agent	Ordinary	100
Chaucer Syndicate Services Limited	Dormant subsidiary	Ordinary	100
Chaucer Underwriting A/S	Service company	Ordinary	100
Hayward Brick Stuchbery Holdings Limited	Holding company[1]	Ordinary	100
Insurance4Cargo Services Limited	Service company	Ordinary	100
Chaucer Corporate Capital (No.2) Limited	Corporate member of Lloyd's[1]	Ordinary	100
Chaucer Corporate Capital (No.3) Limited	Corporate member of Lloyd's[2]	Ordinary	100

All subsidiary companies are registered in England and Wales except for Chaucer GmbH, Chaucer Underwriting A/S and Chaucer Singapore PTE, which are registered in Germany, Denmark and Singapore respectively.

1 These companies are direct holdings of the main parent company. All the other entities are indirect subsidiaries.

2 On 7 February 2008 Chaucer Holdings PLC reached the following agreements with its business partner Quanta Capital Holdings Ltd (Quanta):

PEMBROKE JV LIMITED

Chaucer purchased Quanta's 15% shareholding in Pembroke JV Limited (Pembroke JV) for a consideration of £1.

Pembroke Managing Agency Limited (Pembroke), the wholly owned subsidiary of Pembroke JV, is the managing agent of Lloyd's Syndicate 4000 ('the Syndicate'), in which Chaucer had open year participations of £7.3m for the 2007 year of account and £14.6m for the 2008 year of account.

Pursuant to the transaction, Chaucer agreed to cede a 4% shareholding in Pembroke JV to Pembroke's management in exchange for waiving their rights to future performance related share increases under the current shareholders' agreement. Following the transaction and a management subscription for an additional 2%, Chaucer and Pembroke's management owned 74% and 26% of Pembroke JV respectively.

In September 2008, the Group completed the sale of its shareholding in Pembroke JV to Ironshore Inc (Ironshore). The cash consideration was approximately £15.3m.

As part of the transaction the Group now manages the 2008 and prior years of account, of the syndicate. From 1 January 2009, Pembroke manages the 2009 year of account.

The Group's right to participate on the Syndicate for the 2009 and subsequent years of account passed to an Ironshore corporate member. The Group retained its participation on the Syndicate for the 2008 and prior open years of account, continuing to provide Funds at Lloyd's to support the Syndicate's underwriting.

PEMBROKE 4000 LIMITED (SUBSEQUENTLY RENAMED CHAUCER CORPORATE CAPITAL (NO. 3) LIMITED)

Chaucer also purchased the entire issued share capital of Lloyd's corporate member, Pembroke 4000 Limited (Pembroke 4000; previously called Quanta 4000 Limited), in exchange for a consideration of £1. Chaucer also discharged, on behalf of Pembroke 4000, £0.7m of inter-group debt then owed to Quanta by Pembroke 4000. Quanta also received the return of its Funds at Lloyd's.

Pembroke 4000 owned the right to Quanta's underwriting participation in the Syndicate. Under the terms of the transaction, Chaucer assumed the economic interest of Pembroke 4000's open year underwriting participations on the Syndicate, comprising £80.0m for the 2005 year of account, £82.0m for 2006, £65.7m for 2007 and £58.4m for 2008.

On completion of the transaction, Chaucer owned 100% (£73.0m) of the underwriting capacity on Syndicate 4000 for the 2008 year of account and for each prior open year of account.

As a condition of the transaction, Chaucer provided £57.9m from internal resources to replace the Funds at Lloyd's previously provided by Quanta to support underwriting for open years of account on the Syndicate.

10. Financial assets

	2008		2007	
	Cost £m	Fair value £m	Cost £m	Fair value £m
Funds at Lloyd's and other corporate funds				
Absolute return bond funds	175.5	171.2	117.7	118.8
Bonds	1.6	1.6	-	-
Other[1]	17.0	17.0	17.0	17.0
	194.1	**189.8**	134.7	135.8

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

Antares sponsors Antares Syndicate 1274, which begun underwriting for the 2008 year of account with an underwriting capacity of £135m. A Group company, Chaucer Syndicates Limited, manages Syndicate 1274

At the end of 2008, the investment in Antares remained unlisted on an active market. Accordingly, the Group has valued it by reference to the Groups share of NAV and future income discounted at an appropriate rate of return

The Company deposits Funds at Lloyd's to support the Group's underwriting operations, based on the assessment of risk associated with those operations. The access to those funds is restricted and they are not available for any other purpose.

The movements in Funds at Lloyd's held as fixed assets were as follows:

	2008 £m	2007 £m
At 1 January	118.8	119.1
Additional funds	59.6	1.3
Reductions	-	(2.1)
Unrealised (losses)/gains	(5.6)	0.5
At 31 December	**172.8**	118.8

11. Debtors

	2008 £m	2007 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	47.7	71.3
Prepayments and accrued income	1.0	1.1
	48.7	72.4
Amounts falling due after one year		
Amounts owed by subsidiary undertakings	2.3	2.1

During 2004, Chaucer Holdings PLC granted a £1.5m subordinated loan to Chaucer Syndicates Limited, a subsidiary undertaking. Under the terms of the agreement, the loan will generate interest at a rate of 1.0% above the Three Month Interbank Sterling rate and a one-year notice period will be required before any repayment is made. The repayment is subject to Lloyd's approval.

During 2008, Chaucer Holdings PLC granted an additional subordinated loan of £0.2m to Chaucer Insurance Services Limited, a subsidiary undertaking, following the initial grant of a subordinated loan of £0.6m in 2007. Under the terms of the agreement, the loan will generate interest at a rate of 1.0% above the Three Month Interbank Sterling rate and a two-year notice period will be required before any repayment is made. The repayment is subject to Lloyd's approval.

12. Cash at bank and in hand

	2008 £m	2007 £m
Funds at Lloyd's	90.9	22.3
Other funds	12.3	53.6
	103.2	75.9

The Company deposits Funds at Lloyd's to support the Group's 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.

13. Creditors

	2008 £m	2007 £m
Amounts falling due within one year		
Amounts due to subsidiary undertakings	158.9	80.2
Taxation and social security	-	0.6
Amount due to PXRE Holdings Limited	0.5	0.6
Accruals and deferred income	0.1	0.2
Other creditors	1.0	1.1
	160.5	82.7
Amounts falling due after one year		
Amount due to PXRE Holdings Limited	2.9	2.9

The amounts payable to PXRE Holdings Limited are in relation to the expected utilisation of tax losses purchased as part of the acquisition of Chaucer Corporate Capital (No.2) Limited (formally PXRE Limited) in 2005. The liability with PXRE Holdings Limited is expected to be settled in 2011 (£0.5m) and 2012 (£2.4m).

14. Convertible loan stock

On 14 August 2002, the Group issued 20,007,569 units of 8.5% convertible unsecured subordinated loan stock 2008 at 100p per unit. The loan stock was convertible into ordinary shares at the rate of 266.666 (recurring) ordinary shares for every 100 stock units. During 2008, stock holders converted the remaining 2.8m units into ordinary shares, generating an increase of share capital of £0.7m and share premium of £0.3m.

15. Subordinated debt

	2008 £m	2007 £m
Debt in Euros	11.3	8.6
Debt in US Dollars	33.8	24.6
	45.1	33.2

On 16 November 2004, the Company issued a €12.0m floating rate subordinated 30-year note. The Company, subject to meeting certain conditions, has the option to full or partial redemption of the note on its interest payment date in November 2009 or on any following interest payment date at their 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%.

In accordance with the requirements of FRS 26 Financial instruments: measurement, the financial liability is reported in the balance sheet at amortised cost using an effective interest rate of 6.8% (2007 8.5%). The interest expense is £0.8m (2007 £0.6m).

The calculation of the subordinated note recognised in the balance sheet is as follows:

	2008 £m
Balance at the end of 2007	8.6
Interest charges in the year	0.8
Interest paid during the year	(0.9)
Foreign exchange adjustments	2.8
Balance at the end of 2008	**11.3**

On 21 September 2006, the Company issued US$50.0m floating rate unsecured subordinated 30-year notes. The Company has the option to full or partial redemption of the notes on any interest payment date on or after the Interest Payment Date falling in December 2011. The Company pays interest quarterly in arrears up to the date of redemption with the cost of borrowing tied to USD 3 month LIBOR plus an agreed margin of 3.1%. In accordance with the requirements of FRS 26 Financial instruments: measurement, the Company reports the financial liability in the balance sheet at amortised cost using an effective interest rate of 4.7% (2007 8.0%). The interest expense is £1.7m (2007 £2.2m). The calculation of cost of the subordinated note recognised in the balance sheet is as follows:

	2008 £m
Balance at the end of 2007	24.6
Interest charges in the year	1.7
Interest paid during the year	(1.8)
Foreign exchange adjustments	9.3
Balance at the end of 2008	**33.8**

16. Contingent liabilities and contingent assets

The Company 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. These refer to the obligation to deposit Funds at Lloyds (FAL) to support the Group's underwriting activities.

The Company currently underwrites at Lloyd's for the 2009 year of account at an average economic capital assessment of 57.9% (2008 year of account 47.3%) whereby FAL must be deposited to this proportion of the Company's overall premium limit (OPL) for that year. A fixed and floating charge over the investments and other assets of the Company in favour of Lloyd's secures the total guarantee given by the Company under the 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.

Liability under each deed of covenant is limited to a fixed monetary amount. However, in the event of default by a corporate member, caused by the total value of investments falling below the total of all amounts covenanted, then Lloyd's may enforce the charge provisions within the deed of covenant and appropriate a share of the Company's Funds at Lloyd's. This share may be greater than the corporate member's proportion of FAL to support the total OPL of the Company.

There is no mechanism for the Company to quantify its exposure in this regard and the Directors consider that the possibility of having this appropriation is remote.

17. Share options

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

	2008 Weighted average exercise price per share Pence	2008 Options Thousands	2007 Weighted average exercise price per share Pence	2007 Options Thousands
Outstanding at 1 January	49.3	7,567	43.8	10,095
Options granted	49.0	3,163	79.0	856
Options exercised	42.4	(874)	39.9	(3,160)
Forfeited	70.7	(1,079)	39.3	(139)
Expired	51.0	(246)	50.3	(85)
Outstanding at 31 December	47.2	8,531	49.3	7,567
Exercisable at 31 December	45.7	4,455	46.0	4,726

The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 3.7 years (2007 4.1 years).

The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The inputs into the Black-Scholes model for valuing the options granted in the year are as follows:

	2008	2007
Weighted average share price	58.0p	105.5p
Weighted average exercise price	49.0p	79.0p
Volatility	42.96%	33.48%
Weighted average expected life	4.0 years	4.0 years
Risk free rate	4.68%	4.84%
Dividend yield	9.14%	4.17%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 3 years on a weighted average basis. The expected life used in the model is the Company's current best estimate for the effects of non-transferability, exercise restrictions, future market conditions and behavioural considerations.

During the year the Company recognised total expenses of £0.1m (2007 £0.1m) relating to options granted.

All existing options, issued after 7 November 2002 and not vested at 1 January 2005, have been valued as required by FRS 20 Share-based payment.

Share options outstanding at 31 December 2008 have the following expiry dates and exercise prices:

	Date of grant	Exercise price Pence	Exercise period	2008	2007
Chaucer Holdings PLC Approved Savings Related Share Option Scheme	10-02	27.2	11/07-05/08	-	60,868
	10-02	27.2	11/09-05/10	88,748	88,748
	10-03	33.0	11/08-05/09	93,178	198,842
	10-03	33.0	11/10-05/11	25,416	25,416
	10-04	36.6	11/07-05/08	-	52,810
	10-04	36.6	11/09-05/10	218,526	218,526
	10-05	43.8	11/08-05/09	198,261	696,563
	10-05	43.8	11/10-05/11	181,576	215,391
	10-06	57.7	11/09-05/10	231,560	340,105
	10-06	57.7	11/11-05/12	145,293	223,613
	10-07	79.0	11/10-05/11	43,254	390,030
	10-07	79.0	11/12-05/13	21,688	443,411
	10-08	49.0	11/11-05/12	1,582,699	-
	10-08	49.0	11/13-05/14	1,536,855	-
				4,367,054	2,954,323
Chaucer Holdings PLC Share Option Scheme (Performance-related)	07-00	58.0	07/03-07/10	105,000	125,000
	09-00	64.5	09/03-09/10	120,000	150,000
	05-01	64.5	05/04-05/11	512,500	563,000
	10-02	34.0	10/05-10/12	1,221,467	1,294,467
	10-03	44.7	10/06-10/13	170,294	178,882
	10-04	41.7	10/07-10/14	923,299	969,959
				3,052,560	3,281,308
Chaucer Holdings PLC Approved Share Option Scheme (Performance-related)	05-01	64.5	05/04-05/11	472,500	564,000
	10-01	52.5	10/04-10/11	65,000	65,000
	10-02	34.0	10/05-10/12	87,000	165,700
	05-03	33.7	05/06-05/13	50,000	50,000
	10-03	44.7	10/06-10/13	194,697	194,697
	10-04	41.7	10/07-10/14	241,713	291,713
				1,110,910	1,331,110
				8,530,524	7,566,741

The number of share options that were exercisable at the end of the year was 4,454,909 (2007 4,726,096).

18. Share-based payment

The Directors' Remuneration Report describes the feature of the new long-term incentive scheme implemented by the Company in 2006.

The scheme includes an element payable in shares, which has resulted in expenses during the year of £4.6m (2007 £8.5m).

In accordance with the requirements of FRS 20 Share-based payment, the Company has presented the liability payable with shares resulting from the recognition of those expenses as a bonus reserve within equity.

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

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

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

The Company uses 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 Company estimated the number of non-market condition related matching shares by comparing the internal and market growth forecasts for net assets per share and the UK retail price index at relevant future balance sheet dates.

The Company bases the fair value of all the matching shares on estimated market values at the date of grant.

The Company 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 Company has recognised twelve months' worth of costs in 2008. Costs associated with matching shares have also been amortised over the same period. Each individual Group company that contributes to the consolidated profit for the year recognises its share of the cost of the shares awarded.

The estimated value of shares due for grant and the associated costs (excluding national insurance costs) are as follows:

	Total cost £m	Cost recognised in 2008 £m	Cost recognised in 2007 £m
Shares granted in 2008	-	-	-
Shares granted in 2007			
Attracting matching shares	3.1	0.5	1.4
Not attracting matching shares	7.1	1.6	1.6
Matching shares: market conditions	0.8	0.2	0.2
Matching shares: non-market conditions	2.1	0.5	0.5
Adjustment to 2007 declared bonus[1]	(3.0)	(1.5)	-
	10.1	1.3	3.7
Shares granted in 2006			
Attracting matching shares	1.9	0.4	0.4
Not attracting matching shares	11.2	2.7	2.8
Matching shares: market conditions	0.6	0.1	0.1
Matching shares: non-market conditions	2.6	0.6	1.2
2005 matching shares: market conditions	0.4	0.1	-
2005 matching shares: non-market conditions	0.5	0.1	0.3
Adjustment to 2007 declared bonus[1]	(2.3)	(0.7)	-
	14.9	3.3	4.8
	25.0	4.6	8.5

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

19. Share capital

	2008 Shares Million	2008 Value £m	2007 Shares Million	2007 Value £m
Authorised				
Ordinary shares of 25p each	456.0	114.0	456.0	114.0
Called up, allotted and fully paid				
Ordinary shares of 25p each	348.1	87.0	345.2	86.3

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

	Date	Share price Pence	Number	Ordinary share capital £m	Share premium £m
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**

At 31 December 2008, there were no warrants (2007 9,274,942) in issue. The warrants reported at the end of 2007, 6,172,120 1993 warrants and 3,102,822 1998 warrants, with subscription prices of 92p and 124p respectively, expired in November 2008.

20. Movement in equity shareholders' funds

	Called-up share capital £m	Own shares £m	Share premium account £m	Equity element of convertible loan £m	Bonus reserve £m	Warrant reserve £m	Retained earnings £m	Total equity £m
At 1 January 2008	86.3	(11.8)	65.7	0.1	16.0	1.9	52.1	**210.3**
Profit for the year	-	-	-	-	-	-	0.2	**0.2**
Shares issued	0.7	-	0.3	-	-	-	-	**1.0**
Dividends paid or declared	-	-	-	-	-	-	(17.2)	**(17.2)**
Investment in own shares	-	(20.6)	-	-	0.5	-	-	**(20.1)**
Share option costs	-	-	-	-	0.1	-	-	**0.1**
Share incentive plan costs	-	-	-	-	0.4	-	-	**0.4**
Cost of share options exercise	-	0.9	-	-	(0.8)	-	(0.4)	**(0.3)**
Bonus costs deferred share bonus plan	-	-	-	-	4.6	-	-	**4.6**
Warrant expiration	-	-	-	-	-	(1.9)	1.9	**-**
Conversion of loan stock	-	-	-	(0.1)	-	-	0.1	**-**
At 31 December 2008	87.0	(31.5)	66.0	-	20.8	-	36.7	179.0

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 2008 was 38,913,554 (2007 15,224,037).

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, less the cost of shares that vested and employees sold.

The cost of share options exercise represents the sum of the market value of the granted shares when employees exercise share options, less both the exercise price and the fair value of the option previously expensed in accordance with FRS 20 Share-based payment.

The adjustment to bonus costs represents elements of previous year's bonus initially expected to be settled in cash that became liabilities to be settled in shares, and vice versa. The adjustment has no impact on the results for the year and does not significantly affect the key performance ratios.

Warrant reserves represent the proportion of proceeds, from the issue of ordinary shares with warrants attached, attributable to the warrants. The Company transfers the amount previously recognised in the warrant reserve to share premium on the exercise of the warrants.

Retained earnings represent the accumulation of profits and losses up to the balance sheet date, after the distribution of dividends and other adjustments. The Company can distribute retained earnings of up to £36.7m (2007 £52.1m).

21. Related party transactions

Mr M J Gilbert is a Director of Aberdeen Asset Managers Limited (Aberdeen) from whom the Company receives a rebate, to the extent that any investment management fees in Aberdeen unit trusts in which the Company invests exceeds 0.6%. The Company did not receive any rebates in 2008 (2007 £0.1m).

The Company has taken advantage of the exemption allowed by FRS 8 Related party disclosures not to disclose related party transactions with its subsidiaries.

22. Post balance sheet events

On 13 February 2009, shareholders voted to approve the raising of £75m, net of expenses, through a firm placing and a placing and open offer, to strengthen the balance sheet and support the development of the business.

The Company will deposit £67m of the proceeds as Funds at Lloyd's (FAL) to support the growth of the business and take advantage of favourable underwriting conditions anticipated in 2009 and 2010. The underwriting capacity of Syndicate 1084 will increase by £105m to £545m. The funds will also support the Syndicate's increased capital requirements for 2009, arising from changes in the exchange rate between sterling and the US dollar, and cover 2008 solvency deficits.

The Company will also retain approximately £8m for general working capital purposes to provide additional head room above regulatory capital required to support the planned increase in capacity.

Acquisition costs	These represent the costs of obtaining the insurance business: they include the broker's commission, the company's sales expense, and other related expenses
Capacity	The maximum amount of business which may be accepted by a syndicate or a corporate member on a syndicate, expressed in terms of gross premium income net of commission
Claims ratio	Net incurred claims as a percentage of net earned premiums
Claims incurred	All claims payments and the adjustment in the outstanding claims provision of a business year and claim adjustment expenses
Combined ratio	The sum of the claims ratio and the expense ratio
Corporate member	A company incorporated with limited or unlimited liability admitted to membership of Lloyd's
Expense ratio	Net expenses incurred in insurance activities as a percentage of net earned premiums
Exposure	The maximum value of claims made on an insurer from an event or events that would result in the total exhaustion of the cover or indemnity offered by an insurance policy
Funds at Lloyd's (FAL)	Funds lodged and held in trust at Lloyd's as security for the Policyholders and to support a corporate member's overall underwriting activities. The funds must be in a form approved by Lloyd's and be maintained in value
IBNR	Provision for claims Incurred But Not Reported by the balance sheet date. A term used for claims arising from accidents or events that have occurred, but have not been notified to the insurer
Interavailability	Lloyd's rules that allow an investor to concentrate its underwriting interests through a single corporate member in situations where their underwriting was previously split between two or more corporate members
Integrated Lloyd's vehicle	A company which owns or controls dedicated vehicles supporting one or more continuous syndicates and the managing agent
Line size	The maximum exposure or monetary value of a risk or class of risks accepted by an insurer
Managing agent	An agent that runs the affairs of a syndicate
RDS	A realistic disaster scenario is an estimate of the losses that a syndicate would incur from a hypothetical disaster scenario (e.g. a California earthquake)
Retention	Amount of risk which the policyholder or insurer does not insure or reinsure but keeps for its own account
Return on equity	Profit after tax as a percentage of opening shareholders' equity for each period adjusted for share capital issues
Risk appetite	The optimal strategic risk level for the operation of risks facing the organisation based on a risk/return profile for which the Group receives a return, i.e. underwriting and investment risks
Risk tolerance	The maximum level of risk that the business is willing to accept and operate at, according to set thresholds outside the risk appetite
RITC	Reinsurance to close. This is the premium paid by the members of the closing year of account of the syndicate to the members of the year of account that assumes these liabilities
Syndicate	A group of members underwriting insurance at Lloyd's through the agency of a managing agent, to whom a particular syndicate number is assigned

LLOYD'S
Underwriters

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

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

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

Lloyd's is regulated by the Financial Services Authority.

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

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and nuclear insurance

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